



Fund Commentary

Period: 1st to 31st October 2003

The Australian Share Market

Strong US corporate earnings results during the last quarter and clear signals of a US economic recovery led global equity markets to rally strongly over the month. The Australian equity market, buoyed by the stronger global environment, grew by 3.23%.

Significant economic factors that increased investor confidence include the stronger than expected US Q3 GDP, US non-farm payrolls and housing activity. The strong Australian dollar also featured, reaching a six-year high against the US dollar. This was predominantly caused by general US dollar weakness, continued strength in commodity prices and very favourable interest rate differentials between Australia and the US. Global bond weakness also contributed to the improved confidence in equity markets.

Due to continued rise in commodity prices and strong global demand, especially from China which had its strongest quarterly growth on record, Australian mining shares did particularly well this month. Other shares that performed well were those that were leveraged to the economic cycle and growth shares that benefited from reduced investor risk aversion.

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.

Amcort Ltd	AMC	Paper & Packaging
Australia & NZ Banking Group	ANZ	Banks
Australian Gas Light	AGL	Infrastructure/Utilities
Australian Stock Exchange	ASX	Investment/Financial Services
BHP Billiton	BHP	Diversified Resources
Boral	BLD	Building Materials
Commonwealth Bank	CBA	Banks
Cochlear Ltd	COH	Health/Biotech
Coca Cola Amatil	CCL	Food & Household
Fosters Group Limited	FGL	Alcohol/Tobacco
Futuris Corporation Limited	FCL	Diversified Industrials
Harvey Norman	HVN	Retail
James Hardie Industries	JHX	Building Materials
Leighton Holdings	LEI	Developers/Contractors
Lend Lease Corp Ltd	LLC	Developer/Contractors
Macquarie Bank Limited	MBL	Banks
Metcash	MTT	Retail
National Australia Bank	NAB	Banks
National Foods	NFD	Foods & Household
News Corp Ltd	NCP	Media
Orica	ORI	Chemicals
Origin Energy	ORG	Infrastructure/Utilities
Publishing & Broadcasting	PBL	Media
Paperlinx	PPX	Paper & Packaging
Qantas Airways Ltd	QAN	Transport
Rio Tinto Ltd	RIO	Diversified Resources
Seven Networks Ltd	SEV	Media
Toll Holdings	TOL	Transport
Westpac	WBC	Banks
Wesfarmers	WES	Diversified Industrials
Westfield America trust	WFA	Property
Woolworths	WOW	Retail

Since inception the number of shares in the portfolio has increased from 20 to 27 shares in order to provide more diversification. Please [click here](#) to view the current portfolio.

Fund Performance

We are pleased to report the performance of both the Retail and the Wholesale Funds for the month with returns of 2.9% for both.

Since the beginning of the financial year, the S&P/ASX 200 Price Index has increased steadily and consistently without any significant dips. The NavTraDE system sells shares as share prices rise. In a rising market this results in a higher proportion of cash in the portfolio and therefore the Fund tends to lag the Index, especially during this early establishment phase for the Fund. At the end of October 2003, cash holdings were approximately 30% of the Fund.

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: Harvey Norman (HVN), Australian Stock Exchange (ASX), Lend Lease (LLC), Publishing & Broadcasting (PBL), and Qantas (QAN). For these shares trading has generated large realised gains. These shares are also positioned with unrealised gains.

Shares that performed well by generating unrealized gains include The News Corporation Ltd (NCP), Cochlear (COH), Rio Tinto Ltd (RIO) and BHP Billiton Ltd (BHP).

Shares that have also generated solid realised capital gains include: James Hardie (JHX), Newscorp (NCP), Rio Tinto (RIO), QANTAS (QAN) and Wesfarmers (WES). These shares currently also have unrealised losses which in time will dissipate when the share prices recover.

The Fund performance has been affected by shares that have yet to perform and have either made no contribution due to low volatility or because they are currently displaying unrealised losses: National Bank (NAB), Origin Energy (ORG), Westfield America (WFA) and Woolworths (WOW).

During the month, shares that detracted from performance either due to low volatility or because they were displaying unrealized losses include Woolworths (WOW), Commonwealth Bank (CBA), National Australia Bank (NAB), Amcor Ltd (AMC), James Hardie (JHX), Paperlinx (PPX) and Westfield America Trust (WFA).

We increased the portfolio weightings to Coca Cola Amatil (CCL), Cochlear (COH), and James Hardie (JHX) as we believe that their underlying financial robustness and quality of these companies remained sound and have been a good buying opportunity. We have also introduced new shares into the portfolio: Australian Gas Light (AGL), Boral (BLD), Orica (ORI) and Seven Networks (SEV).

Due to low volatility and negative views about possible adverse impact of anticipated interest rate rises on bank share prices, we have decreased our weightings to the National Australia Bank (NAB) and Commonwealth Bank (CBA). We have also sold all holdings of ANZ, Macquarie Bank Ltd (MBL) and Westpac Bank (WBC).

Share Market Outlook

Our view on the outlook for the global economy and equity markets remains positive. The huge rebound in the US economy has and will continue to drive investor confidence in the sustainability of the global economic recovery. Whilst employment in the US rose in October, unemployment appears to be unchanged. In order for the recovery to continue, job creation remains the critical issue in order to offset the impact of monetary and fiscal policies that will inevitably accompany economic growth in the next year.

Strong economic growth and interest rate concerns will be the key drivers of the Australian share market in the medium term. With a strong economy and low inflation, the continued Australian households' love affair with consumer credit and an overheated housing market will make interest rate hikes inevitable. In spite of the interest rate hikes anticipated in December and February, the outlook for the Australian economy and share market remain strong. We will likely see share price declines in interest rate sensitive and consumer cyclical shares. Shares that should do well will be those that can benefit from improved global economic conditions and the anticipated Australian dollar appreciation.