



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

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

As at 31st May 2010

NTA before tax on unrealised gains	\$1.37
NTA after tax	\$1.32

MONTH IN REVIEW

The emergence of Sovereign debt concerns in Europe and a slowing Chinese economy saw investors sell aggressively in May. With Australian companies due to report full year results in August, the market was further weighed down by a number of profit warnings from companies exposed to household spending.

The government's proposal to introduce a resource super profits tax resulted in a sharp correction in mining shares leaving Australia amongst the worst performing Equity markets globally in May. In our recent quarterly report we canvassed some of the concerns we had for both banking and mining shares and these themes played out in May with International investors who had benefited from a strong Australian dollar selling shares in these important sectors.

We are quite cautious on the outlook for the market in the months ahead. While we would expect to see a recovery rally from an oversold position, equity returns are likely to be volatile in the medium term.

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 share buyback for up to 6,555,538 shares or approximately 10% of issued capital commenced on 14 March 2010 for a 12 month duration.

As at close of market on 9th June 2010 1,059,074 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 11th May 2010 851,071 options have been exercised for a total consideration of \$1,063,839 with a remaining balance of outstanding options being 66,289,510.

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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	-7.7	-7.6	-0.6	-4.5	-3.3	-2.3	-4.7	-3.9	-1.9	25.4	16.8	16.9
Short Portfolio	-6.8	-7.6	-0.5	-1.3	-3.3	-1.7	-2.4	-3.9	-1.4	18.2	16.8	-1.7
Cash			1.9			2.3			1.5			-4.7
Total	-6.8	-7.6	0.8	-5.0	-3.3	-1.7	-5.7	-3.9	-1.8	27.3	16.8	10.5

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 May, the Long Portfolio decreased in value by 7.7% underperforming the All Ordinaries Index, which decreased by 7.6%.

The portfolio of securities that ALF has borrowed and sold (short) decreased by 6.8% outperforming the All Ordinaries Index, and detracting from performance.

At the end of May ALF has 92% of net Shareholders Funds invested in equities with the balance retained in cash.

On balance, Shareholders Funds decreased by 6.8% on a gross basis in May outperforming the market by 0.8%

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.	-1.7%	0.36
Harvey Norman Holdings Ltd.	0.7%	0.28
BHP Billiton Ltd.	-6.1%	0.23

The following 3 portfolio positions detracting from overall performance.

Stock	Total monthly return %	Attribution Effect %
Gunns Ltd.	-37.8%	-0.7%
Sonic Healthcare Ltd.	-27.1%	-0.7%
Virgin Blue Holdings Ltd.	-48.7%	-0.8%

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 %
Minara Resources Ltd.	-11.2%	0.4%
Spotless Group Ltd.	-17.0%	0.3%
Bendigo & Adelaide Bank Ltd.	-14.5%	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 %
Karoon Gas Australia Ltd.	12.4%	-0.3%
Ramsay Health Care Ltd.	7.5%	-0.5%
Alumina Ltd.	26.8%	-0.7%

GROSS PORTFOLIO STRUCTURE

Investment Type	As at 30 th April 2010		As at 31 st May 2010	
	\$m	\$m	\$m	%
Listed Securities – Long	176	174	177	187
Listed Securities - Short	-92	-91	-90	-95
NET EXPOSURE	84	83	87	92
Fixed interest and Cash	17	17	8	8
Gross Assets	101	100	95	100

The listed securities portfolio is detailed on the following page

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

Consumer Discretionary

Crown Ltd.	3,988,200	2.25%
Sky City Entertainment Group Ltd.	3,808,000	2.15%
TABCORP Holdings Ltd.	2,644,000	1.49%
	10,440,200	5.89%

Media

West Australian Newspapers Holdings Ltd.	1,780,637	1.01%
News Corp.	1,690,213	0.95%
Ten Network Holdings Ltd.	1,134,250	0.64%
	4,605,100	2.60%

Retailing

Myer Holdings Ltd.	4,263,709	2.41%
Harvey Norman Holdings Ltd.	3,838,527	2.17%
	8,102,236	4.58%

Consumer Staples

Woolworths Ltd.	2,211,950	1.25%
Wesfarmers Ltd.	1,517,012	0.86%
Foster's Group Ltd.	1,809,533	1.02%
Graincorp Ltd.	1,418,400	0.80%
	6,956,895	3.93%

Energy

Woodside Petroleum Ltd.	3,801,075	2.15%
Origin Energy Ltd.	3,750,000	2.12%
Oil Search Ltd.	2,803,888	1.58%
Energy Resources of Australia Ltd.	1,395,000	0.79%
WorleyParsons Ltd.	1,233,500	0.70%
	12,983,463	7.34%

Financials

Australia & New Zealand Banking Group Ltd.	6,380,660	3.60%
National Australia Bank Ltd.	6,164,396	3.48%
Westpac Banking Corp.	6,080,373	3.43%
RHG Ltd.	3,971,142	2.24%
Commonwealth Bank of Australia	2,544,870	1.44%
	25,141,441	14.19%

Diversified Financials

FlexiGroup Ltd.	10,452,858	5.91%
	10,452,858	5.91%

Insurance

Insurance Australia Group Ltd.	3,971,000	2.24%
QBE Insurance Group Ltd.	2,542,038	1.44%
Suncorp-Metway Ltd.	2,196,042	1.24%
AMP Ltd.	2,180,100	1.23%
Tower Australia Group Ltd.	1,924,292	1.09%
	12,813,472	7.24%

Real Estate

Lend Lease Group	3,247,159	1.83%
Charter Hall Retail REIT	2,140,000	1.21%
Charter Hall Office REIT	1,457,500	0.82%
Mirvac Group	1,310,000	0.74%
Commonwealth Property Office Fund	462,500	0.26%
	8,617,159	4.86%

Health Care

Sonic Healthcare Ltd.	2,701,013	1.53%
Primary Health Care Ltd.	2,325,984	1.31%
Mesoblast Ltd.	7,714,194	4.36%
CSL Ltd.	2,245,730	1.27%
QRxPharma Ltd.	2,542,802	1.44%
ANGIOBLAST SYSTEMS LIMITED	2,425,000	1.37%
	19,954,723	11.28%

Industrials

Leighton Holdings Ltd.	3,098,900	1.75%
Downer EDI Ltd.	1,928,458	1.09%
	5,027,358	2.84%

Transportation

Asciano Group	5,083,899	2.87%
Toll Holdings Ltd.	1,946,860	1.10%
Transurban Group	1,287,000	0.73%
Qantas Airways Ltd.	992,698	0.56%
Virgin Blue Holdings Ltd.	832,031	0.47%
	10,142,488	5.73%

Materials

BHP Billiton Ltd.	10,401,280	5.88%
PanAust Ltd	4,097,640	2.31%
Rio Tinto Ltd.	3,896,537	2.20%
Mirabela Nickel Ltd.	2,553,263	1.44%
Aquarius Platinum Ltd.	2,230,840	1.26%
Fortescue Metals Group Ltd.	2,205,408	1.25%
BlueScope Steel Ltd.	2,088,000	1.18%
OneSteel Ltd.	1,600,000	0.90%
Sandfire Resources N.L.	1,025,178	0.58%
Western Areas N.L.	802,000	0.45%
Independence Group N.L.	554,544	0.31%
	31,454,690	17.76%

Telecommunication Services

Telstra Corp. Ltd.	5,756,820	3.25%
Telecom Corp. of New Zealand Ltd.	1,220,000	0.69%
	6,976,820	3.94%

Utilities

Spark Infrastructure Group	2,700,000	1.52%
Transfield Services Infrastructure Fund	685,000	0.39%
	3,385,000	1.91%

TOTAL LONG PORTFOLIO	177,053,903	100.00%
TOTAL SHORT PORTFOLIO	-90,018,079	