

MACQUARIE AUSTRALIA FORTRESS NOTES (FORTRESS NOTES)



QUARTERLY REPORT UP TO 29 APRIL 2011

Macquarie Fortress Notes provide investors with exposure to a leveraged portfolio of U.S. senior secured loans (Senior Loans). Four Corners Capital Management, LLC is the portfolio manager for Fortress Notes (Portfolio Manager).

Net Asset Value (NAV)

The NAV of Fortress Notes as at 29 April 2011 was AU\$0.450 per Note. The final return to investors continues to depend on the default and recovery rates of Senior Loans in the portfolio. The NAV is updated monthly and available at www.macquarie.com.au/fortress.

Month Ended	NAV per Note in AU\$	Distribution per Note in AU\$	Fortress Accumulation Index [^] in AU\$
29 April 2011	\$0.450		\$0.703
31 March 2011	\$0.443		\$0.696
28 February 2011	\$0.442		\$0.695
31 January 2011	\$0.428		\$0.681
31 December 2010	\$0.410		\$0.663
30 November 2010	\$0.397		\$0.650
29 October 2010	\$0.393		\$0.646
30 September 2010	\$0.378		\$0.631
31 August 2010	\$0.367		\$0.620
30 July 2010	\$0.360		\$0.613
30 June 2010	\$0.335		\$0.588
28 May 2010	\$0.345		\$0.598

[^] This column shows the aggregate of the NAV plus all interest payments received on Fortress Notes since inception.

¹ Source of statistical information: Standard & Poor's Leveraged Commentary & Data

DISTRIBUTIONS

As part of the financing arrangements for the Fortress portfolio, all cash flows from the portfolio must be used to meet interest payments, expenses and to reduce the principal outstanding. There will be no distributions made until the new financing has been fully repaid, which currently is not expected to be before 2012. Consequently, it is not expected investors will receive any distributions from the Notes during this period.

Market update from the Portfolio Manager

SENIOR LOAN MARKET¹

After gaining 10.1% in 2010, the S&P/LSTA Leveraged Loan Index (the "Index") increased 2.4% during the first quarter of 2011, largely due to robust technical conditions. Inflows into the loan market through March totalled \$15.9bn and the first quarter's non-repricing loan repayments totalled \$31.9bn. However, the new-issue market did not keep pace with inflows. With supply/demand out of balance to the benefit of issuers, issuers enjoyed rapidly declining new-issue spreads and issuer-friendly structures, including the resurgence of covenant-lite loans. Issuer-friendly conditions also ignited a burst of repricing activity, with \$56.9bn of institutional loans repricing during the first quarter.

The loan market tone weakened in March as the crisis in Japan and mounting Middle East conflicts weighed on equity and fixed income markets. The Index declined 0.9% from March 1st through March 18th as investors mostly kept cash on the sidelines. Fifteen opportunistic primary loan transactions were withdrawn in March and many 2011 deals were bid below their primary offer price. Many of these struggling deals had relatively low LIBOR spreads and had little in the way of covenant protection. Although the market strengthened during the second half of March, finishing the month flat, this correction caused arrangers to reduce the aggressiveness of issuer-friendly terms in the new issue market.

Fundamentals have remained strong, driving default rates to a post-2008 low and bolstering the overall credit profile of the Index, despite an increasingly aggressive new-issue market. On average, Index issuers posted a 25% 4th quarter gain in year-over-year EBITDA, up from the third quarter's 24% increase. Through March, the lagging 12-month loan default rate fell to 1.1% by principal amount and 1.6% by number of loans, both three year lows.

While terms of many new issue bank loans have become more aggressive in recent months, their terms are still generally much improved from those that were structured during 2006 and 2007. In fact, one of the big factors constraining LBO issuance in 2010 was the high level of equity contribution required to complete LBOs, with the average 2010 LBO having an equity contribution of 41% of the capital structure. While terms have loosened recently and pricing has tightened amid an excess of demand, overall, value is very good and structures are reasonably conservative on a historical basis. However, as is typical when markets experience excess demand, asset selection will become increasingly important as underwriters push the market's limits.

REPAYMENT RATES

US\$89.1bn of Senior Loans (representing 17.7% of the market) were repaid in the first quarter of 2011. This compares to US\$31.7bn (6.0% of the market) in the first quarter of 2010. US\$199.9bn of Senior Loans (representing 39.2% of the market) were repaid in the the last twelve months ended 31 March 2011. This compares to US\$143.5bn (27.0% of the market) in 2010.

DEFAULT RATES

Through March, the lagging 12-month loan default rate fell to 1.1% by principal amount and 1.6% by number of loans, both three year lows. The declining default rate continues to be driven by strong technical conditions, improving fundamentals and the fact that 2008 and early 2009 were periods of extremely high default rates. With many of the weakest issuers in the most troubled sectors having already filed for bankruptcy by 2008 and mid-2009, the remaining mix of issuers is a generally stronger group of companies.

Lagging 12 Month Default Rate

	Jul-10	Oct-10	Jan-11	Apr-11	Historical average**
By principal amount	3.47%	2.28%	1.46%	1.11%	3.70%
By number of loans	4.91%	3.22%	2.18%	1.62%	3.47%

**Measured from December 1998 to April 2011

US Economic Outlook

Real GDP increased at an annual rate of 1.8 percent in the first quarter of 2011, following an increase of 3.1 percent in the fourth quarter of 2010. The deceleration in real GDP in the first quarter was driven by slower consumer spending and sharp declines in defence and other state and local government spending.

Unemployment remains high. April's unemployment rate edged up from 8.8% in March to 9.0%, but is still slightly better than December's rate of 9.4%. Although April's payroll survey was surprisingly strong, with 244,000 jobs added, it is expected that the high unemployment rate will persist unless the economy starts growing appreciably faster.

The Federal Open Market Committee voted unanimously to finish its \$600 billion in purchases of Treasury securities as scheduled by midyear and maintain its "exceptionally low" target for federal funds "for an extended period." In his first news conference, Federal Reserve Chairman Ben Bernanke said the first-quarter slowdown would likely be temporary. However, caution remains in the economic outlook as high energy prices, a weak housing market and stubbornly high unemployment are likely to continue to weigh on consumer spending.

Portfolio Overview

The Portfolio Manager has established a set of investment guidelines designed to manage risk which covers factors such as the number of issuers within the portfolio, the type of borrowers and industry concentrations and the level of leverage employed. As flagged in previous quarterly reports and as a consequence of Senior Loan repayments and sales, the percentage holdings in the portfolio have been distorted and no longer satisfy the guidelines. The portfolio manager is restricted from purchasing additional assets in the portfolio, so balance cannot be restored.

From the date of the refinancing in April 2008 to 29 April 2011, the amount of net financing outstanding has been reduced by approximately US\$292.2m. This has been possible due to Senior Loan principal repayments with par value of US\$220.7m, proceeds from Senior Loan sales of US\$53.5m (par value of approximately US\$95.3m) with the remaining US\$18m received as net income.

PORTFOLIO SUMMARY AS AT 29 APRIL 2011*

	Start balance at time of refinancing	Current balance
Par value of Senior Loans	US\$512.9m	US\$193.9m
Net senior financing outstanding	US\$397.5m	US\$105.3m
Net par value of Senior Loans	US\$115.4m	US\$88.5m
Number of issuers in the portfolio		78
Largest industry concentration		11.09%
Average credit spread above LIBOR		2.39%
Average market to market value of Senior Loans**		98.16%
Current financing margin on leverage facility above LIBOR		1.25%

Number of Notes/ Units on issue	Notes/Units	% allocation of Portfolio
AU Fortress Notes	141.5m	61.09%
NZ Fortress Notes	28.7m	10.83%
AU Fortress Fund Units	60.2m	28.08%

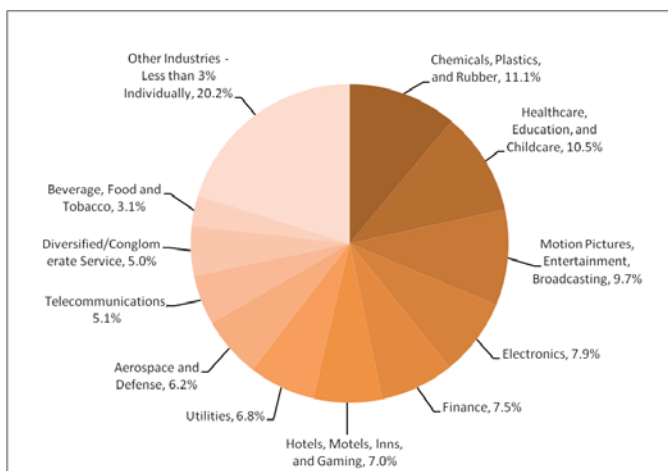
Legal Maturity Profile of Senior Loans in the Portfolio

Next 12 months	2.65%
1 to 2 years	21.99%
2 to 3 years	50.75%
3 to 4 years	24.61%

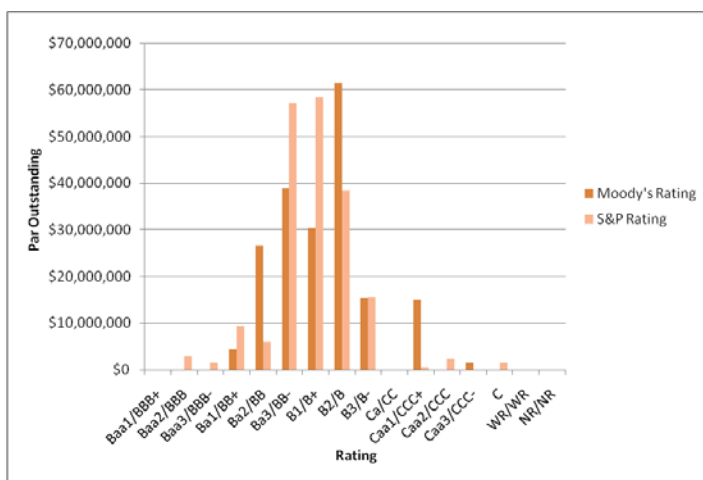
* These figures represent the now combined Fortress Fund and Fortress Notes portfolio.

** Weighted average market bid prices of all loans held in the portfolio.

PORTFOLIO BREAKDOWN BY INDUSTRY AS AT 29 APRIL 2011**



PORTFOLIO BREAKDOWN BY S&P CREDIT RATINGS AND MOODY'S CREDIT RATINGS AS AT 29 APRIL 2011**



Baa/BBB and above is considered Investment Grade in the financial markets.

**These figures represent the now combined Fortress Fund and Fortress Notes portfolio.

FORTRESS SCENARIO ANALYSIS

To provide investors with more information about the potential outcomes from their Fortress investment, the scenario analysis prepared at the time of the refinancing in April 2008 was updated as at 29 April 2011 to reflect the performance of the Fortress portfolio to that date, including any Senior Loan repayments as well as any defaults and realised losses on sale of Senior Loans.

POTENTIAL NAV OUTCOMES (A\$ PER NOTE)

The key things to note from the table below are that the ultimate potential NAV (in A\$ per Note) has deteriorated since the last scenario analysis performed as at 30 April 2010.

The reduction is primarily due to an increase in prepayment rates within the portfolio since the last analysis. While prepayments are generally viewed as being positive, as it means a full recovery of the loan made to the company, it has the impact of reducing the potential Fortress NAV outcomes as displayed below because prepayments reduce the amount of net income accrued through the modelled period. The model assumes the legal maturity schedule, and to the extent the prepayment rate is higher than this assumption the potential outcomes will decrease. Overall, the increase in prepayments is positive in periods of high default risk or market volatility as it decreases the possible losses from the portfolio.

Annual Default Rate	Recovery Rate				
	90.00%	80.00%	70.00%	60.00%	40.00%
-%	0.564	0.564	0.564	0.564	0.564
2.00%	0.559	0.556	0.553	0.550	0.543
4.00%	0.549	0.543	0.537	0.530	0.516
6.00%	0.546	0.536	0.527	0.517	0.498
8.00%	0.536	0.524	0.511	0.499	0.473
10.00%	0.533	0.518	0.502	0.487	0.457
12.00%	0.523	0.506	0.488	0.470	0.435

The scenario analysis assumes that the Annual Default Rate in the table persists until all loans in the portfolio mature.

Note that this scenario analysis is not a forecast of outcomes and there is no guarantee or assurance of any particular outcome or that the actual outcome will be within the range of outcomes listed in the table above.

For more information on your investment in Macquarie Fortress Notes, speak to your financial adviser or contact Macquarie.



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This information has been prepared by Macquarie Fortress Investments Limited (MFIL) ACN 113 113 214 as trustee of the Macquarie Fortress Australia Notes Trust and is provided by Macquarie Capital Investment Management (Australia) Limited (MCIMAL) ACN 086 159 060, Australian Financial Services Licence number 237843. Some of the information was prepared on the basis of information provided by Four Corners Capital Management, LLC (FCCM), the US based investment manager of the Knight Portfolio Trust.

Invitations to apply for Fortress Notes were made by MFIL under Prospectuses dated 7 March 2005, 31 August 2005 and 3 February 2006. In deciding whether to acquire or continue to hold an investment, investors should obtain a copy of the relevant prospectus and consider its contents. Investors should also consider all updated information announced to ASX and quarterly reports, copies of which are provided to ASIC.

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