

Annual Financial Report  
Aviva Investors Long Term Equity Fund – Series 1

Year ended 30 June 2009



Australian Registered Scheme Number: 127 178 170  
Australian Business Number: 72 253 939 312

Australian Financial Services Licence Number: 234483  
Responsible Entity: Aviva Investors Australia Limited

## Table of contents

<b>Directors' report .....</b>	<b>1</b>
<b>Income statement .....</b>	<b>7</b>
<b>Balance sheet .....</b>	<b>8</b>
<b>Statement of changes in net assets attributable to unitholders .....</b>	<b>9</b>
<b>Cash flow statement.....</b>	<b>10</b>
<b>Notes to the financial statements .....</b>	<b>11</b>
<b>Directors' declaration.....</b>	<b>26</b>
<b>Independent review report.....</b>	<b>27</b>

## Directors' report

The Directors of Aviva Investors Australia Limited (ABN 85 066 081 114), previously Portfolio Partners Limited (ABN 85 066 081 114), the Responsible Entity of the Aviva Investors Long Term Equity Fund – Series 1 (“the Scheme”) present their report together with the financial statements of the Scheme for the year ended 30 June 2009 and the auditor’s report thereon.

## Directors

The names of the Directors of the Responsible Entity in office during the year (Portfolio Partners Limited to 29 September 2008 and then Aviva Investors Australia Limited) and until the date of this report are:

- Craig Bingham
- Anthony Burrill
- David Daynes (resigned 27 October 2008)
- Allan Griffiths (resigned 22 May 2009)
- Glenn Hart (appointed 3 June 2009)
- Christopher Oglethorpe (resigned 24 October 2008)
- Jeffrey Phillips (appointed 27 October 2008)

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 Aviva Investors Long Term Equity Fund – Series 1 is an Australian registered scheme, and was constituted on 1 April 2008. Aviva Investors Australia 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 2009 was \$344,834 (2008: \$1,757 loss). Distributions to unitholders during the year totalled \$230,830 (2008: \$139).

A final distribution was declared for the year ended 30 June 2009 of 0.95 cents per unit (2008: 0.01 cents per unit), paid on 2 July 2009. The total amount not paid at the reporting date is disclosed in the balance sheet.

#### Performance

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

	2009 %	2 months to 30/06/2008 %
Growth return	(13.47)	(6.35)
Distribution return	1.51	0.01
Total return	(11.96)	(6.34)

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 No 6.00 *Product Performance – calculation and presentation 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:

	2009 %	2008 %
Indirect cost ratio as at 30 June	0.80	0.80

## Directors' report (continued)

### Unit prices

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

	2009 \$	2008 \$
As at 30 June	0.8084	0.9342
Year to 30 June:		
High	0.9803	1.0112
Low	0.6584	0.90021

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

The following fees were paid to Aviva Investors Australia Limited out of Scheme assets during the financial year:

	2009 \$	2008 \$
Management fee for the financial year paid to the Responsible Entity	54,393	154

At the date of authorisation, the interests in the Scheme held by the Responsible Entity and Key Management Personnel were nil.

### Units on issue

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

	2009 Units '000	2008 Units '000
Units issued	18,459	1,727
Units redeemed	(246)	-
Units on issue as at 30 June	19,940	1,727

### Scheme assets

	2009 \$	2008 \$
Value of total scheme assets as at 30 June	15,982,372	2,965,104

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**

On 29 September 2008, Portfolio Partners Limited (the Responsible Entity) changed its company name to Aviva Investors Australia Limited. The Scheme also changed its name on this date and is now called the 'Aviva Investors Long Term Equity Fund – Series 1'.

There were no other significant changes in the state of affairs of the Scheme during the year, other than those changes identified in the financial statements for the year ended 30 June 2009.

### **Significant events after the balance date**

On 31 July 2009, the Scheme closed for new applications as detailed in the Product Disclosure Statement.

There has been no matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the Scheme's operations in future financial years, the results of those operations or the Scheme's state of affairs in future financial years.

### **Likely developments and expected results**

The investment strategy of the Scheme will be maintained in accordance with the Scheme Constitution and investment objectives as detailed in the most recent Product Disclosure Statement.

### **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.

#### *Insurance premiums*

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

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  
Aviva Investors Australia Limited



Anthony Burrill  
Director of Aviva Investors Australia Limited  
Date: 28 September 2009

## Directors' report (continued)

### Auditor's independence declaration



Ernst & Young Building  
8 Exhibition Street  
Melbourne VIC 3000 Australia  
GPO Box 67 Melbourne VIC 3001  
Tel: +61 3 9288 8000  
Fax: +61 3 8650 7777  
www.ey.com/au

**Auditor's Independence Declaration to the Directors of Aviva Investors  
Long Term Equity Fund – Series 1**

In relation to our audit of the financial report of Aviva Investors Long Term Equity Fund - Series 1 for the financial year ended 30 June 2009, 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*

Ernst & Young



Martin Walsh  
Partner  
28 September 2009

Liability limited by a scheme approved  
under Professional Standards Legislation

**Income statement**  
**For the year ended 30 June 2009**

	Notes	2009 \$'000	01/04/2008 to 30/06/2008 \$'000
<b>Income</b>			
Dividend revenue		282	-
Distribution revenue		38	-
Interest revenue		12	-
Changes in the fair value of investments			
Designated as at fair value through profit or loss		67	(2)
		<u>399</u>	<u>(2)</u>
<b>Expenses</b>			
Responsible Entity fees	10(c)	(54)	-
		<u>345</u>	<u>(2)</u>
<b>Net profit/(loss) attributable to unitholders</b>			
Finance costs			
Distributions to unitholders	3	(231)	-
<b>Change in net assets attributable to unitholders</b>		<u>114</u>	<u>(2)</u>

The income statement should be read in conjunction with the accompanying notes.

**Balance sheet**  
**As at 30 June 2009**

	Notes	2009 \$'000	01/04/2008 to 30/06/2008 \$'000
<b>Assets</b>			
Cash and cash equivalents	8(a)	405	1,450
Trade and other receivables	4	75	-
Investments in financial assets			
Designated as at fair value through profit or loss	5	15,502	1,515
<b>Total assets</b>		<b>15,982</b>	<b>2,965</b>
<b>Liabilities</b>			
Trade and other payables	6	(10)	(1,450)
Distributions payable		(189)	-
<b>Total liabilities excluding net assets attributable to unitholders</b>		<b>(199)</b>	<b>(1,450)</b>
<b>Net assets attributable to unitholders</b>	7(b)	<b>15,783</b>	<b>1,515</b>

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 2009**

	2009	01/04/2008 to 30/06/2008
	\$'000	\$'000
<b>Opening net assets attributable to unitholders</b>	1,515	-
Net profit/(loss) attributable to unitholders	345	(2)
Distribution to unitholders	(231)	-
Application of units	14,264	1,517
Redemption of units	(110)	-
<b>Closing net assets attributable to unitholders</b>	<b>15,783</b>	<b>1,515</b>

**Cash flow statement**  
**For the year ended 30 June 2009**

	Notes	2009 \$'000	01/04/2008 to 30/06/2008 \$'000
<b>Cash flows from operating activities</b>			
Dividends received		209	-
Interest received		12	-
Distributions received		38	-
Responsible Entity fees paid		(46)	-
<b>Net cash flows from operating activities</b>	8(b)	213	-
<b>Cash flows from investing activities</b>			
Proceeds from sale of investments designated as at fair value through profit or loss		440	-
Payments for purchase of investments designated as at fair value through profit or loss		(15,810)	(67)
<b>Net cash flows used in investing activities</b>		(15,370)	(67)
<b>Cash flows from financing activities</b>			
Receipts from issue of units		14,264	1,517
Payments for redemption of units		(110)	-
Distributions paid		(42)	-
<b>Net cash flows from financing activities</b>		14,112	1,517
<b>Net (decrease)/increase in cash and cash equivalents</b>		(1,045)	1,450
Cash and cash equivalents at beginning of year		1,450	-
<b>Cash and cash equivalents at end of year</b>	8(a)	405	1,450

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 Aviva Investors Long Term Equity Fund – Series 1 for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of Directors of the Responsible Entity on 28 September 2009.

The Aviva Investors Long Term Equity Fund – Series 1 is an Australian registered Scheme, constituted on 1 April 2008. Aviva Investors Australia 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

The significant accounting policies which have been adopted in the preparation of this financial report are:

#### (a) Basis of preparation

This financial report is a general purpose financial report that has been prepared on a going concern basis in accordance with the Scheme Constitution, 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*

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.

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 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 11.

#### (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 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.

##### *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.

## Notes to the financial statements (continued)

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

#### (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.

#### (k) 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.

## Notes to the financial statements (continued)

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

#### (l) 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.

#### (m) 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.

#### (n) Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Scheme transfers a financial asset and is no longer exposed to substantially all of the risks and rewards of the asset. Where the Scheme neither retains nor transfers substantially all of the risks and rewards of the financial asset, derecognition occurs when the Scheme no longer controls the asset.

## Notes to the financial statements (continued)

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

#### (o) Application of accounting standards

The following Australian Accounting Standards and amendments to Standards have been identified as those which may impact the Scheme in the period of initial application:

AASB Amendment / Standard	Title	Nature of change to accounting policy	Application date of standard	Application date for the Scheme
101 (revised), 2007-8 and 2007-10	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income.  Other revisions include impacts on the presentation items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	1 January 2009
2008-2	Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation	The amendments provide a limited exception to the definition of a liability so as to allow an entity that issues puttable financial instruments with certain specified features, to classify those instruments as equity rather than financial liabilities. This limited exception does not apply to the Scheme as those instruments are classified as financial liabilities.	1 January 2009	1 January 2009
2009-2	Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments [AASB 4, 7, 1023 & AASB 1038]	The main amendment to AASB 7 requires fair value measurements to be disclosed by the source of inputs, using the following three-level hierarchy: <ul style="list-style-type: none"> <li>o quoted prices (level 1);</li> <li>o observable directly or indirectly (level 2);</li> <li>o unobservable (level 3).</li> </ul> These amendments arise from the issuance of Improving Disclosures about Financial Instruments (Amendments to IFRS 7) by the IASB in March 2009. The amendments to AASB 4, AASB 1023 and AASB 1038 comprise editorial changes resulting from the amendments to AASB 7.	Annual reporting periods beginning on or after 1 January 2009 that end on or after 30 April 2009	1 July 2009

## Notes to the financial statements (continued)

### 3. FINANCE COSTS

	2009		01/04/2008 to 30/06/2008	
	\$'000	Cents per unit	\$'000	Cents per unit
Interim distribution paid – December quarter	42	0.42	-	-
Final distribution payable – June quarter	189	0.95	-	0.01
	<u>231</u>	<u>1.37</u>	<u>-</u>	<u>0.01</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

	2009 \$'000	01/04/2008 to 30/06/2008 \$'000
Income receivable	73	-
Other receivables	2	-
	<u>75</u>	<u>-</u>

### 5. INVESTMENTS IN FINANCIAL ASSETS

	2009 \$'000	01/04/2008 to 30/06/2008 \$'000
<b>Designated as at fair value through profit or loss</b>		
<i>i. Listed equities and listed managed investment schemes</i>		
Domestic equities	14,514	1,407
Domestic listed managed investment schemes	988	108
	<u>15,502</u>	<u>1,515</u>
<b>Total investments in financial assets</b>	<u>15,502</u>	<u>1,515</u>

### 6. TRADE AND OTHER PAYABLES

	2009 \$'000	01/04/2008 to 30/06/2008 \$'000
Outstanding settlements payable	-	1,450
Responsible Entity fees payable	10	-
	<u>10</u>	<u>1,450</u>

## Notes to the financial statements (continued)

### 7. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

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

	2009 Number '000	01/04/2008 to 30/06/2008 Number '000
--	---------------------	--

#### (a) Units on issue

Units on issue as at beginning of the financial year	1,727	-
Units issued during the financial year	18,459	1,727
Units redeemed or otherwise cancelled during the financial year	(246)	-
Units on issue as at end of the financial year	19,940	1,727

	2009 \$'000	01/04/2008 to 30/06/2008 \$'000
--	----------------	---------------------------------------

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

Net assets attributable to unitholders (calculated in accordance with redemption requirements)	15,835	1,517
Adjustment from mid-market prices to bid-market prices	(52)	(2)
Net assets attributable to unitholders (calculated in accordance with Australian Accounting Standards)	15,783	1,515

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

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

Undistributed income	47	-
Unrealised gains/(losses) on listed equities	148	(2)

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.

## Notes to the financial statements (continued)

### 8. CASH AND CASH EQUIVALENTS

	2009 \$'000	01/04/2008 to 30/06/2008 \$'000
--	----------------	---------------------------------------

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

For the purposes of the balance sheet and cash flow statement, cash and cash equivalents comprise:

Cash at bank and in hand	405	1,450
	<u>405</u>	<u>1,450</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 loss attributable to unitholders to net cash flows from operating activities

Net profit/(loss) attributable to unitholders	345	(2)
<i>Adjustments for:</i>		
Unrealised component of changes in the fair value of investments	(67)	2
<i>Changes in assets and liabilities:</i>		
Increase in receivables	(75)	-
Increase in payables	10	-
Net cash flows from operating activities	<u>213</u>	<u>-</u>

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

Non-cash financing and investing activities carried out during the year on normal commercial terms and conditions included:

Reinvestment of unitholder distributions	-	-
--	---	---

### 9. 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.

	2009 \$	2008 \$
Audit related services	6,413	6,224
Non-audit related services	4,230	4,936
	<u>10,643</u>	<u>11,160</u>

## Notes to the financial statements (continued)

### 10. RELATED PARTY DISCLOSURES

#### (a) Responsible Entity

The Responsible Entity of the Aviva Investors Long Term Equity Fund – Series 1 is Aviva Investors Australia Limited, whose immediate holding company is Aviva Investors Holdings Limited and ultimate holding company is Aviva plc.

#### (b) Details of key management personnel

##### *Directors*

The Directors of Aviva Investors Australia 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 (resigned 27 October 2008)
- Allan Griffiths (resigned 22 May 2009)
- Glenn Hart (appointed 3 June 2009)
- Christopher Oglethorpe (resigned 24 October 2008)
- Jeffrey Phillips (appointed 27 October 2008)

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

##### *Other key management personnel*

In addition to the Directors noted above, Aviva Investors Australia 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.

##### *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 10(c).

## Notes to the financial statements (continued)

### 10. RELATED PARTY DISCLOSURES (continued)

#### (c) Fees

Aviva Investors Australia Limited provides investment management services to the Aviva Investors Long Term Equity Fund – Series 1.

Transactions between the Aviva Investors Long Term Equity Fund – Series 1 and Aviva Investors Australia Limited result from normal dealings with the company as the Scheme's Responsible Entity. Aviva Investors Australia Limited is an Australian Financial Services Licence holder.

The Responsible Entity, Aviva Investors Australia 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 0.80% (2008: 0.80%) 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 \$54,393 (2008: \$154).

#### (d) Related party transactions

##### *Related parties*

Transactions between the Scheme and the Responsible Entity during the year are outlined in note 10(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 10(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 (\$10,388) at year end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables.

#### (e) Investments

##### *Related party investments of the Scheme*

The Scheme has no investment in the Responsible Entity.

##### *Related party investments in the Scheme*

Aviva Investors Australia Limited and Schemes for which it acts as Responsible Entity have no interests in the units of the Scheme. No Key Management Personnel hold units in the Scheme (2008: Nil).

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

## Notes to the financial statements (continued)

### 11. 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 to manage exposures resulting from changes in interest rates, equity risks and exposures arising from forecast transactions.

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.

## Notes to the Financial Statements (continued)

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

#### (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.

Credit risk is not considered to be significant to the Scheme.

#### (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.

Under the terms of its Constitution, the Scheme has the ability to manage liquidity risk by delaying redemptions to unitholders, if necessary, until the funds are available to pay them.

#### (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)

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

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

##### *Risk concentrations of market risk exposure*

Concentration of market 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:

	2009 \$'000	01/04/2008 to 30/06/2008 \$'000
Australia	15,502	1,515
<b>Total</b>	<b>15,502</b>	<b>1,515</b>

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

	2009 \$'000	01/04/2008 to 30/06/2008 \$'000
Consumer staples	2,741	228
Financials	5,786	575
Industrials	1,813	185
Materials	3,044	301
Telecommunications	927	105
Energy	1,191	121
<b>Total</b>	<b>15,502</b>	<b>1,515</b>

##### *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 risk 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.

## Notes to the financial statements (continued)

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

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

##### *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 equity prices*

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.

The Scheme invests in equities from this index however this analysis is an indication only of the effect on net assets attributable to unitholders. It cannot be assumed that the Scheme will move exactly in line with the index.

#### 2009

Index	Change in equity price %	Effect on net profit attributable to unitholders \$'000
ASX 50 Accumulation	10 / (5)	1,550 / (775)

#### 01/04/2008 to 30/06/2008

Index	Change in equity price %	Effect on net profit attributable to unitholders \$'000
ASX 50 Accumulation	10 / (15)	151 / (227)

## Notes to the financial statements (continued)

### 12. 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 7(b).

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

### 13. 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.

### 14. COMMITMENTS AND CONTINGENCIES

No commitments and contingencies have arisen for the year ended 30 June 2009.

### 15. EVENTS AFTER THE BALANCE SHEET DATE

On 31 July 2009, the Scheme closed for new applications as detailed in the Product Disclosure Statement.

There has been no matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the Scheme's operations in future financial years, the results of those operations or the Scheme's state of affairs in future financial years.

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 'Global Financial Crisis' and this has had a considerable impact on the performance of domestic equity and fixed interest markets.

## Directors' declaration

In accordance with a resolution of the Directors of Aviva Investors Australia Limited, 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:
  - 1. giving a true and fair view of the Scheme's financial position as at 30 June 2009 and of its performance for the year ended on that date; and
  - 2. complying with Accounting Standard 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

On behalf of the Board  
Aviva Investors Australia Limited



Anthony Burrill  
Director of Aviva Investors Australia Limited  
Date: 28 September 2009



### **Auditor's Opinion**

In our opinion:

1. the financial report of Aviva Investors Long Term Equity Fund - Series 1 is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of Aviva Investors Long Term Equity Fund - Series 1 at 30 June 2009 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*

Ernst & Young

A handwritten signature in blue ink, appearing to read "Walsh".

Martin Walsh  
Partner  
Melbourne  
28 September 2009