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FAT UPDATE

FAT PROPHETS MINING & RESOURCES MODEL PORTFOLIO – DECEMBER QUARTER 2009

Investment Objective

The Fat Prophets Mining & Resources Model Portfolio (the 'Model') seeks to outperform the total return (both income and capital growth) of the S&P/ASX 300 Resources Accumulation Index, before taking into account Model fees and expenses.

Performance

Performance as at 31/12/09	Gross	S&P/ASX 300 Resources Accumulation Index	Outperformance*
1 Month	0.71%	3.53%	-2.82%
3 Months	7.43%	9.70%	-2.27%
6 Months	20.48%	22.14%	-1.66%
1 Year	53.97%	46.68%	7.29%
2 Year	-3.58%	-2.96%	-0.62%
Since Inception (p.a)^	7.81%	6.39%	1.42%

*Shows the difference between Portfolio Gross Return and Benchmark Return
^Model Performance inception date 27/5/2007

Top 10 Stocks as at 31/12/09

1. BHP Billiton
2. Rio Tinto
3. Woodside Petroleum
4. Oil Search
5. Catalpa Resources
6. Newcrest Mining
7. Lihir Gold
8. Macarthur Coal
9. Adean Resources
10. Eldorado Gold

Fund Managers Report

2009 proved to be a good year for the resources sector. Having been hit hard by the initial economic downturn in 2008 sentiment was already improving by the end of that year as interest rates started to fall and the level of government economic stimulus grew. With this trend continuing through much of 2009 demand for raw materials recovered strongly pushing up the share prices of many mining and resource companies. This was particularly evident in the fourth quarter with the sector outperforming the market as a whole by about 6%.

Although the model performed well over the year as a whole it did underperform its benchmark in the fourth quarter by 2.3% as the ASX 300 resources index rose 9.7% and the portfolio improved by just 7.4%. Fortescue Metals, which we do not own was up 16% over the period, accounted for approximately 0.30% of this. Catalpa, in which we hold a large position, also underperformed over the quarter after a long period of spectacular performance. We have since taken profits here by trimming the position back.

FAT PROPHETS MINING AND RESOURCES MODEL PORTFOLIO

The portfolio remains largely index weight in the two majors BHP and RIO but has a large bias toward the precious metals, this being mostly gold and some platinum. Approximately 18% of the portfolio is in pure gold names versus the benchmark which has about 7%.

We have also maintained an overweight position in oil and gas. This is predicated not just on the short term, where we see oil prices moving back toward US $100 as global activity increases and a colder than normal winter in the northern hemisphere keeps supply tight, but also longer term as the demand for energy continues to increase, particularly in emerging markets. LNG will likely play an increasing role in forming part of the energy mix and hence our position in both Oil Search and Woodside Petroleum.

During the quarter we took a small position in an emerging platinum (platinum group metals, PGMs) producer called Nkwe Platinum. This is a small company with exposure to a large undeveloped resource of some 70m oz of PGM's in the prolific platinum producing region of Bushveld province in South Africa. The feasibility study for the project is due out this month, at which point Xstrata will have the option of proceeding with development whilst taking a 50% stake and fully funding the $1.5bn required to do so. This leaves Nkwe with a significant stake of approximately 40% of the 70m oz project. Importantly, under this agreement with Xstrata, Nkwe are free carried through to production.

As to the immediate outlook, the economic recovery appears to be gaining traction both here and abroad. In the US many indicators have improved markedly, however it is yet to be seen whether these will be sufficient to result in meaningful employment growth, despite manufacturing, which accounts for about 12 percent of the US economy and a key driver of the recovery, likely to continue expanding. Despite the improving economic performance indicators, we believe there remains a risk of a "double dip recession" in the U.S this year.

We see tightening monetary policy in China and related measures such as lifting bank capital ratios as a stabilising influence and therefore extremely positive over the longer term. We have all collectively experienced firsthand over the past 2 years, the dangers of Central Banks keeping monetary policy settings too loose for too long. Chinese credit growth on the back of massive stimulus has seen domestic asset prices rise steeply and thus become unstable. We don't have to point out that asset price bubbles are potentially very dangerous and we all know what happened in the US with lax regulation around residential mortgages. China is attempting to control the quality of loans as well as quantity, which is very encouraging. Equally, we have also been heartened by the actions of the RBA, one of the few central banks in the world to actually increase interest rates to counter the effects of stimulus.

We continue to believe the gold sector offers value having underperformed relative to the gold price. The latest concerns over Greece and other countries in Europe are very real in our opinion, with current account deficits rising to an alarming proportion of GDP. Sovereign risk is likely to continue rising this year as some countries have to continue rapidly borrowing to fund stimulus efforts. It is probable in our view the balance sheets of central banks will continue to expand over the medium term with the ongoing attempts to reflate. This will have a negative impact at some point on bond valuations, and we see interest rates rising as the market prices in a greater risk premium and also the potential for future inflation. Gold should do well in this environment.

Overall, we believe the global economy will gather momentum in 2010. Not only will the unprecedented mix of near-zero interest rates and high budget deficits engineer an economic recovery that is real and sustainable but the strong bounce already seen in economic activity across much of Asia will help to offset the inevitable deleveraging within developed economies such as the US and UK. Asian economies and countries such as Brazil, India and China (and Australia) will therefore likely outperform Europe and the US for quite some time.

We aren't expecting a swift return to robust growth (as alluded to above regarding US unemployment). In fact, the recovery will likely lag behind those of previous recessions, but we believe that the world economy will perform far better than the economic consensus would indicate. The benefit of lax policy settings and other direct measures such as quantitative easing have yet to fully impact on the global economy.

Domestically, the bulk of the Rudd governments deficits are also still to be felt as only a portion were in the form of cash handouts. Hence we expect local growth to be strong, this is however against a backdrop which will likely exhibit the following challenges;

- Rising interest rates - November retail sales numbers were four times consensus and will likely put upward pressure on rates in addition to strong employment numbers
- Overheating Chinese economy- the property market has risen 57% over the course of 2009 and will be subject to continuous Government intervention to engineer a slowdown
- Capacity constraints - due to long lead times to expand infrastructure such as ports, processing plants etc
- Rising Australian dollar - a potential headwind for the resources space and other exporters.

We expect another strong year for commodities in 2010. It is clear to us that reflation of the global economy is underway and base metals, the bulk commodities such as coal and iron ore and indeed the precious metals should all benefit. Over the coming period we expect many analysts to be upgrading their commodity price forecasts on the back very strong move in spot prices and current supply/demand dynamics. We want to fully leverage the opportunity that now lies before us.

Model Portfolio name	Fat Prophets Mining & Resources Share
Code	FP0002
Model inception date	25/5/07
Principle investment objective	To invest in a sample of mining and resources securities listed on the ASX
Can derivatives be used?	No
Indicative number of stocks	10-40
Minimum Model investment	$20,000
Model Provider fees* **Investment fee** **Performance fee applicable?** **Brief description**	 0.75% Yes 10% of any outperformance of the benchmark index
Benchmark Index	S&P/ASX 300 Resources Accumulation Index

*Please refer to the Fat Prophets Separately Managed Account Product Disclosure Statement for further details

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