AUSTRALIAN LEADERS FUND

Australian Leaders Fund Limited

ABN 64 106 845 970

Annual Report 2018

YEAR ENDED 30 JUNE 2018

Australian Leaders Fund
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COMPANY PARTICULARS

Australian Leaders Fund Limited
A.B.N. 64 106 845 970

DIRECTORS:	Justin Braitling (Chairman) Geoffrey Wilson (Non-Executive Director) John Abernethy (Non-Executive Director) Julian Gosse (Non-Executive Director)
COMPANY SECRETARY	Mark Licciardo
PRINCIPAL REGISTERED OFFICE IN AUSTRALIA:	Level 23 Governor Phillip Tower 1 Farrer Place Sydney NSW 2000 Phone: (02) 9252 0225 Email: info@wfunds.com.au For enquiries regarding net asset backing (as advised each month to the Australian Securities Exchange) refer to www.asx.com.au or call (02) 8280 1700.
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.
AUDITORS	Pitcher Partners Level 22 MLC Centre 19 Martin Place Sydney NSW 2000 Phone: (02) 9221 2099
SECURITIES EXCHANGE LISTING	Australian Securities Exchange (ASX) The home exchange is Sydney ASX code: ALF ordinary shares

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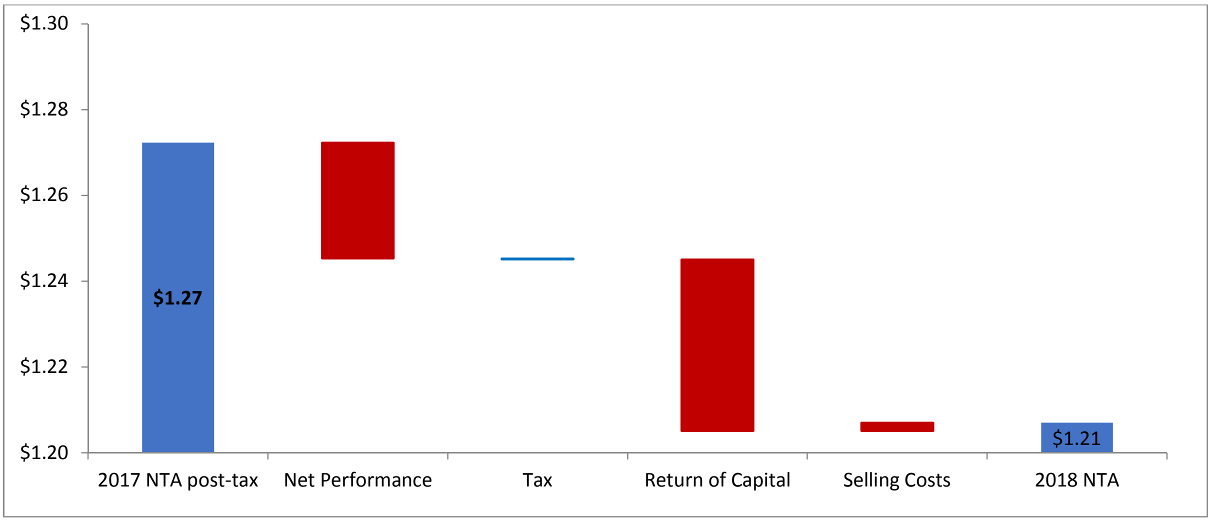
Chairman's Letter

Dear fellow Shareholders,

On behalf of the Board, I would like to thank you for your continued support in what was a challenging year for the Company.

Australian Leaders Fund (ALF) reported an after-tax loss of $7 million for the 12 months to June 2018. As at the end of the period, ALF's after-tax Net Tangible Asset Backing (NTA) was $1.21, down from $1.27 in the previous year (Figure 1). Shareholders received a return of capital in October 2017 of 4 cents per share. Having paid relatively high dividends in prior years, the Company did not have sufficient retained profits to pay a dividend in respect of FY18.

Figure 1: NTA Bridge



<u>Investment Strategy Review</u>

The Company' performance has fallen short of its long-term track record in the last two years. While a combination of factors that have contributed to this result, the biggest challenge has been in balancing our two objectives – to deliver attractive returns while protecting shareholders' capital against the risk of a draw down in the share market.

Looking at the performance of the Company's long and short portfolios in isolation, it is clear that we have consistently created value on the long side of the ledger. ALF's domestic long portfolio delivered a return of 14.6% in FY18, outperforming the All Ordinaries Accumulation Index by 1%. In fact, the domestic long portfolio has outperformed the market in each year since the fund was launched 14 years ago, clear evidence of our stock picking ability through the market cycle.

We seek to achieve the second objective by hedging the Company's exposure to the share market when risks are elevated. Short-selling of shares is the principal means of hedging market risks. Shorting has proven difficult in the last 18 months, as share markets have been pushed higher by favourable monetary conditions. The Company's domestic short portfolio, increased by 12.2% in 2018, eroding most of the profits made on the long book.

We have passed the sweet spot in this business cycle, where easy monetary conditions and synchronised global growth have pushed share markets higher. We are transitioning into a more challenging phase, as monetary conditions that have been easy for far too long are now tightening. Shares are very expensive based on most valuation metrics, and therefore risky.

Against this backdrop, ALF's portfolio has been fully hedged for more than two years. We have retained these conservative settings to protect shareholders from a major setback as occurred in 2009, while still expecting to deliver attractive returns for shareholders of 8-10%. Investors received a taste of this in February, when markets fell precipitously, while ALF's portfolio went up.

Performance issues for the Fund in FY18 were felt most acutely in the international portfolio. The task was an ambitious one, stretching resources and ultimately leading to diminished capability both domestically and abroad. Responding to these challenges we made some important changes to the investment team and ALF's portfolio. Firstly, the international balance sheet has been cut in half, bringing the international exposure back to 20% as a share of the total portfolio. Secondly, the investment team has been reorganised, allowing me to refocus exclusively back on the Australian share market, while handing over management of the international portfolio to a specialist international investor in Harvey Migotti.

The Board is encouraged by the improvement in returns so far in 2018 following these changes and remains steadfast in its belief that the Company's investment strategy will prove its worth as this cycle completes.

Dividends

In February this year, the Board issued an updated dividend policy, setting out its intentions in respect of future dividends. Subject to the availability of sufficient retained profits and franking, the Board believe that the Company can sustain a fully franked dividend that is commensurate with the yield on the benchmark All Ordinaries Accumulation Index.

Following stronger performance in recent months, the Board was pleased to announce that it has declared a fully franked final dividend of 2.0 cents per share, in respect of FY18.

Capital Management

The Board remains committed to actively managing the Company's capital. As at market close on the August 23, 2018, 4,915,173 ALF shares have been purchased on-market through the buy-back, at a discount to NTA, which is immediately accretive to shareholder value. The Board will continue to avail itself of the opportunity to buy back shares for so long as the Company's shares are trading at a material discount to the NTA.

I look forward to having an opportunity to meet with shareholders in person at the Annual General Meeting and shareholder updates, to be held around later this year.

Justin Braitling
Chairman
Dated at Sydney, August 27, 2018

August 27, 2018

Chief Investment Officer's Report – ALF

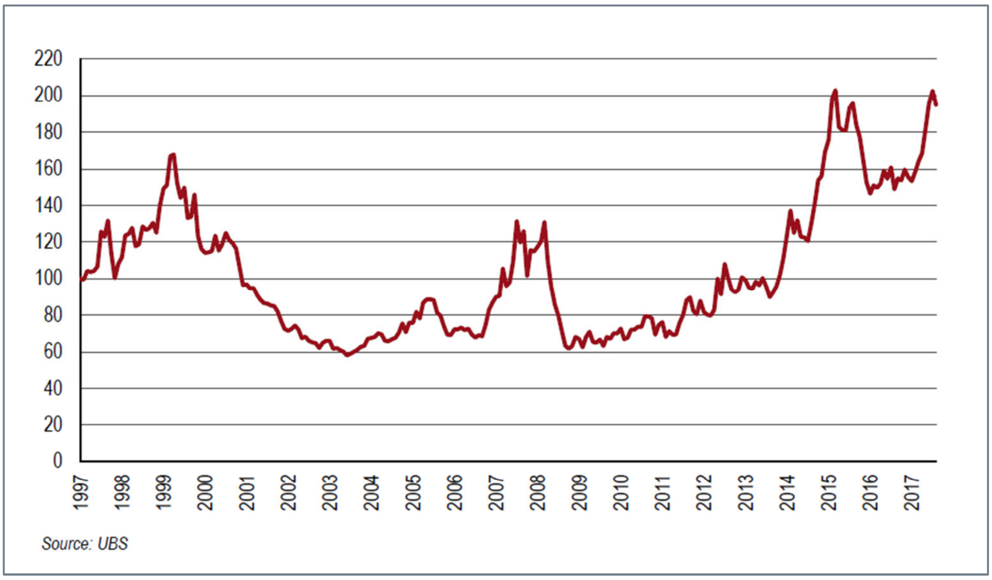
Performance Review

Quality as they say, is in the eye of the beholder, which is why there is no universal truth for what constitutes a 'quality' company. Similarly, there is a myriad of approaches to valuing shares. Differences in opinion regarding quality and value are what makes a market. Through a market cycle, one would typically expect investment styles to move in and out of favour, with an efficient market pricing risks and opportunities rationally over the longer term.

In recent years however, a more pervasive trend has emerged. Investors faced with low or negative interest rates, have aggressively chased growth, at almost any price. In the 12 months to June 30, 2018, high PE shares have outperformed low PE shares by approximately 19%. Growth and momentum have dominated our share market.

As a value-based investor, these trends have presented a challenge for us in the past 18 months, and we have struggled to generate returns. The divergence between value and momentum has now reached extremes not seen since the dot-com boom, presenting an opportunity as conditions will eventually normalise (Fig 1).

Figure 1: ASX200 Price momentum factor divided by ASX200 value factor



As valuations are very stretched, we are fully hedged to protect investors if share markets were to fall. When fully hedged, the return we achieve is not simply the appreciation in the value of our long portfolio (which performed in line with the broader market) like other funds. Rather, the return is derived from the spread between the performance of the long and short portfolios; which was negative in FY18. This was largely due to the poor performance of the Fund's international portfolio. While positive, the spread on the Australian portfolio was well short of the value we have created historically.

12 Month Performance at 30 June 2018	ALF	Domestic Portfolio	Intl. Portfolio**
Long Return*	12.9%	**14.6%**	**8.0%**
Short Return*	14.8%	12.2%	16.6%
L/S Spread*	-1.9%	2.4%	-8.6%
All Ords Accum Index		**13.7%**	
MSCI AC World Index			**15.0%**

*Returns do not take account of fees or costs.
** Does not take account of relative weight of international exposures in the fund

As discussed at our shareholder updates in May this year, we have made some important changes in our business to address the shortcomings in fund performance over the last 18 months. Chief amongst these was the decision to reduce ALF's exposure to international shares, which detracted from returns last year. Going forward, international shares will account for 20-30% of the Fund's gross exposure. ALF's core focus will be on Australian shares while retaining some exposure to our best international ideas.

These developments were also reflected in changes to the investment team, with the appointment of Harvey Migotti to the position of Head of International Equities. I have handed over responsibilities for the international portfolio to an experienced investor with a strong track in long/short investing. In turn, this has allowed me to refocus on managing the Australian portfolio, where performance has been improving steadily since implementing these changes.

Portfolio Review

<u>Basic Industries</u>

Through the first half of the year, commodity prices benefitted from a booming Chinese economy, supply-side reforms, increasing industrial production and a falling US dollar. These trends reversed in 2018, as credit conditions tightened in China, and escalating concerns over a trade war with the US saw the US dollar rally on capital outflows from emerging economies. We retain our preference for a hedged exposure in basic industries, absent a clear signal as to the direction forward for commodity markets.

Mining and energy shares made a positive contribution to Fund returns in FY18. A timely investment in *BHP Billiton* was a standout performer, along with core holdings in *Independence Group, Iluka Resources* and *Evolution Mining*. We also identified opportunities in a number of emerging miners such as *Aurelia Metals*, which added to returns in the sector. In the energy sector, investments in *Woodside Petroleum* and *Exxon Mobil* were notable performers.

<u>Healthcare</u>

The healthcare portfolio detracted from returns in the period. Australian healthcare companies feature prominently in the 'stronger for longer' group mentioned above, and valuations for sector heavyweights are pushing all-time extremes with little sign of relief. Greater value can be found in markets offshore, allowing us to position the fund in leading companies in the medical device and life science sectors, while retaining shorts in biotech and pharmaceuticals, that are challenged by reforms to drug pricing.

On the domestic front, a long-term investment in *CSL* was the top contributor, although extended valuations and emerging headwinds for the company have given us pause for thought in recent months. Another long-term position in *Ramsay Healthcare* was disappointing however, with the company struggling to maintain investors' confidence in the face of margin pressures and political intervention in the private hospital sector. Amongst international names, investments in *Nevro Corp* and *Galapagos* delivered solid results.

Consumer

There were a range of notable themes in the consumer/retail sector in FY18. While trends in Europe and China were broadly positive, results in the US were more mixed. Despite an acceleration in store closures, the US market is still oversupplied for retail outlets, particularly as shoppers migrate online. Ironically this has created a situation where shorting US retailers has very much become a consensus trade, with any modest positive surprise creating a short squeeze. This has been replicated in the local market, where local retailers such as *JB Hi-Fi* and *Harvey Norman* have been struggling against the dual headwinds of increased online competition (*Amazon* announced its entry into the Australian market in FY18) and a softening residential property market. Our sector strategy has remained the same, buying quality brand owners such as *Heineken* and *Mondelez* while looking for shorts in the retail sector with idiosyncratic issues rather than those thought to be facing consensual problems.

The Fund derived profits in this part of the portfolio, where core investments in local names such as *Tabcorp Holdings* and *Aristocrat Leisure* performed well. *Bapcor* was another successful investment in the period, along with broad a range of small contributions from the Fund's portfolio of global brand owners.

Technology/Media/Telecommunications

The technology sector has been the key driver of share market returns in the US, dominated by a small group of companies which enjoyed almost uninterrupted growth in the period. ALF participated in this thematic through core holdings in *Microsoft Corp* and *Alphabet Inc.* The US media landscape was dominated by high profile M&A deals, such as *AT&T* and *Time Warner* as well as *Disney* and *Comcast's* bidding war for *News Corp*. Advertising companies have been the big loser from the growing dominance of online and streaming platforms which have disintermediated traditional business models. The Fund benefitted from selected shorts in European advertising companies in the period.

Conversely, outdoor advertising continues to draw an increasing share of advertising budgets. Local outdoor advertisers such as *APN Outdoor* and *Ooh Media* have been beneficiaries of this and were good investments in the period. The domestic portfolio also benefitted from a long-term investment in *Fairfax*, which spun out its valuable *Domain* franchise before receiving a bid from *Nine Entertainment* early in the new financial year. Nevertheless, the TMT landscape both domestically and abroad posed numerous challenges and was a net detractor from returns over the year.

Industrials

With leading indicators for industrial production around the world strengthening in unison early in FY18, the whole sector has been the barometer for the global economic recovery. With inventories low and demand robust, particularly in the US, end markets such as factory automation, commercial aerospace and mining services continue to grow apace. This is largely reflected in share prices however, with exuberance being tempered somewhat by rising tensions over trade the consequent (or coincidental) slowing in the Chinese economy.

Fund performance in the sector was flat for the year, with strong performance from investments in the transportation sector offset by losses on shorts in capital goods companies. *Qantas*, *Airbus*, *Deutsche Post* and *Canadian Pacific Railway Ltd* were all notable performers.

<u>Financials</u>

Our strategy for the financials portfolio has been to target regions such as Scandinavia and the US where fundamentals are healthy, and segments such as general insurance, which are less economically sensitive. On the short side, we have taken selected exposures in challenged regional markets such as Spain and Italy, as well as segments like wealth management that look expensive at this point in the cycle.

Our view on the outlook for the Australian banks is circumspect, however opportunities have occasionally presented themselves, such as when *Commonwealth Bank of Australia* was oversold following the Austrac scandal. While there is little to be excited about for the banks in terms of earnings growth, value has emerged in the sector as investors have overplayed the risk of losses on residential mortgages, from weaker property prices.

FY18 was marked with notable successes in financials, from investments in the big four Australian banks, along with *Clydesdale Bank* in the UK. A short in Spanish bank *Bankia* was also a success. Results were less successful in the insurance and real estate sectors, which offset gains in banking and diversified financials to leave returns flat for the period.

Economic Outlook

We have passed the sweet spot in this business cycle, where easy monetary conditions and synchronised growth pushed share markets higher. We are transitioning into a more challenging phase, as China and Emerging Markets (EM) decouple and we are left with a US economy at risk of overheating.

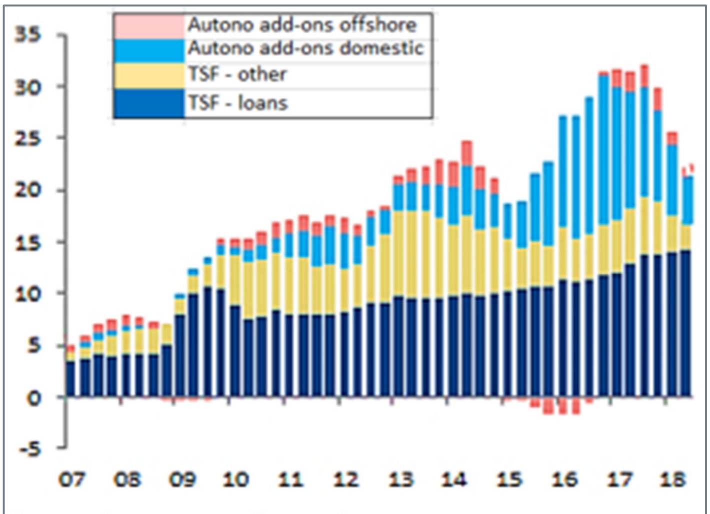
Monetary conditions that have been easy for far too long are now tightening, pushing the US dollar higher. This is impacting activity not just in the US, but also in EM that have borrowed in dollars. Globalisation, a key source of growth for decades is now threatened, as trade wars ensue between the world's largest economies.

Credit and trade have for decades grown well in excess of GDP, fuelling global commerce. Indebtedness in many of the world's largest economies has risen to unsustainable levels and can no long bolster growth the way it has in the past. Just consider Australian household debt, amongst the highest in the world relative to the income required to service it.

Excess liquidity has found its way into Emerging Economies, with cross border US dollar debt doubling to $7 trillion since the crisis. The stronger dollar and rising US interest rates together act as a tourniquet on world liquidity and for those countries that have borrowed in dollars.

Authorities in China have also restricted credit growth as they try to clean up over-levered companies and contain excesses that have built up in the shadow banking system. In Fig 2 you can see credit growth has fallen back to 2013-14 levels. Given the extent of tightening, not dissimilar to what preceded the downturn in 2015, we would expect to see activity in China decelerate further in the short to medium term.

Figure 2: New Credit is Slowing Sharply in China as Credit Tightening Measures Bite



Source: Autonomous Research

Liquidity has tightened acutely in some sectors with credit spreads and default rates rising. The Renminbi has also tumbled, which was a harbinger of trouble when the Chinese economy slowed in 2014.

While investment spending and export volumes have been weak in recent months, the rest of the Chinese economy has proven remarkably resilient. As this crackdown on shadow credit continues, the Chinese economy will likely decelerate further. This is where the trade dispute with the US becomes interesting - the traded goods sector is far larger in China than the US and with the Americans threatening tariffs on a further $US 200 billion of imported Chinese goods, while facing a slowing economy, the Chinese are in a difficult position. If share markets are the scoreboard for this trade war, the Americans are clearly in front and under no pressure to back down any time soon.

If you cast your mind back to 2014, the primary concern of investors was a slowing Chinese economy. The global industrial supply chain slowed through 2015 as the industrial economy slipped into recession. The Renminbi came under intense pressure and EM shares collapsed. Having initiated this downturn, China led the global recovery in industrial production that commenced back in early 2016.

The extent of recent losses in EM shares and debt securities is troubling, the cycle looks to have turned. Meanwhile, share markets in most major economies are testing all-time highs, ignoring this important development. This seems incongruous and is a major risk given EM contribute most of the world's growth.

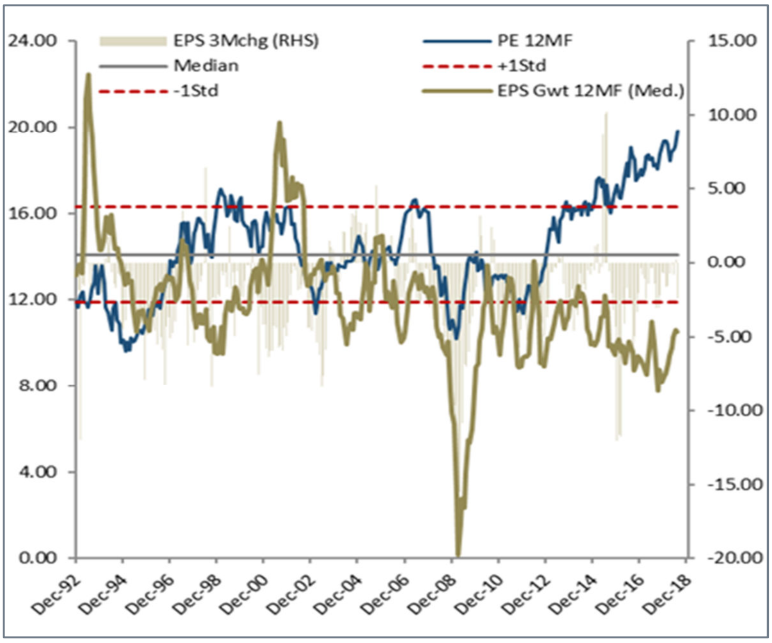
The trade dispute is not the real problem. After a pause, US interest rates and the US dollar are likely to push higher, ensuring any relief rally in EM from an easing in trade tensions may be short lived.

This has important ramifications for the Australian share market also. The Australian share market is considered a defensive part of the Asian basket and has rallied as EM indexes have collapsed. The Australian banks, not forsaking their challenges with the Royal Commission and the poor profit outlook are considered a safe harbour in an Asian storm.

Mining shares and the mining economy are of course highly levered to commodity prices and Chinese demand. You wouldn't know it though, with BHP Billiton's shares reaching a cycle high. Again, investors in mining shares are attributing the weakness in commodities to the trade dispute, when instead they should be focussing on the outlook for EM growth which accounts for all the growth in demand for commodities.

As for the rest of the Australian share market, industrial shares (Ex-Banks and REITs) continue to re-rate higher, becoming more expensive, while profit forecasts are trimmed further (Fig 3). At 20 times forecast earnings (blue line) we are paying a very high price for modest profit growth.

Figure 3: ASX 200 Industrial Companies (Ex Banks and REIT's)



Source: Bloomberg

Investors have abandoned value as the market keeps rewarding growth and momentum. This can only go on for so long before it ends badly. The ultimate risk in holding any asset is in the price you pay, and this market is red hot. Hence, we retain ALF's fully hedged settings.

Justin Braitling

Chief Investment Officer
Watermark Funds Management

Company Profile

Investment Objective

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

Investment Philosophy

The Manager believes successful investing requires the following skills:

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

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

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

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

Investment Process

The Manager's investment process is a fundamentally driven, security selection process based on sound investment ideas taken from the investment universe of listed Australian 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 2018

Investments at Market Value

Consumer Durables & Apparel		
Breville Group Limited	1,622,884.06	0.52%
LVMH Moet Hennessy Louis Vuitton SE	3,249,406.08	1.05%
	4,872,290.14	**1.58%**
Consumer Services		
Aristocrat Leisure Limited	3,315,353.70	1.07%
Star Entertainment Group Limited	6,207,091.85	2.01%
Tabcorp Holdings Limited	6,656,518.78	2.15%
	16,178,964.33	**5.23%**
Media		
Fairfax Media Limited	8,052,219.75	2.60%
oOh media Ltd	3,700,219.05	1.20%
Vivendi SA	3,138,082.32	1.02%
	14,890,521.12	**4.82%**
Retailing		
Bapcor Ltd	3,672,231.30	1.19%
Premier Investments Limited	3,677,831.28	1.19%
Webjet Limited	3,273,837.60	1.06%
	10,623,900.18	**3.44%**
Food Beverage & Tobacco		
Mondelez International, Inc. Class A	2,763,817.37	0.89%
	2,763,817.37	**0.89%**
Energy		
Caltex Australia Limited	3,857,844.78	1.25%
Karoon Gas Australia Ltd	1,185,400.51	0.38%
Origin Energy Limited	2,544,259.95	0.82%
Santos Limited	3,391,342.68	1.10%
Senex Energy Limited	3,290,633.63	1.06%
Z Energy Ltd.	3,162,488.00	1.02%
	17,431,969.55	**5.64%**
Banks		
AIB Group PLC	1,800,331.25	0.58%
Bank of Queensland Limited	1,140,648.22	0.37%
Commonwealth Bank of Australia	9,363,503.52	3.03%
CYBG PLC Shs Chess Depository Interests Repr 1 Shs	11,756,532.22	3.80%
FinecoBank SpA	2,635,089.83	0.85%
National Australia Bank Limited	10,977,019.75	3.55%
Swedbank AB Class A	2,771,425.25	0.90%
Westpac Banking Corporation	3,248,110.10	1.05%
Wells Fargo & Company	3,557,060.02	1.15%
	47,249,720.16	**15.28%**
Diversified Financials		
AMP Limited	6,862,231.08	2.22%
ING Groep NV	2,878,750.20	0.93%
Janus Henderson Group PLC Registered Shs Chess Depos	3,375,629.88	1.09%
Magellan Financial Group Ltd	1,747.50	0.00%
Macquarie Group Limited	3,564,087.60	1.15%
Perpetual Limited	1,315,932.80	0.43%
	17,998,379.06	**5.82%**
Insurance		
Hastings Group Holdings Plc	1,879,663.34	0.61%
Medibank Private Ltd.	2,361,818.64	0.76%
QBE Insurance Group Limited	2,347,700.38	0.76%
Suncorp Group Limited	786,196.74	0.25%
	7,375,379.10	**2.39%**
Health Care Equipment & Services		
Ramsay Health Care Limited	2,522,539.38	0.82%
Sonic Healthcare Limited	6,283,776.51	2.03%
	8,806,315.89	**2.85%**
Pharmaceuticals Biotech & Life Sciences		
Merck & Co., Inc.	1,264,525.43	0.41%
Novartis AG	4,050,689.91	1.31%
CSL Limited	2,759,859.36	0.89%
	8,075,074.70	**2.61%**

Capital Goods		
Airbus SE	2,837,701.68	0.92%
Ausdrill Limited	1,676,885.39	0.54%
Deere & Company	1,069,621.14	0.35%
Epiroc AB Class A	1,697,059.45	0.55%
Honeywell International Inc.	1,584,482.12	0.51%
Kennametal Inc.	1,650,812.45	0.53%
OSRAM Licht AG	1,215,944.40	0.39%
Reece Limited	5,653,360.90	1.83%
Reliance Worldwide Corp. Ltd.	1,635,453.92	0.53%
Safran S.A.	2,341,541.04	0.76%
Siemens AG	4,596,637.62	1.49%
Weir Group PLC	2,064,262.62	0.67%
	28,023,762.73	**9.06%**
Commercial & Professional Services		
Brambles Limited	6,709,150.80	2.17%
Downer EDI Limited	4,496,116.32	1.45%
	11,205,267.12	**3.62%**
Transportation		
Atlas Arteria	3,335,716.82	1.08%
Aurizon Holdings Ltd.	2,380,387.19	0.77%
CSX Corporation	1,162,085.07	0.38%
	6,878,189.08	**2.22%**
Semiconductors & Semiconductor Equipment		
Broadcom Inc.	2,987,147.51	0.97%
	2,987,147.51	**0.97%**
Software & Services		
Alphabet Inc. Class A	3,224,729.57	1.04%
Link Administration Holdings Ltd.	3,458,176.72	1.12%
Microsoft Corporation	3,184,722.68	1.03%
MYOB Group Ltd.	9,801,897.40	3.17%
	19,669,526.37	**6.36%**
Materials		
Aurelia Metals Limited	5,195,088.87	1.68%
BHP Billiton Limited	9,223,553.91	2.98%
Boral Limited	4,702,083.22	1.52%
Bluescope Steel Limited	3,492,768.12	1.13%
Duluxgroup Limited	3,695,722.65	1.20%
Iluka Resources Limited	1,313,661.18	0.42%
Jupiter Mines Limited	1,745,512.23	0.56%
Lynas Corporation Limited	4,205,667.96	1.36%
Orora Ltd.	5,092,740.66	1.65%
Regis Resources Limited	5,756,938.24	1.86%
South32 Ltd.	2,914,219.43	0.94%
Teck Resources Limited Class B	1,872,906.19	0.61%
Vale S.A. Sponsored ADR	3,204,280.65	1.04%
	52,415,143.31	**16.95%**
Real Estate		
Aveo Group	4,221,806.67	1.37%
GPT Group	8,427,647.58	2.73%
Mirvac Group	3,786,769.35	1.22%
Stockland	5,289,981.33	1.71%
	21,726,204.93	**7.03%**
Telecommunication Services		
SpeedCast International Ltd	6,832,596.30	2.21%
	6,832,596.30	**2.21%**
Utilities		
Spark Infrastructure Group Ltd.	3,148,768.92	1.02%
	3,148,768.92	**1.02%**
Total Long Portfolio	**309,152,937.87**	**100.00%**
Total Short Portfolio	**(270,570,852.65)**	

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 2018.

Directors

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

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

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

Principal activities

During the 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:

	Dividend Rate	Total Amount	Date of Payment	% Franked
2017				
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

In addition to the above dividends, since the end of the financial period the Directors have recommended the payment of a final fully franked ordinary dividend of 2.0 cents per fully paid share with an ex date of 30 August 2018 and a record date of 31 August 2018, to be paid on 14 September 2018,out of the profits reserve at 30 June 2018.

Return of Capital

Having flagged at the half-year for FY17 that the Company's payout ratio had become unsustainable, the Board considered a range of capital management options in 1HFY18 that balance Shareholders' appetite for investment income with the requirement to move dividends to a more sustainable level, and in consideration of the Company's capital and franking positions. In light of these considerations, Directors resolved to pay a Return of Capital to Shareholders of 4.0 cents per share on November 14, 2017. The Board also successfully sought approval at the AGM, to pay a further Return of Capital should it deem it in the best interests of Shareholders.

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 8 of this Annual Report .

The loss from ordinary activities after income tax amounted to $6,874,008 (2017: $7,065,282 profit).

The net tangible asset backing for each ordinary share as at 30 June 2018 amounted to $1.21 per share (2017: $1.27 per share). The equivalent asset backing before tax was $1.21 per share (2017: $1.26 per share).

Review of operations (continued)

The gross portfolio value decreased 1.1% over the financial year (2017: increased 3.6%) while the All Ordinaries Accumulation Index increased by 13.7% (2017: 13.1%), representing an underperformance of 14.8% (2017: 9.5%). After deducting costs in funding the balance sheet, along with management fees and other expenses, the fund reported a negative 2.3% return for the year (2017: positive 2.0%).

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

Financial Position

The net asset value of the Company for the current financial year ended was $325,387,876 (2017: $347,957,631).

Significant changes in the state of affairs

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.

On 15 September 2017, the Company announced the appointment of Belinda Cleminson, also of Mertons Corporate Services Pty Ltd, as Joint Company Secretary effective 15 September 2017. This appointment is in addition to Mark Licciardo who remains as Joint Company Secretary.

As a measure to preserve value for shareholders the board announced on 6 November 2017 an on market buy back of up to 10% of the Company's fully paid ordinary shares, up to a maximum of 27,252,392 shares to be bought back in a 12 month period commencing 20 November 2017. As at 30 June 2018 4,773,203 shares have been bought back.

There were no other significant changes in the state of affairs of the Company during the year ended 30 June 2018.

Matters subsequent to the end of the financial year

No 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 51

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.

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 60

Experience and expertise
Geoffrey Wilson has over 38 years' experience in the Australian and international securities industry. He holds a Bachelor of Science Degree, a Graduate Management Qualification and is a Fellow of the Australian Institute of Company Directors and the Financial Services Institute of Australia

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), WAM Microcap Limited (appointed March 2017), WAM Global Limited (appointed February 2018) and the Australian Stockbrokers Foundation Limited. He is the founder and a Director of Future Generation Global Investment Company Limited (appointed May 2015) and Future Generation Investment Company Limited (appointed July 2014) and a Director of Incubator Capital Limited (appointed February 2000), Sporting Chance Cancer Foundation, Australian Children's Music Foundation, Australian Fund Managers Foundation, Global Value Fund Limited (appointed April 2014), Century Australia Investments Limited (appointed September 2014), 8IP Emerging Companies Limited (appointed April 2018) and he is a Member of the Second Bite NSW Advisory Committee. He is the 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 resigned as a director of Clime Capital Limited in March 2018.

Information on directors (continued)

Special responsibilities
Member of the Audit Committee.

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

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

John Abernethy Non-Executive Director Age 59

Experience and expertise
John Abernethy has over 35 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, Clime Private Limited, Watermark Market Neutral Fund Limited (appointed May 2013) and Watermark Global Leaders Fund Limited (appointed February 2018).

Former directorships in last 3 years
John Abernethy resigned from WAM Active Limited in February 2018.

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 68

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).

Former directorships in last 3 years
Julian Gosse resigned from Iron Road Limited as of March 2018. Julian 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.

Information on directors (continued)

Interests in contracts
Julian Gosse has no interests in contracts of the Company.

Company secretary

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.

On 15 September 2017, the Company announced the appointment of Belinda Cleminson, also of Mertons Corporate Services Pty Ltd, as Joint Company Secretary effective 15 September 2017. This appointment is in addition to Mark Licciardo who remains as Joint Company Secretary.

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 2018, 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	3	4	2	3
John Abernethy	4	4	3	3
Julian Gosse	3	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.

2018	Short-term employee benefits	Post-employment benefits	
Name	Salary and fees $	Superannuation $	Total $
Non-executive Directors			
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
Total key management personnel compensation	**85,229**	**4,771**	**90,000**

2017	Short-term employee benefits	Post-employment benefits	
Name	Salary and fees $	Superannuation $	Total $
Non-executive Directors			
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
Total key management personnel compensation	**85,229**	**4,771**	**90,000**

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

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 $3,269,471 net of reduced input tax credits (2017: $3,588,852). As at 30 June 2018, the balance payable to the manager was $284,257 (2017: $309,660).

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

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

For the period ended 30 June 2018, in its capacity as manager, Watermark Funds Management Pty Limited were paid no performance fees (2017: nil). As at 30 June 2018, the balance payable to the manager was nil (2017: nil).

Remuneration report (audited) (continued)

Details of remuneration (continued)

Director Related Entity Remuneration (continued)

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

These amounts are in addition to the above Directors remuneration.

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

Remuneration of Executives

There are no executives that are paid by the Company. Watermark Funds Management Pty Limited, the investment manager of the Company, 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 31 August 2017**	**Acquisitions**	**Disposals**	**Balance as at 27 August 2018**
Justin Braitling	Chairman	1,281,894	1,070,000	128,360	2,223,534
Geoffrey Wilson	Non-Executive Director	1,000,000	328,847	-	1,328,847
John Abernethy	Non-Executive Director	10,000	-	-	10,000
Julian Gosse	Non-Executive Director	-	-	-	-
		2,291,894	**-**	**-**	**3,562,381**

2017

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	-	-	-	-
		2,291,894	**50,000**	**50,000**	**2,291,894**

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

Options Held

None of the Directors held options during the year ended 30 June 2018 and 30 June 2017.

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 21.

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 dollar 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
27 August 2018

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 2018, 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

27 August 2018

Statement of Comprehensive Income

	Notes	Year ended 2018 $	2017 $
Investment income from ordinary activities			
Net gains on investments		**2,973,476**	23,368,710
Dividends and trust distributions		**9,175,431**	9,793,535
Interest		**8,806,045**	9,054,041
Other income		**11,636**	1,656
		20,966,588	42,217,942
Expenses			
Management fees	22(b)	**(3,269,471)**	(3,588,852)
Brokerage expense		**(3,815,191)**	(5,021,071)
Short dividend expense		**(12,521,451)**	(15,385,388)
Interest expense		**(6,184,066)**	(5,958,060)
Stock loan fees		**(1,789,694)**	(3,581,745)
Accounting fees		**(133,595)**	(156,578)
Share registry fees		**(198,202)**	(268,026)
Directors' fees	19(a)	**(90,000)**	(90,000)
ASX fees		**(81,709)**	(84,927)
Audit fees	20	**(103,026)**	(56,518)
Other expenses		**(182,210)**	(131,124)
		(28,368,615)	(34,322,289)
(Loss)/profit before income tax		**(7,402,027)**	7,895,653
Income tax benefit/(expense)	7	**528,019**	(830,371)
(Loss)/profit for the year		**(6,874,008)**	7,065,282
Other comprehensive income for the year, net of tax		**-**	-
Total comprehensive (loss)/income for the year		**(6,874,008)**	7,065,282
		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic (loss)/earnings per share	25	**(2.53)**	2.61
Diluted (loss)/earnings per share	25	**(2.53)**	2.61

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

Statement of Financial Position

	Notes	At 2018 $	2017 $
ASSETS			
Current assets			
Cash and cash equivalents	8	**273,626,097**	321,558,284
Trade and other receivables	9	**23,507,653**	43,041,654
Financial assets at fair value through profit or loss	10	**309,152,937**	447,581,769
Current tax assets		**2,573,217**	-
Other current assets		**-**	36,382
Total current assets		**608,859,904**	812,218,089
Non-current assets			
Deferred tax assets	12	**8,415,180**	8,463,674
Total non-current assets		**8,415,180**	8,463,674
Total assets		**617,275,084**	820,681,763
LIABILITIES			
Current liabilities			
Trade and other payables	13	**21,178,417**	23,295,842
Derivative financial instruments	11	**87,300**	1,155
Financial liabilities at fair value through profit or loss	14	**270,570,853**	447,022,746
Current tax liabilities		**-**	2,317,652
Total current liabilities		**291,836,570**	472,637,395
Non-current liabilities			
Deferred tax liabilities	15	**50,638**	86,737
Total non-current liabilities		**50,638**	86,737
Total liabilities		**291,887,208**	472,724,132
Net assets		**325,387,876**	347,957,631
EQUITY			
Issued capital	16	**335,660,880**	351,356,627
Profits reserve	17(a)	**4,880,272**	4,476,918
Accumulated losses	17(b)	**(15,153,276)**	(7,875,914)
Total equity		**325,387,876**	347,957,631

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

Statement of Changes in Equity

	Notes	Issued capital $	Profits reserve $	Accumulated losses $	Total $
Balance at 1 July 2016		353,292,892	14,599,908	(6,144,815)	361,747,985
Profit for the year		-	-	7,065,282	7,065,282
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		**-**	**-**	**7,065,282**	**7,065,282**
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	18	(5,425,882)	(18,919,371)	-	(24,345,253)
Costs of issued capital	16(g)	(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)
Balance at 30 June 2017		**351,356,627**	**4,476,918**	**(7,875,914)**	**347,957,631**
Balance at 1 July 2017		351,356,627	4,476,918	(7,875,914)	347,957,631
Loss for the year		-	-	(6,874,008)	(6,874,008)
Other comprehensive income		-	-	-	-
Total comprehensive loss for the year		**-**	**-**	**(6,874,008)**	**(6,874,008)**
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	18	-	-	-	-
Costs of issued capital	16(g)	-	-	-	-
On market buy back		(4,794,790)	-	-	(4,794,790)
Return of capital		(10,900,957)	-	-	(10,900,957)
Transfer to profits reserve	17	-	403,354	(403,354)	-
		(15,695,747)	403,354	(403,354)	(15,695,747)
Balance at 30 June 2018		**335,660,880**	**4,880,272**	**(15,153,276)**	**325,387,876**

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

Statement of Cash Flows

	Notes	Year ended 2018 $	2017 $
Cash flows from operating activities			
Purchase of financial assets		**(1,141,516,594)**	(1,256,006,520)
Proceeds from sale of financial assets		**1,308,924,569**	1,266,583,104
Payments for settlements of financial liabilities		**(1,229,992,173)**	(1,206,488,449)
Proceeds from re-purchase of financial liabilities		**1,046,203,725**	1,155,607,378
Interest received		**8,647,575**	9,545,654
Interest paid		**(6,055,830)**	(5,843,133)
Dividends and trust distributions received		**8,187,865**	11,888,323
Dividends paid on short stocks		**(11,624,743)**	(15,451,995)
Other revenue		**11,636**	1,656
Income taxes (paid)/refunded		**(4,350,455)**	239,460
Investment management fees paid		**(3,288,005)**	(3,627,134)
Performance fees paid		**-**	(9,053,449)
Brokerage expense		**(3,822,654)**	(4,961,265)
Stock loan fees		**(1,760,438)**	(3,937,667)
Payments for other expenses		**(1,057,622)**	(1,059,739)
Net cash (outflow) from operating activities	24	**(31,493,144)**	(62,563,776)
Net cash inflow from investing activities		**-**	-
Cash flows from financing activities			
Share issue and buy-back transaction costs		**-**	(43,564)
Dividends paid to company's shareholders		**-**	(20,752,771)
Payments for shares bought back		**(4,794,790)**	-
Reduction of capital		**(10,900,957)**	-
Withholding tax paid on dividends		**(72,370)**	-
Net cash (outflow) from financing activities		**(15,768,117)**	(20,796,335)
Net (decrease) in cash and cash equivalents		**(47,261,261)**	(83,360,111)
Cash and cash equivalents at the beginning of the year		**321,558,284**	404,601,997
Effects of exchange rate changes on cash and cash equivalents		**(670,926)**	316,398
Cash and cash equivalents at end of year	8	**273,626,097**	321,558,284
Non-cash investing and financing activities			
Dividends reinvested	24(b)	**-**	3,520,112

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 23 Governor Phillip Tower, 1 Farrer Place, Sydney, NSW 2000. The financial statements of Australian Leaders Fund Limited are for the year ended 30 June 2018. 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 27 August 2018.

(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 2017 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 2018 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

Title of standard	Nature of change	Impact	Mandatory application date/ Date of adoption by the Company
AASB 9 *Financial Instruments*	AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the AASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.	Following the changes approved by the AASB in December 2014, the Company no longer expects any impact from the new classification, measurement and derecognition rules on the Company's financial assets and financial liabilities. 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. 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. The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses. The Company has not yet assessed how the impairment provisions would be affected by the new rules.	Must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety.

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 *Revenue from Contracts with Customers*	The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (eg 1 July 2017), ie without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.	The Company's main sources of income are interest, dividends and distributions and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As a consequence, the Directors do not expect the adoption of AASB 15 to have a significant impact on the Company's accounting policies or the amounts recognised in the financial statements.	Mandatory for financial years commencing on or after 1 January 2018.

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 2018, the Company also held derivative instruments in the form of futures. 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 dollar 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.

2018	**Long Exposure**	**%**	**Short Exposure**	**%**	**Net Exposure**
Australia	244,470,163	79.08%	(201,833,810)	74.57%	42,636,353
North America	27,526,190	8.90%	(36,623,287)	13.53%	(9,097,097)
Europe	37,156,584	12.02%	(32,201,056)	11.90%	4,955,528
Rest of World	-	-	-	-	-
Total	**309,152,937**	**100.00%**	**(270,658,153)**	**100.00%**	**38,494,784**

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

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

As at 30 June 2018, one security represented over 5% of the long or short investment portfolio. As at 30 June 2017 two 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	
	2018	2017
	$	$
Decrease 5%	**(1,347,317)**	(19,525)
Increase 5%	**1,347,317**	19,525
Decrease 10%	**(2,694,635)**	(39,051)
Increase 10%	**2,694,635**	39,051

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 $38,494,784 long (2017: $557,868 long) therefore there is a small price risk impact on post-tax profit (2017: 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 2018

	Floating interest rate $	**Non- interest bearing** $	**Total** $
Financial assets			
Cash and cash equivalents	**273,626,097**	**-**	**273,626,097**
Trade and other receivables	**-**	**23,507,653**	**23,507,653**
Financial assets held at fair value through profit or loss	**-**	**309,152,937**	**309,152,937**
Current tax assets	**-**	**2,573,217**	**2,573,217**
	273,626,097	**335,233,807**	**608,859,904**
Financial liabilities			
Trade and other payables	**-**	**(21,178,417)**	**(21,178,417)**
Financial liabilities held at fair value through profit or loss	**-**	**(270,658,153)**	**(270,658,153)**
	-	**(291,836,570)**	**(291,836,570)**
Net exposure to interest rate risk	**273,626,097**	**43,397,237**	**317,023,334**

At 30 June 2017

	Floating interest rate $	Non- interest bearing $	Total $
Financial assets			
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
	321,558,284	490,659,805	812,218,089
Financial liabilities			
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)
	-	(472,637,395)	(472,637,395)
Net exposure to interest rate risk	321,558,284	18,022,410	339,580,694

Sensitivity

The following table analysis is based on the assumption that the interest rates had increased by 75 or decreased by 75 basis points from the year end rates with all other variables held constant, mainly as a result of higher/lower interest income from cash and cash equivalents, at reporting date:

	Impact on post-tax (loss)/profit	
	2018 $	2017 $
Decrease 75 basis points	**(1,436,537)**	(1,688,181)
Increase 75 basis points	**1,436,537**	1,688,181

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 $1,946,713 (2017: ($15,976,862)). The risk is measured using sensitivity analysis. The Investment Manager monitors the Company's currency positions on a daily basis.

Sensitivity

The following table analysis is based on the assumption that the Australian dollar weakened and strengthened by 10% (2017: 10%) against the foreign currencies to which the Company is exposed to at reporting date.

	Impact on post-tax (loss)/profit	
	2018	2017
	$	$
Decrease 10%	**(136,270)**	1,118,380
Increase 10%	**136,270**	(1,118,380)

(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% (2017: 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.

3 Financial risk management (continued)

(c) Liquidity risk (continued)

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.

Contractual maturities of financial liabilities	**Less than 1 month**	**More than 1 month**	**Total contractual undiscounted cash flows**
At 30 June 2018	**$**	**$**	**$**
Non-derivatives			
Trade and other payables	**21,178,417**	**-**	**21,178,417**
Financial liabilities at fair value through profit or loss	**270,570,853**	**-**	**270,570,853**
Total non-derivatives	**291,749,270**	**-**	**291,749,270**
Derivatives			
Net settled (equity swaps)	**-**	**-**	**-**
Futures	**87,300**	**-**	**87,300**
Total derivatives	**87,300**	**-**	**87,300**

Contractual maturities of financial liabilities	**Less than 1 month $**	**More than 1 month $**	**Total contractual undiscounted cash flows $**
At 30 June 2017			
Non-derivatives			
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
Derivatives			
Net settled (equity swaps)	1,155	-	1,155
Total derivatives	1,155	-	1,155

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:

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

(i) Recognised fair value measurements

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

Recurring fair value measurements **At 30 June 2018**	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
Financial assets				
Equity securities	**244,470,163**	**-**	**-**	**244,470,163**
International equity securities	**64,682,774**	**-**	**-**	**64,682,774**
Total financial assets	**309,152,937**	**-**	**-**	**309,152,937**
Financial liabilities				
Equity securities sold short	**(201,746,510)**	**-**	**-**	**(201,746,510)**
International equity securities sold short	**(68,824,343)**	**-**	**-**	**(68,824,343)**
Domestic futures	**(87,300)**	**-**	**-**	**(87,300)**
Unlisted equity securities sold short	**-**	**-**	**-**	**-**
International swaps	**-**	**-**	**-**	**-**
Total financial liabilities	**(270,658,153)**	**-**	**-**	**(270,658,153)**

Recurring fair value measurements At 30 June 2017	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
Financial assets				
Equity securities	217,940,851	-	-	217,940,851
International equity securities	229,640,918	-	-	229,640,918
Total financial assets	447,581,769	-	-	447,581,769
Financial liabilities				
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)
Total financial liabilities	(446,861,158)	(162,743)	-	(447,023,901)

4 Fair value measurements (continued)

(a) Fair value hierarchy (continued)

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.

There were no Level 2 assets at the end of the reporting year.

There were no transfers between levels for recurring fair value measurements during the year. There was an asset that was sold during the year in Level 2.

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 2018 $	2017 $
Deferred tax on temporary differences	**3,950,245**	(3,553,414)
Tax on permanent differences	**(3,942,836)**	3,961,440
Adjustments for current tax of prior periods	**(535,428)**	422,345
	(528,019)	830,371
Income tax expense is attributable to:		
Profit from continuing operations	**(528,019)**	830,731

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

	Year ended 2018 $	2017 $
Profit/(loss) from continuing operations before income tax expense/(benefit)	**(7,402,027)**	7,895,653
Tax at the Australian tax rate of 30.0% (2017 - 30.0%)	**(2,220,608)**	2,368,696
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Franking credits on dividends received	**(1,417,760)**	(1,910,586)
Imputation credit gross up	**425,328**	573,176
Foreign tax credit gross up	**-**	(984,686)
Change in franked dividends not subject to tax	**31,970**	66,020
Foreign tax gross up on dividend income	**(25,715)**	295,406
Adjustments for current tax of prior periods	**2,678,766**	422,345
Income tax expense	**(528,019)**	830,371

The applicable weighted average effective tax rates are as follows:	**(7.13)%**	10.52%

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 2018 $	2017 $
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	**(35,348)**	(84,309)

8 Current assets - Cash and cash equivalents

	At	
	2018	2017
	$	$
Current assets		
Cash at bank	**273,626,097**	266,558,284
Term deposits	**-**	55,000,000
	273,626,097	321,558,284

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

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

	At	
	2018	2017
	$	$
Balances as above	**273,626,097**	321,558,284

(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

	At	
	2018	2017
	$	$
Withholding tax receivable	**553,955**	-
Dividends and distributions receivable	**1,209,507**	780,227
Interest receivable	**697,690**	539,220
GST receivable	**169,559**	171,757
Unsettled trades	**20,876,942**	41,550,450
	23,507,653	43,041,654

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:

	At	
	2018	2017
	$	$
International listed equity securities	**64,682,775**	229,640,918
Australian listed equity securities	**244,470,162**	217,940,851
Total securities	**309,152,937**	447,581,769

The market values of all investments as at 30 June 2018 are disclosed on page 11 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 the purchase of securities during the financial year was 4,068 (2017: 4,092). Each investment transaction may involve multiple contract notes.

The total brokerage paid on these contract notes was $7,959,211 (2017: $10,146,770).

(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:

Futures:

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities. Changes in futures contracts' values are usually settled net daily with the exchange.

		Fair values $	
2018	**Notional values $**	**Assets $**	**Liabilities $**
Equity swaps	**-**	**-**	**-**
Futures	**5,533,200**	**-**	**87,300**
Total	**5,533,200**	**-**	**87,300**

2017	Notional values $	Assets $	Liabilities $
Equity swaps	1,180,566	-	1,155
Futures	-	-	-
Total	1,180,566	-	1,155

12 Non-current assets - Deferred tax assets

	At	
	2018 $	2017 $
The balance comprises temporary differences attributable to:		
Capitalised share issue costs	**35,348**	84,309
Carry forward losses	**7,309,433**	3,325,236
Accrued expenses	**10,395**	9,570
Net unrealised losses of investments	**1,060,004**	5,044,559
	8,415,180	8,463,674

Movements	Total $
At 1 July 2016	5,162,714
Credited	
- to profit or loss	3,287,891
- directly to equity	13,069
At 30 June 2017	8,463,674

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

Movements	**Total $**
At 1 July 2017	8,463,674
Debited	
- to profit or loss	(48,494)
At 30 June 2018	8,415,180

13 Current liabilities - Trade and other payables

	At	
	2018 $	2017 $
Management fees payable	**284,257**	309,660
Unsettled trades	**18,557,900**	21,022,419
Interest payable	**561,387**	433,151
Other payables	**1,774,873**	1,530,612
	21,178,417	23,295,842

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:

	At	
	2018 $	2017 $
International listed equity securities sold short	**68,824,343**	206,601,934
Australian listed equity securities sold short	**201,746,510**	240,258,069
Other unlisted equity securities sold short	**-**	162,743
	270,570,853	447,022,746

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

15 Non-current liabilities - Deferred tax liabilities

	At 2018 $	2017 $
The balance comprises temporary differences attributable to:		
Other temporary differences	**50,638**	86,737

Movements

	Total $
At 1 July 2016	228,942
Charged to	
- profit or loss	(142,205)
At 30 June 2017	86,737

Movements

	Total $
At 1 July 2017	86,737
(Credited) to	
- profit or loss	(36,099)
At 30 June 2018	50,638

16 Issued capital

(a) Share capital

	Notes	**30 June 2018 Shares**	30 June 2017 Shares	**30 June 2018 $**	30 June 2017 $
Ordinary shares	16(b), 16(d)	**267,750,721**	272,523,924	**335,660,880**	351,356,627

(b) Movements in ordinary share capital

Details	**Notes**	**Number of shares**	**$**
Opening balance 1 July 2016		269,869,781	353,292,892
Dividends reinvestment plan issues	16(e)	2,654,143	3,520,112
Dividends paid	16(d)	-	(5,425,882)
Cost of issued capital		-	(30,495)
Balance 30 June 2017		272,523,924	351,356,627
Opening balance 1 July 2017		**272,523,924**	**351,356,627**
On-market buy back		**(4,773,203)**	**(4,794,790)**
Return of capital		**-**	**(10,900,957)**
Balance 30 June 2018		**267,750,721**	**335,660,880**

16 Issued capital (continued)

(c) Return of Capital

	Year ended	
	2018	2017
	$	$
	-	10,900,957

(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.

(e) Dividend reinvestment plan

The Company has established a dividend reinvestment plan "DRP" 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 discount to the market price. The discount is determined from time to time and is capped at 3%.

The DRP is currently inactive due to the Company trading below market.

(f) Share buy-back

The Company announced a 12 months on-market share buy-back program on 6 November 2017. Since its commencement on 20 November 2017 the Company has bought back 4,773,203 shares.

(g) Capital risk management

The Board's policy is to maintain a strong capital base so as to maintain investor and market confidence. The overall strategy remains unchanged from 2017.

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

	At 2018 $	2017 $
Profits reserve	**4,880,272**	4,476,918

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

	Notes	At 2018 $	2017 $
Movements:			
Opening balance		**4,476,918**	14,599,908
Transfer from current and retained earnings		**403,354**	8,796,381
Dividends paid	18	**-**	(18,919,371)
Closing balance		**4,880,272**	4,476,918

(b) Accumulated losses

Movements in (accumulated losses) were as follows:

	At 2018 $	2017 $
Opening balance	**(7,875,914)**	(6,144,815)
Net profit for the year	**(6,874,008)**	7,065,282
Transfer to profits reserve	**(403,354)**	(8,796,381)
Closing balance	**(15,153,276)**	(7,875,914)

18 Dividends

(a) Dividend rate

Dividends paid fully franked at 30% tax rate

	Dividend Rate	**Total Amount**	**Date of Payment**	**% Franked**
2017				
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
Total		$24,345,253		

18 Dividends (continued)

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

	Year ended 2018 $	2017 $
In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 2.0 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend with an ex date of 30 August 2018 and a record date of 31 August 2018, expected to be paid on 14 September 2018 out of the profits reserve at 30 June 2018, but not recognised as a liability at year end, is	**5,355,014**	-

(c) Dividend franking account

The franked portions of the final dividends recommended after 30 June 2018 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 2019.

	2018 $	2017 $
Opening balance of franking account	**(1,743,968)**	4,693,209
Franking credits on dividends received	**1,642,178**	1,962,930
Tax paid during the year	**7,556,317**	2,043,686
Tax refunded during the year	**(3,200,876)**	(2,283,146)
Franking credits lost on ordinary dividends paid	**-**	(8,108,302)
Franking credits lost under 45 day rule	**(224,419)**	(52,345)
Closing balance of franking account	**4,029,232**	(1,743,968)
Adjustments for tax payable/refundable in respect of the current year's profits and the receipt of dividends	**(2,405,926)**	2,530,614
Adjusted franking account balance	**1,623,306**	786,646
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	**(2,295,006)**	-
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2017 - 30.0%)	**(671,700)**	786,646

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 17 to 19.

(a) Key management personnel compensation

	Year ended 2018 $	2017 $
Directors fees paid		
Short-term employee benefits	**85,229**	85,228
Post-employment benefits	**4,771**	4,772
	90,000	90,000

Detailed remuneration disclosures are provided in the remuneration report on pages 17 to 19.

There are no executives that are paid by the Company. The Manager remunerated Justin Braitling as a Director of the Manager during the financial year to 30 June 2018.

(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.

2018 **Name**	**Balance at the start of the year**	**Net movement**	**Balance at end of the year**
Directors of Australian Leaders Fund Limited			
Ordinary shares			
Justin Braitling	1,281,894	941,640	2,223,534
Geoffrey Wilson	1,000,000	328,847	1,328,847
John Abernethy	10,000	-	10,000
Julian Gosse	-	-	-
	2,291,894	1,270,487	3,562,381

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

20 Remuneration of auditors

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

Pitcher Partners

(i) Audit and other assurance services

	Year ended	
	2018	2017
	$	$
Audit and other assurance services		
Audit and review of financial statements	**45,056**	44,143
Total remuneration for audit and other assurance services	**45,056**	44,143
Taxation services		
Tax compliance services	**57,970**	12,375
Total remuneration	**103,026**	56,518

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.

The increase in tax compliance services relate to the Company undergoing a streamlined tax assurance review by the ATO.

21 Contingencies

The Company had no contingent liabilities at 30 June 2018 (2017: nil).

22 Related party transactions

(a) Key management personnel

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

(b) Transactions with other related parties

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

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 $3,269,471 net of reduced input tax credits (2017: $3,588,852).

As at 30 June 2018, the balance payable to the Investment Manager was $284,257 (2017: $309,660).

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

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

22 Related party transactions (continued)

(b) Transactions with other related parties (continued)

For the period ended 30 June 2018 in its capacity as manager, Watermark Funds Management Pty Limited performance fee net of reduced input tax credits was nil (2017: nil).

As at 30 June 2018, the balance payable to the Investment Manager was nil (2017: nil).

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

No 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	
	2018	2017
	$	$
(Loss)/profit for the year	**(6,874,008)**	7,065,282
Fair value (gains)/losses on financial assets at fair value through profit or loss	**(37,936,916)**	(53,648,342)
Effects of foreign currency exchange rate changes on cash and cash equivalents	**670,926**	(316,398)
Change in operating assets and liabilities:		
Increase/(decrease) in trade and other receivables	**19,534,001**	(22,358,895)
Decrease/(increase) in other current assets	**36,382**	(36,382)
Decrease/(increase) in deferred tax assets	**48,494**	(3,287,891)
Decrease in other liabilities	**72,370**	-
(Decrease)/increase in trade and other payables	**(2,117,425)**	5,661,130
Decrease in deferred tax liabilities	**(36,099)**	(142,205)
(Decrease)/increase in provision for income taxes payable	**(2,317,652)**	2,317,652
(Increase)/decrease in current tax asset	**(2,573,217)**	2,182,273
Net cash (outflow)/inflow from operating activities	**(31,493,144)**	(62,563,776)

(b) Non-cash financing activities

	Year ended	
	2018	2017
	$	$
Dividends reinvested	**-**	3,520,112

25 Earnings per share

(a) Basic earnings per share

	Year ended 2018 Cents	2017 Cents
Basic earnings per share attributable to the ordinary equity holders of the Company	**(2.53)**	2.61

(b) Diluted earnings per share

	Year ended 2018 Cents	2017 Cents
Diluted earnings per share attributable to the ordinary equity holders of the Company	**(2.53)**	2.61

Diluted earnings per share is the same as basic earnings per share. As at 30 June 2018 and 30 June 2017, the Company had no securities outstanding which have the potential to convert to ordinary shares and dilute the basic earnings per share.

(c) Weighted average number of shares used as denominator

	Year ended 2018 Number	2017 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**271,628,484**	271,069,440
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	**271,628,484**	271,069,440

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

(a) the financial statements and notes set out on pages 22 to 52 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  - (ii) giving a true and fair view of the Company's financial position as at 30 June 2018 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 Braitling
Chairman

Sydney
27 August 2018

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 2018, 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, 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 2018 and of its performance for the year ended on that date; and

ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis of Opinion

We conducted our audit in accordance with Australian Auditing Standards. 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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of the Company, would be on the same terms if given to the Directors as at the time of this auditor's report.

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 period. 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 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***
Existence, Valuation and Completion of Financial Assets and Financial Liabilities ***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***	
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 asset and liabilities, and represent the most significant drivers of the Company's Net Tangible Assets and profits. Investments mostly consist of listed Australian securities as well as listed global securities, which are valued by multiplying the quantity held by their respective market price.	Our procedures included, amongst others: ▪ Obtaining an understanding of the investment management process and controls; ▪ Reviewing and evaluating the independent audit report on internal controls (ASAE 3402 Assurance Reports on Controls at a Service Organisation) for the Administrator; ▪ Reviewing and evaluating the independent audit report on internal controls (ISAE 3402 Assurance Reports on Controls at a Service Organisation) for the Custodians; ▪ Making enquiries as to whether there have been any changes to these controls or their effectiveness from the periods to which the audit reports relate and where necessary performing additional procedures; ▪ Obtaining a confirmation of the investment holdings directly from the Custodians; ▪ Assessing the Company's valuation of individual investment holdings to independent sources where readily observable data was available; ▪ Evaluating the accounting treatment of revaluations and disposals of financial assets for current/deferred tax and realised/unrealised gains or losses; and ▪ Assessing the adequacy of disclosures in the financial statements.

Key audit matter	*How our audit addressed the matter*
Accuracy of Management and Performance Fees ***Refer to Note 13: Trade and other payables, Note 22: Related party transactions and the Remuneration Report***	
We focused our audit effort on the accuracy of management and performance fees as they are significant expenses of the Company and their calculation requires adjustments for major events in accordance with the Investment Management Agreement between the Company and the Investment Manager. 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.	Our procedures included, amongst others: ▪ Making enquiries with the Investment Manager and those charged with governance with respect to any significant events during the period and associated adjustments made as a result, in addition to reviewing ASX announcements; ▪ Testing key inputs used in the calculation of management and performance fees and performing a recalculation in accordance with our understanding of the Investment Management Agreement; and Assessing the adequacy of disclosures made in the financial statements.

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 2018, but does not include the financial report and our 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 control 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.

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. We Also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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 control.
- Obtain an understanding of internal control relevant to the audit 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 control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- 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.
- 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entity 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 controls that we identify during our audit.

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 the 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 17 to 19 of the Directors' Report for the year ended 30 June 2018. In our opinion, the Remuneration Report of Australian Leaders Fund Limited for the year ended 30 June 2018, 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 Whiddett | Pitcher Partners

S M WHIDDETT
Partner

PITCHER PARTNERS
Sydney

27 August 2018.

The Shareholder information set out below was applicable as at 31 July 2018.

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

A. Distribution of equity securities

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

	Class of equity security Ordinary shares		
Holding	**No. of Shareholders**	**Shares**	**Percentage**
1 - 1000	492	222,290	0.08
1,001 - 5,000	1,374	4,398,306	1.64
5,001 - 10,000	1,547	12,261,278	4.58
10,001 - 100,000	4,722	148,059,284	55.33
100,001 and over	365	102,667,593	38.37
	8,500	267,608,751	100.00

There were 258 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

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

Name	**Ordinary shares** Number held	Percentage of issued shares
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,841,899	2.56
PERSHING AUSTRALIA NOMINEES PTY LTD <YNOMINEE A/C>	4,163,160	1.56
MRS FAY MARTIN-WEBER	3,500,000	1.31
MR VICTOR JOHN PLUMMER	2,500,000	0.93
NEALE EDWARDS PTY LTD	2,354,851	0.88
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	1,493,698	0.56
AVANTEOS INVESTMENTS LIMITED <CLEARVIEW S/P A/C>	1,443,029	0.54
NEVILLE WARD SUPER PTY LIMITED <THE NW WARD SUPER FUND A/C>	1,343,674	0.50
BNP PARIBAS NOMS PTY LTD <DRP>	1,340,384	0.50
MR ROBERT FERGUSON & MS JENNIFER FERGUSON & MS RACHEL FERGUSON <TORRYBURN SUPER FUND A/C>	1,297,570	0.49
JOHN GRICE PTY LTD <GRICE SUPER FUND A/C>	1,200,888	0.45
BURROWS INVESTMENTS PTY LTD	1,018,579	0.38
GW HOLDINGS PTY LTD <EDWINA A/C>	1,000,000	0.37
FIRST COVENANT PTY LTD <BRAITLING FAMILY A/C>	1,000,000	0.37
WATTLES NEST PTY LTD <WATTLES NEST SUPER FUND A/C>	943,666	0.35
FIRST COVENANT PTY LTD <BRAITLING SUPER FUND A/C>	920,895	0.34
MR JOHN CHARLES PLUMMER	907,500	0.34
MRS THELMA JOAN MARTIN-WEBER	893,366	0.33
RATIONAL RESEARCH INVESTMENTS PTY LIMITED	849,618	0.32
FINANCE ASSOCIATES PTY LTD <FINANCE ASSOCIATES PL SF A/C>	800,000	0.30
	35,812,777	13.38

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.