

Australian Leaders Fund Limited

ABN 64 106 845 970

Annual Report 2013

YEAR ENDED 30 JUNE 2013

Australian Leaders Fund
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COMPANY PARTICULARS

Australian Leaders Fund Limited

A.B.N. 64 106 845 970

Australian Leaders Fund Limited (ALF) is a listed investment company focusing on the largest 200 listed Australian companies. ALF has a long standing agreement with Watermark Funds Management Pty Ltd as the external manager of the investment portfolio (formerly Braitling Investments Pty Ltd).

DIRECTORS:

J. Braitling (Chairman)
G. Wilson
J. Abernethy
J. Gosse

SECRETARY:

P. Roberts

AUDITORS:

MNSA Pty Limited

COUNTRY OF INCORPORATION:

Australia

REGISTERED OFFICE:

Australian Leaders Fund Limited
Suite 4,
Level 5, 139 Macquarie Street
Sydney NSW 2000

CONTACT DETAILS:

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Sydney NSW 2000
Telephone: (02) 9252 0225
Fax: (02) 9252 1220
Email: info@wffunds.com.au
For enquiries regarding net asset backing
(as advised each month to the Australian Securities Exchange)
call (02) 8236 7701.

SHARE REGISTRAR:

Boardroom Pty Limited (previously Registries Limited)
Level 7, 207 Kent Street Sydney NSW 2000
Telephone: (02) 9290 9600
Fax: (02) 9279 0664
For all enquiries relating to shareholdings, dividends
(including participation in the Dividend Reinvestment Plan)
and related matters, please contact the share registrar.

STOCK EXCHANGE:

Australian Securities Exchange (ASX)
The home exchange is Sydney.
ASX code: ALF Ordinary shares
ASX Code: ALFO Options \$1.37 expiring 30 September 2014

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Annual Report - 30 June 2013

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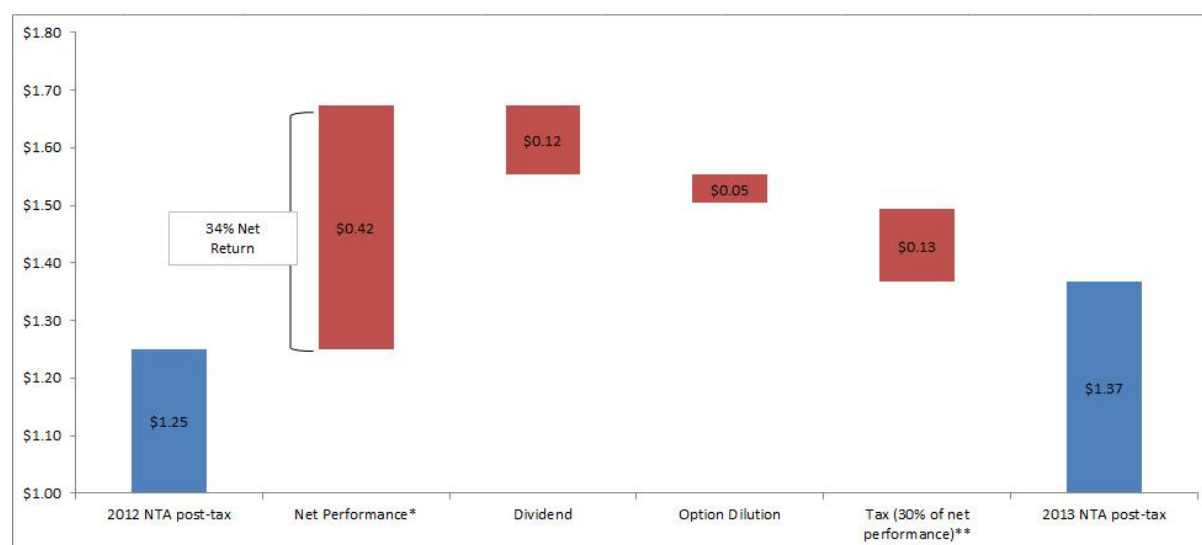
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Chairman's Letter

The Australian Leaders Fund reported a \$23.3 million profit after tax for the period ending June 30, 2013 following a \$1.3 million after tax loss last financial year. As at the 30th June 2013, the after tax net tangible asset backing (NTA) of ALF was \$1.37 per share, up from \$1.25 last year. Total dividends declared for the year were 12 cents per share fully franked, comprising a 6 cent interim dividend and a 6 cent final dividend.

The net portfolio value increased 33.9% over the financial year, a solid result given the All Ordinaries Accumulation Index increased by 20.7%, representing an outperformance of 13.2%.

NTA Bridge



* Net return applied to opening NTA

** Tax calculated as 30% of net return

Since inception, the net value of the ALF portfolio has increased by 284.4% while the All Ordinaries Index has increased by 115.5%. The investment process has added 168.9% to the value of your investment (after all fees and expenses). The board has endeavoured to return a significant portion of this to shareholders via ordinary and special dividends (77.5c paid to date; 83.5c declared to date).

We have always felt the discount to NTA would reduce over time as we established a performance track record. Pleasingly, following the strong results achieved in recent years, the company's shares are now trading at an 11.3% premium to NTA, an improvement from the 6% discount last year.

Interest in your company has grown considerably in recognition of the strong performance of the fund. In response to demand from financial planners and advisors, the board sought approval from shareholders to place up to 41,414,511 new shares at \$1.37 per share in April. The placement was many times over-subscribed, ringing a strong endorsement of our investment strategy.

The board is focused on creating shareholder value and rewarding shareholders for their loyalty and support for the company. In April the board announced a one for one bonus issue at no cost to shareholders. The options were trading at 16 cents per option on the 22nd July 2013. This is the company's fourth bonus option issue since listing in 2004. The board considers options an equitable way for shareholders to participate in the growth of the business.

We continue to believe we are in a low growth environment where risks will remain elevated for some time. As corporate profits were flat last year and the share market was well up, shares have clearly risen well ahead of underlying profits leaving them more expensive than they were 12 months ago. The fundamental outlook remains challenging, and with shares more fully valued we continue to retain our cautious portfolio settings.

As at the 30th June 2013, the company has 49% of our shareholder's capital invested in listed Australian shares on a net basis; 5% held in high quality listed corporate bonds and hybrids; and the remaining balance of 46% retained in cash and term deposits. Approximately half of the company's assets are funded from the proceeds of short sales. Shorts are an attractive means of funding a share portfolio because of the natural hedge in the structure.

While the high cash weighting provides some protection against a market setback, if the share market was to advance rapidly as it did last year we may well underperform. So long as our market weighting is low, portfolio returns are more likely to reflect our success in selecting securities to buy and sell, and will be less correlated to movements in the share market.



Justin Braitling

Sydney
23 August 2013

Chief Investment Officer's Report

The Financial Year in Review

The Australian share market posted a total return of 23% for the 2013 financial year, a strong reversal following the 7% fall last year.

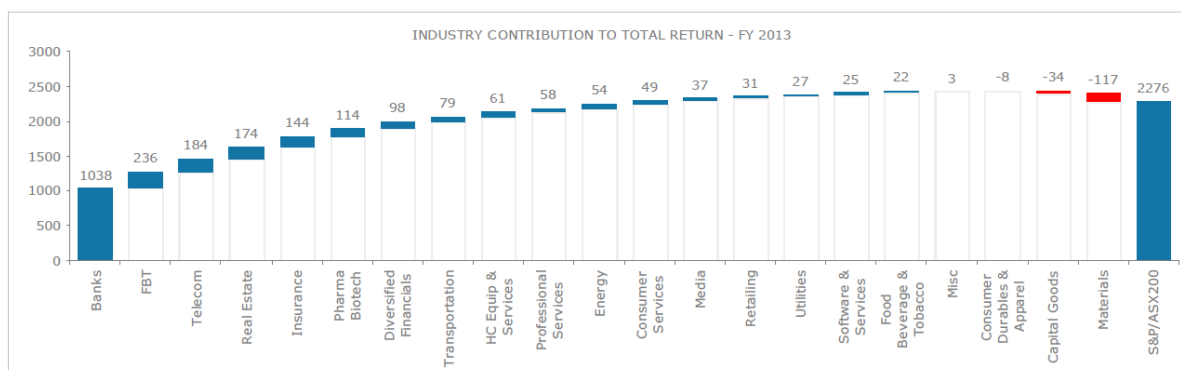
The euro zone sovereign debt crisis climaxed early in the financial year, as Spain teetered on the brink of the economic abyss and Greece fell into chaos following a messy general election. The dire situation in Europe quickly improved however following the European Central Bank President Mario Draghi's famous "bumblebee" speech, promising to do "whatever it takes" to preserve the euro. Later in the month a bailout package for Greece was also hammered out.

Shares staged a strong advance from November 2012 onward, brushing off congressional gridlock over the US "Fiscal Cliff" and continued even as fiscal policy was tightened under the sequester. A failure of the Cypriot banking system in March 2013 failed to stop the rally.

Equity markets ran into trouble in early May however as the US Federal Reserve Chairman Ben Bernanke suggested tightening economic policy by "tapering" its large scale asset purchase program known as Quantitative Easing. This triggered a sell-off in both equity and bond markets. The Australian dollar was a major victim, falling below parity with the US dollar in May and finishing the year at \$US0.92 cents - its lowest level since September 2010.

Looking at our share market performance in detail, mining shares underperformed as commodity prices weakened along with the Chinese economy and investors contemplated an end to the mining boom. Cyclical industrial sectors and contractors in particular also suffered as resource companies curtailed spending. The banks and telcos led the market higher given attractive dividend yields in a falling interest rate environment, as illustrated in fig 1.

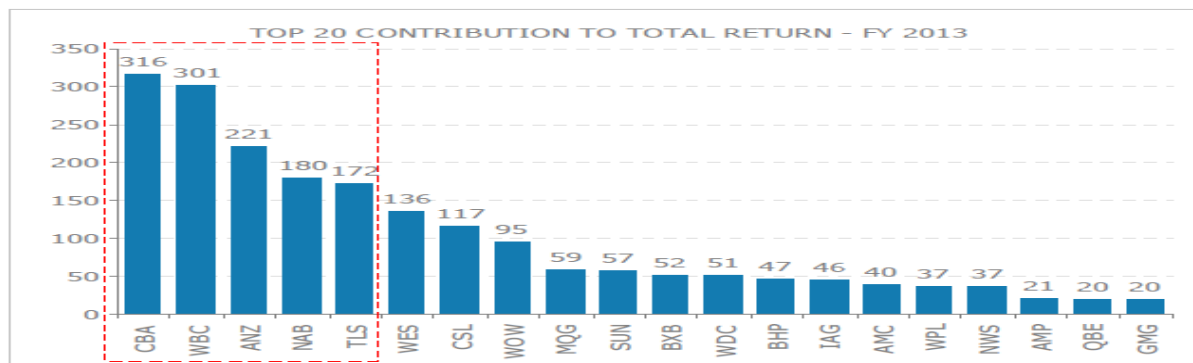
Fig. 1



Source: RIMES, IBES, Morgan Stanley Research

However, these sectors also led the sell-off in May and June, with banking and telco shares falling heavily as the shop for "yield" theme fell out of favour. In spite of this setback the banks contributed almost half of the market advance over the year on the back of strong results.

Fig. 2



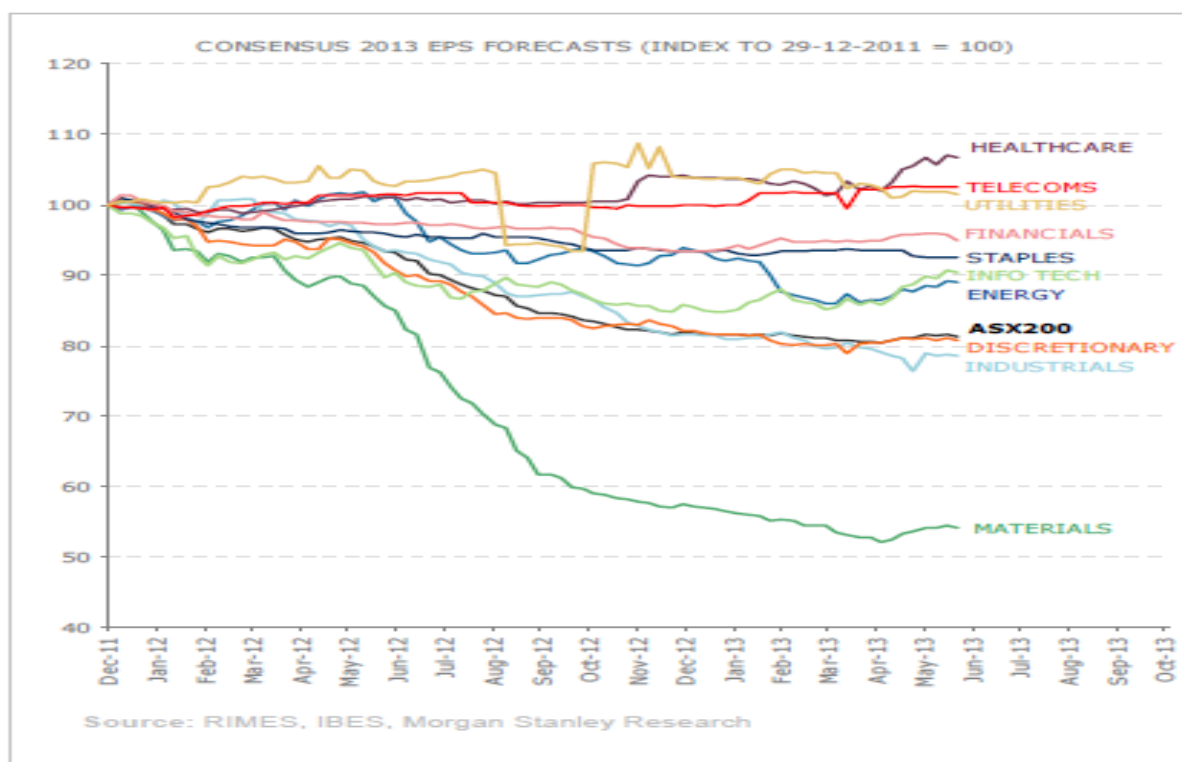
Source: Thomson Reuters, IBES, Morgan Stanley Research

Chief Investment Officer's Report (continued)

Performance

Even though the portfolio outperformed by a comfortable margin, in hindsight our positioning over the year was far too cautious. The average cash-weighting at 60% of shareholder's funds was a major drag on performance. While profit trends for the financial year were poor as we expected, the scale of the market advance in light of these poor fundamentals caught us by surprise. In fig 3 you can see how profit forecasts were downgraded as the year progressed. Few sectors were spared.

Fig. 3



With shares much higher and profits trending flat to down, we are clearly paying a lot more for earnings now than we were a year ago. With this in mind we have retained our cautious portfolio settings as the difficult outlook remains unchanged while shares are more fully valued.

Most of the fund's strong performance came through in the short portfolio which was down in a market that was up strongly, contributing significantly to performance. We have borrowed shares that have lost value (the value of our loan has fallen) and taken the proceeds from selling these shares and benefiting from re-investing these proceeds in our portfolio that has gone up by more than 27%.

We did particularly well short selling a number of companies exposed to the mining cycle, as resource companies cut back quickly on discretionary spending. We have also done well short selling some of the more speculative companies in healthcare and emerging oil & gas.

Chief Investment Officer's Report (continued)

Fig. 4

ALF	1 YEAR	3 YEARS (P.A.)	5 YEARS (P.A.)	SI (P.A.)
Long	27.3%	14.5%	15.1%	-
Short	-1.7%	-1.3%	-1.6%	-
Gross	41.6%	22.2%	23.6%	19.3%
Net	33.9%	17.2%	18.0%	15.4%
Index	20.7%	8.0%	2.2%	8.5%
Outperformance	13.2%	9.2%	15.8%	6.9%

It is highly encouraging to see the fund performing so strongly even though we retained little market risk - if the markets had fallen sharply through this period, the high cash weighting would have provided shareholders with considerable protection.

As at 30 June 2012 NTA was \$1.25 which had increased to \$1.37 by 30 June 2013. This increase was after the payment of 12cps fully franked dividend, and after dilution due to capital raising/options exercise of 0.05cps.

Company Profile

Investment Objective

The Company's investment objective is to deliver superior returns with reduced market risk while returning a consistent stream of fully franked dividends to Shareholders.

Investment Philosophy and Strategy

The Manager believes successful investing requires the following skills:

- An ability to evaluate the true worth of a business and the management charged with running it;
- An understanding of how and why a company's shares come to be mispriced; and
- An appreciation of the risks that may undermine the investment case.

Employing these skills, the Manager believes the best investment opportunities arise when shares in strong, well managed companies can be purchased on attractive terms. These companies typically exhibit the following characteristics:

- A history of superior returns through the economic cycle;
- Management with a track record of creating and distributing value to shareholders; and
- Businesses with a capacity to grow.

Consistent with these same principles, in selecting shares to short sell the Manager looks to sell the shares of companies with weak fundamentals on occasions when they become overvalued.

Investment Process

The Manager's investment process is a fundamentally driven, security selection process based on sound investment ideas taken from the investment universe of listed Australian securities. A summary of the investment process is set out below.

Security Selection

Investment ideas come from monitoring economic and industry trends as well as extensive contact with company management and industry sources.

Once identified, investment opportunities are screened to ensure they are of an investment grade. A full qualitative assessment of the proposed investment is completed to establish whether the business is of a suitable quality and attractively priced.

Qualitative Review

Once a suitable investment opportunity has been identified, a full review of financial performance will be completed. This is usually followed by a meeting with management to further develop an understanding of the business and the management philosophy. Where possible, representatives of the Manager will also meet with suppliers, regulators, competitors and customers to gauge the competitive environment.

Short Selling

Short selling is an important part of the investment strategy employed by the Manager. It is intended that approximately 40 - 60% of the Company's balance sheet will be funded from the proceeds of short sales.

The Manager employs a similar security selection process as above, but is looking for the opposite qualities in companies to borrow and sell. The Manager believes the best "shorting" opportunities are found in poorly managed companies with weak fundamentals where the shares in those companies can be sold for more than they are worth.

When targeting companies to borrow and sell (short), the Manager will target:

- A history of inferior returns.
- Management with a poor track record.
- Businesses operating in highly competitive industries that are struggling to grow.
- Securities which are expensive on a range of valuation measures.

Portfolio Construction

Unlike a traditional fund, the Manager constructs two portfolios, a long and a short portfolio with the weighting of each investment in each portfolio loosely correlated with the level of conviction around individual investment ideas.

This process ensures the Manager constructs portfolios around the best individual investment ideas, with the highest conviction, while retaining a bias in favour of good, well managed companies to buy (long), and weaker businesses to sell (short).

The relative size of the two portfolios is a consequence of the quantity and quality of investment ideas the manager can identify to buy and sell. Macroeconomic and sector research will influence the overall weighting of each investment, along with sector weights and the size of the two portfolios.

The relative size of the long and short portfolios will determine the net market exposure. The larger the short portfolio relative to the long portfolio the lower will be the net market exposure and the higher the cash weighting. If the portfolios are of equal size the fund is market neutral with no net market exposure. The investment process allows the manager the scope to pursue the full range of market risk settings. The fund can be fully invested, market neutral, net short or anywhere in between.

Australian Leaders Fund Limited
Investments at Market Value
30 June 2013

Investments at Market Value

Consumer Services

Crown Ltd.	3,545,820	0.98%
SkyCity Entertainment Group Ltd.	2,596,290	0.72%
Trade Me Group Ltd.	4,018,520	1.11%
Tatts Group Ltd.	2,694,500	0.74%
	12,855,130	3.55%

Capital Goods

Bradken Ltd.	1,293,000	0.36%
Cardno Ltd.	1,101,341	0.30%
RCR Tomlinson Ltd.	4,420,878	1.22%
Southern Cross Electrical Engineering Ltd.	2,455,128	0.68%
	9,270,347	2.56%

Media

Enero Group Ltd	241,475	0.07%
Twenty-First Century Fox Inc. Class B CDI	4,789,199	1.32%
News Corp. CI B CDIs	2,252,993	0.62%
Seven West Media Ltd.	7,231,075	2.00%
	14,514,742	4.01%

Commercial & Professional Services

Brambles Ltd.	4,016,275	1.11%
Onthehouse Holdings Ltd.	1,839,616	0.51%
SAI Global Ltd.	4,004,489	1.11%
SEEK Ltd.	3,324,155	0.92%
Tox Free Solutions Ltd.	4,187,075	1.16%
	17,371,610	4.81%

Retailing

JB Hi-Fi Ltd.	2,267,669	0.63%
Jumbo Interactive Ltd.	1,578,764	0.44%
Myer Holdings Ltd.	607,043	0.17%
Premier Investments Ltd.	651,300	0.18%
Ruralco Holdings Ltd.	838,786	0.23%
Super Retail Group Ltd.	7,648,830	2.11%
	13,592,392	3.76%

Transportation

Air New Zealand Ltd.	269,620	0.07%
Aurizon Holdings Ltd.	4,329,291	1.20%
Transurban Group	6,552,569	1.81%
Toll Holdings Ltd.	4,863,464	1.34%
	16,014,944	4.42%

Food & Staples Retailing

Wesfarmers Ltd.	14,983,412	4.14%
	14,983,412	4.14%

Software & Services

RXP Services Ltd.	950,803	0.26%
	950,803	0.26%

Food Beverage & Tobacco

Coca-Cola Amatil Ltd.	635,500	0.18%
	635,500	0.18%

Technology Hardware & Equipment

Netcomm Wireless Ltd.	1,243,141	0.34%
	1,243,141	0.34%

Energy

Aquila Resources Ltd.	2,303,320	0.64%
Aurora Oil & Gas Ltd.	2,617,173	0.72%
AWE Ltd.	3,914,772	1.08%
Nido Petroleum Ltd.	218,263	0.06%
Origin Energy Ltd.	3,900,748	1.08%
Paladin Energy Ltd.	28,875	0.01%
Red Fork Energy Ltd.	807,500	0.22%
Sundance Energy Australia Ltd.	6,456,840	1.78%
Whitehaven Coal Ltd.	2,626,600	0.73%
WorleyParsons Ltd.	8,541,493	2.35%
Woodside Petroleum Ltd.	2,996,401	0.83%
	34,411,985	9.50%

Materials

Adelaide Brighton Ltd.	4,634,045	1.28%
Ampella Mining Ltd.	554,431	0.15%
Alacer Gold Corp.	1,768,244	0.49%
Astron Corporation Ltd.	227,910	0.06%
Alumina Ltd.	2,265,500	0.63%
BHP Billiton Ltd.	8,122,289	2.24%
Base Resources Ltd.	3,566,035	0.98%
Fletcher Building Ltd.	4,856,628	1.34%
Gryphon Minerals Ltd.	1,205,360	0.33%
Hot Chili Ltd.	363,750	0.10%
Iluka Resources Ltd.	4,303,612	1.19%
Newcrest Mining Ltd.	2,220,750	0.61%
Nufarm Ltd.	4,626,126	1.28%
Orocobre Ltd.	751,900	0.21%
Orica Ltd.	4,682,367	1.29%
Papillon Resources Ltd.	1,118,900	0.31%
PanAust Ltd	2,334,562	0.64%
Sandfire Resources N.L.	1,310,930	0.36%
Sims Metal Management Ltd.	3,647,195	1.01%
Sirius Resources N.L.	1,847,352	0.51%
Tiger Resources Ltd.	2,351,876	0.65%
	56,759,762	15.66%

Banks

Australia & New Zealand Banking Group Ltd.	5,926,835	1.64%
Bank of Queensland Ltd.	6,904,731	1.91%
Commonwealth Bank of Australia	7,817,340	2.16%
National Australia Bank Ltd.	10,455,220	2.89%
Westpac Banking Corp.	15,251,528	4.20%
	46,355,654	12.80%

Australian Leaders Fund Limited
Investments at Market Value
30 June 2013
(continued)

Investments at Market Value (continued)

Diversified Financials			Telecommunication Services		
ASX Ltd.	4,986,725	1.38%	Amcom Telecommunications Ltd.	5,670,092	1.57%
FlexiGroup Ltd.	3,488,000	0.96%	Chorus Ltd.	2,482,350	0.69%
Henderson Group PLC	4,412,345	1.22%	iiNET Ltd.	5,982,380	1.65%
Macquarie Group Ltd.	53,175	0.01%	NEXTDC Ltd.	6,065,741	1.67%
	12,940,245	3.57%	Singapore Telecom SGD0.15 (Chess Unit)	2,820,647	0.78%
			Telstra Corp. Ltd.	3,303,225	0.91%
				26,324,435	7.27%
Insurance			Utilities		
Insurance Australia Group Ltd.	5,208,256	1.44%	Duet Group	5,452,125	1.51%
QBE Insurance Group Ltd.	3,890,202	1.07%	Envestra Ltd.	2,300,444	0.64%
	9,098,458	2.51%	ERM Power Ltd.	596,750	0.16%
				8,349,319	2.31%
Real Estate			Corporate Bonds		
CFS Retail Property Trust Group	6,700,000	1.85%	National Australia Bank Limited FRN PERP	1,926,190	0.53%
Charter Hall Group	1,509,288	0.42%	Westpac TPS Trust	809,512	0.22%
GPT Group	2,424,415	0.67%	Suncorp Group Limited Frn 22-nov-2023	114,655	0.03%
Investa Office Fund	7,985,040	2.20%	Apt Pipelines Ltd. Frn 30-sep-2072	441,840	0.12%
Lend Lease Group	8,722,024	2.41%	Woolworths Ltd Frn 24-nov-2036	1,098,093	0.30%
Westfield Retail Trust	4,650,000	1.28%	Tatts Group Limited Frn 05-jul-2019	894,400	0.25%
	31,990,767	8.83%	Colonial Holding Co. Ltd. Frn 31-mar-2037	1,773,560	0.49%
			Westpac Banking Corporation		
Health Care Equipment & Services			Frn 23-aug-2022	1,020,000	0.28%
Atcor Medical Holdings Ltd.	1,037,761	0.29%	Agl Energy Limited Frn 08-jun-2039	1,679,634	0.46%
Fisher & Paykel Healthcare Corp. Ltd.	168,238	0.05%	Australia And New Zealand Banking Group		
Primary Health Care Ltd.	2,944,480	0.81%	Limited Frn 20-jun-2022	1,946,874	0.54%
ResMed Inc. (CDI-10CDI/1SHS)	1,915,000	0.53%		11,704,758	3.22%
Virtus Health Ltd.	2,478,090	0.68%			
	8,543,569	2.36%			
Pharmaceuticals Biotechnology					
Neuren Pharmaceuticals Ltd.	194,771	0.05%			
	194,771	0.05%			
Pharmaceuticals Biotechnology & Life Sciences					
Mayne Pharma Group Ltd.	14,088,682	3.89%			
	14,088,682	3.89%			
			TOTAL LONG PORTFOLIO	362,194,426	100.00%
			TOTAL SHORT PORTFOLIO	(234,174,482)	

Corporate Governance Statement

This statement outlines the main corporate governance practices adopted by the Company, which comply with the ASX Corporate Governance Council Principles and Recommendations (2nd Edition, August 2007 with 2010 Amendments) unless otherwise stated.

Principle 1: Lay solid foundations for management and oversight

The Board's primary role is the protection and enhancement of long-term shareholder value. To fulfill this role the Board seeks to address:

- (a) the prudential control of the Company's operations;
- (b) the resourcing, review and monitoring of executive management;
- (c) the timeliness and accuracy of reporting to shareholders; and
- (d) the determination of the Company's broad objectives.

The Company's operations are conducted through Watermark Funds Management Pty Limited (Investment Manager) and White Outsourcing Pty Limited (Administration Manager). These entities incorporate the specialist wholesale investment and administration personnel who undertake the Company's executive operations. The Company has contracted with Watermark Funds Management Pty Limited and White Outsourcing Pty Limited to provide all investment management and administration services.

The Company's executive management arrangements have been structured to provide investors with a cost efficient investment vehicle and access to a significant depth of professional resources. Individual directors are subject to continuous review by the Chairman.

In order for a specific opportunity for performance matters to be discussed with each Director, each year the Chairman of the Board conducts a formal review process. The Chairman meets with each Director individually to discuss issues including performance and discusses with each Director the effectiveness of the Board as a whole, its Committees, individual Directors and the Chairman with the intention of providing mutual feedback. The Chairman reports on the general outcome of the meetings to the Board annually. Directors whose performance is unsatisfactory are asked to retire. In respect of the current financial year all assessments under this process have taken place in accordance with the process disclosed. Individual directors are subject to continuous review by the Chairman.

Recommendation 1.2 requires the disclosure of the process for evaluating the performance of senior executives. The Company does not comply with this recommendation as there are no senior executive officers of the Company.

Principle 2: Structure the board to add value

The names of the directors of the Company in office at the date of this statement are set out in the Directors' Report on page 16.

The skills, experience and expertise relevant to the position of each director in office at the date of the Annual Report is included in the Directors' Report on page 17.

The term in office held by each director in office at the date of this report is as follows:

Name	Term in office
J. Braitling	9.5 years
G. Wilson	9.5 years
J. Abernethy	9.5 years
J. Gosse	9.5 years

On an annual basis and in accordance with the company's Constitution, the number nearest to one third of Directors are required to retire by rotation and being eligible, stand for re-election.

Principle 2: Structure the board to add value (continued)

An independent director is considered to be a director:

- (a) who is not a member of management;
- (b) who has not within the last three years been employed in an executive capacity by the Company or been a principal of a professional adviser or consultant to the Company;
- (c) is not a significant supplier to the Company;
- (d) has no material contractual relationship with the Company other than as a director; and
- (e) is free from any interest or business or other relationship which could materially interfere with the director's ability to act in the best interests of the Company.

In the context of director independence, "materiality" is considered from both the company and individual director's perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the directors in question to shape the direction of the company's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the following directors, being the entire Board, are considered to be independent:

Name	Position
J. Abernethy	Non-Executive Director
J. Gosse	Non-Executive Director

J. Braitling and G. Wilson are not considered independent directors.

Recommendation 2.1 requires that "A majority of the Board should be independent directors". The Company does not comply with this recommendation. The Board is 50% independent. Whilst the Company agrees with the benefits of a majority of independent Directors, it believes that it can better achieve the results of the Company with the current Board's level of expertise and without burdening shareholders with the additional costs associated with adding further independent directors.

Recommendation 2.2 requires that "The Chair should be an independent director". The Company does not comply with this recommendation. The Company believes that an independent Chairman does not necessarily improve the function of the Board. The Company believes that when the Chairman is a significant driver behind the business and is a shareholder, it adds value to the Company.

Recommendation 2.3 requires that "the roles of the Chair and Chief Executive Officer of the Company should not be exercised by the same individual". The Company does not comply with this recommendation as there is no Chief Executive Officer of the Company.

Recommendation 2.4 states the board should establish a Nomination Committee. Due to the size of the Company it has not established a formal Nomination Committee and the functions of the Nomination Committee are undertaken by a full Board.

Each director has the right of access to all relevant Company information and to the Company executives and subject to prior consultation with the Chairman, may seek independent professional advice at the Company's expense. A copy of advice received by the director is made available to all other members of the Board.

The Board will hold four scheduled meetings each year plus any other strategic meetings as and when necessitated by the Company's operations. The agenda for meetings is prepared through the input of the Chairman and the Company Secretary. Standing items include matters of compliance and reporting, financials, shareholder communications and investment strategy and outcomes. Submissions are circulated in advance.

Principle 3: Promote ethical and responsible decision making

The Board expects all non-executive directors to act professionally in their conduct and with the utmost integrity and objectivity. All non-executive directors must comply with the Company's Code of Conduct and Ethics. The directors in acting professionally in their conduct means that they will act with high standards of honesty, integrity and fairness, avoiding conflicts of interest, acting lawfully and ensuring confidential information is dealt with in accordance with the Company's Privacy Policy.

The Board monitors its outsourced service providers compliance with the Company's Code of Conduct and Ethics, which is accessible to outside parties via the Company's website.

Directors are not required to hold a minimum number of shares in the Company.

Subject to them not being in possession of undisclosed price sensitive information with adequate time being given for this to be reflected in the security's price, Directors may deal in shares of the Company when appropriate. As Australian Leaders Fund Limited is an investment company reporting results monthly, the Board believes the shareholders are generally fully informed.

The composition of the Board is monitored (both in respect of size, diversity and membership) to ensure that the Board has a balance of skill and experience appropriate to the needs of the Company. When a vacancy arises, the Board will identify candidates with appropriate expertise and experience and appoint the most suitable person taking into account the need for diversity in gender, age, ethnicity and cultural background.

Principle 4: Safeguard integrity in financial reporting

It is a requirement of the Board that White Outsourcing Pty Limited sign-off on the content of the financial statements, and that these statements represent a true and fair view of the Company's operations and financial position of the Company.

White Outsourcing Pty Limited provides a declaration to the Board twice annually, to certify that the Company's financial statements and notes present a true and fair view, in all material respects, of the Company's financial condition and operational results and that they have been prepared and maintained in accordance with relevant Accounting Standards and the *Corporations Act 2001*. In respect of the current financial year all necessary declarations have been submitted to the Board. In addition, White Outsourcing Pty Limited (accounting and Company Secretarial) confirms in writing to the Board that the declaration provided above is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Company has an Audit Committee with a documented Charter, approved by the Board. All members must be non-executive directors and the majority be independent directors. The Chairman is not the Chairman of the Board. The Committee is responsible for considering the effectiveness of the systems and standards of internal control, financial reporting and any other matter at the request of the Board. The Audit Committee will meet at least two times per year.

The Audit Committee may have in attendance at their meeting such members of management as may be deemed necessary to provide information and explanations. The external auditors attend meetings by invitation to report to the Committee.

The members of the Audit Committee during the year were:

- J. Abernethy (Chairman)
- G. Wilson
- J. Gosse

Principle 4: Safeguard integrity in financial reporting (continued)

The responsibilities of the Audit Committee are to ensure that:

1. Relevant, reliable and timely information is available to the Board to monitor the performance of the Company;
2. External reporting is consistent with committee members' information and knowledge and is adequate for shareholder needs;
3. Management processes support external reporting in a format which facilitates ease of understanding by shareholders and institutions;
4. The external audit arrangements are adequate to ensure the maintenance of an effective and efficient external audit. This involves:
 - (a) reviewing the terms of engagement, scope and auditor's independence;
 - (b) recommendations as to the appointment, removal and remuneration of an auditor; and
 - (c) reviewing the provision of non-audit services provided by the external auditor ensuring they do not adversely impact on audit independence;
5. Review the Company's risk profile and assess the operation of the Company's internal control system. The external auditor is required to attend the Annual General Meeting and is available to answer shareholder questions.

The Board as a whole monitor the performance of the annual & half-yearly audit performed by the External Auditor. If the Board consider that the external auditor of the Company should be changed, a special resolution will be put to shareholder vote at the following Annual General Meeting. External audit engagement partners are required by legislation to rotate their appointment every five years.

For details on the number of meetings of the Audit Committee held during the year and the attendees at those meetings, refer to page 19 of the Directors' Report.

Principle 5: Make timely and balanced disclosures

The Board informs shareholders of all major developments affecting the Company's state of affairs as follows:

- All information lodged with the ASX is available on the Company's website at www.australianleaders.com.au via a direct link to the ASX website;
- Quarterly reports will be sent via email to shareholders who register their interest and by surface mail to all other shareholders;
- A hard copy Annual Report will be mailed to shareholders at the close of the financial year, where requested; and
- Net asset backing per share is released to the ASX by the 14th day following each month-end and is sent via email to shareholders who register their interest.

The Company Secretary is responsible for ensuring Australian Leaders Fund Limited complies with its continuous disclosure obligations.

Watermark Funds Management Pty Limited is made aware of these obligations and are required to report any price sensitive information to the Company Secretary immediately when they become aware of it. The Company Secretary in consultation with the Chairman will decide whether the information should be disclosed to the ASX.

Where possible, all continuous disclosure releases to the ASX are approved by the Board, except the monthly net asset backing per share which is approved by White Outsourcing Pty Limited in consultation with Watermark Funds Management Pty Limited. Where time does not permit approval by the Board, the Chairman of the directors must approve the release.

Any information of a material nature affecting the Company is disclosed to the market through release to the ASX as soon as the Company becomes aware of such information, in accordance with the ASX Continuous Disclosure requirement.

All ASX releases are available on the Company's website (www.australianleaders.com.au).

Principle 6: Respect the rights of shareholders

Shareholders are entitled to vote on significant matters impacting on the business, which include the election and remuneration of directors, changes to the constitution and are able to receive the annual and interim financial statements if requested. Shareholders are strongly encouraged to attend and participate in the Annual General Meetings of Australian Leaders Fund Limited, to lodge questions to be responded by the Board, and are able to appoint proxies.

Principle 7: Recognise and manage risk

The Board acknowledges that it is responsible for the overall system of internal control but recognises that no cost effective internal control system will preclude all errors and irregularities. The Board has delegated responsibility for reviewing the risk profile and reporting on the operation of the internal control system to the Audit Committee.

The external auditor is required to attend the Annual General Meeting and is available to answer shareholder questions.

The Audit Committee (a) requires executive management to report annually on the operation of internal controls, (b) reviews the external audit of internal controls and liaises with the external auditor and (c) conducts any other investigations and obtains any other information it requires in order to report to the Board on the effectiveness of the internal control system. In respect of the current financial year all necessary declarations have been submitted to the Board.

The Board identifies the following business risks as having the potential to significantly or materially impact the company's performance (a) administrative risks including operational, compliance and financial reporting, and (b) market related risks and has established policies for the management of these material risks as follows:

Administrative Risks

The Company has outsourced its administrative functions to service providers, UBS AG Australia Branch (custody and prime broker), White Outsourcing Pty Limited (accounting and Company Secretarial) and Watermark Funds Management Pty Limited (investment management). Risk issues associated with these activities are handled in accordance with the service providers policies and procedures. White Outsourcing Pty Limited is responsible for recognising and managing administrative risks including (a) operational, (b) compliance and (c) financial reporting.

Market Risks

The Board is primarily responsible for recognising and managing market related risks. By its nature as a Listed Investment Company, the Company will always carry investment risk because it must invest its capital in securities which are not risk free. However, the Company seeks to reduce this investment risk by a policy of diversification of investments across industries and companies operating in various sectors of the market. Watermark Funds Management Pty Limited (investment manager), is required to act in accordance with the Board approved investment management agreement and reports to the Board quarterly on the portfolio's performance, material actions of the investment manager during that quarter and an explanation of the investment manager's material proposed actions for the upcoming quarter. In addition, the investment manager is required to report half-yearly that Watermark Funds Management Pty Limited have invested the Company's assets in accordance with the approved investment mandate and complied with the Investment Management Agreement requirements during the reporting period. In respect of the current financial year all necessary declarations have been submitted to the Board. In assessing the Company's risk tolerance level the Board considers any instance which materially affects the Company's monthly Net Tangible Asset backing announcement released to the ASX.

The Audit Committee and the Board perform a risk review on an annual basis to ensure that adequate controls are in place to mitigate risk associated with investment manager performance, market risk, fraud, transaction reporting errors, material reporting risks and compliance risk.

Principle 8: Remunerate fairly and responsibly

ASX Recommendation 8.1 states the board should establish a Remuneration Committee. Due to the size of the Company it has not established a formal Remuneration Committee and the functions of the Remuneration Committee are undertaken by the full Board.

Non-executive directors are remunerated by way of director fees and superannuation contributions.

The Chairman of Australian Leaders Fund Limited is the sole Director and an employee of Watermark Funds Management Pty Limited and is further remunerated by that Company. Further detail is provided in the Directors' Report.

Recommendation 8.3 states that the Company should "clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives". The Company does not comply with this recommendation as there are no executive directors or senior executives.

Directors' Report

The Directors present their report together with the financial report of Australian Leaders Fund Limited ("the Company") for the year ended 30 June 2013.

Directors

The following persons were Directors of Australian Leaders Fund Limited during the financial year and up to the date of this report:

Justin Braithling (Chairman)
 Geoffrey Wilson (Non-Executive Director)
 John Abernethy (Non-Executive Director)
 Julian Gosse (Non-Executive Director)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Principal activities

During the year, the principal activities of the Company included making investments in listed companies. No change in this activity took place during the year or is likely to in the future.

There was no significant change in the nature of the activity of the Company during the year.

Dividends

Dividends paid to members since the end of the previous financial year were as follows:

	Dividend Rate	Total Amount	Date of Payment	% Franked
2013				
Ordinary shares - interim 2013	\$0.06	\$9,421,982	23/05/2013	100
Ordinary shares - final 2012	\$0.06	\$4,117,137	31/10/2012	100

In addition to the above dividends, since the end of the financial year the Directors have recommended the payment of a final ordinary dividend of \$9,930,066 (6 cents per fully paid share) with an ex date of 15 October 2013 and a record date of 21 October 2013, to be paid on 28 October 2013, out of the profits reserve at 30 June 2013.

Review of operations

Information on the operations and financial position of the Company and its business strategies and prospects is set out in the review of operations and activities on pages 3 to 5 of this Annual Report.

Investments are valued continuously to market value. For the year ended 30 June 2013, investments were valued upwards by \$23,130,109 (2012: upwards by \$8,225,921).

The profit from ordinary activities after income tax amounted to \$23,329,557 (2012: loss of \$1,296,975).

The net tangible asset backing for each ordinary share as at 30 June 2013 amounted to 137 cents per share (2012: 125 cents per share). The equivalent asset backing before tax was 142 cents per share (2012: 130 cents per share).

Further information on the operating and financial review of the Company is contained in the Chairman's Letter on page 1 and the Chief Investment Officer's Report on page 3 of the Annual Report.

Financial Position

The net asset value of the Company for the current financial year ended was \$225,960,084 (2012: \$86,354,621).

Significant changes in the state of affairs

Significant changes in the state of affairs of the Company during the financial year were as follows:

The Board issued a Prospectus for the placement of up to 27,609,675 New Shares (First Tranche) on 12 February 2013. This placement received Shareholder approval on 5 February 2013.

The Board released a supplementary prospectus to issue a further 13,804,836 New Shares under the Offer (Second Tranche) on 21 February 2013. This placement received Shareholder approval on 2 April 2013.

On 12 March 2013, the Company announced the terms and indicative timetable for a 1 for 1 bonus issue of options to acquire ordinary shares in the Company at an exercise price of \$1.37 with an expiry date of 30 September 2014. During the period 44,059,618 options were exercised.

New Shares issued participated in both the interim dividend and the bonus option issue.

There were no other significant changes in the state of affairs of the Company during the year ended 30 June 2013.

Matters subsequent to the end of the financial year

Other than the dividend declared after year end, no other matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company or economic entity in subsequent financial years.

Likely developments and expected results of operations

The Company will continue to pursue its investment objectives for the long term benefit of the members. This will require continual review of the investment strategies that are currently in place and may require changes to these strategies to maximise returns.

Environmental regulation

The Company is not affected by any significant environmental regulation in respect of its operations.

To the extent that any environmental regulations may have an incidental impact on the Company's operations, the Directors of the Company are not aware of any breach by the Company of those regulations.

Information on directors

Justin Braitling *Chairman* Age 46.

Experience and expertise

Justin Braitling has over 23 years experience in investing in Australian and international companies. He was an Investment Analyst and Portfolio Manager at Bankers Trust for 12 years from January 1991 to June 2002. He was a key member of the investment team at Bankers Trust that was consistently ranked in the top quartile of managers by InTech.

Justin Braitling has been a Director of the Company since October 2003 of which he became Chairman in February 2007.

Other current directorships

Justin Braitling is the sole Director of the investment management company, Watermark Funds Management Pty Limited.

Justin Braitling became a director of Watermark Market Neutral Fund Limited from 28 May 2013. This Company became listed on 16 July 2013.

Former directorships in last 3 years

Justin Braitling has not held any other directorships of listed companies within the last three years.

Special responsibilities

Chairman of the Board.

Information on directors (continued)

Interests in shares and options

Details of Justin Braitling's interests in shares of the Company are included later in this report.

Interests in contracts

Details of Justin Braitling's interests in contracts of the Company are included later in this report.

Geoffrey Wilson Non-Executive Director Age 55

Experience and expertise

Geoffrey Wilson has 33 years experience in the Australian and international securities industry. He holds a Bachelor of Science Degree and a Graduate Management Qualification. He is also a Fellow of the Institute of Company Directors and a Senior Fellow of the Financial Services Institute of Australasia.

Geoffrey Wilson has been a Director of the Company since October 2003 and was Chairman from this time until February 2007.

Other current directorships

Geoffrey Wilson is the Chairman of WAM Capital Limited (appointed March 1999), WAM Research Limited (appointed June 2003), WAM Active Limited (appointed July 2007), and the Australian Stockbrokers Foundation Limited. He is a Director of Clime Capital Limited (appointed November 2003) and Incubator Capital Limited (appointed February 2000), Premium Investors Limited, Sporting Chance Cancer Foundation, Australian Fund Managers Foundation, Australian Children's Music Foundation, Odyssey House McGrath Foundation and he is a Member of the Second Bite NSW Advisory Committee. He is also a director of the investment management companies, Wilson Asset Management (International) Pty Ltd, Boutique Asset Management Pty Ltd, Boutique Investment Management Pty Ltd and MAM Pty Ltd.

Former directorships in last 3 years

Geoffrey Wilson was a director of Cadence Capital Limited from February 2005 until January 2013.

Special responsibilities

Member of the Audit Committee.

Interests in shares and options

Details of Geoffrey Wilson's interests in shares of the Company are included later in this report.

Interests in contracts

Details of Geoffrey Wilson's interests in contracts of the Company are included later in this report.

John Abernethy Non-Executive Director Age 54

Experience and expertise

John Abernethy has over 30 years experience in funds management and corporate advisory. He holds a Bachelor of Commerce and Bachelor of Laws (BCom/LLB) from the University of New South Wales. He spent ten years at NRMA Investments as Head of Equities. In 1994 he joined Poynton Corporate Limited as an Executive Director before forming Clime Investment Management Limited in 1996.

John Abernethy has been a Director of the Company since November 2003.

Other current directorships

John Abernethy is the Chairman of Clime Capital Limited. He is a Director of Clime Investment Management Limited, Jasco Holdings Limited, WAM Research Limited (appointed May 2002) and WAM Active Limited (appointed November 2007).

John Abernethy became a head of the Audit Committee of Watermark Market Neutral Fund Limited from 28 May 2013. This Company became listed on 16 July 2013.

Former directorships in last 3 years

John Abernethy has not held any other directorships of listed companies within the last three years.

Special responsibilities

Chairman of the Audit Committee.

Information on directors (continued)

Interests in shares and options

Details of John Abernethy's interests in shares of the Company are included later in this report.

Interests in contracts

John Abernethy has no interests in contracts of the Company.

Julian Gosse Non-Executive Director Age 63

Experience and expertise

Julian Gosse has extensive experience in banking and broking both in Australia and overseas having worked in London for Rowe and Pitman, in the United States for Janney Montgomery and Scott and in Canada for Wood Gundy. He has been involved in the establishment, operation and ownership of several small businesses.

Julian Gosse has been a Director of the Company since October 2003.

Other current directorships

Julian Gosse is a Director of ITL Limited (appointed September 2003). He is also a Director of WAM Research Limited (appointed June 2003) and Clime Capital Limited (appointed November 2003) and Iron Road Limited (appointed Chairman from April 2009 until October 2012).

Julian Gosse became an executive director of Iron Road Limited in October 2012.

Former directorships in last 3 years

Julian Gosse has not held any other directorships of listed companies within the last three years.

Special responsibilities

Member of the Audit Committee.

Interests in shares and options

Details of Julian Gosse's interests in shares of the Company are included later in this report.

Interests in contracts

Julian Gosse has no interests in contracts of the Company.

Company secretary

Peter Roberts has been Company Secretary of the Company since 5 June 2008 and has over 20 years experience in the fields of chartered accountancy and specialised back office services to the funds management industry. Peter is a Director of White Outsourcing Pty Ltd and Company Secretary of Ironbark Capital Ltd, Whitefield Ltd, Century Australia Ltd, Steadfast Group Ltd and Macquarie Premium Funding Pty Ltd. Peter holds a Bachelor of Business and is a Member of the Institute of Chartered Accountants.

Meetings of directors

The numbers of meetings of the Company's board of Directors and of each board committee held during the year ended 30 June 2013, and the numbers of meetings attended by each Director were:

	Directors' Meetings		Meetings of committees					
			Audit		Nomination		Remuneration	
	A	B	A	B	A	B	A	B
Justin Braitling	4	4	*	-	-	-	-	-
Geoffrey Wilson	3	4	1	2	-	-	-	-
John Abernethy	4	4	2	2	-	-	-	-
Julian Gosse	4	4	2	2	-	-	-	-

A = Number of meetings attended

B = Number of meetings held during the time the Director held office or was a member of the committee during the year

* Not a member of the relevant committee

Remuneration report

This report details the nature and amount of remuneration for each Director of Australian Leaders Fund Limited in accordance with the *Corporations Act 2001*.

The Board from time to time determines remuneration of Non-Executive Directors within the maximum amount approved by the shareholders. Non-Executive Directors are not entitled to any other remuneration.

Fees and payments to Non-Executive Directors reflect the demands that are made on and the responsibilities of the Directors and are reviewed annually by the Board. The Company determines the remuneration levels and ensures they are competitively set to attract and retain appropriately qualified and experienced Directors.

Directors' base fees are set at a maximum of \$110,000 per annum. Non-Executive Directors do not receive bonuses nor are they issued options on securities. Directors' fees cover all main board activities and membership of committees. Under the ASX Listing Rules, the maximum fees paid to non-executive Directors may not be increased without approval from the Company at a general meeting. Directors will seek approval from time to time as appropriate.

Details of remuneration

The following tables show details of the remuneration received by the Directors of the Company for the current and previous financial year.

2013	Short-term employee benefits	Post-employment benefits	
Name	Salary and fees \$	Superannuation \$	Total \$
Non-executive Directors			
Geoffrey Wilson	9,174	826	10,000
John Abernethy	22,936	2,064	25,000
Julian Gosse	25,000	-	25,000
Sub-total non-executive directors	57,110	2,890	60,000
Executive Director			
Justin Braitling	9,174	826	10,000
Other key management personnel			
Peter Roberts *	-	-	-
Total key management personnel compensation	66,284	3,716	70,000

2012	Short-term employee benefits	Post-employment benefits	
Name	Salary and fees \$	Superannuation \$	Total \$
Non-executive Directors			
Geoffrey Wilson	9,174	826	10,000
John Abernethy	22,936	2,064	25,000
Julian Gosse	25,000	-	25,000
Sub-total non-executive directors	57,110	2,890	60,000
Executive Director			
Justin Braitling	9,174	826	10,000
Other key management personnel			
Peter Roberts *	-	-	-
Total key management personnel compensation	66,284	3,716	70,000

Remuneration report (continued)

Details of remuneration (continued)

* Accounting and company secretarial duties are outsourced to White Outsourcing Pty Limited. Peter Roberts is a director and shareholder of White Outsourcing Pty Limited which received fees net of reduced input tax credits of \$152,841 during the year (2012: \$133,055) for the services rendered pursuant to an Administrative Services Agreement entered into by the Company. Mr Roberts received no fees as an individual. White Outsourcing Pty Limited is remunerated in accordance with the Service Level Agreement dated 1st October 2006. The agreement has no fixed term.

The following table comprises the company performance and non-executive directors' remuneration:

	2013	2012	2011	2010	2009
Operating profit/(loss) after tax	\$23,329,557	(\$1,296,975)	\$14,176,932	\$12,806,245	\$8,629,987
Dividends paid (cents per share)	12.0	11.0	13.0	7.0	4.0
Net tangible asset (\$ per share)	\$1.42	\$1.30	\$1.42	\$1.33	\$1.22
Total Directors' remuneration	\$70,000	\$70,000	\$70,000	\$75,000	\$80,000
Total Shareholder's Equity	\$225,960,084	\$86,354,621	\$90,159,808	\$85,521,560	\$80,130,736

Director Related Entity Remuneration

All transactions with related entities were made on normal commercial terms and conditions.

Justin Braitling is the sole Director and beneficial owner of Watermark Funds Management Pty Limited, the entity appointed to manage the investment portfolio of Australian Leaders Fund Limited. In its capacity as manager, Watermark Funds Management Pty Limited was paid a management fee of 1%p.a. (plus GST) of gross assets amounting to \$1,411,587 (2012: \$911,030). As at 30 June 2013, the balance payable to the manager was \$216,556 (2012: \$77,800).

In addition, Watermark Funds Management Pty Limited is to be paid, annually in arrears, a performance fee being 20% of:

- where the level of the All Ordinaries Accumulation Index has increased over that period, the amount of the increase in the Value of the Portfolio exceeds this increase; or
- where the All Ordinaries Accumulation Index has decreased over that period, the amount of the increase in the Value of the Portfolio.

No performance fee is payable in respect of any performance period where the portfolio has decreased in value over that period.

For the period ended 30 June 2013, in its capacity as manager, Watermark Funds Management Pty Limited was paid a performance fee amounting to \$6,970,842 (2012: Nil).

Under an Investment Services Agreement, Watermark Funds Management Pty Limited pays 25% of all management and performance fees to Boutique Asset Management, a company 80% owned by entities associated with Geoffrey Wilson.

These amounts are in addition to the above Directors remuneration.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than those detailed above) by reason of a contract made by the Company or a related Company with the Director or with a firm of which he is a member or with a Company in which he has substantial financial interest.

Remuneration of Executives

There are no executives that are paid by the Company. Watermark Funds Management Pty Limited, the investment manager of the Company, remunerates Justin Braitling as an employee of the Company and also provides day to day management of the Company and is remunerated as outlined above.

Equity Instrument Disclosures Relating to Directors

As at 30 June 2013, the Company's Directors and their related parties held the following interests in the Company:

Remuneration report (continued)

Details of remuneration (continued)

Equity Instrument Disclosures Relating to Directors (continued)

Ordinary Shares Held

Director	Position	Balance at 30 June 2012	Acquisitions/ Options Exercised	Disposals	Balance at 30 June 2013
Justin Braitling	Chairman	1,230,894	5,000	-	1,235,894
Geoffrey Wilson	Non-Executive Director	2,918,214	-	(1,918,214)	1,000,000
John Abernethy	Non-Executive Director	60,000	-	-	60,000
Julian Gosse	Non-Executive Director	-	-	-	-
		4,209,108	5,000	(1,918,214)	2,295,894

Directors and Director related entities disposed of and acquired ordinary shares in the Company on the same terms and conditions available to other shareholders.

Options Held

Director	Position	Balance at 30 June 2012	Options Acquired	Options Exercised	Balance at 30 June 2013
Justin Braitling	Chairman	-	1,230,894	(5,000)	1,225,894
Geoffrey Wilson	Non-Executive Director	-	1,000,000	-	1,000,000
John Abernethy	Non-Executive Director	-	60,000	-	60,000
Julian Gosse	Non-Executive Director	-	-	-	-
		-	2,290,894	(5,000)	2,285,894

Directors and Director related entities acquired options in the Company on the same terms and conditions available to other shareholders.

The Directors have not, during or since the end of the financial year, been granted options over unissued shares or interests in shares of the Company as part of their remuneration.

Shares under option

No options were granted to the Directors of the Company since the end of the financial year.

Insurance and indemnification of officers and auditors

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company, the Company Secretary and any related body corporate against liability incurred as such by a Director or Secretary to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

No indemnities have been given or insurance premiums paid during or since the end of the financial year, for any person who is or has been an auditor of the Company.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit services

No non-audit services were performed by the auditors during the year ended 30 June 2013.

Details of the amounts paid to the auditors and their related parties are disclosed in Note 20 to the financial statements.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 24.

This report is made in accordance with a resolution of Directors.

A handwritten signature in black ink, appearing to read 'J Braitling', with a stylized flourish at the end.

Justin Braitling
Chairman

Sydney
23 August 2013



AUSTRALIAN LEADERS FUND LIMITED
ABN 64 106 845 970

**AUDITOR'S INDEPENDENCE DECLARATION UNDER S 307C OF THE CORPORATIONS
ACT 2001
TO THE DIRECTORS OF AUSTRALIAN LEADERS FUND LIMITED**

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2013 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

MNSA PTY LTD

Phillip Miller
Director

Sydney
23 August 2013

Australian Leaders Fund Limited
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2013

Statement of Profit or Loss and Other Comprehensive Income

	Notes	2013 \$	2012 \$
Investment income from ordinary activities			
Net realised gains/(losses) on investments		20,024,191	(8,901,140)
Net unrealised gains on investments		23,130,109	8,225,921
Dividends		6,102,447	4,685,880
Interest		6,381,542	3,711,909
Trust distributions		1,653,402	392,745
Other income		32,727	-
		<u>57,324,418</u>	<u>8,115,315</u>
Expenses			
Management fees		(1,315,342)	(848,914)
Performance fees		(6,495,557)	-
Brokerage expense		(3,901,635)	(3,060,797)
Short dividend expense		(5,520,302)	(2,899,236)
Interest expense		(5,525,409)	(3,122,616)
Stock loan fees		(1,422,419)	(799,992)
Accounting fees		(116,052)	(104,226)
Share registry fees		(123,423)	(50,789)
Custody fees		(15,518)	-
Tax fees		(15,950)	(15,500)
Directors' liability insurance fees		(20,029)	(18,890)
Legal fees		(5,132)	(1,140)
Directors' fees		(70,000)	(70,000)
ASX fees		(75,450)	(41,375)
Audit fees	20	(32,741)	(28,105)
Other expenses		(481,199)	(443,141)
		<u>(25,136,158)</u>	<u>(11,504,721)</u>
Profit/(loss) before income tax		32,188,260	(3,389,406)
Income tax (expense)/benefit		<u>(8,858,703)</u>	2,092,431
Profit/(loss) for the year		23,329,557	(1,296,975)
Other comprehensive income/(loss) for the year, net of tax		<u>-</u>	<u>-</u>
Total comprehensive income/(loss) for the year		<u>23,329,557</u>	<u>(1,296,975)</u>
		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share	25	26.28	(2.00)
Diluted earnings per share	25	26.04	(2.00)

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Australian Leaders Fund Limited
Statement of Financial Position
As at 30 June 2013

Statement of Financial Position

	Notes	2013 \$	2012 \$
ASSETS			
Current assets			
Cash and cash equivalents	7	86,813,362	37,475,697
Trade and other receivables	8	30,224,953	11,940,391
Financial assets at fair value through profit or loss	9	362,194,426	128,283,073
Current tax assets	10	-	923,332
Other current assets		21,621	55,588
Total current assets		479,254,362	178,678,081
Non-current assets			
Deferred tax assets	11	4,050,677	4,098,056
Total non-current assets		4,050,677	4,098,056
Total assets		483,305,039	182,776,137
LIABILITIES			
Current liabilities			
Trade and other payables	12	15,087,419	634,321
Financial liabilities at fair value through profit or loss	13	234,174,482	92,211,493
Current tax liabilities	14	1,382,724	-
Total current liabilities		250,644,625	92,845,814
Non-current liabilities			
Deferred tax liabilities	15	6,700,330	3,575,702
Total non-current liabilities		6,700,330	3,575,702
Total liabilities		257,344,955	96,421,516
Net assets		225,960,084	86,354,621
EQUITY			
Issued capital	16	202,329,794	72,514,769
Reserves	17(a)	23,630,290	13,839,852
Total equity		225,960,084	86,354,621

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Australian Leaders Fund Limited
Statement of Changes in Equity
For the year ended 30 June 2013

Statement of Changes in Equity

	Notes	Issued Capital \$	Reserves \$	Retained earnings \$	Total \$
Balance at 1 July 2011		67,723,259	-	22,436,549	90,159,808
(Loss) for the year as reported in the 2012 Financial Statements		-	-	(1,296,975)	(1,296,975)
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	18	-	-	(7,299,722)	(7,299,722)
Costs of issued capital		(38,301)	-	-	(38,301)
On market buy back		(1,038,209)	-	-	(1,038,209)
Shares issued under dividend reinvestment plan		2,923,020	-	-	2,923,020
Shares issued under share purchase plan		2,945,000	-	-	2,945,000
Transfer to profits reserve		-	13,839,852	(13,839,852)	-
		<u>4,791,510</u>	<u>13,839,852</u>	<u>(21,139,574)</u>	<u>(2,508,212)</u>
Balance at 30 June 2012		72,514,769	13,839,852	-	86,354,621
Balance at 1 July 2012		72,514,769	13,839,852	-	86,354,621
Profit for the year as reported in the 2013 Financial Statements		-	-	23,329,557	23,329,557
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	18	-	(13,539,119)	-	(13,539,119)
Costs of issued capital		(897,987)	-	-	(897,987)
Shares issued under share placement		56,866,265	-	-	56,866,265
Shares issued under dividend reinvestment plan		2,308,286	-	-	2,308,286
Underwriting of shares issued		11,176,784	-	-	11,176,784
Shares issued on options exercised		60,361,677	-	-	60,361,677
Transfer to profits reserve		-	23,329,557	(23,329,557)	-
		<u>129,815,025</u>	<u>9,790,438</u>	<u>(23,329,557)</u>	<u>116,275,906</u>
Balance at 30 June 2013		202,329,794	23,630,290	-	225,960,084

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Australian Leaders Fund Limited
Statement of Cash Flows
For the year ended 30 June 2013

Statement of Cash Flows

	2013	2012
Notes	\$	\$
Cash flows from operating activities		
Payments for financial instruments at fair value through profit or loss	(1,063,421,566)	(984,435,020)
Proceeds from disposal of financial instruments at fair value through profit or loss	1,004,535,374	1,025,650,866
Interest received	5,896,597	3,744,197
Dividends received	6,756,955	4,865,109
Other revenue	32,727	-
Investment management fees paid	(1,272,831)	(860,734)
Performance fees paid	-	(2,496,974)
Dividends paid on short stocks	(4,793,991)	(3,005,007)
Brokerage expense	(3,901,635)	(3,060,797)
Income taxes paid	(2,994,993)	(5,388,880)
Interest expense	(5,078,186)	(3,147,065)
Stock loan fees	(1,323,543)	(781,650)
Payments for other expenses	(988,298)	(771,941)
Net cash (outflow)/inflow from operating activities	24 (66,553,390)	30,312,104
Cash flows from financing activities		
Payments for shares bought back	-	(1,038,210)
Share issue and buy-back transaction costs	(1,282,840)	(54,714)
Dividends paid to company's shareholders	(11,230,831)	(5,989,233)
Shares purchased under share purchase plan	-	2,945,000
Shares underwritten	11,176,784	1,612,531
Shares issued on options exercised	60,361,677	-
Shares issued	56,866,265	-
Net cash inflow/(outflow) from financing activities	115,891,055	(2,524,626)
Net increase in cash and cash equivalents	49,337,665	27,787,478
Cash and cash equivalents at the beginning of the year	37,475,697	9,688,219
Cash and cash equivalents at end of year	7 86,813,362	37,475,697

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

1 General information

Australian Leaders Fund Limited (the "Company") is a listed public company domiciled in Australia. The address of Australian Leaders Fund Limited's registered office is Suite 4, Level 5, 139 Macquarie Street, Sydney, NSW 2000. The financial statements of Australian Leaders Fund Limited are for the year ended 30 June 2013. The Company is primarily involved in making investments, and deriving revenue and investment income from listed securities and unit trusts in Australia.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the entity Australian Leaders Fund Limited.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Australian Leaders Fund Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial statements were authorised for issue by the Board of Directors on 23 August 2013.

(i) Compliance with IFRS

The financial statements of the Australian Leaders Fund Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) New and amended standards adopted by the Company

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, amendments made to AASB 101: Presentation of Financial Statements effective 1 July 2012 now require the Statement of Profit or Loss and Other Comprehensive Income to show the items of comprehensive income grouped into those that are not permitted to be reclassified to profit or loss in a future period and those that may have to be reclassified if certain conditions are met.

(iii) Historical cost convention

These financial statements have been prepared under the accruals basis and are based on historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss.

(iv) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

(b) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of rebates and amounts collected on behalf of third parties.

(i) Investment income

Profits and losses realised from the sale of investments and unrealised gains and losses on securities held at fair value are included in the Statement of Profit or Loss and Other Comprehensive Income in the year they are incurred in accordance with the policies described in Note 2(f).

(ii) Dividends and trust distributions

Dividends and trust distributions are recognised as revenue when the right to receive payment is established.

2 Summary of significant accounting policies (continued)

(b) Revenue recognition (continued)

(iii) Interest income

Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

(iv) Other income

The Company recognises other income when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(c) Income tax

The income tax expense/(income) for the year comprises current income tax expense/(income) and deferred tax expense/(income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities/(assets) are measured at the amounts expected to be paid to/(recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense/(income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(d) Cash and cash equivalents

For the purpose of presentation in the Statement of Cash Flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

(e) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade and other receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly.

2 Summary of significant accounting policies (continued)

(f) Financial assets and liabilities

The Company's investments are classified as at fair value through profit or loss. They comprise:

Classification

(i) Financial assets and liabilities at fair value through profit or loss - held for trading

Financial assets are classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise they are classified as non-current.

The Company makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are classified as current financial liabilities at fair value through profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 8) and receivables in the Statement of Financial Position.

Recognition and derecognition

Purchases and sales of financial assets and liabilities at fair value through profit or loss are recognised on trade-date - the date on which the Company commits to purchase or sell the asset or liability. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Company measures its financial assets and liabilities at fair value excluding any transaction costs that are directly attributable to their acquisition.

Transaction costs of financial assets and financial liabilities at fair value through profit or loss are expensed in the Statement of Profit or Loss and Other Comprehensive Income.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of Profit or Loss and Other Comprehensive Income.

When an investment is disposed, the cumulative gain or loss, net of tax thereon, is recognised as realised gains and losses from the sale of financial instruments in the Statement of Profit or Loss and Other Comprehensive Income.

The fair value of financial assets and liabilities traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets held by the Fund is the current bid price and the quoted market price for financial liabilities is the current asking price.

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. Accordingly, there may be a difference between the fair value at initial recognition and amounts determined using a valuation technique. If such a difference exists, the Fund recognises the difference in profit or loss to reflect a change in factors, including time that market participants would consider in setting a price.

Further details on how the fair value of financial instruments are determined are discussed in Note 3(d).

2 Summary of significant accounting policies (continued)

(g) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(h) Finance costs

Finance costs are recognised as expenses in the year in which they are incurred using the effective interest rate method.

(i) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(j) Profits reserve

A profits reserve has been created representing an amount allocated from retained earnings that is preserved for future dividend payments.

(k) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

In accordance with the *Corporations Act 2001*, the Company may pay a dividend where the Company's assets exceed its liabilities, the payment of the dividend is fair and reasonable to the Company's shareholders as a whole and the payment of the dividend does not materially prejudice the Company's ability to pay its creditors.

It is the Directors' policy to only pay fully franked dividends and to distribute the majority of franking credits received each year. Franking credits are generated by receiving fully franked dividends from shares held in the Company's investment portfolio, and from the payment of corporate tax on its other investment income, unfranked income and net realised gains.

(l) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2 Summary of significant accounting policies (continued)

(m) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(n) Functional and presentation currency

The functional and presentation currency of the Company is Australian dollars.

(o) Comparatives

Where necessary, comparative information has been reclassified to be consistent with current reporting period.

(p) Operating Segments

The Company operated in Australia only and the principal activity is investment.

(q) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2013 reporting periods and have not yet been applied in the financial statements. The Company's assessment of the impact of these new standards and interpretations is set out below.

- (i) *AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012-6 Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures* (effective from 1 January 2015)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. The directors do not expect this to have a significant impact on the recognition and measurement of the Company's financial instruments as they are carried at fair value through profit or loss.

- (ii) *AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements, AASB 128 Investments in Associates and Joint Ventures, AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards and AASB 2012-10 Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments* (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

The Company does not have any investments in subsidiaries or joint venture partnerships therefore AASB 10 and 11 will not have any impact on the amounts recognised in its financial statements.

2 Summary of significant accounting policies (continued)

(q) New accounting standards and interpretations (continued)

(iii) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Company has yet to determine which, if any, of its current measurement methodologies will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. AASB 13 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3 Financial risk management

The Company's financial instruments consist mainly of deposits with banks, trading portfolios, trade and other receivables and trade and other payables.

The Company's activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk), credit risk and liquidity risk. The Board of the Company has implemented a risk management framework to mitigate these risks.

(a) Market risk

The standard defines this as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

By its nature, as a Listed Investment Company that invests, the Company can never be free of market risk as it invests its capital in securities which are not risk free - the market price of these securities can fluctuate.

(i) Foreign exchange risk

The Company is not directly exposed to currency risk as all its investments are quoted in Australian dollars.

(ii) Price risk

The Company is exposed to equity securities price risk. This arises from investments held by the Company and classified in the Statement of Financial Position as financial assets and financial liabilities at fair value through profit or loss.

The Company seeks to manage and constrain market risk by diversification of the investment portfolio across multiple stocks and industry sectors. The portfolio is maintained by the Investment Manager within a range of parameters governing the levels of acceptable exposure to stocks and industry sectors. The relative weightings of the individual securities and relevant market sectors are reviewed normally weekly and risk can be managed by reducing exposure where necessary.

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Price risk (continued)

The Company's investment sector as at 30 June is as below:

Sector	2013 (%)	2012 (%)
Information technology	(0.69)	(5.63)
Financials	64.55	17.20
Energy	12.23	0.30
Healthcare	(14.78)	(14.93)
Consumer staples	(1.38)	-
Industrials	0.92	17.11
Consumer discretionary	(5.38)	6.17
Utilities	(0.05)	2.35
Materials	22.07	22.28
Telecommunications services	15.89	2.91
Corporate floating rate notes	5.96	37.37
Tourism and leisure	-	14.87
Retail	0.66	-
Total	100.00	100.00

As at 30 June 2013 no securities represented over 5 per cent of the long or short investment portfolio.

The following table illustrates the effect on the Company's profit or loss from possible changes in other market risk that were reasonably possible based on the risk the Company was exposed to at reporting date, assuming a flat tax rate of 30 per cent:

	Impact on post-tax profit 2013 \$	2012 \$
Decrease 5% (5%)	(4,480,698)	(1,262,505)
Decrease 10% (10%)	(8,961,396)	(2,525,010)

Post-tax profit for the year would decrease as a result of losses on equity securities classified as at fair value through profit or loss.

(iii) Cash flow and fair value interest rate risk

The Company's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis.

The table below summarises the Company's exposure to interest rate risks. It includes the Company's assets and liabilities at fair values, categorised by the earlier of contractual repricing or maturity dates.

3 Financial risk management (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risk (continued)

30 June 2013

	Floating interest rate \$	Non- interesting bearing \$	Total \$
Financial assets			
Cash and cash equivalents (i)	86,813,362	-	86,813,362
Trade and other receivables	-	30,224,953	30,224,953
Financial assets held at fair value through profit or loss	-	362,194,426	362,194,426
	86,813,362	392,419,379	479,232,741
Financial liabilities			
Trade and other payables	-	(15,087,419)	(15,087,419)
Financial liabilities held at fair value through profit or loss	-	(234,174,482)	(234,174,482)
Current tax liabilities	-	(1,382,724)	(1,382,724)
	-	(250,644,625)	(250,644,625)
Net exposure	86,813,362	141,774,754	228,588,116

30 June 2012

	Floating interest rate \$	Non- interesting bearing \$	Total \$
Financial assets			
Cash and cash equivalents (i)	37,475,697	-	37,475,697
Trade and other receivables	-	11,940,391	11,940,391
Financial assets held at fair value through profit or loss	-	128,283,073	128,283,073
Current tax assets	-	923,332	923,332
	37,475,697	141,146,796	178,622,493
Financial liabilities			
Trade and other payables	-	(634,321)	(634,321)
Financial liabilities held at fair value through profit or loss	-	(92,211,493)	(92,211,493)
	-	(92,845,814)	(92,845,814)
Net exposure	37,475,697	48,300,982	85,776,679

(i) The weighted average interest rate of the Company's cash and cash equivalents at 30 June 2013 is 3.41% pa (2012: 2.68% pa).

The majority of the Company's financial assets are non-interest bearing. As a result, the Company is subject to limited exposure to interest rate risk due to fluctuations in the prevailing levels of market interest rates.

3 Financial risk management (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risk (continued)

Sensitivity

At 30 June 2013, if interest rates had increased by 75 basis points or decreased by 75 basis points from the year end rates with all other variables held constant, post-tax profit for the year would have been \$455,770 higher/\$455,770 lower (2012 changes of 75 bps/75 bps: \$196,747 lower/\$196,747 higher), mainly as a result of higher/lower interest income from cash and cash equivalents.

(b) Credit risk

The standard defines this as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of Financial Position and Notes to the Financial Statements.

There are no material amounts of collateral held as security at 30 June 2013.

Credit risk is managed as noted in Note 7 with respect to cash and cash equivalents, Note 8 for trade and other receivables and Note 9 for financial assets at fair value through profit or loss. None of these assets are over-due or considered to be impaired.

(c) Liquidity risk

The standard defines this as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Investment Manager monitors its cash-flow requirements daily in relation to the investing account taking into account upcoming dividends, tax payments and investing activity.

The Company's inward cash flows depend upon the level of dividend and distribution revenue received. Should these decrease by a material amount, the Company would amend its outward cash flows accordingly. As the Company's major cash outflows are the purchase of securities and dividends paid to shareholders, the level of both of these is managed by the Board and Investment Manager.

The assets of the Company are largely in the form of readily tradeable securities which can be sold on-market if necessary.

3 Financial risk management (continued)

(c) Liquidity risk (continued)

Maturities of financial liabilities

The tables below analyse the Company's non-derivative financial liabilities into relevant maturity groupings based on their contractual maturities at year end date.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Contractual maturities of financial liabilities	Less than 1 month \$	More than 1 month \$	Total contractual undiscounted cash flows \$
At 30 June 2013			
Non-derivatives			
Trade and other payables	15,087,419	-	15,087,419
Financial liabilities at fair value through profit or loss	234,174,482	-	234,174,482
Current tax liabilities	-	1,382,724	1,382,724
Total non-derivatives	249,261,901	1,382,724	250,644,625

At 30 June 2012

Non-derivatives

Trade and other payables	634,321	-	634,321
Financial liabilities at fair value through profit or loss	92,211,493	-	92,211,493
Total non-derivatives	92,845,814	-	92,845,814

(d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

3 Financial risk management (continued)

(d) Fair value measurements (continued)

The determination of what constitutes 'observable' requires significant judgement by the Directors. The Directors consider observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following table presents the Company's financial assets and liabilities (by class) measured and recognised at fair value according to the fair value hierarchy at 30 June 2013 and 30 June 2012:

30 June 2013

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets				
Equity securities	362,194,426	-	-	362,194,426
Total	362,194,426	-	-	362,194,426
Financial liabilities				
Equity securities sold short	234,174,482	-	-	234,174,482
Total	234,174,482	-	-	234,174,482

30 June 2012

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets				
Equity securities	128,283,073	-	-	128,283,073
Total	128,283,073	-	-	128,283,073
Financial liabilities				
Equity securities sold short	92,211,493	-	-	92,211,493
Total	92,211,493	-	-	92,211,493

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Company is the current bid price and for financial liabilities is the current ask price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities and loans.

The Company has no investments that are classified within level 2 or 3.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Income taxes

Based on Company's history of realised gains the directors believe that Company will realise taxable gains in the future against which the current and prior year realised losses can be utilised.

5 Segment information

The Company has only one reportable segment. The Company operates predominantly in Australia and in one industry being the securities industry, deriving revenue from dividend income, interest income and from the sale of its trading portfolio.

6 Income tax expense/(benefit)

(a) Income tax expense/(benefit) through profit or loss

	2013 \$	2012 \$
Deferred tax on temporary differences	8,941,733	(2,080,026)
Tax on permanent differences	(344,642)	-
Adjustments for current tax of prior periods	261,612	(12,405)
	<u>8,858,703</u>	<u>(2,092,431)</u>
<i>Income tax expense/(benefit) is attributable to:</i>		
Profit from continuing operations	<u>8,858,703</u>	<u>(2,092,431)</u>

6 Income tax expense/(benefit) (continued)

(b) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable

	2013 \$	2012 \$
Profit/(loss) from continuing operations before income tax expense/(benefit)	32,188,260	(3,389,406)
Tax at the Australian tax rate of 30.0% (2012 - 30.0%)	9,656,478	(1,016,822)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Franking credits on dividends received	(1,500,821)	(1,150,639)
Imputation credit gross up	450,246	345,192
Temporary differences	-	(257,757)
Over-provision in prior year	261,612	(12,405)
Realised gain/loss not subject to tax	128,436	-
Change in franked dividends not subject to tax	(146,669)	-
Foreign tax gross up on dividend income	9,421	-
Income tax expense/(benefit)	<u>8,858,703</u>	<u>(2,092,431)</u>

The applicable weighted average effective tax rates are as follows: 27.52% 61.7%

(c) Amounts recognised directly in equity

	2013 \$	2012 \$
Aggregate deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:		
Net deferred tax - debited (credited) directly to equity	<u>(291,426)</u>	<u>(16,414)</u>

7 Current assets - Cash and cash equivalents

	2013 \$	2012 \$
Cash at bank	20,591,106	27,153,597
Term Deposits	<u>66,222,256</u>	<u>10,322,100</u>
	<u>86,813,362</u>	<u>37,475,697</u>

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the Statement of Cash Flows as follows:

	2013 \$	2012 \$
Balances as above	<u>86,813,362</u>	<u>37,475,697</u>

7 Current assets - Cash and cash equivalents (continued)

(b) Risk exposure

The Company's exposure to interest rate risk is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

Cash investments are made with the following financial institutions:

	Standard & Poor's Rating
J.P. Morgan	A+
UBS AG Investment Bank	A
National Australia Bank	AA-

8 Current assets - Trade and other receivables

	2013 \$	2012 \$
Dividends and distributions receivable	1,799,161	801,062
Interest receivable	724,470	239,525
GST receivable	747,603	123,860
Unsettled sales	26,953,719	10,775,944
	<u>30,224,953</u>	<u>11,940,391</u>

Receivables are non-interest bearing and unsecured. Outstanding settlements are on the terms operating in the securities industry, which usually require settlement within three days of the date of a transaction.

Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

9 Current assets - Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are all held-for-trading and include the following:

	2013 \$	2012 \$
Listed securities	<u>362,194,426</u>	128,283,073

The market values of all investments as at 30 June 2013 are disclosed on page 8 of the Annual Report.

Listed securities are readily saleable with no fixed terms.

Changes in fair values of financial assets at fair value through profit or loss are recorded in investment income in the Statement of Profit or Loss and Other Comprehensive Income .

9 Current assets - Financial assets at fair value through profit or loss (continued)

(a) Investment transactions

The total number of contract notes that were issued for transactions in securities during the financial year was 3,280 (2012: 3,892). Each investment transaction may involve multiple contract notes.

The total brokerage paid on these contract notes was \$7,186,221 (2012: \$6,515,672).

(b) Risk exposure and fair value measurements

Information about the Company's exposure to price risk and about the methods and assumptions used in determining fair value is provided in Note 3.

10 Current assets - Current tax assets

	2013 \$	2012 \$
Current tax asset	-	923,332

11 Non-current assets - Deferred tax assets

	2013 \$	2012 \$
The balance comprises temporary differences attributable to:		
Capitalised share issue costs	323,335	31,909
Carry forward losses	3,721,418	4,063,903
Accrued expenses	5,924	2,244
	<u>4,050,677</u>	<u>4,098,056</u>
Movements:		
Opening balance	4,098,056	17,739
Charged/credited:		
- to profit or loss	(432,231)	4,063,903
- directly to equity	384,852	16,414
	<u>4,050,677</u>	<u>4,098,056</u>

12 Current liabilities - Trade and other payables

	2013 \$	2012 \$
Management fees payable	216,556	77,800
Performance fees payable	6,970,842	-
Unsettled purchases	6,085,648	-
Interest payable	702,916	255,693
Other payables	1,111,457	300,828
	<u>15,087,419</u>	<u>634,321</u>

Payables are non interest bearing and unsecured. Outstanding settlements are on terms operating in the securities industry which usually require settlement within three days of the date of a transaction.

13 Current liabilities - Financial liabilities at fair value through profit or loss

	2013 \$	2012 \$
Equity securities sold short	<u>234,174,482</u>	92,211,493

When the Company sells securities it does not possess, it has to cover this short position by acquiring securities at a later date and is therefore exposed to price risk of those securities sold short. The sales agreement is usually settled by delivering borrowed securities. However, the Company is required to return those borrowed securities at a later date.

14 Current liabilities - Current tax liabilities

	2013 \$	2012 \$
Current tax liabilities	<u>1,382,724</u>	-

15 Non-current liabilities - Deferred tax liabilities

	2013 \$	2012 \$
The balance comprises temporary differences attributable to:		
Net unrealised gains on investments	6,684,743	3,437,172
Other temporary differences	<u>15,587</u>	<u>138,530</u>
	<u>6,700,330</u>	<u>3,575,702</u>

Movements:

Opening balance	3,575,702	1,591,827
Charged/credited:		
- profit or loss	<u>3,124,628</u>	<u>1,983,875</u>
	<u>6,700,330</u>	<u>3,575,702</u>

16 Issued capital

(a) Share capital

	30 June 2013 Shares	30 June 2012 Shares	2013 \$	2012 \$
Ordinary shares	164,155,968	68,618,942	202,329,794	72,514,769

16 Issued capital (continued)

(b) Movements in ordinary share capital

Date	Details		Number of shares	\$
1 July 2011	Opening balance		64,248,384	67,723,259
	DRP shares issued for dividend payment	(d)	2,608,065	2,923,020
	SPP shares issued for \$1.107	(e)	2,660,333	2,945,000
	Share placement shares issued for \$1.3731	(f)	(897,840)	(1,038,209)
	Cost of issued capital		-	(38,301)
30 June 2012	Balance		<u>68,618,942</u>	<u>72,514,769</u>
1 July 2012	Opening balance		<u>68,618,942</u>	<u>72,514,769</u>
	DRP shares issued for dividend payment	(d)	10,062,897	13,485,070
	Options exercised for \$1.37 per share	(g)	44,059,618	60,361,677
	Share placement shares issued for \$1.3731	(h)	41,414,511	56,866,265
	Cost of issued capital		-	(897,987)
30 June 2013	Balance		<u>164,155,968</u>	<u>202,329,794</u>

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Dividend reinvestment plan

The Company has established a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. Shares are issued under the plan at a 3% discount to the market price.

(e) Share purchase plan

A share purchase plan was announced to the market on 19th August 2011, the offer period from 1 September 2011 to 30 September 2011. This offer to eligible shareholders was to apply for up to \$15,000 worth of ordinary shares. A total of 2,660,333 shares were issued.

(f) Share buy-back

An on market buy-back commenced on 15 March 2011 for a twelve month duration. During this period a total of 1,649,149 shares were bought back. No further buyback is in operation.

16 Issued capital (continued)

(g) Option Issue

On 12 March 2013, the Company announced the terms and indicative timetable for a 1 for 1 bonus issue of options to acquire ordinary shares in the Company at an exercise price of \$1.37.

The options can be exercised at any time on or before 30 September 2014. The options give the shareholders the right but not the obligation to subscribe for shares in ALF at \$1.37 per share. The options can be exercised in full or in part. The options are currently trading on the ASX under the code ALFO.

(h) Share placement

The Board issued a Prospectus for the placement of up to 27,609,675 New Shares (First Tranche) on 12 February 2013. This placement received Shareholder approval on 5 February 2013.

The Board released a supplementary prospectus to issue a further 13,804,836 New Shares under the Offer (Second Tranche) on 21 February 2013. This placement received Shareholder approval on 2 April 2013.

(i) Capital risk management

The Board's policy is to maintain a strong capital base so as to maintain investor and market confidence. The overall strategy remains unchanged from 2012.

To achieve this the Board of Directors monitor the monthly NTA results, investment performance, the Company's Indirect Cost Ratio and share price movements.

The Board is focused on maximising returns to shareholders with active capital management a key objective of the Company. The Board has introduced an on market share buy back the aim of the buy-back is to add value to the remaining shares on issue and increase the NTA of the Company.

The Company is not subject to any externally imposed capital requirements.

17 Reserves and retained earnings

(a) Reserves

	Notes	2013 \$	2012 \$
Profits reserve		23,630,290	13,839,852

This reserve details an amount preserved for future dividend payments as outlined in accounting policy Note 2(j).

	Notes	2013 \$	2012 \$
Movements:			
Opening balance		13,839,852	-
Transfer from retained earnings		23,329,557	13,839,852
Dividends paid	18	(13,539,119)	-
Balance at 30 June		23,630,290	13,839,852

17 Reserves and retained earnings (continued)

(b) Retained earnings

Movements in retained earnings were as follows:

	Notes	2013 \$	2012 \$
Balance at 1 July		-	22,436,549
Net profit/(loss) for the year		23,329,557	(1,296,975)
Dividends paid	18	-	(7,299,722)
Transfer (to) profits reserve		(23,329,557)	(13,839,852)
Balance at 30 June		-	-

18 Dividends

(a) Dividend rate

Dividends paid fully franked at 30% tax rate

	Dividend Rate	Total Amount	Date of Payment	% Franked
2013				
Ordinary shares - interim 2013	\$0.06	\$9,421,982	23/05/2013	100
Ordinary shares - final 2012	\$0.06	\$4,117,137	31/10/2012	100
Total		\$13,539,119		
2012				
Ordinary shares - interim 2012	\$0.05	\$3,329,598	20/04/2012	100
Ordinary shares - final 2011	\$0.06	\$3,970,124	28/10/2011	100
Total		\$7,299,722		

(b) Dividends not recognised at the end of the reporting period

	2013 \$
In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 6 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend with an ex date of 15 October 2013 and a record date of 21 October 2013, expected to be paid on 28 October 2013 out of the profits reserve at 30 June 2013, but not recognised as a liability at year end, is	<u>9,930,066</u>

(c) Dividend franking account

The franked portions of the final dividends recommended after 30 June 2013 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ended 30 June 2014.

18 Dividends (continued)

(c) Dividend franking account (continued)

	2013 \$	2012 \$
Opening balance of franking account	6,547,819	3,136,751
Franking credits on dividends received	1,610,066	1,428,276
Tax paid during the year	2,994,199	5,388,880
Franking credits paid on ordinary dividends paid	(5,802,479)	(3,128,452)
Loss of franking credits under 45 day rule	(109,295)	(277,636)
Closing balance of franking account	<u>5,240,310</u>	<u>6,547,819</u>
Adjustments for tax payable/refundable in respect of the current year's profits and the receipt of dividends	1,725,461	(744,917)
Adjusted franking account balance	<u>6,965,771</u>	<u>5,802,902</u>
Impact on the franking account of dividends proposed or declared before the financial report authorised for issue but not recognised as a distribution to equity holders during the period	(4,255,743)	(1,764,487)
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2012 - 30.0%)	<u>2,710,028</u>	<u>4,038,415</u>

19 Key management personnel disclosures

(a) Key management personnel compensation

	2013 \$	2012 \$
Short-term employee benefits	66,284	66,284
Post-employment benefits	3,716	3,716
	<u>70,000</u>	<u>70,000</u>

Detailed remuneration disclosures are provided in the remuneration report on pages 20 to 22.

(b) Equity instrument disclosures relating to key management personnel

Option holdings

The numbers of options over ordinary shares in the Company that were held during the financial year by each Director of Australian Leaders Fund Limited and other key management personnel of the Company, including their personally related parties, are set out below.

19 Key management personnel disclosures (continued)

(b) Equity instrument disclosures relating to key management personnel (continued)

Option holdings (continued)

2013 Name	Balance at start of the year	Granted	Exercised	Balance at end of the year
Directors of Australian Leaders Fund Limited				
Justin Braitling	-	1,230,894	(5,000)	1,225,894
Geoffrey Wilson	-	1,000,000	-	1,000,000
John Abernethy	-	60,000	-	60,000
Julian Gosse	-	-	-	-
	-	2,290,894	(5,000)	2,285,894

None of the key management personnel held options during the year ended 30 June 2012.

(i) Share holdings

The numbers of shares in the Company held during the financial year by each Director of Australian Leaders Fund Limited and other key management personnel of the Company, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2013 Name	Balance at the start of the year	Net movement	Balance at end of the year
Directors of Australian Leaders Fund Limited			
Ordinary shares			
Justin Braitling	1,230,894	5,000	1,235,894
Geoffrey Wilson	2,918,214	(1,918,214)	1,000,000
John Abernethy	60,000	-	60,000
Julian Gosse	-	-	-
	4,209,108	(1,913,214)	2,295,894

2012 Name	Balance at the start of the year	Net movement	Balance at end of the year
Directors of Australian Leaders Fund Limited			
Ordinary shares			
Justin Braitling	1,120,704	110,190	1,230,894
Geoffrey Wilson	2,963,214	(45,000)	2,918,214
John Abernethy	60,000	-	60,000
Julian Gosse	-	-	-
	4,143,918	65,190	4,209,108

20 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

MNSA Pty Limited

	2013 \$	2012 \$
<i>Audit and other assurance services</i>		
Audit and review of financial statements	32,741	28,105
Total remuneration for audit and other assurance services	<u>32,741</u>	<u>28,105</u>

The Company's Audit Committee oversees the relationship with the Company's External Auditors. The Audit Committee reviews the scope of the audit and the proposed fee. It also reviews the cost and scope of other audit-related tax compliance services provided by the audit firm, to ensure that they do not compromise independence.

21 Contingencies

The Company had no contingent liabilities at 30 June 2013 (2012: nil).

22 Related party transactions

(a) Key management personnel

Disclosures relating to key management personnel are set out in Note 19.

(b) Transactions with other related parties

All transactions with related entities were made on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Justin Braithling is a Director and owner of Watermark Funds Management Pty Limited, the entity appointed to manage the investment portfolio of Australian Leaders Fund Limited. In its capacity as manager, Watermark Funds Management Pty Limited was paid a management fee of 1% p.a. (plus GST) of gross assets amounting to \$1,411,587 (2012: \$911,030).

As at 30 June 2013, the balance payable to the Investment Manager was \$216,556 (2012: \$77,800).

In addition, Watermark Funds Management Pty Limited is to be paid, annually in arrears, a performance fee being 20% of:

- where the level of the All Ordinaries Accumulation Index has increased over that period, the amount by which the Value of the Portfolio exceeds this increase; or
- where the All Ordinaries Accumulation Index has decreased over that period, the amount of the increase in the Value of the Portfolio.

22 Related party transactions (continued)

(b) Transactions with other related parties (continued)

No performance fee is payable in respect of any performance period where the portfolio has decreased in value over that period.

For the period ended 30 June 2013 in its capacity as manager, Watermark Funds Management Pty Limited was paid a performance fee amounting to \$6,970,842 (2012: Nil).

Under an Investment Services Agreement, Watermark Funds Management Pty Limited pays 25% of all management and performance fees to Boutique Asset Management, a company owned 80% by entities associated with Geoffrey Wilson.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than those detailed above) by reason of a contract made by the Company or a related Company with the Director or with a firm of which he is a member or with a Company in which he has substantial financial interest.

23 Events occurring after the reporting period

Other than the dividend declared after year end, no other matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company or economic entity in subsequent financial years.

24 Reconciliation of profit after income tax to net cash inflow from operating activities

	2013 \$	2012 \$
Profit/(loss) for the year	23,329,557	(1,296,975)
Fair value (gains)/losses on financial assets at fair value through profit or loss	(91,948,365)	51,112,665
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(18,250,595)	(9,247,714)
(Increase)/decrease in deferred tax assets	432,231	(4,063,904)
Increase/(decrease) in trade and other payables	14,453,098	(2,774,560)
Increase/(decrease) in provision for income taxes payable	2,306,056	(5,401,284)
Increase in deferred tax liabilities	3,124,628	1,983,876
Net cash (outflow)/inflow from operating activities	(66,553,390)	30,312,104

25 Earnings per share

(a) Basic earnings per share

	2013 Cents	2012 Cents
Basic earnings per share attributable to the ordinary equity holders of the Company	<u>26.28</u>	<u>(2.00)</u>

(b) Diluted earnings per share

	2013 Cents	2012 Cents
Diluted earnings per share attributable to the ordinary equity holders of the Company	<u>26.04</u>	<u>(2.00)</u>

Options granted are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive.

(c) Weighted average number of shares used as denominator

	2013 Number	2012 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	<u>88,768,399</u>	64,607,309
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	<u>89,599,086</u>	64,607,309

In the opinion of the directors of Australian Leaders Fund Limited:

- (a) the financial statements and notes set out on pages 25 to 52 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Company's financial position as at 30 June 2013 and of its performance for the year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (c) Note 2(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board, and
- (d) On behalf of the managers of Watermark Funds Management Pty Limited, and Peter Roberts as persons who performs the Chief Executive and Chief Finance Officer functions respectively for the purposes of this Act have each declared that:
 - (i) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - (ii) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (iii) the financial statements and notes for the financial year give a true and fair view.

This declaration is made in accordance with a resolution of the Board of Directors.



Justin Braitling
Chairman

Sydney
23 August 2013



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
AUSTRALIAN LEADERS FUND LIMITED
ABN 64 106 845 970**

Report on the Financial Report

We have audited the accompanying financial report of Australian Leaders Fund Limited (the company), which comprises the statement of financial position as at 30 June 2013, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the company at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and the Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's financial position and of its performance.

Our procedures included reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

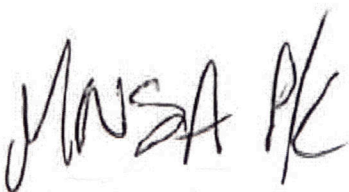
- a. the financial report of Australian Leaders Fund Limited is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the company's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the remuneration report included in pages 20 to 21 of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the remuneration report of Australian Leaders Fund Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.



MNSA PTY LTD



Phillip Miller
Director

Sydney
23 August 2013

The Shareholder information set out below was applicable as at **18 July 2013**.

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report, is listed below.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

Holding	Class of equity security		
	No. of	Ordinary shares	
	Shareholders	Shares	Percentage
1 - 1000	195	84,999	0.05
1,001 - 5,000	749	2,338,923	1.42
5,001 - 10,000	995	7,876,071	4.79
10,001 - 100,000	3,018	95,185,388	57.94
100,001 and over	231	58,827,848	35.80
	5,188	164,313,229	100.00

There were 103 holders of less than a marketable parcel of ordinary shares.

Analysis of numbers of option holders by size of holding:

Holding	Class of equity security		
	No. of	Options	
	Shareholders	Shares	Percentage
1 - 1000	136	58,639	0.09
1,001 - 5,000	498	1,573,988	2.28
5,001 - 10,000	516	4,057,442	5.87
10,001 - 100,000	1,208	34,668,978	50.16
100,001 and over	88	28,752,102	41.60
	2,446	69,111,149	100.00

B. Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Ordinary shares	
	Number held	Percentage of issued shares
UBS Wealth Management Australia Nominees Pty Ltd	3,679,523	2.24
Mr Victor John Plummer	2,500,000	1.52
Mrs Fay Cleo Martin-Weber	2,000,000	1.22
Mrs Thelma Joan Martin-Weber	1,500,000	0.91
Mrs Jean Plummer	1,500,000	0.91
Avanteos Investments Limited <Clearview S/P A/C>	1,481,371	0.90
Mr Robert Ferguson & Ms Jennifer Ferguson & Ms Rachel Ferguson <Torryburn Super Fund A/C>	1,297,570	0.79
HSBC Custody Nominees (Australia) Limited	1,108,805	0.68
GW Holdings Pty Ltd <Edwina A/C>	1,000,000	0.61
Mr Allan Bevan	970,000	0.59
Mr John Rabong & Ms Ruth Gillian Speirs <Wattles Nest Super Fund A/C>	943,666	0.57
Rational Research Investments Pty Limited	849,618	0.52

Australian Leaders Fund Limited
Shareholder information
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(continued)

B. Equity security holders (continued)

Name	Ordinary shares	
	Number held	Percentage of issued shares
First Covenant Pty Ltd <Braitling Super Fund A/C>	654,895	0.40
Allison Valley Pty Ltd	618,713	0.38
Mr Arthur John Nions & Dr Patricia Percival <An & Pp Super Fund A/C>	520,000	0.32
Trophy Components Distributors Pty Ltd	475,000	0.29
John Grice Pty Ltd <Grice Super Fund A/C>	470,125	0.29
Neville Ward Super Pty Limited <The Nw Ward Super Fund A/C>	462,620	0.28
Mr Justin Boyd Braitling	452,639	0.28
Manatee Pty Ltd <Longwave Super Fund A/C>	400,000	0.24
Penson Holdings Pty Ltd	400,000	0.24
Yeung Holdings Pty Ltd <Yeung Family Super Fund A/C>	400,000	0.24
	23,684,545	14.42

Twenty largest quoted option holders

	Options	
	Number on issue	Percentage of options
Mr David Sharples & Ms Annette Macgregor <Sharples Macgregor Sf A/C>	3,407,302	4.93
Mrs Fay Cleo Martin-Weber	2,000,000	2.89
UBS Wealth Management Australia Nominees Pty Ltd	1,750,754	2.53
Mrs Thelma Joan Martin-Weber	1,500,000	2.17
GW Holdings Pty Ltd <Edwina A/C>	1,000,000	1.45
Mrs Jean Plummer	737,426	1.07
HSBC Custody Nominees (Australia) Limited	705,216	1.02
Neville Ward Super Pty Limited <The Nw Ward Super Fund A/C>	691,932	1.00
First Covenant Pty Ltd <Braitling Super Fund A/C>	654,895	0.95
SPO Equities Pty Ltd <The March Street A/C>	572,800	0.83
Huntaway Pty Ltd <The Herston A/C>	500,000	0.72
Mr Peter John Flaherty & Mrs Diana Kay Flaherty <Chatsworth Invest S/F A/C>	495,904	0.72
Mrs Kristin Eileen Franco	476,561	0.69
Trophy Components Distributors Pty Ltd	475,000	0.69
Mr Justin Boyd Braitling	452,639	0.66
John Grice Pty Ltd <Grice Super Fund A/C>	450,921	0.65
Penson Holdings Pty Ltd	400,000	0.58
Peshant Pty Limited <R & E Services S/F A/C>	353,960	0.51
Mr Clifford Law & Ms Susanne Bruhn <Bruhn Law Super Fund A/C>	350,313	0.51
P Ilhan Investments Pty Ltd <Patricia Ilhan Family A/C>	340,000	0.49
	17,315,623	25.06

C. Substantial holders

There are no substantial shareholders.

D. Voting rights

The voting rights attaching to each class of equity securities are set out below:

Each share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

E. Stock Exchange Listing

Quotation has been granted for all of the ordinary shares and options of the Company on all Member Exchanges of the ASX Limited.

F. Unquoted Securities

There are no unquoted shares.

G. Securities Subject to Voluntary Escrow

There are no securities subject to voluntary escrow.