

# Australian Income Funds

## Quarterly Investment Report to 30 June 2008

### Fund performance

<b>Wholesale Australian Income Fund<sup>1 &amp; 3</sup></b>	<b>3 mth%</b>	<b>1 yr%</b>	<b>3 yr% p.a.</b>	<b>5 yr% p.a.</b>	<b>7 yr% p.a.</b>
Distribution return	1.9	6.8	6.0	5.6	5.3
Growth return	0.0	-0.1	-0.1	0.0	0.0
<b>Total return</b>	<b>1.9</b>	<b>6.7</b>	<b>5.9</b>	<b>5.6</b>	<b>5.3</b>

<b>Australian Income Fund<sup>1,2 &amp; 3</sup></b>	<b>3 mth%</b>	<b>1 yr%</b>	<b>3 yr% p.a.</b>	<b>5 yr% p.a.</b>	<b>7 yr% p.a.</b>
Distribution return	1.8	6.3	5.5	5.2	4.9
Growth return	0.0	0.0	0.0	0.0	0.0
<b>Total return</b>	<b>1.8</b>	<b>6.3</b>	<b>5.5</b>	<b>5.2</b>	<b>4.9</b>

### Review and outlook

#### Fund review

The Fund's June earning rate was 7.3% for retail and 7.7% for wholesale, compared to 6.1% and 6.5% respectively at the end of the March quarter.

The official cash rate is now 7.25% following the most recent 0.25% increase in March 2008. In addition to the official rate rises, banks have increased lending rates further to compensate for their increased costs. At the same time, the banks are also tightening their credit standards. Conditions in international financial markets remain difficult, with credit concerns weighing heavily on the US market.

Inflation was 4.2% for the year to March 2008, up from 3% at December 2007, indicating that the Reserve Bank's rate increases in late 2007-early 2008 have had little impact so far. However the March rise, coupled with rising food and petrol prices and tighter financial conditions, is now working to subdue demand. Inflation is expected to remain high in the short term and is still outside the RBA's preferred range. However the RBA is

confident that the interest rate increases will have the desired effect in reducing inflation over the longer term.

Evidence is that demand is now weakening. Consumer confidence has fallen to its lowest levels since the early 1990s. Indicators of household spending have weakened in recent months, as has credit growth to both households and businesses. Whilst unemployment levels remain near long term lows, there are some early signs of an easing in labour market conditions.

Global market turbulence continues as the economic outlook for the United States continues to worsen. Credit markets remain quiet, with little activity in mortgage backed securities and commercial paper.

The fund's crediting rate benefits from an increase in interest rates as the fund's asset base has its largest exposure to variable rate interest earnings. The manager continues to ensure that adequate liquidity levels are maintained.

### Fund Information

Typically, the Fund will hold a diversified portfolio of Australian loans being first ranking mortgages, fixed interest securities and cash.

The objective is to provide a competitive interest income return on a monthly basis while at the same time providing a stable unit price.

#### Fund facts

##### Wholesale

Inception Date: September 1999  
Fund Size (30 June 2008): \$92.4m

##### Retail

Inception Date: April 1988  
Fund Size (30 June 2008): \$281.1m

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## Portfolio analysis

### Top ten fixed interest holdings

Security	% of Fund
Select Access Inv	4.7
Telstra Corp	4.1
Pratt Fin Pty Ltd Visy In	4.0
BHP Finance Ltd	3.8
Compass Master Trust	3.7
Firstmac Fiduciary	3.1
Pepper Residential Sec.	3.0
Stockland Trust Group	2.8
NAB	2.4
Macquarie Bank	2.4
Total	34.0%

### Interest rate spread

Rates	Loans (%)	\$ million
Below 6.99%	28.1	31.5
7.00% to 7.49%	13.4	15.0
7.50% to 7.99%	4.7	5.2
8.00% and above	53.8	60.2
Total	100	111.9

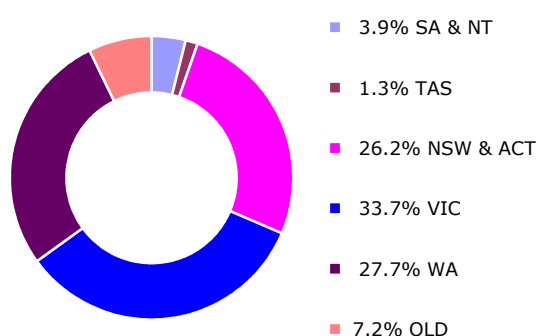
### Loan to valuation ratio

Total average LVR across entire portfolio	52.1%
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### Sector allocation

Sector	Number of Loans	% of Total Balance	Balance \$million
Residential	10	0.4	1.5
Industrial	1	4.8	17.9
Commercial	9	22.5	84.1
Retail	4	13.0	48.7
Specialised & Other	12	2.8	10.1
Fixed income securities		31.9	119.2
Cash		24.6	92.0
Total	36	100	373.5

### Geographic spread



## Notes

- Past performance is not necessarily indicative of future performance. Performance figures are calculated using exit prices, are net of management fees, ongoing fees and expenses, assume distributions are reinvested and tax is not deducted. The distribution return reflects total distributions paid from the fund, while the growth return reflects changes in the capital value of units.
- These performance figures have not taken into consideration the following fees: withdrawal fees on investments held for less than 18 months charged on a sliding scale up to a maximum of 1.5% (payable by reduction in units), an optional adviser review fee where applicable, any upfront rebates due to adviser commission dial down and any trail commission rebates.
- The Australian Income Funds, issued by National Mutual Funds Management Ltd, are available by way of PDS which you can obtain from your financial adviser or by calling 1800 780 085. You should read the PDS before making an investment decision.

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