



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

AUSTRALIAN LEADERS FUND LIMITED (ALF) – DECEMBER 2009
INVESTMENT UPDATE & NTA

As at 31st December 2009

NTA before tax on unrealised gains	\$1.51
NTA after tax	\$1.42

MONTH IN REVIEW

Equity markets drifted through most of December before staging a Christmas rally running into the end of the year. The ASX 200 finished the month up +3.6%, bringing the total return for calendar year 2009 to +30.8%.

Corporate activity was the highlight of the month with NAB announcing a surprise bid for AXA exceeding an offer from AMP. Telstra downgraded its FY10 revenue guidance and announced the formalisation of its terms of engagement on the NBN with the Government.

The economic data continued to show strength in the economy with solid employment data, strong housing starts and construction finance data. The RBA increased the cash rate by an additional 25 basis points to 3.75%.

The portfolio underperformed significantly in December following a 20% correction in the value of our investment in RHG Ltd. On the 21st December, the company reported it had lost a dispute with one of its wholesale funders over a relatively small facility of \$324 million. As RHG is now technically in default with this facility over a minor calculation error, a series of cross defaults were also triggered with other wholesale providers. The company has since come out and reaffirmed the commitment of these other lenders. We are not concerned with the impact of this dispute, the sums involved are small in the context of the value of the company. We are still confident the company will end up with cash resources approaching \$1.00 per RHG Ltd share as the mortgage portfolio runs off, double the current share price. On this basis we are more than happy retaining our substantial holding in RHG Ltd.

We would expect equity markets to drift higher in the medium term as the stronger economic data supports upward revisions to activity and corporate profits.

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 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 for up to 10% of issued capital commenced on 13th March 2009 for 12 month duration.

As at close of market on 13th January 2010 6,672,665 shares had been bought back.

OPTIONS ISSUE

On 21st August 2009, the Directors of Australian Leaders Fund Limited announced a 1 for 1 bonus issue of options to its shareholders. The options were allotted to shareholders on 11th September 2009 and have been issued at no cost to shareholders. The options have an exercise price of \$1.25 per option and can be exercised any time up until the expiry date of 30th November 2010.

As at the 13th January 2010 513,566 options have been exercised for a total consideration of \$641,958 with a remaining balance of outstanding options being 66,627,015.

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PORTFOLIO PERFORMANCE INCLUDING ATTRIBUTION

	1 MONTH RETURN (%)			3 MONTH RETURN (%)			6 MONTH RETURN (%)			FINANCIAL YEAR TO DATE RETURN (%)		
	Total Portfolio ¹	Total All Ords	Attribution ²	Total Portfolio	Total All Ords	Attribution	Total Portfolio	Total All Ords	Attribution	Total Portfolio	Total All Ords	Attribution
Long Portfolio	2.4	3.7	-2.2	2.6	3.7	-2.0	34.8	26.1	17.3	34.8	26.1	17.3
Short Portfolio	5.1	3.7	-1.0	3.9	3.7	-0.1	27.4	26.1	-1.5	27.4	26.1	-1.5
Cash			-1.0			-1.6			-7.7			-7.7
Total	-0.5	3.7	-4.2	0.1	3.7	-3.6	34.3	26.1	8.2	34.3	26.1	8.2

¹ The "Total Portfolio" column displays the return achieved in the period from the Investment Portfolio (long) and from the Borrowed Securities portfolio (short) separately. The Total Portfolio performance, representing the underlying return achieved on Shareholder's Funds is a weighted return of the long and short portfolios as well as cash. As such this column will not sum.

²Attribution shows the contribution to the outperformance of Shareholder's Funds in the period coming from the Investment Portfolio (long) and the portfolio of Borrowed Securities (Short) as well as from the cash retained on the Balance Sheet. Each contribution sums to the overall outperformance of shareholders funds.

Fund Attribution:

In December, the Investment Portfolio decreased in value by 0.5% underperforming the All Ordinaries Index, which increased by 3.7%. The portfolio of securities that ALF has borrowed and sold (short) increased by 5.1% outperforming the investment portfolio and therefore further detracting from overall performance.

At the end of December ALF has 76% of Shareholders Funds invested in equities with the balance retained in cash.

On balance, Shareholders Funds decreased by -0.5% on a gross basis in December underperforming the market by 4.2%

Individual stock contributions:

A/ Investment Portfolio (Long):

The overall portfolio returns were supported during the month by strong contributions from the following 3 positions

Stock	Total monthly return %	Attribution Effect %
Aquarius Platinum Ltd	18.8%	0.8%
News Corp.	20.6%	0.7%
QBE Insurance Group Ltd.	15.2%	0.4%

The following 3 portfolio positions detracting from overall performance.

Stock	Total monthly return %	Attribution Effect %
RHG Ltd	-18.2%	-3.4%
FlexiGroup Ltd.	-9.7%	-1.2%
Mesoblast Ltd.	-6.2%	-0.6%

B/ Funding Portfolio (Short):

We are expecting companies that have been sold short to perform poorly. Positive attribution is achieved when borrowed securities (shorts) underperformed the benchmark.

Overall portfolio returns were supported during the month by the poor relative performance of the following securities which have been sold short.

Stock	Total monthly return %	Attribution Effect %
David Jones Ltd.	-5.8%	0.3%
Mincor Resources N.L.	-9.7%	0.2%
Lihir Gold Ltd.	-16.4%	0.2%

Shares of the following securities that have been sold short performed well in the period detracting from overall performance.

Stock	Total monthly return %	Attribution Effect %
APA Group	13.6%	-0.4%
MAp Group	17.0%	-0.4%
Spotless Group Ltd.	20.4%	-0.4%

GROSS PORTFOLIO STRUCTURE

Investment Type	As at 30 th November 2009		As at 31 st December 2009	
	\$m	%	\$m	%
Listed Securities – Long	187	176	170	161
Listed Securities - Short	-86	-81	-89	-85
NET EXPOSURE	101	95	80	76
Fixed interest and Cash	5	5	25	24
Shareholder Funds	106	100	105	100

The listed securities portfolio is detailed on the following page

As at 31st December the equity portfolio gave exposure to:

Consumer Discretionary

Sky City Entertainment Group Ltd.	1,774,500	1.05%
Crown Ltd.	1,849,200	1.09%
	3,623,700	2.14%

Media

News Corp.	2,108,294	1.24%
APN News & Media Ltd.	454,168	0.27%
	2,562,462	1.51%

Retailing

Myer Holdings Ltd.	4,175,080	2.46%
	4,175,080	2.46%

Consumer Staples

Woolworths Ltd.	1,960,000	1.16%
Wesfarmers Ltd.	3,064,460	1.81%
AWB Ltd.	5,025,978	2.96%
Graincorp Ltd.	1,456,163	0.86%
Foster's Group Ltd.	3,520,000	2.08%
	15,026,601	8.86%

Energy

Riversdale Mining Ltd.	1,192,918	0.70%
Oil Search Ltd.	5,925,399	3.49%
Caltex Australia Ltd.	1,716,920	1.01%
Coal & Allied Industries Ltd	1,761,251	1.04%
	10,596,488	6.25%

Financials

Westpac Banking Corp.	9,614,000	5.67%
RHG Ltd.	13,098,873	7.73%
National Australia Bank Ltd.	6,885,072	4.06%
Australia & New Zealand Banking Group Ltd.	5,882,379	3.47%
	35,480,324	20.93%

Diversified Financials

Henderson Group PLC	3,415,898	2.01%
FlexiGroup Ltd.	8,880,654	5.24%
ASX Ltd.	1,799,410	1.06%
	14,095,962	8.31%

Insurance

Tower Australia Group Ltd.	3,163,160	1.87%
QBE Insurance Group Ltd.	2,778,880	1.64%
	5,942,040	3.50%

Real Estate

Macquarie Office Trust	1,240,000	0.73%
Mirvac Group	1,099,000	0.65%
ING Office Fund	2,402,560	1.42%
	4,741,560	2.80%

Health Care

ResMed Inc. (CDI-10CDI/1SHS)	1,803,449	1.06%
Ramsay Health Care Ltd.	2,259,686	1.33%
Mesoblast Ltd.	6,060,745	3.57%
Angioblast Systems Limited	2,425,000	1.43%
	12,548,880	7.40%

Industrials

Crane Group Ltd.	946,000	0.56%
AJ Lucas Group Ltd.	953,778	0.56%
Ausenco Ltd.	1,628,517	0.96%
Transfield Services Ltd.	2,265,429	1.34%
	5,793,724	3.42%

Transportation

Qantas Airways Ltd.	1,794,000	1.06%
ConnectEast Group	174,000	0.10%
Australian Infrastructure Fund Ltd.	1,246,000	0.73%
Asciano Group	4,728,657	2.79%
	7,942,657	4.68%

Materials

Rio Tinto PLC	6,147,954	3.63%
PaperlinX Ltd.	350,863	0.21%
PanAust Ltd	2,536,327	1.50%
Platinum Australia Ltd.	1,736,800	1.02%
Nufarm Ltd.	1,089,000	0.64%
Northern Iron Ltd.	375,000	0.22%
Mirabela Nickel Ltd.	2,923,468	1.72%
Iluka Resources Ltd.	2,788,437	1.64%
Independence Group N.L.	1,008,185	0.59%
Gunns Ltd.	1,875,261	1.11%
Fletcher Building Ltd.	2,028,600	1.20%
BlueScope Steel Ltd.	1,163,140	0.69%
Alumina Ltd.	1,104,000	0.65%
Aquarius Platinum Ltd.	5,365,500	3.16%
Adelaide Brighton Ltd.	2,062,500	1.22%
	32,555,035	19.20%

Telecommunication Services

Telstra Corp. Ltd.	9,113,510	5.38%
Singapore Telecom SGD0.15 (Chess Unit)	2,533,800	1.49%
	11,647,310	6.87%

Utilities

Transfield Services Infrastructure Fund	1,133,614	0.67%
AGL Energy Ltd.	1,687,200	1.00%
	2,820,814	1.66%

TOTAL LONG PORTFOLIO

	169,552,637	100%
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TOTAL SHORT PORTFOLIO

	-89,466,069	
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