

Investment Update and NTA Report

31 March 2015



Month in Review

Following two months of strong gains, the Australian share market took a break in March, with the All Ordinaries Accumulation Index falling slightly by 0.1% for the month. As has been the case in previous months, share markets around the world moved in reaction to geopolitical factors and posturing from central banks and the domestic market was no exception. Continued tensions in the Middle East and concerns over Greek sovereign debt saw the domestic share market fall early in the month before dovish comments from the US Fed sparked a late month recovery.

Losses were felt most heavily in the Materials and Energy sectors, which led the market rally earlier in the quarter, while banks, healthcare companies and shares exposed to the residential property boom posted solid gains.

The portfolio delivered a 3.0% return for the month with contributions coming from both the long and short portfolios. Ongoing challenges across the resource sector saw short positions in mining and energy shares deliver the biggest contributions to performance, while long positions in PanAust and iiNet benefitted from take-over bids at significant premiums.

Corporate activity continues to play an important factor impacting the share prices of several listed Australian companies. In addition to bids mentioned above, rumours (as yet unfounded) surrounding the leveraged buyout of Primary Healthcare also led to a rally in the shares of that company, contributing to performance during the month. Invariably, the Company's portfolio will be both a beneficiary and victim of such transactions from time to time as has been evidenced neatly in the last two months.

It is a key objective of ALF's investment strategy to hedge out market risk during periods where such risk is elevated. In doing so, the portfolio can be insulated against the impact of external forces whilst leaving the investment manager to create value through security selection. While the Company can be left at a disadvantage in a strongly rising share market under the current portfolio settings, we believe they are warranted given the risks we see building in asset markets. As demonstrated in March, ample opportunity remains to generate profits from security selection while moderating the Company's exposure to equity market risk.

Net Tangible Asset (NTA) Backing

Month	February 2015	March 2015
NTA before tax on unrealised gains	\$1.29	\$1.34
NTA after tax	\$1.31	\$1.34
Dividend Declared*	(\$0.05)	(\$0.05)
NTA after tax and after dividend (5¢)	\$1.26	\$1.29

*The ex-date for the dividend is 26 March 2015, payable on 14 April 2015

Performance (Net of all Fees and Expenses)

Period	S&P/ASX All Ordinaries Accum. Index	Net Equity Exposure	Contribution Market ¹	Security Selection ²	ALF (net returns)
1 Mth	0.0%	4.6%	0.00%	3.0%	+3.0%
6 Mths	13.0%	14.3%	1.6%	-3.7%	-2.1%
Fin. YTD	12.7%	17.3%	1.0%	-7.7%	-6.6%
1 Yr	13.2%	21.3%	1.3%	-4.1%	-2.8%
3 Yrs p.a.	14.7%	37.7%	4.1%	10.7%	+14.8%
5 Yrs p.a.	8.2%	52.9%	1.6%	8.5%	+10.2%
Since Inception p.a	9.9%	-	-	-	+14.1%

¹ The "Market" column displays the contribution to return achieved in the period from the Fund's exposure to the share market weighted on a monthly basis. Due to timing differences and an adjustment for cash holdings, the contribution is not necessarily the same as the average equity exposure for the period multiplied by the market return.

² All fees and expenses are netted off against stock selection

Australian Leaders Fund

ASX Code	ALF
Listed	Feb 2004
Capital	\$332m
Market capitalisation	\$317.2m
Share price	\$1.25
NTA before tax	\$1.34
Shares on issue	254.8m
Fully franked dividend (1H15)	5.0¢
Dividend yield (fully franked)	8.8%

Company Overview

The Australian Leaders Fund (ALF) is a listed investment company, comprising a portfolio of publicly traded Australian shares. As a Long/Short Equity fund the manager looks to take advantage of mispricing opportunities across the full breadth of the share market. As a 'variable beta' fund at any point in the investment cycle the fund may be fully invested, market neutral or short the market depending on the market outlook. Watermark aims to add value through both security selection and the hedging of share market risks. It is the Board's intention to try and deliver to shareholders a consistent and growing stream of fully franked dividends over time.

Investment Strategy

The primary goal of the investment process is the identification of mispriced securities. The manager looks to buy the shares of good companies on occasions when they are undervalued by the share market. ALF is different to other funds however, in also selling short the shares of businesses that are fundamentally challenged, where these shares can be sold for more than they are worth. Proceeds raised from selling these shares are an additional source of funds for the company's balance sheet. These funds can either be retained in cash as a hedge for the fund's assets, or re-invested in the shares that the manager prefers. By adjusting the relative size of the 'long' and 'short' portfolios and the degree of hedging in place, the manager can set the amount of market risk (beta) retained in the fund.

Investment & Management Team

Justin Braitling
Chief Investment Officer/Portfolio Manager

Tom Richardson, CFA
Senior Investment Analyst

Joshua Ross
Investment Analyst

Omkar Joshi, CFA
Investment Analyst

Delian Entchev
Investment Analyst

Nick Cameron
Investment Analyst

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Fund Attribution

In March, the Long Portfolio increased by 1.1%, outperforming the FTSE AFSA Index which decreased by 0.1%. The portfolio of securities that ALF has borrowed and sold (short) decreased by 2.7%, underperforming the FTSE AFSA Index, and contributing to performance. In aggregate, the total portfolio was up 3.1% on a gross basis in March, outperforming the FTSE AFSA Index by 3.2%. At the end of March, ALF has 7% of net Shareholders Funds invested in equities with the balance retained in cash (93%).

	1 Month Return (%)			6 Month Return (%)			Financial YTD Return (%)		
	Portfolio ¹	Benchmark ²	Attribution ³	Portfolio ¹	Benchmark ²	Attribution ³	Portfolio ¹	Benchmark ²	Attribution ³
Long Portfolio	1.1%	-0.1%	1.0%	8.4%	13.2%	-6.2%	6.1%	12.8%	-8.5%
Short Portfolio	-2.7%	-0.1%	2.1%	9.2%	13.2%	3.1%	10.1%	12.8%	1.7%
Cash			0.1%			-11.6%			-11.7%
Total	3.1%	-0.1%	3.2%	-1.5%	13.2%	-14.7%	-5.7%	12.8%	-18.5%

¹ The "Portfolio" column displays the return achieved in the period from the Investment Portfolio (long) and from the Borrowed Securities portfolio (short) separately. The Total Portfolio performance, representing the underlying return achieved on Shareholder's Funds is a weighted return of the long and short portfolios as well as cash. As such this column will not sum.

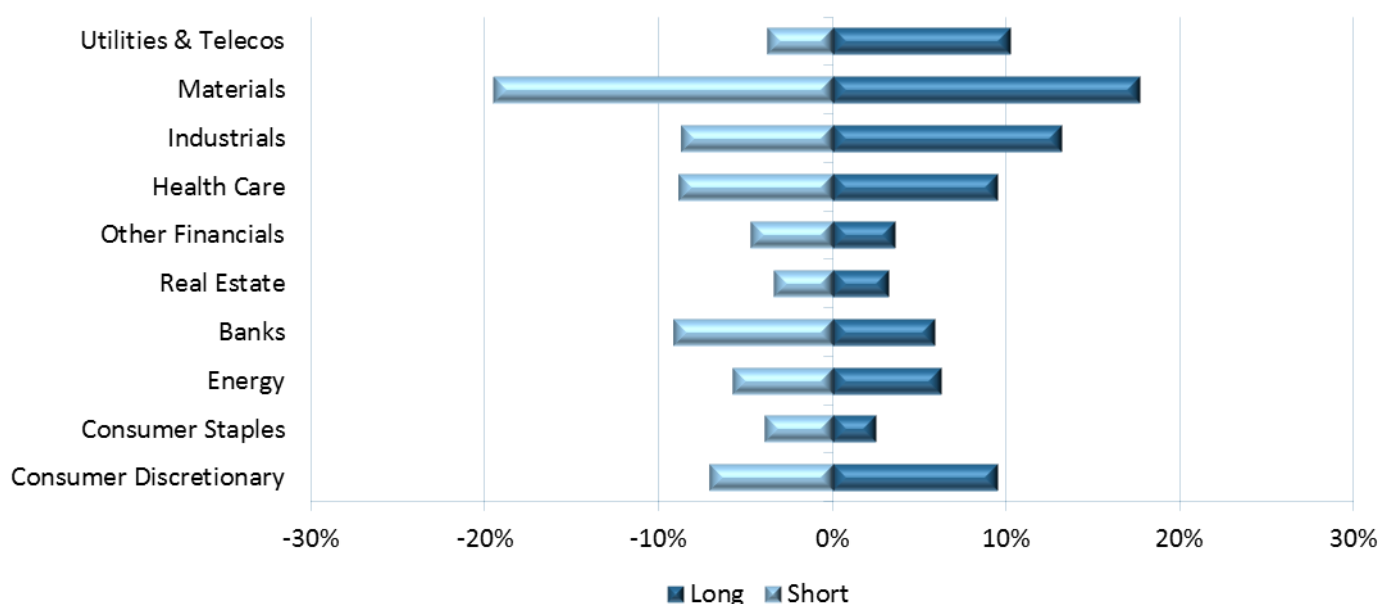
² For the purposes of reporting Long/Short attribution we use the FTSE ASFA index - which is a broader index to the All Ordinaries Accumulation with minor differences, the performance numbers reported in Table 2 use the All Ordinaries Accumulation Index series.

³ Attribution shows the contribution to the outperformance of Shareholder's Funds in the period coming from the Investment Portfolio (long) and the portfolio of Borrowed Securities (short) as well as from the cash retained on the Balance Sheet. Each contribution sums to the overall outperformance of shareholders' funds.

Gross Portfolio Structure

Investment Type	28 February 2015		31 March 2015	
	\$m	%	\$m	%
Listed Securities - Long	286	88%	272	82%
Listed Securities - Short	-270	-83%	-250	-75%
Net Exposure	16	5%	22	7%
Cash	310	95%	310	93%
Capital	326	100%	332	100%

Sector Exposures

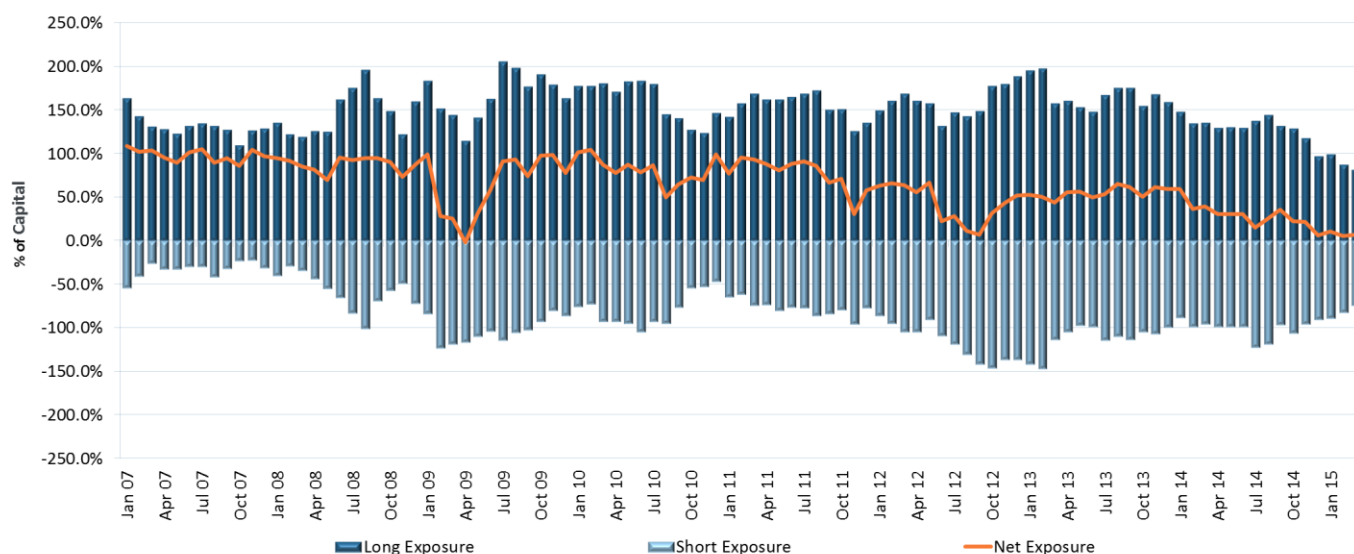


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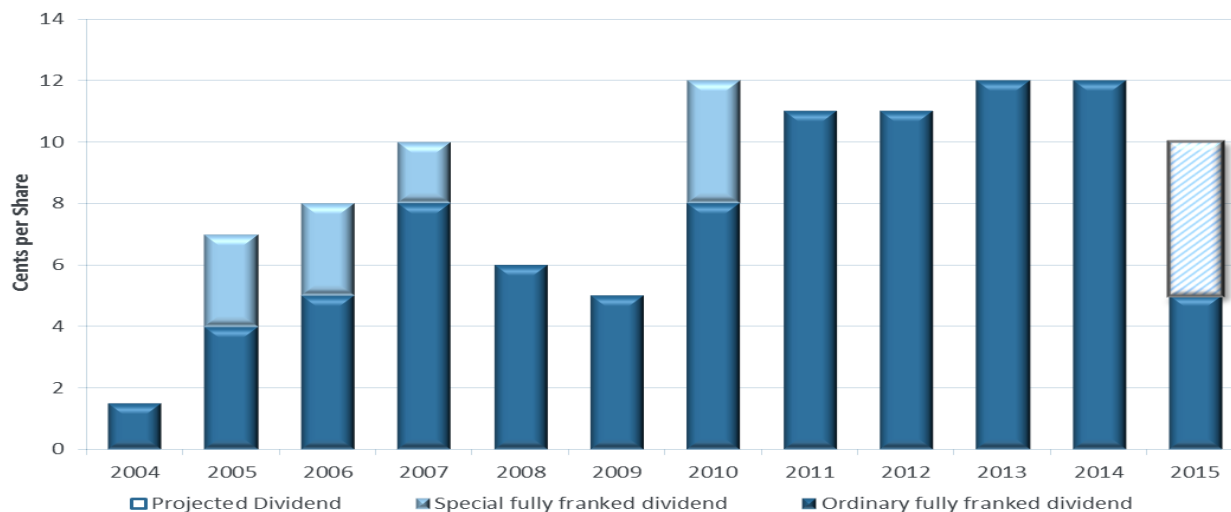


Net Equity Exposure



Dividend History

The Board is committed to paying an increasing stream of fully franked dividends to shareholders, provided the Company has sufficient profit reserves and franking credits and it is within prudent business practices. Dividends are paid on a six-monthly basis and the dividend reinvestment plan is available to shareholders for both the interim and final dividend.



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