



Fund Performance Commentary

Period: 1st to 30th November 2005

Fund Performance

The volatility in the Australian equity market presented us with buying opportunities. The NavTraDE system buys shares as share prices depreciate. Our cash holding at the end of November was 13.9% as we have taken the opportunity to sell stocks at favourable prices. The actual returns in November for the Retail and Wholesale funds were +2.78% and +2.78% respectively compared to the +3.93% 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 realize 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 realized.

The stocks that performed well this month and generated realized capital gains through trading include The Australian Gaslight Company (AGL), the Australian Stock Exchange (ASX), BHP Billiton (BHP), Orica (ORI), Santos (STO), Toll Holdings (TOL), Westpac Bank (WBC), Woolworths (WOW), and Woodside Petroleum (WPL).

The stocks that performed well this month and generated unrealized capital gains include the ANZ Bank (ANZ), BHP Billiton (BHP), Coca-Cola Amatil (CCL), Futuris (FCL), Macquarie Bank (MBL), Origin Energy (ORG), Orica (ORI), OneSteel (OST), Publishing & Broadcasting (PBL), Santos (STO), Toll Holdings (TOL), Westpac Bank (WBC), Westfield (WDC), Wesfarmers (WES), Woolworths (WOW) and Woodside Petroleum (WPL).

During the month, the share that detracted from performance either due to low volatility or because they were displaying unrealized losses was BlueScope Steel (BSL), Lion Nathan (LNN) and Tabcorp (TAH).

There were no inclusions to the portfolio.

Exclusions to the portfolio this month include The Australian Gaslight Company (AGL) and the Australian Stock Exchange (ASX).

The NavTraDE system resulted in increased weightings in: Westfield (WDC) and The National Australia Bank (NAB).

The NavTraDE system also resulted in decreased weightings in: The Australian Gaslight Company (AGL), the Australian Stock Exchange (ASX) and Woodside Petroleum (WPL).

To view our current portfolio, please [click here](#).

The Australian Share Market

The Australian equity market rose 3.92% in November (S&P/ASX200 Index), completely rebounding from the October fall.

Retail sales rose 0.5% in October, or 3.2% over the year. The rise was mainly due to food (+1.3%) and hospitality (+1.7%). Department store sales were down 1.4%, household goods dropped (1.1%) and recreation fell 1.1%. Over the past year sales growth has occurred across larger retailers (+4%) at the expense of smaller stores. High petrol prices is still adversely affecting discretionary sales.

The Australian stock market rose 3.9% in November. Retail sales slowed due to high oil prices and a slowing housing market. The jobless rate rose for the first time in 13 months.

Credit growth rose 0.9% in October, a modest slowing from the 1.1% monthly average over the first half of 2005. Private sector credit also grew by 0.9%, or 13.2% over the year and above the decade average of 11.7%. Housing credit also grew by 0.9% or 13.0% over the year. The 10-year average for housing credit is 15.0%. Business credit grew 1.0% in the month.

Dwellings approvals were flat in October following a 0.9% rise in September. House approvals fell 0.2%, the fourth consecutive monthly fall. Commercial buildings were up 1.6% in the month. Private dwelling approvals have now

fallen 23% since the peak in the September quarter of 2003. Established house prices fell 1.0% in the September quarter after rising 0.7% the last quarter. The value of housing finance approvals rose 2.9% in September, to be up 8.2% over the year, due to owner-occupiers (+3.4%) and investor finance (+2.1%). The Reserve Bank held the benchmark rate steady in December. Underlying inflation held at 2.5% on the year in the September quarter and the bank expects inflation to be close to the top of the target range of 3.0% for some time.

The October employment level fell 19,800, following a revised 40,400 fall in September, to be up 2.3% in the past year. Fulltime employment fell 60,800 while part time employment rose 41,000. However, the economy added 28,000 jobs in November, including a big rise in full-time employment, going some way to making up for surprising weakness in the previous two months. The unemployment rate rose 0.1% to 5.2% in October but fell back to 5.1% in November.

The current account deficit widened to \$13.53b in the September quarter from \$12.02b the previous quarter. The deficit jumped to 6.0% of GDP from 5.4% in the June quarter. The trade deficit rose slightly from \$4.27b to \$4.34b, with higher prices offsetting lower non-rural export volumes. Export volumes fell 2.3% and imports down 0.5%.

The GDP result showed the economy grew a meagre 0.2% last quarter, a big step back from the June quarter's 1.3% pace.

In summary, the Australian real economy continues to slow albeit slightly. Retail spending and the housing market are clearly slowing. On the positive side, employment is still strong, interest rates are relatively low and demand for Australian minerals exports remain strong.

The best performing sectors were the Commercial Services & Supplies; Automobiles & Components; and Health Care Equipment & Services sectors.

Most sectors performed poorly in the month. The best performing sectors in November were Commercial Services & Supplies (+12.29%); Automobiles & Components (+8.37%); Health Care Equipment & Services (+8.14%); and Pharmaceuticals & Biotechnology (+7.72%).

The worst performing sectors were Telecommunication Services (-6.92%); Technology Hardware & Equipment (-5.01%); and Food Beverage & Tobacco (-2.00%).

World markets recovered from the October falls as concerns over high oil prices abated.

The performances of the global stock markets rebounded from the October slump: the S&P 500 index rose 3.52%, the Nasdaq rose 5.31%, the FTSE rose 1.99%, the Nikkei 225 leapt 9.30% and the HangSeng rose 3.83%.

Inflationary pressure is gathering pace in the US and is likely to lead to further interest rate rises.

The US economy continues to strengthen. GDP growth for the September quarter was revised upwards to 4.3% p.a. from 3.8% previously; a strong rise from the 3.3% p.a. growth the previous quarter. New factory orders rose 2.2% in October after a 1.4% September drop, as soaring demand for aircraft offset weakness in cars, computers, metals and electrical equipment. Demand for durable goods and big-ticket items rose 3.7% in October, even as orders for autos fell 1%.

The US trade deficit was worsened in September to US\$66.1b from US\$59.3b in August. Imports rose 2.4% with the trade balance for petroleum goods deteriorating while total exports fell 4.3% due to a decline in exports of industrial goods and civilian aircraft.

Retail sales fell 0.1% in October after rising 0.3% in September, or an increase of 5.7% over the year. Automobile sales fell 3.6% as did gasoline sales due to moderating prices. The trend in consumer spending is positive with sales increasing 1.1% in October, or up 7.6% over the year.

Consumer prices increased only 0.2% in October, dropping the p.a. rate from 4.7% in September to 4.3%. Core CPI increased by 0.2% in the month; an annual rate of only 2.1%. Energy prices fell 0.2% as gasoline prices dropped 4.5%. Natural gas prices, however, rose 14%. Transportation costs fell 1.3% on the drop in fuels. Energy prices are up 29.5% in the past year. Core prices are up 2.1% in the past year, the most since May, but still far above the Federal Reserve's comfort zone of below 2%.

China is still the engine of world economic growth. Fundamentals look sound and bode well for continued GDP growth and demand for Western goods and Australian mineral imports.

In November, the US Federal Reserve increased interest rates by 0.25% to 4.0% for the 12th consecutive increase. There seems no immediate end to the tight monetary policy.

The US housing market is cooling. Housing starts fell 5.6% in October. Permits for future groundbreaking, an indicator of builder confidence, was down 6.7% from September, the biggest percentage decline since September 1999, when permits fell 7.2%. New home sales surged in October, up 13% in the month. The median selling price is up only 0.9% over the year compared to 16% for existing homes.

As with the strengthening economy the US jobs market also rose, with 215,000 new jobs created in November. The unemployment rate held steady at 5.0%. Productivity was up 4.7% in the September quarter. Real personal disposable income rose 0.2% in October compared to 1.0% in September. The jobless claims rate is back to before the Hurricanes.

The Eurozone economies recovered in the September quarter, with GDP up 0.6%, or a 1.5% rise over the past year. This is the fast growth rate for almost two years. The European Central Bank increased interest rates by 0.25% to 2.25%, while the Bank of England left rates unchanged.

The Chinese growth story continues. GDP is estimated at 9.4% for the year. The quarterly growth rate rose from 1.0% to 1.9% and showing no signs of slowing. Industrial production slowed marginally by 0.2% to 16.1% p.a. in October. In October the CPI rose 1.2% from a year earlier due mainly to food prices. Energy prices rose 6.6%. On the plus side, annual producer price inflation fell to 3.2% from 4.0% in October, due to a fall in energy prices from mid-year peaks and to lower costs for key inputs such as steel because of breakneck expansion and to intense competition among producers to preserve market share. Steel prices have fallen 30% since March. Retail sales were up 12.8% in October, compared to 12.7% in September and 14.2% last year. Per capita disposable income for urban residents rose by 9.8% in real terms during the first three quarters of this year. Per capita net income for rural residents rose by 11.9% in the same period. All in all, China's economic boom shows no signs of abatement.

Share Market Outlook

Australian economic fundamentals remain healthy. Inflationary pressures have moderated and the possibility of further interest rate rises has faded. Economic growth is likely to remain around 3.0% due to healthy domestic fundamentals and the continuing strengths in the US and Chinese economies.

The labour market appears healthy but may have passed its peak. Consumer confidence is improving due to moderating fuel prices and the continued wealth-effects of strong stock and

The US economy appears to have recovered from the effects of the hurricanes and rebounded in November from the October slump. Factory orders are very strong and the labour market tight. Inflation is at the upper limits of the Fed's comfort zone. Retail sales are still strong although the housing market is taking a breather. It is likely that the US economy will continue to strengthen: the fundamentals appear resilient: the unemployment rate is low, interest rates are increasing but still relatively low, and the share markets are strong. The business outlook remains positive in the short term. However, inflationary pressures remain due to the tight labour market, capacity constraints, and high oil prices. At present, high fuel prices do not appear to be constraining US consumer appetite or productivity.

The risks to the global economy is slightly abating with long-term bond rates suggesting continued strong growth in a low inflation environment, even in the face of high oil prices. The risk of the crude oil prices spiking appears to have been overstated with the likely impacts on the key US market appearing marginal, and the strong Chinese economy is fuelling US demand for consumer goods.

Australian economic fundamentals appear sound in the short term. The unemployment rate is low, inflationary pressures are contained, business profit outlook is good, and equity markets remain strong. It is likely that the risks to the housing market have moderated and the housing dip is expected to be shallow. Consumer confidence has recovered as the impact of high oil prices has not been as severe. The risk of an official interest rate rise remains low for the next few months. Chinese demand for Australian

housing markets.

minerals, particularly iron ore and coal, remains strong for the foreseeable future.

The drivers of the A\$ remains the US\$, Australian monetary policy and commodity prices. While Chinese demand for Australian commodities should support the A\$, this is more than offset by the strongly rebuilding US economy and higher US interest rates. Thus, the A\$ is weakening and should aid exporters at the expense of importers. Revenues and profits for materials companies should continue to benefit from the substantial April price increases.

The likelihood of a significant downturn in the world economy is low. The outlook continues to be positive in the short to medium term. The global economy grew by about 5% in 2004, and is expected to grow by 4.3% this year. China's GDP growth is now expected to be around 9%.

The key drivers of global growth remain the US and China.

The Chinese growth story continues to fuel economic growth in the rest of the world. The risks to the world economy in the short to medium term are unchanged and include a sharp correction in the US stock market from inflationary and currency devaluation fears stemming from an unexpected worsening of the twin deficits. Fears of higher oil prices have abated and previous months' market volatility now appear an over-reaction.

Energy stocks should retreat from recent highs. Resources companies may benefit from a falling A\$. Retail and transportation stocks will be negatively affected by continued high oil prices.

The banking sector should continue to benefit from high economic activity and productivity gains. Energy companies should see volatility from fluctuating oil prices. Resources companies may benefit from further global demand, higher production, and a falling A\$.

Negatives are expected from retail stocks, wine stocks and companies associated with the rural sector. Transportation companies will begin to feel the effects of higher fuel prices. The retail sector will see a shift in consumer spending due to high energy prices, although a Christmas period spike is likely. Steel companies may face pressure from Chinese exports due to slowing Chinese demand for imported steel and recent capacity additions leading to cheaper global steel prices. Industrial stocks are not particularly compelling as a sector, however exporters will benefit from a falling A\$.