



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

**AUSTRALIAN LEADERS FUND LIMITED (ALF) – JANUARY 2010**  
**INVESTMENT UPDATE & NTA**

As at 31<sup>st</sup> January 2010

NTA before tax on unrealised gains	\$1.45*
NTA after tax	\$1.39*

\*The above figures are before the payment of the interim dividend of 4.0 cents a share fully franked to be paid on 30 April 2010.

**MONTH IN REVIEW**

Equity markets declined in January as investors feared the recovery would falter. A tightening of credit conditions in China, a key contributor to global growth only exacerbated these concerns. The Australian share market with its exposure to resource companies felt the full brunt of this correction.

As we move through the reporting season we are seeing strong profit growth from Australian companies, driven by modest revenue expansion and solid cost containment. Outlook commentary while conservative has been encouraging.

The portfolio performed well in January with Mesoblast increasing by more than 50%. While there was little in the way of news behind this move, the company continues to release encouraging clinic trial results.

RHG Ltd has resolved an important legal dispute with UniCredit Bank and upgraded its profit guidance for the current financial year. While we still see upside in RHG, we have sold part of our holding into the companies share buyback.

Our investment in Flexigroup has also performed well with the company upgrading its profit guidance for the year. We continue to be very happy with our significant holding in FXL.

The market has corrected by more than 10% since late January. With strong momentum in the global economy and solid profit results coming through daily we would expect to see the market recover in the weeks ahead.

**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 buyback 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 13<sup>th</sup> March 2009 for 12 month duration.

As at close of market on 10<sup>th</sup> February 2010 6,919,938 shares had been bought back.

A share buyback for up to 6,583,755 shares or approximately 10% of issued capital will commence on 14 March 2010 for a 12 month duration.

**OPTIONS ISSUE**

On 21<sup>st</sup> 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 11<sup>th</sup> 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 30<sup>th</sup> November 2010.

As at the 10<sup>th</sup> February 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 <sup>1</sup>	Total All Ords	Attribution <sup>2</sup>	Total Portfolio	Total All Ords	Attribution	Total Portfolio	Total All Ords	Attribution	Total Portfolio	Total All Ords	Attribution
Long Portfolio	-3.5	-5.8	3.9	-0.6	-0.5	-0.5	16.5	10.3	10.9	30.1	18.7	21.2
Short Portfolio	-5.2	-5.8	-0.5	-0.1	-0.5	-0.2	9.7	10.3	1.7	20.8	18.7	-1.7
Cash			-0.3			-1.3			-4.0			-7.5
<b>Total</b>	<b>-2.7</b>	<b>-5.8</b>	<b>3.1</b>	<b>-2.5</b>	<b>-0.5</b>	<b>-2.0</b>	<b>18.9</b>	<b>10.3</b>	<b>8.6</b>	<b>30.7</b>	<b>18.7</b>	<b>12.0</b>

<sup>1</sup> 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.

<sup>2</sup>Attribution 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 January, the Investment Portfolio decreased in value by 2.7% outperforming the All Ordinaries Index, which decreased by 5.8%. The portfolio of securities that ALF has borrowed and sold (short) decreased by 5.2% underperforming the investment portfolio.

At the end of January ALF has 99% of Shareholders Funds invested in equities with the balance retained in cash.

On balance, Shareholders Funds decreased by -2.7% on a gross basis in January outperforming the market by 3.1%

**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 %
Mesoblast Ltd.	54.4%	3.5%
RHG Ltd.	0.9%	0.8%
Ramsay Health Care Ltd.	4.7%	0.2%

The following 3 portfolio positions detracting from overall performance.

Stock	Total monthly return %	Attribution Effect %
Myer Holdings Ltd.	-11.8%	-0.3%
Oil Search Ltd.	-14.0%	-0.3%
Mirabela Nickel Ltd.	-18.3%	-0.4%

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 %
Equinox Minerals Ltd.	-16.4%	0.3%
David Jones Ltd.	-7.9%	0.2%
Karoon Gas Australia Ltd.	-20.6%	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 %
Macquarie Atlas Roads Ltd.	31.4%	-0.2%
Computershare Ltd.	19.8%	-0.3%
Westfield Group Australia	1.4%	-0.3%

#### **GROSS PORTFOLIO STRUCTURE**

Investment Type	As at 31 <sup>st</sup> December 2009		As at 31 <sup>st</sup> January 2010	
	\$m	%	\$m	%
Listed Securities – Long	170	161	178	174
Listed Securities - Short	-89	-85	-77	-75
<b>NET EXPOSURE</b>	<b>80</b>	<b>76</b>	<b>101</b>	<b>99</b>
Fixed interest and Cash	25	24	1	1
<b>Shareholder Funds</b>	<b>105</b>	<b>100</b>	<b>102</b>	<b>100</b>

The listed securities portfolio is detailed on the following page

As at 31<sup>st</sup> January the equity portfolio gave exposure to:

<b>Consumer Discretionary</b>			<b>Health Care</b>		
Crown Ltd.	2,328,000	1.30%	ResMed Inc. (CDI-10CDI/1SHS)	2,339,872	1.31%
Sky City Entertainment Group Ltd.	260,000	0.15%	Ramsay Health Care Ltd.	1,233,036	0.69%
	<b>2,588,000</b>	<b>1.45%</b>	Mesoblast Ltd.	9,358,504	5.27%
<b>Media</b>			Angioblast Systems Limited	2,425,000	1.36%
News Corp.	8,217,291	4.62%	CSL Ltd.	1,964,340	1.10%
	<b>8,217,291</b>	<b>4.62%</b>		<b>17,320,752</b>	<b>9.73%</b>
<b>Retailing</b>			<b>Industrials</b>		
Myer Holdings Ltd.	4,925,680	2.76%	AJ Lucas Group Ltd.	1,658,763	0.93%
Pacific Brands Ltd.	2,200,000	1.24%	Bradken Ltd.	1,507,500	0.85%
	<b>7,125,680</b>	<b>4.00%</b>	Ausenco Ltd.	1,446,381	0.81%
<b>Consumer Staples</b>			Transfield Services Ltd.	1,908,290	1.07%
Wesfarmers Ltd.	2,971,080	1.67%		<b>6,520,934</b>	<b>3.66%</b>
AWB Ltd.	2,170,634	1.22%	<b>Transportation</b>		
Foster's Group Ltd.	5,286,600	2.97%	Asciano Group	4,442,859	2.49%
	<b>10,428,314</b>	<b>5.86%</b>	Australian Infrastructure Fund	1,274,000	0.72%
<b>Energy</b>				<b>5,716,859</b>	<b>3.21%</b>
Coal & Allied Industries Ltd	4,646,217	2.61%	<b>Materials</b>		
Oil Search Ltd.	4,032,437	2.27%	BHP Billiton Ltd.	3,349,000	1.87%
Roc Oil Co. Ltd.	2,747,000	1.54%	Mirabela Nickel Ltd.	2,689,030	1.51%
Energy Resources of Australia Ltd.	2,095,000	1.18%	Adelaide Brighton Ltd.	2,593,500	1.46%
	<b>13,520,654</b>	<b>7.60%</b>	Rio Tinto Ltd.	2,380,000	1.34%
<b>Financials</b>			Northern Iron Ltd.	2,336,750	1.31%
RHG Ltd.	13,220,158	7.42%	Iluka Resources Ltd.	2,075,347	1.17%
National Australia Bank Ltd.	8,577,634	4.83%	Aquarius Platinum Ltd.	2,018,556	1.13%
Westpac Banking Corp.	8,351,000	4.69%	PanAust Ltd	1,780,865	1.00%
Australia & New Zealand Banking Group Ltd.	5,586,718	3.14%	Platinum Australia Ltd.	1,557,200	0.88%
Bank of Queensland Ltd.	1,100,000	0.62%	Avoca Resources Ltd.	1,150,200	0.65%
Bendigo & Adelaide Bank Ltd.	491,500	0.28%	Gunns Ltd.	1,139,564	0.64%
	<b>37,327,010</b>	<b>20.98%</b>	Alumina Ltd.	924,000	0.52%
<b>Diversified Financials</b>			Independence Group N.L.	870,421	0.49%
FlexiGroup Ltd.	8,487,207	4.77%	Lynas Corp. Ltd.	555,000	0.31%
Macquarie Group Ltd.	3,636,600	2.04%	PaperlinX Ltd.	228,732	0.13%
Henderson Group PLC	3,355,706	1.89%		<b>25,648,165</b>	<b>14.41%</b>
ASX Ltd.	2,436,720	1.37%	<b>Telecommunication Services</b>		
	<b>17,916,233</b>	<b>10.07%</b>	Telstra Corp. Ltd.	6,703,380	3.77%
<b>Insurance</b>			Singapore Telecom SGD0.15 (Chess Unit)	1,227,200	0.69%
Tower Australia Group Ltd.	2,590,333	1.46%		<b>7,930,580</b>	<b>4.46%</b>
AMP Ltd.	1,252,000	0.70%	<b>Utilities</b>		
	<b>3,842,333</b>	<b>2.16%</b>	AGL Energy Ltd.	3,047,000	1.71%
<b>Real Estate</b>			Transfield Services Infrastructure Fund	1,081,851	0.61%
Lend Lease Group	2,360,000	1.33%		<b>4,128,851</b>	<b>2.32%</b>
ING Office Fund	1,854,533	1.04%			
Goodman Group	1,755,000	0.99%	<b>TOTAL LONG PORTFOLIO</b>	<b>177,959,939</b>	<b>100.00%</b>
Mirvac Group	1,455,000	0.82%	<b>TOTAL SHORT PORTFOLIO</b>	<b>-77,041,835</b>	
Macquarie Office Trust	1,253,750	0.70%			
FKP Property Group	1,050,000	0.59%			
	<b>9,728,283</b>	<b>5.47%</b>			