



## QUARTERLY UPDATE SEPTEMBER 2011

### NAVRA BLUE CHIP AUSTRALIAN SHARE FUNDS

#### Quarterly Distribution to Unit Holders

- Navra Blue Chip Australian Share Retail Fund: Nil
- Navra Blue Chip Australian Share Wholesale Fund: Nil

#### Fund Updates

It was a horrific start to the new financial year as the European debt crisis worsened and US recovery flattened. Over the quarter, Australia's S&P/ASX Index plummeted -13.01% while the actual return for the Retail and Wholesale Funds were -9.10% and -8.89% respectively.

As fear of another global recession dominated investors' thinking, the share market was shattered by aggressive selling while volatility soared. When other investors make irrational investment decisions, our trading system works through the dips and spikes and captures possible opportunities to improve the Fund's performance. Although the Funds managed to significantly outperform in comparison to the overall market, we were unable to accumulate enough profit for any distribution over this quarter. In our continuous monitoring of shares held in the portfolio, we have dropped Leighton Holdings Limited (LEI) from the investment portfolio due to further deterioration in the company's fundamental strength.

#### Fund Performance

Returns to 30<sup>th</sup> September 2011

		Retail Funds (%)	Wholesale Fund (%)
<b>QTR</b>	<b>Income</b>	Nil	Nil
	<b>Growth</b>	-9.10%	-8.89%
	<b>Total</b>	-9.10%	-8.89%
<b>One Year</b>	<b>Income</b>	3.39%	3.98%
	<b>Growth</b>	-12.35%	-12.49%
	<b>Total</b>	-8.96%	-8.51%
<b>3 Years *</b>	<b>Income</b>	5.12%	5.56%
	<b>Growth</b>	-9.71%	-9.72%
	<b>Total</b>	-4.59%	-4.16%
<b>6 Years *</b>	<b>Income</b>	8.76%	9.10%
	<b>Growth</b>	-10.12%	-10.16%
	<b>Total</b>	-1.36%	-1.06%
<b>Fund Under Management</b>		\$16.48mil	\$3.91mil

Note all performance figures are net of fees

\* Annualised

**Platforms:** Wealthtrac, AUSMAQ, Beacon Investments, NetWealth.

**Margin Lenders:** Colonial, BT, Leveraged Equities, St George Margin Lending, ANZ Margin Services, Suncorp.

**Equity Structured Products and Warrants:** RBS Group (Australia) Pty Limited

## **Market Review**

Global share markets were in turmoil for the quarter and most markets suffered heavy losses. In the USA, the Dow Jones Industrial Average fell 12.09% and the broader S&P 500 Index slumped 14.33%. The worst losses came from European markets with both the Germany DAX and France CAC plunging more than 25% while London's FTSE plummeted 13.74%. Asian markets fared no better with the Japan Nikkei falling 11.37% and Hong Kong Hang Seng Index diving 21.46%.

Although the major focus over the quarter was on the progress of the European debt crisis, there were a number of significant events that took place in the U.S. In late July, the U.S faced danger of defaulting as the level of their national debt exceeded its legal debt ceiling. The political debate dragged on for weeks and the final deal was only reached on the very last day. The agreement however, did not stop rating agent S&P from downgrading the country's rating from AAA to AA+, stating political risk as a major factor in the downgrade. Other economic news was not pleasant either with the USA's second quarter GDP coming out weaker than expected at only 1%, whilst the unemployment rate hovered above 9%. The only possible positive note came from Fed as it sprung back into action by announcing the new stimulus action, named "Operation Twist", the basis of the stimulus being swapping out of its holding in short-term bonds to buy longer-term bonds. Theoretically this will help to suppress long term bond rates and stimulate investment, but the market seems to doubt any real impact.

Back in Europe, the debt crisis dragged on. There was no concrete agreement from the member countries in dealing with the crisis, nor any strong will from major political leaders. There were many ups and downs as news or rumours emerged. Major developments during the quarter included Moody's downgrading of Ireland's debt to junk status in mid-July. A week later, positive news emerged as European leaders reached an agreement to continue the bailout of Greece. By late September, the situation tensed again as the world's second largest bond issuer Italy was downgraded by S&P. The gloomy sentiment was further aggravated by the report of Germany's exports slowing and Eurozone's second quarter GDP weakening to lower than expected, which added to growing concerns of global recovery faltering. Additionally, an unexpected 3% jump in Eurozone's CPI (which indicates increase of inflation pressure) also dampened the hope of any rate cut from the European Central Bank.

In Asia, it was a case of economic slowdown very similar to that in Europe, especially in Japan. With the devastating earthquake disrupting the country's output and depressing its consumer spending, Japan cut its growth forecast once again in mid-August and reported a worse than expected economy contraction at -2.1% for the second quarter. Rating agent Moody also cut Japan's rating in wake of its slowdown. China, who has been the biggest supporter of world economic growth in recent times, also showed signs of slowing down, and its inflation keeps climbing. While China is still growing considerably, high inflation pressures will limit its scope of monetary easing options in the near future.

On the local front, we saw Australia's ASX200 fall in line with other major share markets in the order of 13.01%. Defensive shares performed comparatively better with Telecommunication Services the only sector finishing in black for the quarter, rising up 7.07%, while Utilities and Consumer Staples posted slight losses of -2.74% and -4.19% respectively. All other sectors suffered double digit losses with the Materials and Energy sectors recording the worst performance, plunging 19.3% and 17.27% respectively.

Although the domestic economy did not exacerbate like other major world economies, investment sentiment was heavily driven by overseas events. The strong Australian Dollar exchange rate continued to dampen manufacturing activity and retail sales as consumer sentiment plummeted. Construction activities remained subdued as home building weaknesses persisted. This sector has been in contraction for well over a year now. The weak business confidence and harder conditions throughout the quarter led to a surprise increase in our unemployment rate, from 4.9% in June to 5.3% by August. With all the uncertain overseas conditions and lower than expected inflation figures, RBA held the official interest rate at 4.75% throughout the quarter. Despite all the negativities, the latest report of Australia's second quarter GDP came in at a better than expected rate of +1.2%, and a series of strong trade surplus figures can be seen as a positive indicator attesting to the strength of our local economy.

We observe that the recent irrational market movements have been triggered by the typical "Fear and Greed" investment sentiment among investors, however it did provide great opportunities for long-term consistent investors. The short-term market movement may continue to be bumpy due to the European debt crisis and debt deleveraging throughout the world. We do believe nevertheless, that stock markets as well as economies will recover in time as everyone works towards a more prosperous future.