CONCENTRATED LEADERS FUND

# ANNUAL REPORT 2020

Concentrated Leaders Fund
ABN 25 003 236 173

# Contents

# Corporate Summary

## The Company
Concentrated Leaders Fund Limited (ABN 25 003 236 173) is a listed investment company and its shares are listed on the Australian Securities Exchange (ASX: CLF)

## Objective
The Company invests primarily in Australian companies within the S&P/ASX 200 Total Return Index with the objective of delivering regular income and long term capital growth.

## Benchmark
The Company compares its performance with the S&P/ASX200 Total Return Index.

## Capital Structure
The Company's capital structure comprises Ordinary Shares only. The Company also has bank borrowings of $30 million under a cash advance facility which ranks for repayment ahead of any capital return to shareholders.

## Total Assets and Net Tangible Assets
The Company had total assets of $104.8 million and NTA per share of $1.20 cents, $1.19 cents net of deferred tax on unrealised gains and current tax liabilities as at 30 June 2020.

## Duration
The Company does not have a maximum fixed life.

## Risk
The Company invests in shares listed on the ASX. The value of shares and the income derived may fall or rise depending on a range of factors.

The Company currently utilises gearing through bank borrowings as noted above and as detailed in Note 14 on page 42. Gearing has the effect of exacerbating market falls and market gains.

# Financial Record

## Net Tangible Assets

| | At 30 June 2020 |
|---|---|
| NTA per share (pre-tax) | 1.20 |
| NTA per share (post-tax) | 1.19 |
| Share Price | 1.07 |
| (Discount)/ Premium to NTA (pre-tax) | (10.83)% |
| (Discount)/ Premium to NTA (post-tax) | (10.08)% |
| Annualised dividend yield* (100% franked) | 5.61%** |

* Using the share price at the end of the period
** 8.01% gross of franking credits

## Performance Summary

| | At 30 June 2020 | | |
|---|---|---|---|
| | 3 Months % | 6 Months % | 1 Year % |
| Total portfolio* | 12.86 | (5.95) | (1.59) |
| Benchmark** | 16.48 | (10.42) | (7.68) |
| Value Add | (3.62) | 4.47 | 6.09 |

All returns assume reinvestment of dividends.

* Performance is calculated based on the change in the value of the total portfolio (excluding the loan and tax liabilities) before deduction of all other fees. Past performance is not a guide to future performance.
** Benchmark: S&P/ASX 200 Total Return Index.

## Portfolio Composition

| | At 30 June 2020 |
|---|---|
| Equities | 85.42% |
| Cash | 14.58% |
| Total | 100% |

Asset allocation is on gross assets and excludes the loan facility liability.

## Dividend

| | Year ended 30 June 2020 | Year ended 30 June 2019 | Year ended 30 June 2018 | Year ended 30 June 2017 |
|---|---|---|---|---|
| Dividend – cpu | 6.0 | 9.0 | 5.5 | 5.0 |
| Share price ($)* | 1.07 | 1.27 | 1.235 | 1.17 |
| Dividend yield %** | 5.61 (8.01) | 7.09 (10.12) | 4.45 (6.36) | 4.27 (6.11) |

* Share price at the period end
** Figure in brackets is the yield gross of franking credits

## Franking credits

As at 30 June 2020 the Company franking account had a franking credits balance of $10.05 million.

# Chairman's Statement

> "I would like to take this opportunity to thank our shareholders for their continued support, through this period of change for your Company."

**Brian Sherman AM**
Chairman

## Dear Shareholders

The last financial year was one of the most challenging environments that many of us have experienced. For your Company, this has been primarily reflected by excessive volatility and uncertainty in financial markets. However, the story is obviously more than that, with Australia painfully impacted by bushfires, floods and most recently the outbreak of Covid-19. The latter of which has had a crippling effect on our national and global economies and has delivered painful experiences for numerous families, and to them I offer my sincerest thoughts.

In last year's statement, I noted that the Board continues to believe in active management and that it is the best way to invest your capital. The performance of the underlying portfolio of CLF last financial year justifies this belief with the investment team being able to outperform CLF's benchmark by a considerable margin. I would like to thank David Sokulsky and his team for their hard work, diligence and focus during what were highly stressful and challenging times for anyone managing money.

## Investment Markets

For the first time in eight years to 30 June 2020, the Australian share market delivered a negative return for investors with the S&P/ASX 200 Total Return Index (our benchmark) returning -7.68% per cent. Against this, Concentrated Leaders Fund returned -1.59%. This represents an outperformance of 6.09% over the financial year.

The 12-month aggregate return, however, hides the fact that it was very much a year of two halves. Up until the end of January, markets were rallying and behaving rationally, albeit that they looked somewhat expensive given the weaker macroeconomic environment both domestically and overseas. That all changed in February when Covid-19 arrived, sinking the Australian economy into recession for the first time in almost 30 years and changing our lifestyles almost instantaneously with people working from home, social distancing in place and 'lock-downs' to control the spread of the virus becoming common place. It also caused the Australian share market to fall over 35% from 'peak-to-trough'.

Both the Federal government and the Reserve Bank of Australia responded swiftly to the virus with unprecedented levels of stimulus being injected into the economy and interest rates slashed to record low levels. This is consistent with the behaviour of governments and central banks around the world and the resultant boost to liquidity led to a dramatic reversal of fortunes for markets with asset prices reflating sharply – especially for technology related stocks. Australian stocks subsequently rallied just over 30% from their lows into the end of the financial year.

Economically, however, the full economic impact of the virus in Australia is still unknown with Victoria remaining in lockdown as at the time of writing. Lower levels of immigration, tourism, overseas students, discretionary spending and wage growth are expected to be economic headwinds well into next year as the economy is gradually weaned off government financial support. Unemployment is currently at ~7.5% although this is expected to rise closer to 10% before the economy turns a positive corner. As such, the economic and market outlook remain uncertain and we need to remain vigilant, prudent and active in our investment style.

# Chairman's Statement

continued

As at 30 June 2020, the post-tax NTA per share was $1.19, a decrease of 10 cents over the course of the year. The share price closed at $1.07 per share on 30 June 2020, a decrease of 20 cents from its 30 June 2019 close.

## Final Dividend

A final dividend of 1.5 cents per share was announced on 24 June 2020, and was paid to shareholders on 21 July 2020, resulting in an aggregate dividend of 6 cents per share for the year (fully franked).

Based on dividends paid over the last twelve months this equates to a dividend yield of 5.61 per cent (8.01 per cent gross of franking credits) on the closing share price at 30 June 2020. The Board will continue to review the level of future dividends payable in light of market conditions and the level of dividends received from the investment portfolio and realised gains on investments.

## Outsourcing of Management Rights

In June, the Board decided to outsource the investment management function of CLF to Carrara Investment Management effective 1 July 2020. The Board made this decision after witnessing David's professionalism, and his management of both his team and the portfolio during an incredibly difficult market environment. The Board felt that this was the optimal way of ensuring the ongoing services of the investment team and the continuity of an investment strategy that has performed so well for shareholders over the last 12 months. This change should also give CLF an enhanced ability to grow its asset base and deliver a more cost-effective outcome for shareholders.

Carrara is led by Dr David Sokulsky, who has been the Chief Executive Officer and Chief Investment Officer of CLF since January 2018. The investment team followed David to Carrara in its entirety and the team functions the same as when it was internal to CLF. The transition has been seamless, and David and his team continue to perform strongly. Although we are only one month into the appointment of Carrara as investment manager, Carrara is again outperforming the index, with the portfolio 1.2% above its benchmark thus far.

## Outlook

The new financial year has gotten off to a solid start with the benchmark returning 0.50% in July. Looking forward over the coming year, financial market volatility is expected to remain elevated as the full economic impact of the virus becomes clearer, federal stimulus is reduced and the US decides who will be its president for the next four years. Additionally, geopolitical risk is increasing with China's relationship with much of the Western world, including Australia, becoming increasingly strained. This could result in the previously announced trade deal fall apart and new battlefronts in technology and capital emerge.

Outside of geopolitical risk, valuations are also now a concern given the sharp rebound in equity markets despite corporate earnings weakening because of the shutdowns. Excess liquidity seems to be supporting markets in the short-term, but it is uncertain whether this can continue if the virus continues to wreak havoc and an economic recovery does not come to fruition. Continued monitoring of the economic recovery and corporate environment is required to assess whether valuations are adequately supported by fundamentals or not.

In terms of the market sectors, the Financials continue to be hampered by increased regulatory costs, shrinking margins, and increased bad debts. While their outlook seems poor, the Big 4 banks do appear to offer some of the more attractive valuations in the market. The Resources sector is buoyant on the back of record high gold prices and the ongoing rally in iron ore prices. Cashflows are strong for the large iron ore producers and this has led to attractive dividends being paid out to shareholders. The Technology sector is one of the fundamentally strongest sector in the market, however valuations have risen incredibly, and the sector now looks to be in 'bubble' territory. The Retail sector is another that has bounced back well from its March lows with online shopping dominating sales during lockdown. Whether this can continue as economies open back up is yet to be seen.

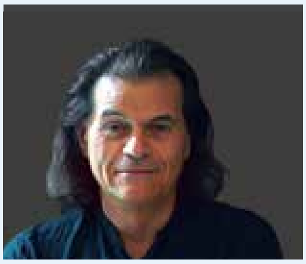
So, while risks are currently elevated and stocks are not cheap as we head into the new financial year, there are several opportunities that your Company is looking to take advantage of, however, they are bespoke in nature. As with last year, I also expect it to be a year of prudence and diligence as volatility is expected to remain high.

I would like to take this opportunity to thank our shareholders for their continued support, through this period of change for your Company.

**Brian Sherman AM**
Chairman

August 2020

# Board of Directors



**Brian Michael Sherman AM**
BComm, HonLittD (UTS)
**Chairman**

**Barry Sechos**
BComm LLB
**Director**

**John Martin**
BA LLB (Hons)
**Director**

**Dr David Sokulsky**
PhD
**Director**

Brian Sherman has been a Director of the Company since inception in 1987. He was appointed Chairman on 20 February 2004 and brings to the position his considerable experience gained in both funds management and stockbroking, as well as general commercial fields of endeavour.

He was chairman and joint managing director of the funds management company EquitiLink, a director of SOCOG and chair of its finance committee and a director of Channel 10 for some 16 years.

Mr Sherman was appointed as a member of the Order of Australia in 2004 for his service to the community as a philanthropist and benefactor to arts, education and sporting organisations, and to business and commerce. Mr Sherman was the winner of the Ernst & Young Eastern Region Champion of Entrepreneurship 2006 and in 2009 was awarded an Honorary Doctor of Letters (HonLittD) from the University of Technology Sydney (UTS) for his significant philanthropic support for the community.

Director since 1987.

Barry Sechos has over 25 years experience as a director, business executive and corporate lawyer. Barry is a Director of the Sherman Group Pty Limited, a privately owned investment company located in Sydney, Australia. Barry is also a director of Paddington St Finance Pty Limited, a specialist structured finance company, See-Saw Films, an Australian and UK based film production and finance group and winner of the 2011 Academy Award for Best Picture for The King's Speech; Transmission Films, an Australian film distribution company. Barry is Non-Executive Chairman of Regeneus Limited, an Australian based regenerative medicine company listed on the Australian Securities Exchange which focuses on using the regenerative capacities of stem cells to develop innovative cell therapies for humans and animals. He is a member of the Audit Committee and Risk and Compliance Committee.

Director since 2013.

John Martin has served as an independent non-executive director of the company since 2017. He has over 20 years experience as a company director and business executive having served as CEO of ASX-listed Babcock & Brown Communities Group, Primelife and Regeneus. John is a former corporate and executive partner of law firm Allens where he specialised in M&A, fundraising and corporate advisory. He is a non-executive director of ASX-listed Access Innovation Media, national law firm, Sparke Helmore, and technology companies BioPoint and Lokket. John is the chairman of the Audit Committee and member of the Risk and Compliance Committee.

Director since 2017.

David Sokulsky is the Chief Executive Officer and Chief Investment Officer of Carrara Investment Management, the underlying investment manager of CLF. David took on this role in July 2020, having previously served as Chief Executive Officer and Chief Investment Officer of CLF from January 2018 to June 2020. He was appointed to the board of CLF in May 2018. David has a PhD in applied finance and over 15 years of investment management experience both domestically and internationally. Prior to joining CLF, David was Chief Investment Officer at Crestone Wealth Management, which was spun out of UBS Wealth Management Australia, where he was Head of Investment Strategy. David was previously a senior analyst and trader for a US-based global macro hedge fund, which managed capital for US institutions and high net worth individuals. He is a member of the Audit Committee.

Director since 2018.

# Manager's Review

"Thank you for your ongoing support and rest assured that we will endeavour to continue to deliver our shareholders a consistent yield and an attractive risk-adjusted total capital return."

**Dr David Sokulsky**
Chief Executive Officer

The portfolio declined in value by 1.59 per cent during the 12 months to 30 June 2020, which was meaningfully better than our benchmark (S&P/ASX 200 Total Return Index) which lost 7.68 per cent for the financial year. This represents a value add of 6.09 per cent.

The financial year gone was one of the most volatile in recent years with the outbreak of Covid-19 negatively impacting markets globally. This in turn saw global governments and central banks deliver unprecedented levels of fiscal and monetary stimulus to offset the impact of societal lockdowns on both economies and financial markets.

While the virus is the key driver of markets during the year, it is also important to remember that the first half of the financial year was relatively directionless as investors dealt with some conflicting economic data, increased geopolitical risk and historically high equity market valuations. A 5.0 per cent rise in the S&P/ASX 200 Total Return Index during January pushed the balance of risk and return too far in our mind and we ended January with a 27.2 per cent cash holding in the portfolio.

In the January 2020 CLF Monthly Report, we stated:

*"Except for a small initial reaction, markets have largely shrugged off the Coronavirus and the RBA's dilemma, with momentum and liquidity proving far too strong for these fundamental concerns. This potentially creates a dangerous environment for equities as sentiment and momentum can turn quickly. This disregard for risk is one of the key reasons we continue to hold a large allocation to cash – we don't think this is the type of environment in which to deploy leverage into equity beta. We prefer to be risk conscience and pragmatic with our deployment of leverage in our role as stewards of your capital."*

As a result, the portfolio was relatively well position when markets sold off heavily in February and the first half of March. The selloff re-balanced the risk/return equation in our thinking, and we used this time as an opportunity to add several companies to the portfolio that we had previously considered high quality, but too expensive pre-Covid. This was particularly the case for many stocks within the technology, consumer and resources sectors.

This timely buying and increased exposure to these sectors was key to the portfolio performing adequately during the sharp rally despite cash dragging on performance during the fourth quarter of the financial year.

Throughout the year, our portfolio had significant positive contributions from several holdings including NextDC Ltd, Breville Group, A2 Milk Co, Technology One, Appen Ltd, and Altium Ltd. Conversely, positions in Webjet, G8 Education, Genworth Mortgages and Navigator Global Investments – all of which were negatively impacted by the Covid outbreak – detracted from performance. In terms of sectors, our underweight to Financials was a major positive contribution to returns, while an underweight to Resources and Healthcare had a negative impact on the portfolio.

## Outlook

At the time of writing, the S&P/ASX 200 Total Return Index has rallied ~36.5% off its March lows and sits ~12.5% below its February highs. The rally has been intense despite COVID-19 continuing to ravage parts of the world and a second wave of infections in Victoria.

Globally, most countries continue to be negatively impacted by the virus with several still reporting increased case numbers and deaths. It seems clear that fundamentals and the reality of the virus and its related economic impacts are taking a backseat to momentum trading and speculation in financial markets. Increasing tensions between China and the rest of the western world have also faded into the background in the mind of the market. Sentiment is strong and liquidity is ample which means that there is enough money flowing into markets to drive them higher irrespective of earnings, unemployment or the risks which appear abundant. It is also evident that we are seeing a great divergence between the fortunes of technology companies and non-technology companies.

Domestically, the virus-related lockdown in Melbourne has changed the expected path of Australia's economic recovery. With approximately 25% of Australia's economic activity attributable to Victoria, the lockdown has a direct negative impact on aggregate GDP, employment and confidence. In addition, the risk of the second wave of the virus spreading to other states has also seen economic activity and confidence fall beyond the Victorian border. This has created great uncertainty for the outlook of the Australian economy as it is unknown when the lockdown in Melbourne will end, to what extent the virus will spread in New South Wales, when inter-state borders will re-open and what the ultimate effect on worker motivation and productivity will be. It appears that the much-hyped V-shaped recovery will not eventuate and at best we can expect a U-shaped recovery if, and only if, a vaccine is found before the end of the year. Otherwise the Australian economy is going to be on life-support and dependent on government support well into next year.

At present however, equity markets do not appear to be well correlated with economic or corporate fundamentals. Liquidity appears to be the primary driver, and the global central banks, led by the US Federal Reserve (Fed), have delivered it in abundance. And they are committed to providing more support and liquidity to markets if needed. This excess liquidity has led to the Australian equity market trading at more than 20x next years expected earnings (22.5x next two years earnings). This compares to a 10-year average pre-Covid of price/earnings multiple of ~15x. The domestic technology sector is trading at a multiple of ~70x next year's earnings.

Whether these valuations are sustainable and hence whether markets can remain at these elevated levels is yet to be seen, but clearly the risk is elevated. Like we did in January, we once again believe that risk is not being adequately priced, and that risk/reward is unbalanced. As such, we maintain a large cash balance and a defensive stance in the portfolio.

We continue to be overweight long-term yield orientated companies and companies with strong and sustainable earnings. We are avoiding companies with exuberant valuations and have begun reducing our technology exposure as a result.

We continue to be prudent with your capital and invest it to the best of our ability. We will remain consistent to our investment style and disciplined in our capital usage. We will look to deploy our excess cash when the valuations of companies that we think can deliver capital growth and/or cashflows to our shareholders are more attractive.

Thank you for your ongoing support and rest assured that we will endeavour to continue to deliver our shareholders a consistent yield and an attractive risk-adjusted total capital return.

**Dr David Sokulsky**
Carrara Investment Management
Chief Executive Officer

August 2020

# Investment Portfolio

as at 30 June 2020

| (in alphabetical order) | |
|---|---|
| A2 MILK COMPANY | A2M |
| ALTIUM LIMITED | ALU |
| AMCOR LIMITED | AMC |
| APA GROUP | APA |
| APPEN LIMITED | APX |
| ARISTOCRAT LEISURE LTD | ALL |
| ATLAS ARTERIA LTD | ALX |
| AUSTRALIA AND NEW ZELAND BANKING GROUP LIMITED | ANZ |
| BHP BILLITON LIMITED | BHP |
| BRAVURA SOLUTION LIMITED | BVS |
| BREVILLE GROUP LIMITED | BRG |
| CHARTER HALL GROUP | CHC |
| COLES GROUP | COL |
| COMMONWEALTH BANK OF AUSTRALIA | CBA |
| CSL LIMITED | CSL |
| FORTESCUE METALS GROUP | FMG |
| GDI PROPERTY GROUP | GDI |
| GOODMAN GROUP | GMG |
| INVESTEC AUSTRALIA PROPERTY FUND | IAP |
| JUMBO INTERACTIVE LIMITED | JIN |
| MACQUARIE GROUP LTD | MQG |
| MINERAL RESOURCES | MIN |
| NATIONAL AUST. BANK | NAB |
| NAVIGATOR GLOBAL INVESTMENTS LIMITED | NGI |
| NEXTDC LIMITED | NXT |
| QBE INSURANCE GROUP LIMITED | QBE |
| SEVEN GROUP HOLDINGS | SVW |
| SMARTGRP CORPORATION | SIQ |
| SYD AIRPORT | SYD |
| TECHNOLOGY ONE LTD | TNE |
| TRANSURBAN GROUP | TCL |
| WAYPOINT REIT | WPR |
| WESFARMERS LIMITED | WES |
| WESTPAC BANKING CORP | WBC |
| WOODSIDE PETROLEUM | WPL |
| WOOLWORTHS GROUP LIMITED | WOW |
| **Total portfolio** | **85.42%** |
| **Total cash** | **14.58%** |
| **Total portfolio including cash** | **100.00%** |

# Investment Philosophy

Concentrated Leaders Fund believes that the macro environment and individual corporate fundamentals are both important in delivering outperformance. As such, we combine both to create a portfolio of companies with the aim to deliver superior risk adjusted returns for investors. We seek to own companies with macro supported earnings growth that are attractively priced.

From a macro perspective, we believe it is essential to have both the right thematic tailwinds behind an investment in addition to supportive fundamentals. This is especially true in Australia where commodity prices, interest rates, property prices and currencies are key drivers of earnings for ASX200 listed companies. As such, we focus on understanding these macro-economic factors and themes to ensure our portfolio benefits.

From a fundamental perspective, we target high quality companies that have resilient earnings, strong free cash flow generation, a disciplined approach to capital allocation and a proven focus on return on capital. These companies should be able to demonstrate a track record and/or clear runway for growth – which can be organic or acquisitive growth opportunities. Importantly, we target high quality growth companies at attractive prices. Strong corporate governance, responsible practices, and management alignment with long-term outcomes must also be in place, as we believe this protects against capital loss.

## The Investment Process

### Macro positioning and thematics

- Focuses on key economic variables which impact ASX200 listed companies and the overall Australian market.
- Identify key global and domestic themes that are likely to have a tangible impact on ASX200 listed companies.

### Quantitative Analysis

- Quant screening is used to narrow our focus to companies with attractive attributes.
- Focus is given to the earnings quality, capital efficiency and corporate governance.

### Fundamental Analysis

- Fundamental analysis is undertaken to establish earnings expectations, risks and valuation metrics.
- Management’s alignment, earnings quality and a firm’s competitive positioning are also considered.

### Portfolio Construction

- The portfolio is built according to macro thematic groupings, which are sized according to the available opportunity set.
- Individual position sizing is balanced across most positions with consideration for potential capital return and volatility.

### Risk Management

- Position and sector exposures are limited to ensure diversification and broad exposure to the macro thematic drivers.
- Strict principles are followed for reducing positions which adversely impact the performance of the portfolio.

# Corporate Governance Statement

The Board of Concentrated Leaders Fund Limited (**CLF** or the **Company**) is committed to having the highest standards of ethical behaviour and an effective system of corporate governance for the Company, commensurate with the size of the Company and the scope of its business operations.

In accordance with ASX Listing Rule 4.10.3, set out below are the applicable ASX Corporate Governance Council's eight principles and recommendations of corporate governance (**ASX Governance Principles**) and outlined accordingly is how the Board has applied each principle and the recommendations set out within them for the financial year ended 30 June 2020.

The Company is fully supportive of the 'if not, why not' disclosure-based approach to governance adopted by the ASX Governance Principles and the recognition within them that there is no single model of corporate governance and that good corporate governance practice is not restricted to adopting the recommendations contained in the ASX Governance

Principles. The Company's policies and practices comply with the ASX Governance Principles except to the extent otherwise indicated.

This Corporate Governance Statement is current as at 27 August 2020 and has been approved by the Board.

## Principle 1: Lay solid foundations for management and oversight

### Roles & responsibilities of the Board and management

The Board of CLF operates in accordance with its Board Charter (published on the Company's website). In carrying out its responsibilities, the Board will at all times recognise its overriding responsibility to act honestly, fairly, diligently and in accordance with the duties and obligations imposed upon it by the Company's constitution and the law. The investment of the Company's funds was, until 1 February 2018, carried out by Aberdeen Asset Management Limited under the terms of an Investment Management Agreement (**IMA**). This IMA terminated on 31 January 2018 in accordance with the Board's determination to internalise the management of the Company's investment portfolio. As part of this internalisation, the Company appointed a Chief Executive Officer and Chief Investment Officer and a portfolio management team, responsible for the day-to-day management of the Company's investment portfolio and the operations of the Company.

Among other things, the Board has specific responsibility to:

- oversee and monitor the performance of the Company's portfolio management team and monitor their performance and the performance of all external service providers;
- oversee and monitor the internal controls and legal compliance of CLF;
- monitor financial performance including approval of statutory financial reports and liaison with the auditors;
- set the ethical tone and standards of CLF;
- identify, control and monitor the significant risks faced by CLF; and
- oversee communications and reporting to shareholders.

The Board may establish committees to assist it in carrying out its responsibilities, consisting of such members as it thinks fit. The Board shall adopt charters setting out matters relevant to the composition, responsibilities and administration of such committees, and other matters the Board may consider appropriate.

An Audit Committee has been established since 1990 and a Risk and Compliance Committee was established in 2004.

The role of management is to support the Board. Management is required to report directly to the Board.

### Process for appointment of a new Director

Prior to the appointment of a Director to the Board, the Board will determine what pre-appointment checks are appropriate to be undertaken in the circumstances. Relevant details in respect of each Director standing for election or re-election by shareholders are contained within the explanatory notes of the Notice of Annual General Meeting. In addition, a profile of each director is included in the Annual Report.

### Written agreements with Directors and Senior Executives

Each director and senior executive has signed a written agreement setting out the terms of their appointment.

### Trading policy

Directors and key management personnel must not trade in the shares of the Company during periods when they are in possession of information that is price sensitive and would have a material impact on a decision to buy or sell shares in CLF. Under its Shareholder Communications Policy, the Company publishes its monthly net asset value and portfolio composition to the ASX. In the ordinary course of business therefore, Directors and key management personnel will be free to trade in the Company's shares unless there is material price sensitive information in the possession of the Directors and key management personnel that has not been disclosed in accordance with the permitted exceptions to the continuous disclosure rule and would have a material effect on the portfolio or net asset value of CLF.

Further to the above, in accordance with ASX Listing Rule 12.9, CLF is required to have a trading policy in place with the content of the policy prescribed by ASX Listing Rule 12.12. This trading policy is in relation to dealings in the securities of CLF by its Directors and key management personnel. This trading policy sits alongside obligations under the *Corporations Act 2001* (Cth) (**Corporations Act**) and the ASX Listing Rules. The trading policy of CLF imposes "closed periods". These closed periods are times when Directors and key management personnel of CLF may not trade in securities of CLF or derivative products created over CLF securities subject to certain exclusions and exceptional circumstances. The closed periods for CLF are from the close of business on the last business day of the half and full financial year of CLF up till and including the day the half and full year financial results are released to the market. The Directors and key management personnel may trade in securities of CLF on the first business day after the day the financial results are released. CLF may impose further closed periods associated with inside information.

The operation of any share buy back by the Company is as directed by the Board in accordance with the Corporations Act and the ASX Listing Rules. The operation of the buy back, including the daily purchases, are continuously announced to the ASX. As noted above, the Company also publishes its monthly net asset value (in the usual course) and provided that there is no material price sensitive information that is not generally available, Directors can accept a buy-back offer for their shares.

### Company Secretary

The Company Secretary is accountable to the Board, through the Chairman, on relevant matters to do with the proper functioning of the Board.

### Diversity policy

Given the current size of the business, CLF does not believe it is appropriate to have in place a formal diversity policy. The Chairman is responsible for the oversight of the composition of the Board to ensure the Company has access to the appropriate expertise and experience.

### Performance assessment

The Board Charter provides that the Chairman shall undertake an annual review and evaluation of the Board and consider the appropriate mix of skills required to ensure its continuing effectiveness. The Chairman will also review and evaluate the performance of each Board committee and each individual Director. The review shall be conducted in such manner as the Chairman deems fit. In turn, the Board shall undertake an annual review of the performance of the Chairman to ensure that the Board's activities continue to be efficiently organised and conducted.

A performance evaluation of the Board, its committees and individual Directors was undertaken in the reporting period ending 30 June 2020 in accordance with the process outlined above.

The Board reviews the performance of its executives on an annual basis. This review is conducted in such manner as the Board deems fit but includes a review of the following:

- appointment, duties and remuneration paid;
- performance/returns of the portfolio;
- administration duties and support functions; and
- risk controls.

During the reporting period, performance reviews for each executive were undertaken in accordance with the process outlined above. Disclosures in the remuneration report are made in relation to each reporting period as to the performance evaluations that were undertaken and the process that was followed.

# Corporate Governance Statement

continued

## Principle 2: Structure the Board to add value

### Appointment and renewal

The Chairman is responsible for reviewing the membership of the Board, the nomination of Directors to the Board and the re-election of Directors to the Board. Any review or recommendation is considered by the full Board. Appropriate expertise and experience are essential attributes for any nominee. The Chairman ensures that the Board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.

Having regard to CLF's size, nature as an investment company and Board responsibilities, a formal nominations committee is not considered necessary. Any new directors are subject to appropriate investigation and checks prior to appointment.

Each year one-third of all executive and non-executive Directors (rounded down and based on who has been longest in office) are required to retire by rotation and may offer themselves for re-election by members at the Annual General Meeting. As further required by the Constitution (and ASX Listing Rules), each director is required to stand for re-election every 3 years.

Any Director appointed during the year is required to stand for re-election at the next Annual General Meeting of the Company.

The Board will meet as and when necessary to discharge efficiently its duties. The Board has determined that given the current nature of the business, quarterly Board meetings are appropriate. Additional meetings may be called by any Director to deal with items of special business and the Board will pass resolutions in circulation as required.

The quorum necessary for Directors to conduct business is two Directors.

### Board skills matrix and independence

The Board currently has four members. Under the Company's constitution, the number of Directors shall be not less than 3 and no more than 11.

The Board has been structured to ensure that it has the necessary skills and expertise for a company such as CLF and can effectively represent stakeholder interests. These skills and expertise include in corporate finance, legal, accounting, asset management and capital markets.

The Chairman, Mr Brian Sherman, has been a Director of the Company since inception in 1987 and was re-elected to the board most recently on 13 November 2019. Mr Sherman is responsible for leading the Board, ensuring that the Board's activities are efficiently organised and conducted. Mr Sherman does have a substantial shareholding and is not considered by the Board to be "independent" having regard to the definition of independence set out below and based on the recommended by the ASX Corporate Governance Council.

Mr Barry Sechos is also a director of the Company and an alternate director for Mr Sherman. Mr Sechos was initially appointed to the board on 4 December 2013 and was most recently re-elected to the board on 15 November 2018. Mr Sechos is also Company Secretary of CLF and the Company's Risk and Compliance Officer. Mr Sechos is a director of an entity related to Mr Sherman and is also not considered by the Board to be "independent".

However, while not independent, Mr Sherman and Mr Sechos' interest in seeing the Company prosper is aligned with all shareholders. The appointment of Mr Sechos as an alternate and the terms of that appointment were approved by the Board.

Dr David Sokulsky, who was appointed to the Board on 17 May 2018 and re-elected on 15 November 2018, was appointed Chief Executive Officer and Chief Investment Officer on 25 October 2017, (effective 2 January 2018) and, as such, is an executive director of CLF. The Executive Director is responsible for ensuring that the portfolio management team provides a consistent and appropriate level of service.

The other Director, Mr John Martin, who was appointed to the Board on 31 July 2017 and re-elected on 3 November 2017 is considered by the Board to be independent.

Biographical information in respect of each Director is set out on page 5 of the Company's Annual Report.

### Majority independence

The Board as presently constituted does not have a majority of independent non-executive directors. Importantly, however, the roles of Chairman and the Chief Executive Officer are undertaken by separate persons.

The Board as presently constituted provides an effective mixture of skills and expertise in order to achieve the company's strategic objectives. With extensive experience providing effective corporate governance and within the financial sector – as well as a thorough and robust oversight into the portfolio management's team-based stock selection process, the Board is currently positioned to fulfil the Company's objective to deliver regular income and long term capital growth.

Furthermore, the Board is well positioned to provide effective risk management with expertise ranging from risk management, compliance and corporate law – in addition to its risk committee. Moreover, from an investment perspective, the current Board possesses good knowledge of the portfolio management team's investment philosophy and style.

A Director is only to be regarded as independent if:

- the Director is a non-executive Director; is not a substantial (5% or more) shareholder of CLF; an officer of, or otherwise associated directly with, a substantial shareholder of CLF;
- within the last three years the Director has not been employed in an executive capacity by CLF or an employee materially associated with a service provider;
- within the last three years the Director has not been a principal of a material professional adviser or material consultant to CLF;
- the Director is not a material supplier or customer of CLF, or an officer of, or otherwise associated directly or indirectly, with a material supplier or customer; and
- the Director has no material contractual relationship with CLF other than as a director of CLF.

Material in respect of independence above is to be judged by the Board on both a quantitative and qualitative basis. An amount of over 5% of CLF's total shareholders' equity is considered material for these purposes. The Board regularly assesses the independence of directors. In addition, a transaction of any amount or relationship is deemed material if knowledge of it impacts the shareholders' understanding of a Director's performance.

All Directors are to disclose to the Company, as soon as it is to hand, any information that may affect their independence.

### Induction of Board members

All new directors have had an induction into the business of the Company prior to accepting their appointment and have received continuing information on the Company and its operations since being appointed. Directors are also given access to continuing education in relation to the Company extending to its business, the industry in which it operates, and other information required by them to discharge the responsibilities of their office.

## Principle 3: Act ethically and responsibly

### Code of Conduct

In addition to a policy on share trading, the Code of Conduct, together with the Company's other corporate governance policies, is designed to ensure that the Directors, senior executives, employees and the Company act ethically and responsibly, bearing in mind the Directors' duties under the Corporations Act and the interest of the Company's shareholders and stakeholders. The Code of Conduct can be found in the Corporate Governance section of the Company's website.

### Whistleblower Policy

The Company has adopted a whistleblower policy which can be found in the Shareholders section of the Company's website.

## Principle 4: Safeguard integrity in corporate reporting

### Audit Committee

The Audit Committee is comprised of the two non-executive Directors, Mr John Martin and Mr Barry Sechos and the Executive Director, Dr David Sokulsky and is chaired by Mr John Martin (who is considered by the Board to be independent). While CLF is not a company that is required to comply with the audit committee composition requirements set out in the ASX Corporate Governance Council's Recommendations, the Committee actively manages any potential conflicts that might arise as a result of the presence of the Executive Director. Relevant measures include the provisions relating to material personal interest under the law. However, it is considered that the Company and its shareholders benefit from the knowledge and skills that the Executive Director brings to the Committee. The qualifications of those appointed to the Committee are detailed in the Directors' Report.

A Charter setting out matters relevant to the composition, responsibilities, and administration of the Audit Committee has been adopted and is available on the Company's website. It provides that the Audit Committee has the following duties and responsibilities:

- the nomination, appointment, rotation and remuneration of external auditors. This includes ensuring the adequacy of existing external audit arrangements, with particular emphasis on the independence, scope and quality of the audit. To ensure that the external auditor has full access to information and that no unacceptable management or other restrictions are placed on them. To action and respond to any "management letters" sent by the external auditor to the Company;

# Corporate Governance Statement

continued

- to review the draft half-yearly and year-end financial statement with representatives of the external auditor prior to recommending their adoption and lodgement by the Board;
- responsibility for all areas of significant financial risk and the arrangements in place to contain those risks to acceptable levels. This includes responsibility for the effectiveness of management information and other systems of internal controls relating to financial arrangements and monitoring the adequacy of management information, internal financial control systems, asset valuations and expenditure controls; and
- to review any reports relating to questionable accounting or auditing matters and to ensure that any query from shareholders relating to such matters are dealt with expeditiously.

Details of the number of times the Audit Committee met throughout the reporting period and details of the committee members' attendance at those meetings can be accessed in the Directors' Report within the Annual Report.

The Company is also committed to the auditor being present at the Annual General Meeting and available to answer any questions from shareholders.

### Written affirmations

Prior to approving the Company's financial statements, the Board has received from the Chief Executive Officer written affirmation concerning the Company's financial statements required by the Corporations Act as set out in the Directors' Declaration in the 2020 Annual Report. In respect of the financial statements for the year ended 30 June 2020, the Board has also received from the Chief Executive Officer written affirmation that, in his opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

## Principle 5: Make timely and balanced disclosure

CLF is committed to:

- the promotion of investor confidence by ensuring that trading in its securities takes place in an efficient, competitive and informed market;
- encouraging shareholder participation at the Annual General Meeting in person or by proxy;
- complying with its disclosure obligations under the ASX Listing Rules and the Corporations Act; and
- ensuring that CLF stakeholders have the opportunity to access externally available information issued by CLF.

The Board has established a written Disclosure policy to ensure compliance with the Company's ASX Listing Rule 3.1 continuous disclosure obligations and a Shareholder Communication Policy to ensure accountability for compliance. The Disclosure Policy and the Shareholder Communication Policy are available on the Company's website.

The Company Secretary is primarily responsible for coordinating the disclosure of information to shareholders and regulators under the direction of the Board.

## Principle 6: Respect the rights of security holders

Shareholders, prospective shareholders, stakeholders and other interested parties can access detailed and up to date information on the Company via the Company website www.clfund.com.au or by accessing the Company's ASX announcements platform available at www.asx.com.au.

The Company website includes access to the Company's:

- Board of Directors Charter
- Code of Conduct
- Trading Policy
- Disclosure Policy
- Shareholder Communications Policy
- Audit Committee Charter
- Risk and Compliance Committee Charter
- Whistleblower Policy

CLF like many listed companies continues to embrace technology in making information and participation easier and more accessible. This includes using the technology developed by our registrar to facilitate email communication as well as online voting for general meetings of the Company.

The Board encourages full participation by shareholders at the Annual General Meeting to ensure a high level of Director accountability to shareholders and shareholder identification with CLF's strategy and goals. Important issues are presented to the shareholders as single resolutions. The shareholders are requested to vote on matters such as the adoption of CLF's remuneration report, the granting of options and shares to Directors and changes to the Constitution. The Annual General Meeting also provides shareholders with the opportunity to meet with representatives of the Board and management, to learn more about the Company's activities and, particularly, to provide an opportunity to question the Board and management about any aspect of the Company's activities.

## Principle 7: Recognise and manage risk

### Risk and Compliance Committee

The Board has formed a Risk and Compliance Committee of two members to oversee risks of the Company.

The Risk and Compliance Committee, is comprised of two non-executive Directors, Mr John Martin (who is considered by the Board to be independent) and Mr Barry Sechos, and is chaired by Mr Barry Sechos. The Committee receives regular reports on compliance by the Company and the risks faced by CLF and whether those risks are being managed effectively. The economic, environmental and social sustainability risks faced by CLF are reflected in the underlying holdings of the fund and these risks are managed through diversification of investments.

Details of the number of times the Risk and Compliance Committee met throughout the reporting period and details of the committee members' attendance at those meetings can be accessed in the Directors' Report within the Annual Report.

A Charter setting out matters relevant to the composition, responsibilities, and administration of the Risk and Compliance Committee has been adopted and is available on the Company's website. It provides that the Committee has the following duties and responsibilities:

- to review the risk management statement formally on a yearly basis to ensure it continues to be sound and to also review all risk issues on a quarterly basis. Risks include market risk, credit risk, interest rate risk and liquidity risk. This includes, where the facts warrant, to bring the matter to the attention of the Board and to recommend the implementation of additional controls;
- as a key body of the Company's compliance framework, the Committee is responsible for maintaining the compliance programme. This encompasses responsibility to monitor compliance by the Company of:
  - the Corporations Act; and
  - various company procedures;
- responsibility for monitoring the performance of external services providers e.g. Custodian, Administrator and Registrar; and
- to review compliance with the terms of any banking covenants in relation to any facility the Company may have negotiated and drawn down from time to time.

The Board conducted a review of the Company's risk management framework during the financial year ended 30 June 2020.

### Internal Controls

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. The Board confirms that there is an on-going process of identifying, evaluating and managing the significant risks faced by the Company.

The key components designed to provide effective internal control are outlined below:

- the Risk and Compliance Committee meets on a quarterly basis since it was constituted to review the internal controls;
- the Risk and Compliance Committee has a documented compliance programme;
- risks and internal controls and the risk management framework have been documented in the Risk Management Statement;
- the Audit Committee has responsibility for all areas of significant financial risk and arrangements are in place to contain those risks to an acceptable level;
- written agreements are in place which specifically define the roles and responsibilities of all third party service providers; and
- the portfolio management team has clearly defined investment criteria and specified levels of authority. Reports on these matters, including performance statistics and investment valuations are submitted regularly to the Board.

# Corporate Governance Statement

continued

## Principle 8: Remunerate fairly and responsibly

### Remuneration

The Directors shall be paid out of the funds of the Company by way of remuneration for their services up to such sum as may from time to time be determined by the shareholders of the Company in a general meeting and allocated between Directors as the Board deems appropriate. Any Director who is also an employee of the Company is not entitled to receive Directors' fees. Remuneration is currently paid only to the non-executive Directors in the form of fees and/or superannuation.

No Director receives equity remuneration from the Company. Information concerning the remuneration for each Director is set out on page 23.

Having regard to CLF's size and board responsibilities in respect of remuneration, a formal remuneration committee is not considered necessary. As required under Section 300A (1) of the Corporations Act however, a Remuneration Report is contained within the Directors' Report and the adoption of the Remuneration Report is proposed by means of an advisory only, non-binding vote at the Annual General Meeting. However, under the Corporations Act, if 25% or more of the votes cast for this resolution vote against the adoption of the Remuneration Report at two consecutive Annual General Meetings, shareholders will be required to vote at the second of those Annual General Meetings on a resolution ("spill resolution") that another meeting be held within 90 days, at which certain Directors of the Company must go up for re-election. In addition, as required by the Company's constitution, shareholders approve the maximum aggregate amount payable to Directors.

## Independent Professional Advice

All Directors are entitled to seek independent professional advice at the expense of CLF. Prior to seeking such professional advice, the relevant matter of concern to the Director should be raised for discussion with the full Board. If this is impractical, the matter(s) should be raised with the Chairman. If, after such discussions, the relevant Director's query or concern is not satisfied, independent professional advice may be sought at the Company's expense.

## Representation on Accounts

Under the Company's corporate governance practices, the relevant compliance officer shall provide to the Board with the half-yearly and yearly accounts with the following representations:

- the Company's financial reports present a true and fair view in accordance with the relevant accounting standards;
- the Company's financial reports are based on a sound system of risk management and internal control consistent with the policies adopted by the Board; and
- the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

## Review

The Board reviews the performance of the portfolio management team on an annual basis. This review shall be conducted in such manner as the Board deems fit but includes a review of the following:

- appointment, duties and remuneration paid;
- performance/returns of the portfolio;
- administration duties and support functions; and
- risk controls.

The Board considers these matters in the absence of the Executive Director.

Approved by the Board of Concentrated Leaders Fund Limited.

**Dated: 27 August 2020**

# Financial Report

for the year ended 30 June 2020

# Directors' Report

for the year ended 30 June 2020

Your Directors present their report on Concentrated Leaders Fund Limited ('the Company') for the year ended 30 June 2020.

## Directors

The following persons held office as Directors of Concentrated Leaders Fund Limited during the financial year:

Brian Michael Sherman AM
Barry Sechos
John Martin
David Sokulsky

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

Further details regarding Director and Company Secretary qualifications and experience are set out on page 5 of the Annual Report. None of the Directors or the Company Secretary was a partner in an audit firm, or a director of an audit company, that is an auditor of the Company.

## Principal activities

During the year, the principal activities of the Company included making investments in securities listed on the Australian Securities Exchange.

The Company may enter into derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates in accordance with the Company's financial risk management policies.

## Dividends - Concentrated Leaders Fund Limited

Dividends declared to members during the current and previous financial year were as follows:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Final ordinary dividend (including any special dividend) | **891** | 3,119 |
| Interim ordinary dividends | **2,675** | 2,227 |
| Total ordinary dividends | **3,566** | 5,346 |

## Review of operations

The Company continued to invest in stocks primarily within the S&P/ASX 200 Total Return Index.

As at 30 June 2020, the net assets of the Company was $70.794 million or $1.19 per share after inclusion of deferred tax and current tax liabilities. The Company is a long term investor and does not intend on disposing of its total portfolio. Before inclusion of deferred tax and current tax liabilities the NTA was $1.20 per share.

| | 30 June 2020 $'000 |
|---|---|
| Net Assets at fair value before loan facility | **100,794** |
| Less: Loan Facility | **(30,000)** |
| | **70,794** |
| NTA per Ordinary Share (after inclusion of deferred tax and current tax liabilities) | **$1.19** |
| NTA per Ordinary Share (before inclusion of deferred tax and current tax liabilities) | **$1.20** |

# Directors' Report

for the year ended 30 June 2020

## Review of operations (continued)

| | 30 June 2019 $'000 |
|---|---|
| Net Assets at fair value before loan facility | 106,786 |
| Less: Loan Facility | (30,000) |
| | 76,786 |
| NTA per Ordinary Share (after inclusion of deferred tax and current tax liabilities) | $1.29 |
| NTA per Ordinary Share (before inclusion of deferred tax and current tax liabilities) | $1.35 |

The fair value of financial assets traded in an active market is based on their quoted market price at the balance date without any deduction for estimated future selling costs. Financial assets are priced at the last price which falls within the bid-ask spread.

For the year ended 30 June 2020 the Company provided for total dividends of 6 cents per share fully franked, consisting of four quarterly dividends of 1.50 cents per share.

The net profit from ordinary activities after income tax amounted to $561,000 (2019: profit $1,663,000).

The net tangible asset backing for each ordinary share as at 30 June 2020 amounted to $1.19 per share (2019: $1.29 per share).

## Earnings per share

| | 2020 | 2019 |
|---|---|---|
| Basic and diluted earnings per share | 0.94 cents | 2.80 cents |

## Significant changes in the state of affairs

At the Company's AGM held on 15 November 2019, shareholders approved an extension to the Company's investment activities to include investments in stocks outside of the S&P/ASX 200 Total Return Index. Up to 20% of the Company's gross portfolio can be invested in positions outside of the S&P/ASX 200 Total Return Index.

As at 30 June 2020, the Company announced that the management of its investment portfolio will be externalized from 1 July 2020. The portfolio management and advisory function will be assumed by Carrara Investment Management (Australia) Pty Ltd ACN 641 618 331 ("Carrara" or the "Investment Manager"), a new investment management company controlled by Dr David Sokulsky, the current Chief Executive Officer and Chief Investment Officer of the Company. As of 30 June 2020, all members of the investment team have resigned from their positions with the Company and have joined Carrara.

On 14 August 2020 the Company announced a dividend of 17 cents per share fully franked, comprising an ordinary quarterly dividend of 1.5 cents per share and a special dividend of 15.5 cents per share.

There have been no other changes in the state of affairs of the Company during the year.

## Matters subsequent to the end of the financial year

No other 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.

## Interests in shares of Concentrated Leaders Fund Limited

As at 30 June 2020, the relevant interests of the Directors in the shares of the Company and related bodies corporate were:

| | | Relevant Interests Ordinary shares |
|---|---|---|
| BM Sherman | Held by entities controlled by BM Sherman | 12,316,623 |
| J Martin | | – |
| D Sokulsky | Held by entities controlled by D Sokulsky | 70,000 |
| B Sechos(*) | | – |

* Barry Sechos is a director of Escotwo Pty Ltd, an entity related to Brian Sherman, which holds 12,263,623 ordinary shares as at the date of this report.

# Directors' Report

for the year ended 30 June 2020

## Other directorships

Barry Sechos is currently a director of Regeneus Ltd.

John Martin has over 20 years of experience as a business executive and company director. John was previously Executive Director and Chief Executive Officer of Regeneus Limited (ASX: RGS) and a corporate and executive partner at Allens specialising in M&A, fundraising and life sciences. John Martin is a member of the Risk and Compliance Committee and Audit Committee. Director since 2017.

Pursuant to section 300(11)(e) of the *Corporations Act 2001*, and except as disclosed above, there were no other directorships held by the Directors in Australian listed companies at any time in the 3 years immediately before the end of this financial year.

## Company secretary

The Company Secretary and Compliance Officer is Barry Sechos, who was appointed Company Secretary on 3 November 2017 and Compliance Officer on 1 February 2018.

## Business strategies and prospects for future financial years

In light of changing trends and the overall economic outlook brought about by the Coronavirus ("COVID-19") pandemic, the Company's future operating results and near-and-long-term financial results could potentially be impacted.

The COVID-19 pandemic has caused significant volatility in the Australian equity markets and in some instances future earnings from Company's underlying portfolio of investments, is substantially impacted. However, the Directors do not expect this will affect the ability of the Company to continue as a going concern. Moreover, the fair value of all the Company's investments have been based on the closing quoted prices at the end of the financial year.

The Company's future financial position will depend primarily on the performance of its portfolio of investments, their resulting share price movements and earnings received from them. Clearly, this will be significantly impacted by the health and economic effects of the COVID-19 pandemic, but to what extent and for how long, remains uncertain.

The Company will continue to invest in stocks primarily within the S&P/ASX 200 Total Return Index which meet the quality and price criteria as determined by the Investment Manager. Up to 20% of the Company's gross portfolio may be invested in positions outside of the S&P/ASX 200 Total Return Index.

It is also the Company's present intention to continue as a geared structure and maintain its $30 million Equity Finance Loan which was drawn to $30 million at balance date. The Company is committed to providing a meaningful dividend yield to shareholders consistent with its objective of delivering regular income and long term capital growth, subject to market conditions, the availability of distributable profits and the financial health of the Company.

Buy-backs announced by the Company during the current financial year were for capital management purposes.

## Meetings of directors

The numbers of meetings of the Board and of each board committee held during the year ended 30 June 2020, and the numbers of meetings attended by each Director were:

| | | | Meetings of committees | | | |
|---|---|---|---|---|---|---|
| | Full meetings of directors | | Audit | | Risk and Compliance | |
| | A | B | A | B | A | B |
| Brian Michael Sherman AM | 5 | 5 | N/A | N/A | N/A | N/A |
| Barry Sechos(2) | 5 | 5 | 2 | 2 | 4 | 4 |
| John Martin(1) | 5 | 5 | 2 | 2 | 4 | 4 |
| David Sokulsky | 4 | 5 | N/A | N/A | N/A | N/A |

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
(1) Chair of the Audit Committee and member of the Risk and Compliance Committee.
(2) Member of the Audit Committee and Chair of the Risk and Compliance Committee. Alternate Director for Brian Sherman.

# Directors' Report

for the year ended 30 June 2020

## Remuneration report

This report details the nature and amount of remuneration for each Director and Key Management Person of Concentrated Leaders Fund Limited in accordance with the *Corporations Act 2001*.

### Directors and key management personnel disclosed in this report

| Name and Position |
|---|
| – *Non-executive and executive Directors* – see page 5. |
| – *Other key management personnel* – see below. |

**David Sokulsky**

David Sokulsky was appointed Chief Executive Officer and Chief Investment Officer as a full time employee of the Company on 1 January 2018. In this capacity, David and his investment management team were responsible for the day-to-day management of the Company's investment portfolio and the operations of the Company up to 30 June 2020.

On 30 June 2020, David Sokulsky and his team resigned as full time employees of the Company and the Company appointed Carrara as Investment Manager, effective 1 July 2020. Carrara assumed the responsibility for the portfolio management and advisory function of the Company's investment portfolio, previously performed by the investment management team each of whom were full time employees of the Company.

### (a) Executive remuneration policy and framework

Given the size of the Company and the size of the Board, the Directors considered that a formal remuneration committee is not required.

(i) Setting of aggregate remuneration

Pursuant to the Constitution, the Directors' aggregate remuneration is determined by the Company in its annual general meeting. The aggregate remuneration level proposed for approval at the Company's annual general meeting is determined by the Directors, having taken into account what would be appropriate and in line with the external market, given the size of the Company in comparison with other companies in the same industry.

The Company's first general meeting in 1988 set the Directors' remuneration in the aggregate of $100,000 per annum and that sum remained unchanged until 2004. At the 2003/2004 annual general meeting, the Company's shareholders approved to increase the Directors' aggregate remuneration from $100,000 to $150,000 and at the 2008/2009 annual general meeting this was further increased to $250,000, taking into account the burgeoning regulatory and compliance environment the Company operates under and to ensure that the remuneration is commensurate with levels for other listed investment companies. The headroom will also be necessary should the Company wish to increase the number of directors in the future. The $250,000 maximum aggregate amount remains unchanged as at 30 June 2020.

(ii) Division of aggregate remuneration

The aggregate remuneration is divided between the Directors as they may determine, taking into account the concentration of responsibility of each Director.

The Directors have determined that no remuneration is to be paid to any Director who is also an employee of the Company or an employee of the Investment Manager. As such, David Sokulsky who was appointed to the Board on 17 May 2018, and who is an employee of the Investment Manager does not receive remuneration for his services as Director of the Company.

The Directors have also determined that the Board's present intention is not to have an element of an individual Director's remuneration consist of the issue of securities in the Company.

### (b) Relationship between remuneration and Concentrated Leaders Fund Limited's performance

The remuneration policy has been specifically designed to ensure that the Company's shareholders can determine whether the aggregate remuneration of Directors should or should not be increased. As such, the Directors' aggregate and individual remuneration levels are not directly dependent upon the Company's performance or a performance condition. However, practically, whether shareholders vote for or against an increase in the aggregate remuneration will depend upon, amongst other things, how the Company has performed over the number of years.

# Directors' Report

for the year ended 30 June 2020

## Remuneration report (continued)

In his role as Chief Executive Officer / Chief Investment Officer of the Company through to 30 June 2020, David Sokulsky was entitled to a salary from the Company of $396,667 per annum, inclusive of superannuation. This salary is reviewed annually by the Board.

David and his investment management team were also eligible for participation in a Performance Bonus Pool each calendar year. The Performance Bonus Pool was equal to 20% of the increase in the value of investments of the portfolio over the return of the S&P/ASX 200 Total Return Index for each calendar year, less the gross remuneration of the investment management team paid during that calendar year, to be shared amongst the investment management team as determined by the Chief Executive Officer.

If the S&P/ASX 200 Total Return Index has decreased in any calendar year, the Performance Bonus Pool was based on the increase in the value of investments.

If the value of the investments decreased in any calendar year, no Performance Bonus Pool would be paid for that year, however the Performance Bonus Pool may be increased in later years if the aggregate performance is positive and exceeds the S&P/ASX 200 Total Return Index over a three year period.

As the value of investments decreased during the calendar year ended 31 December 2019, no Performance Bonus was payable to the investment management team.

In June 2020, in view of the outperformance of the portfolio against its benchmark for the period from 1 July 2019 to 30 June 2020, the Board exercised its rights to pay discretionary bonuses to the investment management team totaling $400,000 for the year ended 30 June 2020.

For the purposes of section 300A (1AB) of the *Corporations Act 2001*, the Company's share price on 1 July 2019 was $1.27 and on 30 June 2020 was $1.07 and for this financial year, the Company paid total dividends of 6 cents per share.

For the purposes of sections 300A(1)(b), 300A(1AA) and (1AB) of the *Corporations Act 2001*, the table and graph below provides a comparison of the Directors aggregate remuneration and the Company's profit after related income tax expense/benefit, dividend payments and share price performance for the previous 5 financial years from 1 July 2015 to 30 June 2020.

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Profit for the year attributable to owners ($000) | **561** | 1,663 | 1,535 | 1,940 | 2,135 |
| Dividend payments (cents) | **6.0** | 9.0 | 5.50 | 5.0 | 5.0 |
| Aggregate paid remuneration | **205,315** | 205,315 | 201,000 | 208,050 | 208,050 |
| Closing share price | **$1.07** | $1.27 | $1.235 | $1.17 | $1.05 |

# Directors' Report

for the year ended 30 June 2020

## Remuneration report (continued)

*Details of remuneration*

The following table shows details of the remuneration received by the Directors and the key management personnel of the Company for the current and previous financial year.

| | Short-term employee benefits | | Post-employment benefits | |
|---|---|---|---|---|
| **Year ended 30 June 2020** | **Cash salary and fees $** | **STI Cash Bonus[(A)] $** | **Superannuation $** | **Total $** |
| **Non-executive directors** | | | | |
| Brian Michael Sherman AM | 84,315 | N/A | – | 84,315 |
| Barry Sechos | 60,500 | N/A | – | 60,500 |
| John Martin | 60,500 | N/A | – | 60,500 |
| | 205,315 | N/A | – | 205,315 |
| **Executive director** | | | | |
| David Sokulsky | 375,664 | 260,000 | 21,003 | 656,667 |
| | 375,664 | 260,000 | 21,003 | 656,667 |

| | Short-term employee benefits | | Post-employment benefits | |
|---|---|---|---|---|
| **Year ended 30 June 2019** | **Cash salary and fees $** | **STI Cash Bonus[(A)] $** | **Superannuation $** | **Total $** |
| **Non-executive directors** | | | | |
| Brian Michael Sherman AM | 84,315 | N/A | – | 84,315 |
| Barry Sechos | 60,500 | N/A | – | 60,500 |
| John Martin | 60,500 | N/A | – | 60,500 |
| | 205,315 | N/A | – | 205,315 |
| **Executive director** | | | | |
| David Sokulsky | 329,469 | 100,000 | 20,531 | 450,000 |
| | 329,469 | 100,000 | 20,531 | 450,000 |

**Notes in relation to the Director's and executive officers' remuneration table**

(A) The short-term incentive bonus is for performance during the respective calendar year using the criteria set out on page 22. A discretionary bonus of $260,000 was paid to David Sokulsky in the 2020 financial year (2019 financial year: $100,000). As at 30 June 2020, the Performance Bonus Pool which is payable at the end of the calendar year was nil (2019: nil).

# Directors' Report

for the year ended 30 June 2020

## Remuneration report (continued)

### (c) 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 Concentrated Leaders Fund Limited and other key management personnel of the Company, including their related parties, are set out below. There were no shares granted during the reporting period or previous reporting period as compensation.

| Year ended 30 June 2020<br>Name | Balance at the start of the year | Net movement | Other changes during the year | Balance at end of the year |
|---|---|---|---|---|
| *Directors of Concentrated Leaders Fund Limited* | | | | |
| **Ordinary shares** | | | | |
| Brian Michael Sherman AM | 12,316,623 | – | – | 12,316,623 |
| Barry Sechos (*) | – | – | – | – |
| John Martin | – | – | – | – |
| David Sokulsky | 70,000 | – | – | 70,000 |
| | 12,386,623 | – | – | 12,386,623 |

| Year ended 30 June 2019<br>Name | Balance at the start of the year | Net movement | Other changes during the year | Balance at end of the year |
|---|---|---|---|---|
| *Directors of Concentrated Leaders Fund Limited* | | | | |
| **Ordinary shares** | | | | |
| Brian Michael Sherman AM | 12,316,623 | – | – | 12,316,623 |
| Barry Sechos(*) | – | – | – | – |
| John Martin | – | – | – | – |
| David Sokulsky | 70,000 | – | – | 70,000 |
| | 12,386,623 | – | – | 12,386,623 |

* Barry Sechos is a Director of Escotwo Pty Ltd, an entity related to Brian Sherman, which holds 12,263,623 ordinary shares as at the end of the reporting period (2019: 12,263,623 ordinary shares).

Shares acquired by the Directors and their Director-related entities include shares acquired under the Dividend Reinvestment Plan on the same basis as similar transactions with other shareholders. Directors and Director-related entities received normal dividends on these shares.

## Insurance and indemnification of officers and auditors

During the financial year or since the end of the financial year the Company has in place insurance policies for the following persons who are or have been officers of the Company:

BM Sherman, B Sechos, J Martin and D Sokulsky and other officers of the Company.

In broad terms, the insurance indemnifies the above individuals against a liability as permitted by law for claims arising out of actions taken in connection with the Company's business.

In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy including the nature of the liability insured and the amount of the premium.

# Directors' Report

for the year ended 30 June 2020

## Indemnity of auditors

The Company has not, during the financial year or since the end of the financial year, in respect of any person who is or has been an officer or auditor of the Company or a related body corporate indemnified or made any relevant agreement for indemnifying against a liability incurred as such an officer or auditor.

## 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

For the purposes of section 300(11B) the Directors review the provision of non-audit services by the auditor in any year and satisfy themselves that it is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* for the year ended 30 June 2020. None of the non-audit services provided undermines the general principles relating to auditor independence including the fact that there is no sharing of economic risk, no management or decision making role by the auditor and they do not act as an advocate of the Company. It is the Directors' view that the auditor's impartiality and objectivity have not been impacted by the provision of any non-audit services.

## 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 26.

## Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2019/191, issued by the Australian Securities and Investments Commission (ASIC), relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded to the nearest thousand dollars in accordance with this ASIC Corporations Instrument, unless otherwise indicated.

This report is made in accordance with a resolution of Directors made pursuant to Section 298(2) of the *Corporations Act 2001.*

**Barry Sechos**
Director

Sydney
27 August 2020

# Auditors Independence Declaration

for the year ended 30 June 2020

**Deloitte.**

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000

Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 9322 7001
www.deloitte.com.au

The Board of Directors
Concentrated Leaders Fund Limited
2 Paddington Street
Paddington NSW 2021

27 August 2020

Dear Board Members

**Concentrated Leaders Fund Limited**

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Concentrated Leaders Fund Limited.

As lead audit partner for the audit of the financial statements of Concentrated Leaders Fund Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Alfie Nehama
Partner
Chartered Accountants

# Statement of Comprehensive Income

for the year ended 30 June 2020

| | Notes | Year ended 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **Investment income from continuing operations** | 7 | **2,906** | 3,918 |
| **Expenses** | | | |
| Performance fees | 22 | **–** | 58 |
| Employee benefit expense | | **(1,106)** | (738) |
| Share registry fees | | **(71)** | (77) |
| Custody fees | | **(30)** | (34) |
| Tax fees | 20 | **(13)** | (12) |
| Directors' liability insurance fees | | **(79)** | (72) |
| Directors' fees | 19 | **(205)** | (205) |
| ASX fees | | **(51)** | (52) |
| Audit fees | 20 | **(63)** | (63) |
| Portfolio administration, company secretarial & accounting fees | | **(218)** | (196) |
| Occupancy expense | | **(70)** | (60) |
| Subscription fees | | **(116)** | (76) |
| Brokerage expense | | **(209)** | (318) |
| Other expenses | | **(147)** | (117) |
| Finance costs | | **(440)** | (685) |
| | | **(2,818)** | (2,647) |
| **Profit before income tax** | | **88** | 1,271 |
| Income tax benefit | 8(a) | **473** | 392 |
| **Net profit for the year** | | **561** | 1,663 |
| **Other comprehensive income** | | | |
| *Items that will not be reclassified to profit or loss* | | | |
| Net unrealised gains on financial assets taken to equity | 17(a) | **200** | 1,558 |
| Income tax expense relating to unrealised gains on financial assets taken to equity | 8(c) | **(60)** | (467) |
| Net realised (losses)/gains on financial assets taken to equity | 17(a) | **(4,467)** | 3,683 |
| Income tax expense relating to realised gains on financial assets taken to equity | 8(c) | **1,340** | (1,105) |
| **Other comprehensive (loss)/income for the year, net of tax** | | **(2,987)** | 3,669 |
| **Total comprehensive (loss)/income for the year attributable to the ordinary equity holders of the Company** | | **(2,426)** | 5,332 |

| | | Cents | Cents |
|---|---|---|---|
| **Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company (excluding all net gains/(losses) on investments):** | | | |
| Basic earnings per share | 26 | **0.94** | 2.80 |
| Diluted earnings per share | 26 | **0.94** | 2.80 |

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

# Statement of Financial Position

as at 30 June 2020

| | Notes | At 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 9 | **14,929** | 29,284 |
| Trade and other receivables | 10 | **497** | 741 |
| Other current assets | | **95** | 91 |
| **Total current assets** | | **15,521** | 30,116 |
| **Non-current assets** | | | |
| Financial assets at fair value through other comprehensive income | 11 | **87,482** | 79,992 |
| Deferred tax assets | 12 | **1,772** | 38 |
| **Total non-current assets** | | **89,254** | 80,030 |
| **Total assets** | | **104,775** | 110,146 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 13 | **616** | 134 |
| Dividends payable | | **891** | – |
| Current tax liabilities | | **-** | 740 |
| Provisions | | **-** | 53 |
| Borrowings | 14 | **30,000** | 30,000 |
| **Total current liabilities** | | **31,507** | 30,927 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 15 | **2,474** | 2,433 |
| **Total non-current liabilities** | | **2,474** | 2,433 |
| **Total liabilities** | | **33,981** | 33,360 |
| **Net assets** | | **70,794** | 76,786 |
| **EQUITY** | | | |
| Issued capital | 16 | **56,664** | 56,664 |
| Reserves | 17(a) | **5,723** | 5,583 |
| Retained earnings | 17(b) | **8,407** | 14,539 |
| **Total equity** | | **70,794** | 76,786 |

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

# Statement of Changes in Equity

for the year ended 30 June 2020

| | Notes | Issued capital $'000 | Reserves $'000 | Retained earnings $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2018** | | **56,664** | **4,492** | **15,502** | **76,658** |
| Net profit for the year | | – | – | 1,663 | 1,663 |
| **Other comprehensive income for the year** | | | | | |
| Net unrealised losses on financial assets taken to equity | | – | 1,558 | – | 1,558 |
| Net realised gains on financial assets taken to equity | | – | 3,683 | – | 3,683 |
| Net income tax relating to the above items | | – | (1,572) | – | (1,572) |
| **Total other comprehensive income for the year, net of tax** | | – | 3,669 | – | 3,669 |
| **Total comprehensive income for the year attributable to the ordinary equity holders of the Company** | | – | **3,669** | **1,663** | **5,332** |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Net realised gains transferred to retained earnings (net of income tax) | | – | (2,578) | 2,578 | – |
| Cancellation of ordinary shares | 16 | – | – | – | – |
| Dividends provided for or paid | 18 | – | – | (5,346) | (5,346) |
| Unclaimed historical dividends returned | 18 | – | – | 142 | 142 |
| | | – | (2,578) | (2,626) | (5,204) |
| **Balance at 30 June 2019** | | **56,664** | **5,583** | **14,539** | **76,786** |
| | | | | | |
| **Balance at 1 July 2019** | | **56,664** | **5,583** | **14,539** | **76,786** |
| Net profit for the year | | – | – | 561 | 561 |
| **Other comprehensive income for the year** | | | | | |
| Net unrealised gains on financial assets taken to equity | | – | 200 | – | 200 |
| Net realised losses on financial assets taken to equity | | – | (4,467) | – | (4,467) |
| Net income tax relating to the above items | | – | 1,280 | – | 1,280 |
| **Total other comprehensive income for the year, net of tax** | | – | (2,987) | – | (2,987) |
| **Total comprehensive income for the year attributable to the ordinary equity holders of the Company** | | – | **(2,987)** | **561** | **(2,426)** |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Net realised losses transferred to retained earnings (net of income tax) | 17 | – | 3,127 | (3,127) | – |
| Cancellation of ordinary shares | 16 | – | – | – | – |
| Dividends provided for or paid | 18 | – | – | (3,566) | (3,566) |
| Unclaimed historical dividends returned | 18 | – | – | – | – |
| | | – | 3,127 | (6,693) | (3,566) |
| **Balance at 30 June 2020** | | **56,664** | **5,723** | **8,407** | **70,794** |

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

# Statement of Cash Flows

for the year ended 30 June 2020

| | Notes | Year ended 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Dividends and trust distributions received | | **2,876** | 3,358 |
| Interest received | | **215** | 295 |
| Other income received | | **50** | – |
| Finance costs paid | | **(440)** | (741) |
| Income taxes paid | | **(680)** | (2,026) |
| Payments for other expenses | | **(1,945)** | (2,049) |
| **Net cash inflow/(outflow) from operating activities** | 24 | **76** | (1,163) |
| **Cash flows from investing activities** | | | |
| Payments for financial assets at fair value through other comprehensive income | | **(68,624)** | (96,143) |
| Proceeds from sale of financial assets at fair value through other comprehensive income | | **56,867** | 109,606 |
| **Net cash (outflow)/inflow from investing activities** | | **(11,757)** | 13,463 |
| **Cash flows from financing activities** | | | |
| Dividends paid | | **(2,674)** | (6,683) |
| Unclaimed historical dividends returned | | **-** | 142 |
| **Net cash outflow from financing activities** | 25 | **(2,674)** | (6,541) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(14,355)** | 5,759 |
| Cash and cash equivalents at the beginning of the year | | **29,284** | 23,525 |
| **Cash and cash equivalents at the end of the year** | 9 | **14,929** | 29,284 |

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

for the year ended 30 June 2020

## 1 General information

Concentrated Leaders Fund Limited (the "Company") is a listed public company domiciled in Australia. The address of Concentrated Leaders Fund Limited's registered office is 2 Paddington Street, Paddington NSW, 2021. The financial statements of Concentrated Leaders Fund Limited are for the year ended 30 June 2020. The Company is primarily involved in making investments, and deriving revenue and investment income from listed securities and unit trusts in Australia.

## 2 Summary of 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.

### (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*. Concentrated 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 Directors on 27 August 2020.

#### (i) Compliance with IFRS

The financial statements of Concentrated Leaders Fund Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### (ii) 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 at fair value through other comprehensive income and derivative financial instruments.

#### (iii) 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.

### (b) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

#### (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 within other comprehensive income in the Statement of Comprehensive Income in the year they are incurred in accordance with the policies described in Note 2(g).

#### (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 using the effective interest method.

### (c) Income tax

The income tax expense or benefit for the reporting period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax expense/benefit is recognised in profit or loss in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax expense/benefit is also recognised in other comprehensive income or directly in equity, respectively.

# Notes to the Financial Statements

for the year ended 30 June 2020

## 2. Summary of significant accounting policies (continued)

### (d) Impairment of financial assets

The Company recognises a loss allowance for expected credit losses ('ECL') on financial assets excluding investments that are measured at FVTOCI. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

The Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12-months after the reporting date.

The amount of the impairment loss will be recognised in the Statement of Comprehensive Income within other expenses.

### (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.

### (f) 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.

### (g) Investments and other financial assets

#### Classification

*(i) Financial assets at fair value through other comprehensive income*

The Company has designated long-term investments as "fair value through other comprehensive income". All gains and losses on long-term investments and tax thereon are presented in other comprehensive income as part of the Statement of Comprehensive Income.

#### Recognition and derecognition

Purchases and sales of financial assets are recognised on trade-date - the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets 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.

Transaction costs of financial assets carried at fair value through other comprehensive income are directly attributable to the acquisition of the financial asset.

Subsequent changes in fair value are recognised through the investment portfolio revaluation reserve after deducting a provision for the potential deferred capital gains tax liability as these investments are long-term holding of equity investments.

When an investment is disposed, the cumulative gain or loss, net of tax thereon, is transferred from the investment portfolio revaluation reserve to retained earnings.

#### 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.

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 price which falls within the bid-ask spread as a basis of measuring fair value.

The fair value of financial assets and liabilities traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets and financial liabilities held by the Company is the last price which falls within the bid-ask spread.

# Notes to the Financial Statements

for the year ended 30 June 2020

## 2 Summary of significant accounting policies (continued)

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. Accordingly, there may be a difference between the fair value at initial recognition and amounts determined using a valuation technique. If such a difference exists, the Company recognises the difference in profit or loss to reflect a change in factors, including time that market participants would consider in setting a price.

Further details on how the fair value of financial instruments are determined are discussed in Note 4.

### (h) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates derivatives as:

– hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Company documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Movements in the cash flow hedging reserve are shown in Note 17.

### (i) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expenses.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance costs'.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

### (i) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position where the Company currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

### (j) 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.

### (k) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

### (l) Finance costs

Finance costs are recognised as expenses in the year in which they are incurred using the effective interest rate method.

### (m) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax.

### (n) 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.

# Notes to the Financial Statements

for the year ended 30 June 2020

## 2. Summary of significant accounting policies (continued)

### (o) Earnings per share

#### (i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the net profit for the year, 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 cancelled during the year.

#### (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.

### (p) 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.

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.

### (q) Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2019/191, issued by the Australian Securities and Investments Commission (ASIC), relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that ASIC Corporations Instrument, unless otherwise indicated.

### (r) Functional and presentation currency

The functional and presentation currency of the Company is Australian dollars.

### (s) Comparative amounts

Certain amounts included in the prior year comparatives have been re-classified to confirm to the current year's presentation. The reclassification has not affected the recognition, measurement or valuation of any items in these financial statements.

### (t) New accounting standards and interpretations

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue and adopted.

#### AASB Interpretation 23 Uncertainty over Income Tax Treatments (effective for annual periods commencing from 1 January 2019)

AASB Interpretation 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:

    i. If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
    ii. If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's financial statements.

There are no other standards that are not yet effective and that are expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

There are no other standards that are not yet effective and that are expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

# Notes to the Financial Statements

for the year ended 30 June 2020

## 3 Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk), credit risk and liquidity risk. The Board of the Company has implemented a risk management framework to mitigate these risks. The Company uses derivative financial instruments such as interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments.

The Board has delegated the risk management statement and the quarterly review of all risk issues to the Risk and Compliance Committee which comprises two independent non-executive Directors who have the appropriate technical expertise and experience to carry out the Committee's responsibilities. The Committee meets at least quarterly.

### (a) Market risk

AASB 7 defines market risk as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

### (i) Foreign exchange risk

The Company is not directly exposed to currency risk as all its investments are quoted in Australian dollars.

### (ii) Price risk

The Company is exposed to equity securities price risk. This arises from investments held by the Company and classified in the Statement of Financial Position as financial assets at fair value through other comprehensive income.

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 weekly and risk can be managed by reducing exposure where necessary.

The Company's investment sectors as at 30 June 2020 and 30 June 2019 are as below:

| Sector | 2020 (%) | 2019 (%) |
|---|---|---|
| Information technology | **8.02** | 7.01 |
| Financials | **25.05** | 25.45 |
| Energy | **1.98** | 1.47 |
| Healthcare and biotechnology | **8.86** | 8.72 |
| Consumer staples | **8.96** | 7.75 |
| Industrials | **12.59** | 19.00 |
| Consumer discretionary | **8.01** | 7.76 |
| Utilities | **2.99** | 3.92 |
| Materials | **13.99** | 14.79 |
| Property | **9.55** | 4.13 |
| **Total** | **100.00** | 100.00 |

The following table illustrates the effect on the Company's equity from possible changes in financial assets at fair value through other comprehensive income as a result of other market risks 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 other components of equity | |
|---|---|---|
| Index | 2020 $'000 | 2019 $'000 |
| Change in variable by +10%/-10% (2019: +10%/-10%) | **6,124** | 5,599 |
| Change in variable by +15%/-15% (2019: +15%/-15%) | **9,186** | 8,399 |

Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as financial assets at fair value through other comprehensive income.

# Notes to the Financial Statements

for the year ended 30 June 2020

## 3 Financial risk management (continued)

### (iii) 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.

Cash deposits and loan receivables that are subject to floating interest rates are exposed to changes in the market interest rates. Changes in interest rates will change the fair value of any interest rate hedges.

**At 30 June 2020**

| | Floating interest rate $'000 | Fixed interest rate $'000 | Non-interest bearing $'000 | Total $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents[(i)] | 14,929 | – | – | 14,929 |
| Trade and other receivables | – | – | 497 | 497 |
| Financial assets held at fair value through other comprehensive income | – | – | 87,482 | 87,482 |
| | 14,929 | – | 87,979 | 102,908 |
| **Financial liabilities** | | | | |
| Trade and other payables | – | – | (616) | (616) |
| Borrowings[(ii)] | (30,000) | – | – | (30,000) |
| Dividends payable | – | – | (891) | (891) |
| | (30,000) | – | (1,507) | (31,507) |
| Net exposure | (15,071) | – | 86,472 | 71,401 |

**At 30 June 2019**

| | Floating interest rate $'000 | Fixed interest rate $'000 | Non-interest bearing $'000 | Total $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents[(i)] | 29,284 | – | – | 29,284 |
| Trade and other receivables | – | – | 741 | 741 |
| Financial assets held at fair value through other comprehensive income | – | – | 79,992 | 79,992 |
| | 29,284 | – | 80,733 | 110,017 |
| **Financial liabilities** | | | | |
| Trade and other payables | – | – | (134) | (134) |
| Borrowings[(ii)] | (30,000) | – | – | (30,000) |
| | (30,000) | – | (134) | (30,134) |
| Net exposure | (716) | – | 80,599 | 79,883 |

(i) The weighted average interest rate of the Company's cash and cash equivalents at 30 June 2020 is 0.67% pa (2019: 1.50% pa).
(ii) The borrowings incur an interest rate of 1.05%, inclusive of the margin of 0.80% (2019: 2.05%, inclusive of the margin of 0.80%).

# Notes to the Financial Statements

for the year ended 30 June 2020

## 3 Financial risk management (continued)

### Sensitivity

At 30 June 2020, if interest rates had increased by 75 basis points or decreased by 75 basis points from the year end rates with all other variables held constant, equity and net profit for the year would have been $113,000 lower/$113,000 higher (2019: changes of 75 basis points/75 basis points: $6,000 lower/$6,000 higher), mainly as a result of higher/lower interest expense from borrowings.

### (b) Credit risk

AASB 7 defines credit risk 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.

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 9 with respect to cash and cash equivalents and Note 10 for trade and other receivables. None of these assets is over-due or considered to be impaired. (2019: nil)

### (c) Liquidity risk

AASB 7 defines liquidity risk 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 the Investment Manager.

The assets of the Company are largely in the form of readily tradeable securities which can be sold on-market if necessary.

As disclosed in Note 14, the Company had entered into a replacement debt facility on the 11 April 2018 with National Australia Bank (NAB) which is terminable on 90 days' notice given by any party at any time.

The table below analyses the Company's financial liabilities in relevant maturity groupings based on the remaining period to the earliest possible contractual maturity date at the year end date. The amounts in the table are contractual undiscounted cash flows.

### Contractual maturities of financial liabilities

| At 30 June 2020 | Less than 1 year $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Total contractual undiscounted cash flows $'000 |
|---|---|---|---|---|
| **Non-derivatives** | | | | |
| Trade and other payables (excluding interest payable) | **616** | **–** | **–** | **616** |
| Borrowings | **30,000** | **–** | **–** | **30,000** |
| Dividend payable | **891** | **–** | **–** | **891** |
| Total | **31,507** | **–** | **–** | **31,507** |

| At 30 June 2019 | Less than 1 year $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Total contractual undiscounted cash flows $'000 |
|---|---|---|---|---|
| **Non-derivatives** | | | | |
| Trade and other payables (excluding interest payable) | 134 | – | – | 134 |
| Borrowings | 30,000 | – | – | 30,000 |
| Current tax liabilities | 740 | – | – | 740 |
| Provisions | 53 | – | – | 53 |
| Total | 30,927 | – | – | 30,927 |

# Notes to the Financial Statements

for the year ended 30 June 2020

## 4 Fair value measurements

The Company measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Derivative financial instruments
- Financial assets at fair value through other comprehensive income (FVTOCI)

The Company has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period (2019: nil).

### (a) Fair value hierarchy

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy (consistent with the hierarchy applied to financial assets and financial liabilities):

a. quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1) with no significant unobservable inputs and no relationship between significant unobservable inputs to fair value,
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) with no significant unobservable inputs and no relationship between significant unobservable inputs to fair value, 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 2020 and 30 June 2019.

| At 30 June 2020 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets at FVTOCI | | | | |
| Equity securities | 87,482 | – | – | 87,482 |
| **Total financial assets** | 87,482 | – | – | 87,482 |

| At 30 June 2019 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets at FVTOCI | | | | |
| Equity securities | 79,992 | – | – | 79,992 |
| **Total financial assets** | 79,992 | – | – | 79,992 |

There were no transfers between levels for recurring fair value measurements during the year (2019: nil).

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 approximate their fair values due to their short-term nature.

The fair value of borrowings approximates the carrying amount.

### (iii) Valuation techniques used to derive level 2 and level 3 fair values

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments; and
- Present value of the estimated future cash flows based on observable yield curves.

# Notes to the Financial Statements

for the year ended 30 June 2020

## 5 Critical accounting estimates and judgements

In the process of applying the Company's accounting policies, management has made the following judgements which would have the most effect on the amounts reported in the financial statements:

*Designation of Investments as 'fair value through other comprehensive income'*

Management has designated all investments as 'fair value through other comprehensive income', which results in the fair value adjustments for the year being recognised directly in equity in the investment portfolio revaluation reserve, net of tax. Once an investment is sold, cumulative revaluation gains or losses recognised attributable to that investment are transferred to retained earnings.

## 6 Segment information

The Company has only one reportable segment. The Company operates predominantly in Australia and in one industry being the securities industry, deriving revenue from dividend and distribution income, interest income and from the sale of its investment portfolio.

## 7 Investment income

| | Year ended | |
|---|---|---|
| | 2020 $'000 | 2019 $'000 |
| **From continuing operations** | | |
| Dividends on long term financial assets held at year end | **1,600** | 2,527 |
| Dividends on long term financial assets sold during the year | **634** | 760 |
| Distributions on long term financial assets held at year end | **433** | 340 |
| Interest income | **189** | 291 |
| Other income | **50** | – |
| | **2,906** | 3,918 |

## 8 Income tax benefit

### (a) Income tax benefit through profit or loss

| | Year ended | |
|---|---|---|
| | 2020 $'000 | 2019 $'000 |
| Current tax (benefit)/expense | **(467)** | 742 |
| Deferred tax benefit | **(6)** | (1,134) |
| | **(473)** | (392) |
| *Deferred tax benefit is attributable to:* | | |
| Origination and reversal of temporary differences | **(6)** | (1,134) |
| | **(6)** | (1,134) |

# Notes to the Financial Statements

for the year ended 30 June 2020

## 8. Income tax benefit (continued)

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

| | Year ended | |
|---|---|---|
| | 2020 $'000 | 2019 $'000 |
| Profit from continuing operations before income tax benefit | 88 | 1,271 |
| Tax at the Australian tax rate of 30.0% (2019: 30.0%) | 26 | 382 |
| Tax effect of: | | |
| Franking credits on dividends received | (704) | (1,012) |
| Imputation gross up on dividends income | 211 | 313 |
| (Under)/over-provision in prior year | (60) | 2 |
| Withholding gross-up on dividends received | – | – |
| Change in franked dividends receivable not subject to income tax | 68 | (25) |
| Foreign tax credits on dividends received | – | – |
| Other adjustments due to timing differences | (14) | (52) |
| Income tax benefit | (473) | (392) |
| The applicable weighted average effective tax rates are as follows: | -537% | -31% |

### (c) Tax expense/(benefit) relating to items of other comprehensive income

| | Year ended | |
|---|---|---|
| | 2020 $'000 | 2019 $'000 |
| Net unrealised gains on financial assets taken to equity | 60 | 467 |
| Net realised (losses)/gains on financial assets taken to equity | (1,340) | 1,105 |
| | (1,280) | 1,572 |

## 9 Current assets - Cash and cash equivalents

| | At | |
|---|---|---|
| | 2020 $'000 | 2019 $'000 |
| Operating bank account | 410 | 30 |
| Deposits at call | 14,519 | 29,254 |
| | 14,929 | 29,284 |

### (i) 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 and cash equivalents held with National Australian Bank are rated AA- by Standard & Poor's (2019: AA-).

# Notes to the Financial Statements

for the year ended 30 June 2020

## 10 Current assets - Trade and other receivables

| | At 2020 $'000 | At 2019 $'000 |
|---|---|---|
| Dividends and distributions receivable | **477** | 686 |
| Interest receivable | **3** | 29 |
| GST receivable | **9** | 12 |
| Other receivable | **8** | 14 |
| | **497** | 741 |

Receivables are non-interest bearing and unsecured. Outstanding settlements are on the terms operating in the securities industry, which usually require settlement within two days of the date of a transaction. None of the receivables is past due or impaired at the end of the reporting period (2019: nil).

The credit risk exposure of the Company in relation to receivables is the carrying amount.

## 11 Non-current assets - Financial assets at fair value through other comprehensive income

| | At 2020 $'000 | At 2019 $'000 |
|---|---|---|
| Listed securities | | |
| Investment in ordinary shares and property trusts at fair value | **87,482** | 79,992 |

The list showing investments treated as equity instruments and revalued through Other Comprehensive Income can be found on page 27 of this report.

Certain securities within the investment portfolio were disposed during the financial year during the normal course of the Company's business as a Listed Investment Company. The fair value of the investments sold during the period was $56.87 million (2019: $109.61 million). The cumulative losses on these disposals was $4.47 million for the year before tax (2019: Gains $3.68 million), which has been transferred from the investment portfolio revaluation reserve to retained earnings.

### (a) 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.

## 12 Non-current assets - Deferred tax assets

| | At 2020 $'000 | At 2019 $'000 |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| Other temporary differences | **25** | 38 |
| Current year taxable losses to be utilised in future periods | **1,747** | – |
| | **1,772** | 38 |

# Notes to the Financial Statements

for the year ended 30 June 2020

## 13 Current liabilities - Trade and other payables

| | At | |
|---|---|---|
| | 2020 $'000 | 2019 $'000 |
| Other payables | **616** | 134 |
| | **616** | 134 |

The carrying amounts of trade and other payables approximate their fair values, due to their short-term nature.

Payables are non-interest bearing, unsecured and are usually paid within 30 days of recognition. Outstanding settlements are on the terms operating in the securities industry, which usually require settlement within two days of the date of a transaction.

## 14 Borrowings

| | At | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | |
| | Current $'000 | Non-current $'000 | Total $'000 | Current $'000 | Non-current $'000 | Total $'000 |
| **Secured** | | | | | | |
| Bank loans | **30,000** | **–** | **30,000** | 30,000 | – | 30,000 |
| Total secured borrowings | **30,000** | **–** | **30,000** | 30,000 | – | 30,000 |

The Company entered into a $30 million Equity Finance Loan with NAB ('NAB Facility') in early April 2018.

The NAB Facility is secured by the transfer to NAB, by way of security, of a portion of the assets of the Company comprising shares whose market value is not less than 110% of the value of the moneys outstanding under the NAB Facility. As at 30 June 2020, the total amount outstanding under the NAB Facility was $30 million and the market value of the shares pledged as security is $35,364,000 (2019: $35,224,000).

As at 30 June 2020, the NAB Facility incurs an interest rate of 1.05% per annum, inclusive of the margin of 0.8% (2019: 2.05%, inclusive of the margin of 0.80%). The NAB Facility is an evergreen facility terminable on 90 days' notice, which notice may be given by any party at any time. As of 30 June 2020, the RBA's official cash rate is 0.25% per annum (30 June 2019: 1.25%). As a result, the interest rate on the NAB Facility has been reduced to 1.05% per annum.

The Company was in a net working capital deficit position of $15,986,000 as at 30 June 2020 (2019: $811,000). This is on account of the classification of the debt facility within current liabilities, as the debt facility is terminable on 90 days' notice, which notice may be given by any party at any time.

At the date of signing this financial report, the directors have no reason to believe that the NAB facility will not continue to be renewed and therefore consider it appropriate to prepare the financial report on the going concern basis.

# Notes to the Financial Statements

for the year ended 30 June 2020

## 15 Non-current liabilities - Deferred tax liabilities

| | At | |
|---|---|---|
| | 2020 $'000 | 2019 $'000 |
| Net unrealised gains on financial assets | **2,453** | 2,393 |
| Other temporary differences | **21** | 40 |
| | **2,474** | 2,433 |

## 16 Issued capital

### (a) Share capital

| | At | | | |
|---|---|---|---|---|
| | 2020 Shares | 2019 Shares | 2020 $'000 | 2019 $'000 |
| Ordinary shares - fully paid | **59,401,514** | 59,401,514 | **56,664** | 56,664 |

### (b) Movements in ordinary share capital

| Details | Number of shares | $'000 |
|---|---|---|
| Opening balance 1 July 2018 | 59,401,557 | 56,664 |
| Cancellation of shares | (43) | – |
| Balance 30 June 2019 | 59,401,514 | 56,664 |
| Opening balance 1 July 2019 | 59,401,514 | 56,664 |
| Cancellation of shares | – | – |
| Balance 30 June 2020 | 59,401,514 | 56,664 |

### (c) 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.

### (d) Dividend reinvestment plan

The Company has established a dividend reinvestment plan 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. During the year the Company did not issue any shares under the DRP (2019: nil). As of 24 March 2020, the Company suspended its dividend reinvestment plan indefinitely.

### (e) Share buy-back

The Company announced a revised share buy-back plan for 12 months starting from 12 March 2020. During the year, the Company has bought back no shares on-market (2019: 43 shares).

### (f) Capital risk management

The capital structure of the Company consists of debt, which includes the borrowings disclosed in Note 14, cash and cash equivalents and equity attributable to equity holders, comprising issued capital, reserves and retained earnings as disclosed in Notes 16, 17(a) and 17(b) respectively.

The Board's aim is to maintain a strong capital base so as to maintain investor and market confidence. The overall strategy remains unchanged from 2019.

To achieve this, the Board of Directors monitor the monthly NTA results, investment performance, the Company's Indirect Cost Ratio (formerly known as 'Management Expense Ratio') and share price movements.

# Notes to the Financial Statements

for the year ended 30 June 2020

## 17 Reserves and retained earnings

### (a) Reserves

| | At 2020 $'000 | At 2019 $'000 |
|---|---|---|
| Reserves | **5,723** | 5,583 |

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **Movements:** | | | |
| *Investment portfolio revaluation reserve* | | | |
| Opening balance at 1 July | | **5,583** | 4,492 |
| Net unrealised gains on financial assets held at fair value | | **200** | 1,558 |
| Income tax on net unrealised gains on financial assets held at fair value | 8(c) | **(60)** | (467) |
| Net realised (losses)/gains on financial assets held at fair value | | **(4,467)** | 3,683 |
| Income tax on net realised (losses)/gains on financial assets held at fair value | 8(c) | **1,340** | (1,105) |
| Transfer of net realised losses/(gains) from investment portfolio revaluation reserve to retained earnings | 17(b) | **3,127** | (2,578) |
| Balance 30 June | | **5,723** | 5,583 |
| *Cash flow hedging reserve* | | | |
| Opening balance | | **–** | – |
| Changes in fair value of derivative financial instruments | | **–** | – |
| Balance 30 June | | **–** | – |
| **Total reserves** | | **5,723** | 5,583 |

### (b) Retained earnings

Movements in retained earnings were as follows:

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| Balance 1 July | | **14,539** | 15,502 |
| Net profit for the year | | **561** | 1,663 |
| Dividends declared during the year | 18 | **(3,566)** | (5,204) |
| Transfer of net realised gains/(losses) from investment portfolio revaluation reserve to retained earnings | | **(3,127)** | 2,578 |
| Balance 30 June | | **8,407** | 14,539 |

### (c) Nature and purpose of reserves

For a description of the nature and purpose of the reserves, refer to Note 2(g) and Note 2(h)(i).

# Notes to the Financial Statements

for the year ended 30 June 2020

## 18 Dividends declared

### (a) Ordinary shares

| | Year ended 2020 $'000 | Year ended 2019 $'000 |
|---|---|---|
| Final dividend | **891** | 3,119 |
| Interim dividends | **2,675** | 2,227 |
| | **3,566** | 5,346 |

In 2019, unclaimed dividends amounting to $141,907 in bank accounts that have been inactive for at least 6 years and individual value of less than or equal to $100 were returned to the Company.

### (b) Dividend franking account

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Opening balance of franking account** | **9,804** | 9,630 |
| Franking credits on dividends received | **704** | 1,012 |
| Franking credits on income tax paid | **688** | 2,026 |
| Franking credits on ordinary dividends paid | **(1,146)** | (2,864) |
| **Closing balance of franking account** | **10,050** | 9,804 |
| Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2019: 30.0%) | **56** | 158 |
| **Adjusted franking account balance** | **10,105** | 9,962 |

### (c) Dividend rate

Dividends declared are fully franked at 30%.

| | Dividend Rate | Total Amount Declared $'000 | Date of Payment | % Franked |
|---|---|---|---|---|
| **2020** | | | | |
| Ordinary shares - final | 1.50cps | $891 | 21/07/2020 | 100% |
| Ordinary shares - interim | 1.50cps | $893 | 24/04/2020 | 100% |
| Ordinary shares - interim | 1.50cps | $891 | 30/01/2020 | 100% |
| Ordinary shares - interim | 1.50cps | $891 | 18/10/2019 | 100% |
| 2019 | | | | |
| Ordinary shares - final | 5.25cps | $3,119 | 14/06/2020 | 100% |
| Ordinary shares - interim | 1.25cps | $743 | 03/05/2020 | 100% |
| Ordinary shares - interim | 1.25cps | $742 | 01/02/2020 | 100% |
| Ordinary shares - interim | 1.25cps | $742 | 26/10/2019 | 100% |

# Notes to the Financial Statements

for the year ended 30 June 2020

## 19 Key management personnel disclosures

### Key management personnel compensation

| | Year ended | |
|---|---|---|
| | 2020 $ | 2019 $ |
| Short-term employee benefits | **840,979** | 634,784 |
| Post-employment benefits | **21,003** | 20,531 |
| | **861,982** | 655,315 |

Detailed remuneration disclosures are provided in the remuneration report in the Directors' report. As at 30 June 2020, the Performance Bonus Pool which is payable at the end of the calendar year was nil (2019: nil).

## 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:

### Deloitte Touche Tohmatsu

| | Year ended | |
|---|---|---|
| | 30 June 2020 $ | 30 June 2019 $ |
| *Audit and other assurance services* | | |
| Audit and review of financial statements | **63,000** | 63,000 |
| Total remuneration for audit and other assurance services | **63,000** | 63,000 |
| *Taxation services* | | |
| Tax compliance services | **12,828** | 11,964 |
| Total remuneration for taxation services | **12,828** | 11,964 |
| Total remuneration of Auditors | **75,828** | 74,964 |

## 21 Contingent assets and contingent liabilities

The Company had no contingent assets and contingent liabilities at 30 June 2020 (2019: 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

(i) Internal investment management team

| | Year ended | |
|---|---|---|
| | 2020 $ | 2019 $ |
| Performance fees | **–** | (57,714) |
| Discretionary bonus | **400,000** | 150,000 |

# Notes to the Financial Statements

for the year ended 30 June 2020

## 22 Related party transactions (continued)

A performance bonus structure for the investment management team was introduced as outlined in the Directors' Report. The investment management team was eligible for participation in a Performance Bonus Pool each calendar year. The Performance Bonus Pool was equal to 20% of the increase in the value of investments of the portfolio over the return of the S&P/ASX 200 Total Return Index for each calendar year, less the gross remuneration of the investment management team paid during that calendar year, and was to be shared amongst the investment management team as determined by the Chief Executive Officer. If the S&P/ASX 200 Total Return Index decreased in any calendar year, the Performance Bonus Pool would be based on the increase in the value of investments. If the value of the investments decreased in any calendar year, no Performance Bonus Pool was payable for that year, however the Performance Bonus Pool may be increased in later years if the aggregate performance is positive and exceeds the S&P/ASX 200 Total Return Index over a three year period.

As the value of investments decreased during the calendar year ended 31 December 2019, no Performance Bonus was payable to the investment management team. However, the Board exercised its rights to pay discretionary bonuses to the investment management team totaling $400,000 for the year ended 30 June 2020.

As at 30 June 2020, the Company announced that the management of its investment portfolio will be externalized from 1 July 2020. The portfolio management and advisory function will be assumed by Carrara Investment Management (Australia) Pty Ltd ACN 641 618 331 ("Carrara"), a new investment management company controlled by Dr David Sokulsky, the current Chief Executive Officer and Chief Investment Officer of the Company. As of 30 June 2020, all members of the investment team have resigned from their positions with the Company and have joined Carrara.

### (ii) Administrative and company secretary services

On 1 February 2018 the Company appointed:

- Bodeg Pty Ltd to provide middle office and administrative services; and
- Barry Sechos as Compliance Officer,

being services previously provided to the Company by Aberdeen Asset Management Limited under its Investment Management Agreement with the Company.

Bodeg is paid an annual fee of $82,000 for the provision of middle office and administrative services. For the period 1 July 2019 to 30 June 2020, $82,000 of administration expense was incurred and no amount was payable as at 30 June 2020 (2019: $79,500).

Sherman Group Pty Limited is paid an annual fee of $77,000 for Company Secretarial and Compliance Officer services provided by Barry Sechos to the Company. For the period 1 July 2019 to 30 June 2020, $77,000 of secretary fee was incurred, and no amount was payable as at 30 June 2020 (2019: $60,094). Barry Sechos is a director of Sherman Group Pty Ltd, an entity related to Brian Sherman. Barry Sechos is also a director of Escotwo Pty Ltd, another entity related to Brian Sherman, which holds 12,263,623 ordinary shares as at the date of this report (2019: 12,263,623 ordinary shares).

## 23 Events occurring after the reporting period

The COVID-19 pandemic has caused significant volatility in the Australian equity markets and in some instances future earnings from Company's underlying portfolio of investments, is substantially impacted. However, the Directors do not expect this will affect the ability of the Company to continue as a going concern. Moreover, the fair value of all the Company's investments have been based on the closing quoted prices at the end of the financial year.

The Company's future financial position will depend primarily on the performance of its portfolio of investments, their resulting share price movements and earnings received from them. Clearly, this will be significantly impacted by the health and economic effects of the COVID-19 pandemic, but to what extent and for how long, remains uncertain.

No other 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.

# Notes to the Financial Statements

for the year ended 30 June 2020

## 24 Reconciliation of net profit for the year to net cash inflow from operating activities

| | Year ended 2020 $'000 | Year ended 2019 $'000 |
|---|---|---|
| Net profit for the year | **561** | 1,663 |
| Change in operating assets and liabilities: | | |
| Decrease/(increase) in trade and other receivables | **244** | (276) |
| Increase in other current assets | **(4)** | (29) |
| Increase in deferred tax assets | **(1,734)** | (21) |
| Decrease/(increase) in trade, other payables & provision | **428** | (104) |
| Increase/(decrease) in deferred tax liabilities(*) | **581** | (2,396) |
| Net cash inflow/(outflow) from operating activities | **76** | (1,163) |

* This includes tax benefit/(expense) of items disclosed within other comprehensive income.

## 25 Changes in liabilities arising from financing activities

Change in liabilities arising from financing activities is due to dividend declared and paid during the year.

## 26 Earnings per share

### (a) Basic earnings per share

| | Year ended 2020 Cents | Year ended 2019 Cents |
|---|---|---|
| From continuing operations attributable to the ordinary equity holders of the Company | **0.94** | 2.80 |
| Total basic earnings per share attributable to the ordinary equity holders of the Company | **0.94** | 2.80 |

### (b) Diluted earnings per share

| | Year ended 2020 Cents | Year ended 2019 Cents |
|---|---|---|
| From continuing operations attributable to the ordinary equity holders of the Company | **0.94** | 2.80 |
| Total diluted earnings per share attributable to the ordinary equity holders of the Company | **0.94** | 2.80 |

Diluted earnings per share is the same as basic earnings per share. The Company has 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 2020 Number | Year ended 2019 Number |
|---|---|---|
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | **59,401,514** | 59,401,544 |
| Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share | **59,401,514** | 59,401,544 |

# Directors' Declaration

for the year ended 30 June 2020

In the Directors' opinion:

a. the financial statements and notes set out on pages 27 to 48 are in accordance with the *Corporations Act 2001*, including:
   i. complying with 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 2020 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.

Note 2(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of Directors pursuant to Section 295(5) of the *Corporations Act 2001*.

**Barry Sechos**
Director

Sydney
27 August 2020

# Independent Auditor's Report

for the year ended 30 June 2020

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000

Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

## Independent Auditor's Report to the Members of Concentrated Leaders Fund Limited

**Report on the Audit of the Financial Report**

*Opinion*

We have audited the financial report of Concentrated Leaders Fund Limited (the "Company"), which comprises the statement of financial position as at 30 June 2020, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the director's declaration.

In our opinion, the accompanying financial report of Concentrated 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 2020 and of its performance for the year then ended; and

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

*Basis for Opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of 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 (including independence standards)* (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 in the same terms if given to 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 for the current period. 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 the scope of our audit responded to the Key Audit Matter |
|---|---|
| **Valuation and existence of financial assets held at fair value through other comprehensive income**<br><br>As at 30 June 2020, the Company's listed equity securities held at fair value through other comprehensive income amounted to $87.48 million as disclosed in Notes 4 and 11. | Our procedures included, but were not limited to:<br><br>• evaluating key controls in place at the outsourced service providers (i.e. custodian) in relation to the existence of financial assets at fair value through other comprehensive income, including any exceptions noted; |

# Independent Auditor's Report

for the year ended 30 June 2020

| | |
|---|---|
| Whilst there is not significant judgement in determining the valuation of Company's financial assets held at fair value through other comprehensive income, these represent the most significant driver of the Company's revenue and its performance.<br><br>The fluctuations in financial assets valuation also impacts the realised and unrealised gains/(losses) recognised in the statement of profit or loss and other comprehensive income, which in turn also affects the current and deferred tax provisions. | • agreeing on a sample basis, the valuation of listed equity securities to an independent pricing source;<br><br>• agreeing on a sample basis, the investment holdings to external custodian holdings statements; and<br><br>• reperforming a reconciliation of the financial assets balance for the year, including the 1 July 2019 investment balance, purchases, sales, other relevant transactions and the 30 June 2020 investment balance.<br><br>We also assessed the appropriateness of the disclosures included in Note 4 and 11 to the financial statements. |

*Other Information*

The directors are responsible for the other information. The other information comprises the Appendix 4E and the Directors' Report, which we obtained prior to the date of this auditor's report, and also includes the following information which will be included in the Company's annual report (but does not include the financial report and our auditor's report thereon): Corporate Summary, Financial Record, Chairman's Statement, Board of Directors, Manager's Review, Investment Portfolio, Investment Philosophy & Process, Corporate Governance Statement, ASX Additional Information and Corporate Directory, which is expected to be made available to us after that date.

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 inconsistent 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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the Corporate Summary, Financial Record, Chairman's Statement, Board of Directors, Manager's Review, Investment Portfolio, Investment Philosophy & Process, Corporate Governance Statement, ASX Additional Information and Corporate Directory, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

*Responsibilities of the Directors for the Financial Report*

The directors are responsible for the preparation 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 is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

# Independent Auditor's Report

for the year ended 30 June 2020

Deloitte.

*Auditor's Responsibility for the Audit of the Financial Report*

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 the 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 the 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.

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 control 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, actions taken to eliminate threats or safeguards applied.

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.

# Independent Auditor's Report

for the year ended 30 June 2020

Deloitte.

***Report on the Remuneration Report***

*Opinion on the Remuneration Report*

We have audited the remuneration report included in pages 21 to 24 of the Directors' Report for the year ended 30 June 2020.

In our opinion, the remuneration report of Concentrated Leaders Fund Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

*Responsibilities*

The directors of the Company 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.

DELOITTE TOUCHE TOHMATSU

Alfie Nehama
Partner
Chartered Accountants
Sydney, 27 August 2020

# ASX Additional Information

for the year ended 30 June 2020

The additional information set out below was applicable as at 31 August 2020.

## Largest Shareholders

| Shareholder | Number of fully paid Ordinary Shares | Percentage of Issued Shares (%) |
|---|---|---|
| HSBC CUSTODY NOMINEES | 20,328,934 | 34.223% |
| GASWELD PTY LIMITED | 3,080,276 | 5.186% |
| EST MR DAVID MADDEN | 1,550,000 | 2.609% |
| TAMPERE PTY LTD | 624,522 | 1.051% |
| ASSINGTON HALL PTY LTD | 619,882 | 1.044% |
| GAGER SFT PTY LTD | 609,886 | 1.027% |
| STOD PTY LIMITED | 556,287 | 0.936% |
| INDUSTRIAL TOOL CENTRE PTY LTD | 485,588 | 0.817% |
| LING NOMINEES PTY LIMITED | 411,125 | 0.692% |
| MR RICHARD MILLER | 410,000 | 0.690% |
| RELGAN & CO PTY LTD | 400,000 | 0.673% |
| GREYBOX HOLDINGS PTY LTD | 318,000 | 0.535% |
| SENTINEL HOLDINGS PTY LTD | 300,656 | 0.506% |
| GRIFFITH MANAGEMENT PTY | 250,393 | 0.422% |
| MRS GLENDA CLAIRE ORGILL | 246,461 | 0.415% |
| BOUTA PTY LTD | 243,083 | 0.409% |
| NETWEALTH INVESTMENTS LIMITED | 238,656 | 0.402% |
| ROSS JOHN GLASSON PTY LIMITED | 231,198 | 0.389% |
| RESTIFF PTY LTD | 210,121 | 0.354% |
| MR ROBERT LEONARD CROWE & | 209,660 | 0.353% |
| MAX EDMOND WALTERS | 200,000 | 0.337% |
| MR DONALD HUNTER CRANE | 200,000 | 0.337% |
| JOHN OSBORN SUPERANNUATION PTY | 193,079 | 0.325% |
| RIJEAN PTY LIMITED | 190,000 | 0.320% |
| MRS ETHNA HESTER BROWN | 190,000 | 0.320% |
| Total Securities of Top 25 Holdings | 32,297,807 | 54.372% |
| **Total of Securities** | **59,401,514** | |

# ASX Additional Information

for the year ended 30 June 2020

## Substantial Shareholders

The following have notified that they are substantial shareholders of Concentrated Leaders Fund Limited.

| Shareholder | Ordinary Shares Held | Percentage of Issued Shares (%) |
|---|---|---|
| BM SHERMAN/ESCOTWO PTY LTD | 12,316,623 | 20.734% |
| WILSON ASSET MANAGEMENT GROUP | 7,433,122 | 12.51% |
| GASWELD PTY LIMITED | 3,081,060 | 5.187% |

## Distribution of ordinary shares

Analysis of ordinary shareholders by size of shareholders as at 31 August 2020

| Size of Holding | Number of Shareholders | Number of Ordinary Shares | Percentage of Issued Shares(%) |
|---|---|---|---|
| 1 – 1,000 | 448 | 255,079 | 0.430 |
| 1,001 – 5,000 | 648 | 1,989,201 | 3.350 |
| 5,001 – 10,000 | 368 | 2,828,512 | 4.760 |
| 10,001 – 100,000 | 625 | 17,326,434 | 29.170 |
| 100,001 and over | 62 | 37,002,288 | 62.290 |
| **Total** | **2,151** | **59,401,514** | **100.000** |
| Shareholders holding less than a marketable parcel | 205 | 30,220 | 0.051 |

## Investment Transactions

The total number of investment transactions during the financial year ended 30 June 2020 was 236. The total brokerage paid on these investment transactions was $209,084

## Voting Rights

All shareholders registered on the Company's share register as members of the Company carry one vote per share.

## Stock Exchange Listing

Quotation has been granted for all Ordinary Shares of the Company on the Australian Securities Exchange Limited.

## Shareholder Information

Our registry service provider BoardRoom Pty Limited delivers access and management of your Concentrated Leaders Fund holding online at www.investorserve.com.au. The InvestorServe web site will allow you to view: balances, transaction history, recent dividend payments, report elections. You can submit and update your: address details, naming instructions, tax file number, communications preferences. Further you can download various forms to assist in the management of your holding, lodge proxies online, retrieve documents relevant to your holding and manage other linked holdings. Simply log on and to www.investorserve.com.au and follow the instructions to register.

# Corporate Directory

for the year ended 30 June 2020

## Directors

BM Sherman, AM, BComms, SA Fin (Chairman)
B Sechos, BComm LLB
J Martin, BA LLB (Hons)
D Sokulsky, PhD

## Company Secretary

B Sechos, BComm LLB

## Registered Office

2 Paddington Street
Paddington NSW 2021

Tel: +61 2 9357 0788

## Auditor

Deloitte Touche Tohmatsu

Grosvenor Place
225 George Street
Sydney NSW 2000

## Bankers

National Australia Bank

## Custodian

National Australia Bank

## Share Registrar

BoardRoom Pty Limited

Level 12
225 George St
Sydney NSW 2000

Tel: +61 2 9290 9600

www.investorserve.com.au

CONCENTRATED
LEADERS FUND

**Concentrated Leaders Fund Limited**

Level 12, 37 Bligh St
Sydney NSW 2000

Phone: +61 2 9357 0788
Email: info@clfund.com.au
Website: www.clfund.com