

# Australian Leaders Fund Limited

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ABN 64 106 845 970

## Annual Report 2017

YEAR ENDED 30 JUNE 2017

## COMPANY PARTICULARS

### Australian Leaders Fund Limited

A.B.N. 64 106 845 970

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#### DIRECTORS:

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

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#### COMPANY SECRETARY

Mark Licciardo

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#### PRINCIPAL REGISTERED OFFICE IN AUSTRALIA:

Level 6  
139 Macquarie Street  
Sydney NSW 2000  
Phone: (02) 9252 0225  
Fax: (02) 9252 1220  
Email: [info@wffunds.com.au](mailto:info@wffunds.com.au)

For enquiries regarding net asset backing (as advised each month to the Australian Securities Exchange) refer to [www.asx.com.au](http://www.asx.com.au) or call (02) 8280 1700.

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#### SHARE REGISTER

Boardroom Pty Limited  
Level 12  
225 George Street  
Sydney NSW 2000  
Phone: (02) 9290 9600  
Fax: (02) 9279 0664

For enquiries relating to shareholdings, dividends (including participation in the Dividend Reinvestment Plan) and related matters, please contact the share registrar.

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#### AUDITORS

Pitcher Partners  
Level 22  
MLC Centre  
19 Martin Place  
Sydney NSW 2000  
Phone: (02) 9221 2099

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#### SECURITIES EXCHANGE LISTING

Australian Securities Exchange (ASX)  
The home exchange is Sydney.  
ASX code: ALF ordinary shares

# **Australian Leaders Fund Limited** ABN 64 106 845 970

## **Annual Report - 30 June 2017**

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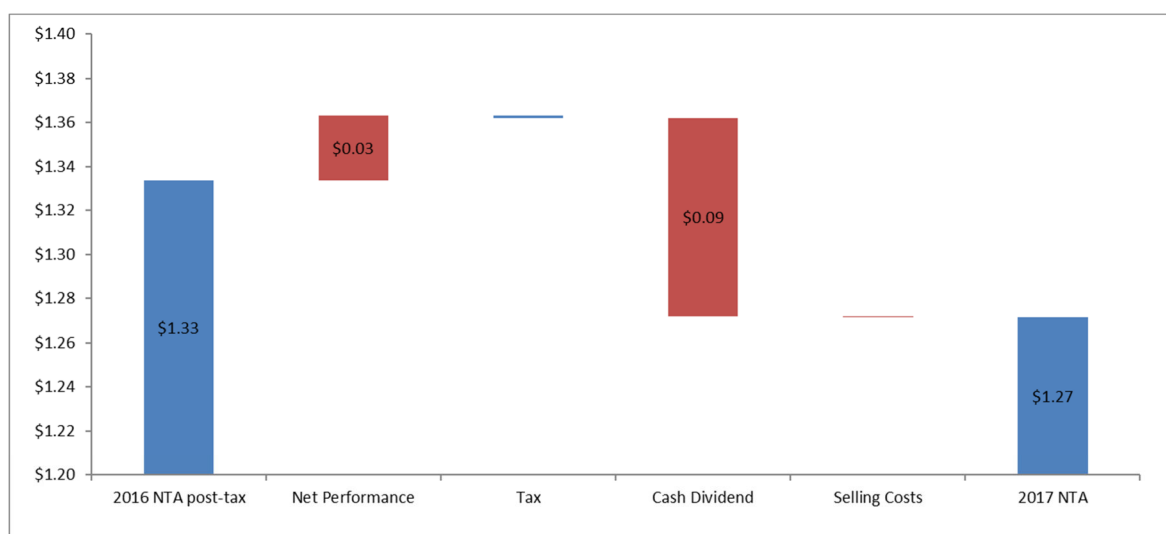
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## Chairman's Letter

Dear fellow shareholders,

Following a record profit in FY16, Australian Leaders Fund (ALF) reported an after-tax profit of \$7m for the financial year ending June 30, 2017. As at the end of the period, ALF's after-tax Net Tangible Asset Backing (NTA) was \$1.27, down from \$1.33 the previous year (refer Figure 1). Shareholders received a total of 9 cents per share in dividends over the year, comprising a final dividend of 5 cents fully franked and an interim dividend of 4 cents, franked to 50%.

Figure 1: NTA Bridge



The portfolio delivered a gross return of 3.6% for the period, falling well short of the benchmark which increased by 13.1%. Given this shortfall, it is timely to remind investors why ALF's Absolute Return Strategy is attractive even in strong share markets.

The Company's objective is clear: to achieve reasonable returns for our shareholders while avoiding drawdowns in the share market. The value in this strategy can be easily grasped when one observes the share market (excluding dividends) is still 8% below where it was ten years ago. Most investors are yet to fully recover the capital lost from this drawdown.

If we can avoid these drawdowns while delivering reasonable returns year in year out, our investors will be well ahead in the long run. This may mean from time to time our returns will be very different to the share market, which we are benchmarked against. In some years this will be a negative variance like last year, while in others it will be a positive divergence as with our 2009 result, when ALF's portfolio increased by 26% when the share market fell by 22%.

This business cycle has continued unabated for almost a decade, the associated bull market in shares is looking tired and running out of momentum. Valuations are stretched which makes shares inherently risky. With this backdrop, the Manager has fully hedged the fund's exposure to movements in the share market through the addition of a matching short portfolio. While the short portfolio protects the fund from a fall in the share market, investors do not participate in a rising market either as occurred last year.

When fully hedged like this, the Company's capital is retained in cash earning interest and investors benefit to the extent the Company's long portfolio of shares the Manager likes outperforms the Company's short portfolio of shares the Manager doesn't like. This 'spread' is the principal source of return for our investors and is unrelated to movements in the share market.

While this source of return can be highly variable, investors should take comfort from the manager's consistent track record over time. In each of the last ten financial years, the long portfolio has outperformed the short portfolio, the Manager has created value for shareholders. So long as the Manager can create this positive spread, the fund is unlikely to lose value other than in paying out costs and dividends.

The Company's ability to sustain and pay dividends should also be considered in the context of this structure. A traditional 'long only' investment company is fully invested in shares and is also fully exposed to market movements either up or down. These investment companies receive dividends from their underlying investment portfolios which in turn can be distributed to their shareholders.

When ALF is fully hedged as it is today, the dividends we receive on our long portfolio are largely paid away to the beneficial owners of the shares the Company is short. ALF's dividend paying capacity is dependent on the Manager's ability to generate capital profits over time - a positive spread in portfolio performance as described above.

In the past, ALF has paid a very high dividend yield on capital, generating amongst the highest yields in the Australian LIC peer group. The Board flagged at the half-year that the Company's payout ratio had become unsustainable in an enduring and historically low interest rate environment. Therefore, the Board began a process of moving the dividend to a more sustainable level.

Giving regard to the importance Shareholders place on investment income, and in light of modest capital profits that have accumulated in FY17, the Board feels it is appropriate to consider other capital management initiatives while this process is underway. To that end, the Board has declared a 4 cents per share return of capital, subject to approval by Shareholders.

ALF offers investors a unique strategy. Investors can profit from the mispricing of shares without the attendant risks of being exposure to the share market. The insurance comes at a cost however, the returns investors are left with is largely dependent on the value created by the Manager. Given market risks are elevated, the Manager believes the insurance is well worth taking if it means investors can avoid the next major drawdown.



Justin Braitley

Chairman

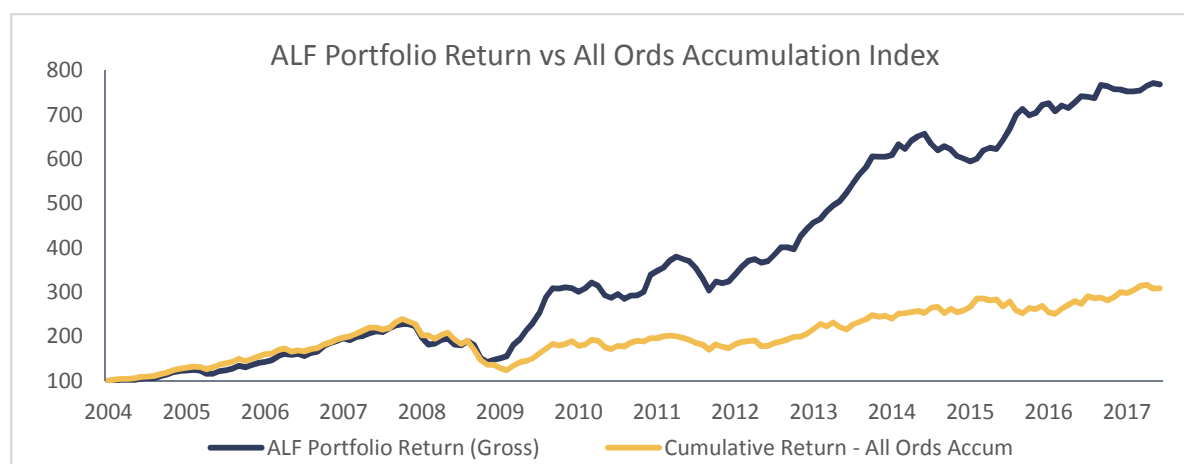
Dated at Sydney, September 18, 2017

## Chief Investment Officers' Report – ALF

### Performance Review

The 2017 financial year presented a myriad of challenges for active stock pickers. The performance of global share markets turned largely on the prospect of further support from central banks, while being buffeted by geopolitical upheaval in many parts of the world. Volatility on the other hand has been subdued, as share markets grind ever higher. ALF began the year net short the share market, having successfully navigated the 'Brexit' referendum. However, the resilience of markets in rebounding from this shock proved to be a surprise that would repeat itself, following the election of President Trump in the US. This coincided with a string of weaker months for the Fund.

Figure 1: Cumulative gross return of ALF's portfolio, vs the benchmark



With the fund fully hedged, ALF's portfolio lagged its benchmark, delivering a gross return of 3.6%, as compared with the All Ordinaries Accumulation Index, which rose by 13.1% for the 12 months to June 30. Fund returns in the period followed two clear themes, longs outperformed shorts and international investments outperformed domestic.

As we have discussed previously, in a long/short strategy the fund derives a return in so far as the long portfolio outperforms the short portfolio. This 'spread' that emerges from successful security selection is the fund's gross return before fees and expense are deducted (Fig 1).

You can see from the performance table below, in 2017 both domestic and international long portfolios outperformed their respective benchmark indexes by a comfortable margin; the manager has added significant value on the long side of the ledger. While little value was added through security selection on the short side (the short portfolio performing in line with the market on a blended basis) the hedge detracted significantly from overall fund performance.

#### 12 Month Performance at 30 June 2017

	ALF	Domestic Portfolio	Intl. Portfolio
Long Return*	19.1%	15.5%	22.3%
Short Return*	15.1%	13.8%	14.3%
L/S Spread*	4.0%	1.7%	8.0%
All Ords Accum Index		13.1%	
MSCI AC World Index			15.3%

\*Returns do not take account of fees or costs.

When considering the fund's longer-term performance, ALF's long portfolio has outperformed the broader share market in eight of the last 10 years. In fact, when viewed in isolation it would be amongst the strongest long-only strategies on offer, delivering an annualised gross return of 19.5% over the last 5 years. By comparison, the best Australian fund managers (top quartile) averaged a return of 14.7% pa. for the same period, according the Morningstar Institutional Sector Survey.

Of course, the Fund's short hedge has detracted from this performance in recent years as it has become larger, particularly last year, leaving net returns lower at 11.5% pa over 5 years. While the insurance has come at a significant cost in a strong share market, we feel it is well worth taking if it protects investors from the next market drawdown.

We have increased ALF's exposure to international shares over the last 12 months as our coverage of global markets has expanded. The performance of ALF's international portfolio was strong, accounting for 80% of the Fund's total return in the period. Our expanded investment universe has given us the ability to gain exposure to exciting global opportunities in technology, healthcare and consumer brands, which are not well represented on the Australian Securities Exchange. This blend of domestic and international shares has also worked to reduce the volatility of the Fund's return which has fallen by 37% over the last 2 years.

## **Portfolio Review**

### Basic Industries

Our approach in the mining sector has been to build hedged exposures, favouring higher quality companies such as BHP, Rio Tinto and Iluka while shorting the shares of companies that are more highly exposed to any slowdown in China and to commodities that are oversupplied. We expect the sharp relief rallies that have been characteristic of the resource sector in recent times will continue, however we will look to sell into this strength given the softer medium-term outlook. Navigating this complex macroeconomic environment proved challenging in FY17 and the mining portfolio detracted from fund returns.

In the energy sector, we are positioned for a protracted period of lower oil prices. Once the swing supplier of oil, US shale producers have improved productivity and reduced costs, rendering them competitive at lower oil prices. We have invested in low cost producers with optionality in their portfolio such as Royal Dutch Shell and Inpex. We have balanced these with shorts in higher cost producers such as Repsol, with unconventional oil projects that look increasingly isolated. The Fund's energy exposures made a modest contribution in the period.

### Healthcare

Healthcare was amongst the best performing sectors for the Fund in the 12 months to June. Political rhetoric, particularly in the US has been a significant driver of sentiment towards the sector, with drug pricing becoming a major election issue in 2016. We have consistently looked to invest in the best science we can find across the healthcare spectrum, while shorting companies with undifferentiated products, and those most vulnerable to pricing pressures. A clear dispersion between the quality and value on offer from foreign companies, as compared with our local healthcare leaders informed another tilt in the portfolio through FY17. This saw the fund carry a net long exposure in the US and Europe, while being net short the Australian healthcare sector.

## Consumer

The global consumer sector can be broadly divided into retailers and brand owners. Retailers are facing numerous challenges from new online competitors, with many struggling to adapt ageing business models and having overinvested in store rollouts. This has been fertile ground for short ideas and has also presented opportunities to buy more resilient businesses that have been sold down with the broader sector. Amongst brand owners, we look for sustainably managed brands in growing categories while shorting companies most exposed to structural challenges in the sector or facing idiosyncratic risks that have not been fully appreciated by the market. Our investments in casino operators performed well in the period, along with exposures in the household goods and personal product categories.

## Technology/Media/Telecommunications

In this dynamic and highly competitive sector of the market, we have sought to identify winners and losers from the key trends that have emerged in recent years. Businesses' are transitioning their IT environments to the cloud at an accelerating rate. This is a strong tailwind for key players in this space such as Amazon and Microsoft, along with networking and security companies. In semiconductors, manufacturers of logic chips are increasingly under pressure as sales fall. Analog semiconductors on the other hand are enjoying a resurgence with the rapid advance of connected vehicles and devices. The rise and rise of social media and streaming services has completely disrupted traditional media, also creating a wealth of investment opportunities. Our focused efforts across this broad sector were successful in the period, which was amongst the strongest contributors to returns

## Industrials

Leading indicators for the global economy were stronger in FY17, prompting investors to rotate out of defensive shares in preference for more cyclical exposures. Notwithstanding recent strength in the sector the, Fund has retained a hedged position in industrials, with investments in high quality, undervalued companies balanced by shorts in lower quality names which have fully captured the uplift in economic momentum. In this sector too, the digitisation of manufacturing platforms is creating a structural shift. Companies' abilities to adapt to this new paradigm will be a key determinant in their ongoing success or failure. The Fund's industrial exposures detracted from returns, as some of the low-quality capital goods companies, rallied along with the broader sector.

## Financials

Our investments in banking are in companies that can benefit from higher rates without suffering from adverse credit quality such as UniCredit SpA and ING Groep. On the short side, we have found a number of markets such as Canada and Australia where banks are more exposed to any deterioration in credit quality and whose residential property stock is fully priced. In the listed Real Estate sector, we are long the super-regionals and short the lower quality sub-regional centres which are under pressure as specialty retailers in B and C grade locations close. In aggregate, the financials portfolio detracted from returns in FY17.

## **Economic Outlook**

Economic data has been steadily improving for over a year now. This was principally in response to coordinated stimulus introduced at the end of 2015, when the global industrial economy was teetering on recession. For the first time in nine years since the crisis, economists have been upgrading growth forecasts, in part reflecting how low expectations had fallen last year.



With the new Trump administration promising large tax cuts and further spending, investors quickly jumped on the “reflation trade” buying value and cyclical shares in the belief interest rates would rise and the deflationary scourge that has beset major economies would pass.

With a resurgence in both leading indicators and confidence (soft data), the reflation trade quickly moved to over-bought levels as we moved into the new-year. This exuberance has faded however in the first half of the year as “hard data” has fallen short of expectations and as Trump’s reform agenda floundered in congress. Reflecting this, the reflation names have underperformed so far this year, as bonds have rallied and both growth and defensive shares have resumed their leadership. This is certainly consistent with our view - we would expect the pick-up in activity to fade in response to tightening financial conditions as we move through the year, a flattening yield curve is certainly guiding toward this.

A debate is raging amongst investors: is it time to revisit the reflation trade or will growth moderate and deflation return? It is too early to tell if the uplift in activity is sustainable or not. Investors instead are taking their lead from Central Banks, as bond and currency markets break out in response to changes in the policy narrative.

European Central Bank president Draghi was so bold as to suggest in July “the threat of deflation has gone and reflationary forces are now at play”. Following this speech European bonds collapsed in a re-run of the US taper tantrum of 2013. The heads of the Bank of England and the Bank of Canada have followed suit with the BOC raising interest rates vaulting the Canadian dollar and the pound upwards.

The pendulum has shifted, central banks are clearly now looking for opportunities to tighten policy, in the first instance through exiting large-scale asset purchases (ECB) and divesting trillions of dollars of purchased securities in the case of the US Federal Reserve. The liquidity drain is obvious as central banks move from buyer to seller sucking the same quantum of wholesale deposits out of the financial system.

Investors are still coming to terms with this change of tack with many still expecting policy makers to back off on the first sign of weakness in the data. The realisation that monetary policy, the mainstay of this bull market, is no longer supportive of asset markets is yet to fully sink in. This will be an important source of volatility in the medium term as the new paradigm becomes clearer.

The uncertainty following the crisis saw a steady flow of capital into the US economy pushing the US dollar and the US share market higher at the expense of other markets in the Eurozone and EM which have struggled. As activity is now recovering in many of these regions, these capital flows are reversing pushing these asset markets higher while at the same time putting the US dollar under pressure. A weaker dollar eases financial conditions in emerging markets (EM) accentuating this outflow. The Euro and reflation currencies such as the Australian dollar and Canadian dollar have rallied hard and spreads between European bonds and US treasuries have narrowed.

Markets want to celebrate the return of animal spirits and a return to sustainable growth even as policy normalises, I suspect this resolve will be tested as activity slows later in the year in response to the policy tightening already in train.

With key markets at all-time highs and valuations stretched, we will retain our fully hedged position as this expansion cycle tires. Our priority is to protect our investors from loss, while at the same time generating alpha through security selection. Shares are expensive, earnings momentum in Australia is sluggish and valuations are very full. The bull market in its ninth year is more than likely approaching its twilight hour.

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

Justin Braitley  
Chief Investment Officer  
Watermark Funds Management

## Company Profile

### Investment Objective

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

### Investment Philosophy

The Manager believes successful investing requires the following skills:

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

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

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

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

### Investment Process

The Manager's investment process is a fundamentally driven, security selection process based on sound investment ideas taken from the investment universe of listed Australian 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. The Company may invest up to 50% of its gross exposure in international 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.

**Australian Leaders Fund Limited**  
**Investments at Market Value**  
**30 June 2017**

**Investments at Market Value**

**Automobiles & Components**

Bayerische Motoren Werke AG	3,427,041.27	0.76%
O'Reilly Automotive, Inc.	3,841,816.48	0.86%
	<b>7,268,857.75</b>	<b>1.62%</b>

**Consumer Durables & Apparel**

Lululemon Athletica Inc	1,870,497.59	0.42%
	<b>1,870,497.59</b>	<b>0.42%</b>

**Consumer Services**

Retail Food Group Limited	667.40	0.00%
Star Entertainment Group Limited	3,794,287.20	0.85%
SKYCITY Entertainment Group Limited	2,216,201.68	0.49%
	<b>6,011,156.28</b>	<b>1.34%</b>

**Media**

Fairfax Media Limited	5,874,548.90	1.31%
ProSiebenSat.1 Media SE	3,412,861.66	0.76%
	<b>9,287,410.56</b>	<b>2.07%</b>

**Retailing**

Bapcor Ltd	787,326.39	0.68%
Dick's Sporting Goods, Inc.	409,645.88	0.36%
Lowe's Companies, Inc.	1,048,355.61	0.91%
Super Retail Group Limited	343,063.40	0.30%
Trade Me Group Limited	1,356,454.44	1.18%
	<b>3,944,845.73</b>	<b>3.42%</b>

**Food & Staples Retailing**

Woolworths Ltd	980,863.70	0.85%
	<b>980,863.70</b>	<b>0.85%</b>

**Food Beverage & Tobacco**

Heineken NV	1,038,608.54	0.90%
Pernod Ricard SA	510,300.80	0.44%
	<b>1,548,909.34</b>	<b>1.34%</b>

**Energy**

Inpex Corporation	3,311,329.88	0.74%
Caltex Australia Limited	2,725,003.27	0.61%
Eni S.p.A.	4,621,493.26	1.03%
Hess Corporation	4,951,153.24	1.10%
Karoon Gas Australia Ltd	1,342,754.56	0.30%
Origin Energy Limited	6,136,050.48	1.37%
Oil Search Limited	8,211,505.06	1.83%
Paringa Resources Ltd.	315,000.00	0.07%
Royal Dutch Shell Plc Class B	3,290,169.13	0.73%
Z Energy Ltd.	5,829,173.80	1.30%
	<b>40,733,632.68</b>	<b>9.09%</b>

**Banks**

ABN AMRO Group N.V. Shs Depositary receipts	2,853,147.71	0.64%
Allied Irish Banks p.l.c.	5,507,643.38	1.23%
Australia and New Zealand Banking Group Limited	22,665,249.60	5.06%
Barclays PLC	6,756,250.08	1.51%
UniCredit S.p.A.	8,063,430.68	1.80%
Westpac Banking Corporation	22,524,892.29	5.03%
Wells Fargo & Company	7,953,742.46	1.77%
	<b>76,324,356.20</b>	<b>17.03%</b>

**Diversified Financials**

AMP Limited	6,892,050.12	1.54%
Janus Henderson Group PLC Registered Shs Chess Depc	1,701,019.60	0.38%
Charles Schwab Corporation	3,433,215.62	0.77%
Synchrony Financial	2,795,588.60	0.62%
	<b>14,821,873.94</b>	<b>3.31%</b>

**Insurance**

Aviva plc	5,544,483.06	1.24%
NN Group N.V.	7,747,766.19	1.73%
Suncorp Group Limited	3,680,724.84	0.82%
	<b>16,972,974.09</b>	<b>3.79%</b>

**Health Care Equipment & Services**

Fresenius Medical Care AG & Co. KGaA	3,527,492.00	0.79%
Mylan N.V.	2,404,861.21	0.54%
Ramsay Health Care Limited	10,601,712.00	2.37%
	<b>16,534,065.21</b>	<b>3.69%</b>

**Pharmaceuticals Biotechnology & Life Sciences**

Allergan plc	6,419,122.66	1.43%
Genmab A/S	2,721,473.29	0.61%
Nevro Corp.	6,962,390.26	1.55%
Roche Holding Ltd Genusssch.	4,587,692.13	1.02%
Walgreens Boots Alliance Inc	4,049,394.29	0.90%
Celgene Corporation	5,390,692.91	1.20%
Juno Therapeutics, Inc.	861,103.23	0.19%
Merck & Co., Inc.	9,876,402.43	2.20%
Novartis AG	5,012,449.40	1.12%
Mayne Pharma Group Limited	4,200,396.31	0.94%
	<b>50,081,116.92</b>	<b>11.17%</b>

**Capital Goods**

Eaton Corp. Plc	3,447,532.70	0.77%
Siemens AG	1,680,360.09	0.37%
USG Corporation	1,570,080.20	0.35%
	<b>6,697,972.99</b>	<b>1.49%</b>

**Commercial & Professional Services**

Brambles Limited	7,527,935.59	1.68%
Downer EDI Limited	3,120,862.34	0.70%
	<b>10,648,797.93</b>	<b>2.38%</b>

**Transportation**

Auckland International Airport Limited	5,530,765.04	1.23%
Deutsche Post AG	4,117,150.16	0.92%
Macquarie Atlas Roads Group	3,128,293.08	0.70%
	<b>12,776,208.28</b>	<b>2.85%</b>

**Semiconductors & Semiconductor Equipment**

Micron Technology, Inc.	1,630,397.68	0.36%
	<b>1,630,397.68</b>	<b>0.36%</b>

**Software & Services**

Facebook, Inc. Class A	6,593,872.74	1.47%
Fortinet, Inc.	3,382,559.21	0.75%
Alphabet Inc. Class C	3,188,048.33	0.71%
Honeywell International Inc.	5,062,952.23	1.13%
Intuit Inc.	1,712,739.12	0.38%
MYOB Group Ltd.	6,539,125.50	1.46%
NetEase, Inc. Sponsored ADR	3,525,803.44	0.79%
Ubisoft Entertainment SA	1,730,864.55	0.39%
	<b>31,735,965.11</b>	<b>7.08%</b>

**Technology Hardware & Equipment**

Analog Devices, Inc.	3,755,253.57	0.84%
Activision Blizzard, Inc.	2,555,130.84	0.57%
Nokia Oyj	3,971,542.16	0.89%
Palo Alto Networks, Inc.	4,095,156.51	0.91%
	<b>14,377,083.09</b>	<b>3.21%</b>

**Materials**

Agrium Inc.	3,295,240.86	0.74%
Amcor Ltd	4,175,566.32	0.93%
BHP Billiton Limited	9,462,481.92	2.11%
Evolution Mining Limited	7,600,911.05	1.70%
Fletcher Building Limited	7,649,495.90	1.71%
Goldcorp Inc.	4,378,662.08	0.98%
Independence Group NL	6,187,951.35	1.38%
Iluka Resources Limited	4,594,054.92	1.03%
James Hardie Industries PLC Chess Units of Foreign S	6,718,588.00	1.50%
Newmont Mining Corporation	6,539,693.34	1.46%
Orora Ltd.	2,861,798.94	0.64%
Orocobre Limited	2,158,943.78	0.48%
	<b>65,623,388.46</b>	<b>14.64%</b>

**Real Estate**

Scentre Group	18,476,638.65	4.12%
	<b>18,476,638.65</b>	<b>4.12%</b>

**Telecommunication Services**

China Telecom Corp. Ltd. Class H	5,117,851.07	1.14%
China Mobile Limited	1,610,057.44	0.36%
Orange SA	5,045,538.16	1.13%
Vivendi SA	8,701,298.76	1.94%
	<b>20,474,745.43</b>	<b>4.57%</b>

Total Long Portfolio	<b>447,581,769.35</b>	<b>100.00%</b>
Total Short Portfolio	<b>(447,022,745.60)</b>	

## **Corporate Governance Statement**

As an ASX-listed company, Australian Leaders Fund Ltd ("ALF") 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 ALF's Corporate Governance section  
<http://wfunds.com.au/fund/australian-leaders-fund/corporate-governance/>.

## Directors' Report

The Directors present their report together with the financial statements of Australian Leaders Fund Limited ("the Company") for the year ended 30 June 2017.

### Directors

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

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

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

### Principal activities

During the financial year, the principal activities of the Company were making investments in listed companies and unlisted 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:

	<b>Dividend Rate</b>	<b>Total Amount</b>	<b>Date of Payment</b>	<b>% Franked</b>
<b>2017</b>				
Ordinary shares - final 2016	\$0.05	\$13,493,489	26/10/2016	100
Ordinary shares - interim 2017	\$0.04	\$10,851,764	13/04/2017	50
<b>2016</b>				
Ordinary shares - final 2015	\$0.05	\$12,815,832	28/10/2015	100
Ordinary shares - interim 2016	\$0.05	\$13,426,226	14/04/2016	100

The Board has not declared a final dividend for the year ended 30 June 2017. While the Board is committed to paying an increasing stream of fully franked dividends to shareholders, this is dependent on the Company having sufficient profit reserves and the payment being within prudent business practices. When a dividend is declared, it is usually paid on a six-monthly basis.

### 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 7 of this Annual Report.

The profit from ordinary activities after income tax amounted to \$7,065,282 (2016: \$29,040,927).

The net tangible asset backing for each ordinary share as at 30 June 2017 amounted to \$1.27 per share (2016: \$1.33 per share). The equivalent asset backing before tax was \$1.26 per share (2016: \$1.33 per share).

The gross portfolio value increased 3.6% over the financial year while the All Ordinaries Accumulation Index increased by 13.1%, representing an underperformance of 9.5%. After deducting costs in funding the balance sheet, along with management fees and other expenses, the fund reported a positive 2.0% return for the year.

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.

## **Return of Capital**

At 30 June 2017, the Company did not have sufficient franking to allow for the payment of franked dividends. The Directors recognise investors have cash flow needs and have therefore declared a 4.0 cents per share Return of Capital, subject to shareholder approval at the Annual General Meeting (AGM) to be held on Wednesday 25 October 2017.

Key Return of Capital dates:

Annual General Meeting (AGM)	25 October 2017
Ex-date (subject to shareholder approval at AGM)	5 September 2017
Record date (subject to shareholder approval at AGM)	6 September 2017
Payment date (subject to shareholder approval at AGM)	26 October 2017

## **Financial Position**

The net asset value of the Company for the current financial year ended was \$347,957,631 (2016: \$361,747,985).

## **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 2017.

## **Matters subsequent to the end of the financial year**

On 24 July 2017, the Company announced the resignation of Sophia Gartzonis as Company Secretary effective 24 July 2017. Following the resignation, Mark Licciardo of Mertons Corporate Services Pty Ltd was appointed as Company Secretary, effective 24 July 2017.

Other than the return of capital proposed 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 50

### ***Experience and expertise***

Justin Braitling has over 25 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.



**Information on directors (continued)**

***Other current directorships***

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

Justin Braitling has been a Director of Watermark Market Neutral Fund Limited since May 2013 and is also a Director of Watermark Global Leaders Fund Limited (appointed August 2016).

***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.

**Geoffrey Wilson** Non-Executive Director Age 59

***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), WAM Leaders Limited (appointed March 2016) 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 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 Geoffrey Wilson's interests in shares of the Company are included later in this report.

***Interests in contracts***

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

**Information on directors (continued)**

**John Abernethy** Non-Executive Director Age 58

***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.

**Julian Gosse** Non-Executive Director Age 67

***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 from April 2009 until October 2012).

***Former directorships in last 3 years***

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

***Special responsibilities***

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

Matthew McShane of Link Fund Solutions (formerly White Outsourcing Pty Limited) resigned as Company Secretary, effective 9 December 2016. Following the resignation, Sophia Gartzonis of Link Fund Solutions (previously White Outsourcing Pty Limited) was appointed as Company Secretary, effective 9 December 2016.

Sophia Gartzonis resigned as Company Secretary, effective 24 July 2017. Mark Licciardo of Mertons Corporate Services Pty Ltd was appointed as Company Secretary, effective 24 July 2017.

Mark Licciardo is the founder and Managing Director of Mertons Corporate Services Pty Ltd. As a former company secretary of ASX 50 companies, Transurban Group and Australian Foundation Investment Company Limited, his expertise includes working with boards of directors in the areas of corporate governance, business management, administration, consulting and company secretarial matters. He is also the former Chairman of the Governance Institute of Australia Victoria division and Melbourne Fringe Festival and a current non-executive director of a number of public and private companies.

Mark Licciardo holds a Bachelor of Business Degree (Accounting) from Victoria University and a Graduate Diploma in Company Secretarial Practice, is a Fellow of the Australian Institute of Company Directors, the Institute of Chartered Secretaries and Administrators and the Governance Institute of Australia.

### 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 2017, and the numbers of meetings attended by each Director were:

	Directors' Meetings		Meetings of committees	
			Audit	
	A	B	A	B
Justin Braitling	4	4	*	-
Geoffrey Wilson	-	4	-	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 (audited)

This report details the nature and amount of remuneration for key management personnel 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.

**Remuneration report (audited) (continued)**

**Details of remuneration**

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

2017	Short-term employee benefits	Post-employment benefits	Total
	Salary and fees \$	Superannuation \$	
<b>Name</b>			
<b>Non-executive Directors</b>			
Justin Braitling	9,133	867	10,000
Geoffrey Wilson	9,133	867	10,000
John Abernethy	31,963	3,037	35,000
Julian Gosse	35,000	-	35,000
<b>Total key management personnel compensation</b>	<b>85,229</b>	<b>4,771</b>	<b>90,000</b>

2016	Short-term employee benefits	Post-employment benefits	Total
	Salary and fees \$	Superannuation \$	
<b>Name</b>			
<b>Non-executive Directors</b>			
Justin Braitling	9,133	867	10,000
Geoffrey Wilson	9,133	867	10,000
John Abernethy	31,963	3,037	35,000
Julian Gosse	35,000	-	35,000
<b>Total key management personnel compensation</b>	<b>85,229</b>	<b>4,771</b>	<b>90,000</b>

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

	2017	2016	2015	2014	2013
Operating profit/(loss) after tax	\$7,065,282	\$29,040,927	(\$6,144,815)	\$40,843,666	\$23,329,557
Dividends paid (cents per share)	9.0	10.0	11.0	12.0	12.0
Net tangible asset (\$ per share)	\$1.26	\$1.33	\$1.32	\$1.51	\$1.42
Total Directors' remuneration	\$90,000	\$90,000	\$90,000	\$90,000	\$70,000
Total Shareholder's Equity	\$347,957,631	\$361,747,985	\$340,890,412	\$342,942,966	\$225,960,084

**Director Related Entity Remuneration**

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

Watermark Funds Management Pty Limited is a Director associate entity and has been appointed to manage the investment portfolio of Australian Leaders Fund Limited. Watermark Funds Management Pty Limited operates a funds management business.

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 \$3,588,852 net of reduced input tax credits (2016: \$3,694,736). As at 30 June 2017, the balance payable to the manager was \$309,660 (2016: \$328,976).

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

**Remuneration report (audited) (continued)**

**Details of remuneration (continued)**

**Director Related Entity Remuneration (continued)**

- where the All Ordinaries Accumulation Index has decreased over that period, the amount of the increase in the Value of the Portfolio.

For the period ended 30 June 2017, in its capacity as manager, Watermark Funds Management Pty Limited were paid no performance fees (2016: \$9,053,449). As at 30 June 2017, the balance payable to the manager was nil (2016: \$9,715,897).

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

These amounts are in addition to the above Directors remuneration.

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

**Remuneration of Executives**

There are no executives that are paid by the Company. Watermark Funds Management Pty Limited, the investment manager of the Company, remunerated Justin Braitling as a Director of the Company during the financial year. The manager is appointed to provide 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 as at 16 August 2016	Acquisitions	Disposals	Balance as at 31 August 2017
Justin Braitling	Chairman	1,231,894	50,000	-	1,281,894
Geoffrey Wilson	Non-Executive Director	1,000,000	-	-	1,000,000
John Abernethy	Non-Executive Director	60,000	-	50,000	10,000
Julian Gosse	Non-Executive Director	-	-	-	-
		<b>2,291,894</b>	<b>50,000</b>	<b>50,000</b>	<b>2,291,894</b>

**2016**

Director	Position	Balance as at 21 August 2015	Acquisitions	Disposals	Balance as at 16 August 2016
Justin Braitling	Chairman	1,231,894	-	-	1,231,894
Geoffrey Wilson	Non-Executive Director	1,040,000	-	(40,000)	1,000,000
John Abernethy	Non-Executive Director	60,000	-	-	60,000
Julian Gosse	Non-Executive Director	-	-	-	-
		<b>2,331,894</b>	<b>-</b>	<b>(40,000)</b>	<b>2,291,894</b>

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

*Options Held*

None of the Directors held options during the year ended 30 June 2017 and 30 June 2016.

*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

The Board of Directors, in accordance with advice from the Audit & Risk Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the services disclosed in Note 20 did not compromise the external auditor's independence for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

### 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 20.

### Rounding of amounts

The Company is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the ASIC relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest dollars in accordance with that ASIC Corporations Instrument, unless otherwise indicated.

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



Justin Braitling  
Chairman

Sydney  
31 August 2017

**Auditor's Independence Declaration**  
**To the Directors of Australian Leaders Fund Limited**  
**A.B.N. 64 106 845 970**

In relation to the independent audit for the year ended 30 June 2017, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contraventions of any applicable code of professional conduct.

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



S M WHIDDETT  
Partner

PITCHER PARTNERS  
Sydney

31 August 2017

**Australian Leaders Fund Limited**  
**Statement of Comprehensive Income**  
**For the year ended 30 June 2017**

**Statement of Comprehensive Income**

		<b>Year ended</b>	
	<b>Notes</b>	<b>2017</b>	<b>2016</b>
		<b>\$</b>	<b>\$</b>
<b>Investment income from ordinary activities</b>			
Net realised gains on investments		29,403,539	56,536,159
Net unrealised (losses)/gains on investments		(6,351,227)	1,616,971
Dividends		9,172,331	10,031,593
Interest		9,054,041	10,403,734
Trust distributions		621,204	888,622
Other income		1,656	234,952
Net foreign exchange gain/(loss)		316,398	(162,049)
		<u>42,217,942</u>	<u>79,549,982</u>
<b>Expenses</b>			
Management fees	22(b)	(3,588,852)	(3,694,736)
Performance fees	22(b)	-	(9,053,449)
Brokerage expense		(5,021,071)	(6,460,218)
Short dividend expense		(15,385,388)	(14,344,842)
Interest expense		(5,958,060)	(3,662,326)
Stock loan fees		(3,581,745)	(4,087,230)
Accounting fees		(156,578)	(160,751)
Share registry fees		(268,026)	(288,441)
Legal fees		(782)	(8,265)
Directors' fees	19(a)	(90,000)	(90,000)
ASX fees		(84,927)	(87,085)
Audit fees	20	(56,518)	(60,380)
Other expenses		(130,342)	(143,865)
		<u>(34,322,289)</u>	<u>(42,141,588)</u>
<b>Profit before income tax</b>		<b>7,895,653</b>	<b>37,408,394</b>
Income tax expense	7	(830,371)	(8,367,467)
<b>Profit for the year</b>		<b>7,065,282</b>	<b>29,040,927</b>
<b>Other comprehensive income for the year, net of tax</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>7,065,282</b>	<b>29,040,927</b>
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share for profit attributable to the ordinary equity holders of the Company:</b>			
Basic earnings per share	25	2.61	10.98
Diluted earnings per share	25	2.61	10.98

*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 2017**

**Statement of Financial Position**

		<b>At</b>	
	Notes	2017 \$	2016 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	321,558,284	404,601,997
Trade and other receivables	9	43,041,654	20,657,548
Financial assets at fair value through profit or loss	10	447,581,769	392,489,119
Current tax assets		-	2,182,273
Other current assets		36,382	25,211
<b>Total current assets</b>		<b>812,218,089</b>	<b>819,956,148</b>
<b>Non-current assets</b>			
Deferred tax assets	12	8,463,674	5,162,714
<b>Total non-current assets</b>		<b>8,463,674</b>	<b>5,162,714</b>
<b>Total assets</b>		<b>820,681,763</b>	<b>825,118,862</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	13	23,295,842	17,562,342
Derivative financial instruments	11	1,155	-
Financial liabilities at fair value through profit or loss	14	447,022,746	445,579,593
Current tax liabilities		2,317,652	-
<b>Total current liabilities</b>		<b>472,637,395</b>	<b>463,141,935</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	15	86,737	228,942
<b>Total non-current liabilities</b>		<b>86,737</b>	<b>228,942</b>
<b>Total liabilities</b>		<b>472,724,132</b>	<b>463,370,877</b>
<b>Net assets</b>		<b>347,957,631</b>	<b>361,747,985</b>
<b>EQUITY</b>			
Issued capital	16	351,356,627	353,292,892
Reserves	17(a)	4,476,918	14,599,908
Accumulated losses	17(b)	(7,875,914)	(6,144,815)
<b>Total equity</b>		<b>347,957,631</b>	<b>361,747,985</b>

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

**Australian Leaders Fund Limited**  
**Statement of Changes in Equity**  
**For the year ended 30 June 2017**

**Statement of Changes in Equity**

	Notes	Issued capital \$	Profits reserve \$	Accumulated losses \$	Total \$
<b>Balance at 1 July 2015</b>		335,234,188	11,801,039	(6,144,815)	340,890,412
Profit for the year as reported in the 2016 Financial Statements		-	-	29,040,927	29,040,927
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	-	<b>29,040,927</b>	<b>29,040,927</b>
<b>Transactions with owners in their capacity as owners:</b>					
Dividends provided for or paid	18	-	(26,242,058)	-	(26,242,058)
Costs of issued capital	16(f)	(146,022)	-	-	(146,022)
Shares issued under share placement		14,348,150	-	-	14,348,150
Shares issued under dividend reinvestment plan	16	3,856,576	-	-	3,856,576
Transfer to profits reserve	17	-	29,040,927	(29,040,927)	-
		18,058,704	2,798,869	(29,040,927)	(8,183,354)
<b>Balance at 30 June 2016</b>		<b>353,292,892</b>	<b>14,599,908</b>	<b>(6,144,815)</b>	<b>361,747,985</b>
<b>Balance at 1 July 2016</b>		353,292,892	14,599,908	(6,144,815)	361,747,985
Profit for the year as reported in the 2017 Financial Statements		-	-	7,065,282	7,065,282
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	-	<b>7,065,282</b>	<b>7,065,282</b>
<b>Transactions with owners in their capacity as owners:</b>					
Dividends provided for or paid	18	(5,425,882)	(18,919,371)	-	(24,345,253)
Costs of issued capital	16(f)	(30,495)	-	-	(30,495)
Shares issued under dividend reinvestment plan	16	3,520,112	-	-	3,520,112
Transfer to profits reserve	17	-	8,796,381	(8,796,381)	-
		(1,936,265)	(10,122,990)	(8,796,381)	(20,855,636)
<b>Balance at 30 June 2017</b>		<b>351,356,627</b>	<b>4,476,918</b>	<b>(7,875,914)</b>	<b>347,957,631</b>

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

**Australian Leaders Fund Limited**  
**Statement of Cash Flows**  
**For the year ended 30 June 2017**

**Statement of Cash Flows**

		<b>Year ended</b>	
		<b>2017</b>	<b>2016</b>
	Notes	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>			
Purchase of financial assets		(1,256,006,520)	(1,148,267,172)
Proceeds from sale of financial assets		1,266,583,104	1,097,880,809
Proceeds from short sale of financial liabilities		(1,206,488,449)	1,323,929,696
Re-purchase of financial liabilities		1,155,607,378	(1,144,252,416)
Interest received		9,545,654	10,400,681
Interest paid		(5,843,133)	(3,676,226)
Dividends and trust distributions received		11,888,323	9,952,679
Dividends paid on short stocks		(15,451,995)	(14,559,708)
Underwriting income		-	195,953
Other revenue		1,656	38,999
Income taxes refunded/paid		239,460	(2,244,749)
Investment management fees paid		(3,627,134)	(3,648,014)
Performance fees paid		(9,053,449)	-
Brokerage expense		(4,961,265)	(6,607,572)
Stock loan fees		(3,937,667)	(3,929,265)
Payments for other expenses		(1,059,739)	(852,625)
<b>Net cash (outflow)/inflow from operating activities</b>	24	<b>(62,563,776)</b>	<b>114,361,070</b>
<b>Net cash inflow from investing activities</b>		<b>-</b>	<b>-</b>
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares and other equity securities		-	14,348,150
Share issue and buy-back transaction costs		(43,564)	(208,600)
Dividends paid to company's shareholders		(20,752,771)	(22,385,478)
<b>Net cash (outflow) from financing activities</b>		<b>(20,796,335)</b>	<b>(8,245,928)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(83,360,111)</b>	<b>106,115,142</b>
Cash and cash equivalents at the beginning of the year		404,601,997	298,648,910
Effects of exchange rate changes on cash and cash equivalents		316,398	(162,055)
<b>Cash and cash equivalents at end of year</b>	8	<b>321,558,284</b>	<b>404,601,997</b>
<b>Non-cash investing and financing activities</b>			
Dividends reinvested	24(b)	3,520,112	3,856,576

*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 incorporated and 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 2017. The Company is primarily involved in making investments, and deriving revenue and investment income from domestic and international listed securities and unit trusts.

## **2 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 31 August 2017.

#### *(i) Compliance with IFRS*

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

#### *(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 2016 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 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 2017 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.

<b>Title of standard</b>	<b>Nature of change</b>	<b>Impact</b>	<b>Mandatory application date/ Date of adoption by the Company</b>
AASB 9 <i>Financial Instruments</i>	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.	<p>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.</p> <p>There will also be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities.</p> <p>The derecognition rules have not changed from the previous requirements, and the Company does not apply hedge accounting. The new standard also introduces expanded disclosure requirements and changes in presentation.</p> <p>The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses.</p> <p>The Company has not yet assessed how the impairment provisions would be affected by the new rules.</p>	<p>Must be applied for financial years commencing on or after 1 January 2018.</p> <p>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.</p> <p>The Company has not yet decided whether it will early adopt AASB 9.</p>

## 2 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 <i>Revenue from Contracts with Customers</i>	<p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p>	<p>Mandatory for financial years commencing on or after 1 January 2017.</p> <p>The Company has not yet decided whether it will early adopt AASB 15.</p>

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

#### (i) 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 Significant accounting policies (continued)**

### **(b) Foreign currency translation (continued)**

#### *(ii) 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.

Revenue is recognised where it is probable that the economic benefit will flow to the entity and can be reliably measured.

#### *(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 and it is probable that future economic benefits will flow to the entity. 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 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 two 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 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.

#### **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.

#### **Derivatives**

As at 30 June 2017, the Company also held derivative instruments in the form of equity swaps. Derivatives are classified as at fair value through profit or loss - held-for-trading unless they are designated as hedges. 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.

Derivatives in a net receivable position (positive fair value) are reported as financial assets at fair value through profit or loss - held-for-trading. All derivatives in a net payable position (negative fair value) are reported as financial liabilities at fair value through profit or loss - held-for-trading.

## **2 Significant accounting policies (continued)**

### **(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 current and 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.

### **(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.

## **2 Significant accounting policies (continued)**

### **(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) Rounding of amounts**

The Company is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the ASIC relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest dollars in accordance with that ASIC Corporations Instrument, unless otherwise indicated.

### **(q) Comparatives**

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

### **(r) 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.

#### *(i) Price risk*

##### *Exposure*

The Company is exposed to currency risk arising from its investments denominated other than in Australian dollars. The Investment Manager actively manages the Company's foreign exchange risk through its treasury management framework.

### 3 Financial risk management (continued)

#### (a) Market risk (continued)

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.

2017	Long Exposure	%	Short Exposure	%	Net Exposure	%
Australia	217,940,851	48.70%	(240,420,812)	53.78%	(22,479,961)	(4,029.61%)
North America	121,248,029	27.09%	(97,295,382)	21.77%	23,952,647	4,293.60%
Europe	98,353,651	21.97%	(109,307,708)	24.45%	(10,954,057)	(1,963.56%)
Rest of World	10,039,239	2.24%	-	-	10,039,239	1,799.57%
<b>Total</b>	<b>447,581,770</b>	<b>100.00%</b>	<b>(447,023,902)</b>	<b>100.00%</b>	<b>557,868</b>	<b>100.00%</b>

2016	Long Exposure	%	Short Exposure	%	Net Exposure	%
Australia	267,282,923	68.10%	(300,381,648)	67.41%	(33,098,725)	62.34%
North America	60,442,471	15.40%	(96,361,257)	21.63%	(35,918,786)	67.66%
Europe	54,957,600	14.00%	(48,836,688)	10.96%	6,120,912	(11.53%)
Rest of World	9,806,124	2.50%	-	0.00%	9,806,124	(18.47%)
<b>Total</b>	<b>392,489,118</b>	<b>100.00%</b>	<b>(445,579,593)</b>	<b>100.00%</b>	<b>(53,090,474)</b>	<b>100.00%</b>

The North American region includes the United States and Canada. Europe includes countries in mainland Europe and the United Kingdom.

As at 30 June 2017, two securities represented over 5% of the long or short investment portfolio. As at 30 June 2016 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	
	2017	2016
	\$	\$
Decrease 5%	(19,525)	1,858,167
Increase 5%	19,525	(1,858,167)
Decrease 10%	(39,051)	3,716,333
Increase 10%	39,051	(3,716,333)

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 \$557,868 long (2016: \$53,090,474 short) therefore there is a small price risk impact on post-tax profit (2016: post-tax profit).

#### (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 2017

	Floating interest rate \$	Non- interest bearing \$	Total \$
<b>Financial assets</b>			
Cash and cash equivalents	321,558,284	-	321,558,284
Trade and other receivables	-	43,078,036	43,078,036
Financial assets held at fair value through profit or loss	-	447,581,769	447,581,769
	<u>321,558,284</u>	<u>490,659,805</u>	<u>812,218,089</u>
<b>Financial liabilities</b>			
Trade and other payables	-	(23,295,842)	(23,295,842)
Financial liabilities held at fair value through profit or loss	-	(447,023,901)	(447,023,901)
Current tax liabilities	-	(2,317,652)	(2,317,652)
	<u>-</u>	<u>(472,637,395)</u>	<u>(472,637,395)</u>
 Net exposure to interest rate risk	 <u>321,558,284</u>	 <u>18,022,410</u>	 <u>339,580,694</u>

At 30 June 2016

	Floating interest rate \$	Non- interest bearing \$	Total \$
<b>Financial assets</b>			
Cash and cash equivalents	404,601,997	-	404,601,997
Trade and other receivables	-	20,682,759	20,682,759
Financial assets held at fair value through profit or loss	-	392,489,119	392,489,119
Current tax assets	-	2,182,273	2,182,273
	<u>404,601,997</u>	<u>415,354,151</u>	<u>819,956,148</u>
<b>Financial liabilities</b>			
Trade and other payables	-	(17,562,342)	(17,562,342)
Financial liabilities held at fair value through profit or loss	-	(445,579,593)	(445,579,593)
	<u>-</u>	<u>(463,141,935)</u>	<u>(463,141,935)</u>
 Net exposure to interest rate risk	 <u>404,601,997</u>	 <u>(47,787,784)</u>	 <u>356,814,213</u>

#### *Sensitivity*

At 30 June 2017, 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 profit for the year would have been \$1,688,181 higher/\$1,688,181 lower (2016 changes of 75 bps/75 bps: \$2,124,160 higher/\$2,124,160 lower on post-tax profit), mainly as a result of higher/lower interest income from cash and cash equivalents.

### **3 Financial risk management (continued)**

#### **(a) Market risk (continued)**

##### *(ii) Foreign exchange risk*

###### *Exposure*

The Company operates internationally and holds both monetary and non-monetary assets denominated in currencies other than the Australian dollar. The foreign exchange risk relating to non-monetary assets and liabilities is a component of price risk. Foreign exchange risk arises as the value of monetary securities denominated in other currencies will fluctuate due to changes in exchange rates. The net value of monetary assets and liabilities denominated in other currencies that is exposed to foreign exchange risk was (\$15,976,862) (2016: \$41,255,136). The risk is measured using sensitivity analysis. The Investment Manager monitors the Company's currency positions on a daily basis.

###### *Sensitivity*

The analysis is based on the assumption that the Australian dollar weakened and strengthened by 10% (2016: 10%) against the foreign currencies to which the Company is exposed. The impact on post-tax profit for the year (2016: post-tax loss) would be \$1,118,380 lower/\$1,118,380 higher (2016: \$2,887,860 higher/\$2,887,860 lower).

#### **(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% (2016: 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 and Note 10 for financial assets at fair value through profit or loss. None of these assets are over-due or considered to be impaired.

#### **(c) Liquidity risk**

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

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

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

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

###### *Maturities of financial liabilities*

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

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

### 3 Financial risk management (continued)

#### (c) Liquidity risk (continued)

Contractual maturities of financial liabilities	Less than 1 month	More than 1 month	Total contractual undiscounted cash flows
	\$	\$	\$
<b>At 30 June 2017</b>			
<b>Non-derivatives</b>			
Trade and other payables	23,295,842	-	23,295,842
Financial liabilities at fair value through profit or loss	447,022,746	-	447,022,746
Current tax liabilities	2,317,652	-	2,317,652
Total non-derivatives	472,636,240	-	472,636,240
<b>Derivatives</b>			
Net settled (equity swaps)	1,155	-	1,155
Total derivatives	1,155	-	1,155

Contractual maturities of financial liabilities	Less than 1 month	More than 1 month	Total contractual undiscounted cash flows
	\$	\$	\$
<b>At 30 June 2016</b>			
<b>Non-derivatives</b>			
Trade and other payables	17,562,342	-	17,562,342
Financial liabilities at fair value through profit or loss	445,579,593	-	445,579,593
Total non-derivatives	463,141,935	-	463,141,935

### 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)
- Derivative financial instruments

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:

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

## 4 Fair value measurements (continued)

### (a) Fair value hierarchy (continued)

#### (i) Recognised fair value measurements

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

<b>Recurring fair value measurements At 30 June 2017</b>	<b>Level 1 \$</b>	<b>Level 2 \$</b>	<b>Level 3 \$</b>	<b>Total \$</b>
<b>Financial assets</b>				
Equity securities	217,940,851	-	-	217,940,851
International equity securities	229,640,918	-	-	229,640,918
Unlisted equity securities	-	-	-	-
<b>Total financial assets</b>	<b>447,581,769</b>	<b>-</b>	<b>-</b>	<b>447,581,769</b>
<b>Financial liabilities</b>				
Equity securities sold short	(240,258,069)	-	-	(240,258,069)
International equity securities sold short	(206,601,934)	-	-	(206,601,934)
Unlisted equity securities sold short	-	(162,743)	-	(162,743)
International swaps	(1,155)	-	-	(1,155)
<b>Total financial liabilities</b>	<b>(446,861,158)</b>	<b>(162,743)</b>	<b>-</b>	<b>(447,023,901)</b>
<b>Recurring fair value measurements At 30 June 2016</b>	<b>Level 1 \$</b>	<b>Level 2 \$</b>	<b>Level 3 \$</b>	<b>Total \$</b>
<b>Financial assets</b>				
Equity securities	267,282,923	-	-	267,282,923
International equity securities	121,682,496	-	-	121,682,496
Unlisted equity securities	-	3,523,700	-	3,523,700
<b>Total financial assets</b>	<b>388,965,419</b>	<b>3,523,700</b>	<b>-</b>	<b>392,489,119</b>
<b>Financial liabilities</b>				
Equity securities sold short	(300,218,905)	-	-	(300,218,905)
International equity securities sold short	(145,197,945)	-	-	(145,197,945)
Unlisted equity securities sold short	-	(162,743)	-	(162,743)
<b>Total financial liabilities</b>	<b>(445,416,850)</b>	<b>(162,743)</b>	<b>-</b>	<b>(445,579,593)</b>

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.

The fair value of equity swaps is the estimated amount that the Fund would receive or pay to terminate the swap at the reporting date, taking into account current indices and the current credit worthiness of the swap counterparties.



## 4 Fair value measurements (continued)

### (a) Fair value hierarchy (continued)

The Level 2 investment in the prior year represented an amount in relation to a private placement in which the Company had subscribed to during the prior year. This investment was not listed on a Securities Exchange as at the prior year end and therefore represented an investment in an inactive market. In valuing this unlisted investment, the fair value had been determined using the valuation technique of the subscription price and the amount of securities subscribed for by the Company under the relevant offer. This investment was disposed of during the year ended 30 June 2017.

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 reasonable approximations of their fair values due to their short-term nature.

## 5 Critical accounting estimates and judgements

### (a) Significant 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.

### (b) 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 in one industry being the securities industry, deriving revenue from dividend income, interest income and from the sale of its trading portfolio.

## 7 Income tax expense

### (a) Income tax expense through profit or loss

	Year ended	
	2017	2016
	\$	\$
Deferred tax on temporary differences	(3,553,414)	7,836,832
Tax on permanent differences	3,961,440	489,053
Adjustments for current tax of prior periods	422,345	41,582
	<u>830,371</u>	<u>8,367,467</u>
<i>Income tax expense is attributable to:</i>		
Profit from continuing operations	830,731	8,367,467

## 7 Income tax expense (continued)

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

	Year ended	
	2017	2016
	\$	\$
Profit/(loss) from continuing operations before income tax expense/(benefit)	7,895,653	37,408,394
Tax at the Australian tax rate of 30.0% (2016 - 30.0%)	2,368,696	11,222,518
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Franking credits on dividends received	(1,910,586)	(1,852,551)
Imputation credit gross up	573,176	555,765
Foreign tax credit gross up	(984,686)	-
Realised gain not subject to tax	-	(1,258,068)
Change in franked dividends not subject to tax	66,020	(424,756)
Foreign tax gross up on dividend income	295,406	82,519
Adjustments for current tax of prior periods	422,345	42,040
Income tax expense	830,371	8,367,467

The applicable weighted average effective tax rates are as follows: 10.52%      22.37%

The positive effective tax rate in the current year is mainly due to profits realised, net of franking credits.

### (c) Amounts recognised directly in equity

	Year ended	
	2017	2016
	\$	\$
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 - (credited) directly to equity	(84,309)	(197,172)

## 8 Current assets - Cash and cash equivalents

	At	
	2017	2016
	\$	\$
<b>Current assets</b>		
Cash at bank	266,558,284	254,601,997
Term deposits	55,000,000	150,000,000
	<b>321,558,284</b>	<b>404,601,997</b>

## 8 Current assets - Cash and cash equivalents (continued)

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

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

	2017 \$	At 2016 \$
Balances as above	<b>321,558,284</b>	404,601,997

### (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-
Morgan Stanley	BBB+

## 9 Current assets - Trade and other receivables

	2017 \$	At 2016 \$
Dividends and distributions receivable	<b>780,227</b>	1,738,756
Interest receivable	<b>539,220</b>	1,030,833
GST receivable	<b>171,757</b>	874,943
Unsettled trades	<b>41,550,450</b>	17,013,016
	<b>43,041,654</b>	20,657,548

Receivables are non-interest bearing and unsecured.

### Fair value and credit risk

Due to the short-term nature of these receivables, the carrying amounts are reasonable approximations of their fair values.

## **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:

	<b>2017</b>	<b>At</b>	<b>2016</b>
	<b>\$</b>		<b>\$</b>
International listed equity securities	<b>229,640,918</b>		121,682,496
Australian listed equity securities	<b>217,940,851</b>		267,282,923
Other unlisted equity securities	-		3,523,700
Total securities	<b>447,581,769</b>		392,489,119

The market values of all investments as at 30 June 2017 are disclosed on page 10 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 4,092 (2016: 4,399). Each investment transaction may involve multiple contract notes.

The total brokerage paid on these contract notes was \$10,146,770 (2016: \$12,372,661).

### **(b) Risk exposure and fair value measurements**

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

## **11 Derivative financial instruments**

In the normal course of business, the Company enters into transactions in derivative financial instruments with certain risks. A derivative is a financial instrument or other contract whose value depends on, or is derived from, underlying assets, liabilities or indices. Derivative transactions include a wide assortment of instruments, such as forwards, futures, options and swaps.

Derivatives are considered to be part of the investment process. The use of derivatives is an essential part of the Company's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multi-faceted and includes:

- (i) hedging to protect an asset of the Company against a fluctuation in market values or to reduce volatility;
- (ii) as a substitute for physical securities; and
- (iii) adjustment of asset exposures within the parameters set out in the investment strategy.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

## 11 Derivative financial instruments (continued)

The Company holds the following derivative instruments:

### Equity swaps:

An equity swap is an agreement between counterparties to exchange a set of payments, determined by a stock or index return, with another set of payments (usually an interest-bearing (fixed or floating rate) instrument, but they can also be the return on another stock or index). Equity swaps are used to substitute for a direct transaction in stock. The two cash flows are usually referred to as "legs". As with other swaps, the difference in the payment streams is netted.

	Fair values \$		
	Notional values \$	Assets \$	Liabilities \$
Equity swaps	1,180,566	-	1,155
Total	1,180,566	-	1,155

## 12 Non-current assets - Deferred tax assets

	At	
	2017 \$	2016 \$
<b>The balance comprises temporary differences attributable to:</b>		
Capitalised share issue costs	84,309	197,172
Carry forward losses	3,325,236	3,325,236
Accrued expenses	9,570	9,074
Net unrealised losses of investments	5,044,559	1,631,232
	<b>8,463,674</b>	<b>5,162,714</b>
<b>Movements</b>		<b>Total \$</b>
<b>At 1 July 2015</b>		3,807,386
Credited		
- to profit or loss		1,292,748
- directly to equity		62,580
At 30 June 2016		<b>5,162,714</b>
<b>Movements</b>		<b>Total \$</b>
<b>At 1 July 2016</b>		5,162,714
Credited		
- to profit or loss		3,287,891
- directly to equity		13,069
At 30 June 2017		<b>8,463,674</b>

### 13 Current liabilities - Trade and other payables

	2017	At 2016
	\$	\$
Management fees payable	309,660	328,976
Performance fees payable	-	9,715,897
Unsettled trades	21,022,419	5,088,578
Interest payable	433,151	318,224
Other payables	1,530,612	2,110,667
	<u>23,295,842</u>	<u>17,562,342</u>

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

Due to the short term nature of these payables, the carrying amounts are reasonable approximations of their fair values.

### 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:

	2017	At 2016
	\$	\$
International listed equity securities sold short	206,601,934	145,197,945
Australian listed equity securities sold short	240,258,069	300,218,905
Other unlisted equity securities sold short	162,743	162,743
	<u>447,022,746</u>	<u>445,579,593</u>

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

	2017	At 2016
	\$	\$
<b>The balance comprises temporary differences attributable to:</b>		
Other temporary differences	<u>86,737</u>	228,942
<b>Movements</b>		
<b>At 1 July 2015</b>		<b>Total \$</b>
		11,742
Charged to		
- profit or loss		217,200
At 30 June 2016		<u>228,942</u>

## 15 Non-current liabilities - Deferred tax liabilities (continued)

Movements	Total
<b>At 1 July 2016</b>	<b>\$ 228,942</b>
(Credited) to - profit or loss	(142,205)
<b>At 30 June 2017</b>	<b><u>86,737</u></b>

## 16 Issued capital

### (a) Share capital

	Notes	30 June 2017 Shares	30 June 2016 Shares	30 June 2017 \$	30 June 2016 \$
Ordinary shares	16(b), 16(d)	<b>272,523,924</b>	269,869,781	<b>351,356,627</b>	353,292,892

### (b) Movements in ordinary share capital

Details	Notes	Number of shares	\$
Opening balance 1 July 2015		256,316,599	335,234,188
Dividends reinvestment plan issues	16(e)	2,813,549	3,856,576
Shares issued under DRP Placement Shortfall		10,739,633	14,348,150
Cost of issued capital		-	(146,022)
Balance 30 June 2016		<u>269,869,781</u>	<u>353,292,892</u>
Opening balance 1 July 2016		<b>269,869,781</b>	<b>353,292,892</b>
Dividends reinvestment plan issues	16(e)	<b>2,654,143</b>	<b>3,520,112</b>
Dividends paid	16(d)	-	(5,425,882)
Cost of issued capital		-	(30,495)
Balance 30 June 2017		<u><b>272,523,924</b></u>	<u><b>351,356,627</b></u>

### (c) Return of Capital

	Year ended
	2017      2016
	\$      \$
Since year end, the Directors have resolved their intention to pay a 4.0 cents per share Return of Capital to shareholders, pending shareholder approval at the AGM to be held on Wednesday 25 October 2017. If approved, the return would result in the following reduction to Issued Capital:	<u><b>10,900,957</b></u> -

### (d) 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.

## 16 Issued capital (continued)

### (e) 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.

### (f) 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 2016.

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 accumulated losses

### (a) Reserves

	2017 \$	At 2016 \$
Profits reserve	<u>4,476,918</u>	14,599,908

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

	2017 \$	At 2016 \$
Notes		
<b>Movements:</b>		
Opening balance	14,599,908	11,801,039
Transfer from current and retained earnings	8,796,381	29,040,927
Dividends paid	18 (18,919,371)	(26,242,058)
Closing balance	<u>4,476,918</u>	14,599,908

### (b) Accumulated losses

Movements in (accumulated losses) were as follows:

	2017 \$	At 2016 \$
Opening balance	(6,144,815)	(6,144,815)
Net profit for the year	7,065,282	29,040,927
Transfer to profits reserve	(8,796,381)	(29,040,927)
Closing balance	<u>(7,875,914)</u>	(6,144,815)



## 18 Dividends

### (a) Dividend rate

Dividends paid fully franked at 30% tax rate

	Dividend Rate	Total Amount	Date of Payment	% Franked
<b>2017</b>				
Ordinary shares - final 2016	\$0.05	\$13,493,489	26/10/2016	100
Ordinary shares - interim 2017	\$0.04	\$10,851,764	13/04/2017	50
<b>Total</b>		<b>\$24,345,253</b>		
<b>2016</b>				
Ordinary shares - final 2015	\$0.05	\$12,815,832	28/10/2015	100
Ordinary shares - interim 2016	\$0.05	\$13,426,226	14/04/2016	100
<b>Total</b>		<b>\$26,242,058</b>		

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

Year ended	
2017	2016
\$	\$

There is no final dividend declared for the year ended 30 June 2017 (final dividend FY2016: 5.0 cents per share fully franked)

- 13,493,489

### (c) Dividend franking account

The franked portions of the final dividends recommended after 30 June 2017 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 2018.

	2017 \$	2016 \$
Opening balance of franking account	4,693,209	11,842,501
Franking credits on dividends received	1,962,930	2,267,402
Tax paid during the year	2,043,686	11,625,287
Tax refunded during the year	(2,283,146)	(9,380,536)
Franking credits lost on ordinary dividends paid	(8,108,302)	(11,246,595)
Franking credits lost under 45 day rule	(52,345)	(414,850)
Closing balance of franking account	(1,743,968)	4,693,209
Adjustments for tax payable/refundable in respect of the current year's profits and the receipt of dividends	2,530,614	(1,874,996)
Adjusted franking account balance	786,646	2,818,213

## 18 Dividends (continued)

### (c) Dividend franking account (continued)

	2017 \$	2016 \$
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	-	(5,782,924)
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2016 - 30.0%)	<b>786,646</b>	<b>(2,964,711)</b>

The Company's ability to continue to pay franked dividends is dependent upon the receipt of franked dividends from investments and the payment of tax.

## 19 Key management personnel disclosures

Detailed remuneration disclosures are provided in the remuneration report on pages 16 to 18.

### (a) Key management personnel compensation

	Year ended 2017 \$	2016 \$
<b>Directors fees paid</b>		
Short-term employee benefits	<b>85,228</b>	85,228
Post-employment benefits	<b>4,772</b>	4,772
	<b>90,000</b>	90,000

Detailed remuneration disclosures are provided in the remuneration report on pages 16 to 18.

There are no executives that are paid by the Company. The Manager remunerated Justin Braithling as a Director of the Manager during the financial year to 30 June 2017.

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

#### (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.

2017 Name	Balance at the start of the year	Net movement	Balance at end of the year
<b>Directors of Australian Leaders Fund Limited</b>			
<b>Ordinary shares</b>			
Justin Braithling	1,231,894	50,000	1,281,894
Geoffrey Wilson	1,000,000	-	1,000,000
John Abernethy	60,000	(50,000)	10,000
Julian Gosse	-	-	-
	<b>2,291,894</b>	<b>-</b>	<b>2,291,894</b>

## 19 Key management personnel disclosures (continued)

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

2016	Balance at the start of the year	Net movement	Balance at end of the year
Name			
<b>Directors of Australian Leaders Fund Limited</b>			
<b>Ordinary shares</b>			
Justin Braitling	1,231,894	-	1,231,894
Geoffrey Wilson	1,040,000	(40,000)	1,000,000
John Abernethy	60,000	-	60,000
Julian Gosse	-	-	-
	<u>2,331,894</u>	<u>(40,000)</u>	<u>2,291,894</u>

## 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:

### Pitcher Partners

#### (i) Audit and other assurance services

	Year ended	
	2017	2016
	\$	\$
<i>Audit and other assurance services</i>		
Audit and review of financial statements	<u>44,143</u>	42,532
Total remuneration for audit and other assurance services	<u>44,143</u>	<u>42,532</u>
<i>Taxation services</i>		
Tax compliance services	<u>12,375</u>	17,848
Total remuneration	<u>56,518</u>	<u>60,380</u>

The Company's Audit Committee oversees the relationship with the Company's External Auditors. The Audit Committee reviews the scope of the audit and the proposed fee. It also reviews the cost and scope of other 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 2017 (2016: nil).

## 22 Related party transactions

### (a) Key management personnel

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

## **22 Related party transactions (continued)**

### **(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.

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 \$3,588,852 net of reduced input tax credits (2016: \$3,694,736).

As at 30 June 2017, the balance payable to the Investment Manager was \$309,660 (2016: \$328,976).

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.

For the period ended 30 June 2017 in its capacity as manager, Watermark Funds Management Pty Limited performance fee net of reduced input tax credits was nil (2016: \$9,053,449).

As at 30 June 2017, the balance payable to the Investment Manager was nil (2016: \$9,175,897).

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**

On 24 July 2017, the Company announced the resignation of Sophia Gartzonis as Company Secretary effective 24 July 2017. Following the resignation Mark Licciardo of Mertons Corporate Services Pty Ltd was appointed as Company Secretary, effective 24 July 2017.

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

## 24 Reconciliation of profit after income tax to net cash (outflow)/inflow from operating activities

### (a) Reconciliation of profit after income tax to net cash (outflow)/inflow from operating activities

	Year ended	
	2017	2016
	\$	\$
Profit for the year	7,065,282	29,040,927
Fair value (gains)/losses on financial assets at fair value through profit or loss	(53,648,342)	125,597,957
Effects of foreign currency exchange rate changes on cash and cash equivalents	(316,398)	162,055
Change in operating assets and liabilities:		
Increase in trade and other receivables	(22,358,895)	(7,716,465)
(Increase)/decrease in other current assets	(36,382)	7,198,266
Increase in deferred tax assets	(3,287,891)	(1,292,748)
Increase/(decrease) in trade and other payables	5,661,130	(38,846,122)
(Decrease)/increase in deferred tax liabilities	(142,205)	217,200
Increase in provision for income taxes payable	2,317,652	-
Decrease in current tax asset	2,182,273	-
Net cash (outflow)/inflow from operating activities	(62,563,776)	114,361,070

### (b) Non-cash financing activities

	Year ended	
	2017	2016
	\$	\$
Dividends reinvested	3,520,112	3,856,576

## 25 Earnings per share

### (a) Basic earnings per share

	Year ended	
	2017	2016
	Cents	Cents
Basic earnings per share attributable to the ordinary equity holders of the Company	2.61	10.98

### (b) Diluted earnings per share

	Year ended	
	2017	2016
	Cents	Cents
Diluted earnings per share attributable to the ordinary equity holders of the Company	2.61	10.98

Diluted earnings per share is the same as basic earnings per share. As at 30 June 2017 and 30 June 2016, the Company had no securities outstanding which have the potential to convert to ordinary shares and dilute the basic earnings per share.

## 25 Earnings per share (continued)

### (c) Weighted average number of shares used as denominator

	Year ended	
	2017	2016
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	<b>271,069,440</b>	264,531,476
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	<b>271,069,440</b>	264,531,476

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

- (a) the financial statements and notes set out on pages 21 to 51 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 2017 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) The Directors have given the declarations required by section 295A of the *Corporations Act 2001* from the Manager, Watermark Funds Management Pty Limited, declaring 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 Braitley  
Chairman

Sydney  
31 August 2017

**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 2017, the statement of comprehensive income, the statement of changes in equity and the 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.

**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 2017 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a) Basis of preparation.

**Basis of Opinion**

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the *Auditor's Responsibility* section of our report. We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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



## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. We have communicated the key audit matters to the Audit Committee, but they are not a comprehensive reflection of all matters that were identified by our audit and that were discussed with the Audit Committee. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
<b>Financial Assets and Financial Liabilities</b> <b>Refer to Note 4: Fair value measurements, Note 10: Financial assets at fair value through profit or loss, Note 11: Derivative financial instruments and Note 14: Financial liabilities at fair value through profit or loss</b>	
<p>We focused our audit effort on the valuation, existence and completeness of the Company's financial assets and financial liabilities as they are its largest assets and liabilities, and represent the most significant driver of the Company's net tangible assets and profits.</p> <p>The quantum of investments held inherently makes financial assets and financial liabilities a key audit matter, in addition however, there may be judgements involved in determining the fair value of the investments.</p> <p>We therefore identified the valuation, existence, completeness and ownership of investments as an area of focus.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>▪ We obtained an understanding of the investment management process and controls;</li> <li>▪ We reviewed the independent audit report on internal controls (ASAE 3402 Assurance Reports on Controls at a Service Organisation) for the period 1 July 2016 to 30 June 2017 for the Administrator;</li> <li>▪ We reviewed the latest available independent audit report on internal controls (ASAE 3402 Assurance Reports on Controls at a Service Organisation) for the Company's Custodians.</li> <li>▪ We made enquiries as to whether there had been any changes to these controls or their effectiveness</li> <li>▪ For the period since the last internal controls audits, we obtained and tested a sample of monthly reconciliations between the Administrator and the Custodians, and obtained confirmation of subsequent settlement of purchase and sale transactions;</li> <li>▪ We agreed the investment holdings to a confirmation obtained directly from the Custodian;</li> <li>▪ We assessed the Company's valuation of individual investment holding to independent sources where readily observable data was available. For investments where there was little or less observable market data, we obtained and assessed other relevant valuation data;</li> <li>▪ We evaluated the appropriateness of the accounting treatment of revaluations of financial assets and financial liabilities for current/deferred tax and realised/unrealised gains or losses; and</li> <li>▪ We assessed the adequacy of disclosures in the financial statements.</li> </ul>

<b>Key audit matter</b>	<b>How our audit addressed the matter</b>
<b>Management and Performance Fees</b> <b>Refer to Note 13: Trade and other payables, Note 22: Related party transactions and the Remuneration Report</b>	
<p>We focused our audit effort on the accuracy and completeness of management and performance fees as they are significant expenses of the Company and their calculation may require adjustments for events in accordance with the Investment Management Agreement between the Company and the Investment Manager.</p> <p>In addition to their quantum, as these transactions are made with related parties, there are additional inherent risks associated with these transactions, including the potential for these transactions to be made on terms and conditions more favourable than if they had been with an independent third-party.</p> <p>We therefore identified the accuracy of management and performance fees as an area of focus.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>▪ Making enquiries with the Investment Manager and the Directors with respect to any significant events during the period and associated adjustments made as a result, in addition to having reviewed ASX announcements;</li> <li>▪ In order to verify the Company's calculation, we recalculated management and performance fees in accordance with our understanding of the Investment Management Agreement;</li> <li>▪ Considered the treatment of events that may be significant to the calculation of management and performance fees;</li> <li>▪ Tested key inputs used in the calculation of the management and performance fees and performed a reasonableness test;</li> <li>▪ Considered the appropriateness of the current methodology in relation to calculation of the management and performance fees;</li> <li>▪ We also assessed the adequacy of disclosures made in the financial statements in relation to these related party transactions.</li> </ul>

### **Other information**

The Directors are responsible for the other information. The other information comprises the information in the Company's annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially consistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Directors' Responsibility for the Financial Report**

The directors of Australian Leaders Fund Limited 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 are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of the Financial Report**

Our responsibility is to express an opinion on the financial report based on our audit. Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

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 Company's preparation of the financial report that gives a true and fair view 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 Company's internal controls.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of 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 conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial report. We are responsible

for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **REPORT ON THE REMUNERATION REPORT**

### **Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 16 to 18 of the directors' report for the year ended 30 June 2017. In our opinion, the Remuneration Report of Australian Leaders Fund Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

### **Responsibilities**

The directors of Australian Leaders Fund Limited 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.



S M WHIDDETT  
Partner



PITCHER PARTNERS  
Sydney

31 August 2017

The Shareholder information set out below was applicable as at 27 July 2017.

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:

<b>Holding</b>	<b>Class of equity security</b>		
	<b>Ordinary shares</b>		
	<b>No. of Shareholders</b>	<b>Shares</b>	<b>Percentage</b>
1 - 1000	579	285,444	0.10
1,001 - 5,000	1,620	5,022,252	1.84
5,001 - 10,000	1,830	14,329,759	5.26
10,001 - 100,000	5,368	163,238,995	59.90
100,001 and over	368	89,647,474	32.90
	<b>9,765</b>	<b>272,523,924</b>	<b>100.00</b>

There were 265 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:

<b>Name</b>	<b>Ordinary shares</b>	
	<b>Number held</b>	<b>Percentage of issued shares</b>
MRS FAY MARTIN-WEBER	3,500,000	1.28
MR VICTOR JOHN PLUMMER	3,500,000	1.28
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,811,412	0.66
AVANTEOS INVESTMENTS LIMITED <CLEARVIEW S/P A/C>	1,443,029	0.53
NEVILLE WARD SUPER PTY LIMITED <THE NW WARD SUPER FUND A/C>	1,388,193	0.51
MR ROBERT FERGUSON & MS JENNIFER FERGUSON & MS RACHEL FERGUSON <TORRYBURN SUPER FUND A/C>	1,297,570	0.48
JOHN GRICE PTY LTD <GRICE SUPER FUND A/C>	1,200,888	0.44
BURROWS INVESTMENTS PTY LTD	1,018,579	0.37
GW HOLDINGS PTY LTD <EDWINA A/C>	1,000,000	0.37
NETWEALTH INVESTMENTS LIMITED <SUPER SERVICES A/C>	947,346	0.35
WATTLES NEST PTY LTD <WATTLES NEST SUPER FUND A/C>	943,666	0.35
MR JOHN CHARLES PLUMMER	907,500	0.33
MRS THELMA JOAN MARTIN-WEBER	893,366	0.33
FIRST COVENANT PTY LTD <BRAITLING SUPER FUND A/C>	850,895	0.31
RATIONAL RESEARCH INVESTMENTS PTY LIMITED	849,618	0.31
NEALE EDWARDS PTY LTD	704,086	0.26
MR CLIFFORD LAW & MS SUSANNE BRUHN <BRUHN LAW SUPER FUND A/C>	699,954	0.26
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	681,351	0.25
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	649,122	0.24
MR ARTHUR JOHN NIONS & DR PATRICIA PERCIVAL <AN & PP SUPER FUND A/C>	640,535	0.24
	<b>24,927,110</b>	<b>9.15</b>

**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.