

# HFA Diversified Investments Fund and its controlled entities



ARSN 093 497 468

Financial Report for the year ended 30 June 2009

Responsible Entity HFA Asset Management Limited  
ABN 25 082 364 AFS Licence 246747



# HFA Diversified Investments Fund

ARSN 093 497 468

## Annual financial report for the year ended 30 June 2009

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These financial reports cover HFA Diversified Investments Fund as an individual entity and the consolidated entity consisting of HFA Diversified Investments Fund and its subsidiaries.

The responsible entity of the HFA Diversified Investments Fund is HFA Asset Management Limited (ABN 25 082 852 364). The responsible entity's registered office is Level 5, 151 Macquarie Street, Sydney.

## Directors' report

The directors of HFA Asset Management Limited, the responsible entity of HFA Diversified Investments Fund, present their report together with the consolidated financial report of HFA Diversified Investments Fund ("the Scheme") and its controlled entities (collectively, the "Consolidated Entity") for the year ended 30 June 2009.

### Responsible entity

The responsible entity of HFA Diversified Investments Fund is HFA Asset Management Limited (ABN 25 082 852 364). The responsible entity's registered office is Level 5, 151 Macquarie Street, Sydney.

### Directors

The following persons held office as directors of HFA Asset Management Limited during the year or since the end of the year and up to the date of this report:

Robert White (Appointed 20 September 2007)  
Oscar Martinis (Appointed 20 September 2007)  
Jonathan Pain (Appointed 22 September 2003)

### Review and results of operations

#### Principal activities

The Scheme is a registered managed investment scheme domiciled in Australia.

During the year, the Scheme and its controlled entities' investments were invested in accordance with the investment objectives and guidelines as set out in their respective current disclosure documents.

The Scheme is a highly diversified international fund of funds that maintains significant diversification across underlying specialist managers. The Scheme's investments include managed investment funds, listed equities, derivatives, and cash and cash equivalents.

The Scheme and its controlled entities did not have any employees during the year.

#### Review and results of operations

The Scheme and the Consolidated Entity's performance was affected due to the extremely negative market conditions encountered in global financial markets during the year.

On 22 December 2008, the Responsible Entity imposed a suspension of redemptions and applications in the Scheme following the changes to the redemption policy of the underlying fund, the Lighthouse Diversified Fund Limited, in which the Scheme held both direct and indirect investments. The underlying fund changed its redemption practices whereby a portion of the redemption proceeds will be paid in cash and the remaining portion will be paid "in kind", through the issue of shares in a specially created Special Purpose Vehicle ('SPV'). Further details regarding this suspension, the unitholder meeting held on 29 June 2009 and subsequent withdrawal window are included in the "Significant changes in the state of affairs of the Scheme" section of the Directors' Report.

Due to the negative performance of the underlying fund in the first half of the financial year, the Total Return Equity Swap (the 'Swap') held by the HFA Enhanced Diversified Investments Fund, a wholly owned subsidiary of the Scheme, triggered a requirement to reduce its notional leverage and consequently its exposure to the underlying fund with effect 31 December 2008. Due to the change in the underlying fund's redemption policy and the requirement to reduce the Swap's exposure to the underlying fund, the Swap's exposure was altered to include a small exposure to the SPV.

Following the December 2008 reduction in leverage of the Swap and in line with the Trustees objective to progressively remove the leverage from within the portfolio, the Trustee and the investment counterparty, JP Morgan Chase Bank, agreed to a realisation process of the Swap with a view to terminating the Swap upon the leverage being extinguished. As such, effective 28 February 2009 amendments to the Swap were executed with the investment counterparty, such that the remaining exposure to the Lighthouse Diversified Investments Fund ('underlying fund') was redeemed in full via an in-specie transfer of assets into a specially created vehicle, Newco SLV SPC. This was agreed upon to ensure that the continued progressive unwinding of the Swap's exposure to the underlying fund would not be impacted by any further changes to the redemption practices of the Lighthouse Diversified Fund Limited should that occur. Following this amendment, the Swap is now predominantly exposed to Newco SLV SPC with a small exposure to the SPV.

## Directors' report (continued)

### Review and results of operations (continued)

The underlying assets held by Newco SLV SPC are being redeemed progressively based on the investment terms of the underlying investments to extinguish the notional leverage contained within the Swap. Following the extinguishment of the notional leverage within the Swap, the additional proceeds will be returned to the Consolidated Entity.

Separately, the Consolidated Entity redeemed a portion of its direct investment in the underlying fund in March 2009 and received a portion in cash and the remainder "in kind", through the issue of shares in the SPV. The shares in the SPV are being redeemed progressively as the underlying assets in the SPV are realised.

The performance of the Scheme and the Consolidated Entity, as represented by the results of its operations, were as follows:

	2009 \$'000	Consolidated 2008 \$'000	2009 \$'000	Parent 2008 \$'000
Net operating profit/(loss) before financing costs attributable to unitholders	(209,125)	3,429	(209,125)	3,400

### Distributions

Distributions paid or payable during the year was as follows.

	2009 c/per unit	2009 \$'000	2008 c/per unit	2008 \$'000
<b>Retail</b>				
Hedged	-	-	5.90	3,960
Unhedged	-	-	-	-
<b>Wholesale</b>				
Hedged	-	-	6.46	39,424
Unhedged	-	-	-	-
	2009 \$/per unit	2009 \$'000	2008 \$/per unit	2008 \$'000
<b>Institutional</b>				
Hedged 2	-	-	78.25	10,919

### Performance

A Summary of the Scheme's performance calculated after fees over the last two years and assuming reinvestment of distributions is set out below:

	Growth %	Distribution %	2009 Total %	Growth %	Distribution %	2008 Total %
<b>Retail</b>						
Hedged	(22.90)	-	(22.90)	(5.17)	4.76	(0.41)
Unhedged	(10.00)	-	(10.00)	(8.83)	-	(8.83)
<b>Wholesale</b>						
Hedged	(22.71)	-	(22.71)	(5.27)	5.12	(0.15)
Unhedged	(10.83)	-	(10.83)	(8.33)	-	(8.33)
<b>Institutional</b>						
Hedged 2	(21.17)	-	(21.17)	(5.21)	7.62	(2.41)

## Directors' report (continued)

### Growth

The opening and closing ex-distribution exit unit prices are outlined below:

	2009	2008
	\$	\$
<b>Retail</b>		
Hedged	0.9075	1.1770
Unhedged	0.7455	0.8283
<b>Wholesale</b>		
Hedged	0.9236	1.1950
Unhedged	0.7527	0.8441
<b>Institutional</b>		
Hedged 2	766.9804	972.9718

### Significant changes in state of affairs

On 22 December 2008, HFA Asset Management Limited announced a suspension of redemptions and applications in the Scheme. This was as a result of the changes to the redemption policy of the underlying fund, the Lighthouse Diversified Fund Limited, in which the Scheme held both direct and indirect investments. The change in the redemption policy of Lighthouse Diversified Fund Limited was imposed in response to the significant deterioration of liquidity in the global capital markets which has had a contagion impact on underlying managers and has forced the limitation or suspension of redemptions by some underlying managers. The Lighthouse Diversified Fund Limited changed its redemption practices whereby a portion of the redemption proceeds will be paid in cash and the remaining portion will be paid "in kind", through the issue of shares in a specially created Special Purpose Vehicle ('SPV'). The change in policy by the Lighthouse Diversified Fund Limited is temporary, and will revert to its standard policy when sufficient liquidity returns to global markets and the underlying funds in which it invests.

The change in the redemption policy by Lighthouse Diversified Fund Limited has triggered provisions of the Corporations Act 2001 ("the Act") that apply to the treatment of redemptions by the Scheme. The Act prohibits the scheme from processing redemptions where the Scheme is considered illiquid within the meaning of the Act. The Scheme is illiquid under the Act due to the change in the redemption policy by Lighthouse Diversified Fund Limited such that it will not be meeting 100% of redemptions requests in cash.

The Scheme's Constitution required a meeting of unitholders to be held to approve the implementation of withdrawal offers to unitholders in accordance with the Act, or to otherwise wind up the Scheme. The unitholder meeting was held on 29 June 2009. At that meeting the unitholders approved the implementation of withdrawal offers to all unitholders, subject to the level of liquidity available in the Scheme. Two withdrawal windows were approved for the period 1 July 2009 to 30 July 2009 and from 1 December 2009 to 31 December 2009. The total value of redemption requests honoured during the withdrawal offers will be limited to a maximum of \$55 million in each offer. In the event that the total redemption requests lodged during the offer exceeds that of available cash, investors will receive a pro-rata share of the available cash. Cash payments will be made within 21 days of the closing of the withdrawal offer.

At the unitholders' meeting, unitholders of the Scheme also approved the adoption of an amended Scheme Constitution which will govern the operation of the Scheme effective from 29 June 2009. Unitholders can obtain a copy of the new Scheme Constitution upon request to the responsible entity.

## Directors' report (continued)

### Matters subsequent to the end of the financial year

The first withdrawal offer in accordance with the Act closed on 30 July 2009. The level of requests received in the respect of the offer exceeded the maximum amount of \$55 million, resulting in investors receiving a pro-rata entitlement equivalent to 25.193% of their requests.

Other than the above, no matters or circumstance has arisen since 30 June 2009 that has significantly affected, or may significantly affect:

- (i) the operations of the Consolidated Entity in future financial years, or
- (ii) the results of those operations in future financial years, or
- (iii) the state of affairs of the Consolidated Entity in future financial years.

### Likely developments and expected results of operations

The investments held in both Newco SLV SPC and the SPV are consistent with the investment strategy of the original underlying fund, the Lighthouse Diversified Fund Limited, however the composition of the investments held in both Newco SLV SPC and the SPV are more concentrated. The concentration of both Newco SLV SPC and SPV are likely to increase as the vehicles are liquidated. The investment performance of both Newco SLV SPC and SPV are expected to be broadly consistent with the investment performance of the Lighthouse Diversified Fund Limited however the volatility of the monthly performance returns when compared to the Lighthouse Diversified Fund Limited may result in an increase as the vehicles become more concentrated.

The Consolidated Entity will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Schemes and in accordance with the provisions of the Schemes constitutions.

Further information on likely developments in the operations of the Consolidated Entity and the expected results of those operations have not been included in this report because the responsible entity believes it would be likely to result in unreasonable prejudice to the Consolidated Entity.

### Indemnification and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Consolidated Entity in regards to insurance cover provided to either the officers of HFA Asset Management Limited or the auditors of the Consolidated Entity. So long as the officers of HFA Asset Management Limited act in accordance with the Schemes Constitution and the Law, the officers remain indemnified out of the assets of the Consolidated Entity against losses incurred while acting on behalf of the Consolidated Entity. The auditors of the Consolidated Entity are in no way indemnified out of the assets of the Consolidated Entity.

### Interests of the responsible entity or its associates

Fees paid to the responsible entity and its associates out of Consolidated Entity property during the year are disclosed in Note 12 of the financial report.

No fees were paid out of Consolidated Entity property to the directors of the responsible entity during the year.

The number of interests in the Consolidated Entity held by the responsible entity or its associates as at the end of the financial year are disclosed in Note 12 of the financial report.

### Interests in the Consolidated Entity

The movement in units on issue in the Consolidated Entity during the year is disclosed in Note 5 of the financial report.

The value of the Consolidated Entity's assets and liabilities is disclosed on the balance sheets and is derived using the basis set out in Note 2 of the financial report.

### Environmental regulation

The operations of the Consolidated Entity are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

## Directors' report (continued)

### Rounding of amounts to the nearest thousand dollars

The Consolidated Entity is an entity of the kind referred to in Class Order 98/100 (as amended) issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

### Lead 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 7.

This report is made in accordance with a resolution of the directors.



Robert White  
Director

Brisbane  
17 September 2009



***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001***

To: the directors of HFA Diversified Investments Fund

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2009 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

**KPMG**

KPMG

A handwritten signature in black ink, appearing to be 'D M Waters', written over a faint circular stamp or watermark.

D M Waters

*Partner*

Melbourne

17 September 2009

## Income statements

		Consolidated			Parent
	Notes	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Investment income</b>					
Interest income		6,510	13,931	5,161	10,978
Dividend and distribution income		312	1,196	610	25,011
Net gains/(losses) on financial instruments held at fair value through profit or loss	3	(205,239)	5,646	(212,389)	(23,819)
Net foreign exchange gain/(loss)		3,788	(152)	3,775	(140)
Other income		8	3	-	-
<b>Total net investment income/(loss)</b>		<b>(194,621)</b>	<b>20,624</b>	<b>(202,843)</b>	<b>12,030</b>
<b>Expenses</b>					
Management fees	12	13,450	15,630	5,511	7,454
Performance fees	12	-	379	-	342
Auditor's remuneration	4	97	72	57	28
Custody and administrative expenses		469	667	281	362
Other expenses		488	447	433	444
<b>Total expenses</b>		<b>14,504</b>	<b>17,195</b>	<b>6,282</b>	<b>8,630</b>
<b>Net operating profit/(loss)</b>		<b>(209,125)</b>	<b>3,429</b>	<b>(209,125)</b>	<b>3,400</b>
<b>Financing costs attributable to unitholders</b>					
Distributions to unitholders of the parent entity	6	-	54,303	-	54,303
Distributions to minority interests		-	29	-	-
Increase/(decrease) in net assets attributable to unitholders	5	(209,125)	(50,903)	(209,125)	(50,903)
<b>Net profit/(loss) for the year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

*The above income statements should be read in conjunction with the accompanying notes.*

## Balance sheets

		Consolidated			Parent
	Notes	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Assets</b>					
Cash and cash equivalents		131,350	208,856	109,333	162,932
Deposits held with brokers for margin		71,097	70,102	42,097	60,479
Receivables	9	923	593	16,610	23,621
Financial assets held at fair value through profit or loss	7	464,948	718,051	497,470	749,034
<b>Total assets</b>		<b>668,318</b>	<b>997,602</b>	<b>665,510</b>	<b>996,066</b>
<b>Liabilities</b>					
Distributions payable	6	-	41,778	-	41,778
Payables	10	3,359	14,058	551	13,175
Financial liabilities held at fair value through profit or loss	8	-	2,548	-	1,895
<b>Total liabilities (excluding net assets attributable to unitholders of the parent entity)</b>		<b>3,359</b>	<b>58,384</b>	<b>551</b>	<b>56,848</b>
<b>Net assets attributable to unitholders of the parent - liability</b>	5	<b>664,959</b>	<b>939,218</b>	<b>664,959</b>	<b>939,218</b>

*The above balance sheets should be read in conjunction with the accompanying notes.*

## Statements of recognised income and expenses

	Consolidated		Parent	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Net profit/(loss) for the year	-	-	-	-
Net income recognised directly in equity	-	-	-	-
<b>Total recognised income and expense for the financial year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

In accordance with AASB 132 'Financial Instruments: Presentation', net assets attributable to unitholders is classified as a liability rather than equity.

Changes in net assets attributable to unitholders are disclosed in Note 5.

*The above statements of recognised income and expenses should be read in conjunction with the accompanying notes.*



## 1 General information

This financial report includes separate financial statements for HFA Diversified Investments Fund (the "Scheme") as an individual entity and the Consolidated Entity consisting of HFA Diversified Investments Fund and its subsidiaries.

The responsible entity of the Scheme is HFA Asset Management Limited (the "responsible entity"). The responsible entity's registered office is Level 5, 151 Macquarie Street, Sydney, NSW 2000.

The financial statements were authorised for issue by the directors on 17 September 2009.

The responsible entity is incorporated and domiciled in Australia.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001* in Australia. The financial report of the Scheme complies with the International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial report is prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The balance sheet is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are generally expected to be recovered or settled within twelve months, except for financial assets and financial liabilities held at fair value through profit or loss. The maturity analysis for financial liabilities at fair value through profit or loss is disclosed in Note 11 Financial Risk Management.

### (b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of HFA Diversified Investments Fund ("the parent entity") as at 30 June 2009 and the results of all subsidiaries for the year then ended. HFA Diversified Investments Fund and its subsidiaries together are referred to in this financial report as the Consolidated Entity.

Subsidiaries are all those entities over which the Consolidated Entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Consolidated Entity controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Scheme. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Consolidated Entity.

All transactions (including gains and losses) and balances between entities in the consolidated group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Scheme.

Minority interests in the results and net assets of subsidiaries are shown separately in the consolidated income statements and balance sheets respectively.

Investments in subsidiaries are accounted for at fair value in the individual financial statements of HFA Diversified Investments Fund.

## 2 Summary of significant accounting policies (continued)

### (c) Financial instruments

#### (i) Classification

The Scheme's and the Consolidated Entity's investments are categorised as at fair value through profit or loss. They comprise:

- Financial instruments held for trading

These include derivative financial instruments including forward contracts and options.

All derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as financial assets held for trading. All derivatives in a net payable position (negative fair value), as well as options written, are reported as financial liabilities held for trading.

- Financial instruments designated at fair value through profit or loss upon initial recognition

These include investments in listed securities, unlisted managed investment schemes and leveraged instruments.

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Scheme's documented investment strategy. The Scheme's policy is for the responsible entity to evaluate the information about these financial assets on a fair value basis together with other related financial information.

The information on the fair value basis is provided internally to the Scheme's key management personnel. In addition, the designation of financial assets and financial liabilities at fair value through profit or loss will reduce any measurement or recognition inconsistencies and any accounting mismatch that would otherwise arise.

- Receivables/payables comprise amounts due to or from the Scheme and the Consolidated Entity.

#### (ii) Recognition/derecognition

The Scheme and the Consolidated Entity recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Consolidated Entity retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' agreement; or
- the Consolidated Entity has transferred its rights to receive cash flows from the asset and either:
  - (a) has transferred substantially all the risks and rewards of the asset; or
  - (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Any gains or losses arising on derecognition of the asset (calculated as the difference between the disposal proceeds and the carrying amount of the asset) is included in the income statements in the year the asset is derecognised as realised gains or losses on financial instruments.

## 2 Summary of significant accounting policies (continued)

### (c) Financial instruments (continued)

#### (iii) Measurement

##### *Financial assets and liabilities held at fair value through profit or loss*

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities held at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the income statements.

The fair value measurement principles, specific to the investments of the Scheme and Consolidated Entity are as follows:

- Units in unlisted unit trusts

Investments in managed investment schemes are recorded at the redemption value per unit as reported by the managers of such schemes.

- Listed securities

Shares in listed securities are recorded based on the last quoted bid price on the relevant exchange on which such securities are traded as of the close of business on the day the securities are being valued.

- Derivatives

Derivative financial instruments are initially recognised in the financial statements at fair value. Subsequent to initial recognition they are re-measured at fair value using the most recent verifiable sources of market prices or generally accepted valuation principles.

##### Forward foreign exchange contracts

The net amount receivable or payable under forward foreign exchange contracts and the associated deferred gains or losses are recorded on the balance sheet from the date of inception of the transaction. The net receivable or payable is revalued using the foreign currency rate current at reporting date.

##### Exchange traded options

The fair value of an option listed on an exchange is determined as the last quoted bid price on the relevant exchange on which such options are traded as of the close of business on the day that the options are being valued. If an option expires on its stipulated expiration date, or if the Scheme enters into a closing sale transaction, a gain or loss is realised on disposal and recorded in the relevant period as a gain or loss on financial instruments held at fair value through profit or loss in the income statement.

##### Leveraged instruments

The fair value of leveraged instruments is determined in accordance with the contractual terms, with reference to the value of the underlying investment to which it is linked and the cost of the leverage provided within the instrument as provided by the instrument issuer.

### (d) Net assets attributable to unitholders

Units are redeemable at the unitholders' option and are therefore classified as financial liabilities. The fair value of redeemable units is measured at the redemption amount that would apply as determined in accordance with the Scheme's constitution at the balance sheet date. Changes in the value of this financial liability are recognised in the income statements as they arise.

## 2 Summary of significant accounting policies (continued)

### (e) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand and deposits held at call with financial institutions.

### (f) Investment income

Interest income is recognised on a time proportionate basis that takes into account the effective yield on the financial assets.

Dividend income is recognised on the ex-dividend date with any related foreign withholding tax recorded as an expense.

Trust distributions are recognised on an entitlements basis.

Changes in the fair value of financial assets and liabilities are recognised as gains or losses in the income statement in the period in which remeasurement to fair value occurs in accordance with the policies outlined in note 2(c).

### (g) Expenses

All expenses, including managers fees and custodian fees, are recognised in the income statements on an accruals basis.

### (h) Finance costs

Distributions paid and payable are recognised in the income statements as finance costs and as a liability until paid. Distributions paid are included in cash flows from financing activities in the cash flow statement.

### (i) Distributions and tax

In accordance with the Scheme Constitution, the Scheme distributes its distributable (taxable) income, and any other amounts determined by the responsible entity, to unitholders by cash or reinvestment. The distributions are recognised in the income statement as finance costs attributable to unitholders.

Under current legislation, the Scheme and Consolidated Entity are not subject to income tax as unitholders are presently entitled to the income of the Scheme and Consolidated Entity.

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Scheme and the Consolidated Entity are not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Scheme and Consolidated Entity to be offset against any realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

The benefits of imputation credits and foreign tax paid are passed on to unitholders.

The Scheme and the Consolidated Entity may incur withholding tax imposed by certain countries on investment income. Such income is recorded net of withholding tax in the income statements.

### (j) Increase/(decrease) in net assets attributable to unitholders

Movements in net assets attributable to unitholders are recognised in the income statements as part of finance costs. The movements include undistributable income which may consist of undistributable unrealised changes in fair value of financial instruments held at fair value through profit or loss and derivative financial instruments; accrued income not yet assessable; expenses provided or accrued for which are not yet deductible; net capital losses; and tax free or tax deferred income. Net capital gains on the realisation of any financial instruments (including any adjustments for tax deferred income previously taken directly to net assets attributable to unitholders) and accrued income not yet assessable will be included in the determination of distributable income in the same year in which it becomes assessable for tax.

## 2 Summary of significant accounting policies (continued)

### (k) Foreign currency translation

#### *i) Functional and presentation currency*

Items included in the Scheme's and Consolidated Entity's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Scheme and Consolidated Entity competes for funds and is regulated. The Australian dollar is also the Scheme's and Consolidated Entity's presentation currency.

#### *ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates, of monetary assets and liabilities denominated in foreign currencies are recognised in the income statements.

The Scheme and Consolidated Entity do not isolate the portion of gains or losses on securities and derivative financial instruments which is due to changes in foreign exchange rates from that which is due to changes in the market price of securities. Such fluctuations are included with the net gains or losses on financial instruments at fair value through profit or loss.

### (l) Receivables

Receivables may include amounts for dividends, trust distributions, interest and securities sold where settlement has not yet occurred. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment in accordance with the policy set out in Note 2(f) above. Amounts are generally received within 30 days of being recorded as receivables.

Receivables include such items as Reduced Input Tax Credits (RITC) and owed to the Scheme by the Australian Taxation Office.

### (m) Payables

Payables include liabilities and accrued expenses owing by the Scheme and the Consolidated Entity which are unpaid as at balance date.

The distribution amount payable to unitholders as at the reporting date is recognised separately on the balance sheets when unitholders are presently entitled to the distributable income as at 30 June each year under the Scheme's Constitution.

### (n) Unit prices

Unit prices are determined by reference to the net assets of the Scheme divided by the number of units on issue.

### (o) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Consolidated Entity by third parties such as audit fees, custodial services and investment management fees have been passed onto the Consolidated Entity. The Consolidated Entity qualifies for Reduced Input Tax Credits (RITC) at a rate of 75% hence investment management fees, custodial fees and other expenses have been recognised in the income statements net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the balance sheets. Cash flows relating to GST are included in the cash flow statements on a gross basis.

## 2 Summary of significant accounting policies (continued)

### (p) Use of estimates and estimation of fair values

Management has reviewed the Scheme's and Consolidated Entity's critical accounting policies and estimates. There are no estimates or judgements that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### (q) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods and have not yet been applied in the financial report. The directors' assessment of the impact of these new standards (to the extent relevant to the Consolidated Entity) and interpretations is set out below:

#### (i) AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8 (effective from 1 January 2009)*

AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Consolidated Entity will adopt AASB from 1 July 2009. The Consolidated Entity is organised into one main segment which operates solely in the business of investment management within Australia. Consequently, no detailed segment reporting is provided in the Consolidated Entity's financial statements.

#### (ii) Revised AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101 (effective from 1 January 2009)*

The revised AASB 101 requires the presentation of a statement of comprehensive income and introduces the concept of "total comprehensive income", which represents the change in equity during the period, other than changes resulting from transactions with owners in their capacity as owners. It makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If a Consolidated Entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Consolidated Entity will apply the revised standard from 1 July 2009.

#### (iii) AASB 132 *Financial Instruments: Presentation* and AASB 2008-2 *Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations Arising on Liquidation (Revised AASB 132) (effective from 1 January 2009)*

Revised AASB 132 is applicable for reporting periods beginning on or after 1 January 2009. The Consolidated Entity has not adopted this standard early. Application of this standard will not affect any of the amounts recognised in the financial statements as the Consolidated Entity is obligated to distribute all of its taxable income in accordance with the Scheme's Constitution. Accordingly, there will be no change to classification of unitholders' funds as a liability and therefore no impact on profit or loss and equity.

#### (iv) Revised AASB 3 *Business Combinations*, AASB 127 *Consolidated and Separate Financial Statements* and AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 (effective 1 July 2009)*

The revised AASB 3 continues to apply the acquisition method to business combinations, but with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statements. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition related costs must be expensed. The Consolidated Entity has not yet determined the potential effects of the amendments.

#### (v) Improvements to Australian Accounting Standards: AASB 2008-5 *Amendments to Australian Accounting Standards arising from Annual Improvements Process* and AASB 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process*.

## 2 Summary of significant accounting policies (continued)

### (q) New accounting standards and interpretations (continued)

In July 2008, the AASB issued a number of improvements to existing Australian Accounting Standards. The amendments will generally apply to financial reporting periods commencing on or after 1 January 2009, except for some changes to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* regarding the sale of the controlling interest in a subsidiary which will apply from 1 July 2009. The Consolidated Entity does not expect that any adjustments will be necessary as the result of applying the revised rules.

(vi) AASB 2008-7 Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

In July 2008, the AASB approved amendments to AASB 1 First-time Adoption of International Financial Reporting Standards and AASB 27 Consolidated and Separate Financial Statements. The new rules will apply to financial reporting periods commencing on or after 1 January 2009. The Consolidated Entity will apply the revised rules prospectively from 1 July 2009. After that date, all dividends received from investments in subsidiaries, jointly controlled entities or associates will be recognised as revenue, even if they are paid out of pre-acquisition profits, but the investments may need to be tested for impairment as a result of the dividend payment. Furthermore, when a new intermediate parent entity is created in internal reorganisations it will measure its investment in subsidiaries at the carrying amounts of the net assets of the subsidiary rather than the subsidiary's fair value.

(vii) AASB 2009-2 Amendments to Australian Accounting Standards - Improving Disclosures about Financial Instruments (effective from 1 January 2009)

In April 2009, the AASB published amendments to AASB 7 *Financial Instruments: Disclosures* to improve the information that entities report about their liquidity risk and the fair value of their financial instruments. The amendments require fair value measurement disclosures to be classified into a new three-level hierarchy and additional disclosures for items whose fair value is determined by valuation techniques rather than observable market values. The AASB also clarified and enhanced the existing requirements for the disclosure of liquidity risk of derivatives. The Consolidated Entity will apply the amendments from 1 July 2009. They will not affect any of the amounts recognised in the financial statements but will impact the current disclosures of the Consolidated Entity's financial instruments.

(viii) AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective from 1 January 2010)

In May 2009, the AASB issued a number of improvements to existing Australian Accounting Standards. The Consolidated Entity will apply the revised standards from 1 July 2009. The Consolidated Entity does not expect that any adjustments will be necessary as the result of applying the revised rules.

(ix) AASB 2009-6 Amendments to Australian Accounting Standards and AASB 2009-7 Amendments to Australian Accounting Standards (effective from 1 January 2009 and 1 July 2009, respectively)

In June 2009, the AASB issued AASB 2009-6 and AASB 2009-7. The Standards make numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. AASB 2009-6 is applicable to annual reporting periods beginning on or after 1 January 2009 that end on or after 30 June 2009. AASB 2009-7 is applicable to annual reporting periods beginning on or after 1 July 2009. There are no changes to any of the accounting policies necessary as a result of these amendments.

### (r) Rounding of amounts

The Consolidated Entity is an entity of the kind referred to in Class Order 98/100 (as amended), issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, unless otherwise indicated.

### 3 Net gains/(losses) on financial instruments held at fair value through profit or loss

Net gains/(losses) recognised in relation to financial assets and financial liabilities held at fair value through profit or loss:

	Consolidated		Parent	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Net unrealised gain/(loss) on held for trading securities	6,442	(5,999)	4,205	(4,415)
	<u>6,442</u>	<u>(5,999)</u>	<u>4,205</u>	<u>(4,415)</u>
Net unrealised gain/(loss) on financial instruments designated at fair value through profit or loss upon initial recognition	(86,785)	(43,075)	(117,350)	(45,225)
	<u>(86,785)</u>	<u>(43,075)</u>	<u>(117,350)</u>	<u>(45,225)</u>
Net realised gain/(loss) on held for trading securities	(178,937)	114,412	(145,799)	85,536
	<u>(178,937)</u>	<u>114,412</u>	<u>(145,799)</u>	<u>85,536</u>
Net realised gain/(loss) on financial instruments designated at fair value through profit or loss upon initial recognition	54,041	(59,692)	46,555	(59,715)
	<u>54,041</u>	<u>(59,692)</u>	<u>46,555</u>	<u>(59,715)</u>
<b>Total net gains/(losses) on financial instruments held at fair value through profit or loss</b>	<u>(205,239)</u>	<u>5,646</u>	<u>(212,389)</u>	<u>(23,819)</u>

### 4 Auditor's remuneration

During the year the following fees were paid or payable for services provided by the auditor of the Consolidated Entity:

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
<i>Audit services</i>				
Auditors of the Scheme - KPMG				
Audit and review of financial reports	48,874	36,678	36,643	17,824
Other audit work under the Corporation Act 2001	10,229	7,700	6,709	3,850
<b>Total remuneration for audit services</b>	<u>59,103</u>	<u>44,378</u>	<u>43,352</u>	<u>21,674</u>
<i>Other services</i>				
Auditors of the Scheme - KPMG				
Taxation services	38,340	27,682	14,012	6,409
	<u>38,340</u>	<u>27,682</u>	<u>14,012</u>	<u>6,409</u>
<b>Total auditor's remuneration</b>	<u>97,443</u>	<u>72,060</u>	<u>57,364</u>	<u>28,083</u>

## 5 Net assets attributable to unitholders of the parent

As stipulated within the Scheme Constitution, each unit represents a right to an individual share in the Scheme and does not extend to a right to the underlying assets of the Scheme. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Scheme.

Movements in number of units and net assets attributable to unitholders of the parent during the year were as follows:

	2009 No. '000	2009 \$'000	2008 No. '000	2008 \$'000
<b>Hedged retail</b>				
Opening balance	67,220	79,102	58,137	71,767
Applications	2,892	2,983	16,661	20,223
Redemptions	(9,798)	(8,782)	(9,186)	(11,148)
Units issued upon reinvestment of distributions	955	1,125	1,608	1,991
Increase/(decrease) in net assets attributable to unitholders	-	(18,818)	-	(3,731)
Closing balance	<u>61,269</u>	<u>55,610</u>	<u>67,220</u>	<u>79,102</u>
<b>Unhedged retail</b>				
Opening balance	140	116	149	130
Redemptions	(65)	(53)	(9)	(8)
Increase/(decrease) in net assets attributable to unitholders	-	(7)	-	(6)
Closing balance	<u>75</u>	<u>56</u>	<u>140</u>	<u>116</u>
<b>Hedged wholesale</b>				
Opening balance	607,313	726,069	558,502	704,762
Applications	62,017	64,940	188,164	232,114
Redemptions	(127,396)	(129,472)	(145,367)	(178,868)
Units issued upon reinvestment of distributions	3,257	3,892	6,014	7,569
Increase/(decrease) in net assets attributable to unitholders	-	(161,670)	-	(39,508)
Closing balance	<u>545,282</u>	<u>503,759</u>	<u>607,313</u>	<u>726,069</u>
<b>Unhedged wholesale</b>				
Opening balance	388	328	613	560
Applications	-	-	1	1
Redemptions	-	-	(226)	(191)
Increase/(decrease) in net assets attributable to unitholders	-	(36)	-	(42)
Closing balance	<u>388</u>	<u>292</u>	<u>388</u>	<u>328</u>
<b>Hedged institutional 2</b>				
Opening balance	137	133,603	97	99,800
Applications	-	-	42	42,586
Redemptions	(9)	(8,100)	(13)	(12,370)
Units issued upon reinvestment of distributions	9	8,333	11	11,203
Increase/(decrease) in net assets attributable to unitholders	-	(28,594)	-	(7,616)
Closing balance	<u>137</u>	<u>105,242</u>	<u>137</u>	<u>133,603</u>
<b>Closing balance</b>		<u>664,959</u>		<u>939,218</u>

## 5 Net assets attributable to unitholders of the parent (continued)

### Capital risk management

The Scheme and Consolidated Entity manages its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as financial liability.

On 22 December 2008, HFA Asset Management Limited announced a suspension of redemptions and applications in the Scheme. This was as a result of the changes to the redemption policy of the underlying fund, the Lighthouse Diversified Fund Limited, in which the Scheme held both direct and indirect investments. The change in the redemption policy of Lighthouse Diversified Fund Limited was imposed in response to the significant deterioration of liquidity in the global capital markets which has had a contagion impact on underlying managers and has forced the limitation or suspension of redemptions by some underlying managers. The Lighthouse Diversified Fund Limited changed its redemption practices whereby a portion of the redemption proceeds will be paid in cash and the remaining portion will be paid "in kind", through the issue of shares in a specially created Special Purpose Vehicle ('SPV'). The change in policy by the Lighthouse Diversified Fund Limited is temporary, and will revert to its standard policy when sufficient liquidity returns to global markets and the underlying funds in which it invests.

The change in the redemption policy by Lighthouse Diversified Fund Limited has triggered provisions of the Corporations Act 2001 ("the Act") that apply to the treatment of redemptions by the Scheme. The Act prohibits the scheme from processing redemptions where the Scheme is considered illiquid within the meaning of the Act. The Scheme is illiquid under the Act due to the change in the redemption policy by Lighthouse Diversified Fund Limited such that it will not be meeting 100% of redemptions requests in cash.

The Scheme's Constitution required a meeting of Unitholders to be held to approve the implementation of withdrawal offers to Unitholders in accordance with the Act, or to otherwise wind up the Scheme. The Unitholder meeting was held on 29 June 2009. At the meeting the unitholders approved the implementation of withdrawal offer to all unitholders, subject to the level of liquidity available in the Scheme. Two withdrawal windows were approved for the period 1 July 2009 to 30 July 2009 and from 1 December 2009 to 31 December 2009. The total value of redemption requests honoured during the withdrawal offers will be limited to a maximum of \$55 million in each offer. In the event that the total redemption requests lodged during this period exceeds that of available cash, investors will receive a pro-rata share of the available cash. Cash payments will be made within 21 days of the closing of the withdrawal offer.

At the unitholders' meeting, unitholders of the Scheme also approved the adoption of an amended Scheme Constitution which will govern the operation of the Scheme effective from 29 June 2009. Unitholders can obtain a copy of the new Scheme Constitution upon request to the responsible entity.

The first withdrawal offer in accordance with the Corporations Act closed on 30 July 2009. The level of requests received in the respect of the offer exceeded the maximum amount of \$55 million, resulting in investors receiving a pro-rata entitlement equivalent to 25.193% of their requests.

## 6 Distributions to unitholders

The distributions paid and payable during the year were as follows:

	2009 \$'000	2009 CPU	2008 \$'000	2008 CPU
<b>Hedged retail</b>				
Distribution paid - December	-	-	835	1.25
Distribution payable - June	-	-	3,125	4.65
	<u>-</u>	<u>-</u>	<u>3,960</u>	<u>5.90</u>
<b>Hedged wholesale</b>				
Distribution paid - December	-	-	9,104	1.47
Distribution payable - June	-	-	30,320	4.99
	<u>-</u>	<u>-</u>	<u>39,424</u>	<u>6.46</u>
<b>Hedged institutional 2</b>				
Distribution paid - December	-	-	2,586	1,756.06
Distribution payable - June	-	-	8,333	6,068.53
	<u>-</u>	<u>-</u>	<u>10,919</u>	<u>7,824.59</u>

## 7 Financial assets held at fair value through profit or loss

	Consolidated		Parent	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
<b>Held for trading</b>				
Forward foreign exchange contracts	3,893	-	2,310	-
<b>Total held for trading</b>	<b>3,893</b>	<b>-</b>	<b>2,310</b>	<b>-</b>
<b>Designated at fair value through profit or loss</b>				
Listed securities	3,136	19,231	3,136	19,231
Leveraged instruments	188,663	181,398	-	-
Unlisted managed investment schemes	269,256	517,422	492,024	729,803
<b>Total designated at fair value through profit or loss</b>	<b>461,055</b>	<b>718,051</b>	<b>495,160</b>	<b>749,034</b>
<b>Total financial assets held at fair value through profit or loss</b>	<b>464,948</b>	<b>718,051</b>	<b>497,470</b>	<b>749,034</b>

### *Unlisted managed investment schemes*

The Lighthouse Diversified Fund Limited ('underlying fund') changed its redemption practices whereby a portion of the redemption proceeds will be paid in cash and the remaining portion will be paid "in kind", through the issue of shares in a specially created Special Purpose Vehicle ('SPV').

The investments held in the SPV are consistent with the investment strategy of the original underlying fund, the Lighthouse Diversified Fund Limited, however the composition of the investments held in the SPV is more concentrated and this concentration is likely to increase as the SPV are realised. The investment performance of the SPV is expected to be broadly consistent with the investment performance of the Lighthouse Diversified Fund Limited however the volatility of the monthly performance returns when compared to the Lighthouse Diversified Fund Limited may result in an increase due to investment concentration.

The Scheme redeemed a portion of its direct investment in the underlying fund in March 2009 and received a portion in cash and the remainder "in kind", through the issue of shares in the SPV. The shares in the SPV are being redeemed progressively as the underlying assets in the SPV are realised. Monthly prices of the SPV shares continue to be provided by Lighthouse Investment Partners LLC. A proportion of shares in the SPV representing approximately 23.63% of the Schemes direct exposure to the SPV was redeemed on the 30 April 2009 at the stated price. The price at which the redemption of the SPV was traded was consistent with that issued by Lighthouse Investment Partners LLC, as such the Directors of the responsible entity consider the valuation at 30 June 2009 to represent the best estimate of fair value.

The Scheme redeems its units in the underlying fund annually at 30 June each year. The proceeds from the redemption are subsequently reinvested within the underlying fund on 1 July each year.

### *Leverage instruments*

Leveraged instruments comprise the Total Return Equity Swap (the 'Swap') issued by JP Morgan Chase Bank ("JP Morgan") and held by the HFA Enhanced Diversified Investments Fund, a wholly owned subsidiary of the Scheme. The Swap provided leveraged exposure to the Lighthouse Diversified Fund Limited ('underlying fund').

Due to the negative performance of the underlying fund in the first half of the financial year, the Swap triggered a requirement to reduce its notional leverage and consequently its exposure to the underlying fund. As at 31 December 2008, the underlying fund changed its redemption practices and paid approximately 81.4% of redemption proceeds in cash and the remaining 18.6% "in kind", through the issue of shares in a specially created Special Purpose Vehicle ('SPV'). Due to this change in the underlying fund's redemption policy and the requirement to reduce the Swap's exposure to the underlying fund, the Swap's exposure was altered to include a small exposure to the SPV.

## 7 Financial assets held at fair value through profit or loss (continued)

Following the December 2008 reduction in leverage of the Swap and in line with the Trustees objective to progressively remove the leverage from within the portfolio, the Trustee and the investment counterparty, JP Morgan Chase Bank, agreed to a realisation process of the Swap with a view to terminating the Swap upon the leverage being extinguished. As such, effective 28 February 2009 amendments to the Swap were executed with the investment counterparty, JP Morgan Chase Bank, such that the remaining exposure to the Lighthouse Diversified Fund ('underlying fund) was redeemed in full via an in-specie transfer of assets into a specially created vehicle, Newco SLV SPC. This was agreed upon to ensure that the continued progressive unwinding of the Swap's exposure to the underlying fund would not be impacted by any further changes to the redemption practices of the Lighthouse Diversified Fund Limited should that occur. Following this amendment, the Swap is now predominantly exposed to Newco SLV SPC with a small exposure to the SPV.

The underlying assets held by both Newco SLV SPC and SPV are being redeemed progressively based on the investment terms of the underlying investments to extinguish the notional leverage contained within the Swap. Following the extinguishment of the notional leverage within the Swap, the additional proceeds will be returned to the Scheme.

The investments held in both Newco SLV SPC and the SPV are consistent with the investment strategy of the original underlying fund, the Lighthouse Diversified Fund Limited, however the composition of the investments held in both Newco SLV SPC and SPV are more concentrated. The concentration of both Newco SLV SPC and SPV are likely to increase as the vehicles are liquidated in order to terminate the Swap. The investment performance of the combined holdings of Newco SLV SPC and SPV are expected to be broadly consistent with the investment performance of the Lighthouse Diversified Fund Limited however the volatility of the monthly performance returns when compared to the Lighthouse Diversified Fund Limited may result in an increase as the vehicles become more concentrated.

Monthly prices of the both Newco SLV SPC and SPV continue to be provided by Lighthouse Investment Partners LLC from which the monthly valuations of the Swap are derived. Shares in Newco SLV SPC and SPV were redeemed during the year at the stated prices and the proceeds applied to extinguish a proportion of the leverage contained within the Swap. The Scheme has valued its investment in the Swap based on the valuation supplied by the issuer, JP Morgan Chase Bank as at 30 June 2009. The valuation is consistent with the contractual terms of the Swap and with the stated prices issued by Lighthouse Partners LLC in respect to the Newco SLV SPC and SPV. The prices at which the redemptions from the Newco SLV SPC and SPV were traded were consistent with those issued by Lighthouse Partners LLC, as such the Directors of the responsible entity and the Trustee of the HFA Enhanced Diversified Investments Fund consider the valuations at 30 June 2009 to represent the best estimate of fair value.

## 8 Financial liabilities held at fair value through profit or loss

	Consolidated		Parent	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
<b>Held for trading</b>				
Forward foreign exchange contracts	-	2,548	-	1,895
<b>Total financial liabilities held at fair value through profit or loss</b>	<b>-</b>	<b>2,548</b>	<b>-</b>	<b>1,895</b>

## 9 Receivables

	Consolidated		Parent	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Distributions receivable	-	-	298	23,343
Accrued interest	309	-	215	-
GST recoverable	614	593	215	278
Other receivables	-	-	15,882	-
	<b>923</b>	<b>593</b>	<b>16,610</b>	<b>23,621</b>

## 10 Payables

	Consolidated		Parent	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Unsettled redemptions	-	11,897	-	11,845
Management fees payable	3,050	1,368	395	680
Custody fees payable	181	324	82	217
Audit fees payable	57	63	30	27
Performance fees payable	-	368	-	368
Other payables	71	38	44	38
	<b>3,359</b>	<b>14,058</b>	<b>551</b>	<b>13,175</b>

## 11 Financial risk management

### (a) Overview

The Scheme's and Consolidated Entity's assets principally consist of financial instruments which comprise investments in unlisted managed investment schemes, listed securities, leveraged instruments and foreign forward exchange contracts. It holds these investment assets at the discretion of the responsible entity, in accordance with its stated investment strategy. The Scheme and Consolidated Entity invests in a diversified range of established professionally managed fund-of-funds that have a demonstrated investment process and performance.

Asset allocations are made to funds which exhibit superior returns to equity markets and returns with a low correlation to traditional market indices. Divergence from target asset allocations and the composition of the portfolio is monitored by the responsible entity on at least a monthly basis.

The Scheme's and Consolidated Entity's investing activities expose it to the following risks from its use of financial instruments:

- market risk
- credit risk
- liquidity risk

The nature and extent of the financial instruments employed by the Scheme and Consolidated Entity are discussed below. This note presents information about the Scheme's and Consolidated Entity's exposure to each of the above risks, as well as the Scheme's objectives, policies and processes for measuring and managing risk.

The responsible entity has overall responsibility for the establishment and oversight of the Scheme's risk management framework.

The responsible entity has established a Product Development and Risk Committee, which is responsible for developing and monitoring the Scheme's and Consolidated Entity's risk management policies, including those related to its investment activities. The Scheme's and Consolidated Entity's risk management policies are established to identify and analyse the risks faced by the Scheme and Consolidated Entity, to set appropriate risk limits and controls, and to monitor risks and adherences to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Scheme's activities.

The Product Development and Risk Committee receives regular risk management reports from the HFA Research and Investment team. Reports from the HFA Research and Investment team include details of the controls it has in place monitor compliance with the Scheme's and Consolidated Entity's investment strategy, training and personnel management standards and procedures, and details how the HFA Research and Investment team develops and maintains a disciplined and constructive control environment in which its employees understand their roles and obligations. The Product Development and Risk Committee also oversees the monitoring of compliance with the scheme's and Consolidated Entity's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risk faced by the Scheme and Consolidated Entity.

## 11 Financial risk management (continued)

### (b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: price risk, foreign currency risk and interest rate risk. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandates and investment strategies.

The market risk disclosures are prepared on the basis of the Scheme's and Consolidated Entity's direct investments and not on a look-through basis for investments held in the Scheme and Consolidated Entity.

The sensitivity of the Scheme's and Consolidated Entity's net assets attributable to unitholders (and net operating profit/(loss)) to price risk, foreign exchange risk and interest rate risk is measured by the reasonably possible movements approach. This approach is determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates and foreign exchange rates, historical correlation of the Scheme's investments with the relevant benchmarks and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Scheme and Consolidated Entity invests. As a result, historic variations in the risk variables are not a definitive indicator of future variations in the risk variables.

Net assets attributable to unitholders may include investments in debt and equity securities and related derivatives. At 30 June 2009, the overall market exposures were as follows:

	Consolidated		Parent	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Forward foreign exchange contracts	3,893	(2,548)	2,310	(1,895)
Leveraged instruments	188,663	181,398	-	-
Listed securities	3,136	19,231	3,136	19,231
Unlisted managed investment schemes	269,256	517,422	492,024	729,803
<b>Total financial assets/(liabilities) at fair value through profit or loss</b>	<b>464,948</b>	<b>715,503</b>	<b>497,470</b>	<b>747,139</b>

#### (i) Price risk

Price risk is the risk that the fair value of equities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Price risk exposure arises from the Scheme's and Consolidated Entity's investment portfolio. The investments are classified on the balance sheet as at fair value through profit or loss. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Scheme's and Consolidated Entity's overall market positions are monitored on a daily basis by the responsible entity. This information and the compliance with the Scheme's Product Disclosure Statement are reported to the relevant parties on a regular basis as deemed appropriate such as Product Development and Risk Committee, other key management personnel, compliance committees and ultimately the Board.

## 11 Financial risk management (continued)

### (b) Market risk (continued)

#### *Sensitivity analysis - price risk*

##### Consolidated

A10 percent increase (2008:10%) in the value of the investment in unlisted managed investment schemes, leveraged instruments and listed securities at the reporting date would have decreased the loss from operating activities by \$46,105,382 (2008: \$71,805,124), and an equal change in the opposite direction would have increased the loss from operating activities by an equal but opposite amount.

##### Parent

A10 percent increase (2008:10%) in the value of the investment in unlisted managed investment schemes, leveraged instruments and listed securities at the reporting date would have decreased the loss from operating activities by \$49,515,904 (2008: \$74,903,421), and an equal change in the opposite direction would have increased the loss from operating activities by an equal but opposite amount.

#### (ii) *Foreign exchange risk*

The foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Consolidated Entity holds assets denominated in US dollar. It is therefore exposed to foreign exchange risk, as the value of the securities denominated in other currencies will fluctuate due to changes in exchange rates. The risk is measured using sensitivity analysis.

As part of its risk management strategy, the Consolidated Entity uses forward currency contracts and options to manage exposures resulting from changes in foreign currencies. The Consolidated Entity enters into foreign exchange contracts and options designed to substantially hedge this exposure.

The responsible entity monitors the Consolidated Entity's currency position on a regular basis and the Board of Directors reviews it on a quarterly basis.

The foreign exchange risk disclosures have been prepared on the basis of the Consolidated Entity's direct investment and not on a look-through basis for investments held indirectly through unit trusts. Consequently the disclosure of currency risk in the note may not represent the true currency risk profile of the Consolidated Entity where the Consolidated Entity has significant investments in feeder trusts which also have exposure to the currency markets.

The tables below summarises the Scheme's and Consolidated Entity's exposure to foreign exchange rate movements on its international investments:

30 June 2009	Consolidated		Parent	
	AUD Exposure	USD Exposure	AUD Exposure	USD Exposure
<i>All amounts stated in thousands of AUD</i>				
Cash and cash equivalents	131,350	-	109,333	-
Deposits held with brokers with margin	71,097	-	42,097	-
Financial assets designated at fair value through profit or loss				
Listed securities	3,136	-	3,136	-
Unlisted managed investment schemes	53	269,203	222,820	269,204
Leveraged instruments	-	188,663	-	-
Other receivables	923	-	16,610	-
Other payables	(3,359)	-	(551)	-
<b>Gross balance sheet exposure</b>	<b>203,200</b>	<b>457,866</b>	<b>393,445</b>	<b>269,204</b>
Forward foreign exchange contracts	464,757	(460,864)	275,754	(273,444)
<b>Net exposure</b>	<b>667,957</b>	<b>(2,998)</b>	<b>669,199</b>	<b>(4,240)</b>

## 11 Financial risk management (continued)

### (b) Market risk (continued)

#### 30 June 2008

Cash and cash equivalents	208,856	-	162,932	-
Deposits held with brokers with margin	70,102	-	60,479	-
Financial assets designated at fair value through profit or loss				
Listed securities	19,231	-	19,231	-
Unlisted managed investment schemes	33,421	484,001	245,802	484,001
Leveraged instruments	-	181,398	-	-
Other receivables	593	-	23,621	-
Other payables	(55,836)	-	(54,953)	-
<b>Gross balance sheet exposure</b>	<b><u>276,367</u></b>	<b><u>665,399</u></b>	<b><u>457,112</u></b>	<b><u>484,001</u></b>
Forward foreign exchange contracts	<u>662,681</u>	<u>(665,229)</u>	<u>482,402</u>	<u>(484,297)</u>
<b>Net exposure</b>	<b><u>939,048</u></b>	<b><u>170</u></b>	<b><u>939,514</u></b>	<b><u>(296)</u></b>

#### *Sensitivity analysis - foreign exchange risk*

##### Consolidated

The AUD:USD exchange rate as at 30 June 2009 was \$0.80845 (2008:\$0.95965). A 10 percent strengthening (2008:10%) of the Australian dollar against the US dollar at 30 June 2009 would have increased the loss from operating activities by \$272,469 (2008: decreased the loss from operating activities by \$263,551). A 10 percent depreciation (2008:10%) of the Australian dollar against the US dollar would have decreased profit/(loss) from operating activities by \$333,018 (2008: increased profit/(loss) from operating activities by \$322,117).

##### Parent

The AUD:USD exchange rate as at 30 June 2009 was \$0.80845 (2008:\$0.95965). A 10 percent strengthening (2008:10%) of the Australian dollar against the US dollar at 30 June 2009 would have increased profit/(loss) from operating activities by \$385,439 (2008: decreased profit/(loss) from operating activities by \$155,269). A 10 percent depreciation (2008:10%) of the Australian dollar against the US dollar would have decreased profit/(loss) from operating activities by \$471,092 (2008: increased profit/(loss) from operating activities by \$189,774).

##### *(iii) Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Scheme and Consolidated Entity is exposed to interest rate risk through its holdings of cash and cash equivalents which are at call.

The cash assets held by the Scheme and the Consolidated Entity are exposed to a variable interest rate equal to the RBA interbank overnight cash rate. The RBA interbank overnight cash rate as at 30 June 2009 was 3.00% per annum (2008: 7.25% per annum).

The Consolidated Entity is also exposed to interest rate risk through the inherent leverage in the leverage instruments, which is contractually determined each month as USD 1 month LIBOR plus a margin of 1.40% p.a. 1 month LIBOR as at 30 June 2009 was 0.31% per annum (2008: 2.47% per annum).

## 11 Financial risk management (continued)

### (b) Market risk (continued)

#### *Sensitivity analysis - interest rate risk on cash and cash equivalents*

##### **Consolidated**

An increase of 100 basis points (2008: 100bp) in interest rates as at the reporting date would have decreased loss from operating activities by \$166,395 (2008: \$229,626). A decrease of 100 basis points (2008: 100bp) would have had an equal but opposite effect.

##### **Parent**

An increase of 100 basis points (2008: 100bp) in interest rates as at the reporting date would have decreased the loss from operating activities by \$124,463 (2008: \$183,626). A decrease of 100 basis points (2008: 100bp) would have had an equal but opposite effect.

#### *Sensitivity analysis - interest rate risk on leverage instruments*

##### **Consolidated**

An increase of 100 basis points (2008: 100bp) in interest rates as at the reporting date would have increased the loss from operating activities by \$249,981 (2008: \$318,369). A decrease of 100 basis points (2008: 100bp) would have had an equal but opposite effect.

### (c) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

At 30 June 2009, the following financial assets were exposed to credit risk, cash and cash equivalents, unlisted managed investment schemes, listed securities, leveraged instruments forward foreign exchange contracts and receivables. Total carrying amount of financial assets exposed to credit risk amounted to \$663,501,146 (2008:\$997,009,231) for the Consolidated Entity and \$646,589,287 (2008: \$972,445,404) for the parent entity.

Credit risk arising on the foreign forward exchange contracts and leveraged instruments is mitigated by investing in instruments issued by rated counterparties who are major investment banks with current credit ratings of 'AA-' or better as determined by Standard and Poor's and Fitch, and 'Aa2' or better as determined by Moody's. The responsible entity monitors changes to ratings on an on-going basis.

Substantially all of the cash held by the Scheme and Consolidated Entity is held with National Australia Bank Limited. Bankruptcy or insolvency by National Australia Bank may cause the Scheme's rights with respect to the cash held by National Australia Bank Limited to be delayed or limited. The responsible entity monitors the credit rating and financial position of National Australia Bank on an on-going basis. If the credit quality or the financial position of National Australia Bank deteriorates significantly the Scheme will move cash holdings to another bank.

## 11 Financial risk management (continued)

### (e) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Consolidated Entity maintains sufficient cash and cash equivalents to meet normal operating requirements.

The Scheme's constitution provides for the monthly application and redemptions of units and it is therefore exposed to the liquidity risk of meeting unitholder redemptions. Liquidity levels are maintained to satisfy usual levels of demand. Redemptions are usually processed and paid within one month after a redemption day, being the last business day of each calendar month.

Credit risk arising on investments in unlisted managed investment schemes is mitigated by investing with managers and in securities who are well recognised and have a proven track record of delivering on their stated investment objectives. The responsible entity carries out extensive due diligence on any proposed manager prior to making an investment, and a review is conducted at least annually. Continual monitoring of the investment manager is also carried out on an ongoing basis.

The Scheme's liquidity risk is managed on a daily basis by the responsible entity monitoring current cash balances and projecting future cash flow requirements on an on-going basis. Where the responsible entity considers that additional cash reserves may be required the responsible entity will partially redeem a portion of its holdings in investments.

#### *Maturity analysis for financial liabilities*

The table below analyses the Consolidated Entity's financial liabilities, into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

2009	Less than 1 month \$'000	1-3 months \$'000	3-12 months \$'000	12-60 months \$'000
<b>Consolidated</b>				
Payables	-	3,359	-	-
Net assets attributable to unitholders <sup>(1)</sup>	-	55,000	-	609,959
<b>Total financial liabilities - Contractual cash flows (excluding gross settled derivatives)</b>	<b>-</b>	<b>58,359</b>	<b>-</b>	<b>609,959</b>
<b>Parent</b>				
Payables	-	551	-	-
Net assets attributable to unitholders <sup>(1)</sup>	-	55,000	-	609,959
<b>Total financial liabilities - Contractual cash flows (excluding gross settled derivatives)</b>	<b>-</b>	<b>55,551</b>	<b>-</b>	<b>609,959</b>

## 11 Financial risk management (continued)

### (e) Liquidity risk (continued)

2008	Less than 1 month \$'000	1-3 months \$'000	3-12 months \$'000	12-60 months \$'000
<b>Consolidated</b>				
Distributions payable	41,779	-	-	-
Payables	14,057	-	-	-
Financial liabilities held for trading	-	2,548	-	-
Net assets attributable to unitholders	<u>939,218</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total financial liabilities - Contractual cash flows (excluding gross settled derivatives)</b>	<b><u>995,054</u></b>	<b><u>2,548</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>Parent</b>				
Distributions payable	41,779	-	-	-
Payables	13,174	-	-	-
Financial liabilities held for trading	-	1,895	-	-
Net assets attributable to unitholders	<u>939,218</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total financial liabilities - Contractual cash flows (excluding gross settled derivatives)</b>	<b><u>994,171</u></b>	<b><u>1,895</u></b>	<b><u>-</u></b>	<b><u>-</u></b>

<sup>(1)</sup> The Corporations Act prohibits the Scheme from processing redemptions because the Scheme is considered illiquid within the meaning of the Corporations Act. Once sufficient liquidity returns to the global markets and the underlying funds in which the Consolidated Entity invests, the temporary redemption suspension will be lifted by the Scheme.

A meeting of unitholders was held on 29 June 2009 and the unitholders approved the implementation of withdrawal offers to all unitholders, subject to the level of liquidity available in the Scheme. The Responsible Entity has initially proposed two withdrawal offer windows from 1 July 2009 to 30 July 2009 and from 1 December 2009 to 31 December 2009. The total value of redemption requests to be honoured during the withdrawal offers will be limited to a maximum of \$55 million in each offer. In the event the total redemption requests exceed that of available cash, investors will receive a pro-rata share of the available cash.

The responsible entity resolved to offer unitholders a total withdrawal offer of up to \$55 million for the offer ending 30 July 2009 following sufficient liquidity being generated to fund the offer. The level of requests received in the respect of that offer exceeded the maximum amount of \$55 million, resulting in investors receiving a pro-rata share equivalent to 25.193% of their requests.

### (f) Estimation of fair values of financial assets and financial liabilities

The methods and assumptions used in estimating the fair value of financial instruments are disclosed in Note 2(c) *Significant Accounting Policies*.

For the years ended 30 June 2009 and 30 June 2008, the Scheme and any of its controlled entities did not determine the fair value of any financial assets and financial liabilities using valuation techniques. The fair value of the Scheme's and controlled entities financial assets and liabilities for the years then ended were determined directly, in full or in part, by reference to quoted prices that were available from various market quoted prices, investment managers and counterparty confirmations.

## 12 Related party transactions

### Parent entities

The parent entity within the group is HFA Diversified Investments Fund.

### Subsidiaries

Interests in subsidiaries are set out in Note 13.

### Responsible entity

The responsible entity of the HFA Diversified Investments Fund is HFA Asset Management Limited, whose ultimate parent entity is HFA Holdings Limited (ABN 47 101 585 737).

### Key management personnel

#### (a) Directors

Key management personnel includes persons who were directors of HFA Asset Management Limited at a time during the financial year as follows:

Robert White (Appointed 20 September 2007)  
Oscar Martinis (Appointed 20 September 2007)  
Jonathan Pain (Appointed 22 September 2003)

#### (b) Other key management personnel

The Scheme and the Consolidated Entity do not employ personnel in its own right. However, it is required to have an incorporated responsible entity to manage the activities of the Scheme and this is considered to be key management personnel.

### Key management personnel unitholdings

The key management personnel of HFA Assets Management Limited held units in the Consolidated Entity as follows:

		2009 Market value \$		2008 Market value \$
	Units		Units	
Oscar Martinis	9,767	8,863	-	-

## 12 Related party transactions (continued)

### Key management personnel loan disclosures

The Scheme and the Consolidated Entity have not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

### Other transactions within the Consolidated Entity

From time to time directors of the responsible entity, or their director related entities, may invest in or withdraw from the Scheme. These investments or withdrawals are on the same terms and conditions as those entered into by other Scheme investors and are trivial in nature.

No key management personnel of the responsible entity has entered into a material contract with the Scheme since the end of the previous financial year and there were no material contracts involving director's interests subsisting at year end.

### Responsible entity's fees and other transactions

Under the terms of the Scheme Constitution, the responsible entity is entitled to receive management fees and performance fees.

	2009 \$	Consolidated 2008 \$	2009 \$	Parent 2008 \$
Management fees charged for the year by the responsible entity	13,449,966	15,629,961	5,510,370	7,454,189
Performance fees charged for the year by the responsible entity	-	379,924	-	342,464

Where the Scheme or its controlled entities invests in another product also managed by the responsible entity, and the responsible entity receives management fees from that other product, the responsible entity provides a rebate to the Scheme to ensure there is no duplication of fees incurred by the Scheme.

### Investments

The Consolidated Entity held investments in the following entities which are also managed by HFA Asset Management Limited or its related parties:

	Consolidated					
	Number held		Interest held		Distributions/dividend received/receivable	
	2009 units	2008 units	2009 %	2008 %	2009 \$	2008 \$
HFA International Shares Fund	-	31,910	-	17	-	-
HFA Accelerator Plus Limited	<u>20,903,505</u>	<u>20,903,505</u>	<u>11</u>	<u>11</u>	<u>313,553</u>	<u>1,209,035</u>
	<b><u>20,903,505</u></b>	<b><u>20,935,415</u></b>	<b><u>11</u></b>	<b><u>28</u></b>	<b><u>313,553</u></b>	<b><u>1,209,035</u></b>

### 13 Consolidated entities

#### Parent and ultimate controlling party

During the year ended 30 June 2009, the Consolidated Entity's structure is as follows:

#### Parent Entity

HFA Diversified Investments Fund

	2009 Ownership interest %	2008 Ownership interest %
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#### Significant subsidiaries

HFA Enhanced Diversified Investments Fund  
HFA Australian Shares Fund

HFA Enhanced Diversified Investments Fund	100	100
HFA Australian Shares Fund	100	100

### 14 Reconciliation of change in net assets attributable to unitholders to net cash inflow/(outflow) from operating activities

	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>(a) Reconciliation of change in net assets attributable to unitholders to net cash inflow/(outflow) from operating activities</b>				
Increase/(decrease) in net assets attributable to unitholders	(209,125)	(50,903)	(209,125)	(50,903)
Net proceeds/payments from sale/purchase of financial instruments held at fair value through profit or loss	49,104	90,497	25,173	51,020
Net change in deposits held with brokers	(995)	(40,517)	18,382	(31,110)
Net change in accrued income and prepaid expenses	(330)	8,803	22,893	(9,423)
Net change in accounts payable and accrued liabilities	1,200	(13,552)	(777)	(8,801)
Net foreign exchange gain/(loss)	(3,788)	152	(3,775)	140
Net gains/(losses) on financial instruments held at fair value through profit or loss	205,239	(5,646)	212,388	23,819
Distributions to unitholders	-	54,332	-	54,303
<b>Net cash inflow/(outflow) from operating activities</b>	<b>41,305</b>	<b>43,166</b>	<b>65,159</b>	<b>29,045</b>

#### (b) Components of cash and cash equivalents

Cash as at the end of the financial year as shown in the cash flow statements is reconciled to the balance sheets as follows:

Cash and cash equivalents	<u>131,350</u>	<u>208,856</u>	<u>109,333</u>	<u>162,932</u>
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## 14 Reconciliation of change in net assets attributable to unitholders to net cash inflow/(outflow) from operating activities (continued)

### (c) Non-cash financing and investing activities

During the year, the following distribution payments/receipts were satisfied by the issue of units under the distribution reinvestment plan

Payment of unitholder distributions	13,350	20,763	13,350	20,763
Receipt of distribution income	<u>23,343</u>	<u>-</u>	<u>23,343</u>	<u>-</u>
	<u><b>36,693</b></u>	<u><b>20,763</b></u>	<u><b>36,693</b></u>	<u><b>20,763</b></u>

## 15 Segment information

### Business segment

The Consolidated Entity is comprised of only one main business segment, that being investment in financial instruments comprised of unlisted managed investments, leverage notes, listed securities, derivatives and interest bearing securities.

### Geographical segment

The Consolidated Entity operates in Australia. While the Consolidated Entity operates from Australia only (the geographical segment), the Consolidated Entity has asset exposures in different countries and across different industries.

## 16 Events occurring after the balance sheet date

The first withdrawal offer in accordance with the Corporations Act closed on 30 July 2009. The level of requests received in the respect of the offer exceeded the maximum amount of \$55 million, resulting investors receiving a pro-rata return equivalent to 25.193% of their requests.

Other than the above no significant events have occurred since balance date which would impact on the financial position of the Consolidated Entity disclosed in the balance sheets as at 30 June 2009 or on the results and cash flows of the Consolidated Entity for the year ended on that date.

## 17 Contingent assets and liabilities and commitments

There are no outstanding contingent assets or liabilities or commitments as at 30 June 2009.

## Directors' declaration

In the opinion of the directors of the responsible entity:

- (a) the financial statements and notes set out on pages 7 to 34 are in accordance with the *Corporations Act 2001*, including
  - (i) complying with Accounting Standards (including the Australian Accounting Interpretations), the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Scheme's and Consolidated Entity's financial positions as at 30 June 2009 and of their performance, as represented by the results of their operations and cash flows for the year ended on that date.
- (b) there are reasonable grounds to believe that the Scheme and Consolidated Entity will be able to pay their debts as and when they become due and payable.
- (c) the financial statements are in accordance with the Scheme Constitution.



Robert White  
Director

Brisbane  
17 September 2009



## **Independent auditor's report to the unitholders of HFA Diversified Investments Fund**

### **Report on the financial report**

We have audited the accompanying financial report of HFA Diversified Investments Fund (the Scheme), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of recognised income and expense and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 17 and the directors' declaration of the Consolidated Entity comprising the Scheme and the entities it controlled at year's end or from time to time during the financial year set out on page 35.

#### *Directors' responsibility for the financial report*

The directors of HFA Asset Management Limited (the Responsible Entity) are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2, the directors of the Responsible Entity also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Scheme's preparation and fair presentation of the financial report 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 Scheme's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Responsible Entity, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Scheme's financial position, and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's opinion*

In our opinion:

(a) the financial report of HFA Diversified Investments Fund is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Scheme's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

*Material uncertainty regarding the Liquidity of the Scheme*

Without qualification of the above opinion, we draw attention to Note 5 of the financial report which indicates that the Scheme has suspended redemptions as it is considered illiquid under the *Corporations Act 2001* due to the change in redemption policy of the underlying investment, Lighthouse Diversified Fund Limited. We also draw attention to Note 7 of the financial report which details the basis of the investment valuation in the total return equity swap. The total return equity swap is linked to units in a Lighthouse SPV that was created as a response to the illiquid nature of certain underlying investments of the Lighthouse Diversified Fund Limited and will be redeemed progressively as the underlying assets in the SPV are liquidated. The ultimate outcome of the matter cannot presently be determined with certainty and as a result, there exists significant uncertainty regarding the SPV's liquidity and value as it realises its investment, and therefore the impact on the liquidity of the Scheme.

**KPMG**

KPMG

D M Waters  
*Partner*

Melbourne

17 September 2009