

Global Market

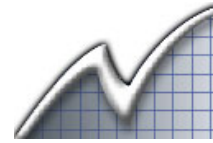
The global financial markets had been able to keep up the positive momentum since early March. The Dow Jones Industrial Index rose more than 11% over the quarter while the broader S&P 500 Index surged over 15%. The stock market rally was spurred by hopes that the economy had left the worst of times behind, with little signs of recovery beginning to sprout. Below is a summary of some of the major events taking place over the past quarter in the USA.

The company earning reports for the quarter although still poor, were generally better than the market expectations and helped fuel the share prices. The standout performers were the previously biggest losers - financial companies, their earnings far exceeding market expectations. In addition, better than anticipated results were received from the government's stress-test on the top 19 US Banks and swift responses from number of institutions to strengthen their balance sheets, further encouraged investors. By June, 10 out of the 19 financial institutes (including JP Morgan, Goldman Sachs and US Bancorp) were also allowed to repay funds that they had borrowed from the US government.

On the economic front, US Consumer Confidence grew over the quarter. The Durable Goods Order and Manufacturing Indexes showed signs of improvement. While housing sales and construction figures were a little mixed, they generally indicated slowing decline. Although still in the red, the 2009 first quarter GDP figure was much better than the 2008 December Quarter result.

Local Market

The local stock market had also bounced back strongly over the quarter along side the global stock markets' recovery. ASX200 rose 10.41% for the quarter, led by cyclical stocks in sectors like Consumer Discretionary and Industrials. Energy and Materials stocks also performed strongly over the quarter. In fact, the only sector not making gains this quarter was Utilities, falling 2.25%. The most encouraging news of all was probably the fact that this was the first positive-return quarter after six consecutive negative quarters since September 2007, and the index had risen a spectacular 26.73% from its March 2009 lows.



Things kicked off with RBA cutting the official interest rate by another 0.25% in early April to 3.00%, the lowest level in nearly 50 years. This rate cut was said to be just fine tuning of the monetary policy after the RBA slashed rates by 4.00% between September 2008 and February 2009 to combat the global financial crisis. However, with the inflation in check, we don't expect RBA will reverse its current policy in the foreseeable future.

In addition to the historically low interest rate, government's stimulus package added to the already existing first home buyer grant fueled the property market. Home sales and housing credit rose in most parts of Australia, with investment housing loans also on the rise in recent months.

Results from the business surveys showed significant recovery in business confidence and improving business conditions.

Since the general expectation was for a negative 2009 Q1 GDP figure to declare Australia in technical recession (meaning two consecutive negative quarterly GDPs), the surprising positive outcome of 0.4% delighted everyone. The Consumer Sentiment Index made a massive monthly jump returning to positive territory for the first time since the credit crunch began.

Although things appeared to improve over many parts of the economy, we are still cautious about the upcoming recovery. Our major concern is about the prevailing employment conditions with rising unemployment, weakening job ads and slowing business expenses. Further, with USA and European countries struggling to produce any growth, global trades are still contracting and will certainly hamper any recovery.

Funds Update

With an optimistic but cautious view of the stock market, we are taking strategic steps to achieve a balance between investment opportunities and risk management. The Fund's investment exposure to the stock market has been gradually increased over the quarter, with the increased trading activities generating a considerable income over the period.

Even though we acknowledge significant improvement in market sentiment over the past few months, our measurement of market volatility is still very high compare to its historic levels. We expect the market will continue to be volatile but unlikely to fall back to the previous lows.

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