

NavralInvest Funds Updates

Period: 1st April to 30th June 2010

Global Market

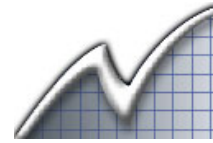
World stock markets fell in the quarter after a year long recovery rally since March 2009. In the USA, the Dow Jones Industrial Average fell 9.97% while the broader S&P 500 went down 11.79%. European markets were also under pressure with the London FTSE falling 13.43%, the German DAX down 3.06% and the Paris CAC down 13.36%. Asian markets were not spared either with the Japan Nikkei plunging 15.39% and the Hong Kong Hang Seng falling 5.23%.

Investment sentiment around the globe was tense and nervous, economic news was mixed, and sometimes confused. Major concern was still surrounding the sovereign-debt crises in the European countries and the fear of a contagious effect on other parts of the world.

In the USA, the quarter actually started off pretty well with signs of improvement in its economy. Personal spending increased and the GDP reading for Q1 2010 showed a growth of 3.2%. However, things turned sour at the end of April when consumer confidence plunged, unemployment figures remained high, and the housing market's recovery stalling after the Government's tax break on property ended. The GDP figure for Q1 2010 was revised down from its initial reading of 3.2% to the final reading of 2.7%. Although it still showed small growth in the economy, the rate was disappointing and slow compared to previous deep recession recoveries. Fortunately a piece of positive news came near the end of the quarter as the financial reform bill drew close to be finalised. This will remove major uncertainty overhanging the financial sector and should boost its performance.

In Europe, sovereign-debt problem continued be the focus. Downgrade of Spain's sovereign-debt rating by S&P and Fitch just increased the fear of the contagious effect. In the meantime, governments were taking up austerity measures to cut spending and reduce their debt. The slightly positive sign over the region was that Euro-zone countries reported a slow growth of 0.2% during Q1 2010 and revised its Q4 2009 growth up from zero to 0.1%. Although Greece's economy was still shrinking, Spain had indeed come out of recession with 0.1% growth in Q1 2010.

In Asia, news was mixed. China's manufacturing measuring index grew in April but slowed down towards the end of the quarter. China's inflation kept rising and property prices at a record high. It prompted concern that Beijing would soon need to raise interest rates to cool the overheated economy. The other major Asian economy Japan, also reported mixed development. Japan's Q1 2010 GDP was up strongly at 4.9%. The growth was driven by strong exports to China and the Asian region. However, its unemployment rate still escalated, its deflation situation worsened and consumer spending decreased.



Local Market

The Australian stock market was also hammered with the ASX200 falling 11.77% over the quarter. All sectors fell except Telecommunication Services with a 7.00% gain - but that could just be the moderated recovery from its big loss in the previous quarter. All other nine sectors finished in the red and most of them recorded double digit losses. The worst performing sector was the Industrials which plunged 19.71%. Financials and Materials also posted heavy losses of 14.45% and 10.70% respectively.

Instead of a much stronger local economy compared to the rest of the world, the local market movement mostly followed the lead from offshore stock markets. Within the quarter, we saw data showing that the Australian economy was at its fastest growth rate in years, and business confidence buoyed. First Quarter 2010 GDP was 0.5%, slightly higher than economists' consensus of 0.4%. The manufacturing sector also recorded strong growth. Labour market continued to strengthen with the unemployment rate falling from 5.4% to 5.2%.

Based on the strong recovery in our economy, the Reserve Bank of Australia again hiked the official cash rate in April and May from 4.00% last quarter to 4.50%, but held the rate in its June meeting. The RBA did mention its concern on the sovereign crises development in European countries and also indicated that the current interest rate had returned to an average level. That led to a general consensus that the interest rate would be on hold for the next few months.

Apart from generally encouraging economic news, the most significant news that made an impact on the stock market was the "Resource Super Profit Tax". In the May budget night, the treasurer surprisingly announced the new "Resource Super Profit Tax" on the mining sector, which the mining industry had not been consulted with at all. As a result, the new tax brought heavy condemnation by the industry and a bitter war broke out between the government and mining companies. This tax was so unpopular and became one of major factors that led to the collapse of the then Prime Minister Kevin Rudd. Ms Julia Gillard became the first female Australia Prime Minister on the 24th June 2010, and immediately made this tax her number one priority, but the damage to the industry had already been done with billions of dollars stripped off mining companies' market value, and the reputation of Australia dented.

Funds Update

We have continued to improve the investment portfolio of the Funds over the quarter. Three stocks – including Foster's Group (FGL), OneSteel Limited (OST) and Santos Limited (STO), were trimmed from the portfolio in order to increase trading efficiency.

In the quarter, we witnessed sharp falls and escalating volatility in stock markets around the world, which only confirmed our expectations that the road of global recovery will be bumpy. However, we believe the global economy will eventually recover and become stronger as history has shown. For the moment, we will work responsibly in managing our investment strategy and try to take all possible advantages on the market fluctuations in generating profit trades.

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