

AUSTRALIAN LEADERS FUND LIMITED

AUGUST 2011

CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS – AS PER ASX CORPORATE GOVERNANCE COUNCIL AUGUST 2007

PRINCIPLE	REQUIREMENTS OF THE PRINCIPLE
1. Lay solid foundations for management and oversight	<ul style="list-style-type: none">• Companies should establish and disclose the respective roles and responsibilities of board and management.• 1.1 Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.• 1.2 Companies should disclose the process for evaluating the performance of senior executives.• 1.3 Disclosure
2. Structure the board to add value	<ul style="list-style-type: none">• Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.• 2.1 A majority of the board should be independent directors.• 2.2 The chair should be an independent director.• 2.3 The roles of chair and CEO should not be exercised by the same individual.• 2.4 The board should establish a nomination committee.• 2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.• 2.6 Disclosure.
3. Promote ethical and responsible decision-making	<ul style="list-style-type: none">• Companies should actively promote ethical and responsible decision-making.• 3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to:<ul style="list-style-type: none">○ <i>the practises necessary to maintain confidence in the company's integrity</i>○ <i>the practises necessary to take into account their legal obligations and the reasonable expectations of their stakeholders</i>○ <i>the responsibility and accountability of individuals for reporting and investigating reports of unethical practises.</i>• 3.2 Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of the policy.• 3.3 Disclosure

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4. Safeguard integrity in financial reporting	<ul style="list-style-type: none">• Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.• 4.1 The board should establish an audit committee• 4.2 The audit committee should be structured so that it:<ul style="list-style-type: none">○ <i>Only consists of non-executive directors</i>○ <i>Consists of a majority of independent directors</i>○ <i>Is chaired by an independent chair, who is not chair of the board</i>○ <i>Has at least 3 members</i>• 4.3 The audit committee should have a formal charter• 4.4 Disclosure
5. Make timely and balanced disclosure	<ul style="list-style-type: none">• Companies should promote timely and balanced disclosure of all material matters concerning the company.• 5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.• 5.2 Disclosure
6. Respect the rights of shareholders	<ul style="list-style-type: none">• Companies should respect the rights of shareholders and facilitates the effective exercise of those rights.• 6.1 Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.• 6.2 Disclosure

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7. Recognise and manage risk	<ul style="list-style-type: none">• Companies should establish a sound system of risk oversight and management and internal control.• 7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.• 7.2 The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management had reported to it as to the effectiveness of the company's management of material business risks.• 7.3 The board should disclose whether it has received assurance from the CEO (or equivalent) and the CFO (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.• 7.4 Disclosure
8. Remunerate fairly and responsibly	<ul style="list-style-type: none">• Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.• 8.1 The board should establish a remuneration committee• 8.2 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives• 8.3 Disclosure

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BOARD ROLE AND COMPANY OBJECTIVES

The Board's primary role is the protection and enhancement of long-term shareholder value. To fulfill this role the Board seeks to address (a) the prudential control of the company's operations, (b) the resourcing, review and monitoring of executive management, (c) the timeliness and accuracy of reporting to shareholders and (d) the determination of the company's broad objectives.

RESPONSIBILITIES

Specifically, the Board is responsible for:

- Ensuring that Australian Leaders Fund Limited operates in accordance with the Company's Constitution, Corporations Act and ASX listing rules;
- Validating and approving corporate strategy and policies;
- Monitoring and reviewing business results, outsourced service providers and the Board itself;
- Monitoring and assessing the investment manager's performance ensuring this is consistent with corporate strategy;
- Confirming that the investment manager has operated in accordance with the board approved investment process (as disclosed in the company's Annual Report),
- Reviewing internal controls for effectiveness and external audit reports;
- Approving financial reports and other public documents for disclosure to shareholders and the market;
- Ensuring adequate risk management processes;
- Monitoring and influencing the culture, reputation and ethical standards of the company;
- Ratifying the appointment of the Company Secretary.
- Establishing Corporate Governance, legal and accounting compliance systems, as well as monitoring compliance with those systems;
- Ensuring appropriate resources are available for the Company in the pursuit of its objectives;
- Conducting an annual review of the Board membership with regard to the present and future requirements of the Company and make recommendations as to composition and appointments;
- Conducting an annual review of the time required from non-executive directors, and whether the directors are meeting this; and
- Conducting an annual review of the independence of directors.

COMPOSITION OF THE BOARD

The composition of the Board is required to have a minimum of three directors and a majority of non-executive directors.

The Board is 50% independent. Whilst the Company agrees with the benefits of a majority of independent Directors, it believes that it can better achieve the results of the Company with the current Board's level of expertise and without burdening shareholders with the additional costs associated with adding further independent directors.

In addition, the Chairman is not independent. The Company believes that an independent Chairman does not necessarily improve the function of the Board. The Company believes that when the Chairman is a significant driver behind the business and is a shareholder, it adds value to the Company.

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BOARD COMMITTEES

The Board has established an Audit Committee. This committee has a written mandate and operating procedures which are reviewed on a regular basis. The Board has also established a range of policies which govern its operation.

The Audit Committee, consisting of John Abernethy (Chairman), Geoffrey Wilson and Julian Gosse, is responsible for considering the effectiveness of the systems and standard of internal control, financial reporting, risk management and any other matters at the request of the board.

OPERATION OF THE BOARD

The Board currently holds four scheduled meetings each year plus any other strategic meetings as and when necessitated by the company's operations. The agenda for meetings is prepared through the input of the Chairman and the Company Secretary. Standing items include matters of Compliance and Reporting, Financials, Shareholder Communications and Investment Strategy and Outcomes. Submissions are circulated in advance.

Each director has the right of access to all relevant company information and to the Company's executives and subject to prior consultation with the Chairman, may seek independent professional advice at the entity's expense. A copy of advice received by the director is made available to all other members of the board.

BOARD POLICIES

The Board has adopted the following policies:

- Code of Conduct and Ethics
- Trading Policy
- Disclosure Policy
- Communication Policy
- Risk Management Policy
- Performance Evaluation Policy

The Board reviews each of these policies at least annually.

ASSESSMENT OF INDEPENDENCE OF DIRECTORS
AUSTRALIAN LEADERS FUND LIMITED
AUGUST 2011

J. BRAITLING

(ASX Recommendation 2.2 – The chairperson should be an independent director.)

TEST	FINDINGS	RESULT
1. Substantial shareholder of the Company	No	Independent
2. Within the last 3 years employed in an executive capacity by the company or another group member	No	Independent
3. Within last 3 years has been a principal of a material professional adviser or consultant to the company	Yes	Not independent
4. Material supplier or customer of the company or other group member	Yes	Not independent
5. Material contractual relationship with the company or another group member other than as director of the company	Yes	Not independent

Conclusion – Not an independent Director.

G. WILSON

TEST	FINDINGS	RESULT
1. Substantial shareholder of the Company	No	Independent
2. Within the last 3 years employed in an executive capacity by the company or another group member	No	Independent
3. Within last 3 years has been a principal of a material professional adviser or consultant to the company	Yes	Not independent
4. Material supplier or customer of the company or other group member	Yes	Not independent
5. Material contractual relationship with the company or another group member other than as director of the company	Yes	Not independent

Conclusion – Non-independent Director

J. ABERNETHY

TEST	FINDINGS	RESULT
1. Substantial shareholder of the Company	No	Independent
2. Within the last 3 years employed in an executive capacity by the company or another group member	No	Independent
3. Within last 3 years has been a principal of a material professional adviser or consultant to the company	No	Independent
4. Material supplier or customer of the company or other group member	No	Independent
5. Material contractual relationship with the company or another group member other than as director of the company	No	Independent

Conclusion – Independent Director

J. GOSSE

TEST	FINDINGS	RESULT
1. Substantial shareholder of the Company	No	Independent
2. Within the last 3 years employed in an executive capacity by the company or another group member	No	Independent
3. Within last 3 years has been a principal of a material professional adviser or consultant to the company	Yes	Independent
4. Material supplier or customer of the company or other group member	No	Independent
5. Material contractual relationship with the company or another group member other than as director of the company	No	Independent

Conclusion – Independent Director

SUMMARY

The board of Australian Leaders Fund Limited is well structured to add value, comprising of two Independent Directors. There has been no loss of independence that requires disclosure with the ASX.

APPOINTMENT AND SELECTION OF NON-EXECUTIVE DIRECTORS

AUSTRALIAN LEADERS FUND LIMITED

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POLICY

To ensure the Board consists of members with the range of skills and qualities to ensure that the interests of shareholders and stakeholders are promoted and protected.

At every annual general meeting a minimum of one-third of directors (or the nearest number to one third), shall retire from office. No director shall hold office for a period in excess of three years, or until the third annual general meeting following his appointment without submitting himself for re-election.

The terms and conditions of the appointment and retirement of non-executive directors are set out in a letter of appointment. A director may resign from office by giving the Company notice in writing.

PROCEDURE FOR THE SELECTION AND APPOINTMENT OF DIRECTORS TO FILL A VACANCY

- Assess the current Board's skills and qualities;
- Assess the needs of Australian Leader's operations currently and going forward;
- Develop selection criteria for potential board candidate(s);
- Generate a list of potential candidates who may fill the stated criteria;
- The Board examines the final list of candidate(s) and agrees an order of preference;
- Chairman approaches desired candidate(s);
- Candidate is appointed to the Board in accordance with the Constitution, Listing Rules and the Corporations Act.

PROCEDURE FOR RE-APPOINTING DIRECTORS

- Assess the current Board's skills and qualities;
- Assess the needs of Australian Leader's operations currently and going forward;
- Develop criteria required;
- Measure the retiring director's skills against the criteria;
- Directors discuss and agree whether the retiring director should stand for re-election at the next annual general meeting;
- If recommended for re-appointment, the retiring director stands for re-election at the shareholder meeting in accordance with the Constitution, Listing Rules and the Corporations Act. Otherwise the new director selection process commences.

NOMINATION COMMITTEE

AUSTRALIAN LEADERS FUND LIMITED

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ASX Recommendation 2.4 – The board should establish a nomination committee.

Due to the size of the Company it has not established a formal Nomination Committee and the functions of the Nomination Committee are undertaken by the full Board.

CODE OF CONDUCT AND ETHICS

AUSTRALIAN LEADERS FUND LIMITED

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CODE OF CONDUCT

The Board expects all executive and non-executive directors to act professionally in their conduct.

The Company is committed to increasing shareholder value in a manner consistent with its responsibilities to all stakeholders.

Australian Leaders Fund Limited is committed to conducting its business in a way that is open, ensuring that the Company acts with integrity and objectivity.

Adherence to this code of conduct will ensure that Australian Leader's reputation is maintained, and help promote investor understanding and confidence in the Company's disclosure, reporting and compliance activities.

ETHICAL STANDARDS

The directors in acting professionally in their conduct means that they will:

- Act with high standards of honesty, integrity, fairness and equity in all aspects, avoiding actual or potential conflicts of interest;
- Not do anything which would be likely to negatively affect Australian Leaders Fund's reputation;
- Provide shareholders with timely and accurate information;
- Act lawfully and comply with the Constitution, Listing Rules, the Corporations Act 2001 and applicable Accounting Standards;
- Ensure confidential information is held, used and disclosed consistently with the Company's Privacy Policy;
- Protect and ensure efficient use of assets for legitimate business purposes;
- Promote ethical behaviour and fair dealing in all areas of the Company's operations.

Executive and non-executive directors are encouraged to consult with their peers if in doubt as to an appropriate course of action. Any instance of unethical practice is required to be reported to the Chair without delay.

The Board expects all Directors to adhere to the Company's Code of Conduct and Ethics at all times. Any subsequent amendment to the Code will be advised to the Directors, as such no formal training on the Code is considered necessary.

The Board monitors its outsourced service providers compliance with the Company's Code of Conduct and Ethics, which is accessible to outside parties via the Company's website.

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1. Scope of this Policy

1.1 This policy applies to private dealings in Australian Leaders Fund's issued securities by Key Management Personnel (KMP).

1.2 Key Management Personnel (KMP) comprise the Directors of the Company.

2. Prohibitions on Dealing in the Company's Securities

2.1 KMPs must not deal in the Company's securities when they possess information which if disclosed might have a material effect on the market price of the Company's securities.

2.2 KMPs must not deal in the Company's securities during prohibited periods (closed periods) unless exceptional circumstances apply and written approval is given to a transaction in advance.

2.3 KMPs must not engage in short term dealing in the Company's securities.

3. Prohibited (Closed) Periods

3.1 Subject to KMP not being in possession of undisclosed price sensitive information with adequate time being given for this to be reflected in the security's price, KMPs may deal in shares of the Company at any time. As Australian Leaders Fund Limited is an investment company announcing its Net Tangible Assets and preliminary gross portfolio movement monthly, the Board believes the shareholders are generally fully informed.

3.2 The Company may from time to time designate a period of time as a prohibited period under this Policy.

4. Exclusions to the General Policy

4.1 The following circumstances are excluded from the application of Section 2 of this Policy.

- (a) Transfers of securities where there is no change in relevant interest;
- (b) An investment in an entity where the assets of the entity are invested at the discretion of a third party;
- (c) Responding to a corporate action or offer which has been made to all the Company's security holders of the same class;
- (d) Transactions conducted between a KMP and a close family member;
- (e) Transactions which are outside the control of the KMP, including those which result from the application of law.

5. Exceptional Circumstances

5.1 A KMP may be given approval to transact on the Company's securities if application is made in writing in advance to the Board, and only if the Board considers there to be a sufficiently exceptional circumstance that the implementation of the general Policy would produce an inappropriate outcome, and where the KMP is not in possession of any price sensitive information.

5.2 Approval provided by the Board will be provided in writing, including via email, and will specify the scope and timing of the transaction approved.

AUDIT COMMITTEE

AUSTRALIAN LEADERS FUND LIMITED

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ASX Recommendation 4.1 – The board should establish an audit committee.

Based on ASX recommendations, the audit committee should consist of:

- Only non-executive directors
- A majority of independent directors
- An independent chairperson, who is not the chairperson of the board
- At least three members

AUDIT COMMITTEE MEMBERS

Committee Position	Member	Independent
Chairman	J. Abernethy	Yes
Member	G. Wilson	No
Member	J. Gosse	Yes

AUDIT COMMITTEE CHARTER

AUSTRALIAN LEADERS FUND LIMITED

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ROLE

The Audit Committee is responsible for considering the effectiveness of the systems and standards of internal control, financial reporting and any other matters at the request of the Board.

The committee will report to the Board on matters relevant to its role and responsibilities.

RESPONSIBILITIES

The responsibilities of the Audit Committee are to ensure:

- Relevant, reliable and timely information is available to the Board to monitor the performance of the Company;
- External reporting is consistent with committee members' information and knowledge and is adequate for shareholder needs;
- Management processes support external reporting in a format which facilitates ease of understanding by shareholders and institutions;
- The external audit arrangements are adequate to ensure the maintenance of an effective and efficient external audit. This involves:
 - Reviewing the terms of engagement, scope and auditor's independence;
 - Recommendations as to the appointment, removal and remuneration of an auditor;
 - Reviewing the provision of any non-audit services provided by the external auditor, ensuring it does not adversely impact on audit independence.
- Review the company's risk profile and assess the operation of the company's internal control system (via an annual risk management review).
- Watermark Funds Management Pty Limited and White Outsourcing Pty Limited are required to table their half-yearly compliance sign off's at each audit committee meeting held prior to the Board meeting at which annual and half year accounts are signed.

COMPOSITION OF THE COMMITTEE

The Audit Committee will comprise of the two independent non-executive directors on the Board and a third non-executive director. The Chairman of the Audit Committee will be an independent director who is not Chairman of the Board.

MEETINGS

As a minimum, the Audit Committee meets two times per annum. An agenda will be prepared and issued prior to each meeting. Minutes of each meeting will be taken by the Company Secretary and copies of Minutes will be issued to each member of the Board.

The Audit Committee may have in attendance at their meeting such members of outsourced service providers as may be deemed necessary to provide information and explanations. The external auditors attend meetings by invitation to report to the Committee.

AUDIT COMMITTEE CHARTER

AUSTRALIAN LEADERS FUND LIMITED

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AUDIT

The Board monitors the performance of the annual & half-yearly audit performed by the External Auditor. If the Board consider that the external auditor of the Company should be changed a special resolution will be put to a shareholder vote at the following Annual General Meeting. External audit engagement partners are required by legislation to rotate their appointment every five years.

DISCLOSURE POLICY

AUSTRALIAN LEADERS FUND LIMITED

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OBJECTIVE

The objective of this policy is to ensure compliance with the ASX Listing Rules and the Corporations Act 2001 and to ensure accountability at a Board level for that compliance.

INFORMATION TO BE DISCLOSED

The ASX Listing Rule 3.1 requires Australian Leaders Fund Limited to inform the ASX immediately the Company becomes aware of any information that a reasonable person would expect to have a material effect on the Company's share price or value.

Chapter 4 of the ASX Listing Rules details the periodic reporting requirements, which include

- Half yearly reporting;
- Annual reporting, and
- Monthly net asset backing per share within 14 days of the end of the month.

In addition, Australian Leaders Fund Limited releases preliminary gross performance at the beginning of each month.

RESPONSIBILITY

The Company Secretary is responsible for ensuring Australian Leaders Fund Limited complies with its continuous disclosure obligations.

All staff of Watermark Funds Management Pty Ltd and White Outsourcing Pty Ltd are made aware of these obligations and are required to report any price sensitive information to the Company Secretary immediately they become aware of it. The Company Secretary in conjunction with the Chairman of directors will decide whether the information should be disclosed to the ASX.

Where possible, all continuous disclosure releases to the ASX are approved by the Board. The monthly net asset backing per share is prepared and approved by White Outsourcing Pty Ltd and reviewed by the Chairman. Where time does not permit approval by the Board, the Chairman of directors must approve the release.

All ASX releases are available on the Company's website.

COMMUNICATION POLICY

AUSTRALIAN LEADERS FUND LIMITED

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OBJECTIVE

The communications policy is designed to promote effective communication with shareholders and encourage effective participation at general meetings.

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

STRATEGY

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

All announcements to the ASX are available from the website. These include:

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

In addition, bi-annual investor updates are generally held each year.

Should Shareholders be unable to obtain this information by electronic means a hard-copy of the documents requested can be obtained by contacting the Company Secretary on (02) 8236 7701

RISK MANAGEMENT POLICY

AUSTRALIAN LEADERS FUND LIMITED

AUGUST 2011

MISSION STATEMENT

Risk includes anything that hinders the sustainable achievement of company objectives and the protection of shareholders capital.

OBJECTIVE

To identify Australian Leaders' material risks and analyse the risk management, internal compliance and control systems in place, and of the effectiveness of their implementation.

FUNCTIONS

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

The Audit Committee (a) requires White Outsourcing to report on the operation of internal controls, and for the investment manager to report on compliance with the board approved investment process on a half yearly (b) reviews the external audit of internal controls and liaises with the external auditor and (c) conducts any other investigations and obtains any other information it requires in order to report to the Board on the effectiveness of the internal control system.

MATERIAL BUSINESS RISKS

The following risks have been identified by the Board as having the potential to significantly or materially impact the company's performance:

- a. Administrative risks including operational, compliance and financial reporting; and
- b. Market related risks

(a) Administrative risks

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

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

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

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In addition, White Outsourcing Pty Ltd will confirm half-yearly in writing to the Board that the declaration provided above:

- is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks; and
- all material business risks have been effectively managed.

(b) Market related risks

The investment manager, Watermark Funds Management Pty Limited, is also required to act in accordance with the Board approved investment process (as outlined in the company's Annual Report) and to report to the Board half yearly that they have invested the Company's assets in accordance with the approved process.

Risk is evaluated in the context of any material impact on the Company's monthly Net Tangible Asset backing announcement released to the ASX.

PERFORMANCE EVALUATION POLICY

AUSTRALIAN LEADERS FUND LIMITED

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OBJECTIVE

To formally assess the performance of the Board, its committees and service providers, whereby feedback is given to individuals to assist in the enhancement of their performance.

FUNCTIONS

Individual directors are subject to continuous review by the Chairman. Directors whose performance is unsatisfactory are asked to retire.

The performance of service providers (Watermark Funds Management Pty Ltd and White Outsourcing Pty Ltd) is the subject of continuous oversight by the Chairman and the Board as a whole.

REMUNERATION COMMITTEE

AUSTRALIAN LEADERS FUND LIMITED

AUGUST 2011

ASX Recommendation 8.1 – The board should establish a remuneration committee.

Due to the size of the Company it has not established a formal Remuneration Committee and the functions of the Remuneration Committee are undertaken by the full Board.

BOARD & COMMITTEE MEMBERS

AUSTRALIAN LEADERS FUND LIMITED

AUGUST 2011

BOARD OF DIRECTORS

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

AUDIT COMMITTEE

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