

# **Our Watch Fund**

ARSN 119 678 456

## **Annual financial report**

### **For the year ended 30 June 2010**

**Responsible Entity Challenger Investment Services Limited**

ABN 44 119 605 373 AFSL 320505



# Our Watch Fund

ARSN 119 678 456

## Annual financial report

### For the year ended 30 June 2010

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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 Our Watch Fund (the "Scheme") present their report together with the financial report of the Scheme, for the year ended 30 June 2010.

### Responsible Entity

Challenger Investment Services Limited is the Responsible Entity of the Scheme since registration on 26 May 2006.

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 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 a registered managed investment scheme domiciled in Australia.

The Scheme continued to invest and trade in ASX listed equities and in Put Notes issued by Credit Suisse Investment Products (Asia Pacific) Limited (CS iPAL) in relation to the Equities basket in accordance with the provisions of the Scheme's Constitution.

The overall investment strategy of the Scheme is to add value by providing exposure to the performance of a basket of equities listed on the ASX with the potential for tax effective income and long term capital growth combined with capital protection at the end of the seven year Investment Timeframe for the amount initially invested in the Equities basket by the Scheme. The Responsible Entity aims to achieve this objective through management of the Equities basket, consists of high quality, marketable share, and investing in put notes issued by CS IPAL.

The Scheme did not have any employees during the year.

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

## 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:

	Year ended	
	30 June 2010 \$	30 June 2009 \$
Operating profit	<u>723,013</u>	<u>211,706</u>
Interim distribution paid	<u>160,791</u>	<u>364,224</u>
Distribution (cents per unit)	1.70	2.61
Final distribution paid/payable	<u>56,684</u>	<u>32,333</u>
Distribution (cents per unit)	0.67	0.23
<b>Performance</b>	<b>2010</b>	<b>2009</b>
	%	%
Growth return	4.55	(0.66)
Distribution return	<u>1.94</u>	<u>3.40</u>
Total return	<u>6.49</u>	<u>2.74</u>
	\$	\$
Redemption unit price (ex-distribution) as at 30 June	<u>0.8179</u>	<u>0.7886</u>

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 the Responsible Entity from the Scheme during the year.

	2010 \$	2009 \$
Management fees paid and payable by the Scheme	100,237	95,813

#### Valuation of assets

	2010 \$	2009 \$
Value of total Scheme assets as at 30 June	11,533,447	11,012,335

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

In the opinion of the Responsible Entity, there were no significant changes in the state of affairs of the Scheme 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 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 of 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 or 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

**Our Watch Fund**  
**Statement of comprehensive income**  
**For the year ended 30 June 2010**

		<b>Year ended</b>	
		<b>30 June</b>	<b>30 June</b>
		<b>2010</b>	<b>2009</b>
Notes		\$	\$
<b>Investment income</b>			
Interest income		2,963	7,027
Dividends income		344,500	470,152
Net changes in financial instruments held at fair value through profit or loss	5	<u>475,787</u>	<u>(158,726)</u>
<b>Total net investment income</b>		<b><u>823,250</u></b>	<b><u>318,453</u></b>
<b>Expenses</b>			
Management fees	13	100,237	95,813
Custody fees		-	4,841
Other operating expenses		<u>-</u>	<u>6,093</u>
<b>Total operating expenses</b>		<b><u>100,237</u></b>	<b><u>106,747</u></b>
<b>Operating profit</b>		<b><u>723,013</u></b>	<b><u>211,706</u></b>
<b>Finance costs attributable to unitholders</b>			
Distributions to unitholders	7	(217,475)	(396,557)
(Increase)/decrease in net assets attributable to unitholders	6	<u>(505,538)</u>	<u>184,851</u>
<b>Profit/(loss) for the year</b>		<b>-</b>	<b>-</b>
Other comprehensive income		<u>-</u>	<u>-</u>
<b>Total comprehensive income</b>		<b><u>-</u></b>	<b><u>-</u></b>

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

**Our Watch Fund**  
**Statement of financial position**  
**As at 30 June 2010**

		<b>As at</b>	
	<b>30 June</b>	<b>30 June</b>	
<b>Notes</b>	<b>2010</b>	<b>2009</b>	
	<b>\$</b>	<b>\$</b>	
<b>Assets</b>			
Cash and cash equivalents	8	134,919	94,465
Receivables	10	76,075	71,204
Financial assets held at fair value through profit or loss	9	11,322,453	10,846,666
<b>Total assets</b>		<b>11,533,447</b>	<b>11,012,335</b>
<b>Liabilities</b>			
Payables	11	14,072	22,849
Distributions payable	7	56,684	32,333
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<b>70,756</b>	<b>55,182</b>
<b>Net assets attributable to unitholders - liability</b>	6	<b>11,462,691</b>	<b>10,957,153</b>
<b>Represented by:</b>			
Net assets attributable to unitholders contractually payable		11,467,778	10,988,297
Adjustments arising from different unit pricing and AIFRS valuation principles		<b>(5,086)</b>	<b>(31,144)</b>
		<b>11,462,691</b>	<b>10,957,153</b>

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

**Our Watch Fund**  
**Statement of changes in equity**  
**For the year ended 30 June 2010**

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	Year ended	
	30 June 2010 \$	30 June 2009 \$
<b>Total equity at the beginning of the financial year</b>	-	-
Profit/(loss) for the year	-	-
Other comprehensive income	-	-
Total comprehensive income	-	-
Transactions with owners in their capacity as owners	-	-
<b>Total equity at the end of the financial year</b>	-	-

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.*

**Our Watch Fund**  
**Statement of cash flows**  
**For the year ended 30 June 2010**

		Year ended	
		30 June	30 June
		2010	2009
Notes		\$	\$
<b>Cash flows from operating activities</b>			
	Dividends received	340,032	498,391
	Interest received	2,963	7,027
	Management fees and custody fees paid	(109,014)	(144,390)
	Other income paid	(403)	-
	Payment of other expenses	-	(8,319)
	<b>Net cash inflow from operating activities</b>	<u>233,578</u>	<u>352,709</u>
14			
<b>Cash flows from investing activities</b>			
	Proceeds from sale of investments	1,185,025	1,184,995
	Payments for purchase of investments	<u>(1,185,025)</u>	<u>(1,184,995)</u>
	<b>Net cash inflow from investing activities</b>	<u>-</u>	<u>-</u>
<b>Cash flows from financing activities</b>			
	Distributions paid	<u>(193,124)</u>	<u>(611,787)</u>
	<b>Net cash outflow from financing activities</b>	<u>(193,124)</u>	<u>(611,787)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>40,454</b>	<b>(259,078)</b>
	Cash and cash equivalents at the beginning of the year	<u>94,465</u>	<u>353,543</u>
	<b>Cash and cash equivalents at the end of the year</b>	<u>134,919</u>	<u>94,465</u>
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*The above statement of cash flows should be read in conjunction with the accompanying notes.*

## Contents of the notes to the financial statements

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## 1 General information

These financial statements cover Our Watch Fund (the "Scheme") as an individual entity.

The Responsible Entity of the Scheme is Challenger Investment Services Limited (formerly "Credit Suisse Investments (Australia) Limited") (the "Responsible Entity"). The Responsible Entity's registered office is Level 15, 255 Pitt Street, Sydney, NSW 2000. The financial statements are presented in the Australian currency.

The financial statements were 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 these financial statements are set out below. These policies have been consistently applied to all years presented.

### (a) Basis of preparation

These general purpose financial statements have 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 statements are 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 statement of the Scheme, comprising the financial statements and notes thereto, complies with IFRS.

#### *Financial Statement Presentation*

The Scheme has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 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. As a consequence, the Scheme had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

### (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 Australian listed equity investments and put notes. The Scheme does not designate any derivatives as hedges in a hedging relationship.

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

Financial assets and liabilities 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 profit or loss.

#### (iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### (c) Net assets attributable to unitholders

Units in the Scheme are intended to be a long term investment for an Investment Timeframe of approximately seven years (2013). Investors who withdraw their units (in whole or in part) before the end of the Investment Timeframe, will not be afforded the benefit of any capital protection of the amount withdrawn. 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

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.

Dividend income is recognised on the ex-dividend date.

## 2 Summary of significant accounting policies (continued)

### (f) Expenses

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

### (g) Foreign exchange gains and losses

Foreign exchange gains and losses on financial assets and financial liabilities at fair value through profit or loss are recognised together with other changes in the fair value. Included in the profit or loss line item, net changes in financial instruments held at fair value through profit or loss are net foreign exchange gains and losses on monetary financial assets and financial liabilities.

### (h) 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).

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.

### (i) 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 profit or loss as finance costs attributable to unitholders.

### (j) 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 profit or loss as finance costs.

### (k) Receivables

Receivables may include amounts for interest and dividend. 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. Dividend is accrued when the right to receive payment is established. Amounts are generally received within 30 days of being recorded as receivables.

### (l) 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.

## 2 Summary of significant accounting policies (continued)

### (m) 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.

### (n) 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 profit or loss 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.

### (o) 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.

However, the put note is fair valued using Black Scholes valuation techniques by valuation service providers. The valuation is reviewed by the Responsible Entity, independent of the valuation service that created them.

The models used by the valuation service providers require estimates in areas such as credit risk and volatility and changes in assumptions about these factors could affect the reported fair value of financial instrument.

### (p) 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 the statement of comprehensive income. Management does not expect this will have a significant impact on the Scheme's financial statements 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 will not have any effect on the Scheme's financial statements.

### 3 Financial risk management

The Scheme's overall risk management programme focuses on ensuring compliance with the Scheme's Product Disclosure Statement 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 provide exposure to the performance of a basket of listed Australian shares with the potential for tax effective income and long term capital growth combined with capital protection at the end of the seven year Investment Timeframe for the amount initially invested in the Equities basket by the Scheme.

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 is supported by a Put Note that is intended to provide capital protection as the Valuation Date (23 December 2013) by allowing the Manager to dispose of the Equities basket for the original investment amount.

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

#### (a) Market risk

Market risk is the risk that losses may result from adverse movements in interest 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 listed Australian shares in response to movements in the Australian share 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 in listed Australian shares where the price is supported by a put note with the result that the Scheme is exposed to direct price risk from market movements in Australian Shares that may result in changes in the Scheme's unit prices.

### 3 Financial risk management (continued)

#### (a) Market risk (continued)

The table below provides a detail of the basket of listed Australian Shares, the Scheme holds:

Company	Number of shares	
	30 June 2010	30 June 2009
Telstra Corporation Ltd	469,765	144,543
Ten Network Holdings	284,857	177,481
Tabcorp Holdings Limited	222,944	35,276
Centro Properties Group	9,097	67,388
Mirvac Group	148,584	113,423
Westfield Group	364,949	29,963
Suncorp Metway Limited	418,371	52,101
Insurance Australia Group	317,689	93,164
Macquarie Airports	444,843	165,369
West Australian Newspapers	335,322	51,351
Westpac Banking Corporation	1,022,258	48,197
GPT Group	63,843	113,603
Australia & New Zealand Banking Group	450,007	20,824
National Australia Bank	340,580	14,636
Commonwealth Bank Of Australia	589,420	12,118
Qantas Airways	248,361	113,407
Perpetual Limited	217,178	7,685
Westfarmers Limited	450,149	15,712

The Scheme's investment in CS iPAL put notes provides capital protection at maturity (Valuation Date) by allowing the manager to dispose of the equities basket for the original investment amount. CS iPAL's obligations are guaranteed by Credit Suisse London Branch. Due to the guarantee there is no price risk on the Scheme as at 30 June 2010 and 30 June 2009, as the value of the equity is below cost.

#### (ii) Currency risk

Currency risk is the change to the value of the Australian dollar, relative to other currencies. The Scheme's investments are all in listed Australian shares denominated in Australian dollars. As a result there is no direct foreign currency risk in this Scheme.

#### (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 listed Australian shares denominated in Australian dollars and are non-interest bearing and as such the Scheme is not exposed to significant levels of interest rate risk.

The Scheme does hold some cash for liquidity and transactional purposes and this cash is held at floating interest rates. As a result, the Scheme is subject to limited non material 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 (continue)

The Scheme's exposure to interest rate risk is set out in the following table:

	Floating interest rate \$	Fixed interest rate \$	Non-interest bearing \$	Total \$
<b>30 June 2010</b>				
<b>Financial assets</b>				
Cash and cash equivalents	134,919	-	-	134,919
Receivables	-	-	76,075	76,075
Financial assets held at fair value through profit or loss	-	-	11,322,453	11,322,453
<b>Total assets</b>	<u>134,919</u>	<u>-</u>	<u>11,398,528</u>	<u>11,533,447</u>
<b>Financial liabilities</b>				
Payables	-	-	14,072	14,072
Distribution payable	-	-	56,684	56,684
<b>Total liabilities</b> (excluding net assets attributable to unitholders)	<u>-</u>	<u>-</u>	<u>70,756</u>	<u>70,756</u>
<b>Net exposure</b>	<u>134,919</u>	<u>-</u>	<u>11,327,772</u>	<u>11,462,691</u>
<b>30 June 2009</b>				
<b>Financial assets</b>				
Cash and cash equivalents	94,465	-	-	94,465
Receivables	-	-	71,204	71,204
Financial assets held at fair value through profit or loss	-	-	10,846,666	10,846,666
<b>Total assets</b>	<u>94,465</u>	<u>-</u>	<u>10,917,870</u>	<u>11,012,335</u>
<b>Financial liabilities</b>				
Payables	-	-	22,849	22,849
Distribution payable	-	-	32,333	32,333
<b>Total liabilities</b> (excluding net assets attributable to unitholders)	<u>-</u>	<u>-</u>	<u>55,182</u>	<u>55,182</u>
<b>Net exposure</b>	<u>94,465</u>	<u>-</u>	<u>10,862,688</u>	<u>10,957,153</u>

#### (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 Scheme's Put Notes guarantee. 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 Put Notes amounting to \$4,924,235 are issued by Credit Suisse Investment Products (Asia Pacific) Limited who are rated 'A+' by Standard and Poor's.

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 Scheme's policy is reported to the Board on a regular basis.

### 3 Financial risk management (continued)

#### (c) Liquidity risk

Units in the Scheme are intended to be a long term investment for an Investment Timeframe of approximately seven years (2013). Investors who withdraw their units (in whole or in part) before the end of the Investment Timeframe, will not be afforded the benefit of any capital protection of the amount withdrawn. The equity investments are actively traded on the Australian Stock Exchange and can be readily disposed.

The Scheme's put notes, guaranteed by Credit Suisse London Branch provide capital security for investors at maturity. The put notes are not a traded instrument however the Scheme is normally able to quickly liquidate its investments in the equities at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer.

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

	Less than 1 month \$	1-6 months \$	6-12 months \$	Over 12 months \$
<b>At 30 June 2010</b>				
Payables	-	14,072	-	-
Distributions payable	56,684	-	-	-
Net assets attributable to unitholders	<u>11,462,691</u>	-	-	-
Total financial liabilities	<u>11,519,375</u>	<u>14,072</u>	-	-
<b>At 30 June 2009</b>				
Payables	-	22,849	-	-
Distributions payable	32,333	-	-	-
Net assets attributable to unitholders	<u>5,760,599</u>	-	-	<u>5,196,554</u>
Total financial liabilities	<u>5,792,932</u>	<u>22,849</u>	-	<u>5,196,554</u>

The capital guarantee is only available to unitholders if they remain in the Scheme.

#### (d) Fair value estimation

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

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 profit or loss.

- Fair value

The fair value of financial assets and liabilities is determined using a variety of valuation techniques. For listed exchange assets, including equities, the price from an established market source data provider is used for the fair value calculation.

The fair value of the put note is an estimated amount, determined by an affiliated valuation service provider using a market standard model that the Scheme would receive or pay to terminate the contract at the end of the reporting period taking into account best estimates of volatility and other risks and the current credit worthiness of the counterparty.

The fair value estimation of derivatives is disclosed in Note 12.

### 3 Financial risk management (continued)

#### (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.

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. Comparative information has not been provided as permitted by the transitional provisions of the AIFRS.

As at 30 June 2010	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial assets</b>				
Financial assets held for trading:				
Derivatives	-	-	4,924,235	4,924,235
<b>Total of financial assets held for trading:</b>	<b>-</b>	<b>-</b>	<b>4,924,235</b>	<b>4,924,235</b>
Financial assets designated at fair value through profit or loss at inception:				
Australian listed equities	6,398,218	-	-	6,398,218
<b>Total of financial assets designated at fair value through profit or loss at inception:</b>	<b>6,398,218</b>	<b>-</b>	<b>4,924,235</b>	<b>11,322,453</b>

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities.

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 over-the-counter derivatives. 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.

### 3 Financial risk management (continued)

#### (e) Fair value hierarchy (continued)

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

As at 30 June 2010	Derivatives \$
Opening balance	5,196,554
Gains and losses recognised in profit and loss	<u>(272,319)</u>
<b>Closing balance</b>	<b><u>4,924,235</u></b>
Total gains or losses for the year included in the statement of comprehensive income for financial assets and liabilities held at the end of the year	<u>(272,319)</u>

### 4 Remuneration of auditors

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

	Year ended	
	30 June 2010 \$	30 June 2009 \$
<b>(a) Audit services</b>		
<i>Audit services</i>		
KPMG		
Audit of financial reports	<u>15,687</u>	15,364
Total remuneration for audit services	<u>15,687</u>	15,364
<b>(b) Non-audit services</b>		
<i>Other Services</i>		
KPMG		
Tax compliance services	4,792	5,602
Other services	-	2,106
Total remuneration for non-audit services	<u>4,792</u>	<u>7,708</u>
Total remuneration for auditor	<u>20,479</u>	23,072

Auditors' 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:

	Year ended	
	30 June 2010 \$	30 June 2009 \$
<b>Financial assets</b>		
Net gain/(loss) on financial assets designated at fair value through profit or loss	<u>475,787</u>	(158,726)
Net changes in financial assets held at fair value through profit or loss	<u>475,787</u>	(158,726)
<b>Total net changes in financial instruments held at fair value through profit or loss</b>	<u>475,787</u>	(158,726)

## 6 Net assets attributable to unitholders

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

As stipulated within the 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 of the Scheme.

	30 June 2010 No.	30 June 2009 No.	30 June 2010 \$	30 June 2009 \$
Opening balance	13,961,571	13,961,571	10,957,153	11,142,004
Applications	-	-	-	-
Redemptions	-	-	-	-
Increase/(decrease) in net assets attributable to unitholders	-	-	<u>505,538</u>	(184,851)
Closing balance	<u>13,961,571</u>	13,961,571	<u>11,462,691</u>	10,957,153

### 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 Scheme is a close end scheme that does not accept new investments after an initial application.

Units in the Scheme are intended to be a long term investment for an Investment Timeframe of approximately seven years (2013). Investors who withdraw their units (in whole or in part) before the end of the Investment Timeframe, will not be afforded the benefit of any capital protection of the amount withdrawn.

## 7 Distributions to unitholders

The distributions paid/payable were as follows:

	Year ended			
	30 June 2010 \$	30 June 2010 CPU	30 June 2009 \$	30 June 2009 CPU
Distributions paid	160,791	1.70	364,224	2.61
Distributions payable	56,684	0.67	32,333	0.23
<b>Total distributions</b>	<b>217,475</b>	<b>2.37</b>	<b>396,557</b>	<b>2.84</b>

## 8 Cash and cash equivalents

	As at	
	30 June 2010 \$	30 June 2009 \$
Cash at bank	134,919	94,465
	<b>134,919</b>	<b>94,465</b>

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

	As at	
	30 June 2010 Fair value \$	30 June 2009 Fair value \$
<b>Designated at fair value through profit or loss</b>		
Australian listed equities	6,398,218	5,650,112
Derivative (Note 12)	4,924,235	5,196,554
Total designated at fair value through profit or loss	<b>11,322,453</b>	<b>10,846,666</b>
<b>Total financial assets held at fair value through profit or loss</b>	<b>11,322,453</b>	<b>10,846,666</b>

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

CS iPAL (Credit Suisse Investment Products (Asia Pacific) Limited) or Credit Suisse London Branch guarantees that if the value of the equities basket as listed in the put notes at valuation date (23 December 2013) is less than the value of the equities basket at the strike date (22 December 2006) the investors will receive at least the Scheme's initial investment in the equities basket at the end of their investment period.

## 10 Receivables

	As at	
	30 June 2010 \$	30 June 2009 \$
Dividends receivables	73,446	68,978
Other receivables	<u>2,629</u>	<u>2,226</u>
	<u><b>76,075</b></u>	<u><b>71,204</b></u>

## 11 Payables

	As at	
	30 June 2010 \$	30 June 2009 \$
Management fees payable	<u>14,072</u>	<u>22,849</u>
	<u><b>14,072</b></u>	<u><b>22,849</b></u>

## 12 Derivative financial instruments

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

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

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

- hedging to protect an asset or liability of the Scheme against a fluctuation in market values or to reduce volatility
- a substitution for trading of physical securities
- adjusting asset exposures within the parameters set in the investment strategy.

Derivatives are not used to gear (leverage) a portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceeds the underlying value of the Scheme.

The Scheme holds the following derivative instruments:

### Put Notes

The Put Notes acquired from CS iPAL (on 22 December 2006) provide that if the value of the Equities basket (as listed in the Put Notes) on the Valuation Date (23 December 2013) is less than the value of the Equities basket on the same day (adjusted for any withdrawals prior to the end of the Investment Timeframe), these equities may be physically delivered by the Manager to CS iPAL on settlement of the Put Notes in exchange for an amount equal to the initial value of the Equities basket (as listed in the Put Notes), adjusted for any withdrawals prior to the end of the Investment Timeframe.

## 12 Derivative financial instruments (continued)

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

### 30 June 2010

	Notional \$	Fair Values	
		Assets \$	Liabilities \$
Put note	11,839,950	<u>4,924,235</u>	<u>-</u>
		<u>4,924,235</u>	<u>-</u>

### 30 June 2009

	Notional \$	Fair Values	
		Assets \$	Liabilities \$
Put note	11,839,950	<u>5,196,554</u>	<u>-</u>
		<u>5,196,554</u>	<u>-</u>

An overview of the risk exposures relating to derivatives is included in Note 3.

## 13 Related party transactions

### Responsible Entity

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

### Key management personnel of the Responsible Entity

#### (a) Directors

The directors of Challenger Investment Services Limited 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 year.

## 13 Related party transactions (continued)

### Key management personnel unitholdings

At 30 June 2010 no key management personnel of the Responsible Entity held units in the Scheme (2009: Nil).

### Key management personnel compensation

Key management personnel of the Responsible Entity 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 the details disclosed in this note, no key management personnel have entered into a material contract with the Scheme since the end of the previous financial year and there were no material contracts involving director's interests subsisting at year 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 0.72% per annum (2009: 0.72%) in total of the aggregate portfolio value of the Scheme.

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 Scheme and the Responsible Entity were as follows:

	<b>30 June 2010</b>	30 June 2009
	\$	\$
Management fees for the year incurred by the Scheme	<b>100,237</b>	95,813
Management fees payable by the Scheme at the end of the year	<b>14,072</b>	22,849

### 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 (2009: Nil).

### Investments

The Scheme did not hold any investments in the Responsible Entity or its related parties during the year (2009: Nil).

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

	Year ended	
	30 June 2010 \$	30 June 2009 \$
<b>Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities</b>		
Profit/(loss) for the year	-	-
Increase/(decrease) in net assets attributable to unitholders	<b>505,538</b>	(184,851)
Distributions to unitholders	<b>217,475</b>	396,557
Net changes in financial instruments held at fair value through profit or loss	<b>(475,787)</b>	158,726
Net changes in receivables	<b>(4,871)</b>	26,013
Net changes in payables	<b>(8,777)</b>	(43,736)
<b>Net cash inflow/(outflow) from operating activities</b>	<b><u>233,578</u></b>	<b><u>352,709</u></b>

## 15 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 year ended on that date.

## 16 Contingent assets and liabilities and commitments

There are no outstanding contingent assets and liabilities or commitments as at 30 June 2010 and 30 June 2009.

## Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 26 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 year 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 Our Watch Fund**

### **Report on the financial report**

We have audited the accompanying financial report of Our Watch 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 16 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 Our Watch 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

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