



December 15, 2014

CHANGES TO ALLOWABLE INVESTMENTS

The board of the Australian Leaders Fund Limited has approved an amendment to the fund's allowable investments. The investment manager - Watermark Funds Management is now able to invest up to 20% of the fund's gross exposure in international shares.

Watermark Funds Management conducts detailed analysis of a full range of Australian industries. As part of its due diligence process, the manager examines global trends in each industry. Watermark already has ongoing contact with many of the leading international companies that compete with their Australian listed peers. Through this contact, they often come across opportunities they are currently unable to capture.

This is most evident in the mining sector. While the ASX is a mining heavy index, there are a limited number of large mining companies exposed to individual commodities. Given Watermark's considerable expertise in commodity markets, it makes sense for Watermark to take advantage of opportunities offshore in this important sector.

There are many other examples outside of mining where Australian companies are global leaders in their respective fields. Watermark is already in contact with many of their international peers and simply wants to exploit this knowledge as opportunities arise.

There is a further advantage here in implementing the fund's hedging strategy. In 'long/short' investing, the manager is often looking to hedge the fund's exposure in a particular industry. The best 'long/short' pairs in fact are instances where one company is benefiting at the expense of another, however they may not both be Australian companies. The natural pair to an Australian company is often a competitor offshore.

As the manager is following many of these companies already as part of its research process, this should not be seen as a distraction, rather as a natural extension of the manager's efforts to better understand the industries that are followed. Investors should also consider how engagement with these international leaders adds value to the manager's knowledge of these industries, enhancing the manager's ability to make the right investment decision when considering positions in Australian companies.

The exposure to international companies in the next few years is unlikely to exceed 10% of the funds gross exposure, depending on the opportunities that present themselves. Over the medium term the exposure may move beyond 10%. Currency exposures can be hedged in the balance sheet by having a balance of both long and short positions in the same foreign currencies.

The Chief Investment Officer, Justin Braiting has considerable prior experience investing offshore as an international equities specialist at Bankers Trust Australia. Justin left BT in 2003 to establish Watermark Funds Management.

A handwritten signature in black ink, appearing to read "J Braiting".

Justin Braiting
Chairman, Australian Leaders Fund

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