

Australian Equity – Value Funds

Quarterly Investment Report to 30 June 2008

Fund performance

Wholesale Australian Equity –

Value Fund ^{1 & 4}	3 mth%	1 yr%	3 yr% p.a.	5 yr % p.a.
Distribution return	8.8	8.7	11.0	10.4
Growth return	-17.0	-30.4	-3.1	5.2
Total return	-8.2	-21.7	7.9	15.6
S&P/ASX 300 Accumulation Index	-1.7	-13.7	11.4	16.2

Australian Equity – Value Fund ^{1, 2 & 3}	3 mth%	1 yr%	3 yr% p.a.	Since Inception (Aug 2003) % p.a.
Distribution return	10.9	10.1	11.4	10.3
Growth return	-19.3	-32.5	-4.8	3.3
Total return	-8.4	-22.4	6.6	13.6
S&P/ASX 300 Accumulation Index	-1.7	-13.7	11.4	15.8

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 Accumulated Index – slumped 1.7% and 13.7% respectively.

Equities' weakness derived from severely shaken credit markets spread worldwide. Economic condition, 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 – Value Fund underperformed the benchmark during the June quarter.

Major detractors for the quarter included paper merchant and maker PaperlinX, packaging products manufacturer Amcor, infrastructure providers Macquarie Airports (MAP) and Macquarie Infrastructure Group (MIG). Both PaperlinX and Amcor were victims of the Australian dollar's strength. MAP suffers as airlines around the world are trimming capacity. Finally, MIG's share price fell hard in June on weaker traffic data in France, although we believe this was a one-off effect related to strike activity. Other reasons for MIG's weakness were a series of actions by counterpart Transurban,

including slashing its FY09 dividend by more than half, raising A\$1 billion of equity to reduce debt, and restructuring its finances more generally to improve operating free cash flow.

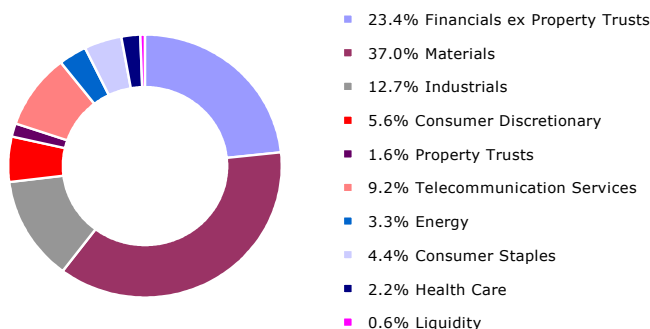
Major contributors for the quarter included diversified resources giants BHP Billiton and Rio Tinto. The nearly 80% iron ore price rise agreed in contract negotiations between China's Boasteel and Rio Tinto was a plus for both the miner and rival BHP Billiton. The hike surpassed the increase achieved by Brazilian iron ore powerhouse Vale and for the first time includes a shipping margin reflecting the price competitiveness of Australian iron ore relative to distant Brazilian ore.

Outlook

Bernstein Value Equities believes the current environment could eventually be succeeded by powerful outperformance from value as research conducted by them covering the four previous Australian and global style cycles has revealed that each harsh setback has been followed by strong outperformance of value. Further, Bernstein Value Equities believes the circumstances we are currently experiencing, where expensive stocks are getting more expensive and cheap stocks becoming cheaper are unsustainable and as risk premiums gradually normalize attractively valued companies associated with underappreciated earnings power typically gain support. Finally, Bernstein Value Equities believes their portfolios, which are built around stocks that are provocatively cheap on value metrics such as low price-to-book, low price-to-earnings and low price-to-sales, are well placed to outperform when companies are judged on long-term economic fundamentals again.

Portfolio analysis

Sector allocation



Top ten shareholdings

Holding	Profile	% of Fund
BHP Billiton Ltd	Materials	17.9
Telstra Corp	Telecomm. Services	5.5
Rio Tinto Limited	Materials	5.5
NAB	Financials Ex Prop.	4.8
Macquarie Infrastructure	Industrials	4.0
Amcor Limited	Materials	3.7
Telecom Corp Of NZ	Telecom. Services	3.7
ANZ Bank Group	Financials Ex Prop.	3.6
Qantas Airways	Industrials	3.5
Caltex Australia	Energy	3.3
Total		55.6%
Total number of holdings		45

Fund Information

The fund holds a diversified portfolio of Australian stocks. These stocks will typically have a low share price in relation to their projected long-term earnings power.

The objective is to outperform the S&P/ASX 300 Accumulation Index ('S&P/ASX 300 Index') after costs and over rolling five year periods.

Fund facts

Wholesale

Inception Date: April 2003

Fund Size (30 June 2008): \$445.7m

Retail

Inception Date: August 2003

Fund Size (30 June 2008): \$35.4m

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 - Value Fund was closed to new investors on 30 September 2004. The Fund is offered as Generations Bernstein Australian Equity Value as part of the Generations range.
- The performance figures for the Australian Equity - Value 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 - Value 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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