

# Private Investor Mortgage Fund



**Annual Financial Report  
30 June 2011**

Perpetual Investment  
Management Limited  
ABN 18 000 866 535  
AFSL 234426  
ARSN 092 603 873

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### Contents

	Page
Directors' report	2
Lead auditor's independence declaration	5
Statement of comprehensive income	6
Balance sheet	7
Statement of changes in equity	8
Cash flow statement	9
Notes to the financial statements	10
Directors' declaration	31
Independent auditor's report to the unitholders	32

## Directors' report

The directors of Perpetual Investment Management Limited (a wholly owned subsidiary of Perpetual Limited), the Responsible Entity of Private Investor Mortgage Fund, present their report together with the annual financial report of Private Investor Mortgage Fund ("the Scheme") for the year ended 30 June 2011 and the auditor's report thereon.

### Responsible Entity

The Responsible Entity of Private Investor Mortgage Fund is Perpetual Investment Management Limited (ABN 18 000 866 535). The Responsible Entity's registered office and principal place of business is Level 12, 123 Pitt Street, Sydney, NSW, 2000.

### Directors

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

R Burrows (appointed 2 April 2008)  
 A Dodwell (appointed 25 August 2008, Alternate for I Holyman)  
 C Doyle (appointed 24 September 2009)  
 G Foster (appointed 3 February 2010, Alternate for R Burrows)  
 J Hawkins (appointed 3 February 2010, resigned 27 July 2010, Alternate for M Pancino)  
 J Hawkins (appointed 11 August 2010, resigned 25 February 2011, Alternate for M Miller)  
 I Holyman (appointed 4 April 2005)  
 M Miller (appointed 24 September 2009, resigned 11 August 2010, Alternate for C Doyle)  
 M Miller (appointed 11 August 2010, resigned 25 February 2011)  
 M Pancino (appointed 2 February 2010, resigned 27 July 2010)  
 R Brandweiner (appointed 15 March 2011)

### Principal activities

The principal activity of the Scheme is to invest in quality first registered mortgages and deposits, money market and fixed income securities to provide investors with a secure investment and monthly income. Investments may be held directly or via investments in Perpetual Schemes.

The Scheme did not have any employees during the year.

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

### Review and results of operations

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

The table below demonstrates the performance of the Scheme as represented by the total return, which is calculated as the aggregation of the percentage capital growth and percentage distribution of income:

<b>Return (non-annualised)</b>	<b>2011</b>	<b>2010</b>
Capital growth (%)	-	-
Distribution of income (%)	<u>4.59</u>	<u>4.29</u>
Total return (%)	<u>4.59</u>	<u>4.29</u>
<b>Unit prices (ex-distribution as at 30 June)</b>	<b>2011</b>	<b>2010</b>
Entry price (\$)	1.000	1.000
Exit price (\$)	<u>1.000</u>	<u>1.000</u>

The above returns have been calculated using exit prices (as at 30 June) after taking into account all ongoing fees, and assuming reinvestment of distributions. No allowance has been made for entry fees or taxation.

## Directors' report (continued)

### Impact of Australian equivalents to International Financial Reporting Standards ("AIFRS") on unit pricing

For the purpose of determining unit prices for applications and redemptions, investment positions are valued at cost of acquisition, in accordance with the Scheme's Constitution and governing documents of the Scheme.

Investments are required to be valued at fair value for financial reporting in accordance with AIFRS. For example, long quoted investment positions are valued at the closing bid prices on the relevant trading day (excluding provision for disposal costs).

The key differences between net assets for unit pricing purposes and net assets as reported in the financial statements under AIFRS have been outlined below:

	30 June 2011 \$'000
Net assets for unit pricing purposes	200,846
Difference between cost of acquisition (for unit pricing) and fair value (for financial reporting) of securities	<u>(25)</u>
<b>Net assets under AIFRS</b>	<b><u>200,821</u></b>

### Interests in the Scheme

The movement in units on issue in the Scheme during the year is disclosed in note 6 to the annual financial report.

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

### Significant changes in state of affairs

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

### Likely developments and expected results of operations

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

### Matters subsequent to the end of the financial year

On 14 September 2011 the Perpetual Investment Management Limited Board resolved to wind up the Scheme. It is expected that the wind up will take greater than 12 months to complete and that capital will be returned to unitholders at six month intervals. Unitholders will continue to receive their income entitlements during the wind up. As a result of the Board's decision to wind-up the Scheme, the financial statements are not prepared on a going concern basis. The financial statements are being prepared on the basis set out in the accounting policy notes. There is no difference between this basis and preparing the financial statements on a going concern basis.

No other matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect:

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

### Environmental regulation

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

## Directors' report (continued)

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

Fees paid to the Responsible Entity and its related parties out of Scheme property during the year are disclosed in note 9 of the annual financial report.

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

The number of interests in the Scheme held by the Responsible Entity or its associates as at the end of the financial year are disclosed in note 9 of the annual financial report.

### Indemnification and insurance of officers and auditors

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

### Rounding of amounts to the nearest thousand dollars

The Scheme is an entity of the kind referred to in Class Order 98/100 (as amended) issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

### Lead auditor's independence declaration

A copy of the Lead 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.



R Burrows  
Director

Sydney  
14 September 2011



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

To: the directors of Perpetual Investment Management Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 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.

The KPMG logo, consisting of the letters 'KPMG' in a bold, sans-serif font, with each letter contained within a black square.

KPMG

A handwritten signature in black ink, appearing to read 'Robert Warren'.

Robert Warren  
*Partner*

Sydney

14 September 2011

**Statement of comprehensive income**

	Notes	30 June 2011 \$'000	30 June 2010 \$'000
<b>Investment income</b>			
Distribution income		8,542	9,061
Interest income	3	1,835	693
Other operating income		<u>35</u>	<u>13</u>
<b>Total net investment income</b>		<u><b>10,412</b></u>	<u><b>9,767</b></u>
<b>Expenses</b>			
Responsible Entity's fees	9	1,540	1,534
Loan impairment charges	8	14	-
Other expenses	4	<u>46</u>	<u>3</u>
<b>Total operating expenses</b>		<u><b>1,600</b></u>	<u><b>1,537</b></u>
<b>Operating profit</b>		<u><b>8,812</b></u>	<u><b>8,230</b></u>
<b>Finance costs attributable to unitholders</b>			
Distributions to unitholders	5	<u>8,810</u>	<u>8,234</u>
<b>Change in net assets attributable to unitholders</b>	6	<u><b>2</b></u>	<u><b>(4)</b></u>
Other comprehensive income		<u>-</u>	<u>-</u>
<b>Total comprehensive income/(loss)</b>		<u><b>2</b></u>	<u><b>(4)</b></u>

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

**Balance sheet**

		30 June 2011 \$'000	30 June 2010 \$'000
<b>Assets</b>			
Cash and cash equivalents		1,279	1,098
Financial assets held at fair value through profit or loss	7	165,073	186,269
Loans and receivables	8	<u>35,513</u>	<u>11,310</u>
<b>Total assets</b>		<u>201,865</u>	<u>198,677</u>
<b>Liabilities</b>			
Distributions payable to unitholders of the Scheme	5	598	739
Unearned income on mortgages		26	1
Sundry creditors and accruals		<u>420</u>	<u>411</u>
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<u>1,044</u>	<u>1,151</u>
<b>Net assets attributable to unitholders - liability</b>	6	<u>200,821</u>	<u>197,526</u>

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

### **Statement of changes in equity**

The Scheme's net assets attributable to unitholders are classified as a liability under AASB 132 *Financial Instruments: Presentation*. As such the Scheme has no equity and no items of changes in equity have been presented for the current or comparative period.

**Cash flow statement**

	30 June 2011 \$'000	30 June 2010 \$'000
	Notes	
<b>Cash flows from operating activities</b>		
Distributions received	8,706	8,841
Interest received	1,857	687
Other income received	35	14
Responsible Entity's fees paid	(1,534)	(1,546)
Other expenses paid	(44)	(2)
<b>Net cash inflow from operating activities</b>	11(a) <u>9,020</u>	<u>7,994</u>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments	69,783	48,153
Payments for purchase of investments	(72,964)	(44,787)
<b>Net cash (outflow)/inflow from investing activities</b>	<u>(3,181)</u>	<u>3,366</u>
<b>Cash flows from financing activities</b>		
Proceeds from applications by unitholders	17,414	19,260
Payments for redemptions by unitholders	(14,121)	(22,268)
Distributions paid	(8,951)	(8,105)
<b>Net cash outflow from financing activities</b>	<u>(5,658)</u>	<u>(11,113)</u>
<b>Net increase in cash and cash equivalents</b>	181	247
Cash and cash equivalents at the beginning of the financial year	1,098	851
<b>Cash and cash equivalents at the end of the financial year</b>	11(b) <u>1,279</u>	<u>1,098</u>

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

## 1 General information

This annual financial report covers Private Investor Mortgage Fund ("the Scheme") as an individual entity. The Scheme was constituted on 30 May 1997. The Scheme will terminate on 29 May 2077 unless terminated earlier in accordance with the provisions of the Scheme's Constitution (as amended). The Scheme is domiciled in Australia.

The Responsible Entity of the Scheme is Perpetual Investment Management Limited (the "Responsible Entity"). The Responsible Entity's registered office is Level 12, 123 Pitt Street, Sydney, NSW, 2000.

The annual financial report was authorised for issue by the directors of the Responsible Entity on 14 September 2011. The directors of the Responsible Entity have the power to amend and reissue the annual financial report.

## 2 Summary of significant accounting policies

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

### (a) Principles of preparation

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

The annual financial report is prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated. The annual financial report is presented in Australian dollars, which is the Scheme's functional currency.

The Responsible Entity approved the wind-up of the Scheme on 14 September 2011. It is expected that this wind-up will take greater than 12 months to complete. As a result of the Responsible Entity's decision to wind-up the Scheme, the financial statements are not prepared on a going concern basis. The financial statements are being prepared on the basis set out in the accounting policy notes. There is no difference between this basis and preparing the financial statements on a going concern basis.

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

The annual financial report of the Scheme also complies with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

#### *Use of estimates and judgement*

The preparation of an annual financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### (b) Change in accounting policy

The Scheme has adopted the following standards and amendments mandatory for the annual reporting period beginning on or after 1 July 2010:

(i) AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 and 139]* (effective from accounting periods beginning on or after 1 July 2010)

In May 2009 the AASB issued a number of improvements to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, AASB 8 *Operating Segments*, AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 117 *Leases*, AASB 118 *Revenue*, AASB 136 *Impairment of Assets* and AASB 139 *Financial Instruments: Recognition and Measurement*. The Scheme has applied the revised Standards from 1 July 2010. There are no adjustments as a result of applying the revised rules.

## 2 Summary of significant accounting policies (continued)

### (c) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The 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 accounting periods beginning on or after 1 January 2013)*

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

The Scheme has not yet decided when to adopt AASB 9. Management does not expect this will have a significant impact on the Scheme's annual financial report.

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

In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party. The Scheme will apply the amended standard from accounting periods beginning on 1 July 2011. It is not expected that the change will have a material impact on the Scheme's annual financial report.

(iii) *AASB 13 Fair Value Measurement (effective from accounting periods beginning on or after 30 June 2014)*

AASB 13 *Fair Value Measurement* includes a definition of fair value and provides guidance on fair value measurement. AASB 13 will become mandatory for the scheme's 30 June 2014 financial statements. This standard is applied prospectively. The scheme has not yet determined the potential effect of the standard.

(iv) *AASB 2010-6 Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets (effective from accounting periods beginning on or after 1 July 2011)*

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

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

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

### (d) Financial instruments

#### (i) Classification

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

- Financial instruments held for trading

Derivative financial instruments such as futures, forward contracts, options and interest rate swaps are included under this classification. All derivatives in a net receivable or payable position are shown gross and reported as either derivative financial assets or derivative financial liabilities. The Scheme does not designate any derivatives as hedges in a hedging relationship.

## 2 Summary of significant accounting policies (continued)

### (d) Financial instruments (continued)

#### (i) Classification (continued)

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

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

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the 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.

Loans and receivables comprise amounts due to the Scheme.

Other financial liabilities include distributions payable to unitholders of the Scheme, unearned income on mortgages and sundry creditors and accruals.

#### (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*

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

- Fair value in an active market

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

- Fair value in an inactive or unquoted market

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

## 2 Summary of significant accounting policies (continued)

### (d) Financial instruments (continued)

#### (iii) Measurement (continued)

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 balance sheet date applicable for an instrument with similar terms and conditions.

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

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

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

#### Loans and receivables

Loans and receivables are measured initially at fair value plus transaction costs and subsequently at amortised cost using the effective interest rate method, less impairment losses if any. Such assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment.

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

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

For the purpose of AASB 7, management considers that the carrying amount of cash and cash equivalents, other receivables, amounts due from brokers and other financial liabilities approximate fair value.

#### Other financial liabilities

Other financial liabilities are initially measured at fair value and subsequently at amortised cost.

#### (iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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.

### (e) Net assets attributable to unitholders

Units are redeemable at the unitholders' option and are classified as financial liabilities due to mandatory distributions. The units can be put back to the Scheme at any time for cash based on the redemption price (refer to note 12(d) for further information). The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption price) at the balance sheet date if unitholders exercised their right to redeem units in the Scheme.

## 2 Summary of significant accounting policies (continued)

### (f) Cash and cash equivalents

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

### (g) Investment income

Interest income is recognised in the statement of comprehensive income for all interest bearing financial instruments using the effective interest method. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(d).

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the 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.

Trust distributions (including distributions from cash management trusts) are recognised on a present entitlements basis as the Scheme is presently entitled to the distributable income of its investee trusts.

Other income is brought to account on an accruals basis.

Realised gains or losses are calculated as the difference between proceeds received from the sale of investments during the year (net of transaction costs) and their respective original costs. Unrealised gains or losses include all unrealised gains or losses recognised during the year on investments held at year end, adjusted for the reversal of previously recognised unrealised gains or losses on investments sold.

### (h) Expenses

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

### (i) 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 all of the income of the Scheme).

Realised net capital losses cannot be distributed to unitholders but are carried forward by the Scheme to be offset against any realised capital gains in future years.

The benefits of franking credits and foreign tax credits are passed on to unitholders, providing certain conditions are met.

### (j) Distributions

In accordance with the Scheme's Constitution, the Scheme distributes income adjusted for amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. The distributions are recognised in the statement of comprehensive income as finance costs attributable to unitholders.

## 2 Summary of significant accounting policies (continued)

### (k) Change 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.

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

The GST incurred on the costs of various services provided to the Scheme by third parties such as Responsible Entity's fees, has been passed onto the Scheme. The Scheme qualifies for Reduced Input Tax Credits (RITC) at a rate of 75% hence Responsible Entity's 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 balance sheet. Cash flows relating to GST are included in the cash flow statement on a gross basis.

### (m) Impairment

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

The Scheme is assessed for loan impairment losses on both a specific and collective basis.

Specific loan provisions are recognised in situations where, following an assessment of the individual facility, there is objective evidence that a loan is impaired. All other loans that do not have an individually assessed loan provision are assessed collectively for impairment.

Collective provisions reflect the estimated amount of losses on a collective basis. Estimated loss amounts are based on the historical loss experience of the Scheme. Increases or decreases in the specific and collective provision are recognised in the statement of comprehensive income.

## 3 Interest income

	30 June 2011 \$'000	30 June 2010 \$'000
Cash and cash equivalents	87	367
Mortgage loans	<u>1,748</u>	<u>326</u>
<b>Total</b>	<b><u>1,835</u></b>	<b><u>693</u></b>

## 4 Other expenses

	30 June 2011 \$'000	30 June 2010 \$'000
Broker commission	24	3
Sundry expenses	<u>22</u>	-
<b>Total</b>	<b><u>46</u></b>	<b><u>3</u></b>

## 5 Distributions to unitholders

The distributions for the year were as follows:

	30 June 2011 \$'000	30 June 2010 \$'000
<b>Distributions</b>		
Distributions paid - July	792	629
Distributions paid - August	716	596
Distributions paid - September	643	684
Distributions paid - October	813	708
Distributions paid - November	745	683
Distributions paid - December	761	680
Distributions paid - January	781	705
Distributions paid - February	626	631
Distributions paid - March	738	765
Distribution paid - April	850	735
Distribution paid - May	747	679
Distributions payable - June	598	739
<b>Total distributions</b>	<b>8,810</b>	<b>8,234</b>

## 6 Net assets attributable to unitholders

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

	30 June 2011 Units '000	30 June 2010 Units '000	30 June 2011 \$'000	30 June 2010 \$'000
<b>Net assets attributable to unitholders</b>				
Opening balance	197,553	200,561	197,526	200,538
Applications	17,414	19,260	17,414	19,260
Redemptions	(14,121)	(22,268)	(14,121)	(22,268)
Change in net assets attributable to unitholders	-	-	2	(4)
<b>Closing balance</b>	<b>200,846</b>	<b>197,553</b>	<b>200,821</b>	<b>197,526</b>

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.

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

	30 June 2011 \$'000	30 June 2010 \$'000
<b>Designated at fair value through profit or loss</b>		
Unlisted unit trusts*	165,073	186,269
<b>Total financial assets held at fair value through profit or loss</b>	<b>165,073</b>	<b>186,269</b>

\*The Scheme has an exposure to direct mortgages through its investments in Perpetual Mortgage Pool Fund.

## 8 Loans and receivables

	30 June 2011 \$'000	30 June 2010 \$'000
Distributions receivable	793	957
Interest receivable	12	9
Mortgage loans	34,679	10,316
Other receivables	29	28
<b>Total loans and receivables</b>	<b>35,513</b>	<b>11,310</b>
	<b>Carrying amount 30 June 2011 \$'000</b>	<b>Carrying amount 30 June 2010 \$'000</b>
<b>Provisions for impairment</b>		
Gross mortgage loans	<u>34,693</u>	10,316
Less:		
Specific impairment provision	-	-
Collective impairment provision	<u>14</u>	-
<b>Total mortgage loans (net)</b>	<b>34,679</b>	<b>10,316</b>

The directors have assessed that the fair value as at 30 June 2011 for mortgage loans to third parties approximates carrying value.

During the year there was no interest earned from impaired assets (2010: nil) and there were no impairment losses (2010: nil).

	Carrying amount 30 June 2011 \$'000	Carrying amount 30 June 2010 \$'000
<b>Impairment provisions</b>		
<b>Collective impairment provision</b>		
Balance at 1 July	-	-
Impairment loss for the year:		
Charge for the year	<u>14</u>	-
Balance	<u>14</u>	-
<b>Total provisions for impairment</b>	<b>14</b>	<b>-</b>

## 9 Related party transactions

### Responsible Entity

The Responsible Entity of Private Investor Mortgage Fund is Perpetual Investment Management Limited (ABN 18 000 866 535), a wholly owned subsidiary of Perpetual Limited (ACN 000 431 827).

The Scheme does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Scheme and this is considered the key management personnel.

## 9 Related party transactions (continued)

### Key management personnel

#### (a) Directors

Key management personnel includes persons who were directors of Perpetual Investment Management Limited during the year or since the end of the year and up to the date of this report:

R Burrows (appointed 2 April 2008)

A Dodwell (appointed 25 August 2008, Alternate for I Holyman)

C Doyle (appointed 24 September 2009)

G Foster (appointed 3 February 2010, Alternate for R Burrows)

J Hawkins (appointed 3 February 2010, resigned 27 July 2010, Alternate for M Pancino)

J Hawkins (appointed 11 August 2010, resigned 25 February 2011, Alternate for M Miller)

I Holyman (appointed 4 April 2005)

M Miller (appointed 24 September 2009, resigned 11 August 2010, Alternate for C Doyle)

M Miller (appointed 11 August 2010, resigned 25 February 2011)

M Pancino (appointed 2 February 2010, resigned 27 July 2010)

R Brandweiner (appointed 15 March 2011)

#### (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 or since the end of the financial year.

### Key management personnel unitholdings

From time to time directors of the Scheme, or their director 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.

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

### 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

Apart from those details disclosed in this note, no key management personnel have entered into a contract with the Scheme since the end of the previous financial year and there were no contracts involving director's interests subsisting at year end.

### Responsible Entity's fees and other transactions

The Responsible Entity's fees are calculated in accordance with the Scheme's Constitution (as amended). From 30 April 2010 onwards, the Responsible Entity's fee is 0.785% p.a. calculated on capital sums invested of the Scheme (after taking account of GST and reduced input tax credits) and is disclosed in the income statement.

## 9 Related party transactions (continued)

### Responsible Entity's fees and other transactions (continued)

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

	30 June 2011 \$	30 June 2010 \$
Responsible Entity's fees paid and payable directly by the Scheme	1,539,592	1,534,227
Fees payable to the Responsible Entity as at reporting date (included in sundry creditors and accruals)	415,535	410,401

### Related party unitholdings

Parties related to the Scheme (including Perpetual Investment Management Limited, its related parties and other schemes managed by Perpetual Investment Management Limited), held units in the Scheme as follows:

#### 30 June 2011

Managed Investment Schemes	Number of units held '000	Interest held (%)	Number of units acquired '000	Number of units disposed '000	Distributions paid/ payable by the Scheme \$'000
Perpetual Select Australian Fixed Income Fund	58,025	28.9	-	1,500	2,625

#### 30 June 2010

Managed Investment Schemes	Number of units held '000	Interest held (%)	Number of units acquired '000	Number of units disposed '000	Distributions paid/ payable by the Scheme \$'000
Perpetual Select Australian Fixed Income Fund	59,525	30.1	-	9,000	2,649

## 9 Related party transactions (continued)

### Investments

The Scheme held investments in the following schemes which are also managed by Perpetual Investment Management Limited or its related parties:

#### 30 June 2011

Managed Investment Schemes	Number of units held '000	Fair value of investment \$'000	Interest held (%)	Number of units acquired '000	Number of units disposed '000	Distributions received/receivable by the Scheme \$'000
Perpetual Institutional Cash Management Trust	37,294	37,294	2.8	47,443	34,400	1,539
Perpetual Liquidity Pool Fund	43,940	43,940	11.9	-	13,741	2,186
Perpetual Mortgage Pool Fund	83,839	83,839	11.3	-	20,498	4,817

#### 30 June 2010

Managed Investment Schemes	Number of units held '000	Fair value of investment \$'000	Interest held (%)	Number of units acquired '000	Number of units disposed '000	Distributions received/receivable by the Scheme \$'000
Perpetual Institutional Cash Management Trust	24,251	24,251	11.3	32,951	8,700	298
Perpetual Liquidity Pool Fund	57,681	57,681	11.9	-	8,961	1,708
Perpetual Mortgage Pool Fund	104,337	104,337	11.6	-	28,972	7,055

## 10 Auditor's remuneration

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

	30 June 2011	30 June 2010
	\$	\$
<b>Audit and audit related services</b>		
KPMG		
<b>Total remuneration for audit and audit related services</b>	<b>33,683</b>	<b>10,481</b>

## 11 Reconciliation of operating profit to net cash inflow from operating activities

	30 June 2011 \$'000	30 June 2010 \$'000
<b>(a) Reconciliation of operating profit to net cash inflow from operating activities</b>		
Operating profit	8,812	8,230
Loan impairment charges	14	-
Decrease/(increase) in distributions receivable	164	(220)
Increase in interest receivable	(3)	(7)
(Increase)/decrease in other receivables	(1)	1
Increase/(decrease) in sundry creditors and accruals	9	(11)
Increase in unearned income on mortgages	25	1
<b>Net cash inflow from operating activities</b>	<b>9,020</b>	<b>7,994</b>

### (b) Components of cash and cash equivalents

Cash at the end of the financial year as shown in the cash flow statement is reconciled to the balance sheet as follows:

Cash on hand	1,279	1,098
<b>Total cash and cash equivalents</b>	<b>1,279</b>	<b>1,098</b>

## 12 Financial risk management

### (a) Overview

The allocation of assets between the various types of financial instruments is determined by the Scheme's asset manager who manages the Scheme's assets to achieve the Scheme's investment objectives.

Divergence from target asset allocations and the composition of the assets is monitored by the Scheme's asset manager on at least a daily basis.

Perpetual Investment Management Limited (PIML), as Responsible Entity of the Scheme, is aware of the risks associated with the business of investment management. A financial risk management framework has been established within PIML which incorporates a regular assessment process to ensure that procedures and controls adequately manage the risks arising from current business activities. Central controls include (but are not limited to):

- integrated computer systems and processes with checks and balances;
- clear policies and procedures covering operations;
- post-trade investment compliance monitoring by outsourced arrangement;
- segregation of the dealing and investment management function from the administration and settlement function;
- an independent service provider for the valuation of securities;
- a compliance function within PIML with a separate reporting line from the Asset Management team; and
- a half-yearly control self-assessment process.

## 12 Financial risk management (continued)

### (a) Overview (continued)

The Scheme's investing activities expose it to the following risks from its use of financial instruments:

- market risk;
- credit risk; and
- liquidity risk.

The nature and extent of the financial instruments employed by the Scheme are discussed below. This note presents information about the Scheme's exposure to each of the above risks, the Scheme's objectives, policies and processes for measuring and managing risk.

The Board of Directors of PIML has overall responsibility for the establishment and oversight of the Scheme's financial risk management framework.

A risk management framework is in operation in PIML. Regular compliance and risk reporting forms an integral part of this framework. This facilitates a flow of information between the business and the PIML Board and its Committees. Any material matters identified are promptly investigated and reported.

The Board of Directors oversees how management monitors compliance with the Scheme's financial risk management policies and procedures. The Board of Directors ensures the continued adequacy of the financial risk management framework.

The use of derivatives is considered to be part of the investment and asset management processes and is not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- Hedging to protect an asset of the Scheme against a fluctuation in market value or to reduce volatility;
- As a substitute for physical securities until the physical position can be established;
- Adjusting asset exposures within the parameters set in the investment strategy;
- Adjusting the duration of fixed interest assets or the weighted average maturity of cash assets; and
- Creating a short exposure to a stock or market for a Scheme authorised to take net negative positions.

Derivatives are not used to gear (leverage) an asset unless explicitly allowed in accordance with the Scheme's governing documents. Gearing an asset would occur if the level of exposure to the markets exceeds the underlying value of the Scheme.

### (b) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Scheme's income or the carrying value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Scheme is exposed to market risk influencing investment valuations. The Scheme may utilise derivatives to manage this risk. However, at 30 June 2011, derivatives were not used (30 June 2010: derivatives were not used).

#### (i) Currency risk

Schemes that invest in international assets are exposed to currency risk. Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Asset Managers may enter into derivative contracts (such as forwards, swaps, options and futures) through approved foreign exchange dealers to minimise risk. However, the use of these contracts must be consistent with the investment strategy and restrictions of each Scheme, and agreed acceptable levels of currency risk of the Scheme.

The Scheme may enter into transactions denominated in currencies other than Australian dollars. The Scheme is therefore exposed to risks that the exchange rate of the Australian dollar relative to other foreign currencies may change and have an adverse effect on the Scheme's assets and liabilities denominated in currencies other than the Australian dollar.

## 12 Financial risk management (continued)

### (b) Market risk (continued)

#### (i) Currency risk (continued)

Foreign currency positions are monitored on a daily basis.

In accordance with the Product Disclosure Statement, the Scheme can invest in international assets. As of the balance sheet date, the Scheme holds no significant investment in international assets.

#### (ii) 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 is exposed to interest rate risk on its cash and interest bearing investments. Risk management techniques are used in the selection of investments which include periodic stress testing for fixed interest securities. Securities/investments (including derivatives) are only purchased that meet investment criteria.

Daily monitoring of trade restrictions and derivatives exposure against limits is undertaken with any breaches of these limit restrictions reported.

Financial assets and liabilities are split by the earlier of contractual maturity or repricing.

The Scheme's exposure to interest rate risk is set out below:

	Floating interest rate \$'000	1 year to 5 years \$'000	Total \$'000
<b>30 June 2011</b>			
<b>Financial Assets</b>			
Cash and cash equivalents	1,279	-	1,279
Mortgage loans	<u>21,167</u>	<u>13,526</u>	<u>34,693</u>
	Floating interest rate \$'000	1 year to 5 years \$'000	Total \$'000
<b>30 June 2010</b>			
<b>Financial Assets</b>			
Cash and cash equivalents	1,098	-	1,098
Mortgage loans	<u>9,008</u>	<u>1,308</u>	<u>10,316</u>

## 12 Financial risk management (continued)

### (b) Market risk (continued)

#### (ii) Interest rate risk (continued)

##### **Sensitivity analysis**

An increase of 1% in interest rates applicable at reporting date would have increased profit from operating activities by \$224,461 (2010: \$101,058). This analysis assumes that all variables, in particular foreign currency rates, remain constant. A decrease of 1% would have the equal, but opposite effect to the amounts shown above on the basis that all other variables remain constant.

#### (iii) Other market price risk

Other market price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the market.

As the majority of the Scheme's investments are carried at fair value with fair value changes recognised in the statement of comprehensive income, all changes in market conditions will directly affect net investment income.

Daily monitoring of trade restrictions and derivative exposure against limits is undertaken with any breach of these limit restrictions being reported.

The Scheme's specialist asset managers aim to manage the impact of price risk through the use of consistent and carefully considered investment guidelines. Risk management techniques are used in the selection of investments. Investments (including derivatives) are only purchased that meet investment criteria. Risk can be reduced by diversifying investments across several asset managers, markets, regions and different asset classes.

##### **Sensitivity analysis**

An increase of 15% at the reporting date of the market prices would have increased operating profit from operating activities by \$24,760,979 (2010: \$27,940,382). This analysis assumes that all other variables remain constant.

A decrease of 15% would have the equal, but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

### (c) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Scheme. PIML has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

With respect to credit risk arising from the financial assets of the Scheme, other than derivatives, the Scheme's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed on the balance sheet. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

Investment management processes include the consideration of counterparty risk. Securities/investments (including derivatives) are only purchased that meet the investment criteria. The Asset Management team within PIML may refer to the quantified credit ratings issued by Standard and Poor's or equivalent rating agency to assess the credit worthiness of counterparties. In addition, when considering approval of the new mortgage facilities, decisions are based on the approved lending guidelines and the investment strategy of the Scheme. Loans are only made to financially sound borrowers who satisfy credit checks. A procedure for checking and confirming the creditworthiness of borrowers is performed by mortgage managers for each application.

Consideration is given (among other things) to branding, stability and security marketability of counterparties and PIML consistently monitors exposure through electronic systems. PIML has broking agreements in place with a limited number of stockbrokers.

Trading in equity futures and options is restricted to trading on an exchange.

## 12 Financial risk management (continued)

### (c) Credit risk (continued)

#### Cash and cash equivalents

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of AA or higher (as determined by the Standard and Poor's or equivalent rating agency).

#### Credit quality per class of debt instruments

Mortgage loans comprise 17% (2010: 5%) of the Scheme's total assets at 30 June 2011.

During the year ended 30 June 2011, the Scheme had exposure to two counterparties within its mortgage loan portfolio which is individually significant. As at 30 June 2011 this exposure equated to \$9,500,000 representing 28% of the mortgage loan portfolio (2010: \$3,000,000 representing 29% of the mortgage loan portfolio).

The Scheme minimises concentration of credit risk by undertaking transactions with a reasonable number of customers and counterparties and by taking conservative levels of security on mortgages given.

The Scheme holds a number of different types of mortgages in a number of different states.

	30 June 2011	30 June 2010
(% of total mortgages)	%	%
<b>Mortgage breakdown by sector</b>		
Commercial	24.34	30.50
Retail	36.64	31.53
Industrial	35.41	32.12
Residential	1.74	5.85
Specialised	1.87	-
	<u>100.00</u>	<u>100.00</u>
	30 June 2011	30 June 2010
(% of total mortgages)	%	%
<b>Mortgage breakdown by geographical region</b>		
New South Wales	8.42	24.27
Western Australia	24.11	14.62
Victoria	25.18	47.47
Queensland	41.57	13.64
ACT	0.72	-
	<u>100.00</u>	<u>100.00</u>

### Impairment

#### Impaired mortgages

Impaired mortgages are those for which the Scheme determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the mortgage agreement(s).

## 12 Financial risk management (continued)

### (c) Credit risk (continued)

#### *Past due not impaired mortgages*

Mortgages where contractual interest or principal payments are past due but impairment is not deemed appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed.

#### *Mortgages with renegotiated terms*

Mortgages with renegotiated terms are those that have been restructured due to the deterioration in the borrower's financial position and where concessions were given which would not otherwise been considered. Once the mortgage is restructured it remains in this category independent of satisfactory performance after restructuring.

The carrying amount of renegotiated loans that would otherwise be past due or impaired at balance date is \$nil (2010: \$nil).

#### *Provision for impairment*

There are two components of this provision: a specific provision and a collective provision. The specific provision relates to the impairment of individual specific loans. The collective provision reflects the best estimate of the incurred losses of the Scheme that have not yet been specifically identified.

Set out below is an impairment analysis of the debt securities/mortgages held:

	Impaired	Past due not impaired	Neither past due nor impaired	Total
	\$'000	\$'000	\$'000	\$'000
<b>30 June 2011</b>				
Mortgages	-	-	<u>34,693</u>	<u>34,693</u>
	Impaired	Past due not impaired	Neither past due nor impaired	Total
	\$'000	\$'000	\$'000	\$'000
<b>30 June 2010</b>				
Mortgages	-	<u>1,288</u>	<u>9,028</u>	<u>10,316</u>
30 June 2010				Carrying value
				\$'000
Ageing of past due and impaired assets				
1-60 days				<u>1,288</u>

The Scheme holds collateral against loans in the form of mortgage interests over properties. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally not updated except when a loan is individually assessed as impaired. For this reason it has been determined impractical to disclose the fair value of collateral for loans past due but not impaired.

### (d) Liquidity risk

Liquidity risk is the risk that the Scheme will not be able to meet its financial obligations as they fall due.

## 12 Financial risk management (continued)

### (d) Liquidity risk (continued)

The Scheme's Product Disclosure Statement provides for quarterly redemption of units paid pro-rata if insufficient cash is available to meet all requests, and it is therefore exposed to liquidity risk of meeting unitholders' redemption at any time.

The Scheme's financial instruments include unlisted investments which are not traded in an organised public market and which generally may be illiquid. As a result, the Scheme may not be able to liquidate quickly some of its investments in these instruments at an amount close to their fair value in order to meet its liquidity requirements.

The investment management process includes the consideration of liquidity, both in terms of market quality and cash flow. In asset construction, securities/investments (including derivatives) are only purchased that meet investment criteria and this includes the assessment of saleability in different market conditions. Before entering into a transaction, consideration is given to (among others):

- whether the purpose of the investment is consistent with the investment strategy of the Scheme;
- the ease of selling the security should market conditions change unfavourably;
- whether there are sufficient assets to cover the underlying liabilities of that transaction; and
- the overall liquidity level for the Scheme.

The investment strategies define a range of liquidity levels for the Scheme. PIML has systems in place capable of monitoring and reporting on guidelines and limits.

The following table represents the contractual maturities of financial liabilities, including interest payments where applicable:

30 June 2011	Carrying amount \$'000	Contractual cash flow \$'000	At call \$'000	6 months or less \$'000
<b>Non-derivative financial liabilities</b>				
Distributions payable to unitholders of the Scheme	598	598	-	598
Unearned income on mortgages	26	26	-	26
Sundry creditors and accruals	420	420	-	420
Net assets attributable to unitholders	200,821	200,821	-	200,821
<b>Off balance sheet</b>				
Unrecognised loan commitments	600	600	600	-
<b>Total</b>	<b>202,465</b>	<b>202,465</b>	<b>600</b>	<b>201,865</b>

## 12 Financial risk management (continued)

### (d) Liquidity risk (continued)

30 June 2010	Carrying amount \$'000	Contractual cash flow \$'000	At call \$'000	6 months or less \$'000
Non-derivative financial liabilities				
Distributions payable to unitholders of the Scheme	739	739	-	739
Unearned income on mortgages	1	1	-	1
Sundry creditors and accruals	411	411	-	411
Net assets attributable to unitholders	197,526	197,526	-	197,526
Off balance sheet				
Unrecognised loan commitments	-	-	-	-
<b>Total</b>	<b>198,677</b>	<b>198,677</b>	<b>-</b>	<b>198,677</b>

Financial instruments at fair value through profit or loss where there are no contractual cash flows are disclosed based on the financial instruments' fair value at 30 June and their estimated maturity at this date.

### (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 significance of observable 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); and
- 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 judgement by the Responsible Entity. The Responsible Entity considers observable data to be 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 2011 and 30 June 2010:

As at 30 June 2011	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
Financial assets designated at fair value through profit or loss:				
Unlisted unit trusts	37,294	-	127,779	165,073
<b>Total</b>	<b>37,294</b>	<b>-</b>	<b>127,779</b>	<b>165,073</b>

## 12 Financial risk management (continued)

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

As at 30 June 2010	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets designated at fair value through profit or loss:				
Unlisted unit trusts	24,251	-	162,018	186,269
Total	24,251	-	162,018	186,269

The following tables presents the movement in level 3 instruments for the years ended 30 June 2011 and 30 June 2010 by class of financial instrument:

As at 30 June 2011	Unlisted unit trusts \$'000	Total \$'000
Opening balance	162,018	162,018
Purchases	-	-
Sales	(34,239)	(34,239)
Gains recognised in profit and loss	-	-
<b>Closing balance</b>	<b>127,779</b>	<b>127,779</b>

Total gains/(losses) for the year included in the statement of comprehensive income for financial assets and liabilities held at the end of the year

-

As at 30 June 2010	Unlisted unit trusts \$'000	Total \$'000
Opening balance	199,951	199,951
Purchases	-	-
Sales	(37,933)	(37,933)
Gains recognised in profit and loss	-	-
<b>Closing balance</b>	<b>162,018</b>	<b>162,018</b>

Total gains for the year included in the statement of comprehensive income for financial assets and liabilities held at the end of the year

-

For the years ended 30 June 2011 and 30 June 2010, there have been no transfers between levels.

## 13 Derivative financial instruments

In the normal course of business the Scheme enters into transactions in various derivative financial instruments which have 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.

### 13 Derivative financial instruments (continued)

Derivative transactions include many different instruments, such as forwards, futures and options. Derivatives are considered to be part of the investment process and 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; and
- adjusting asset exposures within the parameters set in the investment strategy, and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

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

As at the reporting date, there were no derivative financial instruments held by the Scheme (2010: \$nil).

### 14 Events occurring after the reporting period

On 14 September 2011 the Perpetual Investment Management Limited Board resolved to wind up the Scheme. It is expected that the wind up will take greater than 12 months to complete and that capital will be returned to unitholders at six month intervals. Unitholders will continue to receive their income entitlements during the wind up. As a result of the Board's decision to wind-up the Scheme, the financial statements are not prepared on a going concern basis. The financial statements are being prepared on the basis set out in the accounting policy notes. There is no difference between this basis and preparing the financial statements on a going concern basis.

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

### 15 Contingent assets, liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2011 or 30 June 2010 other than loan commitments disclosed in note 12(d) which are undrawn at year end.

## Directors' declaration

In the opinion of the directors of Perpetual Investment Management Limited, the Responsible Entity of Private Investor Mortgage Fund:

- (a) the annual financial statements and notes, set out on pages 6 to 30, are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Australian Accounting Standards (including the Australian Accounting Interpretations), and the *Corporations Regulations 2001*; and
  - (ii) giving a true and fair view of the Scheme's financial position as at 30 June 2011 and of its performance for the financial year ended on that date;
- (b) there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable; and
- (c) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

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



R Burrows  
Director

Sydney  
14 September 2011



## **Independent auditor's report to the unitholders of Private Investor Mortgage Fund**

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

We have audited the accompanying financial report of Private Investor Mortgage Fund (the Scheme), which comprises the balance sheet as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

#### *Directors' responsibility for the financial report*

The directors of Perpetual Investment Management Limited (the Responsible Entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 2, the directors of the Responsible Entity also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

#### *Auditor's responsibility*

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

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

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, a true and fair 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 Private Investor Mortgage 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 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.



KPMG



Robert Warren  
*Partner*

Sydney

14 September 2011

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