

Portfolio Partners Long/Short Equity Trust  
ARSN 109 996 116  
ABN 12 939 417 381  
AFSL 234483  
Annual Report  
Year Ended 30 June 2008

Annual Report – Year to 30 June 2008  
Portfolio Partners Long/Short Equity Trust







## Directors' Report

The Directors of Portfolio Partners Limited (ABN 85 066 081 114), the Responsible Entity of the Portfolio Partners Long/Short Equity Trust ("the Scheme") present their report together with the financial statements of the Scheme for the year ended 30 June 2008 and the auditor's report thereon.

### Directors

The Directors of Portfolio Partners Limited during the financial year and until the date of this report are:

Craig Bingham

Anthony Burrill

David Daynes

Allan Griffiths

Christopher Oglethorpe

David Watson (resigned 28/08/2007)

The Directors were in office from the beginning of the financial year until the date of this report, unless otherwise stated.

### Principal Activities

The investment activities of the Scheme continued to be in accordance with the investment policy of the Scheme as outlined in the Scheme Constitution. The key asset categories are Australian equities and managed investment schemes.

There has been no significant change in the nature of this activity during the year.

### Scheme Information

The Portfolio Partners Long/Short Equity Trust is an Australian registered scheme, and was constituted on 23 July 2004. Portfolio Partners Limited, the Responsible Entity of the Scheme, is incorporated and domiciled in Australia.

The registered office and principal place of business of the Responsible Entity and the Scheme is Level 28 Freshwater Place, 2 Southbank Boulevard, Southbank, Victoria 3006.

## Directors' Report (continued)

### Review of Results and Operations

#### Results and distributions

The net profit attributable to unitholders for the year ended 30 June 2008 was \$6,873,101 (2007: \$75,278,166). Distributions to unitholders during the year totalled \$23,384,598 (2007: \$88,444,766).

A final distribution was declared for the year ended 30 June 2008 of 6.47 cents per unit (2007: 12.41 cents per unit), paid on 4 July 2008. The total amount not paid at the reporting date is disclosed in the Balance Sheet.

#### Performance

The performance of the Scheme over the past five years is summarised in the following table:

	2008 %	2007 %	2006 %	2005 %	2004 %
Growth return	(27.05)	(12.50)	1.54	17.18	n/a
Distribution return	26.30	35.22	23.70	10.16	n/a
Total return	(0.75)	22.72	25.24	27.34	n/a
Benchmark return	(9.42)	28.66	23.93	24.73	n/a

The growth return is calculated as the return derived by a unitholder due to changes in capital value over the period. The distribution return is the return derived by a unitholder due to distributions paid by the Scheme. The total return is calculated after fees and assuming reinvestment of distributions, in accordance with IFSA Standard 6: *Product Performance – Calculation of Returns*.

#### Indirect Cost Ratio

The Indirect Cost Ratio (ICR) is the ratio of the Scheme's management costs over the Scheme's average net assets attributable for the year, expressed as a percentage.

Management costs include management fees and other expenses or reimbursements deducted in relation to the Scheme, but do not include transactional and operational costs such as brokerage. Management costs are not paid directly by the unitholders of the Scheme.

The ICR for the Scheme as at 30 June over the past two years is disclosed below:

	2008 %	2007 %
Indirect Cost Ratio as at 30 June*	2.30	0.60

\* In accordance with the Scheme's Constitution, the ICR includes a performance fee of 1.30% (2007: Nil%) and the Scheme's ICR changed to 1.00% on 23/08/2007.

## Directors' Report (continued)

### Unit prices

The ex-distribution exit prices and the highest and lowest exit prices for the past five years are shown below. All exit prices are exclusive of exit fees.

	2008 \$	2007 \$	2006 \$	2005 \$	2004 \$
As at 30 June	0.7569	1.0375	1.1857	1.1677	n/a
Year to 30 June:					
High	1.0821	1.3215	1.4460	1.2767	n/a
Low	0.7955	1.1472	1.1600	0.9961	n/a

### Fees paid to and interests held by the Responsible Entity and Associates

The following fees were paid to Portfolio Partners Limited and its associates out of Scheme assets during the financial year:

	2008 \$	2007 \$
Management fee for the financial year paid to the Responsible Entity	538,010	2,266,073

At the date of authorisation, the interests in the Scheme held by the Responsible Entity and its associates were nil.

### Units on issue

The movements in units on issue of the Scheme for the year was as follows:

	2008 Units '000	2007 Units '000
Units issued	40,571	167,389
Units redeemed	(127,977)	(281,004)
Units on issue as at 30 June	43,114	130,520

### Scheme Assets

	2008 \$	2007 \$
Value of total scheme assets as at 30 June	37,250,913	184,908,994

The basis for valuation of the assets is disclosed in Note 2 to the financial statements.

## Directors' Report (continued)

### Significant changes in the state of affairs

During the year, the Responsibility Entity has undertaken significant changes to the Scheme's constitution. As a result, the Scheme's name has changed to Long/Short Equity Trust, its maximum short exposure has changed from 25% to 50%, and associated benchmark, performance fee and indirect cost ratio have changed to reflect the new investment profile.

On 17 July 2007, a single investor made a significant withdrawal of 31,118,015 units which represented approximately 20.98% of the fund at the date of redemption. To fund the redemption the Scheme realised \$26,000,000 of investments, crystallising net revenue gains of \$2,100,000. As a result a special distribution was declared for the period ended 13 July 2007 of 1.38 cents per unit, paid on 16 July 2007.

### Significant events after the balance date

At the date of this report, the Australian Securities & Investments Commission (ASIC) had placed a prohibition relating to covered short sales in the Australian market for a period of 30 days from 22 September 2008. The Responsible Entity will continue to monitor regulatory developments in relation to short selling.

### Likely developments and expected results

During September 2008, Portfolio Partners will change its company name to Aviva Investors Australia, and the Responsible Entity will also change to Aviva Investors Australia. As a result, the Scheme will be called the 'Aviva Investors Long/Short Equity Fund'. These changes will not impact the Scheme's operations.

### Environmental regulation and performance

The operations of the Scheme are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory. There have been no known significant breaches of any other environmental requirements applicable to the Scheme.

### Indemnification and insurance of Directors and Officers

#### *Indemnification*

Under the Scheme Constitution, the Responsible Entity, including its officers and employees, is indemnified out of the Scheme's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the Scheme.

## Directors' Report (continued)

### Indemnification and insurance of Directors and Officers (continued)

#### *Insurance premiums*

During or since the financial year, the Responsible Entity has paid premiums in respect of a local Directors and Officers Liability contract insuring all directors and officers of Portfolio Partners Limited. The amount of the premium is, under the terms of the insurance contract, confidential.

During or since the financial year, the ultimate parent company of the Responsible Entity, Aviva plc, has paid premiums in respect of a global Directors and Officers Liability contract insuring all directors and officers of Portfolio Partners Limited. It is not practicable to apportion the global premium to specifically attribute an amount of premium to Portfolio Partners Limited.

No insurance premiums are paid out of the Scheme assets in relation to insurance cover for the Responsible Entity, its officers and employees, the Compliance Committee or the auditors of the Scheme.

## Directors' Report (continued)

### Rounding

The amounts contained in this report and in the financial report have been rounded under the option available to the Scheme under ASIC Class Order 98/0100. The Scheme is an entity to which the Class Order applies, and in accordance with the Class Order, amounts in the Directors' Report and the Financial Report have been rounded to the nearest thousand dollars (where rounding is appropriate).

Signed in accordance with a resolution of the Directors.


On behalf of the Board  
Portfolio Partners Limited



Anthony Burrill  
Director of Portfolio Partners Limited  
Date: 25 September 2008

## Directors' Report (continued)

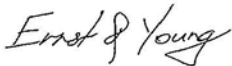
### Auditor's Independence Declaration




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**Auditor's Independence Declaration to the Directors of Portfolio Partners Long/Short Equity Trust**

In relation to our audit of the financial report of Portfolio Partners Long/Short Equity Trust for the financial year ended 30 June 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



Martin Walsh  
Partner  
25 September 2008

Liability limited by a scheme approved  
under Professional Standards Legislation



**Income Statement**  
For the year ended 30 June 2008

	<b>Notes</b>	<b>2008 \$'000</b>	<b>2007 \$'000</b>
<b>Income</b>			
Dividend revenue		2,036	15,264
Distribution revenue		274	686
Interest revenue		300	-
Changes in the fair value of investments Designated as at fair value through profit or loss		5,813	67,126
		<u>8,423</u>	<u>83,076</u>
<b>Expenses</b>			
Responsible entity fees	11(c)	(538)	(2,266)
Other expenses		(1,012)	(5,532)
		<u>(1,550)</u>	<u>(7,798)</u>
<b>Net Profit Attributable to Unitholders</b>		6,873	75,278
Finance costs			
Distributions to unitholders	3	(23,385)	(88,445)
<b>Change in Net Assets Attributable to Unitholders</b>		<u>(16,512)</u>	<u>(13,167)</u>

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



**Balance Sheet  
As at 30 June 2008**

	<b>Notes</b>	<b>2008 \$'000</b>	<b>2007 \$'000</b>
<b>Assets</b>			
Cash and cash equivalents	9	4,489	228
Trade and other receivables	4	209	2,231
Investments in financial assets Designated as at fair value through profit or loss	5	32,552	182,450
<b>Total Assets</b>		37,250	184,909
<b>Liabilities</b>			
Trade and other payables	6	(499)	(2,210)
Interest bearing liabilities	9	-	(2,262)
Financial liabilities	7	(3,904)	(29,199)
Distributions payable		(2,570)	(16,198)
<b>Total Liabilities Excluding Net Assets Attributable to Unitholders</b>		(6,973)	(49,869)
<b>Net Assets Attributable to Unitholders</b>	8(b)	30,277	135,040

The Balance Sheet should be read in conjunction with the accompanying notes.



**Statement of Changes in Net Assets  
Attributable to Unitholders  
For the year ended 30 June 2008**

	<b>Net Assets Attributable to Unitholders</b>
	<b>\$'000</b>
<b>At 1 July 2006</b>	289,986
Net profit attributable to unitholders	75,278
Distributions to unitholders	(88,445)
Application for units	202,307
Redemption of units	(344,086)
<b>At 30 June 2007</b>	135,040
Net profit attributable to unitholders	6,873
Distributions to unitholders	(23,385)
Application for units	37,261
Redemption of units	(125,512)
<b>At 30 June 2008</b>	30,277



**Cash Flow Statement  
For the year ended 30 June 2008**

	Notes	2008 \$'000	2007 \$'000
<b>Cash Flows from Operating Activities</b>			
Dividends received		2,207	15,597
Interest received		300	-
Distributions received		274	686
Responsible entity fees paid		(561)	(2,352)
Other expenses paid		(977)	(5,532)
<b>Net Cash Flows from Operating Activities</b>	9(b)	<u>1,243</u>	<u>8,399</u>
<b>Cash Flows from Investing Activities</b>			
Proceeds from sale of investments designated as at fair value through profit or loss		214,723	749,087
Payments for purchase of investments designated as at fair value through profit or loss		(84,179)	(482,837)
<b>Net Cash Flows from Investing Activities</b>		<u>130,544</u>	<u>266,250</u>
<b>Cash Flows from Financing Activities</b>			
Receipts from issue of units		37,261	202,307
Payments for redemptions of units		(125,512)	(344,086)
Distributions paid		(37,013)	(126,303)
<b>Net Cash Flows used in Financing Activities</b>		<u>(125,264)</u>	<u>(268,082)</u>
<b>Net Increase in Cash and Cash Equivalents</b>		6,523	6,567
Cash and cash equivalents at beginning of year		(2,034)	(8,601)
<b>Cash and Cash Equivalents at end of Year</b>	9(a)	<u>4,489</u>	<u>(2,034)</u>

The Cash Flow Statement should be read in conjunction with the accompanying notes.

## Notes to the Financial Statements

### 1. CORPORATE INFORMATION

The financial report of Portfolio Partners Long/Short Equity Trust for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of Directors of the Responsible Entity on 25 September 2008.

The Portfolio Partners Long/Short Equity Trust is an Australian registered Scheme, constituted on 23 July 2004. Portfolio Partners Limited, the Responsible Entity of the Scheme, is incorporated and domiciled in Australia. The registered office of the Responsible Entity is located at Level 28 Freshwater Place, 2 Southbank Boulevard, Southbank, Victoria 3006.

The nature of the operations and principal activities of the Scheme are described in the Directors' Report.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation

This financial report is a general purpose financial report, which has been prepared in accordance with the Scheme Constitution and the requirements of the Corporations Act 2001, and Australian Accounting Standards.

The financial report has been prepared in accordance with the historical cost convention, except for the valuation of investments in financial assets which have been measured at fair value.

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 expected to be recovered or settled within twelve months, except for investments in financial assets and net assets attributable to unitholders. The amount expected to be recovered or settled in relation to these balances cannot be reliably determined.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Scheme under ASIC Class Order 98/100. The Scheme is an entity to which the Class Order applies.

#### (b) Statement of compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

#### (c) Investments in financial assets

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date ie. the date that the Scheme commits to purchase or sell the asset.

Investments and financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are categorised as either financial assets at fair value through profit and loss, loans and receivables, held to maturity investments, or available for sale assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

## Notes to the Financial Statements (continued)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (c) Investments in financial assets (continued)

##### *Designated as at fair value through profit or loss*

For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantively the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Movements in fair value on investments designated as at fair value through profit or loss are recognised in the Income Statement.

Investments of the Scheme that have been designated as at fair value through profit or loss include certain interest bearing securities that are not held for trading but for which there is no positive intention to hold to maturity.

These investments have been designated as at fair value through profit or loss as doing so results in more relevant information. These investments are part of the full group of financial assets which are managed and have their performance evaluated on a fair value basis in accordance with risk management and investment strategies of the Scheme, as disclosed in Note 12.

#### (d) Derivative financial instruments

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of share price index futures and options are determined by reference to market values for similar instruments. All derivatives do not qualify for hedge accounting.

#### (e) Revenue and income recognition

Revenue is recognised and measured at fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Scheme and the revenue can be reliably measured. The following specific recognition criteria must also be met before income is recognised:

##### *Dividends and distributions*

Revenue is recognised when the right to receive the payment is established.

##### *Interest*

Revenue is recognised as interest accrues, (using the effective interest rate method which is the rate that discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

## Notes to the Financial Statements (continued)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (e) Revenue and income recognition (continued)

##### *Changes in the fair value of investments*

Net gains or losses on investments designated as at fair value through profit or loss are calculated as the difference between the fair value at sale, or at year end, and the fair value at the previous valuation point. This includes both realised and unrealised gains and losses, but does not include interest or dividend income.

#### (f) Cash and cash equivalents

Cash and cash equivalents in the Balance Sheet comprise cash at bank, deposits at call with a futures clearing house and short term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

#### (g) Trade and other receivables

Receivables are recognised and carried at original amounts, and an estimate for doubtful debts is made when an amount is no longer probable. Trade and other receivables include accrued dividends, distribution income and accrued income on interest-bearing securities from the date the security is quoted ex-coupon.

Sales of investments are recorded on trade date and normally settle within three business days. Sales of securities and investments that are unsettled at reporting date are included in trade and other receivables.

#### (h) Trade and other payables

Liabilities for payables are carried at cost, which is the fair value to be paid for goods and services received, whether or not billed to the Scheme. Trade and other payables include accrued expenses and distributions payable owing by the Scheme which are unpaid as at balance date.

Purchases of investments are recorded on trade date, and normally settle within three business days. Purchases of securities and investments that are unsettled at reporting date are included in trade and other payables.

#### (i) Taxation

Under current legislation, the Scheme is not subject to income tax provided the unitholders are presently entitled to the income of the Scheme and the Scheme fully distributes its net taxable income.

#### (j) Distributions

In accordance with the Scheme's Constitution, the Scheme fully distributes its distributable income to unitholders. Such distributions are determined by reference to the net taxable income of the Scheme. Distributable income includes capital gains arising from the disposal of investments. Unrealised gains and losses on investments that are recognised as income are transferred to net assets attributable to unitholders and are not assessable and distributable until realised. Capital losses are not distributed to unitholders but are retained to be offset against any realised capital gains.

## Notes to the Financial Statements (continued)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **(k) Foreign currency transactions**

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

Both the functional and presentation currency of the Scheme is Australian dollars (\$).

##### *(ii) Transactions and balances*

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the Balance Sheet date.

Exchange differences arising on the settlement of monetary items, or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in a previous financial report, are recognised in profit or loss in the period in which they arise.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate ruling as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

#### **(l) Unit prices**

Unit prices are determined in accordance with the Scheme's Constitution and are calculated as the net assets attributable to unitholders of the Scheme, less estimated costs, divided by the number of units on issue, on a forward pricing basis, determined by the Responsible Entity.

#### **(m) Terms and conditions on units**

Each class of unit issued confers upon the unitholder of each class an equal interest in that particular class in the Scheme, and is of equal value. A unit does not confer any interest in any particular asset or investment of the Scheme. Unitholders have various rights under the Constitution and the Corporations Act 2001, including the right to:

- have their units redeemed;
- receive income distributions;
- attend and vote at meetings of unitholders; and
- participate in the termination and winding up of the Scheme.

The rights, obligations and restrictions attached to each unit are identical in all respects.

## Notes to the Financial Statements (continued)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (n) Goods and services tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

Reduced input tax credits (RITC) recoverable by the Scheme from the Australian Taxation Office (ATO) are recognised as a receivable in the Balance Sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the ATO is classified as part of operating cash flows.

#### (o) Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Scheme no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

#### (p) Short selling of listed equities

Short selling involves the sale of securities the Scheme does not own, based on the expectation that the securities can be bought back at a lower price in order to realise a profit. Any gains or losses made as a result of short selling are brought to account in the Income Statement. Securities are borrowed from another financial institution and interest is payable on the value of the securities borrowed. Short selling is performed in accordance with the provisions of the Scheme Constitution.

All investments are initially recognised at fair value, being the fair value of the consideration paid excluding transaction costs. After initial recognition, the financial assets designated as at fair value through profit or loss are revalued to fair value at each reporting date.

For investments that are actively traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the Balance Sheet date.

To minimise market, liquidity and credit risk, equities sold short are those of major listed entities, in order that equities can be readily purchased to close out short positions.

#### (q) Application of Accounting Standards

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2008:

## Notes to the Financial Statements (continued)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (q) Application of Accounting Standards (continued)

AASB Amendment / Standard	Title	Nature of change to accounting policy	Application date of standard	Application date for the Scheme
2007-3	Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, 6, 102, 107, 119, 127, 134, 136, 1023 & AASB 1038]	No change to accounting policy	1 January 2009	1 July 2009
2007-6	Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, 101, 107, 111, 116 & AASB 138 and Interpretations 1 & 12]	No change to accounting policy	1 January 2009	1 January 2009
2007-8	Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, 101, 107, 111, 116 & AASB 138 and Interpretations 1 & 12]	No change to accounting policy	1 January 2009	1 January 2009
2007-9	Amendments to Australian Accounting Standards arising from the Review of AASs 27, 29 and 31 [AASB 3, 5, 8, 101, 114, 116, 127 & AASB 137]	No change to accounting policy	1 July 2008	1 July 2008
2008-1	Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations [AASB 2]	No change to accounting policy	1 January 2009	1 January 2009
2008-2	Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation [AASB 7, 101, 132, 139 & Interpretation 2]	Following this change, the 'Net assets attributable to unitholders' will be reclassified to equity and distributions will no longer impact on the Income Statement, but will rather be equity distributions.	1 January 2009	1 January 2009
2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1, 2, 4, 5, 7, 101, 107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107]	No change to accounting policy	1 July 2009	1 July 2009

If these accounting standards had been adopted, we do not believe that there would have been a material impact to either the income statement for the year to 30 June 2008 or the balance sheet as at 30 June 2008.

The following amendments are not applicable to the Scheme and therefore have no impact.

AASB Amendment	Title
2007-2	Amendments to Australian Accounting Standards arising from AASB Interpretation 12 [AASB 1, 117, 118, 120, 121, 127, 131 & AASB 139]
AASB 1004	Contributions
AASB 1049	Whole of Government and General Government Sector Financial Reporting
AASB 1050	Administered Items
AASB 1051	Land Under Roads
AASB 1052	Disaggregated Disclosures

## Notes to the Financial Statements (continued)

### 3. FINANCE COSTS

Distribution to unitholders	2008		2007	
	\$'000	Cents per unit	\$'000	Cents per unit
Interim distribution paid – July period	2,020	1.38	-	-
Interim distribution paid – September period	3,095	2.65	-	-
Interim distribution paid – October period	12,986	10.83	-	-
Interim distribution paid – December period	1,556	4.26	11,563	3.35
Interim distribution paid – March period	1,157	3.02	19,586	5.52
Interim distribution paid – April period	-	-	22,628	7.01
Interim distribution paid – May period	-	-	10,053	5.89
Interim distribution paid – June period	-	-	8,417	5.99
Final distribution payable – June period	2,571	6.47	16,198	12.41
	<u>23,385</u>	<u>28.61</u>	<u>88,445</u>	<u>40.17</u>

The component of the final distribution for the year which was unpaid at balance date is shown in the Balance Sheet.

### 4. TRADE AND OTHER RECEIVABLES

	2008 \$'000	2007 \$'000
Income receivable	95	267
Other receivables	-	32
Outstanding settlements receivable	114	1,932
	<u>209</u>	<u>2,231</u>

### 5. INVESTMENTS IN FINANCIAL ASSETS

Designated as at fair value through profit or loss	2008 \$'000	2007 \$'000
<i>i. Listed equities and listed managed investment schemes</i>		
Domestic equities	28,275	153,850
Foreign equities*	3,046	15,001
Domestic listed trusts	1,087	13,477
	<u>32,408</u>	<u>182,328</u>
<i>ii. Derivatives</i>		
Share price index futures	144	122
	<u>144</u>	<u>122</u>
<b>Total Investments in Financial Assets</b>	<u>32,552</u>	<u>182,450</u>

\* Foreign equities includes securities listed on Australian Stock Exchange but have been classified according to their domicile status.



## Notes to the Financial Statements (continued)

### 6. TRADE AND OTHER PAYABLES

	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Outstanding settlements payable	433	2,124
Responsible Entity fees payable	30	86
Other payable	36	-
	<u>499</u>	<u>2,210</u>

### 7. FINANCIAL LIABILITIES

	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Short equity positions	3,904	29,199
	<u>3,904</u>	<u>29,199</u>

### 8. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

The terms and conditions attached to units in the Scheme can be found in note 2(m).

#### (a) Units on issue

	<b>2008</b> <b>Number</b> <b>'000</b>	<b>2007</b> <b>Number</b> <b>'000</b>
Units on issue as at beginning of the financial year	130,520	244,135
Units issued during the financial year	40,571	167,389
Units redeemed or otherwise cancelled during the financial year	(127,977)	(281,004)
Units on issue as at end of the financial year	<u>43,114</u>	<u>130,520</u>

#### (b) Reconciliation of net assets attributable to unitholders to fair value

	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Net assets attributable to unitholders (calculated in accordance with redemption requirements)	30,074	135,652
Adjustment from mid-market prices to bid-market prices	(90)	(612)
Net assets attributable to unitholders (calculated in accordance with Australian Accounting Standards)	<u>29,984</u>	<u>135,040</u>

## Notes to the Financial Statements (continued)

### 8. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (continued)

#### (c) Components of net assets attributable to unitholders

Included within closing net assets attributable to unitholders are the following amounts:

	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Undistributed income	91	6,426
Unrealised gains/(losses) on listed equities	(1,004)	19,061
Unrealised gains on derivatives	143	122

Undistributed income is comprised of other income/expenses that are not yet assessable/deductible.

Unrealised gains/(losses) on investments represents the net unrealised gain/(loss) on investments held by the Scheme at balance date, which are not yet distributable to unitholders.

For movements in net assets attributable to unitholders funds refer to the Statement of Changes in Net Assets Attributable to Unitholders.

### 9. CASH AND CASH EQUIVALENTS

#### (a) Reconciliation of cash and cash equivalents

	<b>2008</b> <b>\$ '000</b>	<b>2007</b> <b>\$ '000</b>
For the purposes of the Balance Sheet and Cash Flow Statement, cash and cash equivalents comprise:		
Cash at bank and in hand	4,222	-
Deposits at call with a futures clearing house	267	228
Interest bearing liabilities	-	(2,262)
	<u>4,489</u>	<u>(2,034)</u>

Cash at bank and in hand, and deposits at call with a futures clearing house, earn interest at floating rates based on daily bank deposit rates.

#### (b) Reconciliation of net profit attributable to unitholders to net cash flows from operating activities

	<b>2008</b> <b>\$ '000</b>	<b>2007</b> <b>\$ '000</b>
Net profit/(loss) attributable to unitholders	6,873	(13,167)
<i>Adjustments for:</i>		
Unrealised component of changes in the fair value of investments	(5,813)	21,319
<i>Changes in assets and liabilities:</i>		
Decrease in receivables	203	339
Decrease in payables	(20)	(92)
Net cash flows from operating activities	<u>1,243</u>	<u>8,399</u>



## Notes to the Financial Statements (continued)

### 9. CASH AND CASH EQUIVALENTS (continued)

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

	2008 \$'000	2007 \$'000
Non-cash financing and investing activities carried out during the year on normal commercial terms and conditions included:		
Reinvestment of unitholder distributions	21,364	82,934

### 10. AUDITORS' REMUNERATION

Ernst and Young conducted the audit of the Scheme. Any amounts received and receivable by Ernst and Young are expenses of the Responsible Entity. During the year \$8,555 was paid for audit related services.

### 11. RELATED PARTY DISCLOSURES

#### (a) Responsible Entity

The Responsible Entity of the Portfolio Partners Long/Short Equity Trust is Portfolio Partners Limited, whose immediate holding company is Morley Fund Management Group Limited and ultimate holding company is Aviva plc.

#### (b) Details of Key Management Personnel

##### (i) Directors

The Directors of Portfolio Partners Limited are considered to be Key Management Personnel of the Scheme. The Directors of the Responsible Entity in office during the year and up to the date of the report are:

Craig Bingham

Anthony Burrill

David Daynes

Allan Griffiths

Christopher Oglethorpe

David Watson (resigned 28/08/2007)

Directors have been in office for the entire period unless otherwise disclosed.

##### (ii) Other Key Management Personnel

In addition to the Directors noted above Portfolio Partners Limited, the Responsible Entity of the Scheme, is considered to be Key Management Personnel with the authority for the strategic direction and management of the Scheme.

## Notes to the Financial Statements (continued)

### 11. RELATED PARTY DISCLOSURES (continued)

#### (b) Details of Key Management Personnel (continued)

##### (iii) *Compensation of Key Management Personnel*

No amount is paid by the Scheme directly to the Directors of the Responsible Entity. Consequently, no compensation as defined in AASB 124 "Related Party Disclosures" is paid by the Scheme to the Directors as Key Management Personnel.

Compensation is paid to the Responsible Entity in the form of fees and is disclosed in Note 11(c).

#### (c) Fees

Portfolio Partners Limited provides investment management services to the Portfolio Partners Long/Short Equity Trust.

Transactions between the Portfolio Partners Long/Short Equity Trust and Portfolio Partners Limited result from normal dealings with the company as the Scheme's Responsible Entity. Portfolio Partners Limited is an Australian Financial Services License holder.

The Responsible Entity, Portfolio Partners Limited, receives all management fees that have been paid by the Scheme during the year. The Responsible Entity is entitled to receive a management fee of 1.00% (2007: 0.60%) of the total assets of the Scheme under the terms of the Constitution. The fees are paid on a monthly basis. Total fees paid to the Responsible Entity during the year for management of the Scheme were \$538,010 (2007: \$2,266,073) and performance fees were \$339,600.47 (2007: Nil).

#### (d) Related Party Transactions

##### *Related parties*

Transactions between the Scheme and the Responsible Entity during the year are outlined in note 11(c) above.

Transactions between the Scheme and other managed investment schemes also managed by the Responsible Entity consisted of the sale of units in the Scheme to related managed investment schemes, purchases of units in related managed investment schemes, and receipt and payment of distributions on normal commercial terms and conditions.

Transactions between the Scheme and other registered Schemes also managed by the Responsible Entity are outlined in note 11(e).

##### *Terms and conditions of transactions with related parties*

All related party transactions are made in arms length transactions on normal commercial terms and conditions. Outstanding balances for Responsible Entity fees (\$30,437) at year end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables.

## Notes to the Financial Statements (continued)

### 11. RELATED PARTY DISCLOSURES (continued)

#### **(e) Investments**

##### *(i) Related party investments of the Scheme*

The Scheme has no investment in the Responsible Entity or any Schemes for which Portfolio Partners Limited acts as Responsible Entity.

##### *(ii) Related party investments in the Scheme*

Portfolio Partners Limited and Schemes for which it acts as Responsible Entity have no interests in the units of the Scheme.

The terms and conditions of the Directors' and Employees' holdings are consistent with all other unitholders of the Scheme.

### 12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

#### **(a) Financial Risk Management Objectives, Policies and Processes**

Risks arising from holding financial instruments are inherent in the Scheme's activities, and are managed through a process of ongoing identification, measurement and monitoring. The Scheme is exposed to credit risk, liquidity risk and market risk.

Financial instruments of the Scheme comprise investments in financial assets for the purpose of generating a return on the investment made by unitholders, in addition to derivatives, cash and cash equivalents, net assets attributable to unitholders, and other financial instruments such as trade debtors and creditors, which arise directly from its operations.

The Responsible Entity is responsible for identifying and controlling the risks that arise from these financial instruments.

The risks are measured using a method that reflects the expected impact on the results and net assets attributable to unitholders of the Scheme from reasonably possible changes in the relevant risk variables. Information about these risk exposures at the reporting date, measured on this basis, is disclosed below. Information about the total fair value of financial instruments exposed to risk, as well as compliance with established investment mandate limits, is also monitored by the Responsible Entity. These mandate limits reflect the investment strategy and market environment of the Scheme, as well as the level of risk that the Scheme is willing to accept, with additional emphasis on selected industries.

This information is prepared and reported to relevant parties within the Responsible Entity on a regular basis as deemed appropriate, including the fund manager, compliance manager, other key management personnel, Credit Committees, and ultimately the Board of Directors of the Responsible Entity.

As part of its risk management strategy, the Scheme uses derivatives and other investments, including share price futures to manage exposures resulting from changes in equity risks and exposures arising from forecast transactions.

## Notes to the Financial Statements (continued)

### 12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### (a) Financial Risk Management Objectives, Policies and Processes (continued)

Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

In order to avoid excessive concentrations of risk, the Scheme monitors its exposure to ensure concentrations of risk remain within acceptable levels and either reduces exposure or uses derivative instruments to manage the excessive risk concentrations when they arise.

#### (b) Credit Risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Scheme to incur a financial loss.

With respect to credit risk arising from the financial assets of the Scheme, other than derivatives, the Scheme's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the Balance Sheet. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values. The Responsible Entity aims to minimise credit risk by incorporating credit quality and level of debt held by individual companies into investment decisions, thereby limiting any exposure to financial loss.

The Scheme holds no collateral as security or any other credit enhancements. There are no financial assets that are past due or impaired, or would otherwise be past due or impaired except for the terms having been renegotiated. The Scheme minimises its exposure to credit risk on derivatives by only trading with top-tier financial institutions and has limits on the level of instruments that it holds with each counterparty.

#### *Risk concentrations of credit risk exposure*

Concentration of credit risk is managed by counterparty, by geographical region and by industry sector.

The Scheme's investments in financial assets can be analysed by the following geographic regions:

	<b>2008 \$'000</b>	<b>2007 \$'000</b>
Australia	29,506	167,449
North America	639	11,721
Asia	2,407	3,280
<b>Total</b>	<b>32,552</b>	<b>182,450</b>

## Notes to the Financial Statements (continued)

### 12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### (b) Credit Risk (continued)

An industry sector analysis of the Scheme's investments in financial assets is as follows:

	<b>2008 \$'000</b>	<b>2007 \$'000</b>
Consumer Staples	2,420	8,559
Consumer Discretionary	2,432	19,684
Financials	5,040	34,640
Health Care	-	7,099
Industrials	3,504	26,119
Materials	10,759	42,760
Telecommunications	2,374	12,496
Energy	4,923	20,615
Information Technology	956	8,809
Utilities	-	1,669
Other	144	-
<b>Total</b>	<b>32,552</b>	<b>182,450</b>

#### (c) Liquidity Risk

Liquidity risk is the risk that the scheme will encounter difficulty in meeting obligations associated with financial liabilities. This risk is controlled through the Scheme's investment in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Scheme maintains sufficient cash and cash equivalents to meet normal operating requirements.

##### *Maturity analysis for financial liabilities*

Financial liabilities of the Scheme comprise trade and other payables, distributions payable, and net assets attributable to unitholders. Trade and other payables and distributions payable have no contractual maturities but are typically settled within 7 days.

Net assets attributable to unitholders are entirely payable on demand.

#### (d) Market risk

Market risk is the risk that the fair value or future cash flows for financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandate limits and investment strategies.

Share price futures may be used by the Scheme to hedge against adverse price movements in the value of financial assets.

## Notes to the Financial Statements (continued)

### 12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### (d) Market risk (continued)

##### *Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Scheme has established limits on investments in interest bearing assets, which are monitored on a daily basis. The Scheme may use derivatives to hedge against unexpected increases in interest rates.

The Scheme's exposure to interest rate arises from cash and cash equivalents. As the Scheme maintains minimal investments in cash and cash equivalents, the exposure to interest rate risk is considered to be immaterial.

##### *Equity price risk*

Equity price risk is the risk that fair value of equities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual stock or factors affecting all instruments in the market. Equity price risk exposure arises from the Scheme's investment portfolio.

The effect on the net assets attributable to unitholders and operating profit before distribution due to reasonably possible changes in market factors, as represented by the equity indices, with all other variables held constant is indicated in the table below.

##### *Accounting Assumptions-Variability of interest rates*

The sensitivity illustrates the effect on the net profit attributable to unitholders from a reasonably possible change in the benchmark index based upon the Responsible Entity's internal assessment over the next financial year.

Index	2008		2007	
	Change in equity price %	Effect on net profit attributable to unitholders \$'000	Change in equity price %	Effect on net profit attributable to unitholders \$'000
ASX 200	10 / (15)	2,865 / (4,297)	28.66	(778)

### 13. FAIR VALUES

The Scheme's financial assets and liabilities included in the Balance Sheet are carried at their fair value as disclosed by class of financial assets at Note 5 or at amounts that approximate their fair values, other than net assets attributable to unitholders as disclosed in Note 8(b).

Refer to Note 2 for the methods and assumptions adopted in determining fair values of investments.

## Notes to the Financial Statements (continued)

### 14. SEGMENT INFORMATION

The Scheme operates in one business segment, being investment management. The Scheme also operates from one geographic location, being Australia, from where its investing activities are managed. Revenue is derived from dividends, distributions and interest.

### 15. PRIME BROKERAGE ARRANGEMENTS

UBS AG Australian Branch has been appointed Prime Broker for the Scheme. The services provided by the Prime Broker may include the provision to the Responsible Entity of borrowing and lending of securities, settlement of transactions. The assets of the Scheme have been charged by the Responsible Entity in favour of the Prime Broker as security for payments and performance by the Responsible Entity under the Prime Brokerage Agreement for the Scheme.

### 16. COMMITMENTS AND CONTINGENCIES

The Responsible Entity is entitled to receive a performance fee if the Scheme's performance is greater than the benchmark index (hurdle rate). Where performance is greater than the hurdle, the performance fee will be 15% of the difference. The precise method for calculating performance fees is contained within the Scheme's constitution.

Performance fees are calculated daily and are reflected within the unit price. Performance fees are paid out of the assets at 31 December each year. If payable at 30 June, \$293.202 would be payable.

Future performance fees will accordingly depend on the performance of investment markets to which the Scheme is exposed.

No other commitments and contingencies have arisen for the year ended 30 June 2008.

### 17. EVENTS AFTER THE BALANCE SHEET DATE

During September 2008, Portfolio Partners will change its company name to Aviva Investors Australia, and the Responsible Entity will also change to Aviva Investors Australia. As a result, the Scheme will be called the 'Aviva Investors Long/Short Equity Fund'. These changes will not impact the Scheme's operations.

Between the balance date and the date of approval of this financial report, certain markets to which the Scheme has investment exposure moved significantly. Investment markets throughout the world remain volatile as a result of the so-called 'credit crunch' and this has had a considerable impact on the performance of the domestic equity and fixed interest markets.

At the date of this report, the Australian Securities & Investments Commission (ASIC) had placed a prohibition relating to covered short sales in the Australian market for a period of 30 days from 22 September 2008. The Responsible Entity will continue to monitor regulatory developments in relation to short selling.

The Scheme's exposure to these events continues to be monitored daily and is not expected to have a material impact on the Scheme's asset valuations. Movements in markets are reflected on a daily basis in unit prices.

## Director's Declaration

In accordance with a resolution of the Directors of Portfolio Partners Limited, the Responsible Entity, I state that:

In the opinion of the Directors:

- (a) the financial statements and notes of the Scheme are in accordance with the Corporations Act 2001, including:
  - i. giving a true and fair view of the Scheme's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
  - ii. complying with Accounting Standards and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable; and
- (c) the financial statements are in accordance with the provisions of the Scheme's Constitution.

On behalf of the Board  
Portfolio Partners Limited



Anthony Burrill  
Director of Portfolio Partners Limited  
Date: 25 September 2008

## Independent auditor's report to the members of Portfolio Partners Long/Short Equity Trust

We have audited the accompanying financial report of Portfolio Partners Long/Short Equity Trust, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in net assets attributable to unitholders and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

### Directors' Responsibility for the Financial Report

The directors of Portfolio Partners Limited (ABN 85 066 081 114) ("the responsible entity") are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls 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 also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### 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 and International Standards on Auditing. 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 our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity'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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

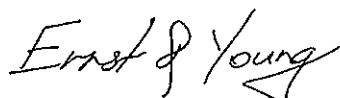
### Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Fund a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

## Auditor's Opinion

In our opinion:

1. the financial report of Portfolio Partners Long/Short Equity Trust is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the financial position of Portfolio Partners Long/Short Equity Trust at 30 June 2008 and of its 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*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.



Ernst & Young



Martin Walsh  
Partner  
Melbourne  
25 September 2008