

Credit Suisse IRIS Low Volatility Fund

Annual financial report

For the period 27 November 2009 to 30 June 2010

Responsible Entity Challenger Investment Services Limited

ABN 44 119 605 373 AFSL 320505

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Directors' report

The directors of Challenger Investment Services Limited (formerly "Credit Suisse Investments (Australia) Limited"), the Responsible Entity (the "Responsible Entity") of Credit Suisse IRIS Low Volatility Fund (the "Scheme"), present their report together with the financial report of the Scheme, for the period from 27 November 2009 to 30 June 2010.

Responsible Entity

Challenger Investment Services Limited is the Responsible Entity of the Scheme since registration on 27 November 2009.

The registered office and principal place of business of the Responsible Entity and the Scheme is Level 15, 255 Pitt Street, Sydney, NSW 2000.

The directors of Challenger Investment Services Limited during the period or since the end of the period and up to the date of this report are as follows:

RW Adams (Executive Director)	appointed on 31 May 2010
BR Benari (Executive Director)	appointed on 31 May 2010
BJ O'Connor (Executive Director)	appointed on 31 May 2010
RJ Woods (Executive Director)	appointed on 31 May 2010
PD Rogan (Chairman)	appointed on 31 May 2010
DD Trude (Executive Director)	resigned on 31 May 2010
SJ Pearson (Executive Director, Member of Audit Risk and Compliance Committee)	resigned on 31 May 2010
PC Noble (Executive Director)	resigned on 31 May 2010
FM Sedillo (Executive Director)	resigned on 31 May 2010
JJ Gurnsey (Executive Director)	resigned on 31 May 2010

Principal activities

The Scheme is an Australian domiciled wholesale open-ended unit trust.

The Scheme invests in the IRIS Low Volatility Cell of Managed Investments PCC Limited - an open-ended protected cell investment company registered with limited liability in Guernsey (registration no. 44043), offering the lowest volatility of the Credit Suisse ILS product range.

The overall investment objective of the Scheme is to achieve positive returns on invested capital by investing and subsequently holding selected securities and instruments which the investment manager expects to appreciate in value over a medium to long-term holding period.

The Scheme did not have any employees during the period.

There were no other significant changes in the nature of the Scheme's activities during the period.

Directors' report (continued)

Review and results of operations

Results

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

	Period from 27 November 2009 to 30 June 2010 \$
Operating profit	3,949,826
Final Distribution payable Distribution (cents per unit)	3,949,734 3.85
Performance	2010 %
Capital growth	3.61
Distribution of income	3.85
Total return	7.46
	\$
Redemption unit price (ex-distribution) as at 30 June	1.0040

Performance returns have been calculated after fees and assuming reinvestment of distributions, in accordance with IFSA Standard 6.00 *Product Performance - calculation and presentation of returns*

Interests of the Responsible Entity

The following fees were paid and payable to Responsible Entity from the Scheme during the period:

	2010 \$
Management fees paid and payable by the Scheme	52,336

Valuation of assets

	2010 \$
Value of total Scheme assets as at 30 June	106,946,803

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

Directors' report (continued)

Significant changes in state of affairs

The Scheme started actively trading on 27 November 2009. Accordingly, this financial report only included current financial period, covering the period from commencement of operations to 30 June 2010.

Matters subsequent to the end of the financial period

No matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

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

Likely developments and expected results of operations

The Scheme will continue to pursue its policy of increasing returns through active investment selection.

Further information on likely developments in the operations of the Scheme 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 Scheme.

Indemnification and insurance premiums for officers or auditors

No insurance premiums are paid for out of the assets of the Scheme in regards to insurance cover provided to the officers of Challenger Investment Services Limited. So long as the officers of Challenger Investment Services Limited act in accordance with the Scheme's Constitution and the Corporations Act 2001, the officers remain indemnified out of the assets of the Scheme against losses incurred while acting on the behalf of the Scheme. The auditors of the Scheme are in no way indemnified out of the assets of the Scheme.

Environmental regulation

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

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.



BJ O'Connor
Director

Sydney
21 September 2010



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

To: the directors of Challenger Investment Services Limited (formerly Credit Suisse Investments (Australia) Limited).

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2010 there have been:

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

KPMG

KPMG

A handwritten signature in black ink that reads 'Peter Russell'.

Peter Russell
Partner

Sydney

21 September 2010

Credit Suisse IRIS Low Volatility Fund
Statement of comprehensive income
For the period from 27 November 2009 to 30 June 2010

	Notes	Period from 27 November 2009 to 30 June 2010 \$
Investment income		
Interest income		13,871
Net changes in financial instruments held at fair value through profit or loss	5	<u>3,989,888</u>
Total net investment income		<u>4,003,759</u>
Expenses		
Management fees	12	52,336
Other operating expenses		<u>1,597</u>
Total operating expenses		<u>53,933</u>
Operating profit		<u>3,949,826</u>
Finance costs attributable to unitholders		
Distributions to unitholders	7	(3,949,734)
(Increase)/decrease in net assets attributable to unitholders	6	<u>(92)</u>
Profit/(loss) for the period		<u>-</u>
Other comprehensive income for the period		<u>-</u>
Total comprehensive income for the period		<u>-</u>

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

Credit Suisse IRIS Low Volatility Fund
Statement of financial position
As at 30 June 2010

	Notes	As at 30 June 2010 \$
Assets		
Cash and cash equivalents	8	303,361
Receivables	10	3,554
Financial assets held at fair value through profit or loss	9	<u>106,639,888</u>
Total assets		<u>106,946,803</u>
Liabilities		
Payables	11	3,545
Distributions payable	7	<u>3,949,734</u>
Total liabilities (excluding net assets attributable to unitholders)		<u>3,953,279</u>
Net assets attributable to unitholders - liability	6	<u>102,993,524</u>
Represented by:		
Net assets attributable to unitholders contractually payable		<u>102,993,524</u>
Adjustments arising from different unit pricing and AIFRS valuation principles		<u>-</u>
		<u>102,993,524</u>

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

Credit Suisse IRIS Low Volatility Fund
Statement of changes in equity
For the period from 27 November 2009 to 30 June 2010

	Period from 27 November 2009 to 30 June 2010 \$
Total equity at the beginning of the financial period	-
Profit/(loss) for the period	-
Other comprehensive income for the period	-
Total comprehensive income for the period	<u>-</u>
Transactions with equity holders in their capacity as equity holders	<u>-</u>
Total equity at the end of the financial period	<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 period.

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Credit Suisse IRIS Low Volatility Fund
Statement of cash flows
For the period from 27 November 2009 to 30 June 2010

		Period from 27 November 2009 to 30 June 2010 \$
	Notes	
Cash flows from operating activities		
Interest received		13,871
Management fees and custody fees paid		(48,791)
Payment of other expenses		<u>(5,151)</u>
Net cash outflow from operating activities	13	<u>(40,071)</u>
Cash flows from investing activities		
Proceeds from sale of investments		106,639,888
Payments for purchase of investments		<u>(209,289,888)</u>
Net cash outflow from investing activities		<u>(102,650,000)</u>
Cash flows from financing activities		
Proceeds from applications by unitholders		<u>102,993,432</u>
Net cash inflow from financing activities		<u>102,993,432</u>
Net increase in cash and cash equivalents		303,361
Cash and cash equivalents at the beginning of the period		<u>-</u>
Cash and cash equivalents at the end of the period	8	<u>303,361</u>

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

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1 General information

This financial report covers Credit Suisse IRIS Low Volatility Fund (the "Scheme") as an individual entity.

Prior to 1 June 2010, the Responsible Entity of the Scheme was Credit Suisse Investments (Australia) Limited.

Effective from 1 June 2010, the Responsible Entity of the Scheme changed to Challenger Investment Services Limited (the "Responsible Entity"). The Responsible Entity's registered office is Level 15, 255 Pitt Street, Sydney NSW 2000. The financial statements are prepared in the Australian currency.

The financial report was authorised for issue by the directors on 21 September 2010.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of this financial report are set out below. These policies have been consistently applied to all years presented.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, and interpretations issued by the Australian Accounting Standards Board ("AASB") 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 Scheme, comprising the financial statements and notes thereto, complies with IFRS.

Financial Report Presentation

The Scheme has applied the revised AASB 101 *Presentation of Financial Statements* which became effective from 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income.

(b) Financial instruments

(i) Classification

The Scheme'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. These are investments in unlisted managed investment schemes.

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

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Recognition/derecognition

The Scheme 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 cash flows from the investments have expired or the Scheme has transferred substantially all risks and rewards of ownership.

(iii) Measurement and measurement principles

Financial assets are held at fair value through profit or loss.

Details on how the fair value of financial instruments is determined are disclosed in Note 3. All changes in fair value are recognised in the statement of comprehensive income.

(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 Scheme at any time for cash based on the redemption price. The carrying amount of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if unitholders exercised their right to put the units back to the Scheme. Because the Scheme's redemption prices are based on different valuation principles to that applied in financial reporting, a valuation difference exists which has been included in net assets attributable to unitholders.

(d) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, 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.

(e) Investment income and interest expense

Interest income is recognised in the profit or loss using the effective interest method.

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 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 Scheme 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.

(f) Expenses

All expenses, including management fees, are recognised in the profit or loss on an accrual basis.

(g) Income tax

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

2 Summary of significant accounting policies (continued)

(g) Income tax (continued)

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

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

(h) Distributions

In accordance with the Scheme's Constitution, the Scheme fully 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.

(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. 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.

(k) Payables

Payables include liabilities and accrued expenses owing by the Scheme which are unpaid as at the end of the reporting date.

The distribution amount payable to unitholders as at the reporting date is recognised separately on the statement of financial position when unitholders are presently entitled to the distributable income under the Scheme's Constitution.

(l) Applications and redemptions

Applications received for units in the Scheme are recorded net of any entry fees payable prior to the issue of units in the Scheme. Redemptions from the Scheme 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 Scheme by third parties such as custodial services and investment management fees have been passed onto the Scheme. The Scheme 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 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.

2 Summary of significant accounting policies (continued)

(n) Use of estimates

The Scheme 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.

The valuation of the investments require management to make estimates in areas such as credit risk, yield curves and volatility and changes in assumptions about these factors could affect the reported fair value of financial instrument. For certain other financial instruments, including amounts receivable/payable for securities sold and purchased, accounts payable and the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

(o) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting period. The directors' assessment of the impact of these new standards (to the extent relevant to the Scheme) and interpretations is set out below:

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

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not traded. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in statement of comprehensive income. Management does not expect this will have a significant impact on the Scheme's financial report as the Scheme 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 removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies and simplifies the definition of a related party. The Scheme will apply the amended standard from 1 July 2011. When the amendments are applied, the Scheme would need to disclose any transactions between its subsidiaries and its associates. However, as the Scheme does not have any subsidiaries and associates, the amendment is not expected to have any effect on the Scheme's financial report.

3 Financial risk management

The Scheme's overall risk management programme focuses on ensuring compliance with the Scheme's Product Disclosure Statements and seeks to maximise the returns derived for the level of risk to which the Scheme is exposed.

The investment objective of the Scheme is to achieve positive return on invested capital by investing and subsequently holding selected securities and instruments which the investment manager expects to appreciate in value over a medium to long-term holding period. The Scheme aims to outperform the benchmark UBSA Bank Bill Index over the medium to long term time frame of more than three years.

Financial risk management is carried out under a risk management framework established by the Board of Directors of the Responsible Entity (the Board).

The Scheme's investment strategy is to invest and trade in the IRIS Low Volatility Cell of Managed Investments PCC Limited - an open-ended protected cell investment company registered with limited liability in Guernsey (registration no. 44043), offering the lowest volatility of the Credit Suisse ILS product range. Essentially the strategy involves a reversal of the role between insurers and investors, with insurers and re-insurers paying investors such as the IRIS Low Volatility Cell a premium to receive cover in the case of the occurrence of an event meeting set criteria within a specified time frame.

The activities of the Scheme expose it to a variety of financial risks: market risk (including price risk, currency risk and interest rate risk), credit and liquidity risk. The Scheme uses different methods to measure different types of risk including sensitivity analysis, rating and exposure analysis.

(a) Market risk

Market risk is the risk that losses may result from adverse movements in interest rates, foreign currency exchange rates, equity prices, commodity prices and other market metrics. The Scheme's level of market risk is predominantly defined by potential changes in the values of financial instruments in response to movements in the financial markets. A typical transaction may be exposed to a number of different market risks.

(i) Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will change because of movements in market prices. The Scheme's investments are primarily in unlisted investment cell with the result that the Scheme is exposed to indirect price risk from market movements that result in changes in the unit prices of the unlisted investment cell.

(ii) Currency risk

Currency risk is the change to the value of the Australian dollar, relative to other currencies. Primarily the Scheme's investments are in unlisted investment cell denominated in Australian dollars. As a result, the Scheme does not have a direct exposure to foreign currency risk but does have an indirect exposure to foreign currency risk through the underlying assets of the unlisted investment cell that are denominated in currencies other than Australian dollars.

For the Scheme this risk disclosure has been prepared based on the direct investments held by the Scheme and not on the underlying assets of the unlisted investment cell.

(iii) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Scheme's investments are in unlisted investment cell denominated in Australian dollars which are non-interest bearing and as such the Scheme is not exposed to significant levels of interest rate risk.

However, the Scheme does hold cash for liquidity and transactional purposes and this cash is held at floating interest rates. As a result, the Scheme is subject to a limited exposure of interest rate risks due to fluctuations in the levels of market interest rates.

3 Financial risk management (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

For the Schemes this risk disclosure has been prepared on the basis of the Schemes' direct investments and not on a look-through basis for the investments held indirectly through the unlisted investment cell. Based on this, other than cash and cash equivalents held at floating interest rates, all other financial assets and financial liabilities are non-interest bearing.

(b) Credit risk

Credit risk is the possibility of loss being incurred as the result of a borrower or counterparty failing to meet its financial obligations. In the event of a default, an investor generally incurs a loss equal to the amount owed by the debtor, less any recoveries resulting from foreclosure, liquidation of the collateral or restructuring of the obligation.

Credit risk primarily arises from investments in the underlying assets of the unlisted investment cell. For the Scheme this risk disclosure has been prepared on the basis of the Scheme's direct investments and not on a look-through basis for the investments held indirectly through the unlisted investment cell.

Other credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions. None of these assets are impaired nor past due but not impaired.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. There are no other significant credit risk exposures. Compliance with the relevant policies are reported to senior management and the external Compliance Committee on a regular basis.

(c) Liquidity risk

The Scheme is exposed to cash redemptions of redeemable units. Therefore, it primarily holds investments that can be traded in an active market and can be readily disposed. As a result, the Scheme is normally able to quickly liquidate its investments in these instruments at an amount close to their fair value to meet its liquidity requirements.

The table below analyses the Scheme's financial liabilities into relevant maturity buckets based on the remaining period to the earliest possible contractual maturity date at the end of the reporting period. The amounts in the table are contractual undiscounted cash flows.

	Less than 1 month	1-6 months	6-12 months	1-2 years
	\$	\$	\$	\$
At 30 June 2010				
Payables	-	3,545	-	-
Distribution payables	3,949,734	-	-	-
Net assets attributable to unitholders	<u>102,993,524</u>	-	-	-
Total financial liabilities	<u>106,943,258</u>	<u>3,545</u>	-	-

3 Financial risk management (continued)

(d) Fair value estimation

The carrying amounts of all the Scheme's financial assets and liabilities at the end of each reporting period approximate their fair values.

Financial assets and liabilities held at fair value through profit and 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 and loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit and loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

Fair value in an inactive or unquoted market

The fair value of financial assets 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 end of the reporting period applicable for an instrument with similar terms and conditions.

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

Investments in the unlisted investment cell are recorded at the redemption value per unit as reported by the manager to the market.

(e) Fair value hierarchy

The Scheme has adopted the amendments to AASB 7, effective 1 July 2009. This requires the Scheme to classify 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)

(e) Fair value hierarchy (continued)

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

As at 30 June 2010	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets				
Financial assets designated at fair value through profit or loss at inception:				
Unlisted managed investment schemes	-	-	<u>106,639,888</u>	<u>106,639,888</u>
Total	<u>-</u>	<u>-</u>	<u>106,639,888</u>	<u>106,639,888</u>

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include unlisted managed investment schemes. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. Level 3 instruments include the investment in IRIS Low Volatility Cell. As observable prices are not available for these securities, the Responsible Entity has used valuation techniques to derive fair value.

The following table presents the movement in level 3 instruments for the period ended 30 June 2010 by class of financial instrument.

As at 30 June 2010	IRIS Low Volatility Cell
Opening balance	-
Purchases	209,289,888
Sales	(106,639,888)
Gains and losses recognised in the statement of comprehensive income	<u>3,989,888</u>
Closing balance	<u>106,639,888</u>

4 Remuneration of auditors

During the period the following fees were paid or payable for services provided by the auditor of the Scheme:

	Period from 27 November 2009 to 30 June 2010 \$
(a) Audit services	
<i>Audit services</i>	
KPMG	
Audit and review of financial reports	21,687
Total remuneration for audit services	21,687
(b) Non-audit services	
<i>Other services</i>	
KPMG	
Tax compliance services	4,792
Other services	-
Total remuneration for non-audit services	4,792
Total remuneration for auditor	26,479

Auditor's remuneration for the Scheme is paid by the Responsible Entity.

5 Net changes in financial instruments held at fair value through profit or loss

Net changes recognised in relation to financial assets and financial liabilities held at fair value through profit or loss:

	Period from 27 November 2009 to 30 June 2010 \$
Total net changes in financial instruments held at fair value through profit or loss	3,989,888

6 Net assets attributable to unitholders

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

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

	30 June 2010 No.	30 June 2010 \$
Opening balance	-	-
Applications	102,574,503	102,993,432
Increase/(decrease) in net assets attributable to unitholders	-	92
Closing balance	<u>102,574,503</u>	<u>102,993,524</u>

Capital risk management

The Scheme considers 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 Scheme is subject to daily applications and redemptions at the discretion of unitholders.

Applications and redemptions are reviewed relative to the liquidity of the Scheme's underlying assets on a daily basis by the Responsible Entity. Under the terms of the Scheme's Constitution, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

7 Distributions to unitholders

The distributions paid/payable were as follows:

	Period from 27 November 2009 to 30 June 2010 \$	Period from 27 November 2009 to 30 June 2010 CPU
Distributions payable	<u>3,949,734</u>	<u>3.85</u>
Total distributions	<u>3,949,734</u>	<u>3.85</u>

8 Cash and cash equivalents

	As at 30 June 2010 \$
Cash at bank	<u>303,361</u>
	<u>303,361</u>

9 Financial assets held at fair value through profit or loss

	As at 30 June 2010 Fair value \$
Designated at fair value through profit or loss	
Unlisted investment cell	<u>106,639,888</u>
Total designated at fair value through profit or loss	<u>106,639,888</u>
Total financial assets held at fair value through profit or loss	<u>106,639,888</u>

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

10 Receivables

	As at 30 June 2010 \$
Other receivables	<u>3,554</u>
	<u>3,554</u>

11 Payables

	As at 30 June 2010 \$
Management fee payable	<u>3,545</u>
	<u>3,545</u>

12 Related party transactions

Responsible Entity

Prior to 1 June 2010, the Responsible Entity of the Scheme was Credit Suisse Investments (Australia) Limited (ABN 44 119 605 373). The Responsible Entity was a wholly owned subsidiary of Credit Suisse. The ultimate parent entity of Credit Suisse is Credit Suisse Group, a company incorporated in Switzerland.

Effective from 1 June 2010, the name of the Responsible Entity of the Scheme changed to Challenger Investment Services Limited (ABN 44 119 605 373).

12 Related party transactions (continued)

Key management personnel of the Responsible Entity

(a) Directors

The directors of Challenger Investment Services Limited during the period or since the end of the period and up to the date of this report are as follows:

RW Adams (Executive Director)	appointed on 31 May 2010
BR Benari (Executive Director)	appointed on 31 May 2010
BJ O'Connor (Executive Director)	appointed on 31 May 2010
RJ Woods (Executive Director)	appointed on 31 May 2010
PD Rogan (Chairman)	appointed on 31 May 2010
DD Trude (Executive Director)	resigned on 31 May 2010
SJ Pearson (Executive Director, Member of Audit Risk and Compliance Committee)	resigned on 31 May 2010
PC Noble (Executive Director)	resigned on 31 May 2010
FM Sedillo (Executive Director)	resigned on 31 May 2010
JJ Gurnsey (Executive Director)	resigned on 31 May 2010

(b) Other key management personnel

There were no other persons with responsibility for planning, directing and controlling the activities of the Scheme, directly or indirectly during the financial period.

Key management personnel unitholdings

At 30 June 2010, no key management personnel of the Responsible Entity held units in the Scheme.

Key management personnel compensation

Key management personnel are paid by the Responsible Entity. Payments made from the Scheme to the Responsible Entity do not include any amounts attributable to the compensation of key management personnel.

Key management personnel loan disclosures

The Scheme 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.

Other transactions within the Scheme

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

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Scheme during the financial period and there were no material contracts involving directors' interests existing at period end.

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

Under the terms of the Scheme's Constitution and the current Product Disclosure Statement for the Scheme, the Responsible Entity is entitled to receive management fees monthly of up to 0.10% per annum in total of the aggregate portfolio value of the Scheme.

12 Related party transactions (continued)

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

	30 June 2010 \$
Management fees for the period incurred by the Scheme	52,336
Management fees payable by the Scheme at the end of the period	3,545

Related party schemes' unitholdings

Parties related to the Scheme (including the Responsible Entity, its related parties and other schemes managed by the Responsible Entity), did not hold any units in the Scheme.

Investments

The Scheme did not hold any investments in the Responsible Entity or its related parties during the period.

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

	Period from 27 November 2009 to 30 June 2010 \$
Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities	
Profit for the period	-
Increase in net assets attributable to unitholders	92
Distributions to unitholders	3,949,734
Net changes in financial instruments held at fair value through profit or loss	(3,989,888)
Net changes in receivables	(3,554)
Net changes in payables	3,545
Net cash outflow from operating activities	(40,071)

14 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Scheme disclosed in the statement of financial position as at 30 June 2010 or on the results and cash flows of the Scheme for the period ended on that date.

15 Contingent assets and liabilities and commitments

There are no outstanding contingent assets and liabilities or commitments as at 30 June 2010.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 23 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 Scheme's financial position as at 30 June 2010 and of its performance, for the financial period ended on that date; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a); and
- (c) there are reasonable grounds to believe that the Scheme 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.



BJ O'Connor
Director

Sydney
21 September 2010



Independent auditor's report to the unitholders of Credit Suisse IRIS Low Volatility Fund

Report on the financial report

We have audited the accompanying financial report of Credit Suisse IRIS Low Volatility Fund (the Scheme), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 15 and the directors' declaration.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Scheme's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Responsible Entity, as well as evaluating the overall presentation of the financial report.



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

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

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Credit Suisse IRIS Low Volatility Fund is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Scheme's financial position as at 30 June 2010 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.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

KPMG

KPMG

Peter Russell
Partner

Sydney

21 September 2010

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Directory

Responsible Entity

Challenger Investment Services Limited
ABN 44 119 605 373
AFSL 320505

Registered office and principal place of business

Level 15
255 Pitt Street
SYDNEY NSW 2000

Custodian

State Street Australia Limited
Level 18
338 Pitt Street
SYDNEY NSW 2000

Auditor

For the Responsible Entity and the Trust
KPMG
10 Shelley Street
SYDNEY NSW 2000