

Australian Equity – Industrials Funds

Quarterly Investment Report to 30 September 2007

Fund performance

Wholesale Australian Equity – Industrials Fund^{1 & 4}	3 mth%	1 yr%	3 yr% p.a.	5 yr% p.a.	7 yr% p.a.
Distribution return	0.0	40.4	21.6	14.3	10.2
Growth return	3.6	-10.6	3.0	6.1	2.9
Total return	3.6	29.8	24.6	20.4	13.1
S&P/ASX 300 Industrials Accumulation Index	2.2	24.9	22.3	18.8	12.2

Australian Equity – Industrials Fund^{1, 2 & 3}	3 mth%	1 yr%	3 yr% p.a.	5 yr% p.a.
Distribution return	0.0	46.8	25.1	16.0
Growth return	3.3	-18.9	-2.2	2.9
Total return	3.3	27.9	22.9	18.9
S&P/ASX 300 Industrials Accumulation Index	2.2	24.9	22.3	18.8

Review and Outlook

Market review

After several years of robust returns, major developed country stock markets fell early in the quarter, amid a global credit crunch set off by mounting problems in the US sub-prime mortgage market. They rebounded during September, after a series of actions by central banks, capped by the US Federal Reserve's 50 basis point rate cut, helped ease investor anxiety. Like its offshore peers, the local market was volatile. At one point it suffered the largest one day fall in seven years and later staged the largest single day jump in a decade. Ultimately, domestic shares—as measured by the S&P/ASX 300 Accumulation Index—staged a recovery over the second half of the quarter to finish 5.7% higher. This meant that the local stock market exceeded the broad global benchmark's return.

Fund review

The Australian Equity – Industrials Fund outperformed the benchmark during the September quarter.

Contributors to performance included WorleyParsons, Incitec Pivot, and Challenger Financial Services. Worley Parsons rose as immense demand growth for engineering services persisted. Incitec Pivot gained as US farmers increase their sowing of fertiliser-intensive corn for ethanol production. This stems from the US Government's push to increase ethanol production in order to reduce oil dependence. Impressive earnings

growth from its three core businesses powered Challenger Financial Services.

Detractors from performance included News Corp, AGL and Aristocrat Leisure. The strong Australian currency relative to the "greenback" took a toll on News Corp and Aristocrat Leisure's US-domiciled earnings. Concerns that drought-related higher wholesale electricity prices may impact on earnings held back AGL.

Outlook

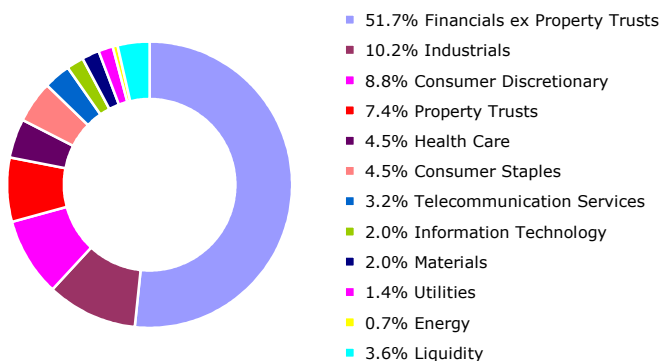
AllianceBernstein expect the US economy will slow, rather than trip into recession, and Australian companies to be only moderately impacted by a US slowdown. A severe US economic reverse, though, would undoubtedly hurt Australian companies. The key external economic influence on Australia is not the US directly but the US–China linkage. While the Chinese economy is increasingly domestic-led, a significantly weaker US would stymie China's export growth and that would have repercussions for Australia. The tail winds in Australia's favour are a domestic economy that has re-accelerated, near full employment, a federal budget in surplus and strong relationships with fast-growing Asian economies led by China.

Finally, AllianceBernstein expect higher market volatility may continue at least until the end of the year. Credit markets have improved a little but not yet returned to normality.

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Portfolio analysis

Sector allocation



Top ten shareholdings

Holding	Profile	% of Fund
WBC	Financials Ex Prop Trusts	9.0
CBA	Financials Ex Prop Trusts	7.1
NAB	Financials Ex Prop Trusts	6.4
OBE	Financials Ex Prop Trusts	5.5
ANZ	Financials Ex Prop Trusts	4.7
Macquarie Bank Ltd	Financials Ex Prop Trusts	4.5
Woolworths Ltd	Consumer Staples	4.4
CSL Limited	Health Care	3.0
AMP Limited	Financials Ex Prop Trusts	2.6
Coles Group Ltd	Consumer Staples	2.6
Total		51.0%
Total number of holdings		45

Fund Information

The fund invests in a diversified portfolio of Australian industrial stocks.

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

Fund facts

Wholesale

Inception Date: November 1998

Fund Size (30 September 2007):

\$112.3m

Retail

Inception Date: July 2001

Fund Size (30 September 2007):

\$10.7m

Notes

1. 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.
2. The performance figures for the Australian Equity – Industrials 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.
3. The Australian Equity – Industrials Fund was closed to new investors on 30 September 2004.
4. The Wholesale Australian Equity – Industrials 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: 447 Collins St, Melbourne VIC 3000.

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