Discovery Investment Services
Core Income Fund

Annual Report - 30 June 2009

Contents

This financial report covers Discovery Investment Services Core Income Fund as an individual entity.
The Responsible Entity of Discovery Investment Services Core Income Fund is Australian Unity Funds Management Limited (ABN 60 071 497 115).
The Responsible Entity's registered office is 114 Albert Road, South Melbourne VIC 3205.

Directors' report

The directors of Australian Unity Funds Management Limited (ABN 60 071 497 115), the Responsible Entity of Discovery Investment Services Core Income Fund, present their report together with the financial report of Discovery Investment Services Core Income Fund ("the Scheme") for the year ended 30 June 2009.

Directors

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

Alan Castleman (Chairman)
David Bryant (Group Executive - Investments and Chief Investment Officer)
Rohan Mead (Group Managing Director)
Ian Ferres (Non-Executive Director)
Stephen Maitland (Non-Executive Director)
Bruce Siney (Non-Executive Director)
Warren Stretton (Non-Executive Director)
Anthony Connon (Chief Financial Officer)

Principal activities

The Scheme aims to provide investors with attractive and regular income together with capital stability. The Scheme will use investor contributions primarily to acquire units in a blended portfolio of various underlying funds focused predominantly in the mortgage sector, including Australian Unity High Yield Mortgage Trust and Australian Unity Mortgage Income Trust.

Review and results of operations

For the year ended 30 June 2009 the Scheme's retail units posted a total return of 5.06% and the wholesale units posted a total return of 5.68%.

Unit prices as at 30 June 2009 (2008) are as follows:
Retail units $1.0000 ($1.0000)
Wholesale units $1.0000 ($1.0000)

The performance of the Scheme, as represented by the results of its operations, was as follows:

	For the year ended	
	30 June 2009 $'000	30 June 2008 $'000
Net operating profit/(loss) before financing costs attributable to unitholders	**835**	822
Distributions - retail		
Distribution paid and payable	**154**	277
Distributions - wholesale		
Distribution paid and payable	**675**	583

Directors' report (continued)

Significant changes in state of affairs

The Scheme has updated its redemption process and introduced a quarterly capped facility with redemptions paid within 21 days of the end of each quarterly period. The previous redemption process generally provided for full withdrawals within five working days of receipt of a redemption request.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2009 that has significantly affected, or may significantly affect:

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

Likely developments and expected results of operations

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

Further information on likely developments in the operations of the Scheme and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Scheme.

Indemnification and insurance of officers and auditors

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

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

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

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

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

Units in the Scheme

The movement in units on issue in the Scheme during the year is disclosed in note 5 of the financial report.

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

Environmental regulation

The Scheme operations are not subject to environmental regulations under Australian law.

Rounding of amounts to the nearest thousand dollars

The Scheme is an entity of the kind referred to in Class Order 98/0100 (as amended) issued by the Australian Securities and Investments Commission relating to the “rounding off” of amounts in the directors’ report and financial report. Amounts in the directors’ report and financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Directors' report (continued)

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

Signed in accordance with a resolution of the directors of Australian Unity Funds Management Limited.

Director

Director

10 September 2009

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Auditor's Independence Declaration to the Directors of Australian Unity Funds Management Limited, as Responsible Entity for Discovery Investment Services Core Income Fund

In relation to our audit of the financial report of Discovery Investment Services Core Income Fund for the financial year ended 30 June 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

AJ (Tony) Johnson
Partner
Melbourne
10 September 2009

Income statement

	Notes	For the year ended 30 June 2009 $'000	30 June 2008 $'000
Investment income			
Interest income		**5**	8
Distribution income	3	**780**	781
Management fee rebates		**234**	180
Total net investment income/(loss)		**1,019**	969
Expenses			
Responsible Entity's fees	9	**184**	147
Total expenses		**184**	147
Net operating profit/(loss) before financing costs attributable to unitholders		**835**	822
Finance costs attributable to unitholders			
Distributions to unitholders	6	**829**	860
Increase/(decrease) in net assets attributable to unitholders	5	**6**	(38)
Net profit/(loss) for the year		**-**	-

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

Balance sheet

	Notes	As at 30 June 2009 $'000	 30 June 2008 $'000
Assets			
Cash and cash equivalents		**269**	(81)
Receivables		**54**	288
Financial assets held at fair value through profit or loss	7	**13,499**	17,030
Total assets		**13,822**	17,237
Liabilities			
Distributions payable	6	**38**	106
Payables		**18**	193
Total liabilities (excluding net assets attributable to unitholders)		**56**	299
Net assets attributable to unitholders	5	**13,766**	16,938

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

Statement of change in net assets attributable to unitholders

	For the year ended	
	30 June 2009 $'000	30 June 2008 $'000
Net assets attributable to unitholders at the beginning of the year	**16,938**	5,142
Net profit/(loss) before financing costs	**835**	822
Distributions to unitholders	**(829)**	(860)
Application for units	**4,478**	15,841
Redemption of units	**(7,708)**	(4,089)
Reinvested units	**52**	82
Net assets attributable to unitholders at the end of the year	**13,766**	16,938

The above statement of changes in net assets attributable to unitholders should be read in conjunction with the accompanying notes.

Cash flow statement

	Notes	For the year ended 30 June 2009 $'000	30 June 2008 $'000
Cash flows from operating activities			
Proceeds from sale of financial instruments held at fair value through profit or loss		**9,025**	5,296
Purchase of financial instruments held at fair value through profit or loss		**(5,066)**	(16,802)
Interest received		**5**	8
Scheme distributions received		**415**	-
Other income received		**238**	163
Responsible Entity's fees paid		**(183)**	(133)
RITC received/(paid)		**(5)**	-
Net cash inflow/(outflow) from operating activities	10(a)	**4,429**	(11,468)
Cash flows from financing activities			
Proceeds from applications by unitholders		**4,647**	16,003
Payments for redemptions by unitholders		**(7,876)**	(3,922)
Distributions paid		**(850)**	(697)
Net cash inflow/(outflow) from financing activities		**(4,079)**	11,384
Net increase/(decrease) in cash and cash equivalents		**350**	(84)
Cash and cash equivalents at the beginning of the year		**(81)**	3
Cash and cash equivalents at the end of the year	10(b)	**269**	(81)

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

Contents

1 General information

This financial report covers Discovery Investment Services Core Income Fund ("the Scheme") as an individual entity. The Scheme was constituted on 19 October 2006.

The Responsible Entity of the Scheme is Australian Unity Funds Management Limited (ABN 60 071 497 115) ("the Responsible Entity"), a wholly owned subsidiary of Australian Unity Limited (ABN 23 087 648 888). The Responsible Entity's registered office is 114 Albert Road, South Melbourne, VIC 3205.

The Responsible Entity is incorporated and domiciled in Australia.

The financial statements were authorised for issue by the directors on 10 September 2009. The directors of the Responsible Entity have the power to amend and reissue the financial report.

2 Summary of significant accounting policies

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

(a) Basis of preparation

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

The financial report is prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The balance sheet is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are generally expected to be recovered or settled within twelve months, except for financial assets and financial liabilities held at fair value through profit or loss. The amount expected to be recovered in relation to the balance for financial assets held at fair value through profit or loss cannot be reliably determined. The maturity analysis for financial liabilities at fair value through profit or loss is disclosed in the Financial Risk Management note.

Compliance with International Financial Reporting Standards

The financial report of the Scheme complies with International Financial Reporting Standards, Interpretations and other authoritative pronouncements as issued and/or adopted by the International Accounting Standards Board.

(b) Financial instruments

(i) Classification

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

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

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

  Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Scheme's documented investment strategy. The Scheme's policy is for the Responsible Entity to evaluate the information about these financial assets on a fair value basis together with other related financial information.

  The information on the fair value basis is provided internally to the Scheme's key management personnel. In addition, the designation of financial assets and financial liabilities at fair value through profit or loss will reduce any measurement or recognition inconsistencies and any accounting mismatch that would otherwise arise.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Recognition/derecognition

The Scheme recognises financial assets on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets from this date.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Scheme retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' agreement; or
- the Scheme has transferred its rights to receive cash flows from the asset and either:
  - (a) has transferred substantially all the risks and rewards of the asset; or
  - (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Any gains or losses arising on derecognition of the asset (calculated as the difference between the disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised as realised gains or losses on financial instruments.

(iii) Measurement

Financial assets held at fair value through profit or loss

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

- Fair value in an active market

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

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

(iv) Offsetting financial instruments

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

(c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option and are therefore classified as financial liabilities. The units can be put back to the Scheme at any time for cash equal to a proportionate share of the Scheme's net asset value. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the balance sheet date if unitholders exercised their right to put the units back to the Scheme. Because the Scheme's redemption unit price is based on different valuation principles to that applied in financial reporting, a valuation difference exists, which has been treated as a separate component of net assets attributable to unitholders. Changes in the value of this financial liability are recognised in the income statement as they arise.

2 Summary of significant accounting policies (continued)

(d) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, high liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and cash management trusts.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Scheme's main income generating activity.

(e) Investment income

Interest income is recognised in the income statement for all financial instruments on an accruals basis. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(b).

Scheme distributions (including distributions from cash management trusts) are recognised on an entitlements basis.

Net gains/(losses) on financial assets held at fair value through profit or loss arising on a change in fair value are calculated as the difference between the fair value at year end and the fair value at the previous valuation point. Net gains/(losses) do not include interest or dividend/distribution income. Realised and unrealised gains/(losses) are shown in the notes to the financial statements.

(f) Expenses

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

(g) Income tax

Under current legislation, the Scheme is not subject to income tax as unitholders are presently entitled to the income of the Scheme.

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Scheme is not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Scheme to be offset against any realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

(h) Distributions

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

2 Summary of significant accounting policies (continued)

(i) Increase/(decrease) in net assets attributable to unitholders

Movements in net assets attributable to unitholders are recognised in the income statement as part of financing costs. The movements include undistributable income which may consist of undistributable unrealised changes in fair value of financial instruments held at fair value through profit or loss and derivative financial instruments; accrued income not yet assessable; expenses provided or accrued for which are not yet deductible; net capital losses; and tax free or tax deferred income. Net capital gains on the realisation of any financial instruments (including any adjustments for tax deferred income previously taken directly to net assets attributable to unitholders) and accrued income not yet assessable will be included in the determination of distributable income in the same year in which it becomes assessable for tax.

(j) Receivables

Receivables may include amounts for dividends, interest and securities sold where settlement has not yet occurred. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment in accordance with the policy set out in note 2(e) above. Amounts are generally received within 30 days of being recorded as receivables.

Receivables include such items as Reduced Input Tax Credits (RITC) and application monies receivable from unitholders.

(k) Payables

Payables includes liabilities and accrued expenses owing by the Scheme which are unpaid as at balance date.

Trades are recorded on trade date and normally settled within three business days. Purchases of financial instruments that are unsettled at reporting date are included in payables.

The distribution amount payable to unitholders as at the reporting date is recognised separately on the balance sheet as unitholders are presently entitled to the distributable income as at 30 June 2009 under the Scheme's Constitution.

(l) Applications and redemptions

Applications received for units in the Scheme are recorded net of any entry fees payable prior to the issue of units in the Scheme. Redemptions from the Scheme are recorded gross of any exit fees payable after the cancellation of units redeemed.

Unit redemption prices are determined in accordance with the Scheme’s constitution by reference to the net assets of the Scheme divided by the number of units on issue.

(m) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Scheme by third parties such as investment management fees have been passed onto the Scheme. The Scheme qualifies for Reduced Input Tax Credits (RITC) at a rate of 75% hence investment management fees, custodial fees and other expenses have been recognised in the income statement net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the balance sheet. Cash flows relating to GST are included in the cash flow statement on a gross basis.

2 Summary of significant accounting policies (continued)

(n) Use of estimates

The Scheme makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(o) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods and have not yet been applied in the financial report. The directors' assessment of the impact of these new standards (to the extent relevant to the Scheme) and interpretations is set out below:

(i) AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8 (effective from 1 January 2009)*

AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding on how to allocate resources to operating segments. The Scheme has not yet determined the potential effects of the amendments.

(ii) Revised AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101 (effective from 1 January 2009)*

The revised AASB 101 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If a Scheme has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Scheme will apply the revised standard from 1 July 2009. The Scheme has not yet determined the potential effects of the amendments.

(iii) AASB 132 *Financial Instruments: Presentation* and AASB 2008-2 *Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations Arising on Liquidation* (Revised AASB 132) *(effective from 1 January 2009)*

Revised AASB 132 is applicable for reporting periods beginning on or after 1 January 2009. The Scheme has not adopted this standard early. Application of this standard will not affect any of the amounts recognised in the financial statements as the Scheme is obligated to distribute all of its taxable income in accordance with the Scheme's Constitution. Accordingly, there will be no change to classification of unitholders' funds as a liability and therefore no impact on profit or loss and equity.

(iv) Improvements to Australian Accounting Standards: AASB 2008-5 and AASB 2008-6

In July 2008, the AASB issued a number of improvements to existing Australian Accounting Standards. The amendments will generally apply to financial reporting periods commencing on or after 1 January 2009, except for some changes to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* regarding the sale of the controlling interest in a subsidiary which will apply from 1 July 2009. The Scheme does not expect that any adjustments will be necessary as the result of applying the revised rules.

(v) AASB 2009-2 *Amendments to Australian Accounting Standards - Improving Disclosures about Financial Instruments (effective from 1 January 2009)*

In April 2009, the AASB published amendments to AASB 7 *Financial Instruments: Disclosures* to improve the information that entities report about their liquidity risk and the fair value of their financial instruments. The amendments require fair value measurement disclosures to be classified into a new three-level hierarchy and additional disclosures for items whose fair value is determined by valuation techniques rather than observable market values. The AASB also clarified and enhanced the existing requirements for the disclosure of liquidity risk of derivatives. The Scheme will apply the amendments from 1 July 2009. They will not affect any of the amounts recognised in the financial statements but will impact the current disclosures of the Scheme's financial instruments.

2 Summary of significant accounting policies (continued)

(o) New accounting standards and interpretations (continued)

(vi) AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective from 1 January 2010)*

In May 2009, the AASB issued a number of improvements to existing Australian Accounting Standards. The Scheme will apply the revised standards from 1 July 2009. The Scheme does not expect that any adjustments will be necessary as the result of applying the revised rules.

(vii) AASB 2009-6 *Amendments to Australian Accounting Standards* and AASB 2009-7 *Amendments to Australian Accounting Standards (effective from 1 January 2009 and 1 July 2009 respectively)*

In June 2009, the AASB issued AASB 2009-6 and AASB 2009-7. The Standards make numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. AASB 2009-6 is applicable to annual reporting periods beginning on or after 1 January 2009 that end on or after 30 June 2009. AASB 2009-7 is applicable to annual reporting periods beginning on or after 1 July 2009. There are no changes to any of the accounting policies necessary as a result of these amendments.

(p) Rounding of amounts

The Scheme is an entity of the kind referred to in Class Order 98/0100 (as amended), issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, unless otherwise indicated.

3 Distribution income

	For the year ended	
	30 June 2009 $'000	30 June 2008 $'000
Related unlisted managed investment schemes	**780**	781
	780	781

4 Auditor's remuneration

The auditor's remuneration is paid directly by the Responsible Entity.

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

	For the year ended	
	30 June 2009 $	30 June 2008 $
(a) Audit services		
Audit services		
Audit and review of financial reports	**8,000**	7,000
Total remuneration for audit services	**8,000**	7,000
(b) Non-audit services		
Taxation services		
Tax fees	**2,250**	2,250
Total remuneration for taxation services	**2,250**	2,250

5 Net assets attributable to unitholders

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

As stipulated within the Scheme's Constitution, each unit represents a right to an individual share in the Scheme and does not extend to a right to the underlying assets of the Scheme. There are two classes of unitholders in the Scheme being retail and wholesale.

	For the year ended			
	30 June 2009 No. '000	30 June 2008 No. '000	**30 June 2009 $'000**	30 June 2008 $'000
Opening balance	**16,938**	5,144	**16,938**	5,142
Net assets attributable to unitholders - retail				
Applications	**49**	4,025	**49**	4,037
Redemptions	**(1,879)**	(2,127)	**(1,884)**	(2,132)
Units issued upon reinvestment of distributions	**52**	75	**52**	75
Net assets attributable to unitholders - wholesale				
Applications	**4,415**	11,765	**4,429**	11,804
Redemptions	**(5,808)**	(1,951)	**(5,824)**	(1,957)
Units issued upon reinvestment of distributions	**-**	7	**-**	7
Increase/(decrease) in net assets attributable to unitholders	**-**	-	**6**	(38)
Closing balance	**13,767**	16,938	**13,766**	16,938

5 Net assets attributable to unitholders (continued)

Capital risk management

The Scheme manages its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as financial liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Scheme is subject to daily applications and redemptions at the discretion of unitholders.

The Scheme's strategy was to hold a certain portion of the net assets attributable to unitholders in liquid investments. Liquid assets include cash and cash equivalents and listed equities. The ratio of liquid assets to net assets attributable to unitholders at 30 June 2009 and 30 June 2008 were as follows:

	As at	
	30 June 2009 $'000	30 June 2008 $'000
Liquid assets of the Scheme	**576**	209
Net assets attributable to unitholders	**13,766**	16,938
Ratio of liquid assets to net assets attributable to unitholders (%)	**4.18%**	1.23%

Investment in the Australian Unity Wholesale Cash Fund is included in the liquid assets of the Scheme and ratio of liquid assets above.

6 Distributions to unitholders

Timing of distributions

The distributions for the year were as follows:

	For the year ended			
	30 June 2009 $'000	**30 June 2009 CPU**	30 June 2008 $'000	30 June 2008 CPU
Distributions - retail				
31 July	**26**	**0.5965**	16	0.5576
31 August	**25**	**0.5878**	17	0.5666
30 September	**19**	**0.5959**	20	0.5671
31 October	**15**	**0.5302**	21	0.5616
30 November	**14**	**0.5108**	23	0.5808
31 December	**12**	**0.4722**	24	0.5677
31 January	**10**	**0.3753**	24	0.5763
28 February	**7**	**0.2851**	25	0.5909
31 March	**7**	**0.2612**	26	0.5818
30 April	**7**	**0.2522**	27	0.5834
31 May	**6**	**0.2434**	28	0.5834
30 June (payable)	**6**	**0.2359**	26	0.5919
	154		277	

6 Distributions to unitholders (continued)

	For the year ended			
	30 June 2009 $'000	**30 June 2009 CPU**	30 June 2008 $'000	30 June 2008 CPU
Distributions - wholesale				
31 July	**86**	**0.6378**	22	0.6045
31 August	**95**	**0.6447**	27	0.6263
30 September	**84**	**0.6419**	33	0.6131
31 October	**70**	**0.6039**	35	0.6091
30 November	**61**	**0.5318**	40	0.6275
31 December	**60**	**0.5316**	49	0.6239
31 January	**48**	**0.4218**	51	0.6277
28 February	**37**	**0.3312**	55	0.6470
31 March	**35**	**0.3136**	57	0.6373
30 April	**34**	**0.3003**	64	0.6307
31 May	**33**	**0.2936**	70	0.6307
30 June (payable)	**32**	**0.2865**	80	0.6375
	675		583	
Total distributions	**829**		860	

As unitholders are presently entitled to the distributable income of the Scheme, no income tax is payable by the Scheme.

7 Financial assets held at fair value through profit or loss

	As at	
	30 June 2009 $'000	30 June 2008 $'000
Designated at fair value through profit or loss		
Related unlisted managed investment schemes	**13,499**	17,030
Total financial assets held at fair value through profit or loss	**13,499**	17,030

8 Financial risk management

(a) Objectives, strategies, policies and processes

The Scheme's activities may expose it to a variety of financial risks: market risk (including price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Scheme's overall risk management program focuses on ensuring compliance with the Scheme's Product Disclosure Statement and seeks to maximise the returns derived for the level of risk to which the Scheme is exposed. Financial risk management is carried out by an Investment Manager (Investment Manager) under policies approved by the Board of Directors of the Responsible Entity (the "Board").

The Scheme uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, and ratings analysis for credit risk.

The information is prepared and reported to relevant parties within the Responsible Entity on a regular basis as deemed appropriate, including senior management, Risk and Investment Committees, and ultimatelt (on an exception basis) the Board of Directors of the Responsible Entity.

As part of its risk management strategy, the Scheme may use derivatives and other investments, including share price and bond futures, interest rate swaps and forward currency contracts, to manage exposures resulting from changes in interest rates, foreign currencies, equity price risks, and exposures arising from forecast transactions.

8 Financial risk management (continued)

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: price risk, foreign currency risk and interest rate risk. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandates and investment strategies.

The market risk disclosures are prepared on the basis of the Scheme's direct investments and not on a look-through basis for investments held in the Scheme.

The sensitivity of the Scheme's net assets attributable to unitholders (and net operating profit/(loss)) to price risk, foreign exchange risk and interest rate risk is measured by the reasonably possible movements approach. This approach is determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates and foreign exchange rates, historical correlation of the Scheme's investments with the relevant benchmarks and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Scheme invests. As a result, historic variations in the risk variables are not a definitive indicator of future variations in the risk variables.

Net assets attributable to unitholders may include investments in debt and equity securities and related derivatives. At 30 June 2009, the overall market exposures were as follows:

	For the year ended	
	30 June 2009 $'000	30 June 2008 $'000
Securities designated at fair value through profit or loss	**13,499**	17,030

(i) Price risk

Price risk is the risk that the fair value of equities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Price risk exposure arises from the Scheme's investment portfolio. The investments are classified on the balance sheet as at fair value through profit or loss. All securities investments present a risk of loss of capital. Except for equities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Investment Manager mitigates this price risk through diversification and a careful selection of securities and other financial instruments within specified limits set by the Board.

The Scheme's overall market positions are monitored on a regular basis by the Scheme's Investment Manager. This information and the compliance with the Scheme's Product Disclosure Statement are reported to the relevant parties on a regular basis as deemed appropriate such as compliance manager, other key management personnel, compliance committees and ultimately the Board.

At 30 June 2009 , if the equity prices had increased by 10% (2008: 10%) with all other variables held constant, this would have increased net assets attributable to unitholders (and net operating profit/(loss)) by approximately $1,319,162 (2008: $1,673,906). Conversely, if the equity prices had decreased by 10% (2008: 10%), this would have decreased net assets attributable to unitholders (and net operating profit/(loss)) by approximately $1,319,162 (2008: $1,673,906). The analysis is performed on the same basis for 2008.

(ii) Foreign exchange risk

There was no significant direct foreign exchange risk in this Scheme as at 30 June 2009 (2008: Nil).

(iii) Interest rate risk

There was no significant direct interest rate risk in this Scheme as at 30 June 2009 (2008: Nil).

8 Financial risk management (continued)

(c) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Credit risk primarily arises from cash and cash equivalents, and deposits with banks and other financial institutions.

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

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values.

The Scheme holds no collateral as security or any other credit enhancements. There are no financial assets that are past due or impaired, or would otherwise be past due or impaired.

Counterparty credit limits and the list of authorised brokers are reviewed by the relevant parties within the Responsible Entity on a regular basis as deemed appropriate.

In accordance with the Scheme's policy, the Investment Manager monitors the Scheme's credit position on a regular basis. This information and the compliance with the Scheme's policy are reported to the relevant parties on a regular basis as deemed appropriate such as the compliance manager, other key management personnel, compliance committees and ultimately the Board. All contracts are with counterparties included in the Board's Approved Counterparties list.

(d) Concentrations of risk

Concentrations of risk arise when a number of financial instruments are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic conditions. These similarities would cause the counterparties' liabilities to meet the contractual obligations to be similarly affected by certain changes in the risk variables.

The concentrations of risk are monitored by the Investment Manager to ensure they are within acceptable limits by reducing the exposures or by other means as deemed appropriate.

Concentrations of risk are managed by industry sector for equity instruments and by counterparty for debt instruments and selected derivatives.

Based on the concentrations of risk that are managed by industry sector and/or counterparty, the following investments can be analysed by the industry sector and/or counterparty as at 30 June 2009 and 30 June 2008:

	$'000
At 30 June 2009	
Unlisted units in managed investment schemes cash - wholesale	307
Unlisted units in managed investment schemes property - wholesale	13,192

	$'000
At 30 June 2008	
Unlisted units in managed investment schemes cash - wholesale	290
Unlisted units in managed investment schemes property - wholesale	16,739

8 Financial risk management (continued)

(e) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. This risk is controlled through the Scheme's investment in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Scheme maintains sufficient cash and cash equivalents to meet normal operating requirements.

The Scheme may be exposed to daily cash redemptions of redeemable units. It therefore primarily holds investments that are traded in active markets and can be readily disposed of.

The Scheme's investments may include listed securities that are considered readily realisable, as they are listed on recognised stock exchanges.

The Scheme may, from time to time, invest in derivative contracts traded over the counter, which are not traded in an organised market and may be illiquid. As a result, the Scheme may not be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as a deterioration in the creditworthiness of any particular issuer. No such investments were held at the balance sheet date.

The Scheme may, from time to time, invest in derivative contracts traded over the counter, which are not traded in an organised market and may be illiquid. As a result, the Scheme may not be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as a deterioration in the creditworthiness of any particular issuer. No such investments were held at the balance sheet date.

Under the terms of its Constitution, the Scheme has the ability to manage liquidity risk by delaying redemptions to unitholders, if necessary, until the funds are available to pay them.

In accordance with the Scheme's policy, the Investment Manager monitors the Scheme's liquidity position on a regular basis. This information and the compliance with the Scheme's policy are reported to the relevant parties on a regular basis as deemed appropriate such as the compliance manager, other key management personnel, compliance committees and ultimately the Board.

Maturity analysis for financial liabilities

The table below analyses the Scheme's financial liabilities, excluding gross settled derivative financial liabilities, into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

	Less than 1 month $'000	1-3 months $'000	3-12 months $'000	More than 12 months $'000
At 30 June 2009				
Distribution payable	38	-	-	-
Payables	18	-	-	-
Net assets attributable to unitholders	13,766	-	-	-
Total financial liabilities - Contractual cash flows	13,822	-	-	-

	Less than 1 month $'000	1-3 months $'000	3-12 months $'000	More than 12 months $'000
At 30 June 2008				
Distribution payable	106	-	-	-
Payables	193	-	-	-
Net assets attributable to unitholders	16,938	-	-	-
Total financial liabilities - Contractual cash flows	17,237	-	-	-

8 Financial risk management (continued)

(f) Estimation of fair values of financial assets

The carrying amounts of all the Scheme’s financial assets at the balance sheet date approximated their fair values.

As a result of the developments in global markets, generally known as the global financial crisis, liquidity in some investment markets has decreased significantly. As a result, the volume of trading in many of the investments held by the Scheme has decreased significantly, and accordingly the valuation of those investments is subject ot a greater uncertaintiy and requires greater judgement than would be the case in normal investment market circumstances.

For the years ended 30 June 2009 and 30 June 2008, the Scheme did not include financial assets that were determined using valuation techniques. The fair values of the Scheme's financial assets for the years then ended were determined directly, in full or in part, by reference to quoted prices that were available from various sources, such as exchanges, dealers, brokers, industry groups and pricing services.

9 Related party transactions

Responsible Entity

The Responsible Entity of Discovery Investment Services Core Income Fund is Australian Unity Funds Management Limited (ABN 60 071 497 115), whose immediate and ultimate Parent Entity is Australian Unity Limited (ABN 23 087 648 888).

Key management personnel

(a) Directors

Key management personnel includes persons who were directors of Australian Unity Funds Management Limited at any time during the financial year as follows:

Alan Castleman (Chairman)
David Bryant (Group Executive - Investments and Chief Investment Officer)
Rohan Mead (Group Managing Director)
Ian Ferres (Non-Executive Director)
Stephen Maitland (Non-Executive Director)
Bruce Siney (Non-Executive Director)
Warren Stretton (Non-Executive Director)
Anthony Connon (Chief Financial Officer)

(b) Other key management personnel

There were no other persons with responsibility for planning, directing and controlling the activities of the Scheme, directly or indirectly during the financial year.

Key management personnel unitholdings

From time to time, key management personnel may purchase or subscribe to the various products offered by its related entities. These transactions are on similar terms and conditions as those entered into by other employees or customers and are trivial or domestic in nature.

Key management personnel compensation

Key management personnel are paid by Australian Unity Funds Management Limited. Payments made from the Scheme to Australian Unity Funds Management Limited do not include any amounts attributable to the compensation of key management personnel.

9 Related party transactions (continued)

Key management personnel loan disclosures

The Scheme has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

Other transactions within the Scheme

From time to time directors of Australian Unity Funds Management Limited, or their director related entities, may invest in or withdraw from the Scheme. These investments or withdrawals are on the same terms and conditions as those entered into by other Scheme investors and are trivial in nature.

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

Responsible Entity's and other transactions

Under the terms of the Scheme's Constitution, the Responsible Entity is entitled to receive Responsible Entity's fees, calculated by reference to the average daily net assets (excluding net assets attributable to unitholders) of the Scheme's Constitution as follows:

	For the year ended	
	30 June 2009 $	30 June 2008 $
Responsible Entity's fees for the year paid by the Scheme to the Responsible Entity	**183,847**	147,297
Fees earned by the Responsible Entity in respect of investments by the Scheme in other schemes managed by the Responsible Entity	**234,290**	180,105
Aggregate amounts payable to/(receivable) from the Responsible Entity at the reporting date	**(3,584)**	(4,003)

Related party unitholdings

Parties related to the Scheme (including Australian Unity Funds Management Limited, its related parties and other schemes managed by Australian Unity Funds Management Limited), hold no units in the Scheme.

Investments

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

	Fair value of investment		Interest held		Distributions received/receivable	
	2009 $	2008 $	**2009 %**	2008 %	**2009 $**	2008 $
Australian Unity Wholesale Cash Fund	**306,909**	290,422	**0.07**	0.01	**14,447**	6,868
Australian Unity Mortgage Income Trust	**3,261,417**	4,163,996	**0.36**	0.01	**199,788**	176,926
Australian Unity High Yield Mortgage Trust	**9,930,210**	12,575,066	**2.57**	0.03	**565,713**	597,444
	13,498,536	17,029,484			**779,948**	781,238

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

	For the year ended	
	30 June 2009 $'000	30 June 2008 $'000
(a) Reconciliation of net profit/(loss) to net cash inflow/(outflow) from operating activities		
Profit for the year	**-**	-
Increase/(decrease) in net assets attributable to unitholders	**6**	(38)
Proceeds from sale of financial instruments held at fair value through profit or loss	**9,025**	5,296
Purchase of financial instruments held at fair value through profit or loss	**(5,066)**	(16,802)
Net change in accrued income and prepaid expenses	**66**	(92)
Net change in accounts payable and accrued liabilities	**(3)**	13
Distributions to unitholders	**829**	860
Reinvested income	**(428)**	(705)
Net cash inflow/(outflow) from operating activities	**4,429**	(11,468)
(b) Components of cash and cash equivalents		
Cash as at the end of the financial year as shown in the cash flow statement is reconciled to the balance sheet as follows:		
Cash and cash equivalents	**269**	(81)
	269	(81)
(c) Non-cash financing and investing activities		
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	**52**	82
	52	82

11 Segment information

The Scheme is organised into one main segment which operates solely in the business of investment management within Australia. Consequently, no detailed segment reporting is provided in the Scheme's financial statements.

While the Scheme operates from Australia only (the geographical segment), the Scheme may have investment exposures in different countries and across different industries.

12 Events occurring after the balance sheet date

No significant events have occurred since balance date which would impact on the financial position of the Scheme disclosed in the balance sheet as at 30 June 2009 or on the results and cash flows of the Scheme for the year ended on that date.

13 Contingent assets and liabilities and commitments

There are no outstanding contingent assets or liabilities as at 30 June 2009 and 30 June 2008.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

(a) the financial statements and notes set out on pages 6 to 25 are in accordance with the *Corporations Act 2001*, including

(i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the Scheme's financial position as at 30 June 2009 and of its performance, as represented by the results of their operations and cash flows for the year ended on that date.

(b) there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable.

(c) the financial statements are in accordance with the Scheme's Constitution.

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

Director

Director

10 September 2009

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Independent auditor's report to the unitholders of Discovery Investment Services Core Income Fund

We have audited the accompanying financial report of Discovery Investment Services Core Income Fund, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in net assets attributable to unitholders and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the Responsible Entity are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Responsible Entity a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Ernst & Young

Auditor's Opinion

In our opinion:

1. the financial report of Discovery Investment Services Core Income Fund is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the financial position of Discovery Investment Services Core Income Fund at 30 June 2009 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Ernst & Young

AJ (Tony) Johnson
Partner
Melbourne
10 September 2009

Discovery Investment Services

Core Income Fund

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Australia-wide or contact your financial adviser

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