Man AHL Diversified Futures Ltd

Report and Financial Statements for the year ended 30 September 2018

Man AHL Diversified Futures Ltd
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Man AHL Diversified Futures Ltd
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Administrator
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129 Front Street
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We hereby confirm that in our opinion, the Investment Manager of the Fund has, in all material respects, managed the Fund in accordance with the provisions of the constitutive documents (including the Offering Memorandum dated the 9 April 2018 and the most recent Addendum to the Offering Memorandum dated 1 July 2018) during the year ended 30 September 2018.

HSBC Institutional Trust Services (Asia) Limited

Man AHL Diversified Futures Ltd
Statement of financial position
As at 30 September 2018

	Notes	30 September 2018 USD	30 September 2017 USD
Current assets			
Cash and cash equivalents	*3*	26,657,053	33,894,049
Balances with brokers	*3*	36,390,755	59,573,128
Financial assets at fair value through profit or loss	*4*	121,321,740	133,729,661
Due from brokers		9,703,104	7,407,014
Dividend receivable		59,001	97,528
Other assets	*8,9*	10,241	3,057
Total current assets		194,141,894	234,704,437
Current liabilities			
Bank overdraft	*3*	(188)	-
Balances due to brokers	*3*	(6,443,682)	(3,257,085)
Due to brokers		(9,606,238)	(7,364,549)
Financial liabilities at fair value through profit or loss	*4*	(20,142,233)	(30,489,008)
Subscriptions received in advance	*2*	(1,167,893)	(1,027,650)
Dividend payable		(33,997)	(42,429)
Accrued expenses and other liabilities	*8,9*	(666,399)	(1,622,260)
Total current liabilities		(38,060,630)	(43,802,981)
Net assets attributable to Redeemable Participating Shareholders		156,081,264	190,901,456
Which are represented by:			
Equity			
4,256,933 (2017: 5,156,013) Class A Redeemable Participating Shares with a Net Asset Value per Redeemable Participating Share of USD36.67 (2017: USD37.02)	*10*	156,081,264	190,901,456

Approved and authorised for issue on behalf of the Board on 13 December 2018.

m. B. Collins

Director

MICHAEL COLLINS
DIRECTOR

Director

The accompanying notes form an integral part of these financial statements.

	Note	30 September 2018 USD	30 September 2017 USD
Net assets attributable to Redeemable Participating Shareholders at the beginning of the year		190,901,456	231,156,386
Issue of 128,184 (2017: 164,333) Redeemable Participating Shares	*10*	4,870,305	6,130,200
Redemption of 1,027,264 (2017: 1,082,968) Redeemable Participating Shares	*10*	(39,529,656)	(40,570,469)
Net loss for the year attributable to Redeemable Participating Shareholders		(160,841)	(5,814,661)
Net assets attributable to holders of Redeemable Participating Shares at the end of the year		156,081,264	190,901,456

The *accompanying notes form an integral part of these financial statements.*

Man AHL Diversified Futures Ltd

Statement of comprehensive income
For the year ended 30 September 2018

	Notes	30 September 2018 USD	30 September 2017 USD
Income			
Net gain on foreign currency	*7*	1,818,587	42,651,924
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	*7*	6,066,257	(38,965,962)
Other income		34	80,658
		7,884,878	3,766,620
Expenses			
Management fees	*8,9*	(5,359,968)	(6,324,260)
Incentive fees	*8,9*	(3,588)	-
Introducing broker fees	*8,9*	(1,786,679)	(2,108,162)
Transaction and brokerage costs	*8*	(142,990)	(165,635)
Custodian fees	*8*	(71,960)	(44,537)
Services Manager fees	*8,9*	(413,689)	(576,687)
Director fees	*8,9*	(11,967)	(25,484)
Audit fees		(73,740)	(88,700)
Legal and other professional fees	*9*	(76,400)	(49,563)
Other expenses	*8,9*	(163,717)	(183,094)
		(8,104,698)	(9,566,122)
Withholding tax		58,979	(15,159)
Net loss for the year attributable to Redeemable Participating Shareholders		(160,841)	(5,814,661)

All recognised gains and losses for the year arose solely from continuing operations.

The accompanying notes form an integral part of these financial statements.

Man AHL Diversified Futures Ltd
Statement of cash flows
For the year ended 30 September 2018

	30 September 2018 USD	30 September 2017 USD
Cash flows from operating activities		
Net loss for the year attributable to Redeemable Participating Shareholders	(160,841)	(5,814,661)
Adjustments to reconcile net loss for the year attributable to Redeemable Participating Shareholders to net cash provided by/(used in) operating activities:		
Decrease/(increase) in financial assets at fair value through profit or loss	12,407,921	(103,027,539)
(Decrease)/increase in financial liabilities at fair value through profit or loss	(10,346,775)	6,694,717
Increase in due from brokers	(2,296,090)	(7,406,909)
Increase in due to brokers	2,241,689	7,280,677
Decrease in balances with brokers - collateral	4,119,136	24,503,554
Increase in balances due to brokers - collateral	2,938,713	2,293,861
Decrease/(increase) in dividend receivable	38,527	(33,410)
(Increase)/decrease in other assets	(7,184)	2,294
(Decrease)/increase in dividend payable	(8,432)	5,397
(Decrease)/increase in accrued expenses and other liabilities	(955,861)	648,434
Net cash provided by/(used in) operating activities	7,970,803	(74,853,585)
Cash flows from financing activities		
Proceeds on issue of Redeemable Participating Shares	5,010,548	7,187,164
Payments on redemption of Redeemable Participating Shares	(39,529,656)	(40,856,929)
Net cash used in financing activities	(34,519,108)	(33,669,765)
Net change in cash and cash equivalents	(26,548,305)	(108,523,350)
Cash and cash equivalents at the beginning of the year	66,058,387	174,581,737
Cash and cash equivalents at the end of the year	39,510,082	66,058,387
Net change in cash and cash equivalents for the year consists of:		
Net change in cash and cash equivalents before the effect of exchange rate fluctuations	(28,366,892)	(151,175,274)
Effect of exchange rate fluctuations on cash and cash equivalents	1,818,587	42,651,924
Net change in cash and cash equivalents	(26,548,305)	(108,523,350)
Cash and cash equivalents consist of:		
Cash and cash equivalents	26,657,053	33,894,049
Bank overdraft	(188)	-
Balances with brokers - without collateral	14,064,325	33,127,562
Balances due to brokers - without collateral	(1,211,108)	(963,224)
	39,510,082	66,058,387
Supplemental disclosure of cash flow information:		
Interest received	955,661	3,425,896
Interest paid	(383,853)	(1,558,298)
Dividend received	116,975	400,844
Dividend paid	(35,627)	(203,736)

The accompanying notes form an integral part of these financial statements.

1. General

Man AHL Diversified Futures Ltd (the "Fund") was incorporated with limited liability under the laws of Bermuda on 11 September 1997 and carries on business as an open-ended investment company, trading a diversified portfolio of futures, forwards, swaps and fixed income securities under the Companies Act 1981 of Bermuda.

The Fund commenced trading on 12 May 1998. The Fund seeks to achieve substantial medium-term capital growth while aiming to restrict the associated risk through the AHL Diversified Programme which is managed by AHL. AHL is an investment division of Man Group and it operates through various legal vehicles. AHL provides investors with highly liquid and efficient trading strategies which offer low correlation to more traditional investment disciplines. Man Group means Man Group plc and all or any of its subsidiaries and associates, as the context requires.

The Fund has been authorised by the Securities and Futures Commission in Hong Kong under the Code on Unit Trusts and Mutual funds.

AHL Partners LLP (the "Investment Manager") was appointed as the Investment Manager of the Fund. The responsibility for the investment selection, portfolio construction and portfolio management of the Fund's portfolio rests with the Investment Manager.

The most recent applicable Offering Memorandum of the Fund is dated 9 April 2018 (the "Offering Memorandum") and the most recent Addendum to the Offering Memorandum is dated 1 July 2018.

2. Significant accounting policies

(a) Accounting convention

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and where relevant, in accordance with the provisions of the Hong Kong Securities & Futures Commission Code on Unit Trusts and Mutual Funds pursuant to the Securities and Futures Ordinance (Cap 571) April 2003 (as amended effective 25 June 2010). The financial statements have been prepared on an historical cost basis except for financial assets and liabilities held at fair value through profit or loss, that have been measured based on fair value.

(b) Changes in accounting policy and disclosure

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Fund's financial statements for the year ended 30 September 2017.

Standards issued but not yet effective

IFRS 9 - *Financial Instruments: Classification and Measurement*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) was permitted if the date of initial application was before 1 February 2015. Management is currently assessing the impact of this standard on the Fund. At present, Management believes the adoption of IFRS 9 is unlikely to have a material effect on the classification and measurement of the Fund's financial assets or liabilities.

IFRIC Interpretation 23 – *Uncertainty over Income Tax Treatment*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside of the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatements by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatements. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. Management is currently assessing the impact of the Fund's financial statements.

At the date of authorisation of the financial statements there were a number of other Standards and Interpretations which were in issue but not yet effective. Management anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Fund.

(c) Use of accounting judgements and estimates

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the amounts reported and disclosures made in these financial statements and accompanying notes, including certain valuation assumptions. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities in the future.

2. Significant accounting policies (continued)

(d) Going concern
Management has made an assessment of the Fund's ability to continue as a going concern and is satisfied that it has resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern; therefore, the financial statements are prepared on a going concern basis.

(e) Revenue recognition
Interest income and dividend income are recorded on an accruals basis and ex-dividend basis respectively, gross of withholding tax.

(f) Financial assets and liabilities
Financial assets and liabilities at fair value through profit or loss

For Net Asset Value ("NAV") purposes, the valuation of financial assets and liabilities is calculated in accordance with the Offering Memorandum. For financial statements purposes, financial assets and liabilities have been valued in accordance with IFRS using the policies outlined below.

At 30 September 2018 and 30 September 2017, there are no material differences between these valuation methods.

Financial assets or liabilities held for trading are acquired or incurred principally for the purpose of selling or repurchasing in the short term. Derivatives are also categorised as held for trading as the Fund does not designate any derivatives as hedges in a hedging relationship.

The Fund recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Regular-way purchases and sales of investments are recognised on the trade date, which is the date on which the Fund commits to purchase or sell the asset. Financial assets and liabilities at fair value through profit or loss are initially recognised at fair value. All transaction costs for such instruments are recognised directly in the statement of comprehensive income.

After initial measurement, the Fund measures financial instruments, which are classified as at fair value through profit or loss, at their fair values.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives and exchange traded securities) is based on quoted market prices at the statement of financial position date.

In circumstances where the last traded price is not within the bid-ask spread, management will determine the point within the bid-ask spread that is most representative of fair value.

The Fund may from time to time invest in financial instruments or securities that are not traded in an active market (for example over-the-counter (''OTC'') derivatives and private placements of both equities and fixed income securities). These financial instruments are valued at their fair value in the manner described in subsequent accounting policies.

Any exchange traded derivative instruments (including, but not limited to, options and futures) dealt in on a market are valued at the settlement price on the relevant Valuation Day for such instruments on such a market. If the settlement price is not available, their probable realisation value shall be determined with care and in good faith by the Directors.

The investments in government bonds are valued at their carrying amount which approximates fair value.

Investments are derecognised when the rights to receive cash flows have expired or the Fund has transferred substantially all of the risks and rewards of ownership.

(g) 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 assets and settle the liabilities simultaneously. As at 30 September 2018 and 30 September 2017, no financial assets and liabilities are offset in the statement of financial position.

(h) Derivatives
The Fund may trade derivative financial instruments whose values are based upon an underlying asset, index, currency or interest rate. The net unrealised gains or losses, rather than contract or notional amounts, represents the approximate future flows from trading.

The Fund may engage in forward contracts, futures contracts, interest rate swaps, credit default swaps and contracts for difference. These are described below:

– Forward contracts

Forward contracts are recorded on the trade date and are valued at the applicable foreign exchange rates on the last business day of the year. The difference between the fair value of the original contract amount and the fair value of the open forward contract position is reflected as financial assets or financial liabilities at fair value through profit or loss in the statement of financial position and as net gain/(loss) on financial assets and liabilities at fair value through profit or loss in the statement of comprehensive income.

2. Significant accounting policies (continued)

(h) Derivatives (continued)

– Futures contracts

Futures contracts are recorded on the trade date and are valued at the applicable last traded price on the last business day of the year. The difference between the original contract amount and the fair value of the open futures position is reflected as financial assets or financial liabilities at fair value through profit or loss in the statement of financial position and as net gain/(loss) on financial assets and liabilities at fair value through profit or loss in the statement of comprehensive income. Realised gains or losses are recognised on the closing or trade date of the contract and are included in net gain/(loss) on financial assets and liabilities at fair value through profit or loss in the statement of comprehensive income.

– Swap contracts

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts. The Fund's main swap contracts consist of interest rate swaps and credit default swaps as detailed below:

– Interest rate swaps

Interest rate swaps relate to contracts taken out by the Fund with major brokers in which the Fund either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other. Changes in the value of the interest rate swap agreements and amounts received or paid in connection with these contracts, are included in net gain/(loss) on financial assets and liabilities at fair value through profit or loss in the statement of comprehensive income.

– Credit default swaps

The Fund may enter into credit default swaps for speculative purposes or to manage its exposure to certain sectors of the market or to reduce credit risk. The Fund may enter into credit default swap agreements to provide a measure of protection against the default of an issuer (as buyer of protection) and/or gain credit exposure to an issuer to which it is not otherwise exposed (as seller of protection). Credit default swaps are agreements in which one party pays fixed periodic payments to counterparty in consideration for a guarantee from the counterparty to make a specific payment should a negative credit event take place (e.g. default, bankruptcy or debt restructuring). The Fund may either buy or sell (write) credit default swaps.

If a credit event occurs, as a buyer, the Fund will either receive from the seller an amount equal to the notional amount of the swap and deliver the referenced security or underlying securities comprising of an index or receive a net settlement of cash equal to the notional amount of the swap less the recovery value of the security or underlying securities comprising of an index. As a seller (writer), the Fund will either pay the buyer an amount equal to the notional amount of the swap and take delivery of the referenced security or underlying securities comprising of an index or pay a net settlement of cash equal to the notional amount of the swap less the recovery value of the security or underlying securities comprising of an index.

The periodic payments received or made by the Fund are included in net gain/(loss) on financial assets and liabilities at fair value through profit or loss in the statement of comprehensive income. Swaps are marked-to-market daily and changes in value are recorded in net gain/(loss) on financial assets and liabilities at fair value through profit or loss in the statement of comprehensive income. When the swap is terminated, the Fund will record a realised gain/(loss) equal to the difference between the proceeds from (or cost of) the closing transaction and the Fund's basis in the contract, if any. Swap transactions involve, to varying degrees, elements of credit and market risk in excess of the amounts recognised in the statement of financial position. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreements may default on its obligation to perform or disagree as to the meaning of the contractual terms in the agreements, and that there may be unfavourable changes in interest rates and/or market values associated with these transactions.

- Contracts for difference

Contracts for differences are recorded on the trade date basis and are valued based on the difference between the notional long/short position of the underlying equity security calculated from a reference price on the date of entering into the contract and the market value at the date of closing the trade, or the reporting date if prior to terminating the contract. The difference between the initial recognition amount and the market value of the open contracts for differences is reflected as financial assets and liabilities at fair value through profit or loss in the statement of financial position and as net gain/(loss) on financial assets and liabilities at fair value through profit or loss in the statement of comprehensive income. Realised gains or losses are recognised on the closing or trade date of the contract and are included in net gain/(loss) on financial assets and liabilities at fair value through profit or loss in the statement of comprehensive income.

(i) Realised gains and losses and unrealised appreciation and depreciation

All realised gains and losses and unrealised appreciation and depreciation on securities and derivatives are recognised as net gain/(loss) on financial assets and liabilities at fair value through profit or loss in the statement of comprehensive income. The cost of securities sold is accounted for on First in – First out basis. Unrealised appreciation and depreciation comprise changes in the fair value of financial instruments for the year and from reversal of prior year's unrealised appreciation and depreciation for financial instruments which were realised in the reporting year. Realised gains and losses represent the difference between an instrument's initial carrying amount and disposal amount, or cash payments or receipts made on derivative contracts (excluding payments or receipts on collateral margin account for such instruments).

(j) Transaction costs

Transaction costs are incremental costs, which are separately identifiable and directly attributable to the acquisition, issue or disposal of a financial instrument. Transaction costs incurred by the Fund during the year are recognised in the statement of comprehensive income.

2. Significant accounting policies (continued)

(k) Functional and presentation currency
The Fund seeks to generate returns in United States dollars, its capital-raising currency. The liquidity of the Fund is managed on a day-to-day basis in United States dollars in order to handle the issue and redemption of the Fund's Redeemable Participating Shares. The Fund's performance is also evaluated in United States dollars. Therefore, as the United States dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions, the Fund's functional currency and presentation currency is the United States dollar.

(l) Foreign currency
Transactions during the year denominated in foreign currencies have been translated at the rates of exchange ruling at the dates of transactions. Assets and liabilities denominated in foreign currencies are translated at the rates of exchange in effect at the date of the statement of financial position. For investment transactions and investments held at the year end denominated in foreign currency, resulting gains or losses are included in net gain/(loss) on financial assets and liabilities at fair value through profit or loss in the statement of comprehensive income. All other foreign currency gains and losses are included in the net gain on foreign currency in the statement of comprehensive income.

(m) Expenses
All expenses are recognised in the statement of comprehensive income on an accruals basis. Dividend expense is recognised on the ex-dividend date.

(n) Redeemable Participating Shares
Redeemable Participating Shares are classified as equity instruments when:

- The Redeemable Participating Shares entitle the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation;
- The Redeemable Participating Shares are in the class of instruments that is subordinate to all other classes of instruments;
- All Redeemable Participating Shares in the class of instruments that is subordinate to all other classes of instruments have identical features;
- The Redeemable Participating Shares do not include any contractual obligation to deliver cash or another financial asset other than the holder's rights to a pro rata share of the Fund's net assets; and
- The total expected cash flows attributable to the Redeemable Participating Shares over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund over the life of the instrument.

In addition to the Redeemable Participating Shares having all of the above features, the Fund must have no other financial instrument or contract that has:

- Total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund; or
- The effect of substantially restricting or fixing the residual return to the Redeemable Participating Shareholders.

The Fund periodically assesses the classification of the Redeemable Participating Shares. If the Redeemable Participating Shares cease to have all the features, or meet all the conditions set out, to be classified as equity, the Fund will reclassify them as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognised in equity. If the Redeemable Participating Shares subsequently have all the features and meet the conditions to be classified as equity, the Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification.

The Fund has assessed that the Redeemable Participating Shares should be classified as equity for the years ended 30 September 2018 and 30 September 2017.

(o) Cash and cash equivalents, bank overdraft, balances with brokers and balances due to brokers
Cash and cash equivalents in the statement of financial position may consist of cash at bank, demand deposits, short-term deposits in financial institutions and short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with original maturities of three months or less. Short-term investments that are not held for the purpose of meeting short-term cash commitments and restricted margin accounts are not considered cash and cash equivalents. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdraft when applicable. Balances with brokers and balances due to brokers include amounts transferred as collateral against open derivative contracts. Amounts receivable from short sales and collateral may be restricted in whole or in part until the related securities are purchased. To the extent that units are purchased on margin, the margin debt may be secured on the related units.

(p) Due from and due to brokers
Due from and due to broker represents amounts receivable for securities sold and payable for securities purchased that have been contracted for but not yet settled or delivered on the statement of financial position date. These amounts are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment, if any. A provision for impairment of amounts due from broker is established when there is objective evidence that the Fund will not be able to collect all amounts due from the broker.

(q) Taxation
There is currently no taxation imposed on income or capital gains by the Government of Bermuda. Under current Bermudan law, the Fund is not obligated to pay any taxes in Bermuda on either income or capital gains. The Fund has received an undertaking from the Minister of Finance in Bermuda pursuant to the provisions of the Exempted Undertakings Tax Protection Act 1966 which exempts the Fund from any such Bermuda taxes, at least until 31 March 2035.

2. Significant accounting policies (continued)

(r) Subscriptions in advance

In response to the Central Bank of Ireland ("CBI") publishing the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) Investor Money Regulations 2015 for Fund Service Providers (the "Investor Money Regulations" or "IMR") in March 2015 (effective from 29 March 2017), the Investment Manager undertook, together with BNY Mellon Fund Services (Ireland) Designated Activity Company, a review of the way in which subscription, distribution and redemption monies are routed to and from funds managed by the Investment Manager. As a result of this review, subscription and redemption monies have been routed through a cash collection account in the name of the Fund. Pending issue of the shares and/or payment of subscription proceeds to an account in the name of the Fund, and pending payment of redemption proceeds or distributions, the relevant investor will be an unsecured creditor of the Fund in respect of amounts paid by or due to it.

(s) Comparative information

Certain prior year figures in the financial statements have been reclassified to conform with the current year presentation. Interest receivable and interest payable has been reclassified to due from brokers and due to brokers respectively. There has also been a reclassification of collateral balances.

3. Cash and cash equivalents, bank overdraft, balances with brokers and balances due to brokers

At the year end, amounts disclosed as cash and cash equivalents, bank overdraft, balances with brokers and balances due to brokers were held at BNP Paribas, HSBC Bank Plc and The Bank of New York Mellon SA/NV (the "Banks") and Deutsche Bank, J.P. Morgan Chase Bank N.A., Royal Bank of Scotland Plc, HSBC Bank Plc, Merrill Lynch & Co. Inc., Credit Suisse AG, Morgan Stanley and Goldman Sachs (the "Brokers"). These include amounts transferred as collateral against open derivatives, deposits held at call with banks and, other short-term highly liquid investments with original maturities of three months or less. Included in cash and cash equivalents balances at 30 September 2018 are US T-bills with a fair value of USDNil (cost: USDNil) (30 September 2017: USD9,991,886 (cost: USD9,979,522).

The portion of balances with brokers represented by collateral pledged as at 30 September 2018 was USD22,326,430 (2017: USD26,445,566) and the portion of balances due to brokers represented by collateral received was USD5,232,574 (2017: USD2,293,861).

4. Financial assets and liabilities at fair value through profit or loss

The following tables summarise financial assets and liabilities at fair value through profit of loss as at 30 September 2018 and 30 September 2017.

	Notional USD	30 September 2018 Fair Value USD	% of Net Assets	Notional USD	30 September 2017 Fair Value USD	% of Net Assets
Financial assets at fair value through profit or loss						
Held for trading						
Interest bearing securities						
Government bonds	91,268,970	91,612,293	58.70%	99,510,123	99,582,930	52.16%
Total interest bearing securities		91,612,293	58.70%		99,582,930	52.16%
Derivatives						
Commodity futures	48,078,783	3,614,701	2.32%	90,641,558	1,650,967	0.86%
Currency futures	6,889,319	3,175	-	1,506,880	8,831	-
Stock index futures	72,911,179	1,240,678	0.79%	189,232,161	3,455,997	1.81%
Interest rate futures	457,967,036	696,678	0.45%	1,119,321,662	534,343	0.28%
Forward currency contracts	524,180,229	3,539,269	2.27%	395,112,633	6,431,166	3.37%
Forward commodity contracts	29,082,833	162,190	0.10%	11,572,271	240,473	0.13%
Contracts for difference	38,840,425	2,289,673	1.47%	3,953,828	2,171,814	1.14%
Credit default swaps	15,000,000	6,461,374	4.14%	10,000,000	6,961,077	3.65%
Interest rate swaps	948,428,135	11,701,709	7.50%	871,489,551	12,692,063	6.65%
Total derivatives		29,709,447	19.04%		34,146,731	17.89%
Total financial assets at fair value through profit or loss		121,321,740	77.74%		133,729,661	70.05%

4. Financial assets and liabilities at fair value through profit or loss (continued)

	Notional USD	30 September 2018 Fair Value USD	% of Net Assets	Notional USD	30 September 2017 Fair Value USD	% of Net Assets
Financial liabilities at fair value through profit or loss						
Held for trading						
Derivatives						
Commodity futures	67,052,163	(744,354)	(0.48)%	54,064,561	(1,897,539)	(0.99)%
Currency futures	875,134	(17,922)	(0.01)%	7,145,744	(109,860)	(0.06)%
Stock index futures	18,187,108	(308,547)	(0.20)%	10,850,017	(318,136)	(0.17)%
Interest rate futures	524,479,791	(662,944)	(0.42)%	558,238,595	(1,622,888)	(0.85)%
Forward currency contracts	338,863,361	(4,353,892)	(2.79)%	879,548,438	(10,379,489)	(5.44)%
Forward commodity contracts	8,290,872	(372,351)	(0.24)%	25,551,116	(1,260,846)	(0.66)%
Contracts for difference	18,569,189	(1,521,959)	(0.98)%	2,642,946	(1,783,418)	(0.93)%
Credit default swaps	187,030,000	(1,169,941)	(0.75)%	194,516,000	(972,148)	(0.51)%
Interest rate swaps	948,428,135	(10,990,323)	(7.04)%	871,489,551	(12,144,684)	(6.36)%
Total derivatives		(20,142,233)	(12.91)%		(30,489,008)	(15.97)%
Total financial liabilities at fair value through profit or loss		(20,142,233)	(12.91)%		(30,489,008)	(15.97)%

None of the financial assets at fair value through profit or loss were used as collateral.

Fair value of financial instruments

The Fund has established a framework with respect to the measurement of fair values. This includes a periodic review by the Investment Manager of all significant fair value measurements, including Level 3 fair values.

The Investment Manager regularly reviews significant unobservable inputs and valuation adjustments (if any). If third party information is used to measure fair values, the Investment Manager assesses the evidence obtained from the third parties to support the conclusion such that valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The Fund classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in determining the measurements in line with IFRS 13.

The fair value hierarchy has the following levels:

- Level 1 - Quoted market price in an active market for an identical instrument.
- Level 2 - Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 - Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant impact on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques

Listed or publicly traded investment in government bonds and derivatives

When fair values of listed or publicly traded government bonds and derivatives are based on quoted market prices, or binding dealer price quotations, in an active market for identical assets without any adjustments, the instruments are included within Level 1 of the hierarchy.

Over-the-counter derivatives

The Fund uses widely recognised valuation techniques for determining fair values of over-the-counter (“OTC”) derivatives. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including both credit risk and foreign exchange spot and forward rates and interest rate curves. For these financial instruments, inputs used are market observable and are, therefore, included within Level 2.

4. Financial assets and liabilities at fair value through profit or loss (continued)

Valuation techniques (continued)

The following tables are a summary of the classification within the fair value hierarchy of the Fund's financial instruments carried at fair value as at 30 September 2018 and 30 September 2017:

As at 30 September 2018	Level 1 USD	Level 2 USD	Level 3 USD	Total Fair Value USD
Financial assets at fair value through profit or loss				
Interest bearing securities				
Government bonds	91,612,293	-	-	91,612,293
Total interest bearing securities	91,612,293	-	-	91,612,293
Derivatives				
Commodity futures	3,614,701	-	-	3,614,701
Currency futures	3,175	-	-	3,175
Stock index futures	1,240,678	-	-	1,240,678
Interest rate futures	696,678	-	-	696,678
Contracts for difference	-	2,289,593	80	2,289,673
Credit default swaps	-	6,461,374	-	6,461,374
Forward commodity contracts	-	162,190	-	162,190
Forward currency contracts	-	3,539,269	-	3,539,269
Interest rate swaps	-	11,701,709	-	11,701,709
Total derivatives	5,555,232	24,154,135	80	29,709,447
Total financial assets at fair value through profit or loss	97,167,525	24,154,135	80	121,321,740
Financial liabilities at fair value through profit or loss				
Derivatives				
Commodity futures	(744,354)	-	-	(744,354)
Currency futures	(17,922)	-	-	(17,922)
Stock index futures	(308,547)	-	-	(308,547)
Interest rate futures	(662,944)	-	-	(662,944)
Contracts for difference	-	(1,521,741)	(218)	(1,521,959)
Credit default swaps	-	(1,169,941)	-	(1,169,941)
Forward commodity contracts	-	(372,351)	-	(372,351)
Forward currency contracts	-	(4,353,892)	-	(4,353,892)
Interest rate swaps	-	(10,990,323)	-	(10,990,323)
Total derivatives	(1,733,767)	(18,408,248)	(218)	(20,142,233)
Total financial liabilities at fair value through profit or loss	(1,733,767)	(18,408,248)	(218)	(20,142,233)

4. Financial assets and liabilities at fair value through profit or loss (continued)

Valuation techniques (continued)

As at 30 September 2017	Level 1 USD	Level 2 USD	Level 3 USD	Total Fair Value USD
Financial assets at fair value through profit or loss				
Interest bearing securities				
Government bonds	99,582,930	-	-	99,582,930
Total interest bearing securities	99,582,930	-	-	99,582,930
Derivatives				
Commodity futures	1,650,967	-	-	1,650,967
Currency futures	8,831	-	-	8,831
Stock index futures	3,455,997	-	-	3,455,997
Interest rate futures	534,343	-	-	534,343
Contracts for difference	-	2,171,814	-	2,171,814
Credit default swaps	-	6,961,077	-	6,961,077
Forward commodity contracts	-	240,473	-	240,473
Forward currency contracts	-	6,431,166	-	6,431,166
Interest rate swaps	-	12,692,063		12,692,063
Total derivatives	5,650,138	28,496,593	-	34,146,731
Total financial assets at fair value through profit or loss	105,233,068	28,496,593	-	133,729,661
Financial liabilities at fair value through profit or loss				
Derivatives				
Commodity futures	(1,897,539)	-	-	(1,897,539)
Currency futures	(109,860)	-	-	(109,860)
Stock index futures	(318,136)	-	-	(318,136)
Interest rate futures	(1,622,888)	-	-	(1,622,888)
Contracts for difference	-	(1,783,418)	-	(1,783,418)
Credit default swaps	-	(972,148)	-	(972,148)
Forward commodity contracts	-	(1,260,846)	-	(1,260,846)
Forward currency contracts	-	(10,379,489)	-	(10,379,489)
Interest rate swaps	-	(12,144,684)		(12,144,684)
Total derivatives	(3,948,423)	(26,540,585)	-	(30,489,008)
Total financial liabilities at fair value through profit or loss	(3,948,423)	(26,540,585)	-	(30,489,008)

Short term balances are excluded from the tables above as their carrying values at the year end approximates to their fair values.

Investments are reviewed at each year end to ensure that they are correctly classified between Level 1, 2 and 3 in accordance with the fair value hierarchy outlined above. Where an investment's characteristics change during the year and investments no longer meet the criteria of a given level, they are transferred into a more appropriate level at the end of the relevant financial reporting year. For the year ended 30 September 2018 and 30 September 2017, there were no transfers between Leval 1 and Level 2.

As at 30 September 2017 the Fund held no Level 3 investments.

The following table includes a reconciliation of amounts for the year ended 30 September 2018 for financial instruments classified within Level 3:

	Derivatives USD	Total USD
Financial assets and liabilities at fair value through profit or loss		
Opening balance	-	-
Total gains and losses		
Realised	(2,437)	(2,437)
Unrealised	(113)	(113)
Purchases	3,020	3,020
Sales	(582)	(582)
Transfers into Level 3	(26)	(26)
Closing Balance	(138)	(138)

4. Financial assets and liabilities at fair value through profit or loss (continued)

Valuation techniques (continued)

All net realised and unrealised gains/(losses) in the tables above are reflected in the accompanying statement of comprehensive income. Unrealised loss of USD113 relates to those financial instruments held by the Fund at 30 September 2018 and is reflected in net gain/(loss) on financial assets at fair value through profit or loss in the statement of comprehensive income.

The following table presents additional information about valuation techniques and inputs used for investments that are measured at fair value and are categorised within Level 3 at 30 September 2018:

Asset Description	Fair Value as at 30 September 2018 USD	Valuation Technique	Unobservable input	Range
Contracts for difference	(138)	Last trade price	N/A	N/A

Forward contracts

As part of its portfolio management techniques, the Fund may use forward contracts to economically hedge any non-functional currency exposure (although formal hedge accounting is not used). Forward contracts may also be used for trading purposes. Forward contracts entered into by the Fund represent a firm commitment to buy or sell an underlying asset, or currency at a specified value and point in time based upon an agreed or contracted quantity.

Forward contracts may expose the Fund to the risks associated with the absence of an exchange market on which to close out an open position. The Investment Manager closely monitors the Fund's exposure under forward contracts as part of the overall management of the Fund's market risk.

Futures contracts

The Fund is subject to interest rate, stock index and commodity risks in the normal course of pursuing its investment objectives. The Fund may use futures contracts to gain exposure to, or hedge against changes in the value of interest rates, commodities or index. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date. A futures contract is an exchange traded financial instrument and is often cash settled.

Contracts for differences

Contracts for differences represent agreements that obligate two parties to exchange cash flows at specified intervals based upon or calculated by reference to changes in specified prices or rates for a specified amount of an underlying asset or otherwise deemed notional amount. The payment flows are usually netted against each other, with the difference being paid by one party to the other. Therefore amounts required for the future satisfaction of the contracts for differences may be greater or less than the amount recorded. The ultimate gain or loss depends upon the prices recorded at the year end date.

Interest rate swaps

An interest rate swap is an agreement between two counterparties in which one stream of future interest payments is exchanged for another based on a specified notional amount. Interest rate swaps usually involve the exchange of a fixed interest rate for a floating interest rate, or vice versa, to reduce exposure to fluctuations in interest rates or to obtain a marginally lower interest rate than would have been possible without the swap.

Credit default swaps

Credit default swaps are contracts in which the Fund pays or receives an interest flow in return for the counterparty accepting or selling all or part of the risk of default or failure to pay of a reference entity on which the swap is written. Where the Fund has bought protection, the maximum potential loss is the value of the interest flows the Fund is contracted to pay until maturity of the contract. Where the Fund has sold protection, the maximum potential loss is the nominal value of the protection sold.

The Fund may enter into credit default swaps for speculative purposes or to manage its exposure to certain sectors of the market or to reduce credit risk. The Fund may enter into credit default swap agreements to provide a measure of protection against the default of an issuer (as buyer of protection) and/or gain credit exposure to an issuer to which it is not otherwise exposed (as seller of protection). Credit default swaps are agreements in which one party pays fixed periodic payments to a counterparty in consideration for a guarantee from the counterparty to make a specific payment should a negative credit event take place (e.g. default, bankruptcy or debt restructuring). The Fund may either buy or sell/(write) credit default swaps.

If a credit event occurs, as a buyer, the Fund will either receive from the seller an amount equal to the notional amount of the swap and deliver the referenced security or underlying securities comprising of an index or receive a net settlement of cash equal to the notional amount of the swap less the recovery value of the security or underlying securities comprising of an index. As a seller (writer), the Fund will either pay the buyer an amount equal to the notional amount of the swap and take delivery of the referenced security or underlying securities comprising of an index or pay a net settlement of cash equal to the notional amount of the swap less the recovery value of the security or underlying securities comprising of an index.

Derivative financial instruments

The Fund is subject to both market and credit risk in trading derivative financial instruments. Market risk is the potential for changes in value due to changes in market interest rates, foreign exchange rates, indices and changes in the value of the underlying financial instruments. Credit risk is the possibility that a loss may occur if counterparty fails to perform according to the terms of the contract. Substantially all derivative contracts are transacted on a margin basis. Such transactions may expose the Fund to significant off-balance sheet risk in the event margin deposits and collateral investments are not sufficient to cover losses incurred.

4. Financial assets and liabilities at fair value through profit or loss (continued)

Derivative financial instruments (continued)

The Investment Manager manages the risk associated with these transactions by maintaining margin deposits and collateral investments with its brokers in compliance with individual exchange regulations and internal guidelines. The Investment Manager also takes an active role in managing and controlling the Fund's market and counterparty risks and monitoring trading activities and margin levels daily, and, as necessary, deposits additional collateral or reduces positions.

Derivative financial instruments are generally based on notional amounts which are not recorded in the financial statements. These notional amounts represent the theoretical principal value on which the cash flows of the derivative transactions are based. Unrealised appreciation or depreciation, rather than notional amounts, or the fair value of exchange-traded derivatives traded by the Fund are included in the statement of financial position. The net unrealised appreciation or depreciation, rather than contracted or notional amounts, represents the Fund's approximate future cash flows from trading activities.

The following table details the movements in notional values of the portfolio since the end of the preceding accounting year:

	Opening USD	Net Additions/Realisations USD	Closing USD
Financial assets at fair value through profit or loss			
Commodity futures	90,641,558	(42,562,775)	48,078,783
Currency futures	1,506,880	5,382,439	6,889,319
Stock index futures	189,232,161	(116,320,982)	72,911,179
Interest rate futures	1,119,321,662	(661,354,626)	457,967,036
Forward currency contracts	395,112,633	129,067,596	524,180,229
Forward commodity contracts	11,572,271	17,510,562	29,082,833
Contracts for difference	3,953,828	34,886,597	38,840,425
Credit default swaps	10,000,000	5,000,000	15,000,000
Interest rate swaps	871,489,551	76,938,584	948,428,135
Total	2,792,340,667	(559,693,758)	2,232,646,909

	Opening USD	Net Additions/Realisations USD	Closing USD
Financial liabilities at fair value through profit or loss			
Commodity futures	54,064,561	12,987,602	67,052,163
Currency futures	7,145,744	(6,270,610)	875,134
Stock index futures	10,850,017	7,337,091	18,187,108
Interest rate futures	558,238,595	(33,758,804)	524,479,791
Forward currency contracts	879,548,438	(540,685,077)	338,863,361
Forward commodity contracts	25,551,116	(17,260,244)	8,290,872
Contracts for difference	2,642,946	15,926,243	18,569,189
Credit default swaps	194,516,000	(7,486,000)	187,030,000
Interest rate swaps	871,489,551	76,938,584	948,428,135
Total	2,604,046,968	(492,271,215)	2,111,775,753

5. Offsetting financial assets and financial liabilities

As at 30 September 2018 and 30 September 2017, no financial assets and liabilities of the Fund are being presented net within the statement of financial position. The following tables provide information on the financial impact of netting for instruments subject to an enforceable master netting arrangement or similar agreement in the event of default as defined under such agreements.

The following table summarises the net financial assets per counterparty as at 30 September 2018:

Offsetting of financial assets, derivative assets and collateral received by counterparty

	(i)	(ii) Gross assets not offset in the statement of financial position		(iii)=(i)+(ii)
Counterparty	Gross amounts of assets in the statement of financial position USD	Financial instruments USD	Cash collateral held USD	Net amount USD
Credit Suisse AG	14,348,301	(7,588,518)	(733,613)	6,026,170
Deutsche Bank AG	7,406,189	(3,213,443)	(644,608)	3,548,138
Goldman Sachs	5,149,240	(3,695,878)	(995,626)	457,736
HSBC Bank Plc	6,058,996	(2,365,654)	-	3,693,342
JP Morgan Chase Bank N.A.	27,431,680	(16,198,536)	(2,858,727)	8,374,417
Merrill Lynch & Co. Inc.	6,242,185	(590,924)	-	5,651,261
Morgan Stanley	95,507,596	(1,512,403)	-	93,995,193
Royal Bank of Scotland Plc	5,268,566	(1,022,579)	-	4,245,987
The Bank of New York Mellon SA/NV	2,846	(2,846)	-	-
Total	167,415,599	(36,190,781)	(5,232,574)	125,992,244

The following table summarises the net financial liabilities per counterparty as at 30 September 2018:

Offsetting of financial liabilities, derivative liabilities and collateral pledged by counterparty

	(i)	(ii) Gross liabilities not offset in the statement of financial position		(iii)=(i)+(ii)
Counterparty	Gross amounts of liabilities in the statement of financial position USD	Financial instruments USD	Cash collateral pledged USD	Net amount USD
Credit Suisse AG	7,588,518	(7,052,809)	(535,709)	-
Deutsche Bank AG	3,213,443	-	(3,213,443)	-
Goldman Sachs	3,695,878	(2,033,152)	(1,662,726)	-
HSBC Bank Plc	2,365,654	-	(2,365,654)	-
JP Morgan Chase Bank N.A.	16,198,536	(9,634,832)	(6,563,704)	-
Merrill Lynch & Co. Inc.	590,924	(590,924)	-	-
Morgan Stanley	1,512,403	(1,512,403)	-	-
Royal Bank of Scotland Plc	1,022,579	-	(1,022,579)	-
The Bank of New York Mellon SA/NV	4,218	(2,846)	-	1,372
Total	36,192,153	(20,826,966)	(15,363,815)	1,372

The following table summarises the net financial assets per counterparty as at 30 September 2017:

Offsetting of financial assets, derivative assets and collateral received by counterparty

	(i)	(ii) Gross assets not offset in the statement of financial position		(iii)=(i)+(ii)
Counterparty	Gross amounts of assets in the statement of financial position USD	Financial instruments USD	Cash collateral held USD	Net amount USD
Credit Suisse AG	26,921,749	(8,331,802)	(1,087,507)	17,502,440
Deutsche Bank AG	11,430,229	(6,269,756)	(13,611)	5,146,862
Goldman Sachs	2,266,323	(244,906)	-	2,021,417
HSBC Bank Plc	107,005,163	(3,526,161)	-	103,479,002
JP Morgan Chase Bank N.A.	31,918,510	(16,623,134)	(1,192,743)	14,102,633
Merrill Lynch & Co. Inc.	7,849,792	(1,946,275)	-	5,903,517
Morgan Stanley	7,602,865	(1,259,137)	-	6,343,728
Royal Bank of Scotland Plc	5,715,172	(2,909,471)	-	2,805,701
Total	200,709,803	(41,110,642)	(2,293,861)	157,305,300

5. Offsetting financial assets and financial liabilities (continued)

The following table summarises the net financial liabilities per counterparty as at 30 September 2017:

Offsetting of financial liabilities, derivative liabilities and collateral pledged by counterparty

	(i)	(ii) Gross liabilities not offset in the statement of financial position		(iii)=(i)+(ii)
Counterparty	Gross amounts of liabilities in the statement of financial position USD	Financial instruments USD	Cash collateral pledged USD	Net amount USD
Credit Suisse AG	8,331,802	(7,516,881)	(814,921)	-
Deutsche Bank AG	6,269,756	-	(6,269,756)	-
Goldman Sachs	244,906	-	(244,906)	-
HSBC Bank Plc	3,526,161	-	(3,526,161)	-
JP Morgan Chase Bank N.A.	16,623,134	(9,520,534)	(7,102,600)	-
Merrill Lynch & Co. Inc.	1,946,275	(1,946,275)	-	-
Morgan Stanley	1,259,137	(1,259,137)	-	-
Royal Bank of Scotland Plc	2,909,471	-	(2,909,471)	-
Total	41,110,642	(20,242,827)	(20,867,815)	-

As at 30 September 2018, the portion of balances with brokers represented by collateral pledged as at 30 September 2018 was USD22,326,430 (2017: USD26,445,566) and the portion of balances due to brokers represented by collateral received was USD5,232,574 (2017: USD2,293,861).

6. Financial risk management

Overall risk management

The Fund's investment activities expose it to the various types of risk which are associated with the financial instruments and markets in which it invests. The most important types of financial risks to which the Fund is exposed are market risk, credit risk and liquidity risk. Market risk includes among other things; security price risk, interest rate risk, volatility risk and currency risk. The Fund manages these risks on an aggregate basis along with the risks associated with its investing activities as part of its overall risk management policies.

The nature and extent of the financial instruments outstanding at the dates of the statement of the financial position and the risk management policies employed by the Fund are discussed below.

As at 30 September 2018 and 30 September 2017, the Fund seeks to generate returns through investing in the AHL Diversified Programme, through its underlying investments, which are managed by the Investment Manager.

The following summary is not intended to be a comprehensive summary of all of the risks and the Redeemable Participating Shareholder should refer to the Fund's Offering Memorandum for a more detailed discussion of the risks inherent in investing in the Fund.

The Investment Manager distinguishes between two primary risk levels, which are risks at the Fund level, and risks at the underlying investment level. Accordingly, the Investment Manager has implemented procedures to manage risks associated with both the Fund and its underlying investments.

At the Fund level

Risk management at the Fund level can be segregated into pre and post-investment risk management. Pre-investment risk management involves determining asset allocation and portfolio construction. Thereafter, risk management involves conducting risk and return analysis, monitoring the relevant Fund specific portfolio restrictions and investment guidelines and managing currency, interest rate, credit and liquidity risks at the Fund level and making relevant adjustments to asset allocation and portfolio construction. Risk considerations or the need to bring the portfolio back in line with product guidelines may trigger a rebalancing of the portfolio, which is typically done on a daily basis by the Investment Manager's portfolio management team.

At the level of underlying investments

AHL Diversified Programme

AHL manages the AHL Diversified Programme which employs sophisticated computerised processes primarily to identify trends and other opportunities in markets around the world. A trading and implementation infrastructure is then employed to capitalise on these trading opportunities. This process is quantitative and primarily directional in nature, and is underpinned by risk control, ongoing research, diversification and the constant quest for efficiency.

A product of continuing research and development carried out by AHL since 1987, the AHL Diversified Programme utilises and is committed to extending the range and versatility of the original investment techniques, strategies and markets. As such, subject to the restrictions set out in the Offering Memorandum, AHL may increase the number and diversity of markets and instruments traded directly or indirectly by the AHL Diversified Programme and deploy new strategies or trading systems where appropriate. A cornerstone of the investment philosophy is that financial markets experience persistent trends and inefficiencies. Trends are a manifestation of serial correlation in financial markets – the phenomenon whereby past price movements influence future price behaviour. Although they vary in their intensity, duration and frequency, price trends are universally recurrent across all sectors and markets. Trends are an attractive focus for active trading styles applied across a diverse range of global markets.

6. Financial risk management (continued)

At the level of underlying investments (continued)

AHL Diversified Programme (continued)

As well as emphasising sector and market diversification, the AHL Diversified Programme has been constructed to achieve diversification by combining various systems. The systems are driven by powerful computerised processes or trading algorithms, most of which work by sampling prices in real time and measuring price momentum and breakouts. With access to around 300 traded instruments, AHL provides investors with one of the most diverse trading programmes in the industry. Instruments traded encompass currencies, bonds, rates, energies, metals and agriculturals.

The trading algorithms aim mainly to capture price trends and close out positions when there is a high probability of a different trend developing. The AHL Diversified Programme may include algorithmic systems based on certain forms of quantitative fundamental data that can be captured efficiently, such as interest rate data.

Another important aspect of diversification is the fact that the various systems generate signals across different time frames, ranging from two to three days to several months, which helps to reduce the risk of the AHL Diversified Programme. In line with the principle of diversification, the approach to portfolio construction and asset allocation is premised on the importance of deploying investment capital across the full range of sectors and markets. Particular attention is paid to correlation of markets and sectors, expected returns, market access costs and market liquidity. Portfolios are regularly reviewed and, when necessary, adjusted to reflect changes in these factors. The Investment Manager also has a process for adjusting its market risk exposure in real time to reflect changes in the volatility of individual markets. The portfolio structure and constituents are regularly reviewed by the investment management team and allocations may change to access other sectors and markets.

The leverage range of the AHL Diversified Programme is typically around 200-1000% of the Fund's NAV. In order to calculate leverage, financial derivative instruments are converted into an equivalent position in the underlying asset, with netting and hedging arrangements applied where risk offsetting occurs and as determined by the Investment Manager. Interest rate exposures are duration adjusted in order to compare them on an equivalent risk basis. Cash and cash equivalent instruments, FX hedges of any cash balances, as well as any share class hedges are excluded from the exposure calculation. Leverage is then calculated by summing the absolute values of these netted underlying exposures, and dividing by the Fund's NAV expressed in percentage terms.Leverage is allowed to fluctuate both above and below these average levels to some extent, as leverage is a function of positions held, so strong trends and other opportunities in a market tend to result in larger positions and therefore higher leverage. Leverage may also move below the range in times of increased market stress: the Fund will reduce position sizing with the aim of maintaining a balanced risk profile through time. In addition, there may be times of low trends where the Fund takes smaller positions across markets. Leverage is closely monitored.

Additionally, AHL benefits from being part of Man. Man offers expertise in client servicing through a worldwide network of offices and staff, product structuring, marketing and compliance together with back-office support functions, including information technology, administration and logistics.

Market risk

Market risk is the risk that fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and security prices.

There are many risk measures used by the Investment Manager; however one generally understood measure is annualised volatility. Annualised volatility is a measure of risk that is calculated as the standard deviation of the returns on the NAV per Redeemable Participating Share for the previous 12 months.

As it is based on the NAV per Redeemable Participating Share, annualised volatility incorporates all performance characteristics of the Fund including the impact of interest rate movements and currency exchange differences in the year. Although the direct investments of the Fund may change, the investment strategies employed by its underlying investments will not significantly change, meaning that the risk and return characteristics that the Fund is exposed to are broadly consistent.

Annualised volatility has limitations as it assumes a normal distribution of periodic returns, which may not be fully representative of hedge fund behaviour. The annualised volatility will also be a more accurate measure where more data points exist. Annualised volatility is based upon historical data. There is no guarantee of trading performance and past performance is no indication of future performance or results.

As at 30 September 2018, the annualised volatility for the Fund was 14.53% (2017: 13.17%).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund may hold investments in fixed interest bearing securities. Any change to the interest rate for particular securities may result in income either increasing or decreasing. Prices of securities held will be impacted by domestic rates of interest. The Fund's performance, therefore, will depend in part on its ability to anticipate and respond to such fluctuations in market interest rates, and to utilise appropriate strategies to maximise returns to the Fund, whilst attempting to minimise the associated risks to its investment capital.

The Fund has exposure to interest rate risk on cash and cash equivalents, bank overdraft, balances with brokers and balances due to brokers, government bonds and certain derivative contracts. That exposure may not necessarily be significant due to the generally short term nature of those holdings. But a more significant exposure exists in that the value of all financial instruments held by the Fund may be affected either positively or negatively by changes in interest rates.

6. Financial risk management (continued)

Interest rate risk (continued)

The following tables detail the Fund's exposure to interest rate risk by the earlier of contractual maturities or re-pricing:

As at 30 September 2018	Less than one month USD	One month to one year USD	Over one year USD	Not exposed to interest rate USD	Total USD
Current assets					
Cash and cash equivalents	26,657,053	-	-	-	26,657,053
Balances with brokers	36,390,755	-	-	-	36,390,755
Financial assets at fair value through profit or loss	41,992,973	51,206,242	10,811,466	17,311,059	121,321,740
Due from brokers	-	-	258,362	9,444,742	9,703,104
Dividend receivable	-	-	-	59,001	59,001
Other assets	-	-	-	10,241	10,241
Total current assets	105,040,781	51,206,242	11,069,828	26,825,043	194,141,894
Current liabilities					
Bank overdraft	(188)	-	-	-	(188)
Balances due to brokers	(6,443,682)	-	-	-	(6,443,682)
Due to brokers	-	-	(174,874)	(9,431,364)	(9,606,238)
Financial liabilities at fair value through profit or loss	-	(1,167,544)	(10,485,723)	(8,488,966)	(20,142,233)
Subscriptions received in advance	-	-	-	(1,167,893)	(1,167,893)
Dividend payable	-	-	-	(33,997)	(33,997)
Accrued expenses and other liabilities	-	-	-	(666,399)	(666,399)
Total current liabilities	(6,443,870)	(1,167,544)	(10,660,597)	(19,788,619)	(38,060,630)
Net assets attributable to Redeemable Participating Shareholders	98,596,911	50,038,698	409,231	7,036,424	156,081,264

As at 30 September 2017	Less than one month USD	One month to one year USD	Over one year USD	Not exposed to interest rate USD	Total USD
Current assets					
Cash and cash equivalents	33,894,049	-	-	-	33,894,049
Balances with brokers	59,573,128	-	-	-	59,573,128
Financial assets at fair value through profit or loss	-	100,808,335	12,001,000	20,920,326	133,729,661
Due from brokers	-	-	281,284	7,125,730	7,407,014
Dividend receivable	-	-	-	97,528	97,528
Other assets	-	-	-	3,057	3,057
Total current assets	93,467,177	100,808,335	12,282,284	28,146,641	234,704,437
Current liabilities					
Balances due to brokers	(3,257,085)	-	-	-	(3,257,085)
Due to brokers	-	-	(162,491)	(7,202,058)	(7,364,549)
Financial liabilities at fair value through profit or loss	-	(2,254,786)	(11,512,785)	(16,721,437)	(30,489,008)
Subscriptions received in advance	-	-	-	(1,027,650)	(1,027,650)
Dividend payable	-	-	-	(42,429)	(42,429)
Accrued expenses and other liabilities	-	-	-	(1,622,260)	(1,622,260)
Total current liabilities	(3,257,085)	(2,254,786)	(11,675,276)	(26,615,834)	(43,802,981)
Net Assets attributable to Redeemable Participating Shareholders	90,210,092	98,553,549	607,008	1,530,807	190,901,456

Liabilities not exposed to interest rate risk comprise due to brokers, subscriptions received in advance, dividend payable, certain financial liabilities at fair value through profit or loss and accrued expenses and other liabilities. These amounts normally require contractual settlement within one quarter and, in all cases, within one year.

6. Financial risk management (continued)

Interest rate risk (continued)

The following tables detail the effect on net assets should interest rates have increased/decreased by 50 basis points (bps) with all other variables remaining constant, assuming that a 50 bps increase/decrease in the base interest rate would result in a correlating 50 bps increase/decrease in the value of net assets. In reality, an increase/decrease of 50 bps would not result in a direct correlating increase/decrease in the fair value of net assets, as the movement in the value of net assets would depend on the individual asset class and/or market sentiment towards any sensitivity in the interest rate. The volatility measures presented in the Market Risk section include, among all other variables, these actual interest rate sensitivities.

As at 30 September 2018	Less than one month USD	One month to one year USD	Over one year USD	Not exposed to interest rate USD	Total USD
Net assets - (50 bps increase)	99,089,896	50,288,891	411,277	7,036,424	156,826,488
Net assets - (50 bps decrease)	98,103,926	49,788,505	407,185	7,036,424	155,336,040

As at 30 September 2017	Less than one month USD	One month to one year USD	Over one year USD	Not exposed to interest rate USD	Total USD
Net assets - (50 bps increase)	90,661,142	99,046,317	610,043	1,530,807	191,848,309
Net assets - (50 bps decrease)	89,759,042	98,060,781	603,973	1,530,807	189,954,603

The Fund is indirectly exposed to interest rate risk through its investment strategy, which is deliberately designed to generate returns through trading strategies focused on exploiting price differentials in rates. The sensitivity of these exposures is modelled through the overall volatility analysis provided in the market risk section.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund is exposed to currency risk though its investments in non-USD denominated investments. The Investment Manager has an active procedure to monitor foreign exchange exposures and manages this risk though offsetting non-USD denominated balances and entering into offsetting forward currency contracts.

Monetary assets and liabilities denominated in currencies are summarised below. The amounts stated represent the Fund's pre-hedged exposure and do not take account of the significantly reduced sensitivity to currency risk that results from holding the forward currency contracts.

As at 30 September 2018

Amounts are expressed in their USD equivalents	USD	Other	Total
Current assets			
Cash and cash equivalents	24,367,633	2,289,420	26,657,053
Balances with brokers	27,506,218	8,884,537	36,390,755
Financial assets at fair value through profit or loss	103,563,824	17,757,916	121,321,740
Due from brokers	3,696,090	6,007,014	9,703,104
Dividend receivable	11,615	47,386	59,001
Other assets	5,246	4,995	10,241
Total current assets	159,150,626	34,991,268	194,141,894
Current liabilities			
Bank overdraft	-	(188)	(188)
Balances due to brokers	(1,876,296)	(4,567,386)	(6,443,682)
Due to brokers	(3,643,794)	(5,962,444)	(9,606,238)
Financial liabilities at fair value through profit or loss	(6,750,587)	(13,391,646)	(20,142,233)
Subscriptions received in advance	(1,167,893)	-	(1,167,893)
Dividend payable	(3,034)	(30,963)	(33,997)
Accrued expenses and other liabilities	(666,399)	-	(666,399)
Total current liabilities	(14,108,003)	(23,952,627)	(38,060,630)
Net assets attributable to Redeemable Participating Shareholders	145,042,623	11,038,641	156,081,264

6. Financial risk management (continued)

Currency risk (continued)

As at 30 September 2017

Amounts are expressed in their USD equivalents	USD	Other	Total
Current assets			
Cash and cash equivalents	33,248,490	645,559	33,894,049
Balances with brokers	44,534,799	15,038,329	59,573,128
Financial assets at fair value through profit or loss	109,828,033	23,901,628	133,729,661
Due from brokers	2,546,635	4,860,379	7,407,014
Dividend receivable	15,644	81,884	97,528
Other assets	3,057	-	3,057
Total current assets	190,176,658	44,527,779	234,704,437
Current liabilities			
Balances due to brokers	(996,936)	(2,260,149)	(3,257,085)
Due to brokers	(2,546,151)	(4,818,398)	(7,364,549)
Financial liabilities at fair value through profit or loss	(6,015,583)	(24,473,425)	(30,489,008)
Subscriptions received in advance	(1,027,650)	-	(1,027,650)
Dividend payable	(4,261)	(38,168)	(42,429)
Accrued expenses and other liabilities	(1,622,233)	(27)	(1,622,260)
Total current liabilities	(12,212,814)	(31,590,167)	(43,802,981)
Net assets attributable to Redeemable Participating Shareholders	177,963,844	12,937,612	190,901,456

Other price risk

Other price risk is the risk that the price of a financial instrument will fluctuate due to changes in market conditions influencing, directly or indirectly, the value of the financial instrument.

The Fund is exposed to other price risk from its investments. Due to the nature of the trading strategies followed by this Fund, no direct relationship between any market factors and the expected prices of the financial instruments can be reliably established.

Other price risk is managed through the overall risk management processes described above.

Credit/Counterparty risk

Credit risk is the risk that an issuer or counterparty will be unable to meet a commitment that it has entered into with the Fund.

The Fund's maximum exposure to credit risk (not taking into account the value of any collateral or other security held) in the event that the counterparties fail to perform their obligations as of 30 September 2018 in relation to each class of recognised financial assets is the carrying amount of those assets in the statement of financial position.

The significant exposures are to the Bank and Brokers.

The table below analyses the Fund’s exposure to cash and cash equivalents, balances with brokers, due from brokers, financial assets at fair value through profit or loss and dividend receivable by rating agency category at 30 September 2018 and 30 September 2017 (Source: Moody’s).

Counterparty	Moody's Rating	2018 USD	2018 %
BNP Paribas	Aa3	19,697,036	10.15%
Credit Suisse AG	Baa2	14,354,023	7.39%
Deutsche Bank	A3	7,406,189	3.82%
Goldman Sachs	A3	5,170,403	2.66%
HSBC Bank Plc	A2	6,061,385	3.12%
JP Morgan Chase Bank N.A.	A3	27,442,701	14.14%
Merrill Lynch & Co. Inc	A3	6,242,185	3.22%
Morgan Stanley	A3	95,528,503	49.20%
Royal Bank of Scotland Plc	Baa2	5,268,566	2.71%
The Bank of New York Mellon SA/NV	A1	6,960,662	3.59%
		194,131,653	100.00%

6. Financial risk management (continued)

Credit/Counterparty risk (continued)

Counterparty	Moody's Rating	2017 USD	2017 %
BNP Paribas	Baa1	9,433,986	4.02%
Credit Suisse AG	Baa2	27,095,595	11.54%
Deutsche Bank	Ba1	11,287,246	4.81%
Goldman Sachs	A1	2,316,557	0.99%
HSBC Bank Plc	Baa1	117,829,506	50.20%
JP Morgan Chase Bank N.A.	A3	31,918,509	13.60%
Merrill Lynch & Co. Inc	Baa1	7,849,792	3.34%
Morgan Stanley	A3	7,619,297	3.25%
Royal Bank of Scotland Plc	Baa3	5,715,172	2.44%
The Bank of New York Mellon SA/NV	A1	13,635,720	5.81%
		234,701,380	100.00%

The custody of assets rests with the prime broker/counterparty. The Investment Manager has centralised its due diligence and monitoring process of the prime brokerage and trading relationships through a dedicated prime brokerage and trading team utilised by an affiliated company. Credit and counterparty risk is analysed by examining certain credit related criteria on a centralised basis across platforms by establishing risk tolerance levels in accordance with the overall risk profile of the prime broker/counterparty as determined by the Investment Manager.

In addition, netting agreements and collateral arrangements (including International Swaps and Derivatives Association Inc. Master Agreements for OTC (as applicable derivatives) are routinely put in place when appropriate to allow the counterparty risk mitigating benefits of closeout netting and payment netting.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities or equity that are settled by delivering cash or another financial asset. Redeemable Participating Shareholder redemption requests are the main liquidity risk for the Fund.

The Fund's Redeemable Participating Shares are redeemable as outlined in Note 10. The exposure to liquidity risk through Redeemable Participating Shareholder redemption requests is managed by specifically setting the redemption notice period to accommodate the expected liquidity of the underlying investments as agreed by the Investment Manager.

The Fund's financial instruments include listed securities/exchange-traded futures contracts which are considered readily realisable as they are all listed on major recognised exchanges.

The Fund's financial instruments also include investments in derivative contracts traded OTC, which are not quoted in an active public market and which generally may be illiquid. As a result, the Fund 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 Fund may be forced to sell its more liquid positions at a disadvantageous time, resulting in a greater percentage of the portfolio consisting of illiquid financial instruments.

The tables below summarise the maturity profile of the Company's financial liabilities:

As at 30 September 2018	Less than 1 month USD	1 to 3 months USD	3 to 12 months USD	Greater than 1 year USD	Total USD
Current liabilities					
Bank overdraft	(188)	-	-	-	(188)
Balances due to brokers	(6,443,682)	-	-	-	(6,443,682)
Due to brokers	(9,431,364)	-	-	(174,874)	(9,606,238)
Financial liabilities at fair value through profit or loss	(5,880,832)	(2,515,271)	(35,586)	(11,710,544)	(20,142,233)
Subscriptions received in advance	(1,167,893)	-	-	-	(1,167,893)
Dividend payable	(10,856)	(23,141)	-	-	(33,997)
Accrued expenses and other liabilities	-	-	(666,399)	-	(666,399)
Total current liabilities	(22,934,815)	(2,538,412)	(701,985)	(11,885,418)	(38,060,630)

As at 30 September 2017	Less than 1 month USD	1 to 3 months USD	3 to 12 months USD	Greater than 1 year USD	Total USD
Current liabilities					
Balances due to brokers	(3,257,085)	-	-	-	(3,257,085)
Due to brokers	(7,202,058)	-	-	(162,491)	(7,364,549)
Financial liabilities at fair value through profit or loss	(11,383,588)	(5,031,532)	(1,324,326)	(12,749,562)	(30,489,008)
Subscriptions received in advance	(1,027,650)	-	-	-	(1,027,650)
Dividend payable	(15,664)	(26,765)	-	-	(42,429)
Accrued expenses and other liabilities	-	-	(1,622,260)	-	(1,622,260)
Total current liabilities	(22,886,045)	(5,058,297)	(2,946,586)	(12,912,053)	(43,802,981)

7. Net gain/(loss) on financial assets and liabilities at fair value through profit or loss

	2018 Fair Value USD	2017 Fair Value USD
Realised and unrealised gain/(loss) on foreign currency		
Net realised gain on foreign currency	1,945,205	43,660,258
Change in net unrealised depreciation on foreign currency	(126,618)	(1,008,334)
Net gain on foreign currency	**1,818,587**	**42,651,924**
Interest income	955,661	3,425,896
Interest expense	(383,853)	(1,558,298)
Dividend income	78,448	434,254
Dividend expense	(27,195)	(209,133)
	623,061	2,092,719
Realised and unrealised gain/(loss) on financial assets and liabilities at fair value through profit or loss		
Net realised gain on investments	1,194,837	-
Net realised (loss)/gain on contracts for difference	(1,575,333)	2,233,083
Net realised gain/(loss) on forward commodity contracts	48,549	(3,724,543)
Net realised (loss)/gain on forward currency contracts	(4,863,079)	2,379,341
Net realised gain/(loss) on commodity futures	1,009,178	(12,990,018)
Net realised gain on currency futures	341,796	646,796
Net realised loss on interest rate futures	(610,947)	(11,432,497)
Net realised gain on stock index futures	5,024,354	24,935,255
Net realised gain on credit default swaps	98,600	4,360,624
Net realised loss on interest rate swaps	(2,163,908)	(179,351)
Total net realised (loss)/gain	(1,495,953)	6,228,690
Change in net unrealised appreciation on investments	258,153	72,807
Change in net unrealised appreciation/(depreciation) on contracts for difference	379,317	(41,781,613)
Change in net unrealised appreciation/(depreciation) on forward commodity contracts	810,571	(908,638)
Change in net unrealised appreciation/(depreciation) on forward currency contracts	3,121,647	(2,957,534)
Change in net unrealised appreciation/(depreciation) on commodity futures	3,116,919	(84,129)
Change in net unrealised appreciation/(depreciation) on currency futures	86,283	(101,099)
Change in net unrealised appreciation/(depreciation) on interest rate futures	1,122,280	(1,642,618)
Change in net unrealised (depreciation)/appreciation on stock index futures	(2,205,730)	2,223,937
Change in net unrealised appreciation on credit default swaps	85,702	115,289
Change in net unrealised appreciation/(depreciation) on interest rate swaps	164,007	(2,223,773)
Total net movement in unrealised appreciation/(depreciation)	6,939,149	(47,287,371)
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	**6,066,257**	**(38,965,962)**

8. Fees, commission and other expenses

Management and incentive fees

The Investment Manager is entitled to a management fee of 3% per annum of the Net Asset Value of the Fund (the 'Management Fee') accrued daily and calculated on the aggregate Net Asset Value at the immediately preceding valuation day. The Management Fee is payable monthly in arrears by the Fund.

Incentive fees are calculated and accrued daily at each valuation day and payable annually in arrears at the rate of 20% of any net appreciation (after deduction of the management fee but prior to deduction of the incentive fee) in the Net Asset Value per Redeemable Participating Share on the last valuation day in the relevant financial year of the Fund above any previous highest Net Asset Value per Redeemable Participating Share on any preceding dealing day on which an incentive fee had previously been paid, multiplied by the number of Redeemable Participating Shares outstanding on the valuation day in respect of which the incentive fee is calculated.

Where an investor redeems Redeemable Participating Shares part way through a financial year, the incentive fee accrued in respect of those Redeemable Participating Shares is crystallised and paid at the end of the year.

Management and incentive fees payable in respect of the AHL Diversified Programme are paid to Man Investments AG in consideration for marketing advisory and investment management services.

8. Fees and expenses (continued)

Services Manager fees

The Fund pays the Services Manager in respect of shareholder services an annual fixed fee of USD1,000 plus an annual variable fee accruing at each valuation day and payable quarterly as per a sliding scale based on the number of investors as follows:

Up to 100 investors	USD10,000
101 to 200 investors	USD13,000
201 to 400 investors	USD16,000
401 to 600 investors	USD19,000

When there are more than 600 investors, the annual variable fees are increased by increments of USD3,000 for every additional 200 investors. The Services Manager is also paid by the Fund an annual fee of 0.05% of the Net Asset Value. In addition, a fee of USD27 is paid in arrears by the Fund in respect of outward payments to Shareholders.

In respect of valuation services, the Fund pays the Services Manager a fee of 0.23% per annum of the Net Asset Value accrued daily and paid monthly in arrears. The valuation fees payable are subject to a minimum of USD25,000 per annum.

The Services Manager pays fees to BNY Mellon Fund Services (Ireland) Designated Activity Company (the “Administrator”) for all administration services provided out of the Services Manager fee.

Company Secretary fees

The Fund Secretary fees are charged by SS&C Fund Services (Bermuda), Ltd., at an annual fixed fee of USD5,000 payable quarterly in arrears. Company secretary fees are included in other expenses in the statement of comprehensive income.

Introducing broker fees

Introducing broker fees, excluding institutional charges, are calculated at a rate of 1% per annum of the NAV as determined on each valuation day, were paid to the Introducing Broker.

Transaction and brokerage costs

Transaction and brokerage costs consist entirely of institutional charges for the years ended 30 September 2018 and 30 September 2017 which cover exchange and other third party costs, that are payable to brokers.

Hong Kong representative fees

The Hong Kong representative is paid a fee, calculated monthly at an amount of up to USD5,000 per annum. Hong Kong representative fees are included in other expenses in the statement of comprehensive income.

Custodian fees

HSBC Institutional Trust Services (Asia) Limited was paid by the Fund a fee accruing at each valuation day and payable monthly at a rate of up to 0.10% per annum of the Net Asset Value subject to a minimum annual fee of USD15,000 up to 30 September 2018 for its services as a custodian. In addition, HSBC Institutional Trust Services (Asia) Limited was entitled to be reimbursed for all out-of pocket expenses properly incurred by it in the performance of its duties.

Effective 1 October 2018, BNY Mellon Trust Company (Ireland) Limited (the “Custodian”) has been appointed as custodian to the Fund. The Custodian will be paid by the Fund a fee accruing at each valuation day and payable monthly at a rate of up to 0.025% per annum of the Net Asset Value subject to a minimum annual fee of USD35,000. In addition the Custodian is entitled to be reimbursed for all out-of-pocket expenses properly incurred by it in the performance of its duties. The Fund will be responsible for the fees and expenses of any sub-custodians appointed by the Custodian.

Directors’ fees

The Fund pays the fees to the Directors. Each Director’s fee is USD5,000 per annum. In addition, the Directors receive reimbursement for travel and other out-of-pocket expenses relating to attendance at meetings and other matters, including any expenses relating to the performance of due diligence for the benefit of the Fund. Directors’ fees are included in other expenses in the statement of comprehensive income.

9. Related party transactions

Master Multi-Product Holdings Ltd, a Bermuda incorporated company, is a related party through its 100% holding of Management Shares in the Fund. Master Multi-Product Holdings Ltd is itself owned by Conyers Trust Company (Bermuda) Limited (formerly Codan Trust Company Limited) as trustee of the Master Multi-Product Purpose Trust.

AHL Partners LLP is a related party as it is the Investment Manager and Introducing Broker of the Fund.

Man Investments (Hong Kong) Limited is a related party as it is the Hong Kong Representative of the Fund.

Man Investments AG is a related party as it is the Marketing Adviser and Services Manager of the Fund.

AHL Partners LLP, Man Investments (Hong Kong) Limited and Man Investments AG are subsidiaries of Man Group plc and therefore all subsidiaries of Man Group plc are related parties.

9. Related party transactions (continued)

Conyers Dill & Pearman, the Fund's legal advisor, is a related party as Dawn Griffiths is a Director of the Fund and a partner of the law firm.

Each of the Directors is or may become involved in other financial investment and professional activities which may cause conflicts of interest with the management of the Fund. These activities include management or administration of other companies (including those with investment objectives similar to that of the Fund or structures that may be related to Man Group plc sponsored investment funds), serving as directors, officers, advisers and/or agents of other companies, including companies or legal structures in which the Fund may invest and/or which may invest into the Fund.

The following transactions, which were entered into in the ordinary course of business and on normal commercial terms took place between the Fund and its related parties:

For the year ended 30 September 2018 Related party	Type of fee	Total fees USD	Fees payable/(prepaid) at 30 September 2018 USD
Conyers Dill & Pearman Limited	Legal fees	14,244	-
Directors	Directors' fees*	11,967	(3,090)
AHL Partners LLP	Introducing broker fees	1,786,679	122,939
Man Investments AG	Management fees	5,359,968	368,816
Man Investments AG	Incentive fees	3,588	3,588
Man Investments (Hong Kong) Limited	Hong Kong representative fees	4,987	14,973
Man Investments AG	Services Manager fees	413,689	28,276

For the year ended 30 September 2017 Related party	Type of fee	Total fees USD	Fees payable/(prepaid) at 30 September 2018 USD
Conyers Dill & Pearman Limited	Legal fees**	41,413	-
Directors	Directors' fees*	25,484	(3,057)
AHL Partners LLP	Introducing broker fees	2,108,162	329,709
Man Investments AG	Management fees	6,324,260	989,057
Man Investments (Hong Kong) Limited	Hong Kong representative fees**	4,986	9,986
Man Investments AG	Services Manager fees	576,687	75,833

*Directors fees are prepaid and are included within other assets in the statement of financial position as at 30 September 2018 and 30 September 2017.
** Legal fees and Hong Kong representative fees are included within accrued expenses and other liabilities in the statement of financial position and within other expenses in the statement of comprehensive income as at 30 September 2018 and 30 September 2017.

The above amounts are payable on demand and do not bear interest. Fees payable are included within accrued expenses and other liabilities in the statement of financial position.

10. Share capital

The Fund has an authorised share capital of USD762,000 comprising 12,000 Management Shares of par value USD1 and 75,000,000 Redeemable Participating Shares of par value USD0.01. The 75,000,000 Redeemable Participating Shares of par value USD0.01 carry 100% of the voting rights. The Management Shares do not carry voting rights for as long as there are shares of any other class in issue.

Management Shares of the Fund

The Management Shares are held by Master Multi-Product Holdings Ltd, a Bermuda exempted company and a related party, which is itself owned by Conyers Trust Company (Bermuda) Limited (formerly Codan Trust Company Limited) as trustee of the Master Multi-Product Purpose Trust. As at 30 September 2018, these shares remained uncalled and no amounts were paid or payable to the Fund.

The holders of Management Shares are not entitled to any dividend whatsoever in respect of their Management shares. In the event of a winding up or dissolution of the Fund, the holders of Management Shares are entitled to an amount equal to the par value. The Management Shares have been issued but not called. No amount is recognised until the Management Shares are called.

Redeemable Participating Shares

The Redeemable Participating Shares of the Fund are divided into two tranches: Tranche A and Tranche B. The Fund is offering only Participating Tranche A Shares to investors at the Subscription Price from (and including) 4 September 2012. The Directors have resolved that all Redeemable Participating Shares issued by the Fund prior to 4 September 2012 shall be converted to Tranche B Shares on 4 September 2012. Redeemable Participating Shareholders wishing to purchase additional Redeemable Participating Shares from 4 September 2012 onwards must subscribe for Participating Tranche A Shares (the Directors may decide otherwise from time to time).

Redeemable Participating Shares are redeemable, and written notices to redeem Redeemable Participating Shares should be received by the Administrator or BNYM (Hong Kong) by fax or by any other form of electronic communication agreed in advance with the Administrator, at the contact address referred to in the 'Names and addresses' section of the Offering Memorandum not later than 17:00 pm (Hong Kong time) one Business Day prior to the Dealing Day on which the redemption is to take place, except in the event that the calculation of the Net Asset Value per Redeemable Participating Share has been suspended.

10. Share capital (continued)

Redeemable Participating Shares (continued)

A breakdown of the share class movement per share class is as follows:

	2018	2017
Opening Redeemable Participating Shares	5,156,013	6,074,648
Issued Redeemable Participating Shares	128,184	164,333
Redeemed Redeemable Participating Shares	(1,027,264)	(1,082,968)
Closing Redeemable Participating Shares	4,256,933	5,156,013

Redemption fees

In case Tranche B Redeemable Participating Shares are redeemed before they have been in issue for the periods shown below, the current Net Asset Value per Redeemable Participating Share redeemed will be paid by the Fund to the Redeemable Participating Shareholder after deduction of a fee for early redemption, which will, in turn be paid to the Introducing Broker primarily to compensate it for the costs of marketing the Redeemable Participating Shares, as follows:

Tranche B

Redeemable Participating Shares redeemed on a Dealing Day before they have been in issue for:	Fee for early redemption:
2 years	4.0 % of redemption price per Redeemable Participating Share
4 years	2.5 % of redemption price per Redeemable Participating Share
6 year	1.0 % of redemption price per Redeemable Participating Share

There will be no redemption fee applied on Tranche B Redeemable Participating Shares which are redeemed after they have been in issue for six years. No redemption fees will be applied for redemptions of Tranche A Redeemable Participating Shares.

Total redemption/winding up

All of the Shares may be redeemed by the Fund if:

(a) the holders of not less than 75% in value of the issued Redeemable Participating Shares of the Fund carrying voting rights at general meetings of the Fund approve of the redemption at a general meeting; or

(b) at any time, the aggregate of the Net Asset Value per Share of all Redeemable Participating Shares in issue on each of three successive Valuation days is less than USD3,000,000; or

(c) the Custodian has served notice of its intention to retire under the terms of the custodian agreement and no new custodian has been formally approved and appointed within six months of the date of service of such notice.

On a winding up of the Fund the assets available for distribution (after satisfaction of creditors) shall be distributed to the holders of the Redeemable Participating Shares pari passu to the extent of their nominal value and thereafter all surplus assets shall be distributed to the holders of the Redeemable Participating Shares in proportion to the number of Redeemable Participating Shares held.

Capital Management

The Fund's objectives for managing capital are:

- Investing the capital in investments meeting the description, risk exposure and expected return indicated in the Offering Memorandum;
- Achieving consistent returns while safeguarding capital by participating in derivative and other advanced capital markets and by using various investment strategies and investment techniques;
- Maintaining sufficient liquidity to meet the expenses of the Fund, and to meet redemption requests as they arise; and
- Maintaining sufficient size to make the operation of the Fund cost-efficient.

Refer to Note 6, 'Financial risk management', for the policies and processes applied by the Fund in managing its capital.

10. Share capital (continued)

Performance Table

	Total NAV	NAV per Redeemable Participating Share	Highest Redeemable Participating Share issue price during the year	Lowest Redeemable Participating Share issue price during the year
	USD	USD	USD	USD
2018	156,081,264	36.67	43.39	35.92
2017	190,901,456	37.02	40.37	35.65
2016	231,156,386	38.05	45.11	37.46
2015	294,877,951	42.54	45.33	36.89
2014	320,203,454	37.45	37.59	29.70
2013	459,002,971	30.07	37.72	30.07
2012	724,421,295	34.50	39.70	34.02
2011	1,060,996,444	38.72	40.81	37.05
2010	1,279,584,383	38.54	38.54	34.43
2009	1,553,254,539	37.74	42.59	36.46
2008	1,291,193,256	35.39	40.45	31.59
2007	651,269,454	31.59	33.61	27.42

11. Contingent liabilities and commitments

There were no contingent liabilities or commitments as at 30 September 2018. (2017: None).

12. Soft commission arragements

There were no soft commission arrangements in place during the year.

13. Subsequent events

There were no subsequent events after the year end that impact the Fund and require disclosure in the financial statements.

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Independent Auditors' Report

The Board of Directors
Man AHL Diversified Futures Ltd

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Man AHL Diversified Futures Ltd (the "Fund") which comprise the statement of financial position as at 30 September 2018, and the statement of changes in equity, statement of comprehensive income and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 30 September 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Other information consists of the Report of the Custodian. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, the relevant disclosure provisions of the Memorandum of Association of the Fund and the relevant disclosure requirements set out in Appendix E to the Hong Kong Code on Unit Trusts and Mutual Funds of the Securities and Futures Commission of Hong Kong (the "Code"), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Fund's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Ltd.

13 December 2018