

Period: 1st May to 30th June 2007

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 June was 32.4% as we have taken the opportunity to buy stocks at favourable prices. The actual returns in June for the Retail and Wholesale funds were +0.25% and +0.27% respectively compared to the -0.61% return of the S&P/ASX200. The quarterly returns for the Retail and Wholesale funds were +5.79% and +5.82% respectively compared to the +4.67% 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 Asciano Group (AIO), The ANZ Bank (ANZ), BHP Billiton (BHP), Boral (BLD), Coca-Cola Amatil (CCL), Futuris (FCL), Lion Nathan (LNN), OneSteel (OST), Rio Tinto (RIO), Santos (STO), Westpac Bank (WBC), Westfield (WDC), Wesfarmers (WES), Woolworths (WOW), and Woodside (WPL).

The stocks that performed well this month and generated unrealized capital gains include BHP Billiton (BHP), Bluescope Steel (BSL), Brambles (BxB), CSR Limited (CSR), Foster's (FGL), Great Southern Plantations (GTP), Iluka Resources (ILU), Lion Nathan (LNN), Oil Search (OSH), Wesfarmers (WES), Toll Holdings (TOL), and Woodside (WPL).

During the month, the shares that detracted from performance either due to low volatility or because they were displaying unrealized losses were Bendigo Bank (BEN), Fairfax (FXJ), Macquarie Bank (MBL), Orica (ORI), Publishing & Broadcasting (PBL), and Tabcorp (TAH).

Brambles (BxB), CSR Limited (CSR), and Asciano Group (AIO) were added to the portfolio.

The NavTraDE system resulted in increased weightings in: Asciano Group (AIO), Westpac Bank (WBC), Brambles (BxB), and Rio Tinto (RIO).

The NavTraDE system also resulted in decreased weightings in: Toll Holdings (TOL) and Macquarie Bank (MBL).

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

The Australian Share Market

The Australian stock market slipped for the first time in eleven months.

The stock market fell for the first time in eleven months, slipping 0.61% in June (S&P/ASX200 Index) due to profit taking, the strength of the A\$ and concerns about the US housing market.

Australian economic fundamentals are largely unchanged from previous months with low unemployment and inflation and strong equity and housing markets.

The Australian economy grew strongly over the past year, with GDP growing 1.6% in the March quarter, or 3.8% over the past 12 months, the fastest quarterly pace of growth since the December quarter of 2003. The unemployment rate is now the lowest since 1964, falling 0.2% in May to 4.2% while the participation rate increased 0.1% to 65%. Wages growth has been relatively muted, with average wages growing by 4.1% p.a. in the March quarter, below the RBA's comfort zone of 4.5%.

The unemployment rate in May fell to a 33 year low of 4.2% even as participation

Short-term consumer confidence is at a record high due to strong economic fundamentals, including low unemployment and the wealth effects of strong equity and housing markets. The high A\$ is supportive of imports and keeping a lid on inflation. Petrol prices fell 5.5% over the past five weeks. However, retail sales unexpectedly slipped 0.1% in May, although 5.7% higher than they were a year before. Lower retail sales in May were attributed to higher petrol prices and unexpectedly warmer weather.

The July inflation data will be released on July 25. Early indications are that it will be within the Reserve Bank's target range of 2 to 3 % on the back of a high A\$, low wages growth and declining petrol prices. The RBA has left

increased.

interest rates unchanged since November at 6.25%.

The housing market is relatively stable as investors return to the market. Demand is still exceeding supply.

The building industry continues to bubble along. Building approvals fell 5.6% in May, and was 7.2% lower over the year. Construction of new dwellings fell 0.7% in May. Housing finance only rose 0.1% in the month compared to 2.1% in April. Housing finance by volume was an adjusted 2.7% higher in May than a year before. Investor housing loans by value were up 8.9% in the month compared with a 0.2% rise for owner-occupiers. In the March quarter the construction industry was the second largest contributor to GDP growth after the mining industry, followed by the transport and retail sectors.

The trade deficit improved due to better terms of trade and higher minerals exports.

Australia's trade deficit unexpectedly narrowed for the third consecutive month in May as shipments from mining companies drove exports to a record levels, and was the lowest in nine months, falling to A\$807 million from a revised A\$916 million in April, even in the face of a rising A\$. Total exports climbed to A\$18.7 billion in May. Farm exports rose 0.1%. Shipments of non-rural goods, including minerals, increased 4%. Services exports rose 1%. The value of exports has increased 10% over the last 12 months. Capital goods imports rose 13%, while intermediate goods were up 1% in May. In contrast, imports of consumption goods and services fell 2%.

In summary, the resources boom is driving the Australian economy. Retail spending has fallen slightly due to rising petrol prices. Interest rates are still relatively low and inflationary pressures have eased with the higher A\$. Demand for Australian minerals exports remains unabated. Surprisingly the performance of export manufacturing is quite good, rising 11% over the past year.

The best performing sectors were Capital Goods; Retailing; Energy; and Materials.

The best performing sectors in June were Capital Goods (+6.2%); Retailing (+5.7%); Energy (+5.3%); and Materials (+4.5%).

The worst performing sectors in the month were Technology Hardware & Equipment (-28.2%); Media (-7.2%); Real Estate (-6.2%); and Telecommunication Services (-6.0%).

World markets were mostly down in June, although their quarterly and yearly performances were impressive.

Most of the global stock markets except Asian bourses fell in June: the MSCI world index fell 0.9%; the S&P 500 index fell 1.8%, the Nasdaq slipped 0.1%, the FTSE slipped by 0.2%, the Nikkei 225 rose 1.5% and the Hang Seng surged 5.5%. In the June quarter, the MSCI world index rose 5.8%; the S&P 500 index rose 5.8%, the Nasdaq surged 7.5%, the FTSE rose 4.8%, the Nikkei 225 also rose 4.8% and the Hang Seng surged 10.0%. Over the past year, all these stock markets rose strongly, with Hang Seng rising 33.9% the highest and the FTSE the lowest with 13.3%.

The price performances of major commodities were mixed although still strong due to continued demand for mineral commodities from China.

The performances of major commodity prices were mixed; all except crude oil, copper and lead fell in June. Crude oil surged 10.1%, gold slipped 1.5%; aluminium fell 1.7%, copper rose 2.8% and lead rose 12.7%. Nickel, tin and zinc prices fell 29.6%, 1.1% and 10.4% respectively. The fall in the nickel price was due to over-stocking.

The US economy is clearly in a downturn. The March quarter GDP was revised upwards from 0.6% to 0.7%, its worst quarter in over four years, due to lower business inventories and higher imports. GDP grew at 2.5% p.a. in the December quarter.

The US housing slump is dominating the US economy. The National Association of Realtors said its index of pending home sales slumped sharply by 3.5% in May, its lowest level since September 2001. In May home-building dropped by 17% in the past year and accounted for a fall in GDP by 1%. Housing foreclosures were up 19% in April. Average new homes prices have decline 11.1% in April.

The US economic data are mixed with the jobs market strong, retail sales buoyant while the housing market remains in the doldrums. GDP growth has slowed.

The jobs market is still strong with the unemployment rate held steady at 4.5% in June, and the number of unemployed people was essentially unchanged. In the past 12 months average hourly and average weekly earnings have both risen 3.9%. Average hourly earnings rose 1.0% in the last quarter, and the average number of jobs created per month was down 24% this year compared to last year.

With strong employment and low inflation, the retail environment is healthy;

retail sales gained 1.3% in June, after rising 1.4% in May and declining 0.1% in April. Personal spending rose 0.5% in May, identical to that in April, while personal income rose 0.4 % in May after slipping 0.2% the previous month. After inflation, the rise in personal spending was only 0.1% in May. Inflation outside of food and energy rose only 1.9% in the 12 months to May, the smallest gain in more than three years. Overall prices rose 0.5% in May but core prices edged up only 0.1%. Inventories rose 0.5% in May after rising 0.4% in April. Wholesale sales rose 1.3% in May after rising 1.5% in April.

The Federal Reserve has maintained the benchmark interest rate at 5.25% p.a. since June 2006. While inflation has risen above the target range, there is speculation that the interest rate may be cut to counter the risks of recession. However, recent strong economic data may lead the Federal Reserve to raise interest rates in the near future.

The UK economy is reasonably healthy due to strong trade performance, high employment and bouyant housing market. However inflationary pressures are increasing.

The UK economy is still reasonably healthy. The trade deficit fell 16.7% in May, the third consecutive decline and the narrowest in almost two years. The housing market is still strong, although the growth in prices have slowed for the second consecutive quarter. The central bank raised the benchmark interest rate to a six-year high of 5.75%, citing concern inflation may stay above the 2% target. Inflation expectations are in the range of 3.5% for 2007. Wages rose 4% in the three months to April from a year earlier, down from 4.4% in the first quarter. The unemployment rate fell in June to the lowest since September 2005, staying at 5.5% in the three months through April compared with 4.5% in the US, 7.1% in the euro area and 3.8% in Japan.

China's economy continues to expand, although the stock market is looking overheated.

The Chinese economic continues to expand. Its trade surplus rose to US\$26.9 billion in June, almost double that of a year ago. Exports in June rose 21.7% while imports grew 14.2%. Export capacity is continuing to expand, with fixed capital investment rising more than 25% in the first five months of 2007.

Share Market Outlook

The US economy is slowing although corporate profits from international sales help to offset weakness in the housing market.

US economic growth is slowing due to a cooling housing market and rising interest rates, and higher fuel costs. After growing at 0.7% p.a. in the first quarter, the slowest since the end of 2002, the US economy probably rebounded last quarter, expanding at around 2.8% p.a. Most analysts predict a growth rate of between 2.5% to 3.0% in 2007.

US corporations are becoming increasingly decoupled from the US real economy due to the effects of globalization. The US export performance is continuing to improve. It is expected that the US should continue to benefit from the global economic boom, and a resilience of the US financial markets should help offset potential Chinese sell-down of its US treasury holdings.

While there have been recent concerns about the sustainability of the US economy, commodity prices should be supported by the robustness of the European and East Asian economies. Australia's mineral exports to Japan and China are now at record highs and trending upwards, with South Korea and India next in rank.

Australian economic fundamentals remain healthy. Inflationary pressures have moderated on the back of a rising A\$.

Barring political upheavals in the Middle East, the risks to the global economy are still low and suggest continued growth in 2007, although at a slightly lower pace than in 2006. Slowing US economic growth and increased geopolitical risks should see the US dollar weaken which would help US exports relative to imports. A soft landing for the US economy is still anticipated while the corporate sector appears healthy. Growth in the Eurozone is now expected to surpass that of the US in 2007 and may act as a buffer to maintain the global growth momentum.

Economic growth is likely to remain around 3.0% due to healthy domestic fundamentals and the continuing strength of the global economy.

Australian economic fundamentals appear sound in the short term with continued economic growth likely in 2007. The unemployment rate is low, business profit outlook is sound, and equity markets continue to reach new records, and the housing market remains buoyant. A shortage of investment properties is likely to stimulate housing investment, interest rate rises notwithstanding. The resources sector should continue to dominate Australia's economic performance while the consumer sector slows and a high A\$ impacts export manufacturing. Chinese demand for Australian minerals remains strong for the foreseeable future. It is also possible the drought may have broken which should support the agricultural sector.

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

Demand from Far East Asian countries for Australian commodities should support the A\$ particularly as the US\$ weakens. A stronger A\$ should aid importers (especially retailers) at the expense of exporters. Revenues and profits for materials companies should continue to benefit from high commodity prices and increasing production. The Chinese economic boom continues to fuel economic growth in the rest of the world.

Resources companies should continue to benefit from strong Asian demand for commodities. Materials companies should benefit from high economic activity.

The risks to the world economy in the short term are largely unchanged. The likelihood of a significant downturn in the world economy is low, barring geopolitical events in the Middle East. The outlook continues to be positive in the short to medium term. The IMF expects the global economy to grow by just under 5%, well above the long-term mean of 3.5%. China's GDP growth is now expected to be around 10 to 11%.

Resources companies may benefit from further global demand and higher production but will have to contend with a stronger A\$. Materials companies should benefit from the resilience of the housing market. Infrastructure companies may benefit from higher traffic numbers associated with strong economic activity. Retail stocks should continue to be supported by strong consumer sentiments and a strong A\$.

A lack of growth opportunities and high competition will see banks struggle to grow in line with the broader market. Negatives are expected from wine stocks and companies associated with the rural sector, although the drought is widely expected to break this year. Industrial stocks are not particularly compelling as a sector, particularly as exporters must contend with a strong A\$.