

Morgan Stanley Global Value Equity Fund

ARSN 093 519 227

Annual report - 30 June 2008

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This financial report covers Morgan Stanley Global Value Equity Fund as an individual entity.

The Responsible Entity of Morgan Stanley Global Value Equity Fund (formerly Morgan Stanley Global Value Equity Trust) is Macquarie Investment Management Limited (ABN 66 002 867 003). The Responsible Entity's registered office is Level 7, 1 Martin Place, Sydney, NSW 2000.

Directors' report

The directors of Macquarie Investment Management Limited (a wholly owned subsidiary of Macquarie Group Limited), the Responsible Entity of Morgan Stanley Global Value Equity Fund (formerly Morgan Stanley Global Value Equity Trust), present their report together with the financial report of Morgan Stanley Global Value Equity Fund ("the Trust") for the year ended 30 June 2008.

Principal activities

The Trust invests in listed international equities and forward contracts in accordance with the provisions of the Trust Constitution.

The Trust did not have any employees during the year.

There were no significant changes in the nature of the Trust's activities during the year.

Directors

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

B N Terry
 B Bruck (resigned 18/08/2008)
 N Roderick
 P Maher
 R Cartwright
 V Malley
 C Vignes (appointed 18/08/2008)

Review and results of operations

During the year, the Trust continued to invest funds in accordance with target asset allocations as set out in the governing documents of the Trust and in accordance with the provisions of the Trust Constitution.

Results

The performance of the Trust, as represented by the results of its operations, was as follows:

	Year ended	
	30 June 2008	30 June 2007
Operating profit/(loss) before finance costs attributable to unitholders (\$'000)	<u>(55,109)</u>	<u>18,322</u>
<i>Distributions</i>		
Distribution paid and payable (\$'000)	<u>3,891</u>	<u>12,904</u>
Distribution (cents per unit)	<u>22.17</u>	<u>92.46</u>

Significant changes in state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Trust that occurred during the financial year under review.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2008 that has significantly affected, or may significantly affect:

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

Directors' report (continued)

Likely developments and expected results of operations

The Trust will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Trust and in accordance with the provisions of the Trust Constitution.

The results of the Trust's operations will be affected by a number of factors, including the performance of investment markets in which the Trust invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

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

Indemnification and insurance of officers and auditors

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

Fees paid to and interests held in the Trust by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of Trust property during the year are disclosed in note 12 on page 23 of the financial statements.

No fees were paid out of Trust property to the directors of the Responsible Entity during the year.

The number of interests in the Trust held by the Responsible Entity or its associates as at the end of the financial year are disclosed in note 12 on page 23 of the financial statements.

Interests in the Trust

The movement in units on issue in the Trust during the year is disclosed in note 6 of the financial statements.

The value of the Trust's assets and liabilities is disclosed on the balance sheet and derived using the basis set out in note 2 of the financial statements.

Environmental regulation

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

Rounding of amounts to the nearest thousand dollars


The Trust is an entity of the kind referred to in Class Order 98/0100 (as amended) issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

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

Directors' report (continued)

A handwritten signature in black ink, appearing to read 'R. Cartwright', with a large, stylized flourish extending to the right.

R Cartwright
Director

Sydney
15 September 2008

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Auditor's Independence Declaration

As lead auditor for the audit of Morgan Stanley Global Value Equity Fund for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Morgan Stanley Global Value Equity Fund.



Craig Stafford
Partner
PricewaterhouseCoopers

Sydney
15 September 2008

Income statement

		30 June 2008 \$'000	30 June 2007 \$'000
	Notes		
Investment income			
Interest income from financial assets not held at fair value through profit or loss		14	29
Dividend income		5,772	4,326
Net gains/(losses) on financial instruments held at fair value through profit or loss	5	(58,016)	15,273
Other operating income		-	3
Total net investment income/(loss)		<u>(52,230)</u>	<u>19,631</u>
Expenses			
Responsible entity's fees	12	1,764	792
Withholding taxes on foreign dividends and interest		755	517
Other operating expenses		360	-
Total operating expenses		<u>2,879</u>	<u>1,309</u>
Operating profit/(loss)		<u>(55,109)</u>	<u>18,322</u>
Finance costs attributable to unitholders			
Distributions to unitholders		(3,891)	(12,904)
(Increase)/decrease in net assets attributable to unitholders	6	59,000	(5,418)
Profit/(loss) for the year		<u>-</u>	<u>-</u>

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

Balance sheet

		30 June 2008 \$'000	30 June 2007 \$'000
	Notes		
Assets			
Cash and cash equivalents	7	2,175	2,356
Due from brokers - receivable for securities sold		2,340	-
Receivables	9	1,042	650
Financial assets held at fair value through profit or loss	8	<u>154,730</u>	<u>181,558</u>
Total assets		<u>160,287</u>	<u>184,564</u>
Liabilities			
Distributions payable		2,086	4,645
Financial liabilities held at fair value through profit or loss	10	8,199	8,132
Responsible entity fees payable	12	<u>1,353</u>	<u>769</u>
Total liabilities (excluding net assets attributable to unitholders)		<u>11,638</u>	<u>13,546</u>
Net assets attributable to unitholders - liability	6	<u>148,649</u>	<u>171,018</u>

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

Statement of changes in equity

	30 June 2008 \$'000	30 June 2007 \$'000
Total equity at the beginning of the financial year	-	-
Profit/(loss) for the year	-	-
Net income/(expense) recognised directly in equity	-	-
Total recognised income and expense for the financial year	<u>-</u>	<u>-</u>
Transactions with equity holders in their capacity as equity holders	-	-
Total equity at the end of the financial year	<u>-</u>	<u>-</u>

Under AIFRS, net assets attributable to unitholders are classified as a liability rather than equity. As a result there was no equity at the start or end of the year.

The above statement of changes in equity should be read in conjunction with note 6.

Cash flow statement

	30 June 2008 \$'000	30 June 2007 \$'000
Notes		
Cash flows from operating activities		
Proceeds from sale of financial instruments held at fair value through profit or loss	247,552	79,247
Purchase of financial instruments held at fair value through profit or loss	(281,036)	(59,894)
Dividends received	4,833	4,302
Interest received	14	29
Other income received	-	3
Responsible entity's fees received/(paid)	(1,445)	(24)
Payment of other expenses	(69)	(117)
Net cash inflow/(outflow) from operating activities	<u>13(a) (30,151)</u>	<u>23,546</u>
Cash flows from financing activities		
Proceeds from applications by unitholders	44,223	7,492
Payments for redemptions by unitholders	(8,948)	(28,768)
Distributions paid	(5,094)	(3,691)
Expenses paid on behalf of unitholders	-	(758)
Net cash inflow/(outflow) from financing activities	<u>30,181</u>	<u>(25,725)</u>
Net increase/(decrease) in cash and cash equivalents	30	(2,179)
Cash and cash equivalents at the beginning of the year	2,356	4,613
Effects of foreign currency exchange rate changes on cash and cash equivalents	<u>(211)</u>	<u>(78)</u>
Cash and cash equivalents at the end of the year	<u>13,7(a) 2,175</u>	<u>2,356</u>
Non-cash financing activities	13(b) 1,356	7,549

The above cash flow statement should be read in conjunction with the accompanying notes.

1 General information

This financial report covers Morgan Stanley Global Value Equity Fund (formerly Morgan Stanley Global Value Equity Trust) ("the Trust") as an individual entity. The Trust was constituted on 28 June 2000.

The Responsible Entity of the Trust is Macquarie Investment Management Limited (the "Responsible Entity"). The Responsible Entity's registered office is Level 7, 1 Martin Place, Sydney, NSW 2000. The financial report is presented in Australian currency.

During the year, the Trust continued to invest funds in accordance with target asset allocations as set out in the current offer document and in accordance with the provisions of the Trust Constitution.

The financial statements were authorised for issue by the directors on 15 September 2008. The directors of the Responsible Entity have the power to amend and reissue the financial report.

2 Summary of significant accounting policies

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

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001* in Australia.

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

Compliance with International Financial Reporting Standards (IFRS)

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of the Trust, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards.

(b) Financial instruments

(i) *Classification*

The Trust's investments are categorised as at fair value through profit or loss. They comprise:

- Financial instruments held for trading

These include derivative financial instruments including futures, forward contracts, options and interest rate swaps. The Trust does not designate any derivatives as hedges in a hedging relationship.

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

These include financial assets that are not held for trading purposes and which may be sold. These are investments in exchange traded debt and equity instruments, unlisted trusts and commercial paper.

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

Loans and receivables/payables comprise amounts due to or from the Trust.

(ii) *Recognition/derecognition*

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

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

Investments are derecognised when the right to receive cashflows from the investments has expired or the Trust has transferred substantially all risks and rewards of ownership.

(iii) *Measurement*

(a) *Financial assets and liabilities held at fair value through profit or loss*

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

- Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

- Fair value in an inactive or unquoted market

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Trust would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date. The fair value of an option contract is determined by applying the Black-Scholes option valuation model.

Investments in other unlisted unit trusts are recorded at the redemption value per unit as reported by the managers of such trusts.

(b) *Loans and receivables*

Loan assets are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any. Such assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment for example when there has been a significant or prolonged decline in the fair value below carrying amount.

If any such indication of impairment exists, an impairment loss is recognised in the income statement as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement.

(c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option and are therefore classified as financial liabilities. The units can be put back to the Trust at any time for cash based on the redemption price. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the balance sheet date if unitholders exercised their right to put the units back to the Trust.

(d) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

2 Summary of significant accounting policies (continued)

(d) Cash and cash equivalents (continued)

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments including cash management trusts, and bank overdrafts.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Trust's main income generating activity.

(e) Investment income

Interest income and expenses are recognised in the income statement for all financial instruments that are not held at fair value through profit or loss using the effective interest method. Interest income on assets held at fair value through profit or loss is included in the net gains/(losses) on financial instruments. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(b).

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Trust estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Trust distributions are recognised on an entitlements basis.

(f) Expenses

All expenses, including Responsible Entity's fees, are recognised in the income statement on an accruals basis.

(g) Income tax

Under current legislation, the Trust is not subject to income tax provided the taxable income of the Trust is fully distributed either by way of cash or reinvestment (ie unitholders are presently entitled to the income of the Trust).

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

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

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

The Trust currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded gross of withholding tax in the income statement.

(h) Distributions

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

2 Summary of significant accounting policies (continued)

(i) Increase/decrease in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in the income statement as finance costs.

(j) Foreign currency translation

i) Functional and presentation currency

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

ii) Transactions and balances

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

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

(k) Due from/to brokers

Amounts due from/to brokers represent payables for securities purchased and receivables for securities sold that have been contracted for but not yet delivered by the end of the year. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Trust will not be able to collect all amounts due from the relevant broker. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are considered indicators that the amount due from brokers is impaired.

(l) Accrued income

Accrued income may include amounts for dividends, trust distributions and interest. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment. Amounts are generally received within 30 days of being recorded as receivables.

(m) Receivables

Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment in accordance with the policy set out in note 2(e) above. Amounts are generally received within 30 days of being recorded as receivables.

Receivables include such items as RITC and application monies receivable from unitholders.

(n) Payables

Payables includes liabilities and accrued expenses owing by the Trust which are unpaid as at balance date.

Trades are recorded on trade date, and normally settled within three business days.

2 Summary of significant accounting policies (continued)

(n) Payables (continued)

The distribution amount payable to unitholders as at the reporting date is recognised separately on the balance sheet when unitholders are presently entitled to the distributable income under the Trust's Constitution.

(o) Applications and redemptions

Applications received for units in the Trust are recorded net of any entry fees payable prior to the issue of units in the Trust. Redemptions from the Trust are recorded gross of any exit fees payable after the cancellation of units redeemed.

(p) Goods and Services Tax (GST)

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

(q) Use of estimates

The Trust makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the majority of the Trust's financial instruments, quoted market prices are readily available. However, certain financial instruments, for example, over-the-counter derivatives or unquoted securities are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the Responsible Entity, independent of the area that created them. Models are calibrated by back-testing to actual transactions to ensure that outputs are reliable.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For certain other financial instruments, including amounts due from/to brokers, accounts payable and the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

(r) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The directors' assessment of the impact of these new standards (to the extent relevant to the Trust) and interpretations is set below:

AASB 8 and AASB 2007-3 are effective for annual reporting periods beginning on or after 1 January 2009. The Trust has not adopted these standards early. Application of these standards will not affect any of the amounts recognised in the financial statements, but may affect the segment disclosures provided in note 14.

AASB 101 (Revised) is applicable to annual reporting period beginning on or after 1 January 2009. The Trust has not adopted this standard early. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity will not affect any of the amounts recognised in the financial statements. If the Trust makes a prior period adjustment or re-classifies items in the financial statement, it will need to disclose a third balance sheet (statement of financial position), this one being at the beginning of the comparative period.

2 Summary of significant accounting policies (continued)

(r) New accounting standards and interpretations (continued)

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

(s) Rounding of amounts

The Trust is an entity of the kind referred to in Class Order 98/0100 (as amended), issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

(t) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

3 Financial risk management

(a) Strategy in using financial instruments

The Trust's activities expose it to a variety of financial risks: market risk (including price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Trust's overall risk management programme focuses on ensuring compliance with the Trust's Product Disclosure Statement and seeks to maximise the returns derived for the level of risk to which the Trust is exposed. The Trust uses derivative financial instruments to alter certain risk exposures. Financial risk management is carried out by the investment management department under policies approved by the Board of Directors of the Responsible Entity (the Board).

(b) Market risk

(i) Price Risk

The Trust is exposed to equity securities and derivative securities price risk. This arises from investments held by the Trust for which prices in the future are uncertain. Where non-monetary financial instruments are denominated in currencies other than the Australian dollar, the price in the future will also fluctuate because of changes in foreign exchange rates. Paragraph (ii) below sets out how this component of price risk is managed and measured. They are classified on the balance sheet as at fair value through profit or loss. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

In accordance with the Trust's policy, the risk management department of the Trust's Investment Manager monitors the Trust's overall market price sensitivity on a daily basis. This is done by:

- ensuring the Trust is fully invested to minimise cash drag
- managing exposure to any single country and ensure diversification across multiple countries
- prohibiting short position
- managing exposure to any single stock and ensure diversification across all stocks

3 Financial risk management (continued)

(b) Market risk (continued)

At 30 June 2008, the Trust's market risk is affected by changes in market prices. If the MSCI World Ex Aus Accumulation Index at 30 June 2008 had increased by 15% with all other variables held constant, this would have increased net assets attributable to unitholders by approximately \$22,158,075.37 (2007: \$24,812,818.14). Conversely, if the MSCI World Ex Aus Accumulation Index at 30 June 2008 had decreased by 15% with all other variables held constant, this would have decreased net assets attributable to unitholders by approximately \$22,158,075.37 (2007: \$24,812,818.14).

(ii) Foreign exchange risk

The Trust holds both monetary and non-monetary assets denominated in currencies other than the Australian dollar. The foreign exchange risk relating to non-monetary assets and liabilities is a component of price risk. Foreign exchange risk arises as the value of monetary securities denominated in other currencies will fluctuate due to changes in exchange rates. The risk is measured using sensitivity analysis.

The trust uses currency forwards to manage the currency exposures relative to MSCI World Ex AUS Accumulation Index.

Compliance with the Trust's policy is reported to the Board on a monthly basis.

The table below summarises the Trust's assets and liabilities

30 June 2008	Australian Dollars A\$'000	US Dollars A\$'000	Euro A\$'000	Japanese Yen A\$'000	British Pounds A\$'000	Other currencies A\$'000	Total A\$'000
Cash and cash equivalents	1,367	337	126	132	96	117	2,175
Due from brokers - receivable for securities sold	-	2,306	-	-	34	-	2,340
Financial assets held at fair value through profit or loss	-	76,204	32,303	18,555	17,227	10,441	154,730
Other Receivables	588	-	-	-	-	-	588
Dividends Receivable	-	130	74	88	162	-	454
	<u>1,955</u>	<u>78,977</u>	<u>32,503</u>	<u>18,775</u>	<u>17,519</u>	<u>10,558</u>	<u>160,287</u>
Distributions Payable	(2,086)	-	-	-	-	-	(2,086)
Financial liabilities held at fair value through profit or loss	-	-	-	(8,199)	-	-	(8,199)
Responsible Entity Fees Payable	(1,353)	-	-	-	-	-	(1,353)
	<u>(1,484)</u>	<u>78,977</u>	<u>32,503</u>	<u>10,576</u>	<u>17,519</u>	<u>10,558</u>	<u>148,649</u>

3 Financial risk management (continued)

(b) Market risk (continued)

30 June 2007	Australian Dollars A\$'000	US Dollars A\$'000	Euro A\$'000	Japanese Yen A\$'000	British Pounds A\$'000	Other currencies A\$'000	Total A\$'000
Cash and cash equivalents	1,738	171	136	-	122	189	2,356
Financial assets held at fair value through profit or loss	-	77,013	35,330	-	34,041	27,172	173,556
Dividends Receivable	-	123	8	-	129	61	321
Forward Foreign Exchange	-	8,002	-	-	-	-	8,002
Other Assets	<u>329</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>329</u>
	<u>2,067</u>	<u>85,309</u>	<u>35,474</u>	<u>-</u>	<u>34,292</u>	<u>27,422</u>	<u>184,564</u>
Distribution Payable	(4,645)	-	-	-	-	-	(4,645)
Forward Foreign Exchange	-	-	-	-	(8,132)	-	(8,132)
Other Payables	<u>(769)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(769)</u>
	<u>(3,347)</u>	<u>85,309</u>	<u>35,474</u>	<u>-</u>	<u>26,160</u>	<u>27,422</u>	<u>171,018</u>

(iii) Interest rate risk

The majority of the Trust's financial assets and liabilities are non-interest bearing. As a result, the Trust is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents are invested at short-term market interest rates.

(c) Credit risk

In accordance with the Trust's policy, the risk management area of the Investment Manager monitors the Trust's credit position on a daily basis. The Compliance Committee of the Responsible Entity reviews any identified exceptions to internal risk policies and procedures on a quarterly basis.

Credit risk primarily arises from trading derivative products. Other credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions and amounts due from brokers. None of these assets are impaired nor past due but not impaired

For derivative financial instruments, management has established limits such that, at any time, less than 10% of the fair value of favourable contracts outstanding are with any individual counterparty and all contracts are with counterparties included in the Board's Approved Counterparties list.

The Trust restricts its exposure to credit losses on cash and cash equivalents by managing exposures to single issuers and ensure diversification, maintaining an approved broker list, only deal with appropriately rated issuers and prohibiting securities lending and borrowing.

(d) Liquidity Risk

The Trust is exposed to daily cash redemptions of redeemable units. It therefore invests the majority of its assets in investments that are traded in an active market and can be readily disposed of; it invests only a limited proportion of its assets in investments not actively traded on the Australian stock exchange.

The Trust may, from time to time, invest in derivative contracts traded over the counter, which are not traded in an organised market and may be illiquid. As a result, the Trust may not be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as a deterioration in the creditworthiness of any particular issuer. No such investments were held at the balance sheet date.

3 Financial risk management (continued)

(d) Liquidity Risk (continued)

In accordance with the Trust's policy, the risk management area of the Investment Manager monitors the Trust's liquidity position on a daily basis. This is managed by:

- ensuring the fund has no debt obligations that may compromise solvency
- manage exposure to aggregate shares on issue with respect to liquidity
- restrict exposure to illiquid stocks

The Compliance Committee of the Responsible Entity reviews any identified exceptions to internal risk policies and procedures on a quarterly basis.

Redeemable units are redeemed on demand at the holder's option (Note 6). All other liabilities are payable within 30 days.

	1-6 months
	\$'000
At 30 June 2008	
Financial liabilities at fair value through profit or loss	
Net settled derivatives	(8,199)
Total financial liabilities	(8,199)
At 30 June 2007	
Financial liabilities at fair value through profit or loss	
Net settled derivatives	(8,132)
Total financial liabilities	(8,132)

The table below analyses the Trust's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period to the contractual maturity date at the year end date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

(e) Fair value estimation

The carrying amounts of the Trust's assets and liabilities at the balance sheet date approximate their fair values.

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

The fair value of derivatives that are not exchange traded is estimated at the amount that the Trust would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties.

(f) Interest rate risk

4 Auditor's remuneration

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

4 Auditor's remuneration (continued)

	30 June 2008 \$	30 June 2007 \$
(a) Audit services		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports	8,804	7,453
Other audit work under the <i>Corporations Act 2001</i>	1,715	1,454
Total remuneration for audit services	10,519	8,907

Audit fees are paid out of the Responsible Entity's own resources. All other expenses are paid by the Trust.

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

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

Realised and Unrealised gains and losses are calculated on a weighted average cost basis.

	30 June 2008 \$'000	30 June 2007 \$'000
Net unrealised gain/(loss) on financial instruments designated as at fair value through profit or loss	(58,731)	5,330
Net realised gain/loss on trading securities	(5,112)	369
Net realised gain/(loss) on financial instruments designated as at fair value through profit or loss	5,827	9,574
Net gains/(losses) on financial assets held at fair value through profit or loss	(58,016)	15,273

6 Net assets attributable to unitholders

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

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

	30 June 2008 No. '000	30 June 2007 No. '000	30 June 2008 \$'000	30 June 2007 \$'000
Opening balance	14,560	15,710	171,018	179,327
Applications	3,858	629	44,223	7,492
Redemptions	(812)	(2,411)	(8,948)	(28,768)
Units issued upon reinvestment of distributions	142	632	1,356	7,549
Increase/(decrease) in net assets attributable to unitholders	-	-	(59,000)	5,418
Closing balance	17,748	14,560	148,649	171,018

Capital risk management

The Trust manages its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Trust is subject to daily applications and redemptions at the discretion of unitholders.

6 Net assets attributable to unitholders (continued)

The Trust monitors the level of daily applications and redemptions relative to the liquid assets in the Trust. During 2008, the Trust's strategy, which was unchanged from 2007, was to hold at least 100% of the net assets attributable to unitholders in liquid investments. Liquid assets include cash and cash equivalents and listed equities. The ratio of liquid assets to net applications/(redemptions) at 30 June 2008 and 30 June 2007 were as follows:

	30 June 2008 \$'000	30 June 2007 \$'000
Average daily net applications/(redemptions)	136	(82)
Liquid assets of the fund	156,905	183,914
Net assets attributable to unitholders	148,649	171,018
Ratio of liquid assets to net assets attributable to unitholders	<u>105.55 %</u>	<u>107.54 %</u>

7 Cash and cash equivalents

	30 June 2008 \$'000	30 June 2007 \$'000
Deposits at call	<u>2,175</u>	<u>2,356</u>
(a) Reconciliation to cash at the end of the year		

The above figures are reconciled to cash at the end of the financial year as shown in the cash flow statement as follows:

	30 June 2008 \$'000	30 June 2007 \$'000
Balances as above	<u>2,175</u>	<u>2,356</u>
Balances per cash flow statement	<u>2,175</u>	<u>2,356</u>

8 Financial assets held at fair value through profit or loss

	30 June 2008 Fair value \$'000	30 June 2007 Fair value \$'000
Held for trading		
Derivatives (note 11)	<u>8,049</u>	<u>8,002</u>
Total held for trading	<u>8,049</u>	<u>8,002</u>
	30 June 2008 Fair value \$'000	30 June 2007 Fair value \$'000
Designated at fair value through profit or loss		
Equity securities	<u>146,681</u>	<u>173,556</u>
Total designated at fair value through profit or loss	<u>146,681</u>	<u>173,556</u>
Total financial assets held at fair value through profit or loss	<u>154,730</u>	<u>181,558</u>

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

	30 June 2008 Fair value \$'000	30 June 2007 Fair value \$'000
Equity securities		
International equity securities listed on a prescribed stock exchange	<u>146,681</u>	<u>173,556</u>
Total equity securities	<u>146,681</u>	<u>173,556</u>
	30 June 2008 Fair value \$'000	30 June 2007 Fair value \$'000
Derivatives		
Foreign currency forward contracts	<u>8,049</u>	<u>8,002</u>
Total derivatives	<u>8,049</u>	<u>8,002</u>
Total financial assets held at fair value through profit or loss	<u>154,730</u>	<u>181,558</u>

An overview of the risk exposures relating to financial assets at fair value through profit or loss is included in note 3.

9 Receivables

	30 June 2008 \$'000	30 June 2007 \$'000
Tax reclaim on foreign withholding tax	-	327
Dividends receivable	456	321
Fee rebates receivable	555	-
GST receivable	<u>31</u>	<u>2</u>
	<u>1,042</u>	<u>650</u>

10 Financial liabilities held at fair value through profit or loss

	30 June 2008 Fair value \$'000	30 June 2007 Fair value \$'000
Held for trading		
Derivatives (note 11)	<u>8,199</u>	<u>8,132</u>
Total held for trading	<u>8,199</u>	<u>8,132</u>
Total financial liabilities held at fair value through profit or loss	<u>8,199</u>	<u>8,132</u>
Derivatives		
Foreign currency forward contracts	<u>8,199</u>	<u>8,132</u>
Total derivatives	<u>8,199</u>	<u>8,132</u>

10 Financial liabilities held at fair value through profit or loss (continued)

Total financial liabilities held at fair value through profit or loss	<u>8,199</u>	<u>8,132</u>
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An overview of the risk exposures relating to financial liabilities at fair value through profit or loss is included in note 3.

11 Derivative financial instruments

In the normal course of business the Trust enters into transactions in various derivative financial instruments with certain risks. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

Derivative transactions include a wide assortment of instruments, such as forwards, futures and options. Derivatives are considered to be part of the investment process. The use of derivatives is an essential part of the Trust's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- hedging to protect an asset or liability of the Trust against a fluctuation in market values or to reduce volatility
- a substitution for trading of physical securities
- adjusting asset exposures within the parameters set in the investment strategy, and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

While derivatives are used for trading purposes, they are not used to gear (leverage) a portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceeds the underlying value of the Trust.

The Trust holds the following derivative instruments:

(a) Forward currency contracts

Forward currency contracts are primarily used by the Trust to manage the foreign currency exchange rate exposure of the trust. The Trust agrees to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Forward currency contracts are valued at the prevailing bid price at the reporting date. The Trust recognises a gain or loss equal to the change in fair value at the reporting date.

The Trust's derivative financial instruments at year-end are detailed below:

30 June 2008	Contract/ notional \$'000	Fair Values	
		Assets \$'000	Liabilities \$'000
Buy			
Foreign currency forward contracts - United States Dollar (USD)	<u>7,767</u>	<u>8,049</u>	<u>-</u>
		<u>8,049</u>	<u>-</u>
Sell			
Foreign currency forward contracts - British Pound (GBP)	<u>4,000</u>	<u>-</u>	<u>(8,199)</u>
		<u>-</u>	<u>(8,199)</u>
		<u>8,049</u>	<u>(8,199)</u>

11 Derivative financial instruments (continued)

30 June 2007

	Contract/ notional \$'000	Fair Values	
		Assets \$'000	Liabilities \$'000
Buy			
Foreign currency forward contracts - United States Dollar (USD)	<u>6,774</u>	<u>8,002</u>	<u>-</u>
Sell			
Foreign currency forward contracts - British Pound (GBP)	<u>3,435</u>	<u>-</u>	<u>8,132</u>
		<u>8,002</u>	<u>(8,132)</u>

12 Related party transactions

Responsible entity

Effective 17 January 2007 the Responsible Entity of Morgan Stanley Global Value Equity Fund (formerly Morgan Stanley Global Value Equity Trust) is Macquarie Investment Management Limited (MIML), a wholly owned subsidiary of Macquarie Group Limited. Prior to this the Responsible Entity of the Trust was State Street Services Limited, whose ultimate holding company is State Street Corporation (incorporated in the United States).

Key management personnel

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

N Roderick
P Maher
R Cartwright
V Malley
B N Terry
B Bruck (Resigned 18/08/2008)
C Vignes (appointed 18/08/2008)

Key management personnel unitholdings

At 30 June 2008 no key management personnel held units in the Trust (2007: Nil).

Key management personnel loan disclosures

The Trust has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

Responsible entity's/manager's fees and other transactions

For the year ended 30 June 2008, in accordance with the Trust Constitution, the Responsible Entity received a total fee of 1.00% of Net Asset Value (inclusive of GST, net of RITC available to the Trust) per annum (2007: From January 2007 1.00%. Prior to this the Responsible Entity/ Investment Manager was entitled to receive fees of 1.75% per annum of the total value of the Trust Property at each distribution date and such fees were paid directly by unitholders, not charged to the Trust.).

All expenses in connection with the preparation of accounting records and the maintenance of the unit register have been fully borne by the Responsible Entity.

12 Related party transactions (continued)

All related party transactions are conducted on normal commercial terms and conditions. The transactions during the year and amounts payable at year end between the Trust and the Responsible Entity were as follows:

	30 June 2008 \$000	30 June 2007 \$000
Management fees for the year paid by the Trust to the Responsible Entity	<u>1,764</u>	<u>792</u>
Responsible Entity / Investment Manager fees for the year paid directly by the unitholders	<u>-</u>	<u>517</u>
Aggregate amounts payable to the Responsible Entity at the reporting date	<u>1,353</u>	<u>769</u>

Related party schemes' unitholdings

Parties related to the Trust (including Macquarie Investment Management Limited, its related parties and other schemes managed by Macquarie Investment Management Limited), hold no units in the Trust (2007: Nil)/

Investments

The Trust held no investments in any schemes which are also managed by Macquarie Investment Management Limited or its related parties (2007 Nil).

Other transactions within the Trust

Apart from those details disclosed in this note, no directors of the Responsible Entity have entered into a material contract with the Trust since the end of the previous financial year and there were no material contracts involving director's interests subsisting at year end.

13 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

	30 June 2008 \$'000	30 June 2007 \$'000
(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities		
Profit/loss for the year	-	-
Increase/(decrease) in net assets attributable to unitholders	(59,000)	5,418
Net (gains)/losses on financial instruments held at fair value through profit or loss	58,016	(15,273)
Proceeds from sale of financial instruments held at fair value through profit or loss	247,552	79,247
Purchase of financial instruments held at fair value through profit or loss and derivative financial instruments	(281,036)	(59,894)
Distributions to unitholders	3,891	12,904
Net change in receivables and other assets	(158)	375
Net change in payables and other liabilities	584	769
Net cash inflow/(outflow) from operating activities	<u>(30,151)</u>	<u>23,546</u>
Cash and cash equivalents	<u>2,175</u>	<u>2,356</u>
(b) Non-cash financing and investing activities		
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	<u>1,356</u>	<u>7,549</u>

As described in note 2(i), income not distributed is included in net assets attributable to unitholders. The change in this amount each year (as reported in (a) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable (ie taxable).

14 Segment information

The Trust is organised into one main segment which operates solely in the business of investment management within Australia. Consequently, no segment reporting is provided in the Trust's financial statements.

While the Trust operates from Australia only (the geographical segment), the Trust may have investment exposures in different countries and across different industries.

Geographical exposure

Country	30 June 2008		30 June 2007	
	Total assets \$'000	Percentage of total assets %	Total assets \$'000	Percentage of total assets %
Australia	1,955	1.22	2,067	1.12
Europe	32,503	20.28	35,474	19.22
Japan	18,775	11.71	-	-
Great Britain	17,519	10.93	34,292	18.6
United States and Canada	78,977	49.27	85,309	46.22
Other	10,558	6.59	27,422	14.86
Total	160,287	100.00	184,564	100.00

The above disclosures have been prepared on the basis of the Trust's direct investments and not on a look-through basis for investments held indirectly through unit trusts.

The above investments are classified on the balance sheet at fair value through profit or loss.

15 Events occurring after the balance sheet date

No significant events have occurred since balance date which would impact on the financial position of the Trust disclosed in the balance sheet as at 30 June 2008 or on the results and cash flows of the Trust for the year ended on that date.

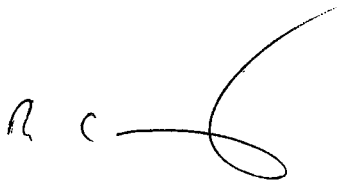
16 Contingent assets and liabilities and commitments

There are no outstanding contingent assets and liabilities or commitments as at 30 June 2008 and 30 June 2007.

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 25 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Trust's financial position as at 30 June 2008 and of its performance, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

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

A handwritten signature in black ink, appearing to read 'R Cartwright', with a large, sweeping flourish extending to the right.

R Cartwright
Director

Sydney
15 September 2008

Independent auditor's report to the members of Morgan Stanley Global Value Equity Fund

Report on the financial report

We have audited the accompanying financial report of Morgan Stanley Global Value Equity Fund (the Trust), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Morgan Stanley Global Value Equity Fund.

Directors' responsibility for the financial report

The directors of Macquarie Investment Management Limited (the responsible entity) are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal 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, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 control. 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.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

**Independent auditor's report to the members of
Morgan Stanley Global Value Equity Fund (continued)**

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Morgan Stanley Global Value Equity Fund is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Trust's financial position as 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*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.


PricewaterhouseCoopers


Craig Stafford
Partner

Sydney
15 September 2008