



## Fund Commentary

Period: 1<sup>st</sup> to 29<sup>th</sup> of February 2004

### **The Australian Share Market**

The Australian equity market resumed its growth in February, continuing the general upward trend from 2003. The ASX200 price index rose strongly by 2.71%. The RBA's key policy target, housing loan approvals, has seen an extraordinarily sharp contraction. After falling by 5% and 4% in November and December respectively, approvals for owner occupied loans has fallen by 8% in January. There are signs that this contraction has stopped in February and will take the pressure off the RBA in its next review of interest rates. The market is now putting a slim chance on an April rate rise with a mid-year rise still the consensus call.

This new view has been initiated by another round of disappointing jobs data out of the US. The inability of the US labour market to fire has resurrected concerns about the longer term sustainability of the US (and vicariously, our domestic) recovery. President Bush appears to have three major headaches confronting him in his bid for re-election later this year: continuing troubles in Iraq and terrorism around the world, a stubbornly sluggish US jobs market, and persistent Democratic criticism of his policies. His own team is openly criticizing him for bungling his economic message, thereby hurting consumer confidence and his chances of re-election. Consumer confidence in US fell in February and early March.

In spite of global problems, the key economic drivers of the Australian economy remain favourable. Despite the disappointingly small rise in jobs in the employment survey showing that annual jobs growth has fallen below 1%, the rate of unemployment is still close to multi-decade lows. The fundamental drivers of jobs growth remain sound. GDP growth is high and real labour cost growth is low.

Whilst the Australian dollar has fallen sharply in recent weeks, commodity prices have been stable. This bodes well for commodity and export companies. Optimism remains that exports can grow in the current strong global environment. The consensus view on world growth has taken a clear step towards optimism in 2004. China, East Asia and Japan continue to power ahead whilst the first signs of recovery in Europe are sprouting.

### **Approved Shares for the Navra Funds**

The table below presents the list of approved shares that have passed our rigorous share selection process for inclusion in the Navra Funds. They may not be included in the current portfolio depending on a number of factors determined by the Investment Committee's weekly review.

<b>Amcor Ltd</b>	<b>AMC</b>	<b>Paper &amp; Packaging</b>
<b>Australian Gas Light</b>	<b>AGL</b>	<b>Infrastructure/Utilities</b>
<b>Australian Stock Exchange</b>	<b>ASX</b>	<b>Investment/Financial Services</b>
<b>BHP Billiton</b>	<b>BHP</b>	<b>Diversified Resources</b>
<b>Boral</b>	<b>BLD</b>	<b>Building Materials</b>
<b>Cochlear Ltd</b>	<b>COH</b>	<b>Health/Biotech</b>
<b>Coca Cola Amatil</b>	<b>CCL</b>	<b>Food &amp; Household</b>
<b>Futuris Corporation Limited</b>	<b>FCL</b>	<b>Diversified Industrials</b>
<b>Harvey Norman</b>	<b>HVN</b>	<b>Retail</b>
<b>James Hardie Industries</b>	<b>JHX</b>	<b>Building Materials</b>
<b>Leighton Holdings</b>	<b>LEI</b>	<b>Developers/Contractors</b>
<b>Lend Lease Corp Ltd</b>	<b>LLC</b>	<b>Developer/Contractors</b>
<b>Lion Nathan Ltd</b>	<b>LNN</b>	<b>Alcohol / Tobacco</b>
<b>Macquarie Bank Ltd</b>	<b>MBL</b>	<b>Banking / Finance</b>
<b>National Australia Bank</b>	<b>NAB</b>	<b>Banking / Finance</b>
<b>National Foods</b>	<b>NFD</b>	<b>Foods &amp; Household</b>
<b>News Corp Ltd</b>	<b>NCP</b>	<b>Media</b>
<b>Orica</b>	<b>ORI</b>	<b>Chemicals</b>
<b>Origin Energy</b>	<b>ORG</b>	<b>Infrastructure/Utilities</b>
<b>Publishing &amp; Broadcasting</b>	<b>PBL</b>	<b>Media</b>
<b>Paperlinx</b>	<b>PPX</b>	<b>Paper &amp; Packaging</b>
<b>Qantas Airways Ltd</b>	<b>QAN</b>	<b>Transport</b>
<b>Rio Tinto Ltd</b>	<b>RIO</b>	<b>Diversified Resources</b>
<b>Toll Holdings</b>	<b>TOL</b>	<b>Transport</b>
<b>Wesfarmers</b>	<b>WES</b>	<b>Diversified Industrials</b>
<b>Westfield America trust</b>	<b>WFA</b>	<b>Property</b>

<b>Westpac Banking Corporation</b>	<b>WBC</b>	<b>Banking / Finance</b>
<b>Woolworths</b>	<b>WOW</b>	<b>Retail</b>

Since inception the number of shares in the portfolio has increased from 20 to 25 shares in order to provide more diversification. Please [click here](#) to view the current portfolio.

### ***Fund Performance***

The rise in the Australian equity market presented us with selling opportunities. The NavTraDE system sells shares as share prices appreciate. As the share market has risen in February, we have taken this opportunity to sell and have increased our cash holding to about 8.2%.

We are pleased to report that the Retail and the Wholesale Funds outperformed the market by about 0.96% and 0.99% respectively. The actual returns for the funds were 3.67% and 3.70% respectively as compared to 2.71% return of the S&P/ASX200.

The NavTraDE system takes advantage of irrational investor behaviour to buy quality companies as their share prices are falling and to sell them as they are rising. Consequently, the system can realise capital gains from dealing in shares with volatile price movements, irrespective of the net price movement from the beginning to the end of the period. It takes time for shares to move through price cycles and therefore for the potential of the NavTraDE system to be fully realised.

The following shares have risen in price and also performed well for the Fund during the month due to their volatility: Futuris (FCL), and Origin Energy (ORG). These shares generated realised capital gains through trading this month. The stock that performed well this month and generated both realised and unrealised capital gains through trading was Boral Ltd (BLD), and Qantas (QAN).

Shares that performed well by generating unrealised gains include Cochlear (COH), BHP Billiton (BHP), Tol Holdings (TOL), Wesfarmers (WES), and News Corporation (NCP).

During the month, shares that detracted from performance either due to low volatility or because they were displaying unrealised losses include Lend Lease (LLC), Macquarie Bank (MBL) and Wesfarmers (WES).

We increased the portfolio weightings to the Origin Energy (ORG) as we believe that its underlying financial robustness and quality of these companies remained sound and have been a good buying opportunity. There were no stock inclusions in February.

We have decreased our weightings to the Cochlear (COH), Corporate Express (CXP), Futuris (FCL), and Qantas (QAN). There were no stock exclusions this month.

### ***Share Market Outlook***

The outlook for the Australian economy and the Australian share market remains optimistic. With GDP growth still high and a low real labour cost growth, the environment remains favourable for domestic companies. The profit season we have just seen was good and we are still getting earnings upgrades on the back of that. Profit momentum will continue to push on for a while with company profits rising an average of 34 per cent in the first half of the financial year, albeit from a low base. More importantly, companies have been upgrading their forward earnings estimates. More upgrades are expected in some sectors, including banks, where credit growth has remained above market expectations, and resources, particularly if the Australian dollar does not make further gains. Increased company profits should translate into higher share prices. The share market may also get a boost with the receding threat of higher interest rates.

The global economy and equity markets are still looking positive. Other than Europe and US, all of Australia's important trading regions are growing strongly. China, East Asia and Japan continue to impress whilst first signs of recovery in Europe are emerging.

The Reserve Bank's "mildly accommodating" stance and its decision not to raise official rates is further good news for Australian companies. The Resources and Energy sectors will continue to do well, as will high technology companies involved with information technology, telecommunications and biotechnology. Interest rate sensitive and consumer cyclical stocks may be affected by future interest rate rises later in the year and foreign currency fluctuations.