

# **MQ Comets Diversified Trading Fund**

ARSN 116 069 179

## **Annual report - 30 June 2011**

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The Responsible Entity of MQ Comets Diversified Trading Fund is MQ Portfolio Management Limited (ACN 092 552 611). The Responsible Entity's registered office is Mezzanine Level, 1 Martin Place, Sydney, NSW 2000.

This financial report covers MQ Comets Diversified Trading Fund as an individual entity.

## Directors' report

The directors of MQ Portfolio Management Limited, a wholly owned subsidiary of Macquarie Group Limited, the Responsible Entity of MQ Comets Diversified Trading Fund present their report together with the financial report of MQ Comets Diversified Trading Fund ("the Fund") for the year ended 30 June 2011.

### Principal activities

The principal activity of the Fund continues to be to give investors diversified exposure to the prices of physical commodities and financial assets via futures contracts and seek to profit from the tendency of the prices of these to follow medium-term trends. The Fund seeks to profit from both rising and falling trends in asset prices. Trends are computed by the Standard & Poor's Diversified Trends Indicator. The Fund acquires this exposure by investing in Equity Markets Investments Agreement (EMI) issued by Macquarie Bank Limited.

The Fund did not have any employees during the year.

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

### Directors

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

Bruce Neil Terry  
Gervaise Robert John Heddle  
Scot Thompson

### Review and results of operations

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

#### Results

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

	30 June 2011	30 June 2010
Operating profit/(loss) before finance costs attributable to unitholders (\$)	<u>28,735</u>	<u>(686,052)</u>
<i>Distributions</i>		
Distribution paid and payable	<u>-</u>	<u>-</u>
Distribution (cents per unit)	<u>-</u>	<u>-</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 Fund 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 2011 that has significantly affected, or may significantly affect:

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

## **Directors' report (continued)**

### **Likely developments and expected results of operations**

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

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund 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 Fund 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 Fund.

### **Indemnification and insurance of officers and auditors**

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of MQ Portfolio Management Limited or the auditors of the Fund. Under the Fund Constitution, MQ Portfolio Management Limited as responsible entity of the Fund is entitled to be indemnified out of the assets of the Fund for any liability incurred by it in properly performing or exercising any of its powers or duties in relation to the Fund.

### **Fees paid to and interests held in the Fund by the Responsible Entity or its associates**

Fees paid to the Responsible Entity out of Fund property during the year are disclosed in note 9 of the financial statements.

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

Interests in the Fund held by the Responsible Entity or its associates during the year are disclosed in note 9 of the financial statements.

### **Interests in the Fund**

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

The value of the Fund's assets and liabilities is disclosed on the statement of financial position and derived using the basis set out in note 2 of the financial statements.

### **Environmental regulation**

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

## Directors' report (continued)

### 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.

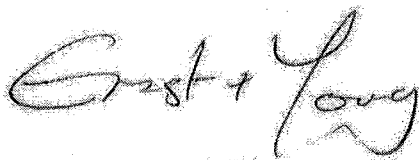


Scot Thompson  
Director

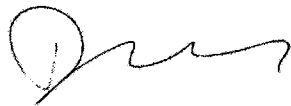
Sydney  
28 September 2011

## Auditor's Independence Declaration to the Directors of MQ Portfolio Management Limited, as the Responsible Entity for MQ Comets Diversified Trading Fund

In relation to our audit of the financial report of MQ Comets Diversified Trading Fund for the financial year ended 30 June 2011, 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.

A stylized, handwritten signature of the Ernst & Young firm, written in black ink.

Ernst & Young

A handwritten signature of Darren Handley-Greaves, written in black ink.

Darren Handley-Greaves  
Partner  
Sydney  
28 September 2011

**Statement of comprehensive income**

	30 June 2011	30 June 2010
Notes	\$	\$
<b>Investment Income</b>		
Net gains/(losses) on financial instruments held at fair value through profit or loss	5 <b>89,980</b>	(596,148)
Other operating income	<u>2,968</u>	-
<b>Total net investment income/(loss)</b>	<u><b>92,948</b></u>	<u>(596,148)</u>
<b>Expenses</b>		
Responsible Entity fees	9 <b>41,113</b>	46,272
Other operating expenses	<u>23,100</u>	43,632
<b>Total operating expenses</b>	<u><b>64,213</b></u>	<u>89,904</u>
<b>Operating profit/(loss)</b>	<u><b>28,735</b></u>	<u>(686,052)</u>
<b>Finance costs attributable to unitholders</b>		
(Increase)/decrease in net assets attributable to unitholders	6 <u><b>(28,735)</b></u>	686,052
<b>Profit/(loss) for the year</b>	<u>-</u>	<u>-</u>
<b>Total comprehensive income for the year</b>	<u>-</u>	<u>-</u>

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

**Statement of financial position**

	Notes	30 June 2011 \$	30 June 2010 \$
<b>Assets</b>			
Cash and cash equivalents	7	55	1,743
Receivables		7,347	11,122
Financial assets held at fair value through profit or loss	8	<u>4,202,398</u>	<u>4,615,236</u>
<b>Total assets</b>		<u>4,209,800</u>	<u>4,628,101</u>
<b>Liabilities</b>			
Payables		8,481	12,206
Responsible entity fees payable	9	<u>3,508</u>	<u>3,881</u>
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<u>11,989</u>	<u>16,087</u>
<b>Net assets attributable to unitholders - liability</b>	6	<u>4,197,811</u>	<u>4,612,014</u>

The above statement of financial position should be read in conjunction with the accompanying notes.

**Statement of changes in equity**

	30 June 2011 \$	30 June 2010 \$
<b>Total equity at the beginning of the year</b>	-	-
Total comprehensive income for the year	-	-
Transactions with owners in their capacity as owners	-	-
<b>Total equity at the end of the year</b>	<u>-</u>	<u>-</u>

Under Australian Accounting Standards, 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 the accompanying notes*

**Statement of cash flows**

	30 June 2011	30 June 2010
Notes	\$	\$
<b>Cash flows from operating activities</b>		
Proceeds from sale of financial instruments held at fair value through profit or loss	501,813	1,526,477
EMI Coupon received/(paid)	3,553	(9,177)
Responsible Entity fees paid	(41,264)	(46,899)
Other expenses paid	(26,822)	(39,584)
Other income	3,973	-
<b>Net cash inflow from operating activities</b>	<u>441,253</u>	<u>1,430,817</u>
	10(a)	
<b>Cash flows from financing activities</b>		
Payments for redemptions by unitholders	<u>(442,941)</u>	<u>(1,429,074)</u>
<b>Net cash outflow from financing activities</b>	<u>(442,941)</u>	<u>(1,429,074)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	(1,688)	1,743
Cash and cash equivalents at the beginning of the year	<u>1,743</u>	-
<b>Cash and cash equivalents at the end of the year</b>	7 <u>55</u>	<u>1,743</u>
Non-cash financing activities	10(b) -	-

*The above statement of cash flows should be read in conjunction with the accompanying notes.*

## 1 General information

This financial report covers MQ Comets Diversified Trading Fund (the "Fund") as an individual entity. The Fund commenced operations on 3 April 2006 and was registered on 13 September 2005 as a managed investment scheme and will terminate 80 years (less) one day after the date of establishment, unless terminated earlier by an extraordinary resolution as determined by the Fund's members; the date specified by the Fund's Responsible Entity in a notice given to the Fund's member or on another date as specified by and in accordance with the provisions of the Fund Constitution or by law. The Fund is a registered managed investment scheme domiciled in Australia.

The Responsible Entity of the Fund is MQ Portfolio Management Limited (the "Responsible Entity"). The registered office of the Responsible Entity is Mezzanine Level, 1 Martin Place, Sydney, NSW 2000. The financial report is presented in the Australian currency.

The principal activity of the Fund continues to be to give investors diversified exposure to the prices of physical commodities and financial assets via future contracts and seek to profit from the tenancy of the prices of these to follow medium-term trends. The Fund seeks to profit from both rising and falling trends in asset prices. Trends are computed by the Standard & Poor's Diversified Trends Indicator. The Fund acquires this exposure by investing in Equity Markets Investments Agreement (EMI) issued by Macquarie Bank Limited.

The financial report was authorised for issue by the Directors on 28 September 2011. 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 adopted in the preparation of this financial report are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

### (a) Basis of preparation

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

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

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish 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 within twelve months after the end of each reporting period cannot be reliably determined.

#### *Compliance with International Financial Reporting Standards*

The financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### (b) Financial instruments

#### (i) Classification

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

- 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.

The Fund's only financial instrument is the Equity Market Investment (EMI) Agreement. The EMI is an agreement entered into between the Responsible Entity and Macquarie Bank Limited under which Macquarie agrees to provide the following to the Fund:

- Potential semi-annual coupons
- Potential capital growth
- Capital protection on 28 June 2013

## 2 Summary of significant accounting policies (continued)

### (b) Financial instruments (continued)

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 Fund's documented investment strategy. The Fund'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 Fund.

#### (ii) Recognition/derecognition

The Fund 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.

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

#### (iii) Measurement

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 statement of comprehensive income.

Details on how the fair value of financial instruments is determined are disclosed in note 3.

- Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the statement of financial position date applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at the statement of financial position date. Fair values for unquoted equity investments are estimated, if possible, using applicable pricing/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

#### (a) 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 statement of financial position date to determine whether there is objective evidence of impairment.

If any such indication of impairment exists, an impairment calculation is undertaken and any impairment loss is recognised in the statement of comprehensive income as the difference between the asset's carrying amount and the present value of the revised 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 statement of comprehensive income.

## 2 Summary of significant accounting policies (continued)

### (c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option and are classified as financial liabilities. The units can be put back to the Fund 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 statement of financial position date if unitholders exercised their right to put the units back to the Fund.

### (d) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash includes cash on hand and deposits held at call with financial institutions. Cash equivalents include other short term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Bank overdrafts, if any, are shown separately on the statement of financial position.

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 Fund's main income generating activity.

### (e) Investment income

The Fund is entitled to Periodic Returns under the EMI where the EMI value has increased sufficiently in any financial year. Such periodic returns are made in consideration of the Fund having paid for the Comets Basket in advance. In such circumstances the Fund will be able to make cash distributions to investors. These distributions may be reinvested under the distribution investment facility. Any periodic returns will reduce the level of the Fund's exposure to the Comets EMI but will not reduce the level of capital protection.

Interest income is recognised in the statement of comprehensive income for all financial instruments that are not held at fair value through profit or loss using the effective interest method.

### (f) Expenses

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

### (g) Income tax

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

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 Fund is not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Fund 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.

### (h) Distributions

In accordance with the Fund Constitution, the Fund 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 statement of comprehensive income 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 statement of comprehensive income as finance costs.

### (j) Receivables

Receivables may include amounts for interest and EMI distributions. EMI 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 Reduced Input Tax Credits (RITC).

### (k) Payables

Payables includes liabilities and accrued expenses owing by the Fund which are unpaid as at year end.

### (l) Applications and redemptions

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

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

The GST incurred on the costs of various services provided to the Fund by third parties such as investment management fees have been passed onto the Fund. The Fund qualifies for RITC at a rate of 75% hence investment management fees and other expenses have been recognised in the statement of comprehensive income 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 statement of financial position. Cash flows relating to GST are included in the statement of cash flows on a gross basis.

### (n) Use of estimates

The Fund 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.

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.

## 2 Summary of significant accounting policies (continued)

### (o) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2011 reporting period. The directors' assessment of the impact of these new standards (to the extent relevant to the Fund) and interpretations is set out below:

(i) AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010 Amendment to Australia Accounting Standards arising from AASB 9 (December 2010)* (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption.

AASB 9 permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not traded.

The Fund has not yet decided when to adopt AASB 9. Management does not expect this will have a significant impact on the Fund's financial statements as the Fund does not hold any available for sale investments.

(ii) Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities. The Fund will apply the amended standard from 1 July 2011. The amendments will not have any effect on the Fund's financial statements.

(iii) AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* (effective for annual reporting periods beginning on or after 1 July 2011)

In November 2010, the AASB issued AASB 2010-6 *Disclosures on Transfers of Financial Assets* which amends AASB 1 *First time Adoption of Australian Accounting* and AASB 7 *Financial Instruments: Disclosures* to introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. The amendments will not have any impact on the Fund's disclosures. The Fund intends to apply the amendment from 1 July 2011.

(iv) *Amendments to AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective for annual reporting periods beginning on or after 1 July 2010 / 1 January 2011)

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Fund does not expect that any adjustments will be necessary as a result of applying the revised rules.

### (v) IFRS 10 *Consolidated Financial Statements*

IFRS 10 establishes a new control model that applies to all entities. It replaces parts of IAS 27 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*.

This standard is yet to be approved by the Australian Accounting Standards Board and has not been issued in Australia. The standard is not applicable until 1 January 2013 but is available for early adoption.

The Trust has not yet decided when to adopt IFRS 10. Management does not expect this will have a significant effect on the Trust's financial statements.

### (vi) IFRS 12 *Disclosures of Interests in Other Entities*

IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

## 2 Summary of significant accounting policies (continued)

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

This standard is yet to be approved by the Australian Accounting Standards Board and has not been issued in Australia. The standard is not applicable until 1 January 2013 but is available for early adoption.

The Trust has not yet decided when to adopt IFRS 12. Management does not expect this will have a significant effect on the Trust's financial statements.

### (vii) IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for determining the fair value of assets and liabilities. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under IFRS when fair value is required or permitted by IFRS. Application of this definition may result in different fair values being determined for the relevant assets.

IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

This standard is yet to be approved by the Australian Accounting Standards Board and has not been issued in Australia. The standard is not applicable until 1 January 2013 but is available for early adoption.

The Trust has not yet decided when to adopt IFRS 13. Management does not expect this will have a significant effect on the Trust's financial statements.

## 3 Financial risk management

### (a) Strategy in using financial instruments

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

The Investment Manager adopted the following investment objectives, policies and processes for managing the Fund's capital:

#### Investment objectives

The Fund's investment objective is to seek profit from rising and falling asset prices of the Standard & Poor's Diversified Trends Indicator in the medium term. The Fund seeks to achieve its investment objective through gaining exposure to the prices of physical commodities and financial asset of the Comets Basket by entering into an EMI Agreement with Macquarie Bank Limited on a capital protected basis. The Comets Basket contains exposure (via futures contracts) to global physical commodities and financial assets where the asset positions are changed monthly based on the Standard & Poor's Diversified Trends Indicator ("S&P DTI"). The price at which a future exposure is changed is the price at which the relevant futures contract could be acquired when the exposure is changed, as determined by the Investment Manager. The Fund is therefore exposed to credit risk, market price risk (including other price risk and interest rate risk) and liquidity risk.

Capital protection is dependant on investors redeeming their investment on a specified date (capital protection date). If investors decide to redeem their investments before or after this date, they do not receive the benefit of capital protection. The redemption price will be the value of the investment as calculated on the last business day of the month in which the withdrawal request is processed.

Macquarie Bank Limited is the Investment Manager and is responsible for making, monitoring and managing all investments and exposures, which collectively provide the exposure under the EMI. The risk management procedures undertaken by the Investment Manager are performed in compliance with policies approved by the Board of Directors of the Responsible Entity. The Responsible Entity receives reports from Macquarie Bank Limited which enables it to monitor the key risks applicable to the Comets Basket.

The methods utilised to measure the different types of risk exposures include sensitivity analysis for market risks and ratings analysis for credit risk and maturity analysis for liquidity risks.

### 3 Financial risk management (continued)

#### (b) Market risk

##### (i) Price Risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, other than those changes caused by interest rate or foreign exchange rates, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments in the market.

The Fund is exposed to price risk on investments in the EMI. Macquarie Bank Limited, as the Investment Manager, manages the price risk on the underlying investments which provide the return under the EMI.

The basket in relation to EMIs is a basket of notional investment exposures (obtained via futures contracts) in which assets may be long or short as dictated by the S&P DTI. The S&P DTI comprises of long, short or neutral positions in 20 underlying futures contracts. These are diversified in specific agricultural, energy, metals and financial markets sectors, and purely trend driven. For example, the S&P DTI generates a signal each month, which determines whether the Investment Strategy is to be positioned to take advantage of increases (a long position) or decreases (a short position) in asset prices in each sector. These are based on prices over the preceding seven months. There is no Investment Manager discretion.

The Fund's sensitivity analysis in relation to price risk are discussed in note 3(c) of this note.

##### (ii) Foreign exchange risk

The Fund 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. Currency risk arises as the value of monetary assets denominated in other currencies will fluctuate due to changes in exchange rates.

The Fund is not exposed to foreign exchange risk as the Fund does not hold a material amount of monetary asset denominated in a currency other than the Australian dollar.

##### (iii) Interest rate risk

The majority of the Fund's financial assets and liabilities are non-interest bearing. As a result, the Fund 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) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unitholders to price risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the fund invests. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

Reasonably possible movements in the risk variables for price risk are 10% (2010: 10%).

	Price risk Impact on operating profit / Net assets attributable to unitholders	
	S&P DTI \$	S&P DTI \$
30 June 2011 (+/-)	440,593	(440,593)
30 June 2010 (+/-)	543,024	(543,024)

### 3 Financial risk management (continued)

#### (d) Credit risk

The Fund is primarily exposed to credit risk on the balance of the EMI with Macquarie Bank Limited. Macquarie Bank Limited is exposed to credit risk on the financial assets it holds as part of the Comets Basket which may in turn be exposed to the credit risk of the parties with whom they trade or invest and will also bear the risk of settlement default.

Credit risk arises from cash and cash equivalents and receivables. None of these assets are impaired nor past due but not impaired.

The carrying amount of the financial assets held with Macquarie Bank Limited best represents the Fund's credit risk exposure at year end. At 30 June 2011 and 30 June 2010, the following assets were held with Macquarie Bank Limited:

	30 June 2011	30 June 2010
	\$	\$
EMI with Macquarie Bank Limited	4,202,398	4,615,236
Cash and cash equivalents	55	1,743
	<u>4,202,453</u>	<u>4,616,979</u>

Macquarie Bank Limited's credit ratings issued by Moody's at the year end were:

	30 June 2011	30 June 2010
<b>Macquarie Bank Limited</b>	<b>A1</b>	<b>A1</b>

The Investment Manager's policies to control credit risk, on behalf of the Fund include avoidance of unacceptable concentrations of risk either to any economic sector or to an individual counterparty. Policies are in place to regulate large exposures to single counterparties or groups of counterparties. Such exposures are generally restricted unless the credit is of the highest standard or there is a high level of security.

In accordance with the Fund's policy, the Investment Manager monitors the Fund's credit position on a daily basis.

#### (e) Liquidity Risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities.

Investment of the Fund's asset exposure in relatively illiquid investments may restrict the ability of the Fund to dispose of its investments at a price and time that it wishes to do so. Consequently, the Fund may not be able to satisfy redemption requests (in whole or in part) until it is able to redeem its investment in the EMI. Redeeming unitholders will bear the risk of any decline in the value of those EMI until the redemption is able to be fully effected.

Subject to the Fund's Constitution, redeemable units are redeemed, generally within 60 days after the Fund's redemption price has been calculated, on demand at the unitholders' option. All other liabilities are payable within 30 days.

In accordance with the Fund's policy, the Investment Manager monitors the Fund's liquidity position on a continual basis to enable them to close out of positions at any point in time. Further, prior to any derivative position being entered into, the relationship between the likely liquidity and the size of the position taken is considered.

#### (f) Fair value estimation

The carrying amounts of all the Fund's financial assets and financial liabilities at the end of each reporting period approximated their fair values as all financial assets and liabilities not fair valued are short term in nature.

### 3 Financial risk management (continued)

#### (f) Fair value estimation (continued)

The EMI will provide the Fund with exposure to the Comets Basket. The exposure agreement is a deferred purchase agreement with Macquarie Bank Limited for the purchase and delivery of monthly asset positions based on the Standard & Poor's Diversified Trends Indicator (the delivery basket) under which the purchase price is paid up front and settlement is deferred until the delivery date. The exposure agreement also provides rising capital protection and allows for periodic returns, when applicable. The delivery amount is the higher of:

- the EMI value
- the capital protected amount

In this way, exposure to the returns of the Comets Basket and capital protection are efficiently delivered under the same agreement. Capital protection only applies on the capital protection date. If investors decide to redeem their investments before or after this date, they do not receive the benefit of capital protection. The redemption price will be the value of the investment as calculated on the last business day of the month in which the withdrawal request is processed.

The Basket is a list of assets and liabilities used as a reference for determining the value of the exposure agreement. It does not contain physical assets and liabilities.

The value of the Basket will reflect the value of the EMI and will be calculated by the valuation agent, i.e. Macquarie Bank Limited. In valuing the Basket the valuation agent will take into consideration all actual practical considerations that would apply if the Fund invested directly in the Comets EMI.

The strategy for the construction and management of the Comets EMI has been agreed between the Responsible Entity and Macquarie Bank Limited. The Responsible Entity has the right to alter the composition of the Comets EMI if the proposed alteration complies with the investment guidelines.

The Fund classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

### 3 Financial risk management (continued)

The table below sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2011 and 30 June 2010.

30 June 2011	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial assets</b>				
Financial assets designated at fair value through profit or loss:				
- EMI held with Macquarie Bank Limited	-	-	4,202,398	4,202,398
<b>Total</b>	<b>-</b>	<b>-</b>	<b>4,202,398</b>	<b>4,202,398</b>
30 June 2010	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets designated at fair value through profit or loss:				
- EMI held with Macquarie Bank Limited	-	-	4,436,015	4,436,015
<b>Total</b>	<b>-</b>	<b>-</b>	<b>4,436,015</b>	<b>4,436,015</b>

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently.

During the year, there were no transfers between Level 1 and 2 or into/out of Level 3 (2010: nil).

The following table shows a reconciliation of the movement in fair value of the level 3 investments held as at 30 June 2011 and 30 June 2010:

	EMI held with Macquarie Bank Limited \$	EMI held with Macquarie Bank Limited \$
	30 June 2011	30 June 2010
<b>Opening balance</b>	4,615,236	6,737,861
Net gain/(loss) on EMI	88,975	(600,379)
Sales	(501,813)	(1,522,246)
<b>Closing balance</b>	<b>4,202,398</b>	<b>4,615,236</b>

#### 4 Auditor's remuneration

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

	30 June 2011 \$	30 June 2010 \$
<b>Audit services</b>		
Audit and review of financial reports	10,500	10,200
Other audit work under the <i>Corporations Act 2001</i>	<u>290</u>	<u>290</u>
Total remuneration for audit services	<u>10,790</u>	<u>10,490</u>

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 instruments held at fair value through profit or loss:

	30 June 2011 \$	30 June 2010 \$
Net gains/(losses) on financial instrument designated as at fair value through profit or loss	<u>89,980</u>	<u>(596,148)</u>
<b>Net gains/(losses) on financial instruments held at fair value through profit or loss</b>	<u>89,980</u>	<u>(596,148)</u>

#### 6 Net assets attributable to unitholders

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

	30 June 2011 units	30 June 2010 units	30 June 2011 \$	30 June 2010 \$
Opening balance	4,657,000	5,964,000	4,612,017	6,727,141
Redemptions	(447,000)	(1,307,000)	(442,941)	(1,429,075)
Increase/(decrease) in net assets attributable to unitholders	-	-	<u>28,735</u>	<u>(686,052)</u>
Closing balance	<u>4,210,000</u>	<u>4,657,000</u>	<u>4,197,811</u>	<u>4,612,014</u>

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

## 6 Net assets attributable to unitholders (continued)

### Capital risk management

The Fund 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 monthly basis as the Fund is subject to monthly applications and redemptions at the discretion of unitholders.

The Fund requires that any withdrawal requests are received at least 10 days prior to the valuation date of that month. The Fund will generally pay the redemption proceeds from withdrawal requests within 10 business days after the determination of the unit price. This allows the Fund to liquidate the required amount from the EMI. While the Fund will generally pay withdrawal proceeds as soon as practicable after it receives the corresponding proceeds from its investment in the EMI, the Fund is only required to pay withdrawal proceeds within 60 days after the date the applicable withdrawal price is calculated.

The Fund may further extend the period for processing a withdrawal in certain circumstances such as if:

- the Fund has taken all reasonable steps to realise sufficient assets to satisfy a withdrawal request but is not able to do so; or
- the Fund believes it is not in the best interests of investors as a whole to realise assets; or
- the Fund is unable to calculate the redemption price or fairly determine the Net Asset Value due to one or more circumstances outside the Fund's control.

The Fund may also stagger the processing of withdrawal requests over a number of withdrawal periods where the withdrawal requests received for a month exceed 30% of the units on issue.

If the Fund becomes illiquid (as defined in the Corporations Act 2001), withdrawals will only be allowed if the Fund makes an offer of withdrawal. If the Fund makes an offer of withdrawal, unitholders may only be able to withdraw part of their investment.

The Fund monitors the level of monthly applications and redemptions relative to the liquid assets in the Fund. Liquid assets include cash and cash equivalents in the EMI.

## 7 Cash and cash equivalents

	30 June 2011 \$	30 June 2010 \$
Cash at bank	<u>55</u>	<u>1,743</u>
	<u>55</u>	<u>1,743</u>

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

	30 June 2011 Fair value \$	30 June 2010 Fair value \$
<b>Designated at fair value through profit or loss</b>		
EMI held with Macquarie Bank Limited	<u>4,202,398</u>	<u>4,615,236</u>
<b>Total financial assets held at fair value through profit or loss</b>	<u>4,202,398</u>	<u>4,615,236</u>

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

## 9 Related party disclosures

### (a) Responsible entity

The Responsible Entity of MQ Comets Diversified Trading Fund is MQ Portfolio Management Limited (MQPML), a wholly owned subsidiary of Macquarie Group Limited.

The Responsible Entity does not hold any units in the Fund.

### (b) Key management personnel

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

Bruce Neil Terry  
Gervaise Robert John Heddle  
Scot Thompson

No amount is paid by the Fund directly to the directors of the Responsible Entity. Consequently, no compensation as defined in AASB 124 Related Party Disclosures is paid by the Fund to the directors as key management personnel.

### (c) Key management personnel unitholdings

At 30 June 2011 no key management personnel held units in the Fund (2010: Nil).

### (d) Key management personnel loan disclosures

The Fund 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.

### (e) Responsible Entity fees and other transactions

For the year ended 30 June 2011, in accordance with the Fund Constitution, the Responsible Entity received a total fee of 0.09% of the unitholder's application amount reduced to reflect any withdrawals at each month end (inclusive of GST, net of RITC available to the Fund) per annum (2010: 0.09%).

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.

## 9 Related party disclosures (continued)

### (e) Responsible Entity fees and other 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 Fund and the Responsible Entity were as follows:

	30 June 2011	30 June 2010
	\$	\$
Management fees for the year paid by the Fund to the Responsible Entity	41,113	46,272
Aggregate amounts payable to the Responsible Entity at the reporting date	3,508	3,881

Aggregate amounts receivable from Macquarie Bank Limited at year end:

	30 June 2011	30 June 2010
	\$	\$
<b>Current assets</b>		
Macquarie Bank Limited (EMI Agreement held at fair value through profit or loss)	4,202,398	4,615,236
Macquarie Bank Limited (Cash and cash equivalents)	55	1,743

### (f) Related party schemes' unitholdings

Parties related to the Fund (including MQPML, its related parties and other schemes managed by MQPML), held no units in the Fund (2010: Nil).

### (g) Investments

The Fund's only investment is the EMI held with Macquarie Bank Limited as disclosed in note 8.

### (h) Other transactions within the Fund

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

The bank accounts for the Fund are held with Macquarie Bank Limited. Fees and expenses are negotiated on an arm's length basis for all transactions with related parties.

## 10 Reconciliation of profit/(loss) to net cash inflow from operating activities

	30 June 2011 \$	30 June 2010 \$
<b>(a) Reconciliation of profit/(loss) to net cash inflow from operating activities</b>		
Increase/(decrease) in net assets attributable to unitholders	28,735	(686,052)
Net (gains)/losses on financial instruments held at fair value through profit or loss	(89,980)	596,148
Proceeds from sale of financial instruments held at fair value through profit or loss	501,813	1,526,477
Net change in receivables and other assets	4,783	(8,715)
Net change in payables and other liabilities	(4,098)	2,959
<b>Net cash inflow from operating activities</b>	<b>441,253</b>	<b>1,430,817</b>

### (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

\_\_\_\_\_ - \_\_\_\_\_ -

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 (i.e. taxable).

## 11 Events occurring after year end

No significant events have occurred since year end which would impact on the financial position of the Fund disclosed in the statement of financial position as at 30 June 2011 or on the results and cash flows of the Fund for the year ended on that date.

## 12 Contingent assets, liabilities and commitments

The Fund has no outstanding contingent assets, contingent liabilities or commitments as at 30 June 2011 and 30 June 2010.

## Directors' declaration

In the opinion of the directors of MQ Portfolio Management Limited:

- (a) the financial statements and notes set out on pages 6 to 24 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 Fund's financial position as at 30 June 2011 and of its performance, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

The directors declare that the notes to the financial statements include an explicit and unreserved statement of compliance with the International Financial Reporting Standards (see note 2(a)).

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



Scot Thompson  
Director

Sydney  
28 September 2011

## Independent auditor's report to the unitholders of MQ Comets Diversified Trading Fund

We have audited the accompanying financial report of MQ Comets Diversified Trading Fund (the "fund"), which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

### Directors' responsibility for the financial report

The directors of MQ Portfolio Management Limited, the responsible entity of the fund, are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the preparation of the financial report that gives a true and fair view 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 responsible entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

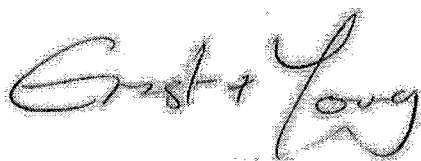
### Independence

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

## Opinion

In our opinion:

- a. the financial report of MQ Comets Diversified Trading Fund is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the fund's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

A stylized, handwritten signature of the Ernst & Young firm, written in dark ink.

Ernst & Young

A handwritten signature of Darren Handley-Greaves, written in dark ink.

Darren Handley-Greaves  
Partner  
Sydney  
28 September 2011