

NavralInvest Funds Updates

Period: 1st April to 30th June 2011

Global Market

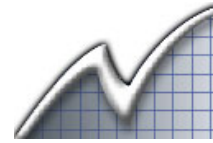
It has been a volatile quarter with world stock markets experiencing a bearish tone throughout the past 2 months. However, a strong rebound in the last three days of the quarter helped many markets recover most of the losses. In the USA, the Dow Jones Industrial Average rose slightly by 0.77% with the broader S&P 500 falling slightly by 0.39%. European markets were mixed with the London FTSE up 0.63%, the German DAX jumping 4.52% and the Paris CAC falling 0.17%. Asian markets were also mixed with Japan up 0.63%, while the Hong Kong Hang Seng slipped 4.80%.

The mixed performances from different stock markets are vastly attributed to the difference in the speed of economy recovery around the globe and the different monetary policies taken. Overheated economies like China and Germany required cooling, while slower growth or countries in debt crisis still depended on continuous support from stimulus and bailouts.

In the US, the economy continued growing but has slowed in pace, although the general economic depiction is satisfactory. In company reports, nearly three quarters reported good earnings and top expectations. The Housing sector showed signs of recovery with both housing starts and building permits rising higher than expected. Employment figures were a bit weaker and fluctuated a lot with strong private employment growth reported in April, and then offset by a worse than expected result in May. The overall unemployment rate ticked up to 9.1%. GDP growth for Q1 2011 was 1.9%, slightly higher than expected.

Fed kept the interest rate unchanged over the quarter and vowed to keep the rate at its historical low level for an extended period of time to help with recovery. With the QE2 finishing by end of June, Fed hinted there would not be another round of quantitative easing, but it did not rule out other forms of future stimulus actions. The lack of conviction and decision from the Fed was somewhat disappointing. Another matter of urgency in the US is its national borrowing ability. With the US government hitting its national debt ceiling of \$14.3t on May 16, it is up to Congress to raise the country's legal borrowing limit for the government to be able to continue borrowing in the debt markets. Republicans will likely take this chance to negotiate new reforms and spending cuts with the government which could possibly lead to further instability in the stock market.

Europe has been the main focus over the quarter. In early April, the rising inflationary threat had the European Central Bank raise its key interest rate by a quarter of a percent for the first time in nearly three years. Europe's biggest economy Germany, showed signs of overheating with low unemployment and strong growth, but many other European countries are far from this trend. The day before the rate hike, Portugal finally joined Greece and Ireland in accepting a financial rescue package. Spain is struggling with a 20 percent unemployment rate, and Italy had its credit outlook cut by Standard and Poor's. The UK's growth was slow and the Bank of England kept its rate unchanged despite the hike from the ECB.



The most significant news came in early June, just after Standard & Poor's cut Italy's rating outlook to negative. Moody's Rating Service cut the rating of Greek debt and assigned negative outlook noting high possibility of default. The concern over whether Greece would be able to receive its second round of bailout money sent shock waves around the globe and caused significant falls in most stock markets. The final resolution came through by the end of June as the Greek prime minister and his cabinet survived in a party-line vote and new austerity measures were eventually passed in parliament.

In Asia, Japan's economy fell back into recession as the earlier tsunami disaster caused power supply shortage and production disruption. Its GDP contracted by 3.7% following a revised 3% drop in the previous quarter. But signs of improvement are emerging as recovery efforts kick into gear. In China, although growth is still strong, high inflationary data alarmed the government to keep up the tightening effort. The People's Bank of China raised the interest rate by another 25bps early April, the fourth hike in the past six months. Apart from the rate hike, it also increased the banks' required reserve ratio dramatically, to cool off excessive lending. The cooling effort seems to have made an impact as late PMI figures fell to its lowest level since February 2009.

Local Market

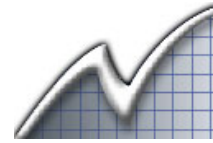
The Australian stock market performed badly in the quarter with the ASX200 plunging 4.75%. The Utilities sector was the best performing sector up 3.25% while Telecommunication Services and Consumer Staples were the other sectors finishing in positive territories. Energy was the worst performing sector which plummeted 11.13%, while Consumer Discretionary and Industrials also performed poorly, falling 8.18% and 6.07% respectively.

Reviewing the performance of the past financial year, Australia's local stock market has underperformed compared to most of the overseas markets. By the end of the financial year, the Australian stock market had moved up only 7.12%, while other major stock markets performed much stronger: the US Dow Jones Industries Average jumped over 27%; London FTSE up 21%; German DAX rose 23.65%; Paris CAC up 15.66% and Hong Kong HSI rose 11.27%. Only Japan's Nikkei trailed behind us, up only 4.62%. It may seem disappointing, but the Australian market performance in fact mostly reflected the strong rise of Australian dollar against most foreign currencies over the year. If all market performances were converted into a single currency, the local market performance is quite on par.

In economic news, the two-speed (or multispeed) economy environment lives on. High local currency hurt the manufacturing and servicing sectors. Consumer sentiment fell to its lowest point in the past two years and led to lower retail consumption. Housing prices also took a hit with prices trending downwards nationwide. The Queensland floods took a heavy toll on the nation's growth rate with the reported 2011 Q1 GDP falling 1.2%.

On the bright side, our strong economy remains intact. Unemployment rate was still at its historical low at 4.9%, and the strong mining boom continued on its path with huge future investments by mining companies in the pipeline.

In light of unstable global environment and softer local inflationary figures, RBA stayed on the sidelines and left the interest rate steady at 4.75% throughout the



quarter. Although it seems the tone has changed to less hawkish, any uptick of inflationary measures will have the RBA jumping back into tightening mode very quickly.

Funds Update

As we can see, the stock market has been kind to our investors over past quarter, and we hope investors will take a long term view and a determined attitude in their investment strategy. With every fall in the stock market, we see new opportunities arise which will reward investors who can stay on course.

We do anticipate a further bumpy ride in the near term as debt problems in the US and Europe will linger for some time, and global recovery needs more time to entrench. We believe that investing in companies with solid fundamentals and which provide good earnings will reward our investors in the long run. With our disciplined investment approach, we aim for the best to extract value for all our investors.

During the quarter, we have removed two shares from our investment portfolio:

- Tabcorp Holdings (TAH), which is undergoing a demerger into two companies. The trading volume in the new companies does not suit our investment style.
- WorleyParsons (WOR), also dropped due to the lack of market exposure and its weighting in the portfolio has been redistributed to other shares.

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