

Australian Leaders Fund



**AUSTRALIAN
LEADERS**
FUND

May Investor Briefing Agenda

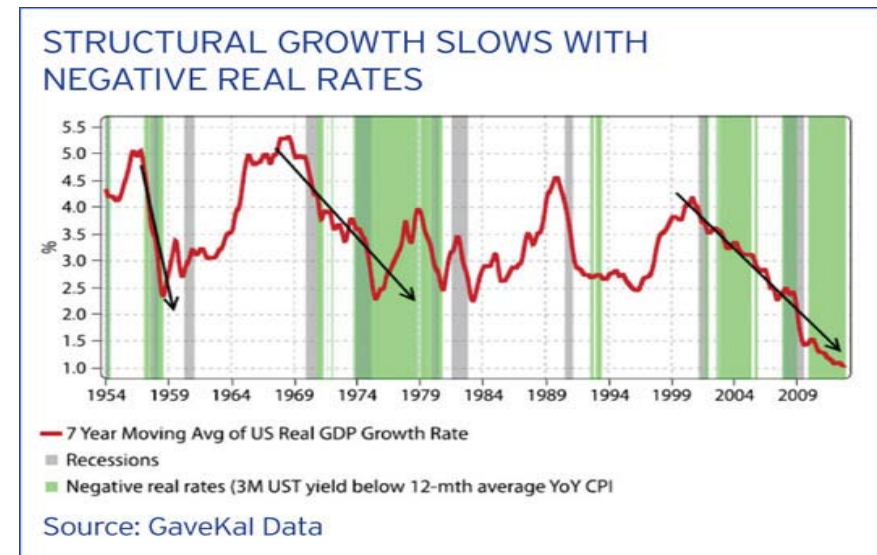
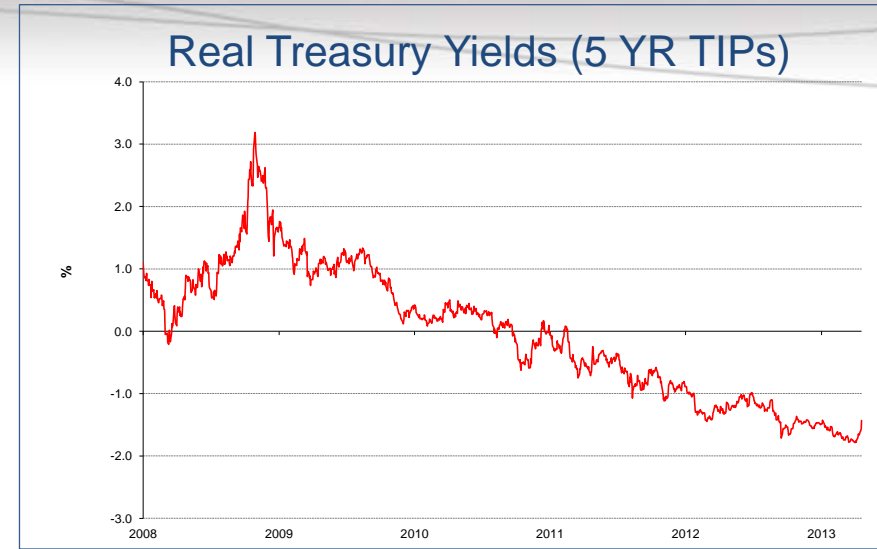
- ❖ Monetary policy is driving asset markets higher.
- ❖ Investment Process- How a Long/Short fund works.
- ❖ Investment Performance- how have we gone.
- ❖ Capital Management- Placement and Bonus Option

Central Bank liquidity is driving asset values higher

- The economic fundamentals are poor, yet share markets march ahead as central banks push the boundaries of sensible monetary policy. Asset markets have become beholden to the central bankers' tune.
- Understanding the impact this monetary expansion is having on asset markets as central banks endeavour to reflate Western economies mired in recession is paramount for investors in shares.
- Central banks may be repeating the same mistakes made in previous cycles, where monetary policy was too accommodative for too long sparking a credit boom that ended in calamitous financial losses and deep recession.
- This reflation trade in shares has played out twice before over the last past 15 years, leading in both cases to stock market crashes and recessions.

Negative real interest rates are rarely good for the economy

- Contrary to popular belief, instead of stimulating growth, structural growth slows during periods of negative real interest rates
- By manipulating the cost of money, the central bank creates a 'false price' leading to a misallocation of capital into unproductive assets
- As negative rates are also a tax on savings, less is left for consumption and investment.
- The velocity of money always collapses along with negative interest rates and competitive devaluation, as the private sector hoards cash and defers investment.

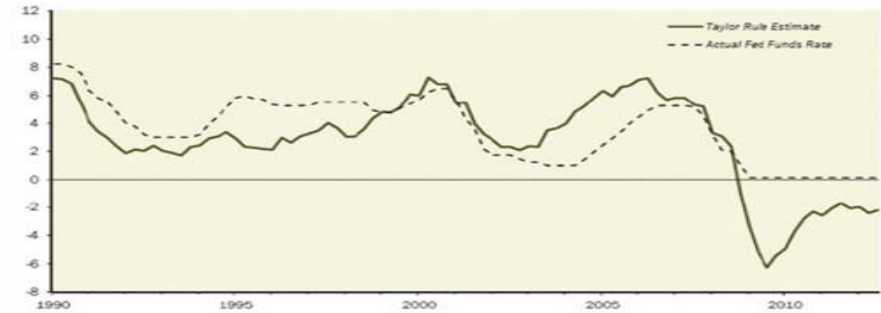


Doubling up on bad policy

- Policy makers have steadfastly doubled down with the wrong policies in the aftermath of the financial crisis.
- The Taylor Rules suggested rates had to fall to minus 6% if the economy was to return to full employment
- With the Fed already employing a zero interest rate policy (ZIRP) they had no further room to manoeuvre.
- Central banks have embraced QE -buying bonds, pushing yields (interest rates) down, lowering financing costs. The asset purchases are funded from newly printed currency adding to base money.

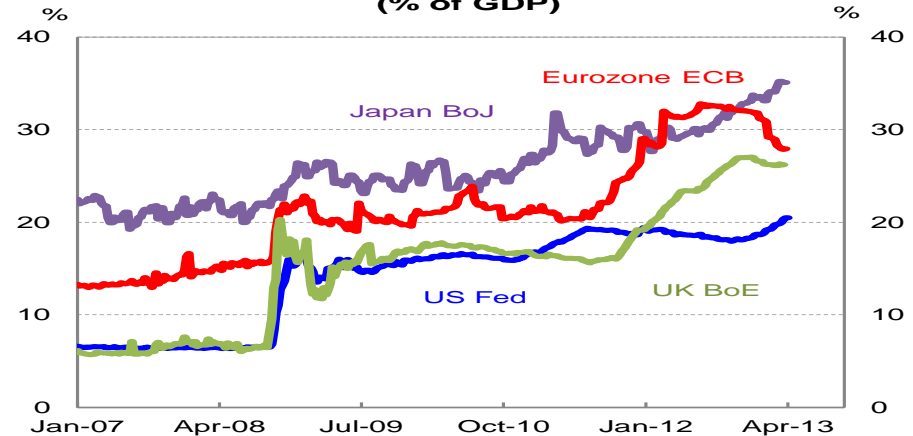
THE FED MOVES RATES LOWER

United States: Fed Funds Rate and Taylor-rule Estimate (percent)



Source: Gluskin Sheff

BALANCE SHEET ASSETS (% of GDP)

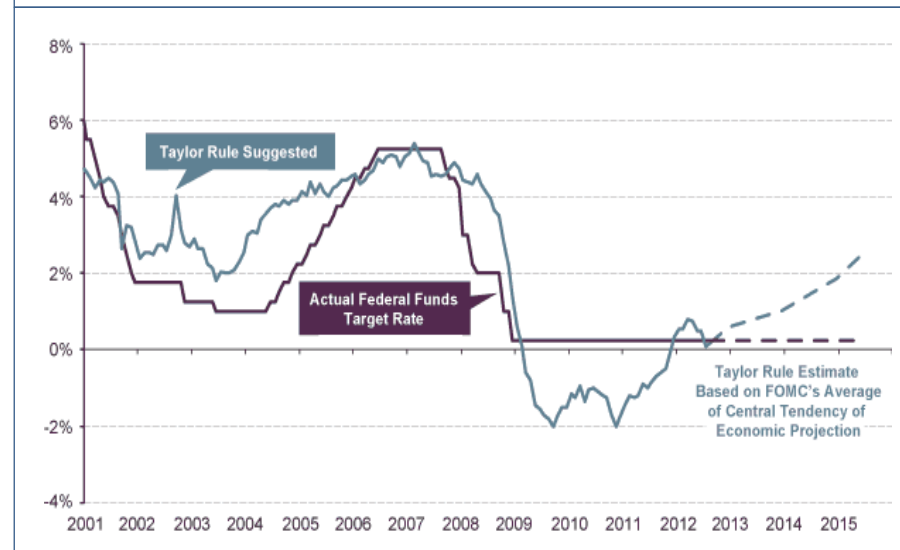
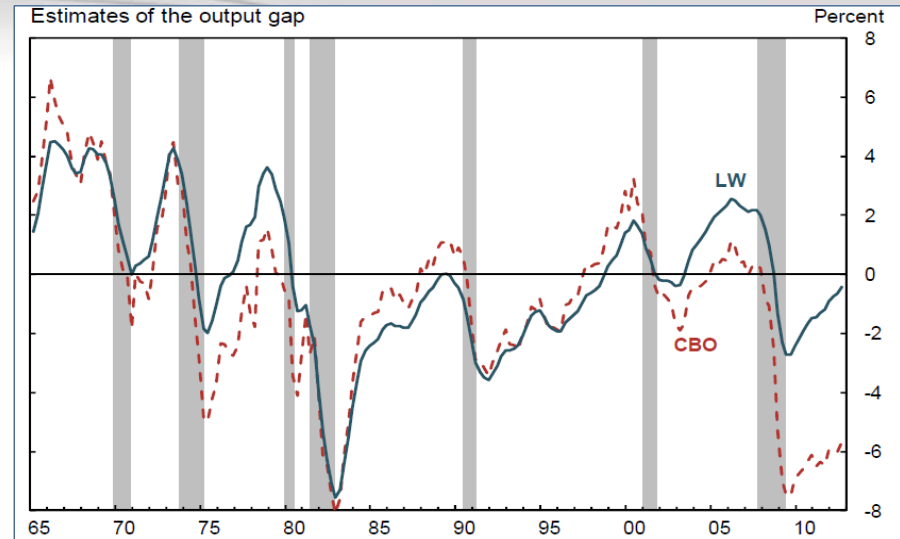


Why do central bankers keep getting it wrong?

From the Federal Reserves website:
“we can’t directly measure the output gap. Instead, we estimate it using statistical models.”

The output gap is far lower then the Fed and CBO modelling would suggest. Consequently the current level of stimulus is highly inflationary. This is how we ended up with stagflation in the 70’s.

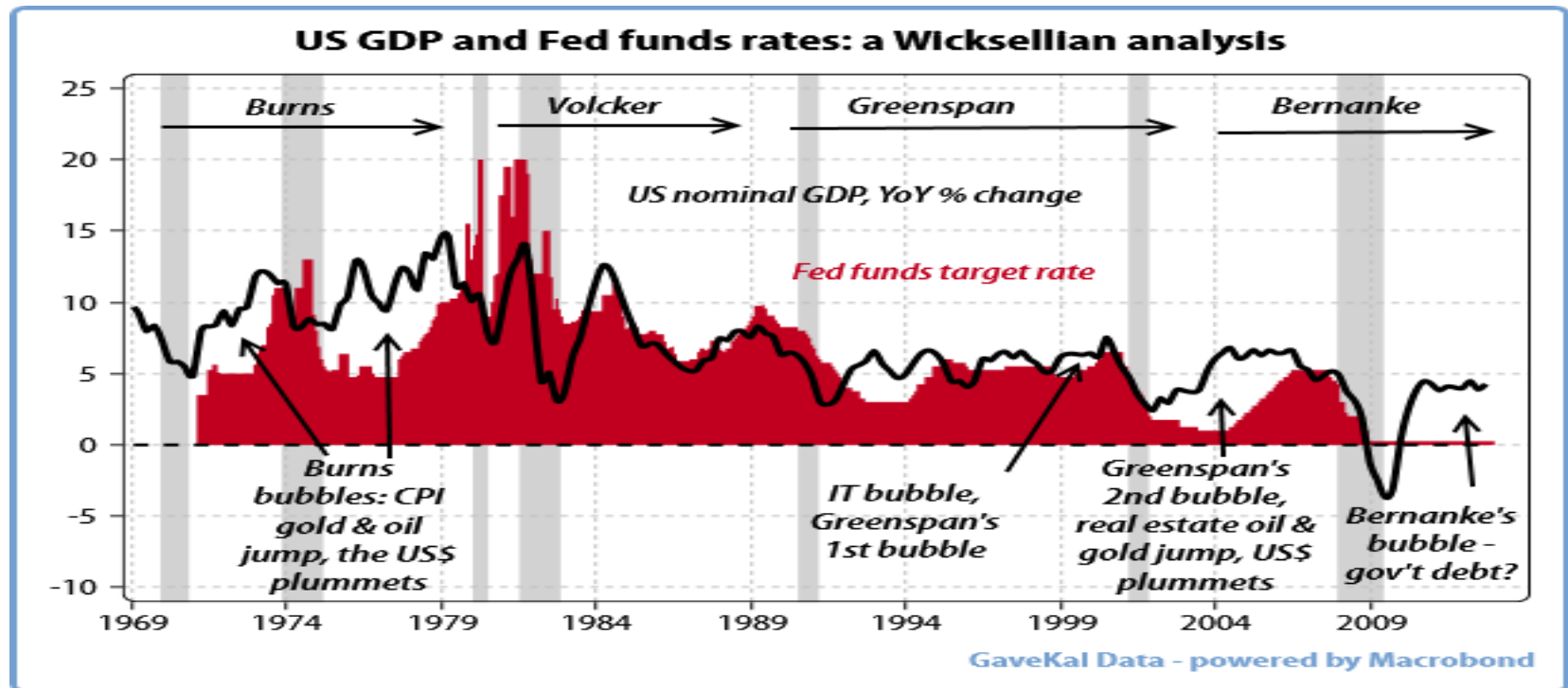
As real rates are now as low as they ever have been, it is particularly concerning to see the Taylor rule suggesting rates should in fact be increasing, it appears the Fed is once again behind the curve in raising rates.



A history of Central Bank Folly

“What is absolutely certain is that one of the greatest misallocations of capital ever is taking place before our eyes, since the spread between GDP growth and short rates has been the widest for the longest period of time, ever.”

Charles Gave



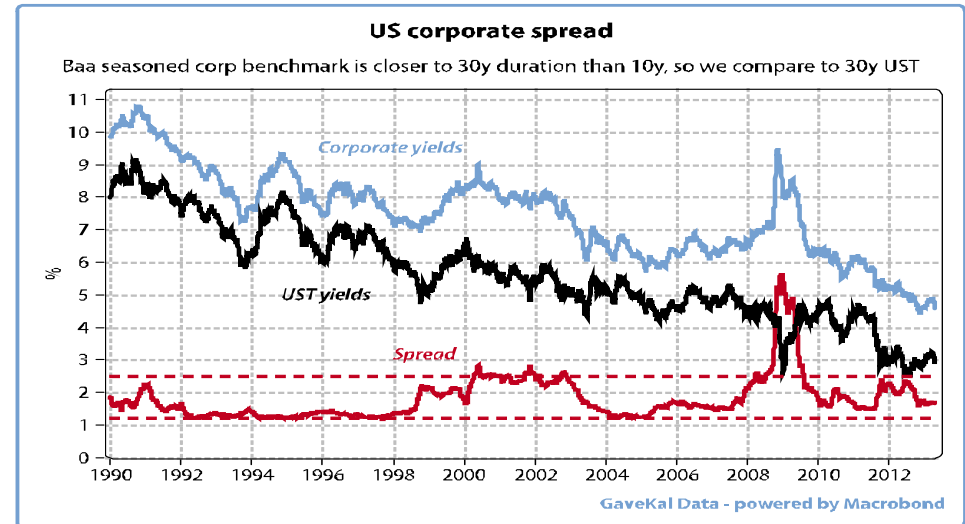
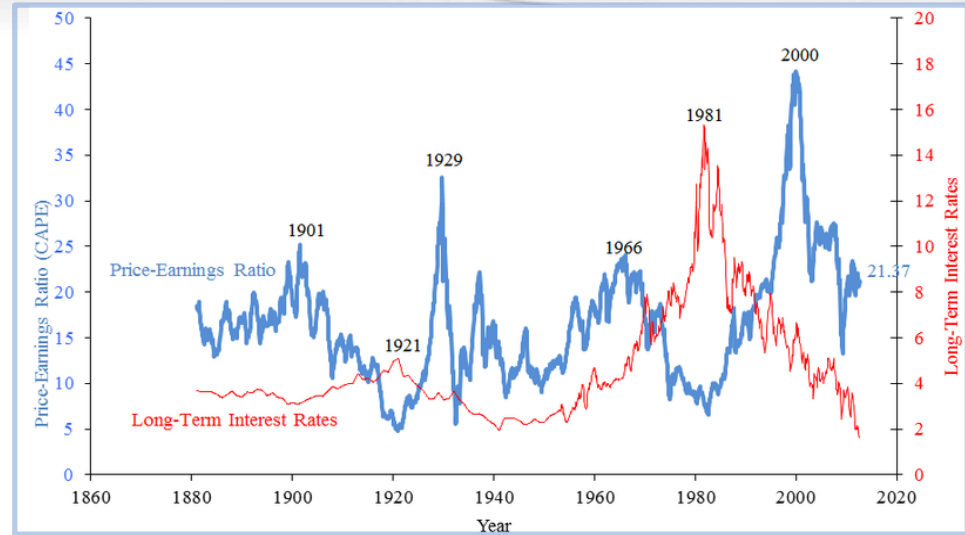
Where are we in this reflation trade?

We know how this story ends, with misallocation of capital, asset inflation, and a credit bubble that eventually bursts.

Are there obvious signs of over-reaching in credit and asset markets, a precursor to a credit or asset bubble?

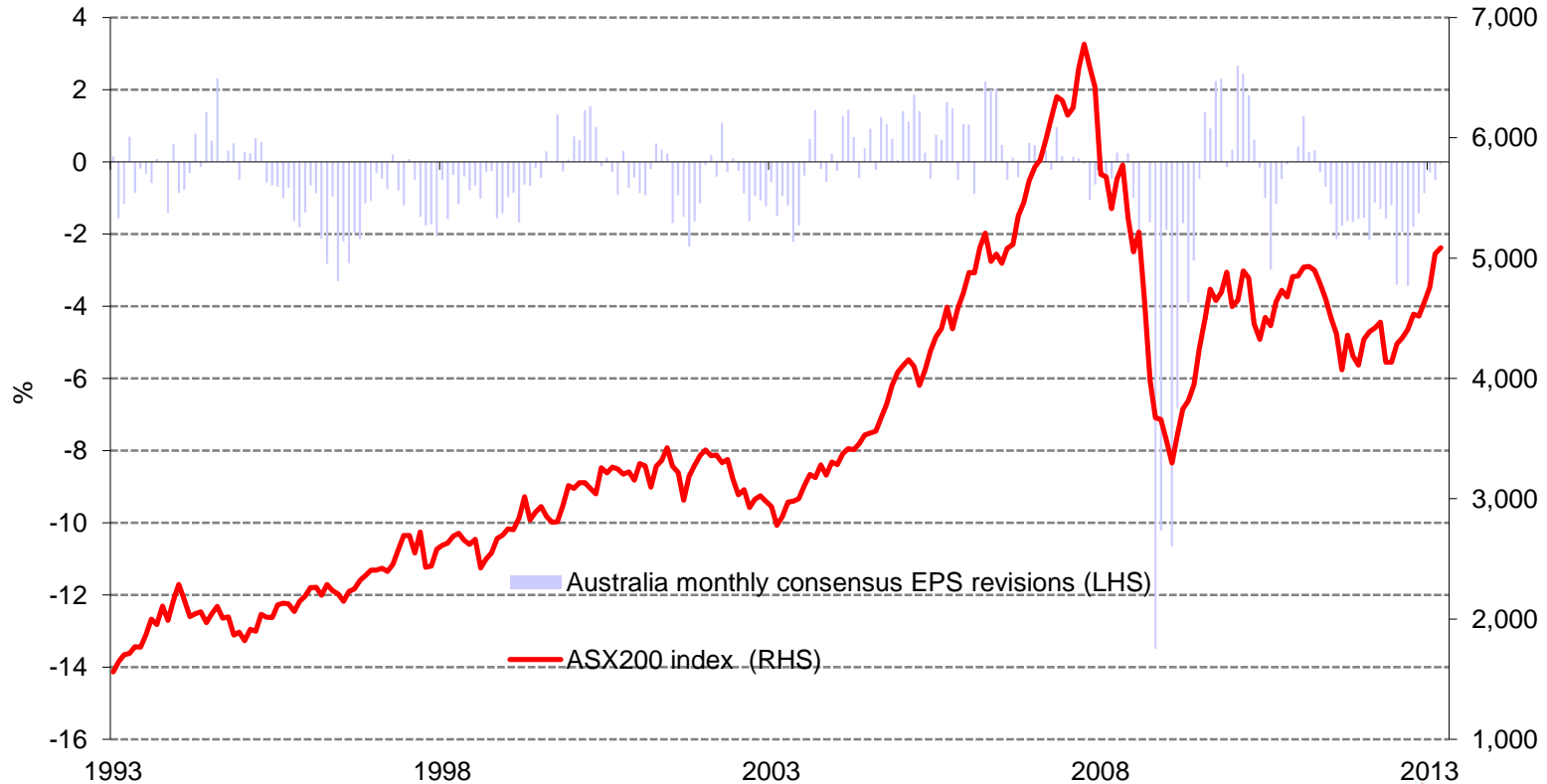
Bill Gross of PIMCO has the following test:

- When long-term bond yields are too low relative to duration risk;
- When credit spreads are too tight relative to default risks; and
- When PE ratios are too high relative to underlying earnings growth.



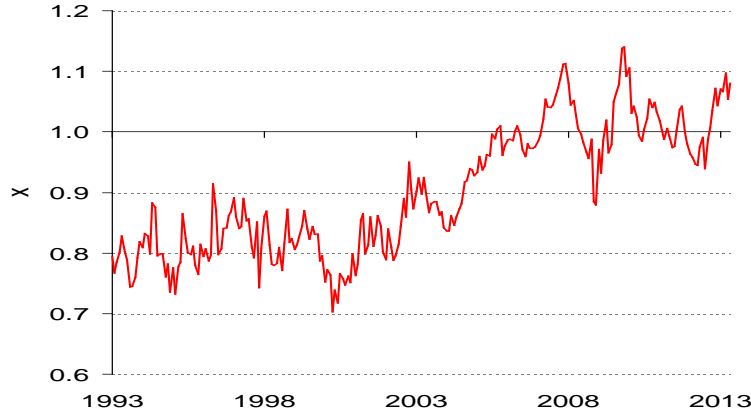
Australian shares are also caught up in this reflation trade

Australian Market Earnings Revisions vs Performance

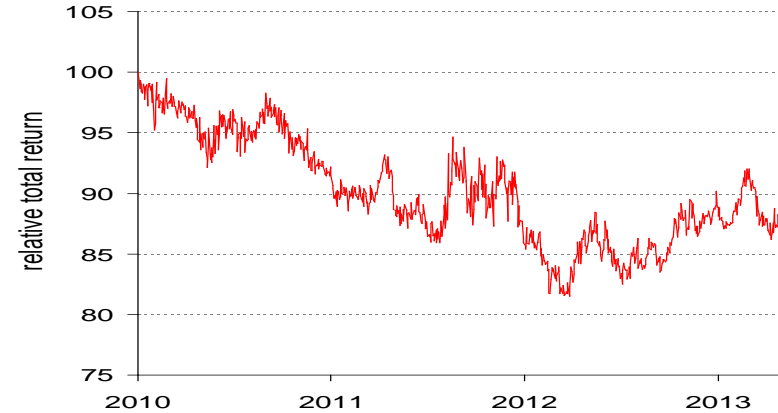


Our market looks expensive on most measures

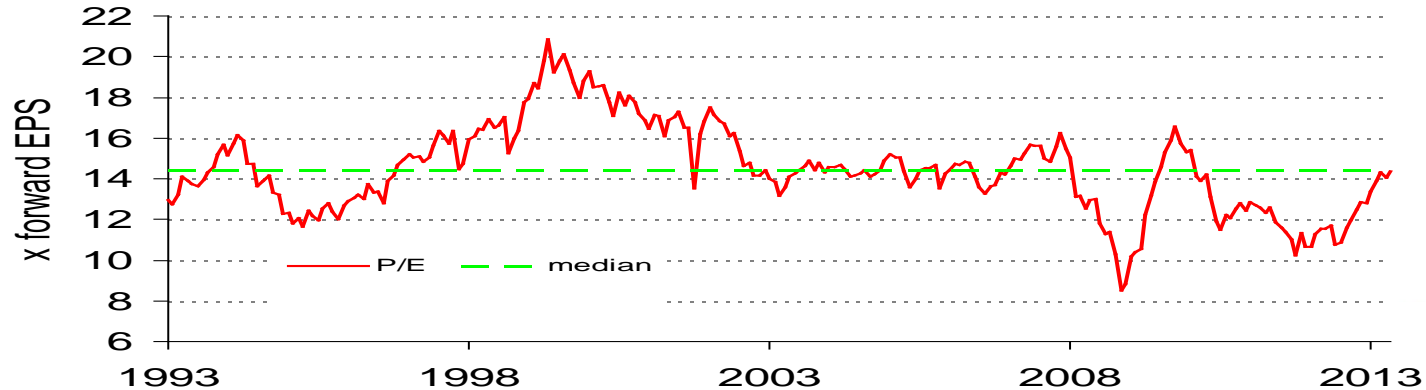
P/E Of Australia Relative To World



Performance Of Australia vs World



P/E Of Australian Market

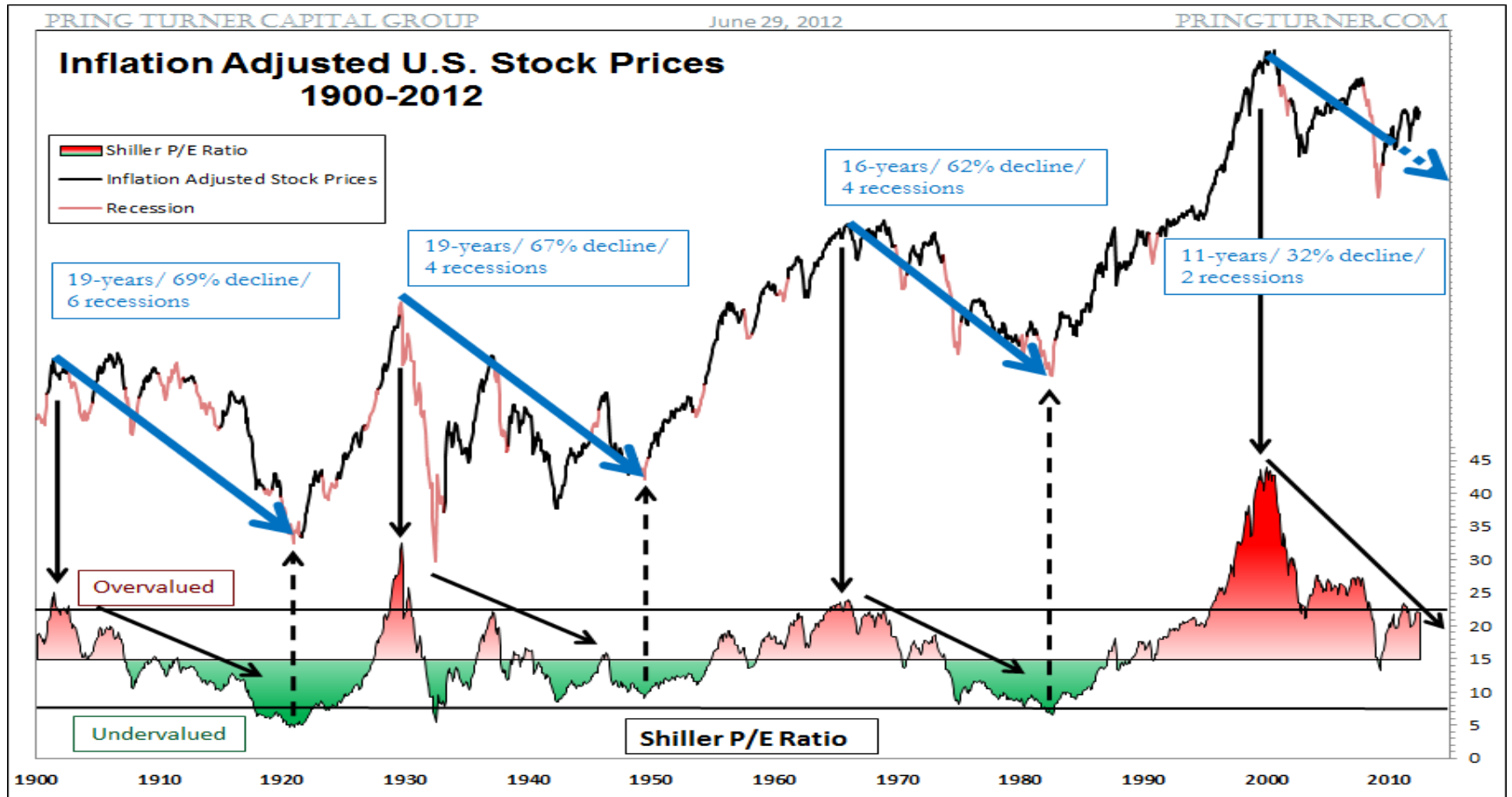


Summing it up nicely:

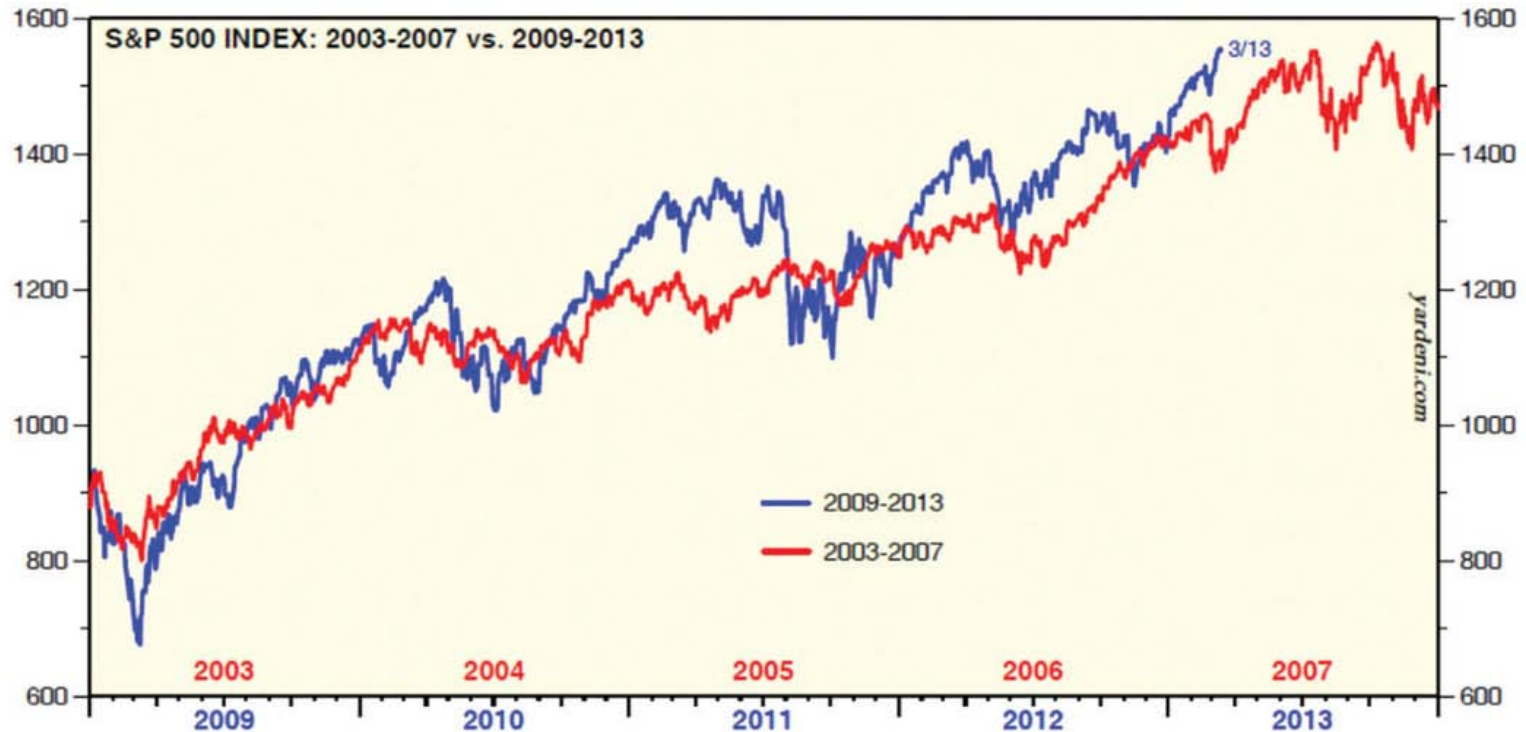
“Massive liquidity injections carried out by the world’s major central banks are neither achieving traction in their respective real economies, nor facilitating balance-sheet repair and structural change. That leaves a huge sum of excess liquidity sloshing around in global asset markets. Where it goes, the next crisis is inevitably doomed to follow.”

Stephen Roach, Morgan Stanley

Be were the secular bear!



LOOKS LIKE A REPLAY OF THE 2003-2007 ADVANCE



Source: Ed Yardeni www.yardeni.com

Investment Process

How a Long/Short fund works

Investment Process

Investment Objective

To deliver *superior returns* with *reduced market risk*.
To return a consistent stream of fully franked dividend's to shareholders.

Philosophy

The best *investment opportunities* are found in strong, well managed companies that can be purchased on attractive terms. The best *shorting opportunities* are found in weaker companies that are poorly managed and overvalued.

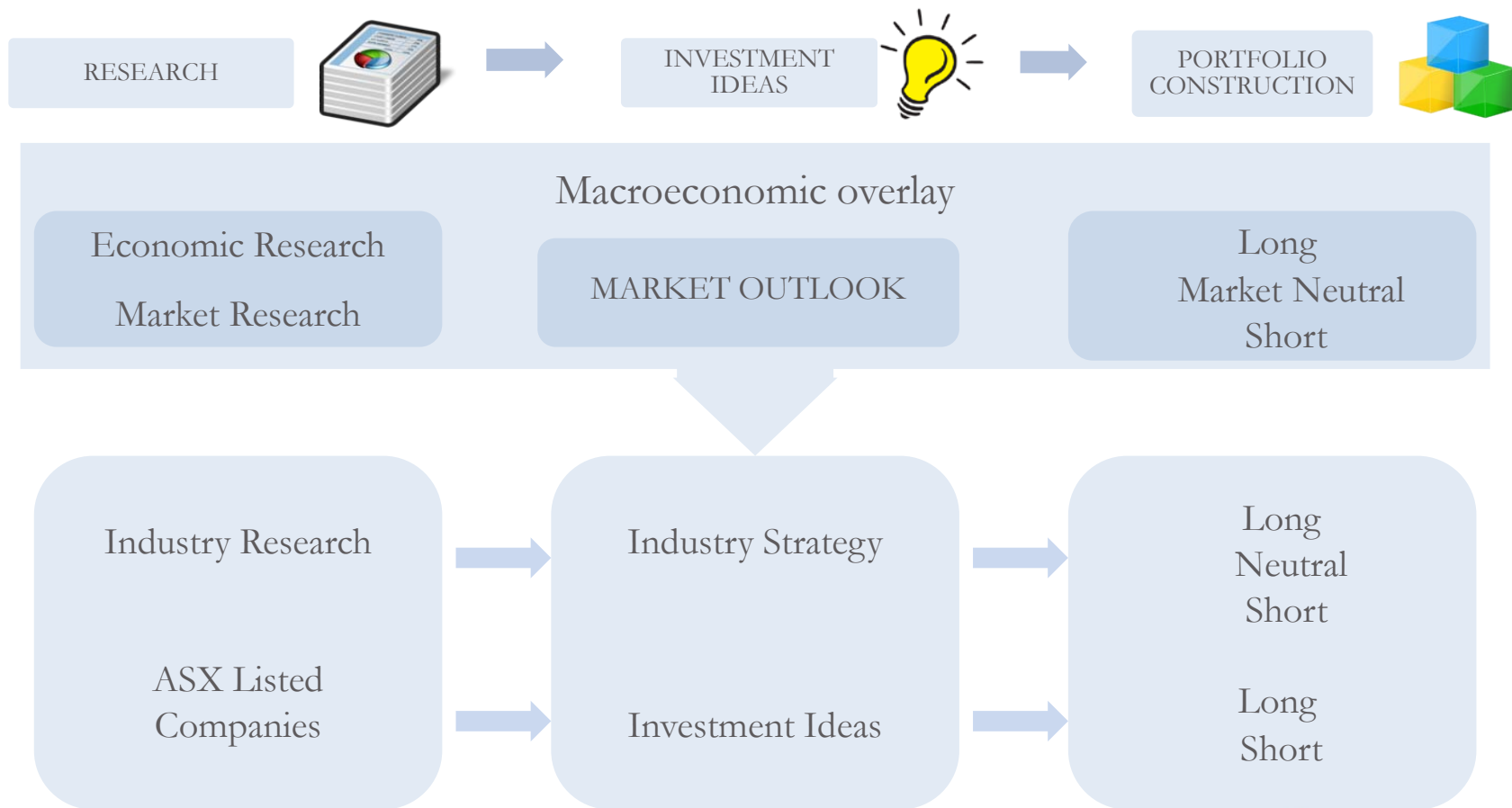
Investment Process

A fundamentally driven process based on sound investment ideas:-
monitoring economic and industry trends; extensive company and industry contact.
Qualitative Scorecard: Business Quality + Management + Valuation + Risk.

Portfolio Construction

We construct both a *long* and a *short* portfolio. The Portfolios are constructed around the best investment ideas (qualitative scorecard) with the highest conviction.
The relative size of the long and short portfolios will determine the net market exposure

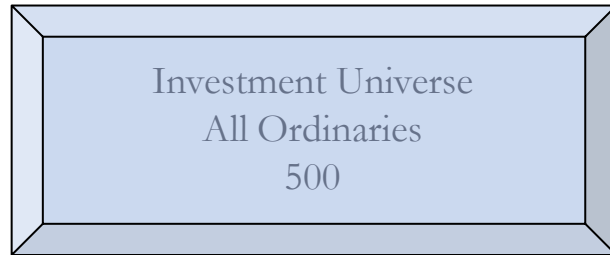
Fundamental Research with Macroeconomic Overlay



Qualitative Scorecard

	Long Portfolio	Short Portfolio
Business Quality (1-10)	Superior economic returns High barriers to entry Sustainable growth Leadership position	Weak returns Low barriers to entry Mature Highly competitive
Management (1-5)	Clear consistent strategy Best in class performance Accretive capital management	Convolutd strategy Poor operational performance Destructive capital management
Valuation (1-5)	Undervalued based on range of measures DCF, P/E, EBITDA/EV, Buyout analysis	Overvalued based on range of measures DCF, P/E, EBITDA/EV, Buyout analysis
Financial Risk (1-5)	Low Gearing Earnings certainty	Leveraged Earnings risk

We construct two portfolios



Ranked by Qualitative/Quant Factors

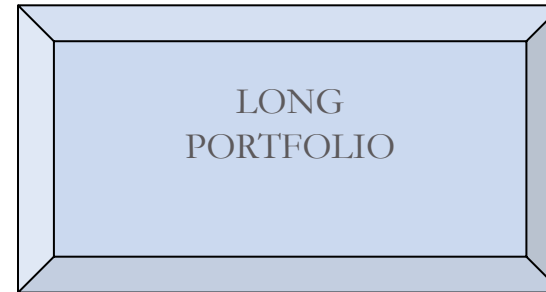
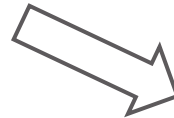
Most preferred securities:

1. ABC
2. BCD
3. CDF
4. ...



Least Preferred

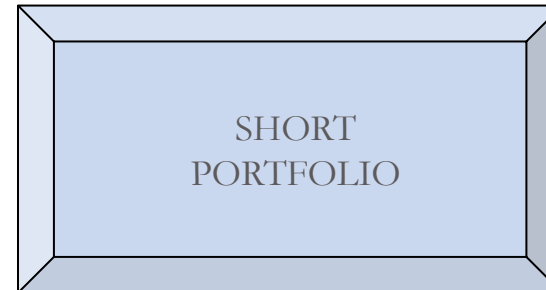
1. ZYX
2. YXW
3. XWV
4. ...



Target Alpha

+5%

&



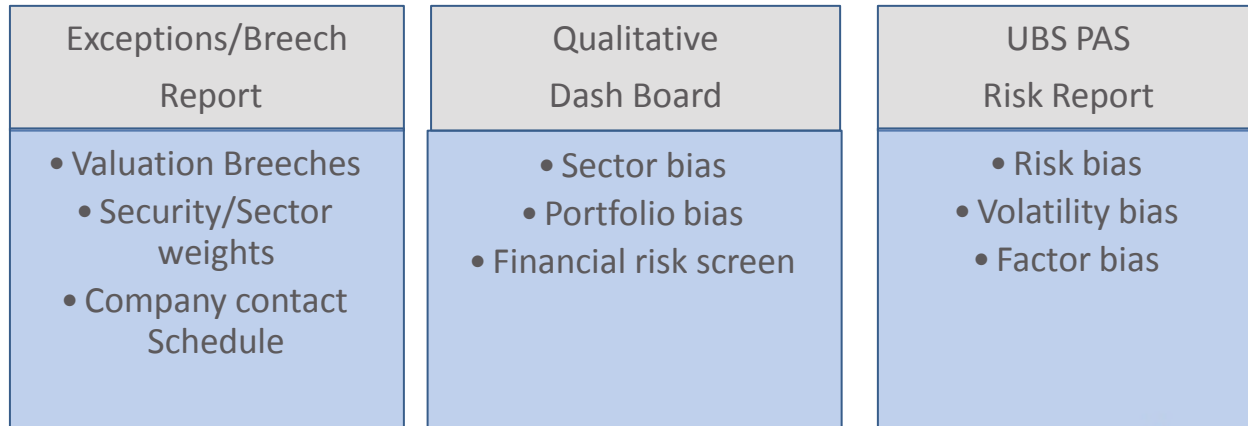
-5%

RISK MANAGEMENT

Database

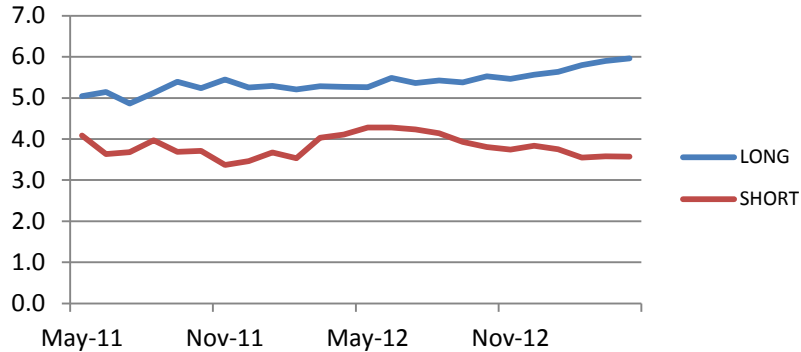


Reporting

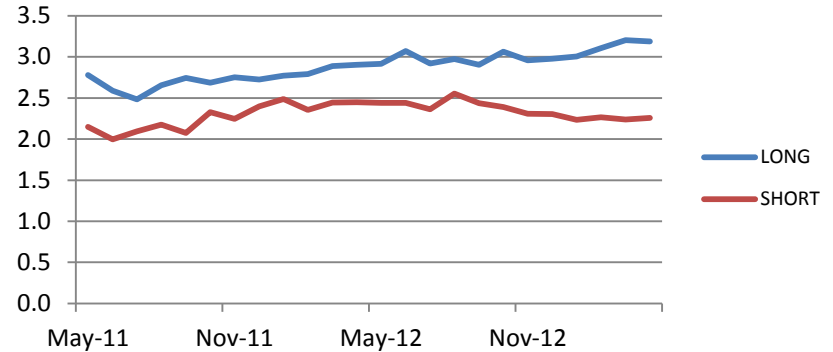


Portfolio Dashboard

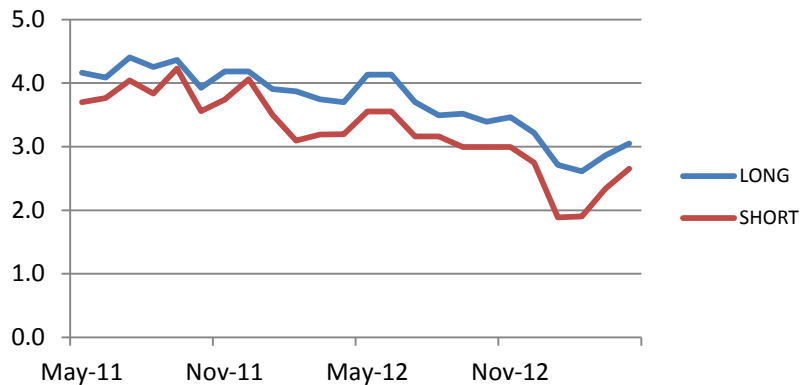
Business Quality



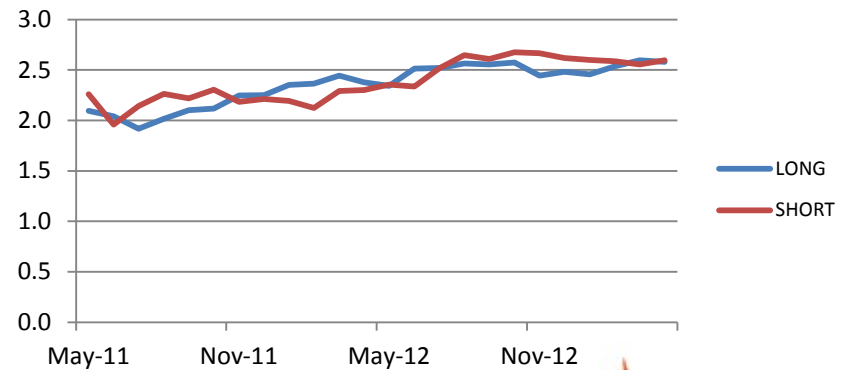
Management



Valuation



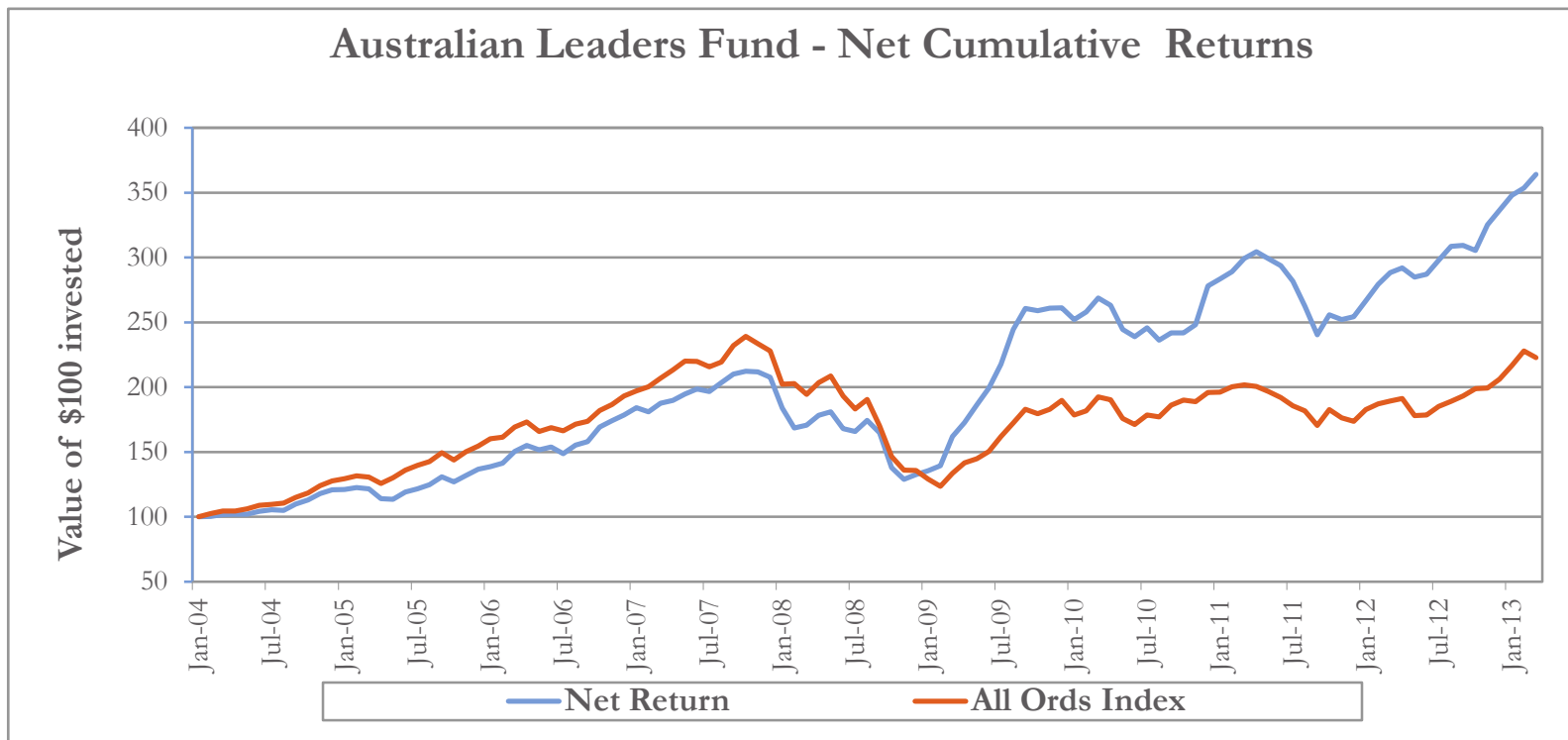
Risk Level



Investment Performance

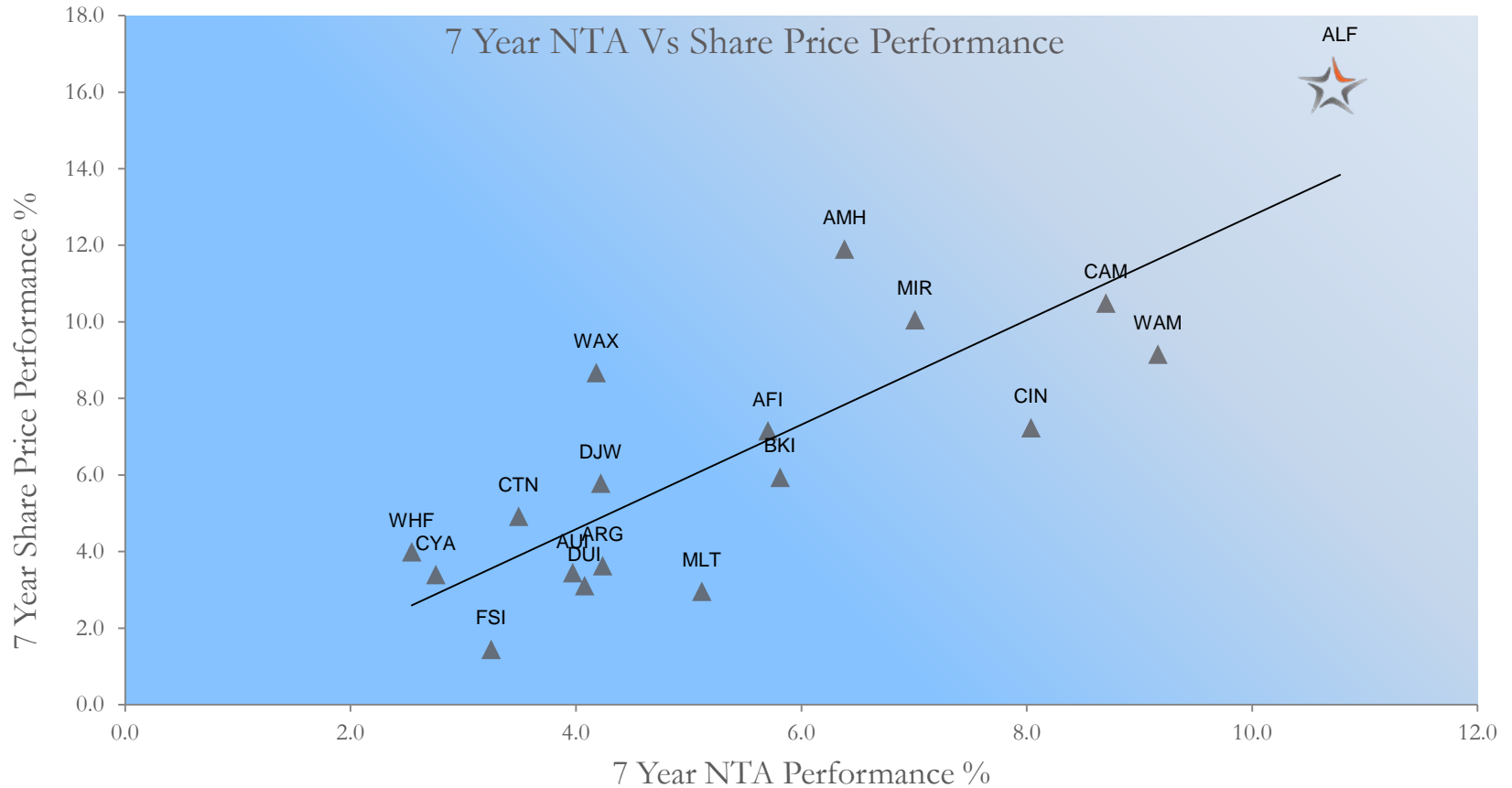
ALF Net Returns Vs Index

Since listing 9 years ago, the Australian Leaders Fund has outperformed the benchmark (ASX Accumulation Index) by 141%.



All data as of 31 March 2013

Performance drives returns



Source: Bell Potter Research, returns to 31st march 2013

Portfolio Returns

Australian Leaders Fund Ltd

ALF	1 YEAR	3 YEARS (P.A.)	6 YEARS (P.A.)	SI (P.A.)
Long	22.1%	11.9%	10.5%	-
Short	0.4%	0.9%	-3.6%	-
Gross	30.0%	14.4%	15.9%	18.8%
Net	26.2%	10.7%	11.7%	15.2%
Index	17.8%	5.0%	1.2%	9.2%
Alpha	8.4%	5.6%	10.4%	6.0%
Net Equity Exposure	38.4%	62.7%	72.6%	
Cash and Hybrids	61.6%	37.3%	27.4%	

Returns to 31 March 2013

CAPITAL MANAGEMENT

Proxy Voting Summary

Resolution	For / Open		Against		TOTALS		Exclusions	Abstain
	Votes	%	Votes	%	Votes	%	Votes	Votes
1. Approval of the Share Issue	8,085,540	90%	859,285	10%	8,944,825	100%	545,116	263,945
2. Ratification of the First DRP Issue	8,079,236	93%	608,643	7%	8,687,879	100%	934,845	138,162
3. Ratification of the Second DRP Issue	7,978,383	91%	747,746	9%	8,726,129	100%	934,845	92,912
4. Ratification of the First Tranche Oversubscription	8,122,215	91%	790,005	9%	8,912,220	100%	545,116	296,550

Placement Summary

	Shareholders	New Investors
Placement Allocation	6,774,412	34,640,099
Firm Bid Amount	14,998,377	108,786,122
Total % of Bid	45%	32%
Average Allocation	46%	25%
Median Allocation	54%	21%

- Shareholders were allocated between 25% and 59% of their bid amount, depending on the shareholding.
- A small group of new investors received close to 25% of the Placement. These financial planners were willing to subscribe to a placement at NTA many months before the deal was finalised.

Bonus Options

- All shareholders as of the 15th April 2013 have now been issued a free 1 for 1 bonus option.
- These options are now trading with normal settlement under the code ALFO. They are currently being valued at 10 cents.
- The exercise price for the options is \$1.37, in line with the recent capital raising.
- The options are long dated, with an expiry date of 30 September 2014.
- Should investors wish to exercise their options in time to receive the upcoming 6 cent fully franked dividend, their form and monies must be received by 9th May for cheque payments, or 13th May for BPAY.

QUESTIONS