Australian Leaders Fund Limited

ABN 64 106 845 970

Annual Report 2015

YEAR ENDED 30 JUNE 2015

Australian Leaders Fund
Level 6, 139 Macquarie Street NSW Sydney 2000

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COMPANY PARTICULARS

Australian Leaders Fund Limited

A.B.N. 64 106 845 970

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

DIRECTORS:

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

SECRETARY:

P. Roberts

AUDITORS:

Moore Stephens Sydney

COUNTRY OF INCORPORATION: Australia

REGISTERED OFFICE:

Australian Leaders Fund Limited
Suite 2,
Level 6, 139 Macquarie Street
Sydney NSW 2000

CONTACT DETAILS:

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Telephone: (02) 9252 0225
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Email: info@wfunds.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 12, 225 George 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

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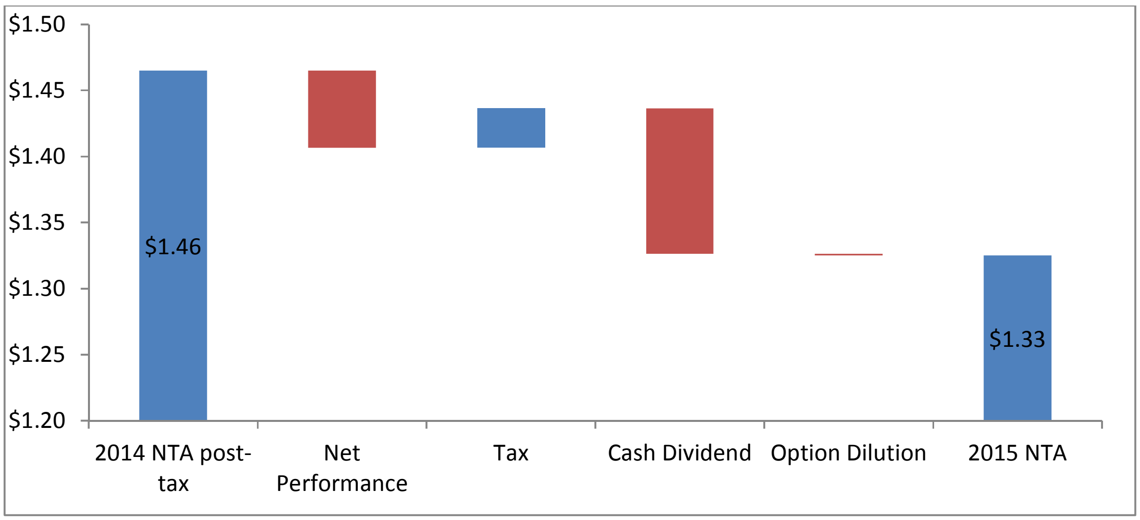
Annual Report - 30 June 2015

Contents

Chairman's Letter

After two years of strong profit growth, Australian Leaders Fund (ALF) reported an after tax loss of $6.1 million for the year ending 30 June 2015; a reflection of weaker portfolio performance during the period. As at the 30 June, the after tax net tangible asset backing (NTA) of ALF was $1.33 per share, down from $1.46 last year. As seen in Figure 1, 11 cents of this fall is accounted for by dividends paid to shareholders during FY15. The Board's longstanding policy of building profit reserves during periods of strong performance stood the Company in good stead during the year. Total dividends declared in respect of FY15 were 10 cents a share fully franked, comprising a 5 cent interim dividend and a 5 cent final dividend.

FIGURE 1: NTA Bridge



The gross portfolio value fell by 2.2% over the financial year, as compared with the benchmark All Ordinaries Accumulation Index which increased by 5.7%. This marks just the 2nd year in the Company's 12 year history that the value of the portfolio has fallen on a gross basis. After deducting costs of funding the balance sheet along with management fees and other expenses, the fund reported a negative 3.4% return for the financial year.

Since inception, the net value of the portfolio has increased by 351.2% while the All Ordinaries Index has increased by 167.8%. The investment process has added 183.4% to the value of your Company (after all fees and expenses). The Board has endeavoured to return a significant portion of this to shareholders via ordinary and special dividends (100.5c paid to date; 105.5c declared to date).

The Company's shares traded across a wide range throughout the financial year, moving from a 25% premium to NTA in July 2014, to a 15% discount in the final weeks of the financial year. Clearly neither extreme reflects fair value for the Company's shares based on the value of its underlying assets. The Board and your Investment Manager will continue in their endeavours to meet the return objectives that have been set and communicate clearly to the market in respect of the Company's financial position and prospects, with the expectation that the share price may variously trade above or below NTA from time to time.

The Board was pleased to announce in October 2014 that over 97% of bonus options issued to shareholders were exercised by the 30 September 2014 deadline and converted to ordinary shares. Along with an opportunity for shareholders to realise value from the options issued, bonus options are a mechanism through which the Board can grow the size of the Company thereby spreading fixed costs over a larger capital base.

The Australian share market rose again in FY15 as the global reflation cycle continued, spurred on by ultra-easy monetary policy from central banks around the world. Notwithstanding this continued support for risk assets such as shares, weak global growth has led to brittle recoveries in many developed economies, with risks weighing heavily on investor sentiment. Share market performance has converged around a narrow group of companies,

offering investors a more defensive earnings profile and dividend returns than can supplement anaemic yields on fixed income assets and cash.

As we enter the early stages of what will be a prolonged period of normalisation in interest rates around the world, the medium-term outlook for global share markets is unclear and risks remain. It is clear however, from economic data and anecdotal information from Australian companies, that top line growth will be subdued and that we are in a low-return environment for shares for some time.

Your Company is well positioned to deal with the prevailing market conditions. By virtue of its ability to hedge share market risks, ALF offers protection against a major set-back in the share market. For the same reasons, returns are less dependent on a rising share market, with security selection likely to be the key driver. We have had a strong start to FY16 and I am optimistic about the Company's prospects for the year ahead. I look forward to delivering a better result in FY16.

Justin Braitling

Chairman

Dated at Sydney this 21st day of August 2015

Chief Investment Officer's Report

Performance Review

After a challenging start to FY15, portfolio performance improved in the second half of the year and losses were largely recovered. The portfolio delivered a gross return of -2.2% for the 12 months to 30 June 2015 with minimal exposure to the share market (average net exposure was 15%). The benchmark All Ordinaries Accumulation Index rose by 5.7% over the same period. While we are never satisfied with portfolio returns that fall below our stated targets, it is only the second year in the Company's 12 year history that we have delivered a negative gross portfolio return. Pleasingly, performance for the 6 months to June 30 was 7%, comfortably beating the benchmark which delivered return of 3.3%.

As a fundamental investor with a bias towards value and quality, the Fund has not owned many of the 'expensive defensives' that have been so strongly favoured by investors looking to supplement anaemic portfolio yields.

Following very strong returns in FY13 and 14, investments in mining and energy detracted from performance. Having closed short positions in FY14, the portfolio was left with a modest long exposure to a handful of small mining companies, positions that were supported by sound fundamentals and attractive prices. Unfortunately, as the rout in global commodity prices continued, several of these small positions moved against the Fund and contributed to poor performance.

The Fund operates within tight risk controls which limit losses attributable to individual positions. As such, portfolio losses were modest and able to be recovered in the final months of FY15. The benefit of a fully hedged structure can be clearly seen when share markets are volatile. As shares globally were buffeted by problems in Europe and China, our portfolios were insulated and performed independently of these disruptive forces. It has been stock selection, guided by deep fundamental research that has driven returns in recent months. Volatility has provided an opportunity to build on existing positions and initiate new ones.

Importantly, security selection within our industrial share portfolio has been consistently profitable and contributed positively to portfolio returns again in FY15. The Fund performs best when the portfolios are populated with a diverse range of profitable investment ideas. While ideas were a little harder to come by in 2014, the last six months have proven more fruitful and the portfolio has benefitted from a range of new positions and investment themes.

Portfolio Review

The poor returns in the first half were due to underperformance in the long portfolio, while the Fund's short portfolio performed in line with the broader market.

The Company retained a low net exposure to the share market throughout the year and was close to market neutral from February 2015. Portfolio settings continue to reflect our cautious outlook given shares look expensive relative to historic levels.

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; Resources; and Financial Services.

While shares in defensive industries provide some protection during a downturn in the economic cycle, they have historically been highly correlated to bond markets. As bond yields were falling in the first half of FY15, this sector continued to outperform. However, as with bond prices, defensive shares have become increasingly stretched through FY15, with investors prepared to pay higher prices for earnings certainty and yields.

Healthcare names were among the strongest contributors to performance through the year, with long positions in *CSL Limited* and *LifeHealthcare Group* as standouts. We made timely exits from *Sonic Healthcare* and *Primary Health Care* after both companies overshot our valuation targets. We are increasingly concerned about the impact to pathology margins from recent cuts to Medicare funding in pathology and inflation of the cost base due to continued growth in collection centre openings. We also saw the Federal Government's announced review of all Medicare-funded procedures, tests and treatments as a significant risk to future earnings in these names, along with the freeze in indexation of GP Medicare payments.

The year featured multiple IPO's, of which the majority outperformed the broader market. *Spruson & Ferguson* is an Australian intellectual property firm with a large office in Singapore and is benefitting from strong growth in Asia and a falling Australian Dollar. An investment in this company on IPO performed particularly well.

In telecommunications, we held a position in *Amcom Telecommunications* which merged via a scheme of arrangement with *Vocus Telecommunications*. We also held investments in both *TPG Telecom* and *iiNet*, with both companies increasing in value following their proposed merger. Further consolidation opportunities are limited so we have pared back our position in the industry.

In last year's annual report we wrote of our concerns regarding the major listed supermarkets. Our thesis is so far proving correct, with *Woolworths* (under pressure from *Aldi* and *Coles*), reporting negative sales growth towards the end of the year. *Metcash* has been hardest hit as its uncompetitive model is struggling to maintain relevance with price sensitive consumers. Going forward we expect the industry pain to continue as Woolworths invests further in lower prices to restore competitiveness.

Turning to cyclical sectors of the market, housing has been one clear exception to the bleak backdrop for the domestic economy. Direct beneficiaries of the strong housing cycle are companies supplying building materials, constructors and property developers. The retail sector has also enjoyed buoyant consumer confidence associated with rising property values. *Adelaide Brighton* and *Beacon Lighting* have both been very profitable positions for ALF in FY15 and direct beneficiaries of this thematic.

The Media sector saw divergent trends as advertising budgets continued to shift online. Australian companies only capture a small share of this growth. With a broader range of investment opportunities offshore, the portfolio has had a limited exposure to domestic media names. *iSentia Group* and *APN News and Media* were two positions that contributed to performance last year.

Weakness in global share markets later in the year saw many Financial Services names under pressure give ground after posting solid gains in 2014. An investment in *Henderson Group* contributed significantly to performance during the period, as they seek to build their global presence. Shares of the major banks were sold off heavily amid concerns around their ability to meet new APRA capital requirements. Portfolio positioning in respect of the major banks contributed strongly to performance, reflecting their relative vulnerabilities to regulatory change. We also exploited our ability to invest offshore, taking a position in *Wells Fargo*, a US super-regional offering better value than its Australian peers.

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 bear market for Resources continued in FY15, marked by precipitous falls in most commodities but particularly iron ore and oil. Shorts in these sectors made a strong contribution to performance, offset however by losses in *Tiger Resources* and *Base Resources*. The outlook for commodities remains poor with a slowing Chinese economy, continued oversupply and high inventory levels all capping prices. While mine closures will ultimately provide floors for commodity prices, substantial deflation across the industry is lowering cost support. We currently have a fully hedged Resources portfolio, selectively investing in companies with strong balance sheets capable of generating returns in this new environment. We have begun to build out our international exposure with new holdings including *Goldcorp Inc* and *Cameco Corp*.

Market Outlook

The Australian share market is in trouble. Shares are fully valued and earnings growth is decelerating. At the same time the tailwind from lower interest rates is fading: while short-term rates may move lower, longer-dated bond yields have probably bottomed.

The resources sector is in a bear market which will continue for years to come; while we will see sharp rallies from time to time, these will be short-lived as the structural downtrend continues. Through time, commodity prices have tended to trade around cost support. While a number of commodities have already fallen back to these

levels, as yet this has not played out in the share market, so in the medium term we would expect mining shares to move lower.

The Australian banks still have to raise more capital and this is dilutive for earnings. The credit cycle also appears to be turning, and with reserve releases abating non-performing loans will once again put pressure on profits. Banks target positive "jaws" where revenues grow faster than costs. In the most recent results however costs have been growing faster than revenues and profit growth has stalled.

While the Australian share market can best be described as mature with few growth sectors, the most important of these sectors – healthcare – is struggling with downgrades from almost all the major names as fiscal tightening bites and emerging market growth slows.

The re-rate of yield sectors in the market is also largely complete as interest rates are unlikely to fall much further.

Pervasive deflationary trends globally, a function of surplus capacity and sluggish demand, is the underlying cause of low interest rates and commodity prices. Investors have bid up shares as an alternate source of income while rates have fallen, in the belief that shares are more valuable in a low interest rate environment. The reality is quite different: since low rates are a reflection of weak demand, profit growth is likely to be much weaker in years ahead. We are seeing this already playing out in many sectors where prices are falling, volumes are weak and margins are under pressure.

In this deflationary environment, profit growth will be muted. With valuations full by historic standards, we believe shares will offer low returns at best in the medium term. If this proves correct then we are well positioned, as active management strategies like long/short investing can create significant value through security selection without the risks of being exposed to the share market. We would expect to deliver attractive returns for our investors in the medium term irrespective of the direction the market takes.

Justin Braitling

Chief Investment Officer

Dated at Sydney this 21st day of August 2015

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 and international securities. A summary of the investment process is set out below.

Investment Universe

The universe from which investments can be selected comprises companies listed in Australia and on international exchanges. It is expected that at least 80% of the portfolio's gross exposure will be in Australian shares. While the primary focus is Australian shares, access to international shares provides the Manager with the opportunity to better express its investment ideas while developing deeper insights into Australian companies that compete in global markets.

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.

Investments at Market Value

	$	
Consumer Durables & Apparel		
Adairs Ltd	4,350,890	1.33%
	4,350,890	**1.33%**
Consumer Services		
Ardent Leisure Group	1,619,219	0.49%
Crown Resorts Limited	8,716,058	2.65%
Intueri Education Group Ltd	4,416,935	1.35%
Navitas Limited	3,182,760	0.97%
Shine Corporate Ltd.	330,978	0.10%
	18,265,950	**5.56%**
Media		
APN Outdoor Group Ltd.	3,744,350	1.14%
Fairfax Media Limited	8,096,456	2.46%
	11,840,806	**3.60%**
Retailing		
Burson Group Ltd	4,760,000	1.45%
Harvey Norman Holdings Ltd	3,520,050	1.07%
Kathmandu Holdings Limited	3,911,837	1.19%
Premier Investments Limited	2,890,667	0.88%
Super Retail Group Limited	5,206,382	1.59%
	20,288,937	**6.18%**
Food Beverage & Tobacco		
Diageo plc	3,320,978	1.01%
Fonterra Shareholders Fund Units	4,075,397	1.24%
Tassal Group Limited	4,582,037	1.40%
	11,978,411	**3.65%**
Energy		
BG Group plc	3,047,316	0.93%
Karoon Gas Australia Ltd	4,249,834	1.30%
Sundance Energy Australia Limited	2,619,429	0.80%
Woodside Petroleum Ltd	3,136,290	0.96%
Z Energy Ltd	4,536,839	1.38%
	17,589,707	**5.37%**
Banks		
Commonwealth Bank of Australia	9,661,659	2.94%
National Australia Bank Limited	23,237,123	7.10%
Westpac Banking Corporation	15,621,685	4.77%
Wells Fargo & Company	10,285,276	3.13%
	58,805,743	**17.94%**
Insurance		
AMP Limited	8,764,301	2.67%
	8,764,301	**2.67%**
Real Estate		
Goodman Group	7,760,950	2.36%
Lend Lease Group	1,608	0.00%
	7,762,558	**2.36%**
Health Care Equipment & Services		
LifeHealthcare Group Ltd.	6,710,953	2.04%
Sonic Healthcare Limited	3,167,077	0.96%
EBOS GROUP LIMITED	4,908,087	1.50%
	14,786,116	**4.50%**

	$	
Pharmaceuticals Biotechnology & Life Sciences		
CSL Limited	6,332,717	1.92%
Neuren Pharmaceuticals Limited	968,497	0.29%
	7,301,214	**2.21%**
Capital Goods		
Austal Limited	3,360,413	1.02%
RCR Tomlinson Ltd	5,408,220	1.65%
	8,768,633	**2.67%**
Commercial & Professional Services		
Downer EDI Limited	5,064,133	1.55%
IPH Ltd.	1,936,245	0.59%
Smartgroup Corporation Ltd	5,178,919	1.58%
Skilled Group Limited	1,518,630	0.46%
	13,697,927	**4.18%**
Transportation		
Auckland International Airport Limited	1,436,960	0.43%
Aurizon Holdings Ltd.	3,779,230	1.15%
Qantas Airways Limited	7,646,985	2.33%
Transurban Group Ltd.	6,881,126	2.09%
	19,744,301	**6.00%**
Software & Services		
Gentrack Group Ltd	2,083,320	0.63%
iSentia Group Limited	5,255,528	1.60%
MYOB Group Ltd.	7,916,036	2.41%
Nextdc Limited	4,964,409	1.51%
Zhaopin Ltd Sponsored ADR Class A	3,534,659	1.08%
	23,753,952	**7.23%**
Materials		
Adelaide Brighton Ltd	5,941,219	1.81%
Antofagasta plc	3,120,101	0.95%
Alacer Gold Corp Shs Chess Depository Interests repr 1 Sh	6,481,077	1.98%
Base Resources Limited	1,651,983	0.50%
Cameco Corporation	3,108,065	0.95%
Evolution Mining Limited	2,458,165	0.75%
Goldcorp Inc.	7,727,607	2.35%
Incitec Pivot Limited	6,566,140	1.99%
Orocobre Limited	4,645,057	1.42%
Perseus Mining Limited	1,576,005	0.48%
Regis Resources Limited	3,233,534	0.98%
South32 Ltd.	10,259,693	3.13%
Sirius Resources NL	5,126,342	1.56%
Tahoe Resources Inc.	3,445,766	1.05%
Tiger Resources Limited	1,869,214	0.57%
	67,209,969	**20.47%**
Utilities		
AGL Energy Limited	4,622,269	1.41%
Contact Energy Limited	2,305,275	0.70%
Spark Infrastructure Group Ltd.	4,856,736	1.48%
	11,784,280	**3.59%**
Total Long Portfolio	**326,693,692**	**100.00%**
Total Short Portfolio	- **254,186,209**	

Corporate Governance Statement

As an ASX-listed company, Australian Leaders Fund Limited ("**Australian Leaders**") and its directors are committed to responsible and transparent financial and business practices to protect and advance shareholders' interests. The Company's strong corporate governance practices are based on the ASX Corporate Governance Principles and Recommendations.

The Board has adopted these ASX principles and recommendations which are complemented by the Company's core principles of honesty and integrity. The corporate governance policies and practices adopted by the Board are outlined in Australian Leaders Corporate Governance section *http://wfunds.com.au/fund/australian-leaders-fund/*.

This corporate governance statement aims to disclose in summary form as clearly as possible Australian Leaders corporate governance policies and practices so that they can be readily understood by our shareholders and other stakeholders.

This corporate governance statement relates to the 2015 financial year and accompanies Australian Leaders 2015 Annual Report. This corporate governance statement is dated 21 August 2015 and is approved by the Board.

Australian Leaders complies with the ASX Corporate Governance Council Principles and Recommendations (3rd Edition March 2014) unless otherwise stated. The ASX Corporate Governance Council (ASX CGC) has issued eight principles and as part of these principles, made 30 recommendations. Each is discussed below:

Principle 1: Lay solid foundations for management and oversight

Role of the Board and Management

The Board is responsible for monitoring of the overall operation, managing contracts with Managers, strategic direction, leadership and integrity of the Company and in particular, is responsible for monitoring the Company's growth and profitability.

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.

Further details of the Board's role and responsibilities are contained in the Board Charter which is posted on the Company's website *(http://wfunds.com.au/fund/australian-leaders-fund/)*.

Candidates for election or re-election as a director

Recommendation 1.2 requires a listed entity to undertake appropriate checks before appointing a person or putting forward a candidate for election as a Director. Following the 2014 AGM all appropriate checks will be undertaken by the entity for new and re-elected candidates. In addition, the Board will continue to provide security holders with all material information in its possession relevant to any decision to elect or re-elect a Director by inclusion in any Notice of Meeting.

Written agreements with directors

The Company complies with Recommendation 1.3 having signed letters of appointment for current Directors setting out the terms of their appointment.

Principle 1: Lay solid foundations for management and oversight (continued)

Company Secretary

Mr Peter Roberts is appointed Company Secretary. In accordance with Recommendation 1.4 he is directly accountable to all Board members, facilitates all Board meetings and papers, acts in an advisory manner for governance matters and contactable via White Outsourcing Pty Limited.

Diversity Policy

The Company does not employ staff directly, therefore, the Board do not consider a diversity policy incorporating gender, age, disability, ethnicity, marital or family status, religious or cultural background, sexual orientation and gender identity is relevant. The Board recognize that diversity of gender and background are two important criteria take these into account in developing Board succession plans and appointment. However, other selection criteria, in particular business acumen and industry experience, are also fundamentally important. 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.

Performance evaluation of the Board, Directors and External Management

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. The Chair of the Audit Committee is responsible for review of the Chairman on an annual basis and reporting to the full Board.

In addition, the performance of service providers (Watermark Funds Management Pty Limited and White Outsourcing Pty Limited) is the subject of continuous oversight by the Chairman and the Board as a whole. A performance review of service providers was conducted for the Board.

Recommendation 1.7 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

Composition of the Australian Leaders Board

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 19. 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 20.

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

Board skills matrix

The Board seeks to ensure as a minimum the Board's skills matrix includes:

(a) Each Director must be capable of making a valuable contribution to the effective and prudential operation of the Company and Board deliberations and processes;

(b) Directors must collectively have the necessary skills, knowledge and experience to understand the risks of the Company, including its legal and prudential obligations and to ensure that the Company is managed in an appropriate way taking into account these risks;

(c) All Directors must be able to read and understand fundamental financial statements and if required, may seek guidance from an independent professional advisor who is appropriately qualified in the area of finance and accounting.

The Board believes it has adequate representation of the necessary skills and requirements noted above.

Length of service

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	11.5 years
G. Wilson	11.5 years
J. Abernethy	11.5 years
J. Gosse	11.5 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. However, tenure alone is not considered by the Board to impair independence where Directors are not associated with the Investment Manager or its related entities. Although Directors have served in office for over 10 years this is not considered to impair their independence where all other criteria are met.

Nomination Committee

Recommendation 2.1 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.

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

Independence

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

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

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

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) who is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
d) who is not a significant supplier to the Company;
e) who has no material contractual relationship with the Company other than as a director;
f) who 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; and
g) has been a director of the entity for such a period of time that their independence may have been compromised.

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.

Recommendation 2.4 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 2.5 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 2.5 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.

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

Induction and professional development

Recommendation 2.6 states the listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their roles as directors effectively. Due to the small size of the Board an induction program or formal professional development program is not considered necessary for new and existing directors. The Chairman is best suited to address any queries a new Director may present on induction to the Board. Directors are expected to maintain their industry knowledge, however, can also enquire of the Investment Manager, Administration Manager and External Auditors as is necessary should technical queries arise.

Further, each director has the right of access to all relevant Company information 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

Code of Conduct

The Board expects all 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 provider's compliance with the Company's Code of Conduct and Ethics, which is accessible to outside parties via the Company's website.

Securities Trading Policy

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 at any time. As Australian Leaders Fund Limited is an investment company reporting results monthly, the Board believes the shareholders are generally fully informed. Full details of the Company's Trading and Insider Trading policies can be found in the Corporate Governance policies located on the Company's corporate website.

Principle 4: Safeguard integrity in financial reporting

Audit & Risk Committee

The Company has an Audit Committee with a documented Charter, approved by the Board. The Charter can be located in the Corporate Governance section in the Australian Leaders corporate website. 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, risk management and any other matters 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 (via an annual risk management review).
(6) Watermark Funds Management Pty Limited (Investment Manager) and White Outsourcing Pty Limited (Administration Manager) are required to table their half-yearly compliance sign off's at each audit committee meeting held prior to the Board meeting at which annual and half year accounts are signed.

The Audit Committee also 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 no additional recommendations were made to the Board regarding the entity's insurance.

For details on the number of meetings of the Audit Committee held during the year and the attendees at those meetings, refer to page 22 of the Directors' Report.

Financial Statements Declaration

It is a requirement of the Board that White Outsourcing Pty Limited sign-off on the content of the financial statements, and that in their opinion, the financial records of the entity have been properly maintained, that the financial statements comply with the appropriate accounting standards and 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 and all material business risks have been effectively managed.

External auditor

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

Principle 5: Make timely and balanced disclosures

The Company will operate under the continuous disclosure requirements of the ASX Listing Rules as set out in its Disclosure Policy. The Company will ensure compliance with this Charter and will disclose:

- price sensitive information to the ASX as soon as it becomes aware of that information;
- ensure that the information is not false, misleading or deceptive so as to avoid creating what would constitute a false market; and
- ensure that the information is disclosed clearly (expressed objectively), accurately and is complete.

In doing so the Company will ensure compliance with Listing Rule 15.7 that requires an entity not to release information to anyone until it has given the information to the ASX and has received an acknowledgement from the ASX that the information has been released to the market
The Company Secretary is responsible for ensuring Australian Leaders complies with its continuous disclosure obligations.

All staff of the Investment Manager and the Administration Manager are made aware of these obligations and are required to report any price sensitive information to the Company Secretary immediately they become aware of it. The Company Secretary in conjunction 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. The monthly net asset backing per share is prepared and approved by the Administration Manager and reviewed by the Chairman. Where time does not permit approval by the Board, the Chairman of directors must approve the release.

All ASX releases are available on the Company's website via a direct link to the ASX website refer www.*wfunds.com.au/fund/australian-leaders-fund/.*

The Company has also adopted the following policies which can be located in the Company's Corporate Governance policy document:

- No comments policy
- Responding to analysts reports and forecasts
- Trading halts
- Advisors
- Contravention of policy

Principle 6: Respect the rights of shareholders

Communications with Shareholders

The Company seeks to keep its shareholders fully informed on all matters that affect their investment.

Australian Leaders' internet website can be accessed at www.wfunds.com.au . The objective of the website is to provide shareholders and potential investors with information that will assist them to assess the Company's performance as well as general information about Company and its governance.

All announcements to the ASX are available from the website via a direct link to the ASX website**.** These include:

- Release of preliminary gross performance at the beginning of each month;
- Monthly Net Asset Backing per share;
- Quarterly, Half year and Annual reports (released at approximately three month intervals)
- Notice of Annual General Meeting and Explanatory Memorandum; and
- The Chairman's Address to the Annual General Meeting.

In addition;

- Half-yearly investor updates are generally held each year,
- Quarterly reports will be sent via email to shareholders who register their interest and by surface mail to all other shareholders; and
- A hard copy Annual Report will be mailed to shareholders at the close of the financial year, where requested.

Principle 6: Respect the rights of shareholders (continued)

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.

Shareholders queries outside of the Annual General Meeting are welcomed by the Company via telephone on (02) 92520225 or via email on info@wfunds.com.au. Any shareholding related enquiries should be directed to the Share Registrar, Boardroom Pty Limited on (02) 92909600 or via email on enquiries@boardroomlimited.com.au.

Australian Leaders has policies and procedures in place to facilitate and encourage participation at shareholder meetings. Australian Leaders considers shareholder meetings, particularly the AGM, as an important forum for two-way communication between the Company and the shareholders. All shareholders have the opportunity to provide questions or comments ahead of the AGM. Where appropriate, these are read out at the AGM and then responded to at the AGM or a transcript of the question and written answer is provided at the AGM. This provides an opportunity for shareholders who are not able to attend the AGM, the opportunity to exercise their right to ask questions about, or make comments on, the management of Australian Leaders.

Principle 7: Recognise and manage risk

Risk Management Framework

The Board is responsible for ensuring the existence of an efficient and effective system of internal control and that the portfolio has been managed in accordance with the board approved investment process (as disclosed in the company's Annual Report). The Board has delegated the role of reviewing the risk profile and reporting on the operation of the internal control system to the Audit Committee.

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. In relation to the current reporting period ended all reviews have taken place. These reviews are scheduled to be undertaken during August each year.

Audit and Risk Committee
The Audit Committee;
(a) requires the Administration Manager to report on the operation of internal controls, and for the investment manager to report on compliance with the board approved investment process on a half yearly basis;
(b) reviews the external audit of internal controls and liaises with the external auditor on an annual basis;
(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 following risks have been identified by the Board 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

Principle 7: Recognise and manage risk (continued)

Administrative risks
The Board is primarily responsible for recognising and managing administrative risks including (a) operational, (b) compliance and (c) financial reporting. The Company has outsourced its administrative functions to service providers accordingly risk issues associated with these activities are handled in accordance with the service provider's policies and procedures. Certificates of insurance currency are obtained annually from all key service providers.

In accordance with section 295A of the Corporations Act 2001, the Administration Manager will confirm half-yearly in writing to the Board that in all material respects:

- The financial records of the company have been properly maintained in accordance with section 286 of the Corporations Act 2001;
- The financial statements and notes comply with the Accounting Standards; and
- The financial statements and notes give a true and fair view.

In addition, the Administration Manager will confirm half-yearly 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; and
- all material business risks have been effectively managed.

Market related risks
The Company seeks to reduce investment risk by a policy of diversification of investments across industries and companies operating in various sectors of the market. The 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 it has 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.

Internal Audit
The Company does not have a designated internal audit function. The Audit Committee is responsible for evaluating and improving the effectiveness of its risk management and internal control processes. The external auditor is required to attend the Annual General Meeting and is available to answer shareholder questions.

Economic, Environmental and Social Sustainability Risks
The Company does not consider it has any material exposure to economic, environmental or social sustainability risks under Recommendation 7.4.

Principle 8: Remunerate fairly and responsibly

Remuneration Committee

ASX Recommendation 8.1 states the Board should establish a Remuneration Committee. The Board does not have and does not intend to establish such a committee because the formation of such a committee would be inefficient given the Company's size and nature. It would not serve to protect or enhance the interest of shareholders. The Board will deal with this issue as a whole. Should the size of the Company change the Company will consider establishing a separate remuneration committee. The Board reviews the Remuneration Report to be included in the Annual Report to shareholders each year.

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 and are remunerated by way of director fees and superannuation contributions. Directors' fees cover all main board activities and membership of committees.

Principle 8: Remunerate fairly and responsibly (continued)

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.

Remuneration Policies and Practices

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..

Recommendation 8.2 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 23. 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.

involved in the operation of the Company.

The Company does not comply with Recommendation 8.3 as it does not have an equity-based remuneration scheme.

External Management

Principle 8 provides alternatives to Recommendations 8.1, 8.2 and 8.3 for externally managed entities should disclose a summary of any management agreement terms relating to management fees or the equivalent, including performance fees. While the Company is not strictly an externally managed entity per the Recommendations definition which refers to having a Responsible Entity, the Company has provided details of the remuneration of the Investment Manager in note 21(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 2015.

Directors

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

Justin Braitling (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 were making investments in listed companies.

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

Dividends - Australian Leaders Fund Limited

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

	Dividend Rate	Total Amount	Date of Payment	% Franked
2015				
Ordinary shares - final 2014	$0.06	$15,194,660	28/10/2014	100
Ordinary shares - interim 2015	$0.05	$12,737,784	14/04/2015	100
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

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 $12,815,830 (5 cents per fully paid share) with an ex date of 9 October 2015 and a record date of 13 October 2015, to be paid on 28 October 2015, out of the profits reserve at 30 June 2015.

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 (loss)/profit from ordinary activities after income tax amounted to ($6,144,815) (2014: $40,843,666 profit).

The net tangible asset backing for each ordinary share as at 30 June 2015 amounted to 133 cents per share (2014: 146 cents per share). The equivalent asset backing before tax was 132 cents per share (2014: 151 cents per share).

The gross portfolio value decreased 2.2% over the financial year while the All Ordinaries Accumulation Index increased by 5.7%, representing an under performance of 7.9%. After deducting costs in funding the balance sheet, along with management fees and other expenses, the fund reported a negative 3.4% return for the year.

During the year ended 30 June 2015, $27,813,848 was raised through the exercise of options (2014: $63,807,702).

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 $340,890,412 (2014: $342,942,966).

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Company during the year ended 30 June 2015.

Matters subsequent to the end of the financial year

Other than the dividend declared after year end, no other matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company 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 48

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, and is also a director of Watermark Market Neutral Fund Limited (appointed May 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 57

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 Children's Music Foundation, Odyssey House McGrath Foundation, Future Generation Investment Company Limited, Global Value Fund Limited, Century Australia Investments Limited and Future Generation Global Investment Company Limited and he is a Member of the Second Bite NSW Advisory Committee. He is also founder and Director of investment management companies Wilson Asset Management (International) Pty Limited and MAM Pty Limited.

Former directorships in last 3 years
Geoffrey Wilson was a director of Cadence Capital Limited from February 2005 until January 2013.

Special responsibilities
Member of the Audit Committee.

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

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

John Abernethy Non-Executive Director Age 56

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 65

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 2003 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 2015, and the numbers of meetings attended by each Director were:

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

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.

2015	Short-term employee benefits	Post-employment benefits	
Name	Salary and fees $	Superannuation $	Total $
Non-executive Directors			
Geoffrey Wilson	9,133	867	10,000
John Abernethy	31,963	3,037	35,000
Julian Gosse	35,000	-	35,000
Sub-total non-executive directors	76,096	3,904	80,000
Executive Director			
Justin Braitling	9,133	867	10,000
Other key management personnel			
Peter Roberts *	-	-	-
Total key management personnel compensation	85,229	4,771	90,000

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

Remuneration report (continued)

Details of remuneration (continued)

* 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 $151,415 during the year (2014: $166,938) 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:

	2015	2014	2013	2012	2011
Operating profit/(loss) after tax	($6,144,815)	$40,843,666	$23,329,557	($1,296,975)	$14,176,932
Dividends paid (cents per share)	11.0	12.0	12.0	11.0	13.0
Net tangible asset ($ per share)	$1.32	$1.51	$1.42	$1.30	$1.42
Total Directors' remuneration	$90,000	$90,000	$70,000	$70,000	$70,000
Total Shareholder's Equity	$340,890,412	$342,942,966	$225,960,084	$86,354,621	$90,159,808

Director Related Entity Remuneration

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

Justin Braitling is the sole Director and beneficial owner of Watermark Funds Management Pty Limited, the entity appointed to manage the investment portfolio of Australian Leaders Fund Limited. In its capacity as manager, Watermark Funds Management Pty Limited was paid a management fee of 1%p.a. (plus GST) of net investment assets amounting to $3,413,651 net of reduced input tax credits (2014: $3,174,861). As at 30 June 2015, the balance payable to the manager was $296,535 (2014: $321,303).

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 2015, in its capacity as manager, Watermark Funds Management Pty Limited was paid a performance fee net of reduced input tax credits amounting to Nil (2014: $4,517,642).

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 report (continued)

Details of remuneration (continued)

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 who 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	1,231,894
Geoffrey Wilson	Non-Executive Director	1,040,000
John Abernethy	Non-Executive Director	60,000
Julian Gosse	Non-Executive Director	-
		2,331,894

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

End of remuneration report

Insurance and indemnification of officers and auditors

(a) Insurance of officers

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 2015.

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 27.

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

Justin Braitling
Chairman

Sydney
21 August 2015

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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 2015, 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

Moore Stephens Sydney

S Whiddett

Scott Whiddett
Partner

Dated in Sydney this 21st August 2015

	Notes	Year ended **2015** $	2014 $
Investment income from ordinary activities			
Net gains on investments		**15,656,242**	62,564,807
Net unrealised (losses)/gains on investments		**(17,445,149)**	4,148,719
Dividends		**9,598,066**	11,634,198
Interest		**13,553,868**	12,033,823
Trust distributions		**970,972**	2,160,521
Other income		**339,809**	123,677
Net foreign exchange loss		**(1,249,584)**	-
		21,424,224	92,665,745
Expenses			
Management fees		**(3,413,651)**	(3,174,861)
Performance fees		**-**	(4,517,642)
Brokerage expense		**(4,627,571)**	(4,930,432)
Short dividend expense		**(13,923,369)**	(13,152,027)
Interest expense		**(7,787,039)**	(9,432,049)
Stock loan fees		**(4,154,577)**	(3,107,470)
Accounting fees		**(151,415)**	(166,938)
Share registry fees		**(231,887)**	(183,781)
Custody fees		**-**	(12,710)
Tax fees		**(14,300)**	(19,470)
Legal fees		**(3,697)**	(7,825)
Directors' fees		**(90,000)**	(90,000)
ASX fees		**(95,155)**	(81,005)
Audit fees		**(35,750)**	(34,596)
Other expenses		**(132,293)**	(153,397)
		(34,660,704)	(39,064,203)
(Loss)/profit before income tax		**(13,236,480)**	53,601,542
Income tax benefit/(expense)	7	**7,091,665**	(12,757,876)
(Loss)/profit for the year		**(6,144,815)**	40,843,666
Other comprehensive income/(loss) for the year, net of tax		**-**	-
Total comprehensive (loss)/income for the year		**(6,144,815)**	40,843,666
		Cents	Cents
Earnings per share for (loss)/profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share	26	**(2.45)**	20.38
Diluted earnings per share	26	**(2.45)**	19.56

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 2015

	Notes	At 2015 $	2014 $
ASSETS			
Current assets			
Cash and cash equivalents	8	**298,648,910**	240,035,290
Held to maturity investments		**-**	16,552,205
Trade and other receivables	9	**12,966,294**	21,945,034
Financial assets at fair value through profit or loss	10	**326,693,692**	459,704,421
Current tax assets		**9,380,539**	-
Other current assets		**-**	20,029
Total current assets		**647,689,435**	738,256,979
Non-current assets			
Deferred tax assets	12	**3,807,386**	3,162,695
Total non-current assets		**3,807,386**	3,162,695
Total assets		**651,496,821**	741,419,674
LIABILITIES			
Current liabilities			
Trade and other payables	13	**56,408,458**	34,245,138
Financial liabilities at fair value through profit or loss	14	**254,186,209**	353,286,729
Current tax liabilities		**-**	4,473,747
Total current liabilities		**310,594,667**	392,005,614
Non-current liabilities			
Deferred tax liabilities	15	**11,742**	6,471,094
Total non-current liabilities		**11,742**	6,471,094
Total liabilities		**310,606,409**	398,476,708
Net assets		**340,890,412**	342,942,966
EQUITY			
Issued capital	16	**335,234,188**	303,209,483
Reserves	17(a)	**11,801,039**	39,733,483
Accumulated losses	17(b)	**(6,144,815)**	-
Total equity		**340,890,412**	342,942,966

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

	Notes	Issued capital $	Profits reserve $	Retained earnings/ (Accumulated losses) $	Total $
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**
Balance at 1 July 2014		303,209,483	39,733,483	-	342,942,966
Loss for the year as reported in the 2015 Financial Statements		-	-	(6,144,815)	(6,144,815)
Transactions with owners in their capacity as owners:					
Dividends provided for or paid		-	(27,932,444)	-	(27,932,444)
Costs of issued capital		(28,869)	-	-	(28,869)
Shares issued under dividend reinvestment plan		4,239,726	-	-	4,239,726
Shares issued on options exercised		27,813,848	-	-	27,813,848
		32,024,705	(27,932,444)	-	4,092,261
Balance at 30 June 2015		**335,234,188**	**11,801,039**	**(6,144,815)**	**340,890,412**

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

	Notes	Year ended **2015** $	2014 $
Cash flows from operating activities			
Purchase of financial assets held at fair value through profit or loss		**(826,503,070)**	(1,025,661,113)
Proceeds from sale of financial assets held at fair value through profit or loss		**970,031,946**	1,017,489,462
Proceeds from short sale of financial liabilities held at fair value through profit or loss		**783,753,675**	715,185,211
Re-purchase of financial liabilities held at fair value through profit or loss		**(860,696,345)**	(590,236,063)
Interest received		**13,713,451**	11,570,931
Interest paid		**(8,112,597)**	(9,477,283)
Dividends received		**11,786,914**	14,055,061
Dividends paid on short stocks		**(13,945,117)**	(12,260,575)
Underwriting income		**337,896**	123,288
Other revenue		**1,499**	388
Income taxes paid		**(13,854,291)**	(8,851,326)
Investment management fees paid		**(3,432,503)**	(3,302,421)
Performance fees paid		**(4,517,642)**	(6,495,557)
Brokerage expense		**(4,461,635)**	(4,892,819)
Stock loan fees		**(4,138,455)**	(2,939,738)
Payments for other expenses		**(732,615)**	(515,743)
Net cash inflow from operating activities	24	**39,231,111**	93,791,703
Cash flows from investing activities			
Proceeds from held-to-maturity investments		**16,552,205**	(16,552,205)
Net cash inflow/(outflow) from investing activities		**16,552,205**	(16,552,205)
Cash flows from financing activities			
Share issue and buy-back transaction costs		**(41,266)**	(522,540)
Dividends paid to company's shareholders		**(23,692,694)**	(21,102,732)
Shares underwritten		**-**	33,800,000
Shares issued on options exercised		**27,813,848**	63,807,702
Net cash inflow from financing activities		**4,079,888**	75,982,430
Net increase in cash and cash equivalents		**59,863,204**	153,221,928
Cash and cash equivalents at the beginning of the year		**240,035,290**	86,813,362
Effects of exchange rate changes on cash and cash equivalents		**(1,249,584)**	-
Cash and cash equivalents at end of year	8	**298,648,910**	240,035,290
Non-cash investing and financing activities			
Dividends reinvested		**4,239,726**	3,637,741

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 Level 6, 139 Macquarie Street, Sydney, NSW 2000. The financial statements of Australian Leaders Fund Limited are for the year ended 30 June 2015. 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 21 August 2015.

(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

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2014 that have a material impact on the Company.

(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.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(v) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2015 reporting periods and have not been early adopted by the Company. The Company’s assessment of the impact of these new standards and interpretations is set out below.

Title of standard	Nature of change	Impact	Mandatory application date/ Date of adoption by the Company
AASB 9 *Financial Instruments*	AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the AASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.	Following the changes approved by the AASB in December 2014, the Company no longer expects any impact from the new classification, measurement and derecognition rules on the Company's financial assets and financial liabilities as they are carried at fair value through profit or loss, the derecognition rules have not changed from previous requirements and the company does not apply hedge accounting.	Must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Company has not yet decided when to adopt AASB 9.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Title of standard	Nature of change	Impact	Mandatory application date/ Date of adoption by the Company
AASB 15 *Revenue from Contracts with Customers*	The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (eg 1 July 2017), ie without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.	The Company's main sources of income are interest, dividends and distributions and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As a consequence, the Directors do not expect the adoption of AASB 15 to have a significant impact on the Company’s accounting policies or the amounts recognised in the financial statements.	Mandatory for financial years commencing on or after 1 January 2017. The Company has not yet decided when to adopt AASB 15.

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

(b) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Australian dollars, which is Australian Leaders Fund Limited's functional and presentation currency.

2 Summary of significant accounting policies (continued)

(b) Foreign currency translation (continued)

(i) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss in the Statement of Comprehensive Income.

(c) Revenue recognition

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

(i) Investment income

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

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

(d) 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.

2 Summary of significant accounting policies (continued)

(d) Income tax (continued)

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.

(e) 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.

(f) 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.

(g) 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.

(h) Financial assets and liabilities

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

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

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

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

Dividends expense on short sales of securities, which have been classified at fair value through profit or loss, is recognised in the Statement of Comprehensive Income.

2 Summary of significant accounting policies (continued)

(h) Financial assets and liabilities (continued)

(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.

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.

2 Summary of significant accounting policies (continued)

(h) Financial assets and liabilities (continued)

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 4.

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.

(i) 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.

(j) Finance costs

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

(k) 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.

(l) Profits reserve

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

(m) 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)

(n) 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.

(o) 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.

(p) Comparatives

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

(q) Operating segments

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

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, foreign exchange 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

Exposure

The Company is not materially exposed to currency risk as the majority of its investments are quoted in Australian dollars.

Sensitivity

The analysis is based on the assumption that the Australian dollar weakened and strengthened by 10% against the foreign currencies to which the Company is exposed. The impact on post-tax loss for the year would be $341,646 lower/$341,656 higher. In 2014 there were no foreign holdings.

(ii) Price risk

Exposure

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.

The table below analyses the Company's concentration of price risk by region.

	2015 %	2014 %
Domestic	**93.00**	100.00
International	**7.00**	0.00
	100.00	100.00

3 Financial risk management (continued)

(a) Market risk (continued)

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

Sector	2015 (%)	2014 (%)
Information technology	**25.80**	19.60
Financials	**37.20**	40.60
Energy	**7.90**	17.60
Health care	**5.20**	12.50
Consumer staples	**-5.40**	-10.30
Industrials	**-6.10**	9.90
Consumer discretionary	**45.80**	7.50
Utilities	**5.50**	-9.60
Materials	**-15.90**	9.70
Telecommunications services	**0.00**	2.50
Total	**100.00**	100.00

As at 30 June 2015 two securities represented over 5% of the long or short investment portfolio. As at 30 June 2014 no securities represented over 5 per cent of the long or short investment portfolio.

Sensitivity

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

	Impact on post-tax (loss)/profit	
	2015 **$**	2014 $
Decrease 5%	**2,537,762**	(3,724,619)
Increase 5%	**(2,537,762)**	3,724,619
Decrease 10%	**5,075,524**	(7,449,238)
Increase 10%	**(5,075,524)**	7,449,238

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

At balance date, the net portfolio position was $72,507,483 (2014: $106,417,692).

(i) 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)

At 30 June 2015

	Floating interest rate $	Fixed interest rate $	Non- interest bearing $	Total $
Financial assets				
Cash and cash equivalents	**298,648,910**	**-**	**-**	**298,648,910**
Trade and other receivables	**-**	**-**	**12,966,294**	**12,966,294**
Financial assets held at fair value through profit or loss	**-**	**-**	**326,693,692**	**326,693,692**
Current tax assets	**-**	**-**	**9,380,539**	**9,380,539**
	298,648,910	**-**	**349,040,525**	**647,689,435**
Financial liabilities				
Trade and other payables	**-**	**-**	**(56,408,458)**	**(56,408,458)**
Financial liabilities held at fair value through profit or loss	**-**	**-**	**(254,186,209)**	**(254,186,209)**
	-	**-**	**(310,594,667)**	**(310,594,667)**
Net exposure to interest rate risk	**298,648,910**	**-**	**38,445,858**	**337,094,768**

At 30 June 2014

	Floating interest rate $	Fixed interest rate $	Non-interest bearing $	Total $
Financial assets				
Cash and cash equivalents	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
	132,224,456	124,363,039	481,649,455	738,236,950
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)
	-	-	(392,005,614)	(392,005,614)
Net exposure to interest rate risk	132,224,456	124,363,039	89,643,841	346,231,336

Sensitivity

At 30 June 2015, if interest rates had increased by 75 or decreased by 75 basis points from the year end rates with all other variables held constant, post-tax loss for the year would have been $1,567,907 lower/$1,567,907 higher (2014 changes of 75 bps/75 bps: $1,347,084 higher/$1,347,084 lower on post-tax profit), mainly as a result of higher/lower interest income from cash and cash equivalents.

3 Financial risk management (continued)

(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% (2014: 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 investments. 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.

Contractual maturities of financial liabilities	**Less than 1 month**	**More than 1 month**	**Total contractual undiscounted cash flows**
At 30 June 2015	**$**	**$**	**$**
Non-derivatives			
Trade and other payables	**56,408,458**	**-**	**56,408,458**
Financial liabilities at fair value through profit or loss	**254,186,209**	**-**	**254,186,209**
Total non-derivatives	**310,594,667**	**-**	**310,594,667**

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

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:

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

(i) Recognised fair value measurements

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

Recurring fair value measurements **At 30 June 2015**	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
Financial assets				
Equity securities	**326,177,439**	**-**	**-**	**326,177,439**
Unlisted equity securities	**-**	**516,253**	**-**	**516,253**
Total financial assets	**326,177,439**	**516,253**	**-**	**326,693,692**
Financial liabilities				
Equity securities sold short	**254,186,209**	**-**	**-**	**254,186,209**
Total financial liabilities	**254,186,209**	**-**	**-**	**254,186,209**

4 Fair value measurements (continued)

(a) Fair value hierarchy (continued)

Recurring fair value measurements At 30 June 2014	**Level 1** **$**	**Level 2** **$**	**Level 3** **$**	**Total** **$**
Financial assets				
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				
Equity securities sold short	353,286,729	-	-	353,286,729
Total financial liabilities	353,286,729	-	-	353,286,729

Included within Level 1 of the hierarchy are listed investments. The fair value of these financial assets and liabilities have been based on the last close prices at the end of the reporting year, 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 year end 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 transfers between levels 1 and 2 for recurring fair value measurements during the year, relating to the listing of the unlisted equity securities as at year end. There were no transfers in and out of level 3.

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.

(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 the Company's history of realised gains the directors believe that the 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 globally 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 (benefit)/expense

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

	Year ended 2015 $	Year ended 2014 $
Deferred tax on temporary differences	**(8,154,340)**	13,845,926
Tax on permanent differences	**1,062,980**	(1,119,969)
Adjustments for current tax of prior periods	**(305)**	31,919
	(7,091,665)	12,757,876
Income tax (benefit)/expense is attributable to:		
(Loss)/profit from continuing operations	**(7,091,665)**	12,757,876

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

	Year ended 2015 $	Year ended 2014 $
(Loss)/profit from continuing operations before income tax expense/(benefit)	**(13,236,480)**	53,601,542
Tax at the Australian tax rate of 30.0% (2014 - 30.0%)	**(3,970,944)**	16,080,463
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Franking credits on dividends received	**(2,761,110)**	(3,811,436)
Imputation credit gross up	**828,333**	1,143,431
Realised gain not subject to tax	**(1,379,906)**	(581,204)
Change in franked dividends not subject to tax	**180,129**	(97,930)
Foreign tax gross up on dividend income	**12,581**	24,552
Adjustments for current tax of prior periods	**(748)**	-
Income tax (benefit)/expense	**(7,091,665)**	12,757,876

The applicable weighted average effective tax rates are as follows:	**(53.58)%**	23.80%

(c) Amounts recognised directly in equity

	Notes	Year ended 2015 $	Year ended 2014 $
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:			
Current tax - debited (credited) directly to equity		**(261,192)**	(363,362)

8 Current assets - Cash and cash equivalents

	At	
	2015	2014
	$	$
Current assets		
Cash at bank	**116,648,910**	132,224,456
Term deposits	**182,000,000**	107,810,834
	298,648,910	240,035,290

(i) 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	
	2015	2014
	$	$
Balances as above	**298,648,910**	240,035,290

(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
Australia and New Zealand Banking Group Ltd	AA-
UBS AG Investment Bank	A
National Australia Bank	AA-

9 Current assets - Trade and other receivables

	At	
	2015	2014
	$	$
Dividends and distributions receivable	**510,206**	1,538,820
Interest receivable	**1,027,780**	1,187,363
GST receivable	**77,911**	579,908
Unsettled trades	**11,350,397**	18,638,943
	12,966,294	21,945,034

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:

	At	
	2015	2014
	$	$
Listed securities	**326,693,692**	459,704,421

The market values of all investments as at 30 June 2015 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 4,419 (2014: 4,061). Each investment transaction may involve multiple contract notes.

The total brokerage paid on these contract notes was $10,891,240 (2014: $10,385,281).

(ii) 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	
	2015	2014
	$	$
Term deposits	**-**	16,552,205
	-	16,552,205

12 Non-current assets - Deferred tax assets

	At	
	2015	2014
	$	$
The balance comprises temporary differences attributable to:		
Capitalised share issue costs	**261,192**	363,052
Carry forward losses	**3,366,817**	2,791,063
Accrued expenses	**7,791**	8,580
Net unrealised losses of investments	**171,586**	-
	3,807,386	3,162,695

12 Non-current assets - Deferred tax assets (continued)

Movements	Total $
At 1 July 2013	4,050,677
(Charged)/credited	
- to profit or loss	(114,410)
- directly to equity	156,783
- recoup prior year tax losses	(930,355)
At 30 June 2014	3,162,695

Movements	**Total $**
At 30 June 2014	3,162,695
(Charged)/credited	
- to profit or loss	**632,318**
- directly to equity	**12,373**
At 30 June 2015	**3,807,386**

13 Current liabilities - Trade and other payables

	At	
	2015 $	2014 $
Management fees payable	**296,535**	321,303
Performance fees payable	**-**	4,848,201
Unsettled trades	**53,598,946**	26,232,589
Interest payable	**332,124**	657,682
Other payables	**2,180,853**	2,185,363
	56,408,458	34,245,138

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	
	2015 $	2014 $
Equity securities sold short	**254,186,209**	353,286,729

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 2015 $	2014 $
The balance comprises temporary differences attributable to:		
Net unrealised gains on investments	**-**	6,450,230
Other temporary differences	**11,742**	20,864
	11,742	6,471,094

Movements	**Total $**
At 1 July 2013	6,700,330
Charged/(credited)	
- profit or loss	(229,236)
At 30 June 2014	**6,471,094**

Movements	Total $
At 1 July 2014	6,471,094
Charged/(credited)	
- profit or loss	**(6,459,352)**
At 30 June 2015	**11,742**

16 Issued capital

(a) Share capital

	Notes	**30 June 2015 Shares**	30 June 2014 Shares	**30 June 2015 $**	30 June 2014 $
Ordinary shares	16(b), 16(c)	**256,316,599**	232,942,259	**335,234,188**	303,209,483

(b) Movements in ordinary share capital

Details	**Notes**	**Number of shares**	**$**
Opening balance 1 July 2013		164,155,968	202,329,794
Dividends reinvestment plan issues	16(d)	2,211,326	3,637,741
Shares issued under DRP Placement Shortfall for $1.69 per share	16(f)	20,000,000	33,800,000
Options exercised for $1.37 per share	16(e)	46,574,965	63,807,702
Cost of issued capital		-	(365,754)
Balance 30 June 2014		232,942,259	303,209,483

16 Issued capital (continued)

(b) Movements in ordinary share capital (continued)

Opening balance 1 July 2014		**232,942,259**	**303,209,483**
Dividends reinvestment plan issues	16(d)	**3,072,261**	**4,239,726**
Options exercised for $1.37 per share	16(e)	**20,302,079**	**27,813,848**
Cost of issued capital		**-**	**(28,869)**
Balance 30 June 2015		**256,316,599**	**335,234,188**

(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) Options

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 expiry 30 September 2014.

Since issue, a total of 110,936,662 options have been exercised and allotted for a total consideration of $151,983,227. On 30 September 2014, 2,391,366 options expired.

(f) DRP shortfall

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

(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 2014.

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/(accumulated losses)

(a) Reserves

	At 2015 $	2014 $
Profits reserve	**11,801,039**	39,733,483

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

	Notes	At 2015 $	2014 $
Movements:			
Opening balance		**39,733,483**	23,630,290
Transfer from retained earnings		**-**	40,843,666
Dividends paid	18	**(27,932,444)**	(24,740,473)
Closing balance		**11,801,039**	39,733,483

(b) Retained earnings/(accumulated losses)

Movements in retained earnings/(accumulated losses) were as follows:

	At 2015 $	2014 $
Opening balance	**-**	-
Net (loss)/profit for the year	**(6,144,815)**	40,843,666
Transfer (to) profits reserve	**-**	(40,843,666)
Closing balance	**(6,144,815)**	-

18 Dividends

(a) Dividend rate

Dividends paid fully franked at 30% tax rate

	Dividend Rate	Total Amount	Date of Payment	% Franked
2015				
Ordinary shares - final 2014	**$0.06**	**$15,194,660**	**28/10/2014**	**100**
Ordinary shares - interim 2015	**$0.05**	**$12,737,784**	**14/04/2015**	**100**
Total		**$27,932,444**		
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		

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

	Year ended 2015 $
In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 5 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 2015 and a record date of 13 October 2015, expected to be paid on 28 October 2015 out of the profits reserve at 30 June 2015, but not recognised as a liability at year end, is	**12,815,830**

(c) Dividend franking account

The franked portions of the final dividends recommended after 30 June 2015 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 2016.

	2015 $	2014 $
Opening balance of franking account	**7,198,149**	5,138,452
Franking credits on dividends received	**2,872,193**	3,971,811
Tax paid during the year	**13,854,290**	8,851,326
Franking credits lost on ordinary dividends paid	**(11,971,048)**	(10,603,060)
Franking credits lost under 45 day rule	**(111,083)**	(160,380)
Closing balance of franking account	**11,842,501**	7,198,149
Adjustments for tax payable/refundable in respect of the current year's profits and the receipt of dividends	**(9,286,450)**	4,885,073

18 Dividends (continued)

(c) Dividend franking account (continued)

	2015 $	2014 $
Adjusted franking account balance	**2,556,051**	12,083,222
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	**(5,492,498)**	(6,123,828)
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2014 - 30.0%)	**(2,936,447)**	5,959,394

19 Key management personnel disclosures

	Year ended 2015 $	2014 $
Directors fees paid		
Short-term employee benefits	**85,228**	85,343
Post-employment benefits	**4,772**	4,657
	90,000	90,000

(a) Key management personnel compensation

Detailed remuneration disclosures are provided in the remuneration report on pages 23 to 25.

(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 2014 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 (nil for 2015).

2014 Name	**Balance at start of the year**	**Net movement**	**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)

(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.

2015 **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	**1,381,894**	**(150,000)**	**1,231,894**
Geoffrey Wilson	**1,000,000**	**40,000**	**1,040,000**
John Abernethy	**60,000**	**-**	**60,000**
Julian Gosse	**-**	**-**	**-**
	2,441,894	**(110,000)**	**2,331,894**

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

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:

(i) Audit and other assurance services

	Year ended	
	2015	2014
	$	$
Audit and other assurance services		
Audit and review of financial statements Moore Stephens Sydney	**34,890**	36,174
Total remuneration for audit and other assurance services	**34,890**	36,174
Taxation services		
Tax compliance services	**13,000**	16,975
Total remuneration of Moore Stephens Sydney	**47,890**	53,149

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 2015 (2014: 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 $3,413,651 net of reduced input tax credits (2014: $3,174,861).

As at 30 June 2015, the balance payable to the Investment Manager was $296,535 (2014: $321,303).

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 2015 in its capacity as manager, Watermark Funds Management Pty Limited performance fee net of reduced input tax credits was nil (2014: $4,517,642).

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

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/(loss) after income tax to net cash inflow from operating activities

	Year ended	
	2015	2014
	$	$
(Loss)/profit for the year	**(6,144,815)**	40,843,666
Fair value losses on financial assets at fair value through profit or loss	**33,910,209**	21,602,252
Net exchange differences	**1,249,584**	-
Change in operating assets and liabilities:		
Decrease in trade and other receivables	**8,978,740**	32,603,614
Increase in other current assets	**(9,360,510)**	-
(Increase)/decrease in deferred tax assets	**(620,576)**	1,046,360
Increase/(decrease) in trade and other payables	**22,163,320**	(5,165,976)
(Decrease)/increase in provision for income taxes payable	**(4,473,747)**	3,091,023
Decrease in deferred tax liabilities	**(6,471,094)**	(229,236)
Net cash inflow from operating activities	**39,231,111**	93,791,703

25 Non-cash financing activities

	Year ended	
	2015	2014
	$	$
Dividends reinvested	**4,239,726**	3,637,741

26 Earnings per share

(a) Basic earnings per share

	Year ended 2015 Cents	Year ended 2014 Cents
Basic earnings per share attributable to the ordinary equity holders of the Company	**(2.45)**	20.38

(b) Diluted earnings per share

	Year ended 2015 Cents	Year ended 2014 Cents
Diluted earnings per share attributable to the ordinary equity holders of the Company	**(2.45)**	19.56

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 2015 Number	Year ended 2014 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**250,606,819**	200,382,759
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	**250,606,819**	208,818,663

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

(a) the financial statements and notes set out on pages 28 to 58 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 2015 and of its performance for the year ended on that date, and
(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
(c) Note 2(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board, and
(d) On behalf of the managers of Watermark Funds Management Pty Limited, and Peter Roberts as persons who performs the Chief Executive and Chief Finance Officer functions respectively for the purposes of this Act have each declared that:
   (i) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
   (ii) the financial statements and notes for the financial year comply with the Accounting Standards; and
   (iii) the financial statements and notes for the financial year give a true and fair view.

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

Justin Braitling
Chairman

Sydney
21 August 2015

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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 2015, 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 controls 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 controls 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 controls. 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.

MOORE STEPHENS

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 2015 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 23 to 25 of the directors' report for the year ended 30 June 2015. 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 2015 complies with section 300A of the *Corporations Act 2001*.

Moore Stephens Sydney

Moore Stephens Sydney

Scott Whiddett
Partner

Dated in Sydney this 21st August 2015

The Shareholder information set out below was applicable as at 31 July 2015.

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:

	Class of equity security Ordinary shares		
Holding	**No. of Shareholders**	**Shares**	**Percentage**
1 - 1000	426	210,761	0.08
1,001 - 5,000	1,366	4,238,537	1.65
5,001 - 10,000	1,646	12,889,576	5.03
10,001 - 100,000	4,763	146,805,966	57.28
100,001 and over	360	92,171,759	35.96
	8,561	256,316,599	100.00

There were 168 holders of less than a marketable parcel of ordinary shares.

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	4,313,055	1.68
MRS FAY MARTIN-WEBER	3,500,000	1.37
MR VICTOR JOHN PLUMMER	3,500,000	1.37
NSR INVESTMENTS PTY LTD <NSR SUPER FUND A/C>	1,300,000	0.51
MR ROBERT FERGUSON & MS JENNIFER FERGUSON & MS RACHEL FERGUSON <TORRYBURN SUPER FUND A/C>	1,297,570	0.51
AVANTEOS INVESTMENTS LIMITED <CLEARVIEW S/P A/C>	1,297,389	0.51
NEVILLE WARD SUPER PTY LIMITED <THE NW WARD SUPER FUND A/C>	1,291,259	0.50
MRS JEAN PLUMMER	1,125,000	0.44
MRS THELMA JOAN MARTIN-WEBER	1,099,546	0.43
JOHN GRICE PTY LTD <GRICE SUPER FUND A/C>	1,045,629	0.41
BURROWS INVESTMENTS PTY LTD	1,018,579	0.40
GW HOLDINGS PTY LTD <EDWINA A/C>	1,000,000	0.39
WATTLES NEST PTY LTD <WATTLES NEST SUPER FUND A/C>	943,666	0.37
RATIONAL RESEARCH INVESTMENTS PTY LIMITED	849,618	0.33
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	841,068	0.33
MR DAVID SHARPLES & MS ANNETTE MACGREGOR <SHARPLES MACGREGOR SF A/C>	809,415	0.32
FIRST COVENANT PTY LTD <BRAITLING SUPER FUND A/C>	800,895	0.31
D J CHERRY PTY LTD <D J CHERRY PTY LTD S/F A/C>	794,200	0.31
FJP PTY LTD <PALAZZO FAMILY S/F A/C>	725,616	0.28
MR CLIFFORD LAW & MS SUSANNE BRUHN <BRUHN LAW SUPER FUND A/C>	700,626	0.27
	28,253,131	11.04

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.