



Fund Commentary

Period: 1st to 31st December 2003

The Australian Share Market

The Australian equity market shrugged off the previous month's breather and grew strongly for the month of December. The S&P/ASX200 price index rose by 3.56% over the month. The Materials sector featured with the strongest growth of all sectors, mainly driven by good performance from Australian mineral stocks. The Energy sector also performed very well with oil prices looking comfortable above US\$30 a barrel. On the retail front, consumers shrugged off concerns on higher interest rates and continued to spend freely as the strong Australian dollar began to deliver lower prices on imported goods. In the building sector, approvals have begun to fall, reflecting a clear change in sentiment following November's rise in official interest rates. The good news is that the fall has not been severe. Confidence in the economy is also growing with unemployment at 14-year lows and strong Australian dollar leading to cheaper imports.

In the US, long-term economic signals are strengthening. Inflation appears to be under control and better than expected industrial production numbers may signal that the worst is over for the long-suffering US manufacturing sector. Not only is the rate of increase in industrial production accelerating but a broader assortment of industries are benefiting, leading to confidence in the durability of the US economic recovery.

Robust economies directly to our north in Asia and China's voracious appetite for commodities bode well for our own economy, especially for the resources sector. With not a lot of new supply coming on to the world market in the short term and with surging world demand, commodity prices are expected to do well for the next couple of years.

Approved Shares for the Navra Funds

The table below presents the list of approved shares that have passed our rigorous share selection process for inclusion in the Navra Funds. They may not be included in the current portfolio depending on a number of factors determined by the Investment Committee's weekly review.

Amcor Ltd	AMC	Paper & Packaging
Australian Gas Light	AGL	Infrastructure/Utilities
Australian Stock Exchange	ASX	Investment/Financial Services
BHP Billiton	BHP	Diversified Resources
Boral	BLD	Building Materials
Cochlear Ltd	COH	Health/Biotech
Coca Cola Amatil	CCL	Food & Household
Futuris Corporation Limited	FCL	Diversified Industrials
Harvey Norman	HVN	Retail
James Hardie Industries	JHX	Building Materials
Leighton Holdings	LEI	Developers/Contractors
Lend Lease Corp Ltd	LLC	Developer/Contractors
Lion Nathan Ltd	LNN	Alcohol / Tobacco
Metcash	MTT	Retail
National Foods	NFD	Foods & Household
News Corp Ltd	NCP	Media
Orica	ORI	Chemicals
Origin Energy	ORG	Infrastructure/Utilities
Publishing & Broadcasting	PBL	Media
Paperlinx	PPX	Paper & Packaging
Qantas Airways Ltd	QAN	Transport
Rio Tinto Ltd	RIO	Diversified Resources
Seven Networks Ltd	SEV	Media
Toll Holdings	TOL	Transport
Wesfarmers	WES	Diversified Industrials
Westfield America trust	WFA	Property
Woolworths	WOW	Retail

Since inception the number of shares in the portfolio has increased from 20 to 27 shares in order to provide more diversification. Please [click here](#) to view the current portfolio.

Fund Performance

The fall in the Australian equity market presented us with great buying opportunities. Except for this month, since the beginning of the financial year, the S&P/ASX 200 price index has increased steadily and consistently without any significant dips. The NavTraDE system buys shares as share prices declines. Prior to this month, we have been unable to take our desired positions in stocks due to high share prices. We have increased our cash level from about 7% to 15%.

The performance of both the Retail and the Wholesale Funds for the month was 1.03%.

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 realise 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 realised.

The following shares have risen in price and also performed well for the Fund during the month due to their volatility: Australian Gas Light (AGL), Rio Tinto (RIO), and Metcash (MTT). These shares generated realized capital gains through trading this month. The stock that performed well this month and generated both realized and unrealized capital gains through trading was Australian Stock Exchange (ASX), Publishing and Broadcasting Ltd (PBL).

Shares that performed well by generating unrealized gains include BHP Billiton (BHP), Boral (BLD), Futuris (FCL), Harvey Norman (HVN), Orica (ORI), Paperlith (PPX), Seven Networks (SEV), and Woolworths (WOW).

During the month, shares that detracted from performance either due to low volatility or because they were displaying unrealized losses include Cochlear (COH), Corporate Express (CXP), James Hardie Industries (JHX), and Lend Lease Corporation (LLC).

We increased the portfolio weightings to the Cochlear (COH), Lend Lease Corporation (LLC), Origin Energy (ORG), and Wesfarmers (WES) as we believe that their underlying financial robustness and quality of these companies remained sound and have been a good buying opportunity. There were no inclusions to the portfolio.

We have decreased our weightings to the Australian Gas Light (AGL), Australian Stock Exchange (ASX), James Hardie (JHX), Rio Tinto (RIO), and Seven Networks (SEV).

Share Market Outlook

Our opinion on the share market remains bullish. The Australian economy appear to be robust with inflation appear to be under control and unemployment at 5.6% - a 14-year low. There are signs of emerging recovery in the export earning sectors of tourism and farming, along with greater world demand for our minerals. In our view, the share market will continue its rise of 2003 into the new year, especially in the first half of 2004.

The outlook for the global economy and equity markets also remain positive. Most economic data in the US are still encouragingly pointing to a durable recovery. The higher industrial production numbers and low US dollar bodes well for the manufacturing sector. The anticipated terrorist attacks around the world expected in the holiday season during December did not materialized as expected by some and did not have any adverse impact on world share markets.

International conditions and export prospects remain favourable for Australian companies. Demand for our raw materials is expected to remain high in Asia, especially to China, the Mid-East, US and Europe. China's economy is burgeoning and has a seemingly insatiable appetite for our minerals. Chinese high levels of manufacturing and construction are expected to continue at least until the Beijing Olympic Games in 2008.

Official rate rises appear to be gaining certainty with continued high levels of domestic consumer spending. The strong domestic economy and continued concerns on consumer credit will be major factors that the RBA will have to consider in February when it meets to consider further rate rises. On the positive side, the property market is slowing as expected. Notwithstanding further interest rate rises in February, the outlooks for the economy and share market remain good. Interest rate sensitive and consumer cyclical shares will likely to be subject to negative sentiment. Shares that can benefit from improved international economic conditions and can adapt to the strong Australian dollar will do well. The Resources and Energy sectors is expected to do well next year.