

Australian Equity – Growth Funds

Quarterly Investment Report to 30 June 2008

Fund performance

Wholesale Australian Equity – Growth Fund^{1 & 4}	3 mth%	1 yr%	3 yr% p.a.	5 yr% p.a.
Distribution return	11.5	11.5	18.3	15.2
Growth return	-13.4	-25.4	-6.6	1.5
Total return	-1.9	-13.9	11.7	16.7
S&P/ASX 300 Accumulation Index	-1.7	-13.7	11.4	16.2

Australian Equity – Growth Fund^{1, 2 & 3}	3 mth%	1 yr%	3 yr% p.a.	5 yr% p.a.
Distribution return	13.4	12.7	18.9	15.2
Growth return	-15.5	-27.3	-8.4	0.2
Total return	-2.1	-14.6	10.5	15.4
S&P/ASX 300 Accumulation Index	-1.7	-13.7	11.4	16.2

Review and Outlook

Market review

Widespread capital market anxiety was uppermost for both the June quarter and the 2007/2008 Australian financial year, following years of complacency stemming from unusually benign credit conditions and supportive global economic backdrop. Over those periods, Australian shares – as measured by the S&P/ASX 300 Accumulation Index – slumped 1.7% and 13.7% respectively.

Equities' weakness derived from severely shaken credit markets spread worldwide. Economic conditions, too, turned down in many developed economies. There was a vast gulf between the returns of leading sectors energy and materials and laggards consumer discretionary and industrials over the year. Surging oil prices and bullish pricing for coking coal and iron ore pushed energy and materials to double-digit advances. Without these sectors' strength, the downfall for local equities would have been harsher.

Fund review

The Australian Equity - Growth Fund underperformed the benchmark during the June quarter.

Detractors included Macquarie Airports (MAP), Babcock & Brown (BNB) and Just Group. MAP fell on market observers worry the company's business model may be flawed in the recent fragile economic environment. Just Group fell on the heels of a consumer spending slowdown. Investment bank BNB also finished in the negative column, following further unanticipated announcements regarding its refinancing situation. BNB

renewed its corporate debt facility but at a cost—the price of debt increased and further funding is required to finance maintenance and expansion activities. Investors lost confidence in the firm's ability to deliver its 2007–08 financial year profit with management now relying on a strong second half to achieve its guidance.

Contributors included Oil Search Ltd, Incitec Pivot and giant BHP Billiton. Robust oil prices helped Oil Search, as did the flow-on effect of payments for coal seam methane reserves highlighting Oil Search's significant conventional gas resources in PNG. The market remains positive on the Incitec Pivot's earnings-accretive acquisition of explosives producer Dyno Nobel—a move which will provide Incitec Pivot with strategic options in the ammonium nitrate market. Finally, China's Boasteel and Rio Tinto agreed on an almost 80% rise in iron ore prices in contract negotiations, a plus for both Rio and BHP.

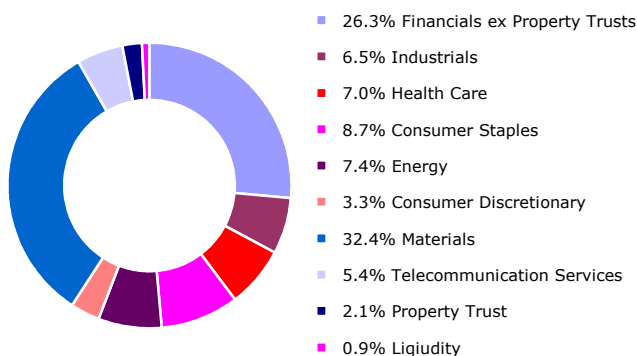
Outlook

Alliance Growth Equities believes there will be continued earnings growth for Australian equities for the 2009 fiscal year however the raw materials and energy providers will be the dominant source of these earnings gains as their analysis suggests that consensus earnings expectations for industrial stocks are still too high and the menace of downside surprise pervades the industrial realm. Further, Alliance Growth Equities believes rewards will be greater in Healthcare, Consumer Staples and Telecommunications when compared with stocks that are considered synonymous with safety in Australia, such as banks and real estate stock.

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Portfolio analysis

Sector allocation



Top ten shareholdings

Holding	Profile	% of Fund
BHP Billiton Ltd	Materials	16.5
Rio Tinto Limited	Materials	6.3
NAB	Financials Ex Prop.	6.2
Telstra Corp	Telecom.	5.4
Westpac Banking Corp	Financials Ex Prop.	4.7
Woolworths Ltd	Consumer Staples	4.6
ANZ	Financials Ex Prop.	3.5
OBE Ins Group	Financials Ex Prop.	3.4
CBA	Financials Ex Prop.	3.4
CSL Limited	Health Care	3.0
Total		57.0
Total number of holdings		43

Fund Information

The fund holds a diversified portfolio of Australian stocks.

The objective of the fund is to outperform the S&P/ASX 300 Accumulation Index, after costs and over rolling five-year periods.

Fund facts

Wholesale

Inception Date: November 1998
Fund Size (30 June 2008): \$46.3m

Retail

Inception Date: July 2001
Fund Size (30 June 2008): \$27.8m

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.
- The Australian Equity - Growth Fund was closed to new investors on 30 September 2004. The Fund is offered as Generations Alliance Capital Australian Equity Growth as part of the Generations range.
- The performance figures for the Australian Equity - Growth Fund have not taken into consideration the following fees: an entry fee of up to 4% on each amount invested; or where the investor has chosen the nil-entry fee option, deferred fees of up to 0.325% per quarter on application of the first 4 years and early withdrawal fees of up to 5.2% on redemptions made within the first 4 years (both payable by reduction in units), a buy/sell margin of 0.60%, a sliding scale management fee rebate applicable for balances over \$50,000; an optional adviser review fee where applicable and any trail commission rebates.
- The Wholesale Australian Equity - Growth Fund, issued by National Mutual Funds Management Ltd, is 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.

Responsible entity: National Mutual Funds Management Ltd. ABN 32 006 787 720. Address: 750 Collins St, Docklands VIC 3008.

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