Man AHL Diversified Futures Ltd

Financial statements

For the year ended 30 September 2011

Man AHL Diversified Futures Ltd

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Man AHL Diversified Futures Ltd

Corporate information

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Corporate information (continued)

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Bermuda

Man AHL Diversified Futures Ltd

Statement of financial position

As at 30 September 2011

	Notes	2011 USD	2010 USD
Current assets			
Cash at bank		865,892,098	996,113,987
Balances with brokers	3	211,338,853	214,669,657
Investments – at fair value through profit or loss	4,8	21,475,932	79,985,890
Total current assets		1,098,706,883	1,290,769,534
Current liabilities			
Balances due to brokers	3	(20,114,091)	–
Accounts payable and accrued expenses	6,9	(17,596,348)	(11,185,151)
Total current liabilities		(37,710,439)	(11,185,151)
Net assets		1,060,996,444	1,279,584,383
Which are represented by:			
Equity			
27,403,475 (2010: 33,199,525) Shares with a Net Asset Value per Share of USD 38.72 (2010: USD 38.54)	10	1,060,996,444	1,279,584,383
Issued, uncalled Manager Share capital (12,000 shares of USD 1 each)	10	–	–
		1,060,996,444	1,279,584,383

Approved and authorised for issue on behalf of the Board on 23 January 2011

Philip Bodman
Director

Michael Collins
Director

The notes on pages 8 to 26 form an integral part of these financial statements.

Man AHL Diversified Futures Ltd

Statement of changes in equity

For the year ended 30 September 2011

	Notes	2011 USD	2010 USD
Balance at beginning of year		1,279,584,383	1,553,254,539
Issue of 3,437,427 (2010: 3,582,450) Shares	10	133,222,272	131,332,305
Redemption of 9,233,477 (2010: 11,529,591) Shares	10	(359,969,179)	(420,494,108)
		1,052,837,476	1,264,092,736
Net income for the year attributable to Shareholders		8,158,968	15,491,647
Balance at end of year		1,060,996,444	1,279,584,383

The notes on pages 8 to 26 form an integral part of these financial statements.

Man AHL Diversified Futures Ltd

Statement of comprehensive income

For the year ended 30 September 2011

	Notes	2011 USD	2010 USD
Income			
Interest income	2,3,6	5,095,527	4,820,114
Net losses on foreign currency		(1,851,033)	(920,499)
Change in unrealised gains/losses on investments – at fair value through profit or loss	5	(58,509,958)	37,431,222
Realised gains on investments – at fair value through profit or loss	5	121,668,490	39,698,833
		66,403,026	81,029,670
Expenses			
Management and incentive fees	6,9	(40,169,533)	(47,203,741)
Transaction and brokerage costs	6,9	(14,064,822)	(13,686,352)
Registrar and secretarial fees	6,9	(663,624)	(797,447)
Bank charges		(252,820)	(97,644)
Interest expense	2,3,6	(146,297)	(447,606)
Auditors' remuneration		(42,366)	(18,782)
Custodian fees	6	(41,002)	(39,829)
Legal fees	9	(14,057)	(6,757)
Directors' fees	6,9	(11,404)	(12,452)
Professional fees and general expenses		(2,838,133)	(3,227,413)
		(58,244,058)	(65,538,023)
Net income for the year attributable to Shareholders		8,158,968	15,491,647

The notes on pages 8 to 26 form an integral part of these financial statements.

Man AHL Diversified Futures Ltd

Statement of cash flows

For the year ended 30 September 2011

	2011 USD	2010 USD
Cash flows from operating activities:		
Net income for the year attributable to Shareholders	8,158,968	15,491,647
Net changes in operating assets and liabilities:		
Investments – at fair value through profit or loss	58,509,958	(37,431,222)
Amounts receivable on subscription of Shares	–	154,071
Prepayments and other assets	–	27,302
Accounts payable and accrued expenses	6,411,197	(37,381,088)
Net cash provided by/(used in) operating activities	73,080,123	(59,139,290)
Cash flows from financing activities		
Proceeds on issue of Shares	133,222,272	131,332,305
Payments on redemption of Shares	(359,969,179)	(420,494,108)
Net cash used in financing activities	(226,746,907)	(289,161,803)
Net change in cash and cash equivalents	(153,666,784)	(348,301,093)
Cash and cash equivalents at beginning of year	1,210,783,644	1,559,084,737
Cash and cash equivalents at end of year	1,057,116,860	1,210,783,644
Cash and cash equivalents consist of:		
Cash at bank	865,892,098	996,113,987
Balances with brokers	211,338,853	214,669,657
Balances due to brokers	(20,114,091)	–
	1,057,116,860	1,210,783,644
Supplemental disclosure of cash flow information		
Interest paid	(146,297)	(447,606)
Interest received	5,095,527	4,820,114

The notes on pages 8 to 26 form an integral part of these financial statements.

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 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.

IFRS 9 "Financial Instruments" (IFRS 9) introduces new requirements for the classification and measurement of financial assets and is effective from 1 January 2015 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.

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. 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.

2. Summary of significant accounting policies (continued)

Financial assets and liabilities

Investments in unrealised gains/(losses) on investments 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.

Initial margin deposits are paid to the brokers upon entering into futures contracts. During the year the futures contracts are open, changes in the value of the contracts are recognised as unrealised gains or losses by “marking-to-market” on a daily basis to reflect the fair value of the contracts at the end of each day’s trading. Variation margin payments are made to, or received from, the brokers depending upon whether unrealised losses or gains are incurred.

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.

Translation of foreign currencies

(a) Functional and presentational currency

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

2. Summary of significant accounting policies (continued)

Translation of foreign currencies (continued)

(b) Transactions and balances (continued)
Translation differences on financial assets at fair value through profit or loss are reported as part of the fair value gain or loss.

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. The Shares are carried at the redemption amount that is payable at the statement of financial position date if the Shareholders exercised their right to put the Shares back to the Company.

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.

Comparative figures
Certain comparative figures have been reclassified to conform to current year presentation.

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 2011

	Fair value USD	% of net assets
AHL Programme		
– Commodities – settled by cash	8,241,324	0.78
– Short-term interest rate futures	7,342,861	0.69
– Foreign exchange forwards	3,166,444	0.30
– Bond futures	1,876,676	0.18
– Stock index futures	789,657	0.07
– Foreign exchange futures	469,319	0.04
– Commodities – settled by delivery	(403,500)	(0.04)
– Other	(6,849)	(0.00)
	21,475,932	

As at 30 September 2010

	Fair value USD	% of net assets
AHL Programme		
– Commodities – settled by delivery	34,739,401	2.71
– Foreign exchange forwards	30,844,199	2.41
– Short-term interest rate futures	9,870,508	0.77
– Bond futures	4,570,562	0.36
– Commodities – settled by cash	44,535	0.00
– Stock index futures	(76,061)	(0.01)
– Other	(7,254)	(0.00)
	79,985,890	

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

For the year ended 30 September 2011

	Realised gains USD	Change in unrealised gains USD
AHL Programme	121,668,490	(58,509,958)
	121,668,490	(58,509,958)

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

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 ("NAV") 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 NAV per Share on the last Valuation Point in the relevant financial year of the Company above any highest previous NAV per Share on any preceding 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 Limited in consideration for marketing advisory and investment management services.

6. Fees, commissions and interest income/expense

Management and incentive fees (continued)

AHL Programme (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 2011

	Management fees USD	Incentive fees USD	Total USD
AHL Programme	34,729,047	5,440,486	40,169,533

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

Transaction and brokerage costs

Transaction and brokerage costs of USD 14,064,822 (2010: USD 13,686,352) 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 NAV as determined on each Valuation Point, were paid to the Introducing Broker.

No soft dollar commission agreements existed during the year.

Registrar and Secretarial 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 an annual fee of 0.05% of the net asset value and an annual corporate secretarial fee of USD 5,000. In addition, the Company pays a fee of USD 27 in arrears in respect of each redemption from the Company paid to the Shareholders.

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 NAV 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.

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

Valuation fees

Valuation fees are payable to Man Valuation Services Limited ("MVSL"), calculated at the rate of 0.23% per annum of the NAV, accrued weekly and paid monthly in arrears, subject to a minimum of USD 25,000 per annum.

MVSL ceased to be the valuation agent for the Company from 29 March 2011. From 29 March 2011, Man Fund Management (Guernsey) Limited was appointed as the Services Coordination Agent and Citco Fund Services (Hong Kong) Limited. is the Valuation Service Provider under the Valuation Service Provider Agreement.

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.

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.

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 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.

The Investment Manager distinguishes between two primary risk levels, which are risks at the Company level, and risks at the underlying investment level. Accordingly, 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 and portfolio construction.

7. Financial risk management (continued)

At the Company level (continued)
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. AHL identifies opportunities to profit from price movements in more than 100 diverse international markets through specialised investment techniques, advanced technology and daily risk control.

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.

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 for the previous 12 months.

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 for the previous 12 months. Although the direct investments of the Company may change, the investment strategies employed by its underlying investments will not significantly changed meaning that the risk and return characteristics that the Company is exposed to are broadly consistent.

7. Financial risk management (continued)

Market risk (continued)

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.

For the year ended 30 September 2011, the annualised volatility for the Company was 13.97% (2010: 13.06%).

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.

7. Financial risk management (continued)

Currency risk (continued)

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

As at 30 September 2011

Amounts are expressed in their USD equivalents

	USD	EUR	CAD	JPY	HKD	KRW	Other	Total
Current assets								
Cash at bank	865,892,098	–	–	–	–	–	–	865,892,098
Balances with brokers	191,236,902	6,951,271	369,598	(8,178,828)	5,885,665	6,278,363	8,795,882	211,338,853
Investments – at fair value through profit or loss	14,560,933	3,944,026	587,871	301,150	595,374	(156,859)	1,643,437	21,475,932
Total current assets	1,071,689,933	10,895,297	957,469	(7,877,678)	6,481,039	6,121,504	10,439,319	1,098,706,883
Current liabilities								
Balances due to brokers	(14,162,189)	(897,272)	(892,636)	2,076,795	–	–	(6,238,789)	(20,114,091)
Accounts payable and accrued expenses	(17,571,575)	–	–	–	–	–	(24,773)	(17,596,348)
Total current liabilities	(31,733,764)	(897,272)	(892,636)	2,076,795	–	–	(6,263,562)	(37,710,439)
Net assets	1,039,956,169	9,998,025	64,833	(5,800,883)	6,481,039	6,121,504	4,175,757	1,060,996,444

7. Financial risk management (continued)

Currency risk (continued)

As at 30 September 2010

Amounts are expressed in their USD equivalents

	USD	EUR	CAD	JPY	HKD	KRW	Other	Total
Current assets								
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
Total current assets	1,217,352,534	19,468,196	5,416,344	(7,916,908)	8,291,119	20,048,719	28,109,530	1,290,769,534
Current liabilities								
Accounts payable and accrued expenses	(11,167,438)	`–	–	–	–	–	(17,713)	(11,185,151)
Total current liabilities	(11,167,438)	–	–	–	–	–	(17,713)	(11,185,151)
Net assets	1,206,185,096	19,468,196	5,416,344	(7,916,908)	8,291,119	20,048,719	28,091,817	1,279,584,383

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

As at 30 September 2011

	Less than one month USD	Not exposed to interest rate risk USD	Total USD
Current assets			
Cash at bank	865,892,098	–	865,892,098
Balances with brokers	211,338,853	–	211,338,853
Investments – at fair value through profit or loss	9,219,537	12,256,395	21,475,932
Total current assets	1,086,450,488	12,256,395	1,098,706,883
Current liabilities			
Balances due to brokers	(20,114,091)	–	(20,114,091)
Accounts payable and accrued expenses	–	(17,596,348)	(17,596,348)
Total current liabilities	(20,114,091)	(17,596,348)	(37,710,439)
Total interest rate sensitivity gap	1,066,336,397	(5,339,953)	1,060,996,444
Cumulative interest rate sensitivity gap	1,066,336,397	1,060,996,444	1,060,996,444

7. Financial risk management (continued)

Interest rate risk (continued)

As at 30 September 2010

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

The following analysis represents an estimate of the effect on net assets due to a reasonably possible change in the level of interest rates, with all other variables held constant. In practice, the actual trading results may differ from the sensitivity analysis and the difference could be material.

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:

As at 30 September 2011

	Less than one month USD	Not exposed to interest rate risk USD	Total USD
Movement in net assets (50 bps increase)	1,071,668,079	(5,339,953)	1,066,328,126
Movement in net assets (50 bps decrease)	1,061,004,715	(5,339,953)	1,055,664,762

7. Financial risk management (continued)

Interest rate risk (continued)

As at 30 September 2010

	Less than one month USD	Not exposed to interest rate risk USD	Total USD
Movement in net assets (50 bps increase)	1,297,223,382	(11,185,151)	1,286,038,231
Movement in net assets (50 bps decrease)	1,284,315,686	(11,185,151)	1,273,130,535

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 2011 in relation to each class of recognised financial assets, other than derivatives, is the carrying amount of those assets 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.

The significant exposures are to Barclays Bank plc, Royal Bank of Scotland plc, ABN Amro, Citi Bank and Standard Chartered Bank (the "Banks") and the Brokers.

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.

8. Financial instruments

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.

As at 30 September 2011

	Fair value Level 1 USD	Fair value Level 2 USD	Fair value Total USD
AHL Programme			
– Commodities – settled by cash	8,241,324	–	8,241,324
– Short-term interest rate futures	7,342,861	–	7,342,861
– Foreign exchange forwards	–	3,166,444	3,166,444
– Bond futures	1,876,676	–	1,876,676
– Stock index futures	789,657	–	789,657
– Foreign exchange futures	469,319	–	469,319
– Commodities – settled by delivery	–	(403,500)	(403,500)
– Other	–	(6,849)	(6,849)
	18,719,837	2,756,095	21,475,932

As at 30 September 2010

	Fair value Level 1 USD	Fair value Level 2 USD	Fair value Total USD
AHL Programme			
– Commodities – settled by delivery	–	34,739,401	34,739,401
– Foreign exchange forwards	–	30,844,199	30,844,199
– Short-term interest rate futures	9,870,508	–	9,870,508
– Bond futures	4,570,562	–	4,570,562
– Commodities – settled by cash	44,535	–	44,535
– Stock index futures	(76,061)	–	(76,061)
– Other	(7,254)	–	(7,254)
	14,402,290	65,583,600	79,985,890

8. Financial instruments (continued)

Traded derivative financial instruments

The Company, trades derivative financial instruments, including futures and forwards 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.

9. Related parties

Master Multi-Product Holdings Ltd, a Bermuda incorporated company, is a related party through its 100% holding of the Manager Shares in the Company.

The ultimate controlling entity of the Company is therefore Master Multi-Product Holdings Ltd.

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 Investments Limited
Man Investments (Hong Kong) Limited
Man Corporate Services (Ireland) Limited
Man Valuation Services Limited and
Man Fund Management (Guernsey) Limited

The details of the transactions with these related parties are set out in the following tables.

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

Philip Bodman is an employee of Man Investments a subsidiary of Man Group plc (CH) AG. Philip Bodman is a director of Man Fund Management (Guernsey) Limited.

Ms Perinchief is an employee of Citi Hedge Fund Services, Ltd which is acting as Registrar for the Company and receives fees for its services.

9. Related parties (continued)

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

For the year ended 30 September 2011

Related party	Type of fee	Total fees USD	Fees payable USD
Conyers Dill & Pearman Limited	Legal fees	14,057	–
Directors	Directors' fees	11,404	(24)
Man Corporate Services (Ireland) Limited	Sub-registrar fees	641,946	313,507
Man Investments Limited	Incentive fees	5,440,486	8,458,553
Man Investments Limited	Management fees	34,729,048	6,103,114
Man Investments AG	Transaction and brokerage costs	14,064,822	2,034,371
Man Investments (Hong Kong) Limited	Hong Kong representative fees	5,000	3,154
Man Valuation Services Limited	Valuation fees	1,367,636	–
Man Fund Management (Guernsey) Limited	Services coordination fees	1,269,992	422,126

For the year ended 30 September 2010

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

10. Share capital and shares

Manager Shares of the Company

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 of par value USD 0.01. The 75,000,000 Shares of par value USD 0.01 carry 100% of the voting rights. The Manager shares do not carry voting rights for as long as there are shares of any other class in issue.

The Manager Shares are owned 100% by Master Multi-Product 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 Shares Account for the benefit of the Participating Shareholders. The Manager Shares have been issued but not called. No amount is recognised until the Manager Shares are called.

Shares of the Company

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 NAV 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 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 redemption of Shares other than those described in the financial statements.

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 (directly or indirectly);
- 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. Redemption fees

In case the Shares are redeemed before they have been in issue for the periods shown below, the current Net Asset Value per Share redeemed will be paid by the Company to the 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 Shares, as follows:

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 Share
4 years	2.5 % of redemption price per Share
6 years	1.0 % of redemption price per Share

There will be no redemption fee applied on Shares which are redeemed after they have been in issue for six years.

13. 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.

14. 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
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
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

15. Events after the reporting period

The Company ceased using MF Global UK Limited as a clearing or executing broker prior to their Chapter 11 filing/SIPC administration and therefore no longer trades with any entities in the MF Global group. The exposure to MF Global UK Limited at 30 September 2011 was immaterial.

Man AHL Diversified Futures Ltd

Report of the Custodian

Were 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 Prospectus dated 1 August 2008 and 25 March 2011 during the period ended 30 September 2011.

Authorised Signature

Authorised Signature

HSBC Institutional Trust Services (Asia) Limited

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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 2011 and the statement of changes in equity, statement of comprehensive income and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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 at 30 September 2011 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Ltd.

23 January 2012