



**AUSTRALIAN LEADERS FUND LIMITED**  
**A.B.N. 64 106 845 970**

**AUSTRALIAN LEADERS FUND LIMITED (ALF) – JUNE 2008**  
**INVESTMENT UPDATE & NTA**

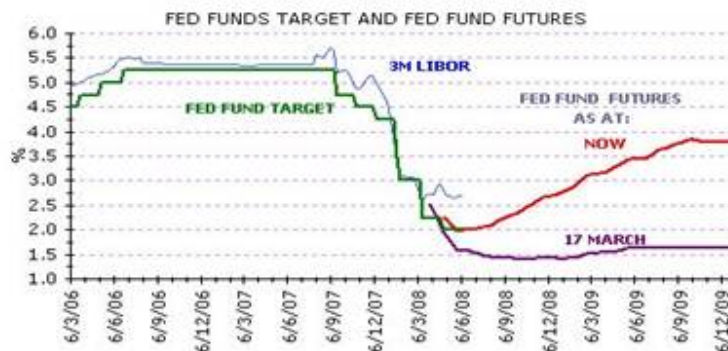
As at 30 June 2008

NTA before tax	1.0798c
NTA after tax and before tax on unrealised gains	1.0798c
NTA after tax	1.0522c

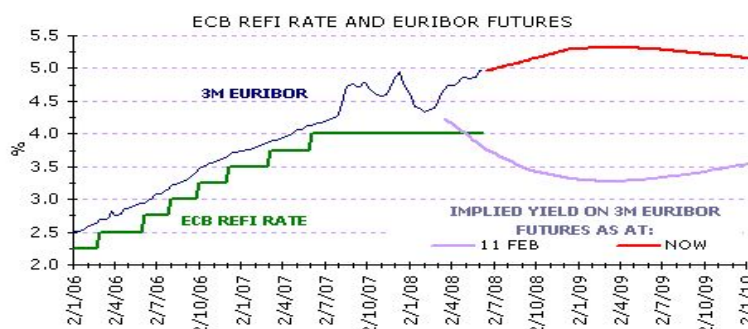
**MONTH IN REVIEW**

As we moved into June Central Bank commentary in Europe and the US turned decidedly more hawkish. In response to deteriorating inflation trends central bankers shifted from growth support to inflation control. In just a few weeks we have seen a sharp turnaround in interest rate expectations with a clear indication that the Fed is done cutting rates.

**Fig 1a Tightening cycle began even before economy moves into recession!**



**Fig 1b Rate expectations in Europe have likewise been revised up.**



Inflationary pressures fuelled by a weaker dollar and surging commodity prices have removed scope for the Fed to lower rates further which is bad news for equities as the economy slows. Markets responded selling off aggressively through the month. With the market retesting March lows it is appropriate to revisit valuations and consider the economic downturn that is being priced in.

The table below is a valuation matrix for the S&P/ASX 200 under different scenarios for 2009 profits.

### S&P/ASX200 MARKET FORECAST - December 2008

		Prospective PER Multiple				
		12.0	13.0	14.0	15.0	16.0
FY09 Industrial EPS Growth	-20.0%	4,909	5,112	5,315	5,518	5,720
	-15.0%	5,061	5,277	5,492	5,708	5,923
	-10.0%	5,213	5,441	5,670	5,898	6,126
	-5.0%	5,365	5,606	5,847	6,088	6,329
	0.0%	5,518	5,771	6,025	6,278	6,532
	4.0%	5,639	5,903	6,167	6,431	6,694
	8.0%	5,761	6,035	6,309	6,583	6,857
	12.0%	5,883	6,167	6,451	6,735	7,019

Source: GSJBW Research estimates

With zero growth in profits next year (soft landing) and assigning a modest 13 times to S&P/ASX 200 earnings, the index would be fairly priced at 5771. This is probably a reasonable 12 month target for the market (13% upside).

Looking at a downside scenario with inflation and commodity prices moving higher forcing the central bank to tighten policy further and pushing the economy into a 'hard landing', earnings would likely fall by 10-25%, if we assign 12 times under this bear case outcome, the end of year target is 5000 with the market probably moving lower in the interim. The important message is that with the index already testing 5000 currently, a hard landing scenario is more or less already priced in.

Given we place a low probability of a hard landing prevailing in 2009 we can only conclude equities are cheap and represent the best value we have seen for many years.

The risk we see is with international markets and the prospect of a hard landing elsewhere given the US, Japan and parts of Europe are all teetering on recession and inflation has broken out in emerging markets. If equities in these regions move lower as a 'hard landing' is priced in, our market will inevitably follow.

Even though local equities are attractively priced it is probably sensible to wait for better clarity on the depth and duration of the downturn in these markets before calling the bottom. Either way, there will be outstanding opportunities to accumulate great companies at attractive prices in the six months ahead.

## **DIVIDEND**

The interim dividend declared for the 2008 financial year is 4.0 cents a share fully franked. The dividend was paid on 14 March 2008.

## **BUYBACK**

The board is focused on maximising returns to shareholders and this will from time to time involve active capital management. The board views the introduction of an on market share buy back as being in line with this aim as it will add value to the remaining shares on issue and increase the NTA per share.

A buyback of approximately 10% of the issued capital commenced on 12 March 2008.

As at close of market on 9<sup>th</sup> July 2008 2,541,680 shares have been bought back.

## **PORTFOLIO PERFORMANCE**

<b>Gross Performance</b>	<b>1 month</b>	<b>3 month</b>	<b>6 month</b>	<b>Financial YTD 08</b>
Australian Leaders Ltd*	-7.01%	-1.20%	-18.72%	-14.04%
All Ords Accum	-7.32%	-0.63%	-15.22%	-12.12%
Relative Performance	+0.31%	-0.57%	-3.50%	-1.92%

\* Includes the contribution from the buyback

## **PORTFOLIO STRUCTURE**

<b>Investment Type</b>	<b>As at 31 May 2008</b>		<b>As at 30 June 2008</b>	
	<b>\$m</b>	<b>%</b>	<b>\$m</b>	<b>%</b>
Listed Securities	108.56	124.65%	128.39	160.70%
Fixed interest and Cash	24.75	28.41%	2.01	2.52%
<b>Gross Assets</b>	<b>133.31</b>	<b>153.06%</b>	<b>130.40</b>	<b>163.22%</b>
Short positions	-46.21	-53.06%	-50.51	-63.22%
<b>Net Assets</b>	<b>87.10</b>	<b>100.00%</b>	<b>79.89</b>	<b>100.00%</b>

The listed securities portfolio is detailed on the following page.

As at 30 June 2008 the equity portfolio gave exposure to:

<b>Consumer Discretionary</b>			<b>Real Estate</b>		
Aristocrat Leisure Ltd.	3,595,200	2.80%	Lend Lease Corp. Ltd.	3,939,375	3.07%
Crown Ltd.	3,964,470	3.09%	Stockland Australia	1,492,599	1.16%
Harvey Norman Holdings Ltd.	2,472,000	1.93%		<b>5,431,974</b>	<b>4.23%</b>
Sky City Entertainment Group Ltd.	2,096,700	1.63%			
TABCorp Holdings Ltd.	784,800	0.61%	<b>Health Care</b>		
Wotif.com Holdings Ltd.	1,974,000	1.54%	Primary Health Care Ltd.	4,337,741	3.37%
	<b>14,887,170</b>	<b>11.6%</b>	ResMed Inc. (CDI-10CDI/1SHS)	726,000	0.57%
				<b>5,063,741</b>	<b>3.94%</b>
<b>Media</b>					
Austereo Group Ltd.	3,460,736	2.70%	<b>Industrials</b>		
APN News & Media Ltd.	1,147,297	0.89%	Brambles Ltd.	1,309,500	1.02%
Consolidated Media Holdings Ltd.	1,690,798	1.32%	Leighton Holdings Ltd.	915,300	0.71%
News Corp.	3,340,995	2.60%	Qantas Airways Ltd.	2,675,200	2.09%
Village Roadshow Ltd Prf A	2,285,734	1.78%	SEEK Ltd.	1,700,090	1.32%
West Australian Newspapers Holdings Ltd.	1,314,268	1.02%	Toll Holdings Ltd.	1,324,400	1.03%
	<b>13,239,828</b>	<b>10.31%</b>		<b>7,924,490</b>	<b>6.17%</b>
<b>Consumer Staples</b>			<b>Information Technology</b>		
Coca-Cola Amatil Ltd.	1,752,500	1.36%	Computershare Ltd.	1,289,400	1.00%
Select Harvests Ltd.	1,186,272	0.92%		<b>1,289,400</b>	<b>1.00%</b>
Woolworths Ltd.	3,056,250	2.39%			
	<b>5,995,022</b>	<b>4.67%</b>	<b>Materials</b>		
			BHP Billiton Ltd.	9,614,000	7.49%
<b>Energy</b>			Gunns Ltd.	598,020	0.47%
Oil Search Ltd.	4,664,208	3.64%	Mount Gibson Iron Ltd.	936,000	0.73%
Paladin Energy Ltd.	596,130	0.46%	Newcrest Mining Ltd.	2,262,546	1.76%
Roc Oil Co. Ltd.	1,263,750	0.98%	Orica Ltd.	922,950	0.72%
Sunshine Gas Ltd.	607,500	0.47%	Rio Tinto Ltd.	1,084,000	0.84%
	<b>7,131,588</b>	<b>5.55%</b>		<b>15,417,516</b>	<b>12.01%</b>
<b>Financials</b>			<b>Telecommunication Services</b>		
Australia & New Zealand Banking Group Ltd.	5,801,328	4.52%	Reverse Corp. Ltd.	3,427,348	2.67%
Commonwealth Bank of Australia	5,951,186	4.64%	Telstra Corp. Ltd.	4,141,450	3.23%
Macquarie Group Ltd.	3,550,720	2.77%		<b>7,568,797</b>	<b>5.90%</b>
National Australia Bank Ltd.	7,339,043	5.71%			
Westpac Banking Corp.	5,456,000	4.25%	<b>Utilities</b>		
	<b>28,098,277</b>	<b>21.89%</b>	AGL Energy Ltd.	1,801,800	1.40%
				<b>1,801,800</b>	<b>1.40%</b>
<b>Diversified Financials</b>					
ASX Ltd.	3,768,000	2.93%	<b>SHORT PORTFOLIO</b>	<b>-50,507,034</b>	
Henderson Group PLC	1,433,432	1.12%			
	<b>5,201,432</b>	<b>4.05%</b>			
<b>Insurance</b>					
AXA Asia Pacific Holdings Ltd.	2,667,600	2.08%	<b>Contact:</b>		
QBE Insurance Group Ltd.	2,583,392	2.01%	Justin Braitling		
Suncorp-Metway Ltd.	2,608,000	2.03%	Australian Leaders Fund		
Tower Ltd.	1,483,178	1.16%	02-9362-8606		
	<b>9,342,170</b>	<b>7.28%</b>	0400999910		