

# Man AHL Diversified Futures Ltd

Financial statements

For the year ended 30 September 2010

# Man AHL Diversified Futures Ltd

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# Man AHL Diversified Futures Ltd

## Corporate information

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### Directors

Michael B Collins  
Argonaut Limited  
Argonaut House  
5 Park Road  
Hamilton HM 09  
Bermuda

Shirelle Jones is an alternate director to  
Mr Collins

Dawn C Griffiths  
Conyers Dill & Pearman Limited  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

John Collis is an alternate director to  
Ms Griffiths

John Walley  
Ground Floor, Block 2  
Harcourt Centre  
Harcourt Street  
Dublin 2  
Ireland

Philip M Bodman  
Man Fund Management (Guernsey) Limited  
1st Floor, Suite 1  
Albert House, South Esplanade  
St Peter Port  
Guernsey GY1 1AJ  
Channel Islands

Shane Johnstone is an alternate director to  
Mr Bodman

Ronan Daly  
Centaur Fund Services  
13-17 Dawson Street  
Dublin 2  
Ireland

David Smith  
Equus  
27 Queen Street  
Hamilton  
Bermuda  
HM11  
Bermuda

### Company Secretary and Registered Office of the Company

Christine Perinchief  
Citi Hedge Fund Services, Ltd.  
Hemisphere House  
9 Church Street  
Hamilton HM 11  
Bermuda

### Investment Manager

Man Investments Limited  
Sugar Quay  
Lower Thames Street  
London EC3R 6DU  
United Kingdom

### Introducing Broker

Man Investments AG  
Etzelstrasse 27  
8808 Pfäffikon SZ  
Switzerland

### Broker

MF Global UK Limited  
Sugar Quay  
Lower Thames Street  
London EC3R 6DU  
United Kingdom

Royal Bank of Scotland plc  
36 St Andrew Square  
Edinburgh EH2 2YB  
United Kingdom

Credit Suisse  
31 Gateway, 1 Macquarie Place  
Sydney NSW 2000  
Australia

JP Morgan Chase Bank, N.A.  
Mailpoint 285c  
Floor 3  
18 Christchurch Road  
Bournemouth BH1 3BA  
United Kingdom

# Man AHL Diversified Futures Ltd

## Corporate information

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### Shareholder Services Agent

Man Corporate Services (Ireland) Limited  
PO Box 7073  
First Floor  
The Harcourt Building  
Harcourt Street  
Dublin 2  
Ireland

### Valuations Agent

Man Valuation Services Limited  
Sugar Quay  
Lower Thames Street  
London EC3R 6DU  
United Kingdom

### Hong Kong Representative

Man Investments (Hong Kong) Limited  
Suite 1301 Chater House  
8 Connaught Road Central  
Hong Kong

### Custodian

HSBC Institutional Trust Services (Asia) Limited  
HSBC Main Building  
1 Queen's Road Central  
Hong Kong

### Registrar

Citi Hedge Fund Services, Ltd.  
Hemisphere House  
9 Church Street  
Hamilton HM 11  
Bermuda

### Auditors

Ernst & Young Ltd.  
3 Bermudiana Road  
Hamilton HM 11  
Bermuda

### Legal advisor as to matters of Bermudian law

Conyers Dill & Pearman Limited  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### Legal advisor as to matters of Hong Kong Law

Deacons  
5th Floor Alexander House  
18 Chater Road Central  
Hong Kong

# Man AHL Diversified Futures Ltd

## Statement of financial position

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As at 30 September 2010

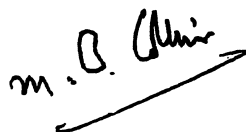
	Notes	2010 USD	2009 USD
<b>Current assets</b>			
Cash at bank		996,113,987	1,319,866,619
Balances with brokers	3	214,669,657	239,218,118
Investments – at fair value through profit or loss	4	79,985,890	42,554,668
Prepayments and other assets		–	27,302
Amounts receivable on subscription of Shares		–	154,071
<b>Total current assets</b>		<u>1,290,769,534</u>	<u>1,601,820,778</u>
<b>Current liabilities</b>			
Accounts payable and accrued expenses	6,9	(11,185,151)	(48,566,239)
<b>Total current liabilities</b>		<u>(11,185,151)</u>	<u>(48,566,239)</u>
<b>Net assets</b>		<u>1,279,584,383</u>	<u>1,553,254,539</u>
Which are represented by:			
<b>Shareholders' equity</b>			
33,199,525 (2009 – 41,146,666) Shares with a Net Asset Value per Share of USD 38.54 (2009 – USD 37.74)	10	1,279,584,383	1,553,254,539
<b>Manager Shares</b>			
Issued, uncalled ordinary share capital (12,000 shares of USD 1 each)	10	–	–
		<u>1,279,584,383</u>	<u>1,553,254,539</u>

The notes on pages 8 to 21 form an integral part of these financial statements.

Signed on behalf of the Board on 13 January 2010



Dawn Griffiths  
Director



Michael B Collins  
Director

# Man AHL Diversified Futures Ltd

## Statement of changes in amounts attributable to Shareholders and statement of changes in equity

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### Statement of changes in amounts attributable to Shareholders

For the year ended 30 September 2010

	2010 USD	2009 USD
<b>Balance at beginning of year</b>	1,553,254,539	1,291,193,256
Issue of 3,582,450 (2009 – 18,000,466) Shares	131,332,305	709,815,861
Redemption of 11,529,591 (2009 – 13,332,757) Shares	(420,494,108)	(523,014,702)
	<hr/>	<hr/>
Net income for the year attributable to Shareholders	1,264,092,736 15,491,647	1,477,994,415 75,260,124
	<hr/>	<hr/>
<b>Balance at end of year</b>	<b>1,279,584,383</b>	<b>1,553,254,539</b>

### Statement of changes in equity

For the year ended 30 September 2010

There were no changes in equity in the current or prior year.

The notes on pages 8 to 21 form an integral part of these financial statements.

# Man AHL Diversified Futures Ltd

## Statement of comprehensive income

For the year ended 30 September 2010

	Notes	2010 USD	2009 USD
<b>Income</b>			
Interest income	6	4,820,114	12,500,789
Net gains/(losses) on foreign currency		(920,499)	12,149
Change in net unrealised gains on investments – at fair value through profit or loss	5	37,431,222	20,485,902
Realised gains on investments – at fair value through profit or loss	5	39,698,833	149,395,184
Other income		–	58,404
		<u>81,029,670</u>	<u>182,452,428</u>
<b>Expenses</b>			
Transaction and brokerage costs	6,9	(13,686,352)	(14,664,283)
Management and incentive fees	6,9	(47,203,741)	(86,925,755)
Registrar and secretarial fees	9	(797,447)	(960,062)
Custodian fees	6	(39,829)	(35,853)
General expenses	6	(3,210,082)	(3,536,528)
Auditors' remuneration		(18,782)	(15,300)
Directors' fees	9	(12,452)	(7,817)
Legal fees		(6,757)	(98,709)
Bank charges		(97,644)	(32,248)
Interest expense	3,6,9	(447,606)	(915,749)
Other expense		(17,331)	–
		<u>(65,538,023)</u>	<u>(107,192,304)</u>
<b>Net income for the year attributable to Shareholders</b>		<u>15,491,647</u>	<u>75,260,124</u>

The notes on pages 8 to 21 form an integral part of these financial statements.

# Man AHL Diversified Futures Ltd

## Statement of cash flows

For the year ended 30 September 2010

	2010 USD	2009 USD
<b>Cash flows from operating activities</b>		
Net income for the year attributable to Shareholders	15,491,647	75,260,124
Adjustment to reconcile net income for the year to net cash (used in)/provided by operating activities:		
Interest income	(4,820,114)	(12,500,789)
Interest expense	447,606	915,749
	<u>11,119,139</u>	<u>63,675,084</u>
Net changes in operating assets and liabilities:		
Investments – at fair value through profit or loss	(37,431,222)	(20,485,902)
Prepayments and other assets	27,302	2,247,175
Amounts receivable on subscription of Shares	154,071	6,452,605
Amounts payable on redemption of Shares	–	(15,801,244)
Accounts payable and accrued expenses	(37,381,088)	(9,248,307)
<b>Net cash (used in)/provided by operating activities</b>	<u>(63,511,798)</u>	<u>26,839,411</u>
<b>Cash flows from investing activities</b>		
Interest received	576,589	1,350,632
Interest paid	(447,606)	(1,745,049)
<b>Net cash provided by/(used in) investing activities</b>	<u>128,983</u>	<u>(394,427)</u>
<b>Cash flows from financing activities</b>		
Proceeds on issue of Shares	131,332,305	709,815,861
Payments on redemption of Shares	(420,494,108)	(523,014,702)
Interest paid	–	–
Interest received	4,243,525	11,979,467
<b>Net cash (used in)/provided by financing activities</b>	<u>(284,918,278)</u>	<u>198,780,626</u>
Net change in cash and cash equivalents	<u>(348,301,093)</u>	<u>225,225,610</u>
Cash and cash equivalents at beginning of year	1,559,084,737	1,333,859,127
<b>Cash and cash equivalents at end of year</b>	<u>1,210,783,644</u>	<u>1,559,084,737</u>
<b>Cash and cash equivalents consist of:</b>		
Cash at bank	996,113,987	1,319,866,619
Balances with brokers	214,669,657	239,218,118
	<u>1,210,783,644</u>	<u>1,559,084,737</u>

The notes on pages 8 to 21 form an integral part of these financial statements.

# Man AHL Diversified Futures Ltd

## Notes to the financial statements

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### 1. General

Man AHL Diversified Futures Ltd (the “Company”) was incorporated under the laws of Bermuda on 11 September 1997 and carries on business as an open-ended investment company, trading a diversified portfolio of international interbank currency and financial futures. The Company commenced trading on 12 May 1998.

### 2. Summary of significant accounting policies

These accompanying financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) 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 term IFRS includes the IFRS and International Accounting Standards (“IAS”), interpretations issued by the Standing Interpretations Committee (“SIC”) and draft interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The following are the significant accounting and reporting policies adopted by the Company:

#### Accounting convention

These financial statements are prepared under the historical cost convention modified to include the fair valuation of financial assets and liabilities.

These financial statements, except for cash flow information, are prepared using the accrual basis of accounting.

The International Accounting Standards Board (“IASB”) issued an amended version of IAS 1 “Presentation of financial statements” which is effective for accounting periods commencing on or after 1 January 2009. The revised standard separates owner and non owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with on-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or two linked statements. The company has elected to present a single statement.

The IASB issued an amended version of IFRS 7 “Financial Instruments: Disclosures”, which is effective for accounting periods beginning on or after 1 January 2009. The revised standard requires disclosure of the classification of investments according to a hierarchy of ‘levels’ with further reconciliation detail being broken out for those designated as ‘Level 3’ (not based on quoted prices or observable inputs). This additional information has been presented in these financial statements.

The IASB issued amendments to IAS 32 “Financial Instruments: Presentation” in February 2008. The changes were effective for periods beginning on or after 1 January 2009. The Directors have adopted the revised standard.

IFRS 9 “Financial Instruments” (IFRS 9) introduces new requirements for the classification and measurement of financial assets and is effective from 1 January 2013 with early adoption permitted. All recognised financial assets that are currently in the scope of IAS 39 will be measured at either amortised cost or fair value. Under IFRS 9, most financial instruments are expected to be measured at fair value through profit or loss (FVTPL) except for debt instruments that satisfy both a “business model test” and a “contractual cash flow characteristics test”, as defined by the Standard, and if an entity irrevocably designates an equity instrument as at fair value through other comprehensive income (FVTOCI). This new standard is not expected to have significant impact on the current measurement bases for investments held by the Company.

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

The accounting policies have been consistently applied by the Company in the current and prior year.

## Notes to the financial statements

### 2. Summary of significant accounting policies (continued)

#### **Use of accounting judgements and estimates**

The preparation of these financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts reported and disclosures made in these financial statements and accompanying notes. However, 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.

#### **Financial assets and liabilities – at fair value through profit or loss**

Investments in unrealised gains/(losses) on open futures and forward positions have been categorised as financial assets and liabilities at fair value through profit or loss.

These financial instruments are designated on the basis that their fair value can be reliably measured and their performance has been evaluated on a fair value basis. Derivative contracts by definition are carried at fair value through profit and loss.

Financial assets are derecognised when the Company has transferred substantially all the risks and rewards of those assets or the right to receive cash flows from those assets has expired.

Financial liabilities are derecognised when the obligations of the Company under those liabilities are discharged, cancelled or expire.

#### **Investment transactions and valuation**

Investment transactions are accounted for on a trade date basis. Realised gains and losses are calculated on a First In – First Out (“FIFO”) basis. Assets are initially recognised at their purchase price. Subsequently, open positions in exchange traded futures are valued using settlement prices issued by the relevant exchange at the close of business on the date of valuation. Open positions in forward foreign exchange contracts are valued using the market price of the contract required to close out the position on the date of valuation. Both realised and unrealised gains and losses, net of foreign exchange, are included in the statement of comprehensive income.

The Company retains the risks and rewards of all investments included in the statement of financial position. Changes in unrealised gains or losses on these investments are included in the statement of comprehensive income. These investments are stated after all fees, costs and other expenses have been charged to the relevant investment.

#### **Translation of foreign currencies**

##### **(a) Functional and presentational currency**

The primary objective of the Company is to generate returns in United States dollars, its capital-raising currency. The liquidity of the Company is managed on a day-to-day basis in United States dollars in order to handle the issue and redemption of the Company’s Shares. The Company’s performance is also evaluated in United States dollars.

Therefore, as United States dollars is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions, the Company’s functional and presentational currency is United States dollars.

##### **(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Translation differences on financial assets and liabilities at fair value through profit or loss are reported as part of the fair value gain or loss.

# Man AHL Diversified Futures Ltd

## Notes to the financial statements

### 2. Summary of significant accounting policies (continued)

#### Offsetting

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

#### Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

#### Shares

Shares are redeemable at the Shareholder's option. The Shares can be put back to the Company under redemption terms set out in the Company's offering documents.

#### Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income on an accruals basis, in line with the contractual terms.

#### Expenses

All expenses are recognised in the statement of comprehensive income on an accrual basis.

### 3. Balances with brokers

Balances with MF Global UK Limited, Royal Bank of Scotland PLC, J.P. Morgan Chase Bank, N.A. and Credit Suisse (the "brokers") represent amounts on deposit with or due to brokers in order to meet margin requirements. In the event that the Company borrows money in one currency it may incur interest expense even though such expense may be more than offset by interest income on balances in other currencies and vice versa.

### 4. Investments – at fair value through profit or loss

As at 30 September

	2010 Fair value USD	2010 As a % of net asset value	2009 Fair value USD	2009 As a % of net asset value
Short-term interest rate futures	9,870,508	0.77%	4,194,215	0.27%
Bond futures	4,570,562	0.36%	13,582,441	0.87%
Commodities – settled by cash	44,535	0.00%	709,964	0.05%
Commodities – settled by delivery	34,739,401	2.71%	8,761,820	0.56%
Forward exchange forwards	30,844,199	2.41%	15,462,378	1.00%
Stock index futures	(76,061)	(0.01)%	(678,970)	(0.04)%
Other	(7,254)	0.00%	522,820	0.03%
	79,985,890	6.24%	42,554,668	2.74%
	79,985,890	6.24%	42,554,668	2.74%

# Man AHL Diversified Futures Ltd

## Notes to the financial statements

### 5. Realised gains and change in unrealised gains on investments – at fair value through profit or loss

For the year ended 30 September 2010

	Realised gains USD	Change in unrealised gains USD
AHL Programme	39,698,833	37,431,222
	39,698,833	37,431,222

For the year ended 30 September 2009

	Realised gains USD	Change in unrealised gains USD
AHL Programme	149,393,184	20,485,902
	149,393,184	20,485,902

### 6. Fees, commissions and interest income/expense

#### Management and incentive fees

##### AHL Programme

Management fees are calculated weekly and payable monthly in arrears at a rate of up to 1/52 of 3% (approximately 3% per annum) of the Net Asset Value determined on each weekly Valuation Point.

Incentive fees are calculated and accrued weekly 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 Share on the last Valuation Point in the relevant financial year of the Company above any highest previous Net Asset Value per Participating Share on any preceding year end Dealing Day on which an incentive fee had previously been paid and multiplied by the number of Shares outstanding on the Valuation Point in respect of which the incentive fee is calculated. Where an investor redeems Shares part way through a financial year, the incentive fee accrued in respect of those Shares is crystallised and paid at the end of the year.

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

# Man AHL Diversified Futures Ltd

## Notes to the financial statements

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### 6. Fees, commissions and interest income/expense (continued)

The numerical amounts of the management and incentive fees as described above are included in the table below.

For the year ended 30 September 2010

	Management fees USD	Incentive fees USD	Total USD
AHL Programme	41,059,056	6,144,685	47,203,741

For the year ended 30 September 2009

	Management fees USD	Incentive fees USD	Total USD
AHL Programme	43,992,850	42,932,905	86,925,755

#### Transaction and brokerage costs

Transaction and brokerage costs of USD 13,686,352 (2009 – USD 14,664,283) were paid to Man Investments AG, the Introducing Broker. Institutional charges which cover exchange and other third party costs, which are payable to brokers, have been netted against realised gains/(losses) and unrealised gains/(losses) on investments.

Transaction and brokerage costs, excluding institutional charges, are calculated at a rate of 1/52 of 1% (approximately 1% per annum) on the weekly aggregate Net Asset Value as determined on each Valuation Point, were paid to Man Investments AG, the Introducing Broker.

No soft dollar commission agreements existed during the year.

#### Registrar fees

Registrar fees are charged by the Registrar, Citi Hedge Fund Services, Ltd, and consist of an annual fixed fee of USD 1,000 plus an annual variable fee accruing at each Valuation Day and payable quarterly as per a sliding scale based on the number of investors.

The Company pays a secretarial fee of USD 3,000 per annum. In addition, the Company pays a fee of USD 27 in arrears in respect of each redemption from the Company.

#### Custodian fees

The Custodian shall be paid by the Company a fee accruing at each Valuation Point and calculated and paid monthly at a rate of up to 0.10% per annum of the Net Asset Value subject to a minimum annual fee of USD 15,000. 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.

#### Valuation fees

Valuation fees are payable to Man Valuation Services Limited, calculated at the rate of 0.23% per annum of the Net Asset Value, accrued weekly and paid quarterly in arrears, subject to a minimum of USD 25,000,000 per annum.

#### Hong Kong representative fees

The Hong Kong representative is paid a fee, calculated monthly at an amount of up to USD 5,000 per annum.

### 6. Fees, commissions and interest income/expense (continued)

#### Interest income/expense

Interest income comprises amounts earned on bank balances and amounts earned on broker balances in respect of cash balances and margin requirements held with brokers.

## **Notes to the financial statements**

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Interest expense comprises amounts charged on broker balances, in respect of cash balances and margin requirements due to brokers.

### **Professional fees and expenses**

The Company bears the Bermuda annual company registration government fees, the fees and expenses of the Auditors and legal advisers to the Company, the cost of maintaining a listing, and printing and other general expenses.

## **7. Financial risk management**

### **Overall risk management**

In order to achieve the Company's investment objectives, the Company seeks to take on a certain level of financial risk. The Company's investment activities expose it to various types of financial risks such as market risk (including price risk, interest rate risk and currency risk), credit risk and liquidity risk.

The Company seeks to generate returns through investing in the AHL Programme, managed by AHL (a division of the Investment Manager).

The Investment Manager distinguishes between two primary risk levels, which are risks at the Company level, and risks at the underlying investment level. Accordingly, Man Investments Limited (the "Investment Manager") has implemented procedures to manage risks associated with both the Company and its underlying investments.

### **At the Company level**

Risk management at the Company 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 analyses, monitoring the relevant Company specific portfolio restrictions and investment guidelines and managing currency, interest rate, credit and liquidity risks at the Company level and making relevant adjustments to asset allocation.

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 weekly basis by the Investment Manager's portfolio management team.

### **At the level of the underlying investments**

#### **AHL**

In the case of the AHL Programme, the trading activity is managed by AHL (a division of the Investment Manager). AHL identifies opportunities to profit from price movements in diverse international markets through specialised investment techniques, advanced technology and daily risk control. Diversification is achieved through investing in around 250 contracts spanning eight sectors across approximately 36 exchanges worldwide.

The AHL Programme seeks to identify and take advantage of upward and downward price trends. Trading takes place around-the-clock and real-time price information is used to respond to price movements across a diverse range of global markets. Investment rules are executed within a systematic framework.

AHL employs a number of risk measures including proprietary measurement methods similar to the industry standard Value-at-Risk ("VaR") and conducts daily stress testing based on historical data. Depending upon the risks identified, AHL may alter the exposure to different markets it trades in.

## Notes to the financial statements

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### 7. Financial risk management (continued)

#### At the level of the underlying investments (continued)

##### AHL (continued)

Substantially all derivative contracts are transacted on a margin basis. The Investment Manager manages the risk associated with these transactions by maintaining margin deposits in compliance with individual exchange regulations and internal guidelines. The Investment Manager also takes an active role in managing and controlling the Company's market and counterparty risks, monitoring trading activities and margin levels daily and, as necessary, deposits additional collateral or reduces positions.

##### 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 equity 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 Share from inception to the reporting date.

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

Annualised volatility has limitations as it assumes a normal distribution of monthly 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 2010, the annualised volatility for the Company was 15.7% (2009 – 15.9%).

##### Price risk

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 instrument.

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

Price risk is managed through the overall risk management processes described above.

##### 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.

In the case of allocations to the AHL Programme where the broker accounts are held by the Company, the Company has an active procedure for monitoring the currency exposure within the Programme. The Company mitigates currency risk through both regular conversions of non-US dollar currencies into its own denominated currency and by hedging the initial margin requirement for each of the major currencies traded back to the Company's functional currency.

# Man AHL Diversified Futures Ltd

## Notes to the financial statements

### 7. Financial risk management (continued)

#### Currency risk (continued)

Monetary assets and liabilities denominated in foreign currencies are summarised below:

As at 30 September 2010

Amounts are expressed in their USD equivalents

	USD	EUR	CAD	JPY	HKD	KRW	Other	Total
<b>Current assets</b>								
Cash at bank	996,113,987	-	-	-	-	-	-	996,113,987
Balances with brokers	144,882,248	20,785,429	5,446,213	(4,910,626)	8,402,392	17,446,927	22,617,074	214,669,657
Investments – at fair value through profit or loss	76,356,299	(1,317,233)	(29,869)	(3,006,282)	(111,273)	2,601,792	5,492,456	79,985,890
<b>Total current assets</b>	<b>1,217,352,534</b>	<b>19,468,196</b>	<b>5,416,344</b>	<b>(7,916,908)</b>	<b>8,291,119</b>	<b>20,048,719</b>	<b>28,109,530</b>	<b>1,290,769,534</b>
<b>Current liabilities</b>								
Accounts payable and accrued expenses	(11,167,438)	-	-	-	-	-	(17,713)	(11,185,151)
<b>Total current liabilities</b>	<b>(11,167,438)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(17,713)</b>	<b>(11,185,151)</b>
<b>Net assets</b>	<b>1,206,185,096</b>	<b>19,468,196</b>	<b>5,416,344</b>	<b>(7,916,908)</b>	<b>8,291,119</b>	<b>20,048,719</b>	<b>28,091,817</b>	<b>1,279,584,383</b>

As at 30 September 2009

Amounts are expressed in their USD equivalents

	USD	EUR	CAD	JPY	HKD	KRW	Other	Total
<b>Current assets</b>								
Cash at bank	1,319,866,619	-	-	-	-	-	-	1,319,866,619
Balances with brokers	177,016,758	21,711,585	5,013,990	3,763,153	11,871,428	11,371,654	8,469,550	239,218,118
Investments – at fair value through profit or loss	29,580,434	3,968,965	436,198	1,757,829	(170,664)	1,300,762	5,681,144	42,554,668
Prepayments and other assets	27,302	-	-	-	-	-	-	27,302
Amounts receivable on subscription of Shares	154,071	-	-	-	-	-	-	154,071
<b>Total current assets</b>	<b>1,526,645,184</b>	<b>25,680,550</b>	<b>5,450,188</b>	<b>5,520,982</b>	<b>11,700,764</b>	<b>12,672,416</b>	<b>14,150,694</b>	<b>1,601,820,778</b>
<b>Current liabilities</b>								
Accounts payable and accrued expenses	(48,545,974)	-	-	-	-	-	(20,265)	(48,566,239)
<b>Total current liabilities</b>	<b>(48,545,974)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(20,265)</b>	<b>(48,566,239)</b>
<b>Net assets</b>	<b>1,478,099,210</b>	<b>25,680,550</b>	<b>5,450,188</b>	<b>5,520,982</b>	<b>11,700,764</b>	<b>12,672,416</b>	<b>14,130,429</b>	<b>1,553,254,539</b>

# Man AHL Diversified Futures Ltd

## Notes to the financial statements

### 7. Financial risk management (continued)

#### 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 following table details the Company's exposure to interest rate risk as at 30 September 2010 by the earlier of contractual maturities or re-pricing:

As at 30 September 2010

	Effective interest rate %	Less than one month USD	One month to one year USD	Over one year USD	Not exposed to interest rate risk USD	Total USD
<b>Current assets</b>						
Cash at bank	0.67	996,113,987	–	–	–	996,113,987
Balances with brokers	0.22	214,669,657	–	–	–	214,669,657
Investments – at fair value through profit or loss	0.36	79,985,890	–	–	–	79,985,890
<b>Total current assets</b>		1,290,769,534	–	–	–	1,290,769,534
<b>Current liabilities</b>						
Accounts payable and accrued expenses		–	–	–	(11,185,151)	(11,185,151)
<b>Total current liabilities</b>		–	–	–	(11,185,151)	(11,185,151)
<b>Total interest rate sensitivity gap</b>		1,290,769,534	–	–	(11,185,151)	1,279,584,383
<b>Cumulative interest rate sensitivity gap</b>		1,290,769,534	1,290,769,534	1,290,769,534	1,279,584,383	1,279,584,383

# Man AHL Diversified Futures Ltd

## Notes to the financial statements

### 7. Financial risk management (continued)

#### Interest rate risk (continued)

As at 30 September 2009

	Effective interest rate %	Less than one month USD	One month to one year USD	Over one year USD	Not exposed to interest rate risk USD	Total USD
<b>Current assets</b>						
Cash at bank	0.16	1,319,866,619	-	-	-	1,319,866,619
Balances with brokers	0.21	239,218,118	-	-	-	239,218,118
Investments – at fair value through profit or loss	0.22	42,554,668	-	-	-	42,554,668
Prepayments and other assets		-	-	-	27,302	27,302
Amounts receivable on subscription of Shares		-	-	-	154,071	154,071
<b>Total current assets</b>		1,601,639,405	-	-	181,373	1,601,820,778
<b>Current liabilities</b>						
Accounts payable and accrued expenses		-	-	-	(48,566,239)	(48,566,239)
<b>Total current liabilities</b>		-	-	-	(48,566,239)	(48,566,239)
<b>Total interest rate sensitivity gap</b>		1,601,639,405	-	-	(48,384,866)	1,553,254,539
<b>Cumulative interest rate sensitivity gap</b>		1,601,639,405	1,601,639,405	1,601,639,405	1,553,254,539	1,553,254,539

Liabilities not exposed to interest rate risk comprise accounts payable and accrued expenses. These amounts normally require contractual settlement within one quarter and, in all cases, within one year.

#### Credit 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 Company.

The Company's maximum exposure to credit risk (not taking into account the value of any collateral or other security held) in the event the counterparties fail to perform their obligations as of 30 September 2010 and 2009 in relation to each class of recognised financial assets, other than derivatives, is the carrying amount of those assets as indicated in the statement of financial position.

With respect to derivative financial instruments, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. Credit risk is mitigated for the AHL Programme through the diversity of counterparties and regular monitoring of concentration risk.

# Man AHL Diversified Futures Ltd

## Notes to the financial statements

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### 7. Financial risk management (continued)

#### Credit risk (continued)

The significant exposures are to the banks, Barclays Bank PLC, Royal Bank of Scotland PLC, ABN Amro, BNP Paribas, Dresdner Bank AG, KBC London, Standard Chartered Bank and Ulster Bank and the brokers, Credit Suisse, MF Global UK Limited, Royal Bank of Scotland Plc and J.P. Morgan.

The Investment Manager performs due diligence on all counterparties before they become a service provider or counterparty to the Company and credit quality checks are part of this process. The credit quality of the Company's banks, brokers and any lenders is regularly monitored and factored into allocation decisions.

#### Liquidity risk

The allocation to the AHL managed account bears minimal liquidity risk as the managed account contains highly liquid positions only.

The liquidity risk of the underlying investments is managed by the Underlying Investment Managers of these funds, subject to the general controls as noted above.

### 8. Financial instruments

#### Traded derivative financial instruments

The Company, trades derivative financial instruments, including futures and currencies 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, represent the approximate future cash flows from trading because the Company typically closes out positions by entering into offsetting contracts which are settled with each broker on a net basis daily.

#### Classification of financial instruments

The Company has categorised its investments into three levels based upon the hierarchy defined in IFRS 7. Financial instruments are categorised by their inputs used to derive the fair value. Level 1 investments use inputs from unadjusted quoted prices from active markets. Level 2 investments reflect inputs other than quoted prices, but use observable market data, including the published prices of managed investment funds where those funds may be redeemed at that price. Level 3 investments are valued using unobservable inputs.

AHL positions are classified in some cases as level 1 and in others as level 2. The categorisation depends on the particular instrument being traded. Futures contracts are traded in active markets at open prices and are therefore classified as level 1. Forward contracts are priced using models which use observable market inputs and are therefore classified as level 2.

The Company has no Level 3 investments.

#### Fair value as at 30 September 2010

	Level 1 USD	Level 2 USD
Foreign exchange/forward contracts	–	30,844,199
Futures positions	49,141,691	–
	<u>49,141,691</u>	<u>30,844,199</u>

# Man AHL Diversified Futures Ltd

## Notes to the financial statements

### 9. Related parties

The ultimate controlling party of the Company is Master Multi-Product Holdings Ltd, a Bermuda incorporated company.

Man Investments Limited is a related party as it is the Investment Manager of the Company. Man Investments Limited is a subsidiary of Man Group plc and therefore all subsidiaries of Man Group plc are also related parties.

During the year, the Company has transacted with the following subsidiaries of Man Group plc:

Man Investments AG  
Man Corporate Services (Ireland) Limited and  
Man Valuation Services Limited

Man Group plc companies are also involved, in varying capacities, in the management of all of the companies in which the Company has invested as listed in Note 4.

Conyers Dill & Pearman Limited is a related party as Dawn C Griffiths is a director of the Company and a partner of the law firm.

The following transactions took place between the Company and its related parties.

#### For the year ended 30 September 2010

Related party	Type of fee	Total fees USD	Fees payable at 30 September USD
Man Investments AG	Transactions and brokerage costs	13,686,352	1,068,736
Man Investments AG	Crystallised incentive fee	88,990	88,990
Man Investments AG	Incentive fees	6,055,695	6,055,695
Man Investments AG	Management fees	41,059,056	3,206,209
Man Corporate Services (Ireland) Limited	Registrar and secretarial fees	753,418	359,862
Man Valuation Services Limited	Valuation fees	3,148,278	245,845
Man Investments (Hong Kong) Limited	Hong Kong representative fees	5,000	2,981
Directors	Directors' fees	6,226	–
Conyers Dill & Pearman Limited	Legal fees	1,334	–

#### For the year ended 30 September 2009

Related party	Type of fee	Total fees USD	Fees payable at 30 September USD
Man Investments AG	Transactions and brokerage costs	14,664,283	1,268,689
Man Investments AG	Crystallised incentive fee	12,513,002	13,092,719
Man Investments AG	Incentive fees	30,419,903	29,265,567
Man Investments AG	Management fees	43,992,850	3,806,068
Man Corporate Services (Ireland) Limited	Registrar and secretarial fees	878,792	427,779
Man Valuation Services Limited	Valuation fees	3,373,202	291,833
Man Investments (Hong Kong) Limited	Hong Kong representative fees	5,000	5,000
Directors	Directors' fees	7,817	271
Conyers Dill & Pearman Limited	Legal fees	5,670	–

## Notes to the financial statements

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### 10. Share capital and shares

The Company has an authorised share capital of USD 762,000 comprising 12,000 Manager Shares of par value USD 1 and 75,000,000 Shares with a par value of USD 0.01. The Shares carry 100% of the voting rights.

The Manager Shares are owned 100% by Master Multi-Products Holdings Ltd, a Bermuda incorporated company.

The holders of Manager Shares are not entitled to any dividend whatsoever in respect of their shares. In the event of a winding up or dissolution of the Company, the holders of Manager Shares are entitled to an amount equal to the par value thereof, if paid up, and the surplus assets of the Company. However, the holders of the Manager Shares have agreed irrevocably to waive their entitlement to any amounts which exceed the par value of their ordinary shares and have authorised the Company to credit any such amounts to the Participating Share Account for the benefit of the Participating Shareholders. The Manager Shares have been issued but not called. No amount is receivable until the Manager Shares are called.

Shareholders may, upon 3 days written notice, normally redeem their Shares on the first Dealing Day of each calendar week at a redemption price calculated by reference to the Net Asset Value per Share on the Valuation Day immediately preceding the Dealing Day on which the redemption is to be effected.

### 11. Capital management

As a result of the ability of investors to redeem and subscribe for Shares, the capital of the Company can vary depending on the demand for redemptions from and subscriptions to the Company. The Company is not subject to externally imposed capital requirements and has no restrictions on the issue and redemption of Shares other than those set out in the Prospectus.

The Company's objectives for managing capital are to:

- invest in investments meeting the description, risk exposure and expected return indicated in the Prospectus;
- achieve consistent returns while safeguarding capital by investing in a diversified portfolio, by participating in derivative and other advanced capital markets, and by using various investment strategies and hedging techniques;
- maintain sufficient liquidity to meet the expenses of the Company, and to meet redemption requests as they arise; and
- maintain sufficient size to make the operation of the Company cost-efficient.

Refer to Note 7, 'Financial risk management', for the policies and processes applied by the Company in managing its capital.

### 12. Taxation

Under current Bermuda law, the Company is not obligated to pay any taxes in Bermuda on either income or capital gains. The Company 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 Company from any such Bermuda taxes, at least until 28 March 2016.

# Man AHL Diversified Futures Ltd

## Notes to the financial statements

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### 13. Performance table

	Total NAV USD	NAV per share at year end USD	Highest share issue price during the year USD	Lowest share redemption price during the year USD
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
2006	643,458,025	28.02	30.68	25.43
2005	443,272,796	25.70	25.70	21.23
2004	402,168,856	21.34	24.35	20.48
2003	279,686,621	21.66	23.05	17.08
2002	168,310,686	19.88	19.63	14.87
2001	88,496,120	18.22	18.11	12.03
2000	38,606,292	12.15	13.04	11.30
1999	62,879,308	12.35	12.76	11.24

### 14. Date of authorisation for issue

The financial statements were approved and authorised for issue by the Directors on 13 January 2011.

# Man AHL Diversified Futures Ltd

## Report of the custodian

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We hereby confirm that, in our opinion, the Investment Manager of the Company has, in all material respects, managed the Company in accordance with the provisions of the Prospectuses dated 1 August 2008 during the period ended 30 September 2010.



Authorised Signatory



Authorised Signatory

HSBC Institutional Trust Services (Asia) Limited

## INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS

MAN AHL DIVERSIFIED FUTURES LTD

We have audited the accompanying financial statements of Man AHL Diversified Futures Ltd which comprise the statement of financial position as at 30 September 2010 and the statement of changes in amounts attributable to Shareholders, the statement of changes in equity, the statement of comprehensive income and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

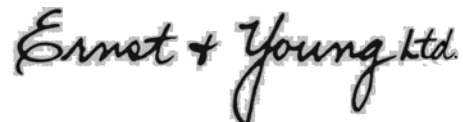
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

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

In our opinion, the financial statements give a true and fair view of the financial position of Man AHL Diversified Futures Ltd as of 30 September 2010 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



13 January 2011