



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

AUSTRALIAN LEADERS FUND LIMITED (ALF) – May 2011
INVESTMENT UPDATE & NTA

As at 31st May 2011

NTA before tax on unrealised gains	\$1.44
NTA after tax	\$1.41

MONTH IN REVIEW

Equity markets moved lower in May following a raft of weaker economic data. With China continuing to tighten and Eurozone sovereign debt issues escalating again, markets had little to cheer about. In Australia the commentary from companies continues to reflect poor household spending trends and the impact of the higher Australian dollar.

We saw a number of profit downgrades as companies updated forecasts ahead of the June financial year end. While we had positive performance from QRX Pharma Ltd which we have divested, and Bionomics Ltd, our investment in Paperlinx preference shares fell sharply. Paperlinx have subsequently confirmed payment of the mid year dividend on the preference shares and the securities have recovered.

While the outlook does not look particularly encouraging, the market looks oversold short term and we have invested further in some of our preferred positions.

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 6,461,392 shares or approximately 10% of issued capital commenced on 15 March 2011 for a 12 month duration.

As at close of market on 10th June 2011 731,309 shares had been bought back.

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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	-1.6	-1.9	0.4	0.9	-1.8	4.6	16.4	4.2	18.1	29.6	14.9	19.5
Short Portfolio	-1.2	-1.9	-0.5	-4.7	-1.8	2.1	0.9	4.2	2.7	14.9	14.9	0.1
Cash			0.4			0.6			-0.6			-4.1
Total	-1.6	-1.9	0.3	5.5	-1.8	7.3	24.4	4.2	20.2	30.4	14.9	15.5

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 1.6% outperforming the All Ordinaries Index, which decreased by 1.9%.

The portfolio of securities that ALF has borrowed and sold (short) decreased by 1.2% outperforming the All Ordinaries Index, and detracting from performance.

At the end of May ALF has 81% of net Shareholders Funds invested in equities with the balance retained in cash.

On balance, Shareholders Funds decreased by 1.6% on a gross basis in May outperforming the market by 0.3%

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 %
QRxPharma Ltd.	7.8	0.6
Bionomics Ltd.	26.4	0.4
Crown Ltd.	3.9	0.3

The following 3 portfolio positions detracting from overall performance.

Stock	Total monthly return %	Attribution Effect %
Myer Holdings Ltd.	-9.4	-0.2
Forge Resources Ltd.	-55.6	-0.5
PAPERLINX SPS TRUST	-33.9	-0.9

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 %
Nexus Energy Ltd.	-17.4	0.4
Wotif.com Holdings Ltd.	-4.5	0.2
Transpacific Industries Group Ltd.	-16.7	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 %
Bradken Ltd.	8.7	-0.3
Iluka Resources Ltd.	17.5	-0.3
Aurora Oil & Gas Ltd.	41.3	-0.3

GROSS PORTFOLIO STRUCTURE

Investment Type	As at 30 th April 2011		As at 31st May 2011	
	\$m	\$m	\$m	%
Listed Securities – Long	166	159%	164	163%
Listed Securities - Short	-76	-73%	-82	-82%
NET EXPOSURE	90	86%	82	81%
Fixed interest and Cash	15	14%	19	19%
Gross Assets	105	100%	101	100%

The listed securities portfolio is detailed on the following page.

As at 31st May 2011 the equity portfolio gave exposure to:

Consumer Discretionary

Billabong International Ltd.	2,226,000	1.36%
Crown Ltd.	5,256,000	3.20%
	7,482,000	4.56%

Media

News Corp.	3,839,138	2.34%
	3,839,138	2.34%

Retailing

Myer Holdings Ltd.	2,141,083	1.31%
JB Hi-Fi Ltd.	1,710,000	1.04%
	3,851,083	2.35%

Consumer Staples

Wesfarmers Ltd.	4,150,000	2.53%
	4,150,000	2.53%

Energy

Origin Energy Ltd.	3,507,461	2.14%
Oil Search Ltd.	2,297,440	1.40%
Texon Petroleum Ltd.	2,126,883	1.30%
Coal & Allied Industries Ltd	2,074,825	1.27%
Santos Ltd.	1,623,600	0.99%
Gujarat NRE Coking Coal Ltd.	1,320,466	0.81%
Extract Resources Ltd.	944,101	0.58%
Carabella Resources Ltd.	937,648	0.57%
	14,832,424	9.06%

Financials

Commonwealth Bank of Australia	6,836,991	4.18%
Australia & New Zealand Banking Group Ltd.	5,662,912	3.45%
Westpac Banking Corp.	5,641,822	3.44%
	18,141,725	11.07%

Diversified Financials

Henderson Group PLC	4,051,814	2.47%
Macquarie Group Ltd.	2,248,250	1.37%
FlexiGroup Ltd.	2,155,162	1.31%
	8,455,226	5.15%

Insurance

Insurance Australia Group Ltd.	4,611,028	2.81%
QBE Insurance Group Ltd.	3,896,000	2.38%
AMP Ltd.	3,126,000	1.91%
	11,633,028	7.10%

Health Care

ResMed Inc. (CDI-10CDI/1SHS)	3,347,327	2.04%
REVA Medical Inc.	1,192,275	0.73%
Atcor Medical Holdings Ltd.	980,254	0.60%
Mesoblast Ltd.	2,533,963	1.55%
CSL Ltd.	1,766,461	1.08%
QRxPharma Ltd.	1,250,282	0.76%
Bionomics Ltd.	1,823,765	1.11%
Mayne Pharma Group Ltd.	672,170	0.41%
Sunshine Heart Inc.	431,841	0.26%
	13,998,338	8.54%

Real Estate

Westfield Retail Trust	5,320,000	3.25%
Lend Lease Group	4,574,918	2.79%
Mirvac Group	1,925,360	1.17%
Westfield Group Australia	1,363,500	0.83%
	13,183,778	8.04%

Industrials

CSR Ltd.	3,186,000	1.94%
RCR Tomlinson Ltd.	2,673,349	1.63%
Service Stream Ltd.	1,524,219	0.93%
Sedgman Ltd.	1,009,250	0.62%
	8,392,818	5.12%

Commercial & Professional Services

Brambles Ltd.	3,312,000	2.02%
Downer EDI Ltd.	1,228,500	0.75%
	4,540,500	2.77%

Transportation

Asciano Ltd.	5,263,691	3.21%
Qantas Airways Ltd.	4,648,064	2.84%
	9,911,755	6.05%

Materials

BHP Billiton Ltd.	7,848,703	4.79%
Rio Tinto Ltd.	3,500,832	2.14%
Newcrest Mining Ltd.	3,358,619	2.05%
James Hardie Industries SE	2,999,781	1.83%
Perilya Ltd.	2,306,000	1.41%
PAPERLINX SPS TRUST	1,950,000	1.19%
Sandfire Resources N.L.	1,749,440	1.07%
BlueScope Steel Ltd.	1,233,214	0.75%
Atlas Iron Ltd.	1,147,000	0.70%
Independence Group N.L.	1,052,300	0.64%
Gindalbie Metals Ltd.	952,174	0.58%
Panoramic Resources Ltd.	888,800	0.54%
Alkane Resources Ltd.	517,500	0.32%
Eureka Energy Ltd.	495,000	0.30%
Mineral Deposits Ltd.	491,250	0.30%
Tiger Resources Ltd.	449,206	0.27%
Gold Anomaly Ltd.	440,000	0.27%
Base Resources Ltd.	399,493	0.24%
YTC Resources Ltd.	113,923	0.07%
	31,893,235	19.46%

Telecommunication Services

Telstra Corp. Ltd.	4,379,000	2.67%
	4,379,000	2.67%

Utilities

AGL Energy Ltd.	4,332,555	2.65%
Hastings Diversified Utilities Fund	888,250	0.54%
	5,220,805	3.19%

TOTAL LONG PORTFOLIO	163,904,853	100.00%
TOTAL SHORT PORTFOLIO	-81,950,354	