

Australian Leaders Fund Limited

ABN 64 106 845 970

Annual Report 2014

YEAR ENDED 30 JUNE 2014

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:

Moore Stephens Sydney

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) 8262 2800.

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 2014

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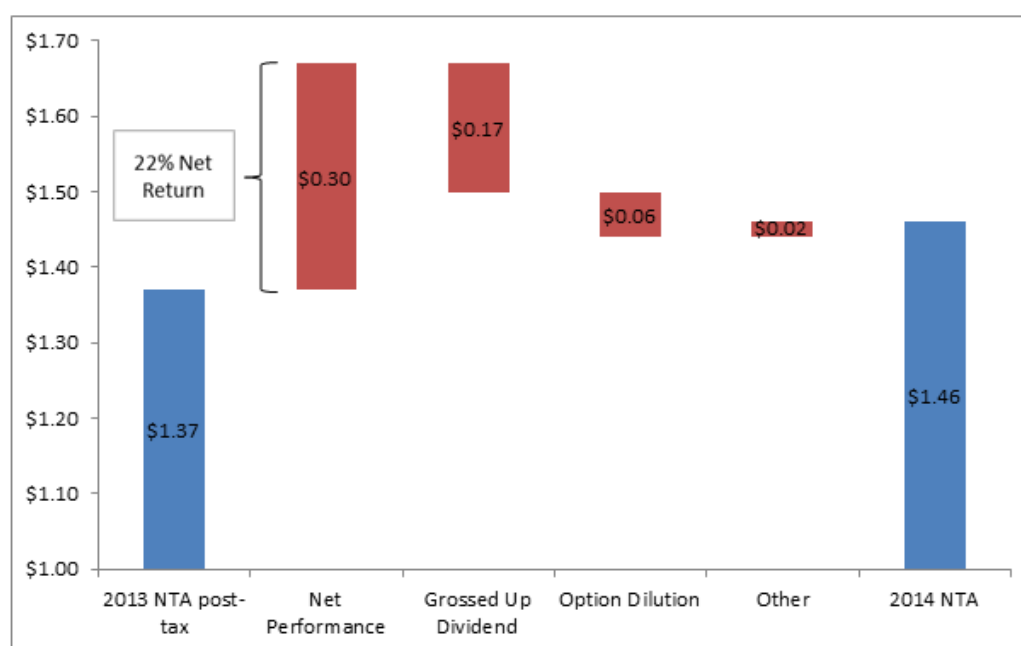
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Chairman's Letter

The Australian Leaders Fund reported an increase in profit after tax to \$40.8 million for the period ending 30 June 2014. As at the 30 June 2014, the after tax net tangible asset backing (NTA) of ALF was \$1.46 per share up from \$1.37 last year. Total dividends declared for the year were 12 cents a share fully franked, comprising a 6 cent interim dividend and a 6 cent final dividend.

The gross portfolio value increased 25.6% over the financial year, a solid result given the All Ordinaries Accumulation Index increased by 17.6%, representing an outperformance of 8.0%. After deducting costs in funding the balance sheet, along with management fees and other expenses, the fund reported a positive 21.6% return for the year.

Figure 1: NTA Bridge



Since inception, the net value of the portfolio has increased by 367.5% while the All Ordinaries Index has increased by 153.5%. The investment process has added 214% 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 (89.5c paid to date; 95.5c declared to date).

The company's shares traded consistently at a premium to NTA throughout the year, averaging 6.9% and increasing to a peak of 13.8% on the last day of the financial year. This is a reflection of the long-term performance of the company's investment portfolio and the board's commitment to maintaining to the extent possible, payment of a fully franked dividend.

Your company experienced further growth in the size of its balance sheet during the year, through a successful placement of 20 million shares. The placement was heavily oversubscribed and raised \$33.8 million in additional capital.

The Board has been delighted with the rate at which bonus options have been exercised by shareholders since their issue in April 2013. With the deadline for conversion of options now 6 weeks away, 88% of bonus options have been converted to ordinary shares, with shareholders to benefit from the significant premium to the exercise price at which shares are currently trading. As at 30 June, options were trading at \$0.35.

The 2014 financial year saw equity markets continue their upward trajectory. New highs were achieved almost on a monthly basis for the S&P 500 in the United States and our domestic equity market also ranged higher, led by the Resource and Banking sectors. This was against the backdrop of below trend growth in the Australian economy and continued challenges for the Reserve Bank to balance the impact of reduced investment in mining against building inflationary pressures in property and other asset markets. Our view of the outlook for equity markets and the economy remains cautious. With equity markets looking fully valued and a clouded outlook for company earnings, we see modest upside for equities while interest rate policy settings remain stimulatory. The risk is that the false sense of security amongst investors will mask building pressures in asset markets which will come to bear as financial conditions normalise.

As at the 30th June 2014, the company has 29.94% of our shareholder's capital invested in listed Australian shares on a net basis, with the balance held in cash and term deposits. Approximately half of the company's assets are funded from the proceeds of short sales.

While the high cash weighting provides some protection against a market setback, the risk remains that the market will continue its advance as supported by stimulatory policy settings, in which case the portfolio may 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 share markets.



Justin Braithling

Sydney
22 August 2014

Chief Investment Officer's Report

The Financial Year in Review

The 2014 financial year was a good one for investors in shares. US investors in particular enjoyed new all-time highs for the S&P 500 on almost a monthly basis, with the index finishing the year up 22%. The US market advance has been uninterrupted now for almost three years without a proper correction. This resilience is a direct consequence of ultra-low interest rates and the low volatility associated with these policies.

The Australian share market also performed well, with the All Ordinaries Accumulation Index increasing by 17.4% over the period. There was a clear divergence between developed markets generally with the MSCI DM Index up 21.4% and emerging markets which have been left behind, up by just 11.3%.

The Australian market was led higher by sector heavyweights - resources up 18% after struggling last year, and the trading banks advancing by a further 22%. Defensive sectors underperformed as investors shifted into companies more exposed to the economic cycle.

Ultra easy monetary conditions provided ongoing support for the share market, with the Reserve Bank of Australia keeping interest rates on hold for most of the year and the US Federal Reserve maintaining its zero interest rate policy (ZIRP).

The Australian economy grew marginally below trend as mining activity slowed. Business and consumer surveys reflect ongoing caution from the private sector. Weaker consumer sentiment following the federal budget saw softer activity levels generally as the financial year closed.

Portfolio Review

Considering the fund's relatively low net exposure to the share market during the 12 months to 30 June 2014, security selection is paramount in delivering returns in excess of the benchmark. We break the share market down into four key sectors in reviewing performance: Defensive industries protected from the economic cycle; Cyclical industries exposed to the economic cycle; and the Resources and Financial Services sectors.

The current market recovery is unusual in that Defensive shares have led the market higher, as investors have sought yield in a low interest rate environment. While this has left the sector looking overvalued generally, we are still finding selective opportunities here.

The fund has a significant exposure to healthcare, an industry supported by positive demographic trends with an ageing population. In international markets large pharma and generic companies are rapidly consolidating. This has created opportunities for Mayne Pharma Group to pick up divested portfolios. Value was also added through short positions in a number of biotech names which we felt had been over promoted and which often have questionable underlying science supporting their products. Aged care is another sector seeing strong growth as the government provides incentives to accommodate those in need.

We have had little exposure to the major listed supermarkets as we are concerned with the pace of store rollouts which are surpassing population growth. International discounters Aldi and Costco are also gaining traction.

Crown Resorts, a core holding in the fund, performed particularly well as its investment in Melco Crown soared higher along with visitation trends in Macau. We have maintained a number of positions in emerging telecom and technology such as Amcom Telecommunication and NextDC Limited as these companies are benefiting from the emerging digital economy.

As the mining boom fades, the economy is facing headwinds from falling commodity prices and an easing in mining investment. While lower interest rates and a stronger housing market are providing some relief to the household sector, this is being offset by ongoing fiscal consolidation and deleveraging. With this economic backdrop, the fund has had no net exposure to Cyclical companies exposed to the soft economy.

We did benefit however from the recovery in APN News and Media following the reorganisation of their radio assets. The digital employment provider - Seek Limited was also an important contributor. The fund's investments in the transport sector performed particularly well with big contributions coming from Brambles Limited and Aurizon Holdings. Shorts in the digital travel sector worked well as the value of these shares fell sharply. In the contracting space, a large short in Forge Group also paid off when the company fell into receivership.

Chief Investment Officer's Report (continued)

In Financial Services, our investment in Henderson Group contributed significantly to performance, as this wealth manager builds its global presence. Over the year, our stance on the Australian banks has become more cautious as margin pressures are now building and bad debt charges are at a cyclical low. It is also clear in light of the Financial System Inquiry's Interim Report that regulatory uncertainty remains high and further capital imposts are being considered. The fund's exposure to the turnaround at the Bank of Queensland made an important contribution to performance.

The Resources sector has more than likely moved into a bear market and may well trade in a range for some time. While demand for commodities remains robust, most markets are now in balance as higher prices have induced new supply. We remain wary of companies exposed to bulk commodities -iron ore and coal in particular. Shorts in this sector made a strong contribution to performance in recent months with the weakness in the iron ore price. We have a strong preference for producers of industrial metals and certain niche commodities where the fundamentals remain strong. Key holdings in Tiger Resources, Sirius Resources and Orocobre Limited all contributed in 2014. While we expect ongoing volatility in the price of gold, there is a sound case supporting a resumption of gold's upward advance. The fund did very well from its investments in Oceana Gold and Doray Minerals during the period. The energy sector has performed well in recent months and we are finding a number of opportunities in unconventional oil & gas. Sundance Energy has been an outstanding investment for the fund and remains a core holding.

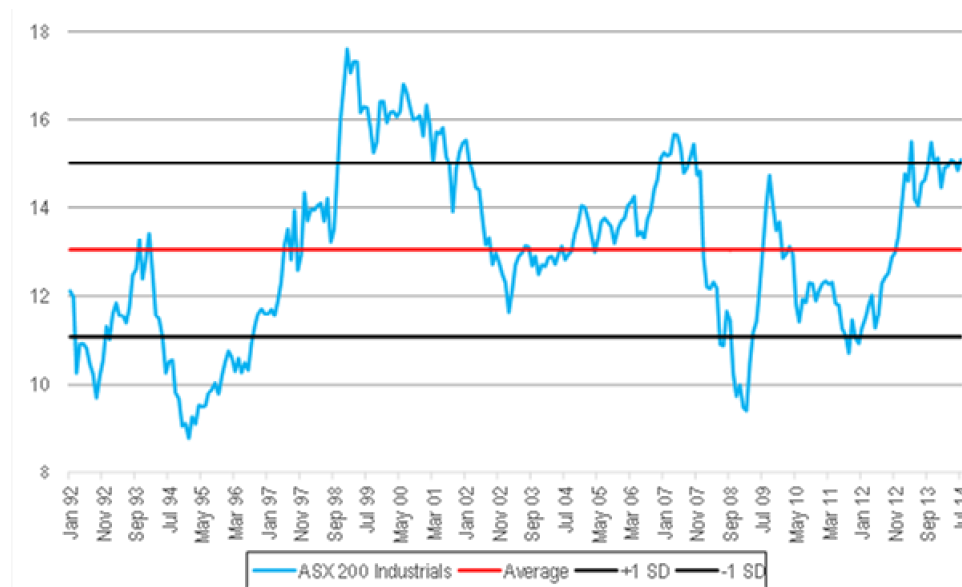
Performance

Against the backdrop of a continued rally in the Australian share market, the portfolio performed very well, outperforming the benchmark by 4%, net of all fees. This was a strong result given more than half of our capital was retained in cash through the year. The average cash weighting over the course of the year was 51.4%, with exposure to cash increasing markedly in the months leading to the end of the financial year. While this weighed on the relative performance of the portfolio during a period of share market strength, it is in line with our fundamental view on the outlook for the market.

Market Outlook

As can be seen in Figure 1, Australian shares are now trading on P/E multiples at the upper end of their historical valuation range.

Fig 1 Australian Industrial Shares - P/E Multiple



Source: Bloomberg

While valuations look full, stimulatory policy settings and an increase in corporate activity may see share prices move higher still, posing the risk that the portfolio will underperform due to its high weighting to cash. Nevertheless, we think it is prudent to maintain these defensive portfolio settings as risks continue to build in the domestic and international markets.

Chief Investment Officer's Report (continued)

A further cause for caution in our view is the clouded outlook for company earnings. In the absence of earnings support, the potential for modest upside in share markets must be weighed against the risks that are building in the economy. Given this balance of risk and return, we feel it is prudent to hedge the fund's exposure to market losses and retain little net exposure to the share market. While we still aim to deliver attractive returns to shareholders through security selection, with these settings, we may underperform the share market in the short term.

Justin Braitling
Chief Investment Officer
Watermark Funds Management

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

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 2014

Investments at Market Value

	\$			\$	
Automobiles & Components			Pharmaceuticals Biotechnology		
Burson Group Ltd	2,699,945	0.59%	Monash IVF Group Ltd	6,560,316	1.43%
	2,699,945	0.59%	Vita Life Sciences Limited	840,246	0.18%
				7,400,562	1.61%
Consumer Services			Pharmaceuticals Biotechnology & Life Sciences		
Ainsworth Game Technology Limited	3,424,146	0.74%	CSL Limited	5,155,296	1.12%
Corporate Travel Management Limited	4,253,610	0.93%	Mayne Pharma Group Limited	3,974,308	0.86%
Crown Resorts Limited	9,005,260	1.96%	Neuren Pharmaceuticals Limited	2,108,543	0.46%
Intueri Education Group Ltd	8,166,970	1.78%		11,238,147	2.44%
Jumbo Interactive Limited	2,447,314	0.53%			
Tatts Group Limited	8,554,281	1.86%	Capital Goods		
	35,851,581	7.80%	Austal Limited	5,893,720	1.28%
Media			Macmahon Holdings Limited	2,529,386	0.55%
APN News & Media Limited	5,392,705	1.17%	RCR Tomlinson Ltd	7,093,985	1.54%
Nine Entertainment Co. Holdings Pty Ltd.	5,250,556	1.14%	Reece Australia Limited	2,833,669	0.62%
	10,643,261	2.31%	Southern Cross Electrical Engineering Limited	1,509,026	0.33%
				19,859,786	4.32%
Retailing			Commercial & Professional Services		
Beacon Lighting Group Ltd	5,477,814	1.19%	Credit Corp Group Limited	4,274,449	0.93%
Kathmandu Holdings Limited	1,579,338	0.34%	Onthehouse Holdings Limited	1,889,112	0.41%
Super Retail Group Limited	5,391,516	1.17%	Recall Holdings Ltd.	3,529,251	0.77%
Trade Me Group Limited	5,964,248	1.30%	Smartgroup Corporation Ltd	3,408,216	0.74%
Reject Shop Limited	5,099,953	1.11%	Skilled Group Limited	3,468,448	0.75%
	23,512,869	5.11%	Tox Free Solutions Limited	5,693,492	1.24%
				22,262,968	4.84%
Food & Staples Retailing			Transportation		
Wesfarmers Limited	10,828,778	2.36%	Asciano Limited	3,644,040	0.79%
	10,828,778	2.36%	Aurizon Holdings Ltd.	5,594,273	1.22%
Household & Personal Products			Transurban Group Ltd.	6,760,416	1.47%
Blackmores Limited	6,986,483	1.52%		15,998,729	3.48%
	6,986,483	1.52%	Software & Services		
Energy			Gentrack Group Ltd	7,164,683	1.56%
AWE Limited	4,923,234	1.07%	iSentia Group Limited	4,463,485	0.97%
Karoon Gas Australia Ltd	2,557,169	0.56%	Mint Wireless Limited	1,582,744	0.34%
Origin Energy Limited	9,331,931	2.03%	Rubik Financial Limited	3,109,374	0.68%
Oil Search Limited	7,547,967	1.64%	3P Learning Ltd	1,903,933	0.41%
Sundance Energy Australia Limited	8,243,669	1.79%		18,224,219	3.96%
Senex Energy Limited	1,061,960	0.23%	Materials		
Worleyparsons Limited	8,486,174	1.85%	Alacer Gold Corp Shs Chess Depository Interests	3,388,716	0.74%
	42,152,104	9.17%	Alumina Limited	4,590,348	1.00%
Banks			BHP Billiton Limited	4,238,677	0.92%
Australia and New Zealand Banking Group Limited	22,791,724	4.96%	Base Resources Limited	5,162,261	1.12%
Commonwealth Bank of Australia	19,229,220	4.18%	Doray Minerals Limited	3,105,866	0.68%
	42,020,944	9.14%	Fletcher Building Limited	6,234,428	1.36%
Diversified Financials			Incitec Pivot Limited	8,394,007	1.83%
BT Investment Management Limited	3,107,100	0.68%	Mineral Deposits Limited	2,867,301	0.62%
Emerchants Ltd.	2,084,342	0.45%	Medusa Mining Limited	3,176,610	0.69%
Henderson Group PLC Shs Chess Depository Interests	6,921,800	1.51%	Orocobre Limited	4,859,190	1.06%
OzForex Group Ltd	2,199,878	0.48%	Panaust Limited	6,464,705	1.41%
	14,313,120	3.12%	Rio Tinto Limited	17,080,924	3.72%
Insurance			Regis Resources Limited	2,500,111	0.54%
AMP Limited	7,602,612	1.65%	Sandfire Resources NL	2,027,583	0.44%
QBE Insurance Group Limited	7,395,328	1.61%	Sirius Resources NL	4,878,329	1.06%
Suncorp Group Limited	5,175,990	1.13%	Tiger Resources Limited	6,308,497	1.37%
	20,173,930	4.39%	Troy Resources Limited	1,958,263	0.43%
				87,235,816	18.99%
Real Estate			Telecommunication Services		
GPT Group	6,397,148	1.39%	Amcom Telecommunications Limited	4,293,022	0.93%
Lend Lease Group	6,273,581	1.36%	inet Limited	3,567,317	0.78%
Mirvac Group	6,593,867	1.43%	Nextdc Limited	5,895,131	1.28%
	19,264,596	4.18%		13,755,470	2.99%
Health Care Equipment & Services			Utilities		
Greencross Limited	1,582,036	0.34%	ERM Power Limited	3,422,462	0.74%
Japara Healthcare Ltd	2,509,321	0.55%	SP Ausnet	4,280,574	0.93%
LifeHealthcare Group Ltd.	6,351,820	1.38%		7,703,036	1.67%
Primary Health Care Limited	9,504,181	2.07%			
Resmed Inc CHESS Depository Interests	7,630,719	1.66%			
	27,578,077	6.00%			
			TOTAL LONG PORTFOLIO	459,704,421	100.00%
			TOTAL SHORT PORTFOLIO	-353,286,728	

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 fulfil 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 15.

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	10.5 years
G. Wilson	10.5 years
J. Abernethy	10.5 years
J. Gosse	10.5 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. The Board assesses annually the term of office of all directors in particular those who have served on the Board for longer than 10 years to ensure the length of service does not compromise their independence. Although Directors have served in office for over 10 years this is not considered to impair their independence where all other criteria are met.

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. Braithling 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. The Board's target is to ensure that (as a minimum) directors collectively have investment accounting, general business experience and shareholder representation.

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. Given the Company has no employees, consideration of diversity does not extend beyond the Board and further disclosures in relation to policies are not considered relevant.

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

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 21 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 and (d) makes recommendations on the entity's insurance program, having regard to the entity's business and the insurable risks associated with its business. 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 comply with this recommendation as detailed in the Remuneration report on page 18. Justin Braitling is considered an Executive Director on the basis that he is a director and a shareholder of Watermark Funds Management Pty Limited and due to his role of an investment manager in that entity, is integrally involved in the operation of the Company.

Principle 8 states externally managed entities should disclose a summary of any management agreement terms relating to management fees or the equivalent, including performance fees. Further details regarding the fees paid to the investment manager are located in note 23(b) Transactions with other related parties.

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 2014.

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.

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
2014				
Ordinary shares - final 2013	\$0.06	\$11,052,530	28/10/2013	100
Ordinary shares - interim 2014	\$0.06	\$13,687,943	11/04/2014	100
2013				
Ordinary shares - final 2012	\$0.06	\$4,117,137	31/10/2012	100
Ordinary shares - interim 2013	\$0.06	\$9,421,982	23/05/2013	100

In addition to the above dividends, since the end of the financial period the Directors have recommended the payment of a final ordinary dividend of \$14,288,933 (6 cents per fully paid share) with an ex date of 9 October 2014 and a record date of 13 October 2014, to be paid on 28 October 2014, out of the profits reserve at 30 June 2014.

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.

The profit from ordinary activities after income tax amounted to \$40,843,666 (2013: \$23,329,557).

The net tangible asset backing for each ordinary share as at 30 June 2014 amounted to 146 cents per share (2013: 137 cents per share). The equivalent asset backing before tax was 151 cents per share (2013: 142 cents per share).

The gross portfolio value increased 25.6% over the financial year, a solid result given the All Ordinaries Accumulation Index increased by 17.6%, representing an outperformance of 8.0%. After deducting costs in funding the balance sheet, along with management fees and other expenses, the fund reported a positive 21.6% return for the year.

Review of operations (continued)

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 \$342,942,966 (2013: \$225,960,084).

Significant changes in the state of affairs

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

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 46,574,965 options were exercised and allotted for a total consideration of \$63,807,702.

On 31 October 2013, the Company issued a dividend reinvestment plan placement shortfall of 20,000,000 shares at \$1.69.

There were no other significant changes in the state of affairs of the Company during the year ended 30 June 2014.

Matters subsequent to the end of the financial year

Since 30 June 2014, 5,206,616 options have been exercised and allotted for a total consideration of \$7,133,064.

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 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 47.

Experience and expertise

Justin Braitling has over 20 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.

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.

Information on directors (continued)

Geoffrey Wilson Non-Executive Director Age 56

Experience and expertise

Geoffrey Wilson has over 30 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), Sporting Chance Cancer Foundation, Australian Fund Managers Foundation, Australian Children's Music Foundation, Odyssey House McGrath Foundation, Future Generation Investment Fund Ltd, Global Value Fund Ltd and he is a Member of the Second Bite NSW Advisory Committee. He is also a director of the investment management companies, and Wilson Asset Management (International) 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.

Information on directors (continued)

John Abernethy Non-Executive Director Age 55

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), WAM Active Limited (appointed November 2007) and Watermark Market Neutral Fund Limited (appointed May 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

Member of the Audit Committee.

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.

Information on directors (continued)

Julian Gosse Non-Executive Director Age 64

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 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 a non-executive director of Iron Road Limited in October 2012.

Former directorships in last 3 years

Julian Gosse was a director of ITL Limited from September 2013 until December 2013.

Special responsibilities

Chairman 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 over 20 years' experience in the fields of chartered accountancy and specialised back office services to the financial services industry. Peter is a Director of White Outsourcing Pty Ltd and Company Secretary of Century Australia Investments Limited, Watermark Market Neutral Fund Limited, Steadfast Group Limited 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 2014, 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	6	6	*	-	-	-	-	-
Geoffrey Wilson	6	6	4	4	-	-	-	-
John Abernethy	5	6	4	4	-	-	-	-
Julian Gosse	5	6	3	4	-	-	-	-

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 \$140,000 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.

2014	Short-term employee benefits	Post-employment benefits	
Name	Salary and fees \$	Superannuation \$	Total \$
Non-executive Directors			
Geoffrey Wilson	9,153	847	10,000
John Abernethy	32,037	2,963	35,000
Julian Gosse	35,000	-	35,000
Sub-total non-executive directors	76,190	3,810	80,000
Executive Director			
Justin Braitling	9,153	847	10,000
Other key management personnel			
Peter Roberts *	-	-	-
Total key management personnel compensation	85,343	4,657	90,000

Australian Leaders Fund Limited
Directors' Report
For the year ended 30 June 2014
(continued)

Remuneration report (continued)

Details of remuneration (continued)

	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 Braithling	9,174	826	10,000
Other key management personnel			
Peter Roberts *	-	-	-
Total key management personnel compensation	66,284	3,716	70,000

* Accounting and company secretarial duties are outsourced to White Outsourcing Pty Limited. Peter Roberts is a director of White Outsourcing Pty Limited which received fees net of reduced input tax credits of \$166,938 during the year (2013: \$152,841) 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:

	2014	2013	2012	2011	2010
Operating profit/(loss) after tax	\$40,843,666	\$23,329,557	(\$1,296,975)	\$14,176,932	\$12,806,245
Dividends paid (cents per share)	12.0	12.0	11.0	13.0	7.0
Net tangible asset (\$ per share)	\$1.51	\$1.42	\$1.30	\$1.42	\$1.33
Total Directors' remuneration	\$90,000	\$70,000	\$70,000	\$70,000	\$75,000
Total Shareholder's Equity	\$342,942,966	\$225,960,084	\$86,354,621	\$90,159,808	\$85,521,560

Director Related Entity Remuneration

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

Justin Braithling 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 \$3,407,168 (2013: \$1,411,587). As at 30 June 2014, the balance payable to the manager was \$321,303 (2013: \$216,556).

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 2014, in its capacity as manager, Watermark Funds Management Pty Limited was paid a performance fee amounting to \$4,848,201 (2013: \$6,970,842).

Remuneration report (continued)

Details of remuneration (continued)

Director Related Entity Remuneration (continued)

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 the date of this report, the Company's Directors and their related parties held the following interests in the Company:

Ordinary Shares Held

Director	Position	Balance at signing date
Justin Braitling	Chairman	1,381,894
Geoffrey Wilson	Non-Executive Director	1,000,000
John Abernethy	Non-Executive Director	60,000
Julian Gosse	Non-Executive Director	-
		<u>2,441,894</u>

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 signing date
Justin Braitling	Chairman	-
Geoffrey Wilson	Non-Executive Director	-
John Abernethy	Non-Executive Director	-
Julian Gosse	Non-Executive Director	-
		<u>-</u>

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.

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

Tax services were performed by the auditors during the year ended 30 June 2014.

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 25.

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



Justin Braitling
Chairman

Sydney
22 August 2014

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Auditor's Independence Declaration to the Directors of Australian Leaders Fund Limited

As lead auditor for the audit of Australian Leaders Fund Limited for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

- a. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b. no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Australian Leaders Fund Limited during the period.



Moore Stephens Sydney
Chartered Accountants



Scott Whiddett
Partner

Dated in Sydney this 22 August 2014

Australian Leaders Fund Limited
Statement of Comprehensive Income
For the year ended 30 June 2014

		Year ended	
		2014	2013
	Notes	\$	\$
Investment income from ordinary activities			
Net realised gains/(losses) on investments		62,564,807	20,024,191
Net unrealised gains on investments		4,148,719	23,130,109
Dividends		11,634,198	6,102,447
Interest		12,033,823	6,381,542
Trust distributions		2,160,521	1,653,402
Other income		123,677	32,727
		<u>92,665,745</u>	<u>57,324,418</u>
Expenses			
Management fees		(3,174,861)	(1,315,342)
Performance fees		(4,517,642)	(6,495,557)
Brokerage expense		(4,930,432)	(3,901,635)
Short dividend expense		(13,152,027)	(5,865,191)
Interest expense		(9,432,049)	(5,525,409)
Stock loan fees		(3,107,470)	(1,422,419)
Accounting fees		(166,938)	(116,052)
Share registry fees		(183,781)	(123,423)
Custody fees		(12,710)	(15,518)
Tax fees		(19,470)	(15,950)
Legal fees		(7,825)	(5,132)
Directors' fees		(90,000)	(70,000)
ASX fees		(81,005)	(75,450)
Audit fees	20	(34,596)	(32,741)
Other expenses		(153,397)	(156,339)
		<u>(39,064,203)</u>	<u>(25,136,158)</u>
Profit/(loss) before income tax		53,601,542	32,188,260
Income tax (expense)/benefit	7	(12,757,876)	(8,858,703)
Profit/(loss) for the year		40,843,666	23,329,557
Other comprehensive income/(loss) for the year, net of tax		-	-
Total comprehensive income/(loss) for the year		40,843,666	23,329,557
		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share	25	20.38	26.28
Diluted earnings per share	25	19.56	26.04

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Australian Leaders Fund Limited
Statement of Financial Position
As at 30 June 2014

		At	
	Notes	2014 \$	2013 \$
ASSETS			
Current assets			
Cash and cash equivalents	8	240,035,290	86,813,362
Held to maturity investments	11	16,552,205	-
Trade and other receivables	9	21,945,034	54,548,648
Financial assets at fair value through profit or loss	10	459,704,421	362,194,426
Other current assets		20,029	21,621
Total current assets		738,256,979	503,578,057
Non-current assets			
Deferred tax assets	12	3,162,695	4,050,677
Total non-current assets		3,162,695	4,050,677
Total assets		741,419,674	507,628,734
LIABILITIES			
Current liabilities			
Trade and other payables	13	34,245,138	39,411,114
Financial liabilities at fair value through profit or loss	14	353,286,729	234,174,482
Current tax liabilities		4,473,747	1,382,724
Total current liabilities		392,005,614	274,968,320
Non-current liabilities			
Deferred tax liabilities	15	6,471,094	6,700,330
Total non-current liabilities		6,471,094	6,700,330
Total liabilities		398,476,708	281,668,650
Net assets		342,942,966	225,960,084
EQUITY			
Issued capital	16	303,209,483	202,329,794
Reserves	17(a)	39,733,483	23,630,290
Total equity		342,942,966	225,960,084

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 2014

Notes	Issued Capital \$	Profits Reserve \$	Retained earnings \$	Total \$
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	-	(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)	-
	129,815,025	9,790,438	(23,329,557)	116,275,906
 Balance at 30 June 2013	 202,329,794	 23,630,290	 -	 225,960,084
 Balance at 1 July 2013	 202,329,794	 23,630,290	 -	 225,960,084
Profit for the year as reported in the 2014 Financial Statements	-	-	40,843,666	40,843,666
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	-	(24,740,473)	-	(24,740,473)
Costs of issued capital	(365,754)	-	-	(365,754)
Shares issued under dividend reinvestment plan	3,637,741	-	-	3,637,741
Shares issued on options exercised	63,807,702	-	-	63,807,702
Shares issued under DRP Placement Shortfall	33,800,000	-	-	33,800,000
Transfer to profits reserve	-	40,843,666	(40,843,666)	-
	100,879,689	16,103,193	(40,843,666)	76,139,216
 Balance at 30 June 2014	 303,209,483	 39,733,483	 -	 342,942,966

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 2014

	Year ended	
	2014	2013
Notes	\$	\$
Cash flows from operating activities		
Purchase of financial assets held at fair value through profit or loss	(1,025,661,113)	(691,486,442)
Proceeds from sale of financial assets held at fair value through profit or loss	1,017,489,462	481,887,051
Proceeds from short sale of financial liabilities held at fair value through profit or loss	715,185,211	522,648,323
Re-purchase of financial liabilities held at fair value through profit or loss	(590,236,063)	(371,935,124)
Interest received	11,570,931	5,896,597
Interest paid	(9,477,283)	(5,078,186)
Dividends received	14,055,061	6,756,955
Dividends paid on short stocks	(11,593,030)	(4,793,991)
Underwriting income	123,288	32,727
Other revenue	388	-
Income taxes paid	(8,851,326)	(2,994,993)
Investment management fees paid	(3,302,421)	(1,272,831)
Performance fees paid	(6,495,557)	-
Brokerage expense	(4,892,819)	(3,901,635)
Stock loan fees	(2,939,738)	(1,323,543)
Payments for other expenses	(1,183,288)	(988,298)
Net cash inflow/(outflow) from operating activities	24 <u>93,791,703</u>	<u>(66,553,390)</u>
Cash flows from investing activities		
Payments for held-to-maturity investments	(16,552,205)	-
Net cash (outflow) from investing activities	<u>(16,552,205)</u>	<u>-</u>
Cash flows from financing activities		
Share issue and buy-back transaction costs	(522,540)	(1,282,840)
Dividends paid to company's shareholders	(21,102,732)	(11,230,831)
Shares underwritten	33,800,000	11,176,784
Shares issued on options exercised	63,807,702	60,361,677
Shares issued	-	56,866,265
Net cash inflow from financing activities	<u>75,982,430</u>	<u>115,891,055</u>
Net increase in cash and cash equivalents	<u>153,221,928</u>	<u>49,337,665</u>
Cash and cash equivalents at the beginning of the year	86,813,362	37,475,697
Cash and cash equivalents at end of year	8 <u>240,035,290</u>	<u>86,813,362</u>

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 2014. 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 22 August 2014.

(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

The Company has applied the following standards and amendments for the first time in their annual reporting period commencing 1 July 2013:

- AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*

Change in accounting policy: fair value measurement

AASB 13 *Fair Value Measurement* aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Australian Accounting Standards. The standard does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other Australian Accounting Standards.

The Company has adopted AASB 13 *Fair Value Measurement* with effect from 1 July 2013. As a result, the Company has adopted a new definition of fair value, as set out below. The change had no material impact on the measurement of the Company's assets and liabilities. However the Company has included new disclosures in the financial statements which are required under AASB 13.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Company measures the fair value of an instrument using the quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) New and amended standards adopted by the Company (continued)

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value of neither a quoted price in an active market for identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instruments are initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

AASB 13 removes the requirement to use bid/ask prices for actively quoted financial instruments. Rather the most representative price within the bid/ask spread is used. Management has elected to use last traded price, consistent with its securities pricing policy.

Where last traded price is used by an entity, management has ensured at balance date that the last traded price falls within the bid/ask spread as at that date. Where it falls outside the bid/ask spread, an alternative basis most representative of fair value within the bid/ask spread will be used.

(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 5.

(b) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

(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 Comprehensive Income in the year they are incurred in accordance with the policies described in Note 2(g).

(ii) Dividends and trust distributions

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

(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 and 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.

2 Summary of significant accounting policies (continued)

(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) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. Trades are recorded on trade date, and for equities normally settled within three business days. A provision for impairment of amounts due from brokers is recognised in the Statement of Comprehensive Income when there is objective evidence that the Company will not be able to collect all amounts due from the relevant broker. Indicators that the amount due from brokers is impaired include significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation and default in payments.

(f) 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)

(g) Financial assets and liabilities

The Company's investments are classified as follows:

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 9) and receivables in the Statement of Financial Position.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. If the Company were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

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 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 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 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.

2 Summary of significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

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 4.

Determination of Fair Value

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

The Company's accounting policy on fair value measurements is discussed in Note 2(a)(ii).

Under AASB 13, if an investment has a bid price and an ask price, the price within the bid-ask spread that is more representative of fair value in the circumstances shall be used to measure fair value. Accordingly, the Company uses the last sale price as a basis of measuring fair value.

(h) 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.

(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.

2 Summary of significant accounting policies (continued)

(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.

(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.

Where applicable, the Company qualifies for Reduced Input Tax Credits (RITC) at a rate of at least 75%; hence fees for these services have been recognised in the Statement of Comprehensive Income net of the amount of GST recoverable from the taxation authority.

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 2014 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.

2 Summary of significant accounting policies (continued)

(q) New accounting standards and interpretations (continued)

- (i) AASB 9 *Financial Instruments* (2009 or 2010 version), 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)*, AASB 2012-6 *Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures* and AASB 2013-9 *Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments* (effective from 1 January 2017)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. Since December 2013, it also sets out new rules for hedge accounting. The standard is not applicable until 1 January 2017 but is available for early adoption.

There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed. The Company has not yet decided when to adopt AASB 9.

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.

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.

(i) Foreign exchange risk

The Company is not materially 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	2014 (%)	2013 (%)
Information technology	6.40	2.89
Financials	21.80	20.95
Energy	9.90	9.11
Healthcare and biotechnology	11.60	10.83
Consumer staples	2.40	5.53
Industrials	13.40	15.46
Consumer discretionary	13.70	13.34
Utilities	0.90	2.76
Materials	19.00	14.30
Telecommunications services	0.90	3.41
Corporate floating rate notes	-	1.28
Retail	-	0.14
Total	100.00	100.00

As at 30 June 2014 no securities represented over 5 per cent of the long or short investment portfolio.

	Impact on post-tax profit 2014 \$	2013 \$
Decrease 5%	(3,724,619)	(4,480,698)
Increase 5%	3,724,619	4,480,698
Decrease 10%	(7,449,238)	(8,961,396)
Increase 10%	7,449,238	8,961,396

Post-tax profit for the year would (decrease)/increase as a result of (losses)/gains 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)

At 30 June 2014

	Floating interest rate \$	Fixed interest rate \$	Non- interesting bearing \$	Total \$
Financial assets				
Cash and cash equivalents (i)	132,224,456	107,810,834	-	240,035,290
Trade and other receivables	-	-	21,945,034	21,945,034
Financial assets held at fair value through profit or loss	-	-	459,704,421	459,704,421
Held to maturity investments	-	16,552,205	-	16,552,205
	<u>132,224,456</u>	<u>124,363,039</u>	<u>481,649,455</u>	<u>738,236,950</u>
Financial liabilities				
Trade and other payables	-	-	(34,245,138)	(34,245,138)
Financial liabilities held at fair value through profit or loss	-	-	(353,286,729)	(353,286,729)
Current tax liabilities	-	-	(4,473,747)	(4,473,747)
	<u>-</u>	<u>-</u>	<u>(392,005,614)</u>	<u>(392,005,614)</u>
Net exposure to interest rate risk	<u>132,224,456</u>	<u>124,363,039</u>	<u>89,643,841</u>	<u>346,231,336</u>

At 30 June 2013

	Floating interest rate \$	Fixed interest rate \$	Non- interesting bearing \$	Total \$
Financial assets				
Cash and cash equivalents (i)	20,591,106	66,222,256	-	86,813,362
Trade and other receivables	-	-	54,548,648	54,548,648
Financial assets held at fair value through profit or loss	-	-	362,194,426	362,194,426
	<u>20,591,106</u>	<u>66,222,256</u>	<u>416,743,074</u>	<u>503,556,436</u>
Financial liabilities				
Trade and other payables	-	-	(39,411,114)	(39,411,114)
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)
	<u>-</u>	<u>-</u>	<u>(274,968,320)</u>	<u>(274,968,320)</u>
Net exposure to interest rate risk	<u>20,591,106</u>	<u>66,222,256</u>	<u>141,774,754</u>	<u>228,588,116</u>

(i) The weighted average interest rate of the Company's cash and cash equivalents at 30 June 2014 is 3.01% pa (2013: 3.41% pa).

3 Financial risk management (continued)

(a) Market risk (continued)

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

Sensitivity

At 30 June 2014, 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 \$1,347,084 higher/\$1,347,084 lower (2013 changes of 75 bps/75 bps: \$455,770 higher/\$455,770 lower), 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.

Under the arrangements which the Company has entered into to facilitate stock borrowing for covered short selling, borrowed stock is collateralised by the long stock portfolio. If the stock borrowing counterparty became insolvent, it is possible that the Company may not recover all of the collateral that the Fund gave to the counterparty. The collateral on securities sold short is set at 100% (2013: 100%) of the borrowed stock.

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.

Credit risk is managed as noted in Note 8 with respect to cash and cash equivalents, Note 9 for trade and other receivables, Note 10 for financial assets at fair value through profit or loss and Note 11 for held to maturity financial assets. 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.

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.

3 Financial risk management (continued)

(c) Liquidity risk (continued)

Contractual maturities of financial liabilities	Less than 1 month	More than 1 month	Total contractual undiscounted cash flows
At 30 June 2014	\$	\$	\$
Non-derivatives			
Trade and other payables	34,245,138	-	34,245,138
Financial liabilities at fair value through profit or loss	353,286,729	-	353,286,729
Current tax liabilities	-	4,473,747	4,473,747
Total non-derivatives	387,531,867	4,473,747	392,005,614

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	39,411,114	-	39,411,114
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	273,585,596	1,382,724	274,968,320

4 Fair value measurements

The Company measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets and financial liabilities at fair value through profit or loss (FVTPL)

The Company has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

(a) Fair value hierarchy

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy (consistent with the hierarchy applied to financial assets and financial liabilities):

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

4 Fair value measurements (continued)

(a) Fair value hierarchy (continued)

(i) Recognised fair value measurements

The following table presents the Company's assets and liabilities measured and recognised at fair value at 30 June 2014.

At 30 June 2014	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Recurring fair value measurements				
Financial assets				
Financial assets at FVTPL				
Equity securities	454,392,272	-	-	454,392,272
Unlisted equity securities	-	5,312,149	-	5,312,149
Total financial assets	454,392,272	5,312,149	-	459,704,421
Financial liabilities				
Financial liabilities at FVTPL				
Equity securities sold short	353,286,729	-	-	353,286,729
Total financial liabilities	353,286,729	-	-	353,286,729
At 30 June 2013				
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Recurring fair value measurements				
Financial assets				
Financial assets at FVTPL				
Equity securities	362,194,426	-	-	362,194,426
Total financial assets	362,194,426	-	-	362,194,426
Financial liabilities				
Financial liabilities at FVTPL				
Equity securities sold short	234,174,482	-	-	234,174,482
Total financial liabilities	234,174,482	-	-	234,174,482

Included within Level 1 of the hierarchy are listed investments. The fair value of these financial assets and liabilities have been based on the closing quoted last prices at the end of the reporting period, excluding transaction costs.

The majority of the investments included in Level 2 of the hierarchy include amounts in relation to Initial Public Offerings and Placements in which the Company has subscribed to during the year. These investments have not listed on the Australian Securities Exchange as at 30 June 2014 and therefore represent investments in an inactive market. In valuing these unlisted investments, included in Level 2 of the hierarchy, the fair value has been determined using the valuation technique of the subscription price and the amount of securities subscribed for by the Company under the relevant offers.

There were no transfers between levels for recurring fair value measurements during the year.

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

4 Fair value measurements (continued)

(a) Fair value hierarchy (continued)

(ii) Disclosed fair values

For all financial instruments other than those measured at fair value their carrying value approximates fair value.

The carrying amounts of trade and other receivables and payables are assumed to approximate their fair values due to their short-term nature.

5 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.

6 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.

7 Income tax expense/(benefit)

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

	Year ended	
	2014	2013
	\$	\$
Deferred tax on temporary differences	13,845,926	8,941,733
Tax on permanent differences	(1,119,969)	(344,642)
Adjustments for current tax of prior periods	31,919	261,612
	<u>12,757,876</u>	<u>8,858,703</u>
<i>Income tax expense/(benefit) is attributable to:</i>		
Profit from continuing operations	<u>12,757,876</u>	<u>8,858,703</u>

7 Income tax expense/(benefit) (continued)

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

	Year ended	
	2014	2013
	\$	\$
Profit/(loss) from continuing operations before income tax expense/(benefit)	53,601,542	32,188,260
Tax at the Australian tax rate of 30.0% (2013 - 30.0%)	16,080,463	9,656,478
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Franking credits on dividends received	(3,811,436)	(1,500,821)
Imputation credit gross up	1,143,431	450,246
Over-provision in prior year	-	261,612
Realised gain/loss not subject to tax	(581,204)	128,436
Change in franked dividends not subject to tax	(97,930)	(146,669)
Foreign tax gross up on dividend income	24,552	9,421
Income tax expense/(benefit)	12,757,876	8,858,703

The applicable weighted average effective tax rates are as follows: 23.80% 27.52%

(c) Amounts recognised directly in equity

	Year ended	
	2014	2013
	\$	\$
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	(363,362)	(291,426)

8 Current assets - Cash and cash equivalents

	At	
	2014	2013
	\$	\$
Cash at bank	132,224,456	20,591,106
Term deposits	107,810,834	66,222,256
	240,035,290	86,813,362

(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:

	At	
	2014	2013
	\$	\$
Balances as above	240,035,290	86,813,362

8 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-

9 Current assets - Trade and other receivables

	2014	At 2013
	\$	\$
Dividends and distributions receivable	1,538,820	1,799,161
Interest receivable	1,187,363	724,470
GST receivable	579,908	747,603
Due from brokers	18,638,943	51,277,414
	<u>21,945,034</u>	<u>54,548,648</u>

Receivables are non-interest bearing and unsecured.

Fair value and credit risk

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

10 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:

	2014	At 2013
	\$	\$
Listed securities	<u>459,704,421</u>	362,194,426

The market values of all investments as at 30 June 2014 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 Comprehensive Income.

(a) Investment transactions

The total number of contract notes that were issued for transactions in securities during the financial year was 4,061 (2013: 3,280). Each investment transaction may involve multiple contract notes.

The total brokerage paid on these contract notes was \$10,385,281 (2013: \$7,186,221).

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

(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.

11 Current assets - Held-to-maturity investments

	At 2014 \$	2013 \$
Term deposits	16,552,205	-

12 Non-current assets - Deferred tax assets

	At 2014 \$	2013 \$
The balance comprises temporary differences attributable to:		
Capitalised share issue costs	363,052	323,335
Carry forward losses	2,791,063	3,721,418
Accrued expenses	8,580	5,924
	<u>3,162,695</u>	<u>4,050,677</u>

	At	
Movements:		
Opening balance	4,050,677	4,098,056
Charged/credited:		
- to profit or loss	(114,410)	(432,231)
- directly to equity	156,783	384,852
- recoup prior year tax losses	(930,355)	-
Closing balance	<u>3,162,695</u>	<u>4,050,677</u>

13 Current liabilities - Trade and other payables

	At 2014 \$	2013 \$
Management fees payable	321,303	216,556
Performance fees payable	4,848,201	6,970,842
Due to brokers	26,232,589	30,409,343
Interest payable	657,682	702,916
Other payables	2,185,363	1,111,457
	<u>34,245,138</u>	<u>39,411,114</u>

13 Current liabilities - Trade and other payables (continued)

Trade and other payables are unsecured and are usually paid within 30 days of recognition.

The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short-term nature.

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

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

	At	
	2014	2013
	\$	\$
Equity securities sold short	353,286,729	234,174,482

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.

15 Non-current liabilities - Deferred tax liabilities

	At	
	2014	2013
	\$	\$
The balance comprises temporary differences attributable to:		
Net unrealised gains on investments	6,450,230	6,684,743
Other temporary differences	20,864	15,587
	<u>6,471,094</u>	<u>6,700,330</u>

	At	
	2014	2013
	\$	\$
Movements:		
Opening balance	6,700,330	3,575,702
Charged/credited:		
- profit or loss	(229,236)	3,124,628
Closing balance	<u>6,471,094</u>	<u>6,700,330</u>

16 Issued capital

(a) Share capital

	30 June 2014 Shares	30 June 2013 Shares	2014 \$	2013 \$
Ordinary shares	232,942,259	164,155,968	303,209,483	202,329,794

16 Issued capital (continued)

(b) Movements in ordinary share capital

Date	Details		Number of shares	\$
1 July 2012	Opening balance		68,618,942	72,514,769
	DRP shares issued for dividend payment	(d)	10,062,897	13,485,070
	Options exercised for \$1.37 per share	(e)	44,059,618	60,361,677
	Share placement shares issued for \$1.3731		41,414,511	56,866,265
	Cost of issued capital		-	(897,987)
30 June 2013	Closing balance		<u>164,155,968</u>	<u>202,329,794</u>
1 July 2013	Opening balance		<u>164,155,968</u>	<u>202,329,794</u>
	DRP shares issued for dividend payment	(d)	2,211,326	3,637,741
	Shares issued under DRP Placement Shortfall for \$1.69 per share	(f)	20,000,000	33,800,000
	Options exercised for \$1.37 per share	(e)	46,574,965	63,807,702
	Cost of issued capital		-	(365,754)
30 June 2014	Closing balance		<u>232,942,259</u>	<u>303,209,483</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) 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.

As at 30 June 2014, the remaining balance of outstanding options is 22,693,445.

(f) DRP shortfall

On 31 October 2013, the Company issued a dividend reinvestment plan placement shortfall of 20,000,000 shares at \$1.69.

16 Issued capital (continued)

(g) 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 2013.

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 Company is not subject to any externally imposed capital requirements.

17 Reserves and retained earnings

(a) Reserves

	At	
	2014	2013
	\$	\$
Profits reserve	<u>39,733,483</u>	23,630,290

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

	At	
	2014	2013
	\$	\$
Notes		
Movements:		
Opening balance	23,630,290	13,839,852
Transfer from retained earnings	40,843,666	23,329,557
Dividends paid	18 (24,740,473)	(13,539,119)
Closing balance	<u>39,733,483</u>	<u>23,630,290</u>

(b) Retained earnings

Movements in retained earnings were as follows:

	At	
	2014	2013
	\$	\$
Opening balance	-	-
Net profit for the year	40,843,666	23,329,557
Transfer (to) profits reserve	<u>(40,843,666)</u>	<u>(23,329,557)</u>
Closing balance	<u>-</u>	<u>-</u>

18 Dividends

(a) Dividend rate

Dividends paid fully franked at 30% tax rate

	Dividend Rate	Total Amount	Date of Payment	% Franked
2014				
Ordinary shares - final 2013	\$0.06	\$11,052,530	28/10/2013	100
Ordinary shares - interim 2014	\$0.06	\$13,687,943	11/04/2014	100
Total		\$24,740,473		
2013				
Ordinary shares - final 2012	\$0.06	\$4,117,137	31/10/2012	100
Ordinary shares - interim 2013	\$0.06	\$9,421,982	23/05/2013	100
Total		\$13,539,119		

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

Year ended
2014
\$

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 9 October 2014 and a record date of 13 October 2014, expected to be paid on 28 October 2014 out of the profits reserve at 30 June 2014, but not recognised as a liability at year end, is

14,288,933

(c) Dividend franking account

The franked portions of the final dividends recommended after 30 June 2014 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 2015.

	2014 \$	2013 \$
Opening balance of franking account	5,138,452	6,547,819
Franking credits on dividends received	3,971,811	1,610,066
Tax paid during the year	8,851,326	2,892,341
Franking credits lost on ordinary dividends paid	(10,603,060)	(5,802,479)
Franking credits lost under 45 day rule	(160,380)	(109,295)
Closing balance of franking account	<u>7,198,149</u>	<u>5,138,452</u>
Adjustments for tax payable/refundable in respect of the current year's profits and the receipt of dividends	<u>4,885,073</u>	<u>1,725,461</u>

18 Dividends (continued)

(c) Dividend franking account (continued)

	2014 \$	2013 \$
Adjusted franking account balance	12,083,222	6,863,913
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	(6,123,828)	(4,255,743)
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2013 - 30.0%)	5,959,394	2,608,170

19 Key management personnel disclosures

(a) Key management personnel compensation

	Year ended 2014 \$	2013 \$
Short-term employee benefits	85,343	66,284
Post-employment benefits	4,657	3,716
	90,000	70,000

Detailed remuneration disclosures are provided in the remuneration report on pages 21 to 23.

(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.

2014 Name	Balance at start of the year	Granted	Exercised	Balance at end of the year
Directors of Australian Leaders Fund Limited				
Justin Braitling	1,225,894	-	(1,225,894)	-
Geoffrey Wilson	1,000,000	-	(1,000,000)	-
John Abernethy	60,000	-	(60,000)	-
Julian Gosse	-	-	-	-
	2,285,894	-	(2,285,894)	-

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

(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.

2014 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	1,235,894	146,000	1,381,894
Geoffrey Wilson	1,000,000	-	1,000,000
John Abernethy	60,000	-	60,000
Julian Gosse	-	-	-
	2,295,894	146,000	2,441,894

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

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:

	Year ended	
	2014	2013
	\$	\$
<i>Audit and other assurance services</i>		
Audit and review of financial statements Moore Stephens Sydney	36,174	-
Audit and review of financial statements MNSA Pty Limited	-	32,741
Total remuneration for audit and other assurance services	36,174	32,741
<i>Taxation services</i>		
Tax compliance services	16,975	-
Total remuneration of Moore Stephens Sydney	53,149	32,741

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 2014 (2013: 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 Braitling 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 \$3,407,168 (2013: \$1,411,587).

As at 30 June 2014, the balance payable to the Investment Manager was \$321,303 (2013: \$216,556).

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 2014 in its capacity as manager, Watermark Funds Management Pty Limited was paid a performance fee amounting to \$4,848,201 (2013: \$6,970,842).

Under an Investment Services Agreement, Watermark Funds Management Pty Limited pays 25% of all management and performance fees to Boutique Asset Management Pty Ltd, 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

Since 30 June 2014, 5,206,616 options have been exercised and allotted for a total consideration of \$7,133,064.

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

	Year ended	
	2014	2013
	\$	\$
Profit/(loss) for the year	40,843,666	23,329,557
Fair value (gains)/losses on financial assets at fair value through profit or loss	21,602,252	(91,948,365)
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	32,603,614	(18,250,595)
(Increase)/decrease in deferred tax assets	1,046,360	432,231
Increase/(decrease) in trade and other payables	(5,165,976)	14,453,098
Increase/(decrease) in provision for income taxes payable	3,091,023	2,306,056
Increase in deferred tax liabilities	(229,236)	3,124,628
Net cash inflow/(outflow) from operating activities	93,791,703	(66,553,390)

Non-cash financing activities

	Year ended	
	2014	2013
	\$	\$
Dividends reinvested	3,637,741	2,308,286

25 Earnings per share

(a) Basic earnings per share

	Year ended	
	2014	2013
	Cents	Cents
Basic earnings per share attributable to the ordinary equity holders of the Company	<u>20.38</u>	<u>26.28</u>

(b) Diluted earnings per share

	Year ended	
	2014	2013
	Cents	Cents
Diluted earnings per share attributable to the ordinary equity holders of the Company	<u>19.56</u>	<u>26.04</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

	Year ended	
	2014	2013
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	<u>200,382,759</u>	<u>88,768,399</u>
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	<u>208,818,663</u>	<u>89,599,086</u>

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

- (a) the financial statements and notes set out on pages 26 to 54 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 2014 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 Braithling
Chairman

Sydney
22 August 2014

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**Independent Auditor's Report
To the Members of Australian Leaders Fund Limited
A.B.N. 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 2014, the statement of 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.

Directors' Responsibility for the Financial Report

The directors of the Company are responsible for the preparation and fair presentation 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 1, the directors also state that, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards (IFRS).

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 about 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 judgement, 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 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 2014 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 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 21 to 23 of the directors' report for the year ended 30 June 2014. 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 2014 complies with section 300A of the *Corporations Act 2001*.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report for the year ended 30 June 2014 included on Australian Leaders Fund Limited's website. The Company's directors are responsible for the integrity of Australian Leaders Fund Limited's website. We have not been engaged to report on the integrity of Australian Leaders Fund Limited's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.



Moore Stephens Sydney
Chartered Accountants



Scott Whiddett
Partner

Dated in Sydney 22 August 2014

The Shareholder information set out below was applicable as at **6 August 2014**.

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	336	149,946	0.06
1,001 - 5,000	1,251	3,839,995	1.62
5,001 - 10,000	1,560	12,079,119	5.10
10,001 - 100,000	4,547	138,810,972	58.63
100,001 and over	326	81,875,684	34.58
	8,020	236,755,716	100.00

There were 175 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	79	27,755	0.15
1,001 - 5,000	214	667,627	3.54
5,001 - 10,000	175	1,325,441	7.02
10,001 - 100,000	366	10,366,168	54.91
100,001 and over	28	6,492,997	34.39
	862	18,879,988	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	5,082,469	2.15
Mrs Fay Martin-Weber	3,500,000	1.48
Mr Victor John Plummer	2,000,000	0.85
Mrs Thelma Joan Martin-Weber	1,500,000	0.63
Mrs Jean Plummer	1,500,000	0.63
Avanteos Investments Limited <Clearview S/P A/C>	1,478,432	0.62
Mr Robert Ferguson & Ms Jennifer Ferguson & Ms Rachel Ferguson <Torryburn Super Fund A/C>	1,297,570	0.55
Torres Industries Pty Limited	1,109,515	0.47
Burrows Investments Pty Ltd	1,018,579	0.43
GW Holdings Pty Ltd <Edwina A/C>	1,000,000	0.42
Mr John Rabong & Ms Ruth Gillian Speirs <Wattles Nest Super Fund A/C>	943,666	0.40

Australian Leaders Fund Limited
Shareholder information
30 June 2014
(continued)

B. Equity security holders (continued)

Name	Ordinary shares	
	Number held	Percentage of issued shares
Rational Research Investments Pty Limited	849,618	0.36
First Covenant Pty Ltd <Braitling Super Fund A/C>	800,895	0.34
D J Cherry Pty Ltd <D J Cherry Pty Ltd S/F A/C>	794,200	0.34
FJP Pty Ltd <Palazzo Family S/F A/C>	725,616	0.31
John Grice Pty Ltd <Grice Super Fund A/C>	716,105	0.30
Trophy Components Distributors Pty Ltd	675,000	0.29
Allison Valley Pty Ltd	618,713	0.26
Dr David Julian Itzkowic & Mrs Melinda Jane Itzkowic	598,590	0.25
Horton Pty Limited	584,000	0.25
	<u>26,792,968</u>	<u>11.32</u>

Twenty largest quoted option holders

	Options	
	Number on issue	Percentage of options
Neville Ward Super Pty Limited <The NW Ward Super Fund A/C>	1,000,000	5.30
Mr David Sharples & Ms Annette Macgregor <Sharples Macgregor Sf A/C>	748,569	3.97
Troxfield Pty Ltd <Rosebery Super Fund A/C>	400,000	2.12
Trophy Components Distributors Pty Ltd	275,000	1.46
John Grice Pty Ltd <Grice Super Fund A/C>	250,921	1.33
Mrs Fay Martin-Weber	240,000	1.27
UBS Wealth Management Australia Nominees Pty Ltd	237,700	1.26
Mr Douglas Edwin Williams & Mrs Margaret Helen Williams <D E Williams Super Fund A/C>	211,871	1.12
Mr Nigel Price & Mrs Carol Price <NCP Superannuation Fund A/C>	210,000	1.11
Securities & Estates Pty Ltd <St Ives Super Fund A/C>	206,228	1.09
Mr Arthur John Nions & Dr Patricia Percival <AN & PP Super Fund A/C>	205,489	1.09
Posse Investment Holdings Pty Limited	205,000	1.09
Emnj Pty Ltd <Lamorrnan Super Fund A/C>	200,000	1.06
Foldtag Pty Limited <Peter Jordan Super Fund A/C>	191,100	1.01
Mr Michael Paul Wedgwood & Mrs Janet Josephine Wedgwood <The Jansi Super Fund A/C>	181,081	0.96
Mr Willem Lasschuit & Mrs Rhonda Lasschuit <Lasschuit Inc Smsf A/C>	172,673	0.92
Navigator Australia Ltd <Mlc Investment Sett A/C>	167,611	0.89
Mr Kenneth L Balmer	160,000	0.85
Securities & Estates Pty Ltd	150,293	0.80
Mr Robert William Waterhouse	150,000	0.79
	<u>5,563,536</u>	<u>29.47</u>

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.