

# **CHAIRMAN'S ADDRESS**

## **WILSON LEADERS LIMITED ANNUAL GENERAL MEETING**

**Friday 23<sup>rd</sup> November 2007 – 2.00pm.**

**Lyceum Theatre, Wesley Centre  
220 Pitt Street  
Sydney NSW 2000**

### **1. INTRODUCTION**

Good afternoon, welcome to the Fourth Annual General Meeting of Wilson Leaders Ltd (WLS). Thank you for your attendance and for your support since listing in February 2004.

My name is Justin Braitling, I am chairman of the board of directors and I will be chairing this meeting today. I would like to introduce the other members of the board – Geoff Wilson, Matthew Kidman, John Abernethy and Julian Gosse.

### **2. MISSION**

Wilson Leaders Ltd (WLS) is an investment company with a specific focus on the larger publically listed companies. The Mission of Wilson Leaders Ltd is to deliver superior returns to investors over the medium term and to protect the company's capital. We pursue this objective by adopting an absolute value approach to investment decisions.

### **3. PERFORMANCE**

We are pleased to report that the company has performed strongly in its fourth year of operation. In the year to June 2007 the Gross Portfolio increased 31.8% while the All Ordinary Accumulation Index rose 30.3%. Since listing on the 10th February 2004, the gross value of the fund has increased by 112%. For the 2007 year WLS achieved a record profit before tax of \$20.6 million, and a record after tax profit of \$15.4 million. The total dividends declared for the year increased to 10.0 cents a share fully franked. We are pleased to report to you that the current year has started solidly.

In reviewing the last financial year, we saw a steady acceleration in economic activity as the year progressed, which along with accommodative monetary conditions and moderate inflation allowed equities to deliver the best annual return since the recovery started in March of 2003.

The year finished on a high note as global leading indicators picked up again with activity in the US stabilising following a period of housing related weakness. This was a strong signal for equities generally and resource companies in particular which moved sharply higher as the year closed.

The strong market performance reflected the robust profit growth reported by Australian companies with earnings increasing by 12.5% over the fiscal year. Given the All Ordinaries Accumulation Index has increased by more than 30% far exceeding underlying profit growth, the market has clearly been re-rated and finished the year at least 10-15% more expensive than it was at the start of the year.

As investors have gained comfort with the longevity of this economic expansion fueled by the structural growth in mining and infrastructure, shares have moved higher in anticipation of this strong profit growth continuing into the future. With valuations near record levels, the risk to shareholders of any disappointment are increasing.

While this re-rating is justified in the case of resource companies, where the outlook for commodities continues to improve, the appreciation of industrial shares has been driven more by surplus liquidity rather than an improvement in underlying fundamentals. With a stronger Australian dollar, the profit outlook for Australian Industrial companies has actually deteriorated slightly at the margin.

The outperformance of the Wilson Leaders portfolio for the year was mainly a consequence of the poor performance of the funds short portfolio in the second half of the year. As you know we take the funds from short selling these underperforming securities and put that money to work in shares we think will outperform.

#### **4. DISCOUNT TO NTA**

Since listing, the Net Assets of the company before tax have increased to over \$1.45 cents a share or \$1.31 cents per share after tax and after taking account of the dividend that has been paid. The share price is trading at \$1.14 a 13% discount to the value of the company's assets. The discount at this time last year was similar. We believe this is a phenomenon that will change over time with the establishment of a performance track record as a public company.

In such strong equity markets, the marginal contribution of the manager has been small in the context of the sizable returns delivered by the broader market. As we enter a more challenging period for equity markets, Wilson Leaders is well positioned to deliver superior performance and the contribution of the manager will become more relevant and hopefully more appropriately valued by investors. The ability to short sell expensive securities and to adopt appropriate hedging strategies to protect the company's capital should help distinguish Wilson Leaders from other funds in a fully valued market.

#### **5. CHANGE OF OWNERSHIP OF MANAGER**

The ownership of KWB Capital Pty Limited (KWB), the Manager of Wilson Leaders Limited has been restructured with First Covenant, a company which I am the sole shareholder, moving to full ownership of the Manager.

A company associated with Geoff Wilson and Matthew Kidman, Boutique Asset Management Pty Limited (BAM), which previously held 50% of the manager has sold it's interest to First Covenant. Boutique Asset Management will provide ongoing support to the manager via a new Investment Services Agreement for which it will receive 25% of the management and performance fees paid by the Company to the Manager.

The change of ownership will provide a more effective alignment of interests going forward and a more effective framework for KWB to grow.

In effect, there will be no change to the management of the Company's funds. I have managed the investment portfolio of the Company as Chief Investment Officer since

listing in February 2004 and have acted as Chairman of the Company since February 2007.

In recognition of the ownership change, the Manager has been renamed Braitling Investments Pty Limited effective 4th September 2007 and the Board seeks approval at today's meeting to change the name of the Company to Australian Leaders Fund Limited reflecting the Company's focus on investing in the largest Australian listed companies.

## **6. OPTION ISSUE**

On 25 August 2006, WLS issued a 1 for 2 option exercisable at of \$1.08 any time up until 31<sup>st</sup> October 2007. Of the 26,513,613 options issued, 24,531,455 options were exercised raising \$26,493,971.

## **7. PORTFOLIO**

The portfolio is currently fully invested consistent with our outlook for modest returns from equities through the balance of the year. In terms of sector allocation the portfolio is well balanced. We retain sizable holdings in the major diversified resource companies as firm believers in the structural growth story for commodities. The fund also has a significant Oil and Gas exposure given our view that OPEC surplus capacity is limited and incremental supply from non OPEC producers will disappoint keeping oil prices higher for some time.

A quarter of the fund is invested in the major trading banks one of the few industrial sectors to see positive earnings revisions in the recent reporting season.

We have accumulated positions in a number of sectors that are currently out of favour. In particular the investment bank (Macquarie Bank and Babcock and Brown) have been de-rated along with their international banking peers. This is proving an attractive opportunity as the domestic investments banks operate very different business models to their International peers who have reported large losses following the recent credit market turmoil. Macquarie and Babcock and Brown are mainly advisory businesses and generate most of their profits from fee income from investment vehicles. Proprietary trading is a small part of their business and they take little risk on their own balance sheets.

The agricultural sector also looks interesting to us as these companies struggle with the worst drought in a generation. We see AWB in particular as having all the elements of a classic turnaround with a complete new management team aggressively repositioning the business ahead of market deregulation next year. We have also initiated positions in the Australian Barley Board and added to Select Harvest.

The Australian Building Material Companies with exposure to the US housing market are starting to look like compelling value. While the US building cycle is probably at least a year from showing any signs of recovery, the time to buy these deep cyclicals is when inventories have peaked. With a 10 month stock of unsold homes in the US and Well Fargo calling it the worst housing market since the Great Depression, the time seems right. We probably have further to go but with shares in these companies trading so far below their valuations we have accumulated modest positions in James Hardie Industries and Boral Ltd

The strong Australian dollar is putting pressure on the profits of companies with operations offshore, on translating those international earnings back into Australian dollars the profits are lower. With the Australian dollar trading above fair value it is an appropriate time to increase our exposure to some of the quality businesses in this group. We have been adding to the funds exposure to News Corporation and QBE Insurance as well as establishing positions in Aristocrat Leisure and Billabong International.

## **8. OUTLOOK**

I will address the outlook in more detail in the market update presentation to follow but in summary we would expect international equity markets to struggle in the medium term as credit market issues continue to unfold and the prospect of a US recession becomes more evident. While the economy in Australia is well supported in the medium term by ongoing structural growth in capital investment, given inflated valuations it is hard to see ongoing outperformance of Australian equities in the face of weaker International markets.

## **9. DIVIDEND POLICY**

It is the board's intention to increase the ordinary dividend paid each year. Obviously this will be dependent on realised profit. After the strong start to the current year it is anticipated dividends will be increased, assuming franking credits are available.

## **10. CONCLUSION**

In conclusion I would like to thank the staff, directors and shareholders of Wilson Leaders Limited for their continuing support. We look forward to an exciting future ahead together. We believe there are always opportunities and we look forward to the current year with optimism.

Now ladies and gentlemen we shall conduct the formal part of the meeting. All resolutions are ordinary resolutions and only require a simple majority of 50% of votes cast to be passed.

The first matter is to receive and consider the financial report, the directors' report and the auditors' report for the Company for the year ended 30 June 2007. Our auditor Mark Schiliro is in the audience. Shareholders can ask questions of the directors or auditor. Are there any questions?

I move that the financial report and the report of the directors and auditors for the financial year be adopted.

The second matter is to confirm that a final dividend of 6.0c a share be declared. I will take any questions at this time relating to the dividend.

I wish to announce that as chairman I hold 278 proxies of 7,738,499 for resolution 1 and 172,271 against resolution 1. I hold 277 proxies of 7,659,869 for resolution 2, and 244,901 against resolution 2. I hold 263 proxies of 6,818,169 for resolution 3, and 826,714 against resolution 3. I hold 273 proxies of 7,588,462 for resolution 4, and 257,104 against resolution 4.

The first resolution is "That Mr John Abernethy retired by rotation and having offered himself for re-election in accordance with Rule 6.4 of the constitution of the Company be re-elected as director of the Company."

We will take any questions.

I hold proxies amounting to 7,738,499 in favour of this resolution and 172,271 against. I ask for a proposer, thank you, a seconder, thank you. Would the shareholders voting in favour of the resolution raise their hand?

Against?

I declare the resolution passed.

The second resolution is "That Mr Julian Gosse retired by rotation and having offered himself for re-election in accordance with Rule 6.4 of the constitution of the Company be re-elected as director of the Company."

We will take any questions.

I hold proxies amounting to 7,659,869 in favour of this resolution and 244,901 against. I ask for a proposer, thank you, a seconder, thank you. Would the shareholders voting in favour of the resolution raise their hand?

Against?

I declare the resolution passed.

The third resolution is "That the Remuneration Report be adopted". This resolution is advisory only and does not bind the Company or its Directors. Are there any questions? I hold proxies amounting to 6,818,169 for and 826,714 against. I ask for a proposer, thank you, a seconder, thank you. Would those shareholders voting in favour of the resolution raise their hand?

Against?

I declare the resolution passed.

The final resolution is “To change the name of the Company to Australian Leaders Fund Limited.”

We will take any questions.

I hold proxies amounting to 7,588,462 in favour of this resolution and 257,104 against. I ask for a proposer, thank you, a seconder, thank you. Would the shareholders voting in favour of the resolution raise their hand?

Against?

I declare the resolution passed.

Thank you ladies and gentlemen for your time. I now declare the formal meeting closed.