



Australian Leaders Fund Limited (ALF)

ASX ANNOUNCEMENT/MEDIA RELEASE

30th November 2018

Chairman's Address to Annual General Meeting

Good morning ladies and gentlemen. My name is Justin Braitling and I am the Company's Chairman. It is my pleasure to welcome you to the 2018 Annual General Meeting of Australian Leaders Fund Limited and to thank you for your support during a challenging period for the Company. It is now 9:30 am, the time appointed for the meeting, and as we have a quorum, I declare the meeting open.

I would now like to introduce my fellow Directors: John Abernethy and Julian Gosse. Unfortunately, Geoff Wilson was unable to attend today. Our Company Secretary Belinda Cleminson is present.

The Company's auditor Pitcher Partners are represented here by Scott Whiddett, whom I also have pleasure of welcoming today. The auditors will be available to answer questions on the conduct of the audit and the Audit Report for the year ended 30 June 2018.

Performance in 2018

As reported in the full year accounts, the Company made an after-tax loss in respect of the 2018 financial year of \$6,874,008. The Company's pre-tax, Net Tangible Asset (NTA) backing as at 31 October was \$1.18 per share, with the Board having declared a fully franked, final dividend of 2 cents per share.

Many of you will have attended our recent round of shareholder updates, where we gave a detailed account of the performance of ALF, our views on the outlook for the share market, and some of the more exciting investments that ALF currently holds. While ALF has comfortably outperformed the market over the longer term, relative returns have been weaker in recent years. As we have discussed at length, we took a view towards the start of 2015 that share markets were risky and that growth in the global economy was waning. As a result, we began to reduce ALF's net exposure to shares, as a means of protecting our investors from loss in the event of a correction or crash. In hindsight, we were too early to move ALF to a fully hedged position and the cost of this insurance has weighed on returns. This cost manifests in two ways: losses on shorts in a rising market and the funding required to make good dividends to the beneficial owners of securities that we have borrowed to sell short. It has only been in recent months that we have seen the first real signs that this bull market may have turned. However, ALF is better positioned than most funds to weather the volatility ahead and we have confidence that our strategy is the right one for this phase of the cycle.

We embarked on a journey back in 2014, to build an international equities capability at Watermark, and gradually increased ALF's exposure to international shares as this capability developed. We enjoyed some early successes and delivered solid returns for Shareholders from our international investments in 2015. This was however, an ambitious endeavour and put a strain on the resources of our business, resulting ultimately in weaker performance and some turnover in staff. We recognised this 12 months ago and began a process of re-orienting the business to bring our focus back to Australian equities. Watermark's business was built on successes investing in Australian shares and it is in the local market where we feel we have the best prospect of generating the elusive 'alpha' returns that all stock pickers strive for. With this in mind, we have made some important changes in order to recapture those ingredients that were so important to our success. Firstly, I have moved back to focus exclusively on the Australian share market. Having had to share my focus between the domestic and international portfolios in recent years, my full engagement with analysts covering the Australian market and with the investment ideas we are pursuing, will be critical to delivering better returns in the coming months and years. Secondly, we have made several important new hires, strengthening our Australian bench. Daniel Broeren, Harry Dudley and Alex Gurman all recently joined the firm and bring a wealth of talent and experience, investing in Australian shares. This leaves us with a strong team of investors, exclusively covering the local market. Finally, we have wound up ALF's exposure to international shares and closed the book on this strategy for ALF. We believe these changes put us in a strong position to meet the objectives that the Board has set and deliver the sort of performance that our shareholders have historically enjoyed.

The Board is of course aware of the key issues facing the Company, namely the persistent discount to the Net Tangible Asset (NTA) backing at which the shares have traded over the last 18 months. In an effort to address those issues, the Board has had an active share buy-back in place and will continue to purchase shares on market, through the buy-back while they present compelling value. Secondly, we have articulated a dividend policy which we believe sets realistic expectations for Shareholders and will work towards returning the dividend on ALF shares to a level that is commensurate with the yield on the benchmark All Ordinaries Accumulation Index, while still providing the hedging benefits of a long/short strategy.

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