

Macquarie Diversified Floating Rate Fund

ARSN 106 666 184

Annual report - 31 March 2011

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This financial report covers Macquarie Diversified Floating Rate Fund as an individual entity.

The Responsible Entity of the Macquarie Diversified Floating Rate Fund is Macquarie Investment Management Limited (ABN 66 002 867 003). The Responsible Entity's registered office is Mezzanine Level, No. 1 Martin Place, Sydney, NSW 2000.

Directors' report

The directors of Macquarie Investment Management Limited, a wholly owned subsidiary of Macquarie Group Limited, the Responsible Entity of the Macquarie Diversified Floating Rate Fund, present their report together with the financial report of the Macquarie Diversified Floating Rate Fund ("the Trust") for the year ended 31 March 2011.

Principal activities

The Trust invested in money market securities, floating rate securities and derivatives in accordance with the provisions of the Trust Constitution.

The Trust did not have any employees during the year.

There were no significant changes in the nature of the Trust's activities during the year, until it ceased trading on 10 September 2010.

Directors

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

B N Terry
R Cartwright
V Malley
C Vignes
C Swanger
T Graham

Review and results of operations

During the period, the Trust continued to invest funds in accordance with target asset allocations as set out in the governing documents of the Trust and in accordance with the provisions of the Trust Constitution.

Results

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

	Year ended	
	31 March 2011	31 March 2010
Operating profit before finance costs attributable to unitholders (\$)	<u>7,993,596</u>	<u>16,271,000</u>
<i>Distributions</i>		
Distribution paid and payable	<u>3,108,057</u>	<u>16,573,000</u>
Distribution (cents per unit)	<u>0.98</u>	<u>5.26</u>

Significant changes in state of affairs

The Trust ceased trading on 10 September 2010.

In the opinion of the directors, there were no other significant changes in the state of affairs of the Trust that occurred during the year under review.

Matters subsequent to the end of the reporting period

As at the date of this report the Directors are not aware of any matters or circumstances which have arisen since the end of the financial period which may significantly affect the future state of affairs of the Trust.

No matter or circumstance has arisen since the year end that has significantly affected, or may significantly affect:

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

Directors' report (continued)

Indemnification and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Trust in regards to insurance cover provided to either the officers of Macquarie Investment Management Limited or the auditors of the Trust. Under the Trust Constitution, Macquarie Investment Management Limited as responsible entity of the Trust is entitled to be indemnified out of the assets of the Trust for any liability incurred by it in properly performing or exercising any of its powers or duties in relation to the Trust.

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

No fees were paid out of Trust property to the Responsible Entity or its associates.

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

The number of interests in the Trust held by the Responsible Entity or its associates as at the end of the reporting period are disclosed in note 11 of the financial statements.

Interests in the Trust

The movement in units on issue in the Trust during the year is disclosed in note 6 of the financial statements.

The value of the Trust's assets and liabilities is disclosed on the statement of financial position and derived using the basis set out in note 2 of the financial statements.

Environmental regulation

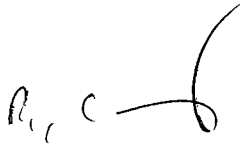
The operations of the Trust are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

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.

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



R Cartwright
Director

Sydney
20 June 2011



Auditor's Independence Declaration

As lead auditor for the review of Macquarie Diversified Floating Rate Fund (*"the fund"*) for the year ended 31 March 2011, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Macquarie Diversified Floating Rate Fund during the period.

A handwritten signature in black ink, appearing to read 'SJ Smith', written in a cursive style.

SJ Smith
Partner
PricewaterhouseCoopers

Sydney
20 June 2011

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Statement of comprehensive income

	Notes	31 March 2011 \$	31 March 2010 \$
Investment income			
Interest income		579,005	506,841
Net gains on financial instruments held at fair value through profit or loss	5	7,412,348	15,786,058
Other operating income		<u>2,243</u>	-
Total net investment income		<u>7,993,596</u>	<u>16,292,899</u>
Expenses			
Other operating expenses		-	<u>21,352</u>
Total operating expenses		<u>-</u>	<u>21,352</u>
Operating profit for the year		<u>7,993,596</u>	<u>16,271,547</u>
Finance costs attributable to unitholders			
Distributions to unitholders		<u>(3,108,057)</u>	(16,573,246)
(Increase)/decrease in net assets attributable to unitholders	6	<u>(4,885,539)</u>	<u>301,699</u>
Profit/(loss) for the year		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>-</u>	<u>-</u>

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

Statement of financial position

	Notes	31 March 2011 \$	31 March 2010 \$
Assets			
Cash and cash equivalents	7	-	5,230,238
Receivables		-	151,940
Interest receivable		-	1,201
Financial assets held at fair value through profit or loss	8	-	314,384,689
Total assets		<u>-</u>	<u>319,768,068</u>
Liabilities			
Financial liabilities held at fair value through profit or loss	9	-	3,544,360
Total liabilities (excluding net assets attributable to unitholders)		<u>-</u>	<u>3,544,360</u>
Net assets attributable to unitholders - liability	6	<u>-</u>	<u>316,223,708</u>

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of changes in equity

	31 March 2011 \$	31 March 2010 \$
Total equity at the beginning of the year	-	-
Total comprehensive income for the year	-	-
Transactions with owners in their capacity as owners	-	-
Total equity at the end of the year	<u>-</u>	<u>-</u>

Under Australian Accounting Standards, net assets attributable to unitholder are classified as a liability rather than equity. As a result there was no equity at the start or end of the year.

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of cash flows

	31 March 2011 \$	31 March 2010 \$
Notes		
Cash flows from operating activities		
Proceeds from sale of financial instruments held at fair value through profit or loss	676,176,399	527,981,000
Purchase of financial instruments held at fair value through profit or loss	(364,421,114)	(549,546,000)
Interest received	7,228,601	10,902,000
Other income received	19,156	3,000
Payment of other expenses	(15,976)	(26,000)
Net cash inflow/(outflow) from operating activities	318,987,066	(10,686,000)
	12(a)	
Cash flows from financing activities		
Payments for redemptions by unitholders	(324,217,304)	-
Net cash outflow from financing activities	(324,217,304)	-
Net decrease in cash and cash equivalents		
	(5,230,238)	(10,686,000)
Cash and cash equivalents at the beginning of the year	<u>5,230,238</u>	<u>15,916,238</u>
Cash and cash equivalents at the end of the year	-	5,230,238
	7	
Non-cash financing activities	12(b) 3,108,057	16,573,000

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

1 General information

This financial report covers the Macquarie Diversified Floating Rate Fund ("the Trust") as an individual entity. The Trust was constituted on 21 October 2003 and it ceased trading on 10 September 2010.

The Responsible Entity of the Trust is Macquarie Investment Management Limited (the "Responsible Entity"). The Responsible Entity's registered office is Mezzanine Level, No. 1 Martin Place, Sydney, NSW 2000. The financial report is presented in Australian currency.

The parent of the Trust is Macquarie True Index Cash Fund. The ultimate parent of the Trust is Macquarie Group Limited.

During the year, the Trust invested funds in accordance with target asset allocations as set out in the current offer document and in accordance with the provisions of the Trust Constitution until the Trust ceased trading on 10 September 2010.

The financial statements were authorised for issue by the directors on 20 June 2011. 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 statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current. All balances are expected to be recovered or settled within twelve months, except for investments in financial assets and net assets attributable to unitholders. The amount expected to be recovered or settled within twelve months after the end of each reporting period cannot be reliably determined.

Compliance with International Financial Reporting Standards (IFRS)

The financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

(b) Financial instruments

(i) Classification

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

- Financial instruments held for trading

These include derivative financial instruments such as futures and interest rate swaps. The Trust does not designate any derivatives as hedges in a hedging relationship.

- 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 include investments in money market securities and floating rate securities.

Financial assets and financial liabilities 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 Trust's documented investment strategy. The Trust'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.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

Loans and receivables/payables comprise amounts due to or from the Trust.

(ii) Recognition/derecognition

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

Investments are derecognised when the right to receive cashflows from the investments has expired or the Trust has transferred substantially all risks and rewards of ownership.

(iii) Measurement

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

Financial assets and liabilities 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 or financial liability. Transaction costs on financial assets and financial liabilities 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 statement of comprehensive income.

- Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the statement of financial position date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

- Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the statement of financial position date applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at the statement of financial position date. Fair values for unquoted equity investments are estimated, if possible, using applicable pricing/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Trust would receive or pay to terminate the contract at the statement of financial position date taking into account index or underlying investments and the current creditworthiness of the counterparties.

(b) Loans and receivables

Loan assets are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any. Such assets are reviewed at each statement of financial position date to determine whether there is objective evidence of impairment for example when there has been a significant or prolonged decline in the fair value below cost.

If any such indication of impairment exists, an impairment loss is recognised in the statement of comprehensive income as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the statement of comprehensive income.

2 Summary of significant accounting policies (continued)

(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 Trust at any time for cash based on the redemption price. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the statement of financial position date if unitholders exercised their right to put the units back to the Trust.

(d) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly 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 bank overdrafts. Bank overdrafts, if any, are shown separately in the statement of financial position.

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 Trust's main income generating activity.

(e) Investment income

Interest income is recognised in the statement of comprehensive income for all financial instruments that are not held at fair value through profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Trust estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

(f) Expenses

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

(g) Income tax

Under current legislation, the Trust is not subject to income tax provided the taxable income of the Trust is fully distributed either by way of cash or reinvestment (ie unitholders are presently entitled to the income of the Trust).

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 Trust is not subject to capital gains tax.

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

The benefits of imputation credits and foreign tax paid are passed on to unitholders.

2 Summary of significant accounting policies (continued)

(h) Distributions

In accordance with the Trust Constitution, the Trust distributes its distributable (taxable) income, and any other amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. The distributions are recognised in the statement of comprehensive income as finance costs attributable to unitholders.

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

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in the statement of comprehensive income as finance costs.

(j) Receivables

Receivables may include amounts for interest. 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).

(k) Payables

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

Trades are recorded on trade date, and normally settled within three business days.

The distribution amount payable to unitholders as at the reporting date is recognised separately on the statement of financial position when unitholders are presently entitled to the distributable income under the Trust's Constitution.

(l) Applications and redemptions

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

(m) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Trust by third parties such as investment management fees have been passed onto the Trust. The Trust qualifies for RITC at a rate of 75% hence investment management fees and other expenses have been recognised in the statement of comprehensive income 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 statement of financial position. Cash flows relating to GST are included in the statement of cash flows on a gross basis.

(n) Use of estimates

The Trust 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.

For the majority of the Trust's financial instruments, quoted market prices are readily available. However, certain financial instruments, for example, over-the-counter derivatives or unquoted securities are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the Responsible Entity, independent of the area that created them. Models are calibrated by back-testing to actual transactions to ensure that outputs are reliable.

2 Summary of significant accounting policies (continued)

(n) Use of estimates (continued)

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.

For certain other financial instruments, including amounts due from/to brokers, accounts payable and the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

(o) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 March 2011 reporting period. The directors' assessment of the impact of these new standards (to the extent relevant to the Trust) and interpretations is set below:

(i) AASB 9 *Financial Instruments* and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010 Amendment to Australia Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013).

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption.

AASB 9 permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not traded.

The Trust has not yet decided when to adopt AASB 9. Management does not expect this will have a significant impact on the Trust's financial statements as the Trust does not hold any available for sale investments.

(ii) Revised AASB 124 *Related Party Disclosures* and related amendment AASB 2009-11 replacing AASB 139 *Financial Instruments: Recognition and Measurement* (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities. The Trust will apply the amended standard from 1 April 2011. The amendments will not have any effect on the Trust's financial statements.

(iii) AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* (effective for annual reporting periods beginning on or after 1 July 2011)

In November 2010, the AASB issued AASB 2010-6 Disclosures on Transfers of Financial Assets which amends AASB 1 First time Adoption of Australian Accounting and AASB 7 Financial Instruments: Disclosures to introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. The amendments will not have any impact on the Trust's disclosures. The Trust intends to apply the amendment from 1 April 2012.

(iv) Amendments to AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective for annual reporting periods beginning on or after 1 July 2010 / 1 January 2011)

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Trust does not expect that any adjustments will be necessary as the result of applying the revised rules.

3 Financial risk management

(a) Strategy in using financial instruments

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

The Trust's overall risk management programme focuses on ensuring compliance with the Trust's Product Disclosure Statement and seeks to maximise the returns derived for the level of risk to which the Trust is exposed. The Trust uses derivative financial instruments to alter certain risk exposures.

Financial risk management is carried out by the investment management department under policies approved by company's senior managers or the board of directors of the Responsible Entity (the Board).

(b) Market risk

(i) Price risk

It is the directors' view that price risk for the Trust's securities is a function of interest rate risk, credit risk and liquidity risk.

The Trust invested predominantly in residential mortgage backed securities (RMBS) which will expose the Trust to movements in credit spreads, a measure of the market's perception of the credit worthiness of the issuers. A change in the market's perception of the issuer's credit worthiness will impact the value of the holdings in the Trust.

(ii) Foreign exchange risk

The Trust is not exposed to foreign exchange risk as all assets are denominated in Australian dollars.

(iii) Interest rate risk

The majority of the Trust's financial assets and liabilities are interest bearing. As a result, the Trust is subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents are invested at short-term market interest rates.

In accordance with the Trust's policy, the risk management department of the Trust's Investment Manager monitors the Trust's overall interest sensitivity on a daily basis. This is done by:

- only allowing use of certain instrument types including those used to hedge interest rate risk
- monitoring target durations
- limiting the term of interest rate securities

The Compliance Committee of the Responsible Entity review any identified exceptions to internal risk policies and procedures on a quarterly basis.

The Trust's interest-bearing financial assets and liabilities expose it to risks associated with the effects of fluctuations in prevailing levels of market interest rates on its financial position and cash flows.

Refer to the table in note 10(c) which shows the Trust's sensitivity to interest rate risk.

3 Financial risk management (continued)

(c) Summarised sensitivity analysis

The following table summarises the sensitivity of the Trust's operating profit and net assets attributable to unitholders to interest rate risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates. 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 fund invests. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

	Interest rate risk	
	-50 bps	+50 bps
	\$	\$
31 March 2011	-	-
31 March 2010	188,000	(188,000)

(d) Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions and amounts due from brokers. None of these assets are impaired nor past due but not impaired. Credit risk also arises from the use of RMBS, money market securities, floating rate securities and interest rate swaps.

The trust restricts its exposure to credit losses by:

- dealing only with appropriately rated counterparties
- managing exposure to any single issuer to ensure diversification
- monitoring target durations

In accordance with the Trust's policy, the risk management area of the Investment Manager monitors the Trust's credit position on a daily basis. The Compliance Committee of the Responsible Entity reviews any identified exceptions to internal risk policies and procedures on a quarterly basis.

The credit quality of the Trust's financial assets and liabilities is outlined below:

	31 March 2011	31 March 2010
	\$	\$
S&P Rating		
AAA	-	285,995,708
A1	-	14,940,000
A1+	-	15,288,000
Total	-	316,223,708

(e) Liquidity Risk

The Trust is exposed to daily cash redemptions of redeemable units. It therefore invests the majority of its assets in investments that are traded in ordinarily active markets and can generally be liquidated within a short period of time.

The Trust 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 Trust 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 end of reporting date.

In accordance with the Trust's policy, the risk management area of the Investment Manager monitors the Trust's liquidity position on a daily basis. This is managed by:

3 Financial risk management (continued)

(e) Liquidity Risk (continued)

- restricting exposure to illiquid assets
- ensuring provisions are in place to manage liquidity provisions for all unitholders
- ensuring the Trust has no debt obligations which may compromise solvency
- managing exposure to any single issuer and ensuring diversification

Redeemable units are redeemed on demand at the holder's option. All other liabilities are payable within 30 days.

The Trust had no financial liabilities as at 31 March 2011.

The table below analyses the Trust's financial liabilities excluding gross settled derivative financial liabilities into relevant maturity groupings based on the remaining period to the earliest possible contractual maturity date as at 31 March 2010. The amounts in the table are contractual undiscounted cash flows.

	3 months or less	4 to 12 months	1 to 5 years	Total
	\$	\$	\$	\$
At 31 March 2010				
Financial liabilities at fair value through profit or loss	19,000	-	-	-
Total financial liabilities (excluding gross settled derivative financial liabilities)	19,000	-	-	-

The Trust had no derivative financial instruments as at 31 March 2011.

The table below analyses the Trust's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period to the contractual maturity date at the year end date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	3 months or less	4 to 12 months	1 to 5 years	Total
	\$	\$	\$	\$
At 31 March 2010				
Interest rate swaps				
Inflows	-	-	3,510,000	3,510,000
(Outflows)	-	-	(3,525,360)	(3,525,360)
Total undiscounted gross settled derivatives inflow	-	-	(15,360)	(15,360)

(f) Fair value estimation

The carrying amounts of all the Trust's financial assets and financial liabilities at the end of each reporting period approximated their fair values as all financial assets and liabilities not fair valued are short-term in nature.

The Trust classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3 Financial risk management (continued)

(f) Fair value estimation (continued)

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Trust. The Trust considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The Trust had no financial assets and liabilities as at 31 March 2011.

The table below sets out the Trust's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 March 2010.

31 March 2010	Level 1 \$	Level 2 \$	Level 3 \$	Total balance \$
Assets				
Financial assets held for trading:				
- Derivatives	-	3,509,768	-	3,509,768
Financial assets designated at fair value through profit or loss at inception:				
- Money market securities	-	24,880,000	-	24,880,000
- Floating rate securities	-	<u>285,995,708</u>	-	<u>285,995,708</u>
Total assets	<u>-</u>	<u>314,385,476</u>	<u>-</u>	<u>314,385,476</u>
Liabilities				
Financial liabilities held for trading:				
- Derivatives	<u>19,000</u>	<u>3,525,360</u>	-	<u>3,544,360</u>
Total liabilities	<u>19,000</u>	<u>3,525,360</u>	<u>-</u>	<u>3,544,360</u>

4 Auditor's remuneration

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

	31 March 2011 \$	31 March 2010 \$
Audit services		
PricewaterhouseCoopers Australian firm		
Audit of financial reports	1,654	1,575
Other audit work under the <i>Corporations Act 2001</i>	<u>1,382</u>	<u>1,316</u>
Total remuneration for audit services	<u>3,036</u>	<u>2,891</u>
Non-PricewaterhouseCoopers Australian firm		
Audit of financial reports	<u>4,515</u>	<u>4,300</u>
Total remuneration for audit services	<u>4,515</u>	<u>4,300</u>

Audit fees are paid out of the Responsible Entity's own resources. All other expenses are paid by the Trust.

5 Net gains/(losses) on financial instruments held at fair value through profit or loss

Net gains/(losses) recognised in relation to financial assets and financial liabilities held at fair value through profit or loss:

	31 March 2011 \$	31 March 2010 \$
Net unrealised gain/(loss) on trading securities	-	142
Net (losses)/gains on financial instruments designated as at fair value through profit or loss	(4,216,438)	4,908,415
Interest income on financial instruments held at fair value through profit or loss	11,628,786	10,877,501
Net gains on financial instruments held at fair value through profit or loss	<u>7,412,348</u>	<u>15,786,058</u>

6 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 Trust Constitution, each unit represents a right to an individual share in the Trust and does not extend to a right to the underlying assets of the Trust. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Trust.

	31 March 2011 No.	31 March 2010 No.	31 March 2011 \$	31 March 2010 \$
Opening balance	326,597,657	309,403,657	316,223,708	299,951,508
Applications	-	-	-	-
Redemptions	(329,761,034)	-	(324,217,304)	-
Units issued upon reinvestment of distributions	3,163,377	17,194,000	3,108,057	16,573,899
Increase/(decrease) in net assets attributable to unitholders	-	-	4,885,539	(301,699)
Closing balance	<u>-</u>	<u>326,597,657</u>	<u>-</u>	<u>316,223,708</u>

Capital risk management

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

7 Cash and cash equivalents

	31 March 2011 \$	31 March 2010 \$
Cash at bank	-	47,207
Deposits at call	-	5,183,031
Total cash and cash equivalents	<u>-</u>	<u>5,230,238</u>

8 Financial assets held at fair value through profit or loss

	31 March 2011 Fair value \$	31 March 2010 Fair value \$
Held for trading		
Derivatives (note 10)	-	<u>3,509,768</u>
Total held for trading	-	<u>3,509,768</u>
	31 March 2011 Fair value \$	31 March 2010 Fair value \$
Designated at fair value through profit or loss		
Money market securities	-	24,879,503
Floating rate securities	-	<u>285,995,418</u>
Total designated at fair value through profit or loss	-	<u>310,874,921</u>
Total financial assets held at fair value through profit or loss	-	<u>314,384,689</u>
	31 March 2011 Fair value \$	31 March 2010 Fair value \$
Comprising:		
Derivatives		
Interest rate swaps	-	<u>3,509,768</u>
Total derivatives	-	<u>3,509,768</u>
	31 March 2011 Fair value \$	31 March 2010 Fair value \$
Comprising:		
Money market securities		
Negotiable certificate deposits	-	<u>24,879,503</u>
Total money market securities	-	<u>24,879,503</u>
	31 March 2011 Fair value \$	31 March 2010 Fair value \$
Floating rate securities		
Australian floating rate securities	-	5,068,729
Residential mortgage backed securities	-	<u>280,926,689</u>
Total debt securities	-	<u>285,995,418</u>
Total financial assets held at fair value through profit or loss	-	<u>314,384,689</u>

9 Financial liabilities held at fair value through profit or loss

	31 March 2011 Fair value \$	31 March 2010 Fair value \$
Held for trading		
Derivatives (note 10)	-	3,544,360
Total held for trading	-	3,544,360
Total financial liabilities held at fair value through profit or loss	-	3,544,360
	31 March 2011 Fair value \$	31 March 2010 Fair value \$
Comprising:		
Derivatives		
Australian fixed interest futures	-	19,000
Interest rate swaps	-	3,525,360
Total derivatives	-	3,544,360
Total financial liabilities held at fair value through profit or loss	-	3,544,360

10 Derivative financial instruments

In the normal course of business the Trust enters into transactions in various derivative financial instruments with certain risks. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

Derivative transactions include a wide assortment of instruments, such as forwards, futures and options. Derivatives are considered to be part of the investment process. The use of derivatives is an essential part of the Trust's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- hedging to protect an asset or liability of the Trust against a fluctuation in market values or to reduce volatility
- a substitution for trading of physical securities
- adjusting asset exposures within the parameters set in the investment strategy, and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

While derivatives are used for trading purposes, they are not used to gear (leverage) a portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceeds the underlying value of the Trust.

10 Derivative financial instruments (continued)

The Trust holds the following derivative instruments:

(a) Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities. Changes in futures contracts' values are usually settled net daily with the exchange. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates at a future date at a specified price, established in an organised financial market.

(b) Interest rate swaps

An interest rate swap is an agreement between two parties to exchange their interest obligations (payments) or receipts at set intervals on a notional principal amount over an agreed time period.

The fair value of interest rate swap is the estimated amount that the entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

The Trust held no derivative financial instruments as at 31 March 2011.

The Trust's derivative financial instruments as at 31 March 2010 are detailed below:

31 March 2010	Contract/ notional \$	Fair Values	
		Assets \$	Liabilities \$
Buy			
Australian fixed interest futures	88,960,000	-	19,000
Interest rate swap	<u>3,500,000</u>	<u>3,510,000</u>	<u>-</u>
		<u>3,510,000</u>	<u>19,000</u>
Sell			
Australian fixed interest futures	1,932,000	-	-
Interest rate swap	<u>3,500,000</u>	<u>-</u>	<u>3,525,360</u>
		<u>-</u>	<u>3,525,360</u>

11 Related party transactions

Responsible Entity

The Responsible Entity of the Trust is Macquarie Investment Management Limited ("MIML"), a wholly owned subsidiary of Macquarie Group Limited.

Key management personnel

The following persons held office as directors of MIML during the period or since the end of the period and up to the date of this report:

B N Terry
R Cartwright
V Malley
C Vignes
C Swanger
T Graham

No amount is paid by the Trust directly to the directors of MIML. Consequently, no compensation as defined in AASB 124 "Related Party Disclosures" is paid by the Trust to the directors as key management personnel.

11 Related party transactions (continued)

Key management personnel unitholdings

At 31 March 2011, no key management personnel held units in the Trust (2010: Nil).

Key management personnel loan disclosures

The Trust 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.

Responsible entity's/manager's fees and other transactions

No fees are payable to the responsible entity from the Trust (2010: \$Nil).

All expenses in connection with the preparation of accounting records and the maintenance of the unit register have been fully borne by the Responsible Entity.

Related party schemes' unitholdings

Parties related to the Trust (including MIML, its related parties and other schemes managed by MIML), held units in the Trust as follows:

31 March 2011

Unitholder	Number of units held opening (Units)	Number of units held closing (Units)	Interest held (%)	Number of units acquired (Units)	Number of units disposed (Units)	Distributions paid/payable by the Trust (\$)
Macquarie Diversified Treasury (AA) Fund	10,809,959	-	-	-	10,809,959	-
Macquarie True Index Cash Fund	315,787,698	-	-	-	315,787,698	-

31 March 2010

Unitholder	Number of units held opening (Units)	Number of units held closing (Units)	Interest held (%)	Number of units acquired (Units)	Number of units disposed (Units)	Distributions paid/payable by the Trust (\$)
Macquarie Diversified Treasury (AA) Fund	10,240,860	10,809,959	3.31	569,099	-	548,553
Macquarie True Index Cash Fund	299,162,787	315,787,698	96.69	16,624,911	-	16,024,693

Investments

The Trust held no investments in any trusts which are also managed by MIML or its related parties (2010: Nil).

Other transactions within the Trust

From time to time, the fund may purchase or sell securities from/to other MIML funds at the prevailing market rates.

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

The bank accounts for the Trust are held with Macquarie Bank Limited. The Trust may use Macquarie Securities (Australia) Limited and Macquarie Bank Limited, Macquarie Group entities, for broking and clearing services respectively. Fees and expenses are negotiated on an arm's length basis for all transactions with related parties.

11 Related party transactions (continued)

Bond Street Custodians Limited, a wholly owned subsidiary of Macquarie Group Limited, is the custodian of the Trust.

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

	31 March 2011 \$	31 March 2010 \$
(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities		
Profit/loss for the year	-	-
Increase/(decrease) in net assets attributable to unitholders	4,885,539	(302,000)
Distributions to unitholders	3,108,057	16,573,000
Net gains on financial instruments held at fair value through profit or loss	(7,412,348)	(15,786,000)
Proceeds from sale of financial instruments held at fair value through profit or loss	676,176,399	527,981,000
Purchase of financial instruments held at fair value through profit or loss and derivative financial instruments	(364,421,114)	(549,546,000)
Movement in amortised interest on financial instruments held at fair value through profit or loss	6,498,593	(396,000)
Interest income on financial instruments held at fair value through profit or loss	-	10,878,000
Net change in receivables and other assets	151,940	(88,000)
Net cash inflow/(outflow) from operating activities	318,987,066	(10,686,000)
(b) 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	<u>3,108,057</u>	<u>16,573,000</u>

As described in note 2(i), income not distributed is included in net assets attributable to unitholders. The change in this amount each year (as reported in (a) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable (i.e. taxable).

13 Events occurring after year end

No significant events have occurred since the end of reporting period which would impact on the financial position of the Trust disclosed in the statement of financial position as at 31 March 2011 or on the results and cash flows of the Trust for the year ended on that date.

14 Contingent assets and liabilities and commitments

There are no outstanding contingent assets and liabilities or commitments as at 31 March 2011 and 31 March 2010.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 24 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Trust's financial position as at 31 March 2011 and of its performance for the period ended on that date; and
- (b) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.
- (c) the financial statements also comply with International Financial Reporting Standards as issued by International Accounting Standards Board.

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



R Cartwright
Director

Sydney
20 June 2011



Independent auditor's report to the members of Macquarie Diversified Floating Rate Fund

Report on the financial report

We have audited the accompanying financial report of Macquarie Diversified Floating Rate Fund (the Fund), which comprises the statement of financial position as at 31 March 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 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 (a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

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 the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, 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 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 control. 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.

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Independent auditor's report to the members of Macquarie Diversified Floating Rate Fund (continued)

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Macquarie Diversified Floating Rate Fund is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Fund's financial position as at 31 March 2011 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*; and
- (b) the Fund's financial report also complies with International Financial Reporting Standards as disclosed in Note 2 (a).

PricewaterhouseCoopers

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'SJ Smith'.

SJ Smith
Partner

Sydney
20 June 2011