

# **Macquarie Diversified Treasury (AA) Fund**

ARSN 104 932 818

## **Annual report - 30 June 2011**

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This financial report covers Macquarie Diversified Treasury (AA) Fund as an individual entity and the consolidated entity consisting of Macquarie Diversified Treasury (AA) Fund and its subsidiaries.

The Responsible Entity of Macquarie Diversified Treasury (AA) 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 Macquarie Diversified Treasury (AA) Fund, present their report together with the consolidated financial report of Macquarie Diversified Treasury (AA) Fund ("the Trust") and its controlled entities (collectively, "the consolidated entity") for the year ended 30 June 2011.

### Principal activities

The Trust invests in unlisted unit trusts, debt 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.

### 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 (resigned 21/06/2011)  
 K Vincent (appointed 21/06/2011)  
 T Graham

### Review and results of operations

During the year, the Trust continued to be managed in accordance with the investment objective and strategy set out in the Trust's offer document and in accordance with the Trust's Constitution.

#### Results

The performance of the consolidated entity and the Trust, as represented by the results of their operations, was as follows:

	Consolidated Year ended		Parent Year ended	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
Operating profit before finance costs attributable to unitholders (\$'000)	<u>34,285</u>	<u>31,140</u>	<u>31,892</u>	<u>31,140</u>
<i>Distributions</i>				
Distribution paid and payable to unitholders of the parent entity (\$'000)	<u>23,197</u>	<u>15,401</u>	<u>23,197</u>	<u>15,401</u>
Distribution (cents per unit)	<u>5.26</u>	<u>3.77</u>	<u>5.26</u>	<u>3.77</u>

### Significant changes in state of affairs

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

## Directors' report (continued)

### Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2011 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.

### Likely developments and expected results of operations

The Trust will continue to be managed in accordance with the investment objective and strategy set out in the Trust's offer document and in accordance with the Trust's constitution.

The results of the Trust's operations will be affected by a number of factors, including the performance of investment markets in which the Trust invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Trust 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 Trust.

### 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

Fees paid to the Responsible Entity and its associates out of Trust property during the year are disclosed in note 11 of the financial statements.

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 financial year 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 statements 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.

### Rounding of amounts to the nearest thousand dollars

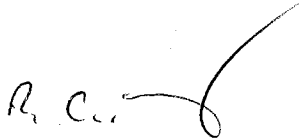
The Trust is an entity of the kind referred to in Class Order 98/0100 (as amended) issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded to the nearest thousand dollars in accordance 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.

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

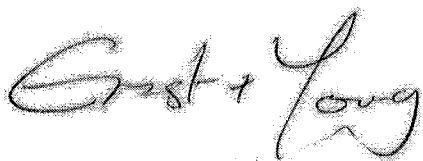


R Cartwright  
Director

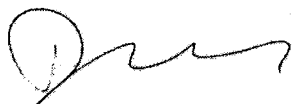
Sydney  
26 September 2011

**Auditor's Independence Declaration to the Directors of Macquarie  
Investment Management Limited, as the Responsible Entity for  
Macquarie Diversified Treasury (AA) Fund**

In relation to our audit of the financial report of Macquarie Diversified Treasury (AA) Fund for the financial year ended 30 June 2011, 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



Darren Handley-Greaves  
Partner  
Sydney  
26 September 2011

**Statements of comprehensive income**

	Notes	Consolidated		Parent	
		30 June 2011 \$'000	30 June 2010 \$'000	30 June 2011 \$'000	30 June 2010 \$'000
<b>Investment income</b>					
Interest income		1,154	398	721	398
Distribution income		12,271	12,685	17,081	12,685
Net gain on financial instruments held at fair value through profit or loss	5	21,294	18,277	14,447	18,277
Other operating income	11	1,240	1,077	1,059	1,077
<b>Total net investment income</b>		<b>35,959</b>	<b>32,437</b>	<b>33,308</b>	<b>32,437</b>
<b>Expenses</b>					
Responsible Entity fees	11	1,670	1,289	1,412	1,289
Other operating expenses		4	8	4	8
<b>Total operating expenses</b>		<b>1,674</b>	<b>1,297</b>	<b>1,416</b>	<b>1,297</b>
<b>Operating profit for the year</b>		<b>34,285</b>	<b>31,140</b>	<b>31,892</b>	<b>31,140</b>
<b>Finance costs attributable to unitholders</b>					
Distributions to unitholders of the parent entity		(23,197)	(15,401)	(23,197)	(15,401)
Distributions to minority interests		(6,145)	-	-	-
Increase in net assets attributable to unitholders of the parent entity	6	(8,695)	(15,739)	(8,695)	(15,739)
Decrease in net assets attributable to minority interests		3,752	-	-	-
<b>Profit/(loss) for the year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

**Statements of financial position**

	Notes	Consolidated		Parent	
		30 June 2011 \$'000	30 June 2010 \$'000	30 June 2011 \$'000	30 June 2010 \$'000
<b>Assets</b>					
Cash and cash equivalents	7	96,348	10,042	30,540	10,042
Margin accounts		1,164	33	42	33
Due from brokers - receivable for securities sold		101	-	-	-
Receivables		527	269	271	269
Financial assets held at fair value through profit or loss	8	<u>742,911</u>	<u>437,718</u>	<u>452,160</u>	<u>437,718</u>
<b>Total assets</b>		<u>841,051</u>	<u>448,062</u>	<u>483,013</u>	<u>448,062</u>
<b>Liabilities</b>					
Distributions payable		2,088	209	1,269	209
Responsible Entity fees payable		885	337	349	337
Financial liabilities held at fair value through profit or loss	9	<u>2,481</u>	<u>-</u>	<u>5</u>	<u>-</u>
<b>Total liabilities (excluding net assets attributable to unitholders of the parent entity)</b>		<u>5,454</u>	<u>546</u>	<u>1,623</u>	<u>546</u>
Net assets attributable to minority interests (redemption price of units)		354,207	-	-	-
<b>Net assets attributable to unitholders of the parent entity - liability</b>	6	<u>481,390</u>	<u>447,516</u>	<u>481,390</u>	<u>447,516</u>
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

**Statements of changes in equity**

	Consolidated		Parent	
	30 June 2011 \$'000	30 June 2010 \$'000	30 June 2011 \$'000	30 June 2010 \$'000
Total equity at the beginning of the year	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Transactions with owners in their capacity as owners	-	-	-	-
<b>Total equity at the end of the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Under Australian Accounting Standards, net assets attributable to unitholders 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 statements of changes in equity should be read in conjunction with the accompanying notes*

**Statements of cash flows**

	Notes	Consolidated		Parent	
		30 June 2011 \$'000	30 June 2010 \$'000	30 June 2011 \$'000	30 June 2010 \$'000
<b>Cash flows from operating activities</b>					
Proceeds from sale of financial instruments held at fair value through profit or loss		136,416	363,439	123,245	363,439
Purchase of financial instruments held at fair value through profit or loss		(123,115)	(349,737)	(111,565)	(349,737)
Interest received		10,924	1,960	6,122	1,960
Other income received		1,342	1,209	1,162	1,209
Responsible Entity fees paid		(1,501)	(1,374)	(1,501)	(1,374)
Payment of other expenses		(9)	(8)	(7)	(8)
<b>Net cash inflow from operating activities</b>	12(a)	<u>24,057</u>	<u>15,489</u>	<u>17,456</u>	<u>15,489</u>
<b>Cash flows from financing activities</b>					
Proceeds from applications by unitholders		121,124	74,940	119,259	74,940
Payments for redemptions by unitholders		(116,803)	(81,887)	(114,129)	(81,887)
Distributions paid		(2,088)	(2,588)	(2,088)	(2,588)
<b>Net cash inflow/(outflow) from financing activities</b>		<u>2,233</u>	<u>(9,535)</u>	<u>3,042</u>	<u>(9,535)</u>
<b>Net increase in cash and cash equivalents</b>		<b>26,290</b>	<b>5,954</b>	<b>20,498</b>	<b>5,954</b>
Cash and cash equivalents at the beginning of the year		10,042	4,088	10,042	4,088
Increase in cash on consolidation		60,017	-	-	-
Effects of foreign currency exchange rate changes on cash and cash equivalents		(1)	-	-	-
<b>Cash and cash equivalents at the end of the year</b>	7	<u>96,348</u>	<u>10,042</u>	<u>30,540</u>	<u>10,042</u>
Non-cash financing activities	12(b)	25,382	13,740	20,049	13,740

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

## 1 General information

This financial report includes separate financial statements for Macquarie Diversified Treasury (AA) Fund ("the Trust") as an individual entity and the consolidated entity consisting of Macquarie Diversified Treasury (AA) Fund and its subsidiaries. The Trust was constituted on 5 June 2003. The Trust is a registered managed investment scheme domiciled in Australia.

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 Investment Manager of the Trust is Macquarie Investment Management Limited (the "Investment Manager").

On 19 May 2011, the Trust gained control over Macquarie Diversified Treasury (A) Fund as the unitholding exceeded 50% as at that date.

During the year, the Trust continued to be managed in accordance with the investment objective and strategy set out in the Trust's offer document and in accordance with the Trust's constitution.

The financial statements were authorised for issue by the directors on 26 September 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 statements of financial position are 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.

Where necessary, comparative information has been reclassified to be consistent with current period disclosures.

#### *Compliance with International Financial Reporting Standards*

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

### (b) Principles of consolidation

#### (i) *Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Macquarie Diversified Treasury (AA) Fund ("the parent entity") as at 30 June 2011 and the results of all subsidiaries for the year then ended. Macquarie Diversified Treasury (AA) Fund and its subsidiaries together are referred to in this financial report as the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Trust has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Trust controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

## 2 Summary of significant accounting policies (continued)

### (b) Principles of consolidation (continued)

#### (i) Subsidiaries (continued)

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the consolidated entity.

Minority interests in the results and net assets of subsidiaries are shown separately in the consolidated statements of comprehensive income and statements of financial position respectively.

Investments in subsidiaries are accounted for at fair value in the individual financial statements of the Trust.

### (c) Financial instruments

#### (i) Classification

The consolidated entity and 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, options, interest rate swaps and credit default swaps. The consolidated entity and the Trust do 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 unlisted unit trusts, fixed interest securities and floating rate securities.

Financial assets and financial liabilities may be designated at fair value through profit or loss at inception if they 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.

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

#### (ii) Recognition/derecognition

The consolidated entity and the Trust recognise financial assets and financial liabilities on the date they become party to the contractual agreement (trade date) and recognise 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 consolidated entity and the Trust have 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 statements of comprehensive income.

## 2 Summary of significant accounting policies (continued)

### (c) Financial instruments (continued)

#### (iii) Measurement (continued)

Details on how the fair value of financial instruments is determined are disclosed in note 3.

- 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 statements 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 statements 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 statements 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 statements of financial position date taking into account index or underlying investments and the current creditworthiness of the counterparties. The fair value of an option contract is determined by applying the Black-Scholes option valuation model.

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

#### (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 statements of financial position date to determine whether there is objective evidence of impairment.

If any such indication of impairment exists, an impairment calculation is undertaken and any impairment loss is recognised in the statements of comprehensive income as the difference between the asset's carrying amount and the present value of the revised 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 statements of comprehensive income.

### (d) Investments in subsidiaries

Investments in subsidiaries are measured in accordance with note 2(c).

### (e) Business combinations

Business combinations relate to the acquisition by the Trust of controlling interests in other entities. The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the consideration given plus costs directly attributable to the acquisition.

## 2 Summary of significant accounting policies (continued)

### (f) 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 statements of financial position date if unitholders exercised their right to put the units back to the Trust.

### (g) Cash and cash equivalents

For the purpose of presentation in the statements of cash flows, cash includes cash on hand and deposits held at call with financial institutions. Cash equivalents include 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, which are subject to an insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Bank overdrafts, if any, are shown separately on the statements 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 consolidated entity and the Trust's main income generating activity.

### (h) Margin accounts

Margin accounts comprise cash held as collateral for derivative transactions and short sales. The cash is held by the broker and is only available to meet margin calls.

### (i) Investment income

Interest income is recognised in the statements of comprehensive income for all financial instruments that are not held at fair value through profit or loss using the effective interest method. Interest income on assets held at fair value through profit or loss is included in the net gain on financial instruments held at fair value through profit or loss. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(c).

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.

Distributions are recognised on an entitlements basis.

### (j) Expenses

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

### (k) 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 (i.e. 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.

## 2 Summary of significant accounting policies (continued)

### (k) Income tax (continued)

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.

### (l) 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 statements of comprehensive income as finance costs attributable to unitholders.

### (m) 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 statements of comprehensive income as finance costs.

### (n) Due from/to brokers

Amounts due from/to brokers represent payables for securities purchased and receivables for securities sold that have been contracted for but not yet delivered by the end of the year. A provision for impairment of amounts due from brokers is established when there is objective evidence that the consolidated entity and the Trust will not be able to collect all amounts due from the relevant broker. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are considered indicators that the amount due from brokers is impaired.

### (o) Receivables

Receivables may include amounts for distribution income and interest. Distribution income is 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(i) above. Amounts are generally received within 30 days of being recorded as receivables.

Receivables include such items as Reduced Input Tax Credits (RITC).

### (p) Payables

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

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

### (q) 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.

## 2 Summary of significant accounting policies (continued)

### (r) Foreign currency translation

#### i) *Functional and presentation currency*

Items included in the consolidated entity and the Trust's financial statements are measured using the currency of the primary economic environment in which they operate (the "functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the consolidated entity and the Trust compete for funds and is regulated. The Australian dollar is also the consolidated entity and the Trust's presentation currency.

#### ii) *Transactions and balances*

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

The consolidated entity and the Trust do not isolate that portion of gains or losses on securities and derivative financial instruments that are measured at fair value through profit or loss and which is due to changes in foreign exchange rates from that which is due to changes in the market price of securities. Such fluctuations are included with the net gains or losses on financial instruments at fair value through profit or loss.

### (s) Goods and Services Tax (GST)

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

### (t) Use of estimates

The consolidated entity and the Trust make 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.

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.

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 and accounts payable, the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

## 2 Summary of significant accounting policies (continued)

### (u) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2011 reporting period. The directors' assessment of the impact of these new standards (to the extent relevant to the consolidated entity and the Trust) and interpretations is set out below:

(i) AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010 Amendment to Australian 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 consolidated entity and the Trust have not yet decided when to adopt AASB 9. Management does not expect this will have a significant impact on the consolidated entity and the Trust's financial statements as the consolidated entity and the Trust do not hold any available for sale investments.

(ii) Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (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 consolidated entity and the Trust will apply the amended standard from 1 July 2011. The amendments will not have any effect on the consolidated entity and 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 consolidated entity and the Trust's disclosures. The consolidated entity and the Trust intend to apply the amendment from 1 July 2011.

(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 consolidated entity and the Trust do not expect that any adjustments will be necessary as a result of applying the revised rules.

(v) IFRS 10 *Consolidated Financial Statements*

IFRS 10 establishes a new control model that applies to all entities. It replaces parts of IAS 27 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and SIC-12 *Consolidation - Special Purpose Entities*.

This standard is yet to be approved by the Australian Accounting Standards Board and has not been issued in Australia. The standard is not applicable until 1 January 2013 but is available for early adoption.

The consolidated entity and the Trust have not yet decided when to adopt IFRS 10. Management does not expect this will have a significant effect on the consolidated entity and the Trust's financial statements.

## 2 Summary of significant accounting policies (continued)

### (u) New accounting standards and interpretations (continued)

#### (vi) IFRS 12 *Disclosures of Interests in Other Entities*

IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

This standard is yet to be approved by the Australian Accounting Standards Board and has not been issued in Australia. The standard is not applicable until 1 January 2013 but is available for early adoption.

The consolidated entity and the Trust have not yet decided when to adopt IFRS 12. Management does not expect this will have a significant effect on the consolidated entity and the Trust's financial statements.

#### (vii) IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for determining the fair value of assets and liabilities. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under IFRS when fair value is required or permitted by IFRS. Application of this definition may result in different fair values being determined for the relevant assets.

IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

This standard is yet to be approved by the Australian Accounting Standards Board and has not been issued in Australia. The standard is not applicable until 1 January 2013 but is available for early adoption.

The consolidated entity and the Trust have not yet decided when to adopt IFRS 13. Management does not expect this will have a significant effect on the consolidated entity and the Trust's financial statements.

### (v) Rounding of amounts

The consolidated entity and the Trust are entities 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 to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

## 3 Financial risk management

### (a) Strategy in using financial instruments

The consolidated entity and the Trust's activities expose them to a variety of financial risks: market risk (including price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk.

#### Consolidated Entity

The consolidated entity's financial risk is managed by the investment manager of the individual unit trusts within the consolidated entity. No other risk management occurs for the consolidated entity.

#### Parent Entity

The Trust's overall risk management programme focuses on ensuring compliance with the Trust's governing documents 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 Manager's risk management department under policies approved by Responsible Entity's senior managers or by the board of directors of the Responsible Entity ("the Board").

### 3 Financial risk management (continued)

#### (b) Market risk

##### (i) Price Risk

It is the directors' view that price risk for the consolidated entity and the Trust's debt securities are a function of interest rate risk, credit risk and liquidity risk. The directors view price risk in the consolidated entity and the Trust in derivative contracts as a function of interest rate and foreign exchange risk.

The consolidated entity and the Trust's investments in unlisted unit trusts present a risk of loss of capital. The investment manager of the underlying trusts moderates this risk through a careful selection of securities and other financial instruments within specified limits. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The underlying trust's overall market positions are monitored on a daily basis by the Investment Manager of the individual unit trust within the consolidated entity.

The consolidated entity and the Trust's investments in unlisted unit trusts are susceptible to market price risk arising from uncertainties about future prices of the instruments.

At 30 June 2011, the consolidated entity's market risk is affected by changes in market prices. If the UBS Bank Bill Index at 30 June 2011 had increased by 5% with all other variables held constant, this would have increased net assets attributable to unitholders by approximately \$1,165,436 (2010: 15%; \$52,561,800). Conversely, if the UBS Bank Bill Index had decreased by 5% with all other variables held constant, this would have decreased net assets attributable to unitholders by approximately \$1,165,436 (2010: 15%; \$52,561,800).

At 30 June 2011, the Trust's market risk is affected by changes in market prices. If the UBS Bank Bill Index at 30 June 2011 had increased by 5% with all other variables held constant, this would have increased net assets attributable to unitholders by approximately \$17,854,104 (2010: 15%; \$52,561,800). Conversely, if the UBS Bank Bill Index had decreased by 5% with all other variables held constant, this would have decreased net assets attributable to unitholders by approximately \$17,854,104 (2010: 15%; \$52,561,800).

##### (ii) Foreign exchange risk

The Trust does not hold assets or liabilities denominated in currencies other than the Australian dollar.

The consolidated entity holds both monetary and non-monetary assets denominated in currencies other than the Australian dollar. The foreign exchange risk relating to non-monetary assets and liabilities is a component of price risk. Currency risk arises as the value of monetary assets denominated in other currencies will fluctuate due to changes in exchange rates. The consolidated entity is not exposed to foreign exchange risk as the consolidated entity does not hold a material amount of monetary assets denominated in a currency other than the Australian dollar.

##### (iii) Interest rate risk

The majority of the consolidated entity and the Trust's financial assets and liabilities are interest bearing. As a result, the consolidated entity and the Trust are 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 Responsible Entity monitors the Trust's overall interest sensitivity on a daily basis. This is done by:

- only allowing use of permitted instruments
- managing interest rate risk relative to the benchmark by ensuring the fund is tracking the benchmark within permitted duration
- ensuring that the fund is diversified across many issuers to reduce concentration risk

### 3 Financial risk management (continued)

#### (b) Market risk (continued)

##### (iii) Interest rate risk (continued)

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

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

The table summarising the consolidated entity and the Trust's sensitivity to changes in interest rates is detailed in note 3(c).

#### (c) Summarised sensitivity analysis

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

Reasonable possible movements in the risk variable for interest rate risk is 25 basis points (2010: 100 basis points).

Consolidated	Interest rate risk Impact on operating profit/Net assets attributable to unitholders	
	- \$'000	+ \$'000
30 June 2011	(1,433)	1,433
30 June 2010	(873)	873
Parent	Interest rate risk Impact on operating profit/Net assets attributable to unitholders	
	- \$'000	+ \$'000
30 June 2011	(238)	238
30 June 2010	(873)	873

#### (d) Credit risk

Credit risk arises from the consolidated entity and the Trust's investment in unlisted unit trusts and debt securities.

Other credit risk arises from cash and cash equivalents, deposits with banks, counterparties to derivatives and other financial institutions and amounts due from brokers. None of these assets are impaired nor past due but not impaired.

### 3 Financial risk management (continued)

#### (d) Credit risk (continued)

The exposure to credit risk for cash and cash equivalents, deposits with banks and other financial institutions, counterparties to derivatives and amounts due from brokers is low as all counterparties have a rating of at least A- (2010: A-) as determined by Standard and Poor's rating agency.

Other than for the cash and cash equivalents, the consolidated entity and the Trust do not have a concentration of credit risk that arises from an exposure to a single counterparty. Furthermore, the consolidated entity and the Trust do not have a material exposure to a group of counterparties which are expected to be affected similarly by changes in economic or other conditions.

The consolidated entity and the Trust restrict their exposure to credit losses by:

- monitoring target durations
- ensuring credit score compliance with S&P requirements
- managing exposure to any single and aggregate non government issuers to ensure diversification

In accordance with the Trust's policy, the risk management department 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. Credit risk is not monitored on a consolidated basis.

The maximum exposure to credit risk on debt securities at the reporting date is the carrying amount of the financial assets. An analysis of fixed interest securities and floating rate securities by rating is set out in the table below using ratings classified by Standard and Poor's.

	Consolidated		Parent	
	30 June 2011 \$'000	30 June 2010 \$'000	30 June 2011 \$'000	30 June 2010 \$'000
<b>S&amp;P Long-term credit ratings</b>				
<b>Fixed interest securities</b>				
AA+	9,881	-	-	-
AA	24,228	-	-	-
AA-	21,219	-	-	-
A+	22,617	-	-	-
A	45,335	-	-	-
A-	43,283	-	-	-
BBB	419	-	-	-
BBB-	2,174	-	-	-
<b>Asset backed securities</b>				
AAA	383,376	87,306	95,078	87,306
AA+	2,065	-	-	-
AA-	8,236	-	-	-
A	3,982	-	-	-
BBB+	1,967	-	-	-
BB+	243	-	-	-
<b>Floating rate securities</b>				
AA+	3,667	-	-	-
AA	14,162	-	-	-
AA-	64,678	-	-	-
A	39,350	-	-	-
A-	2,456	-	-	-
BBB+	5,494	-	-	-
BBB	18,349	-	-	-
BBB-	2,211	-	-	-
<b>Total</b>	<b>719,392</b>	<b>87,306</b>	<b>95,078</b>	<b>87,306</b>

### 3 Financial risk management (continued)

#### (e) Liquidity Risk

The consolidated entity and the Trust are exposed to daily cash redemptions of redeemable units. The consolidated entity and the Trust therefore invest the majority of their assets in unlisted unit trusts that have daily unit pricing and investments that are traded in an active market and can be readily disposed of.

The consolidated entity and 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 consolidated entity and the Trust may not be able to liquidate quickly their investments in these instruments at an amount close to their fair value to meet their liquidity requirements or to respond to specific events such as a deterioration in the creditworthiness of any particular issuer or counterparty. No such investments were held at the reporting date.

In accordance with the Trust's policy, the risk management department of the Investment Manager monitors the Trust's liquidity position on a daily basis. This is managed by ensuring provisions are in place to manage liquidity obligations for all unitholders. Liquidity risk is not monitored on a consolidated basis.

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

Subject to the Trust Constitution, redeemable units are redeemed on demand at the unitholders' option. All other liabilities of the Trust are payable within 30 days except futures which are settled within 90 days.

The table below analyses the consolidated entity'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 30 June 2011 and 30 June 2010. The amounts in the table are contractual undiscounted cash flows.

Consolidated	Less than 1	1-6 months	6-12 months	1-5 years	5+ years	Total balance
	month					
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>30 June 2011</b>						
Distributions payable	2,088	-	-	-	-	2,088
Responsible Entity fees payable	885	-	-	-	-	885
Financial liabilities held at fair value through profit or loss	-	296	149	1,010	1,026	2,481
Total financial liabilities	2,973	296	149	1,010	1,026	5,454
Consolidated	Less than 1	1-6 months	6-12 months	1-5 years	5+ years	Total balance
	month					
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>30 June 2010</b>						
Distributions payable	209	-	-	-	-	209
Responsible Entity fees payable	337	-	-	-	-	337
Total financial liabilities	546	-	-	-	-	546

#### (f) Fair value estimation

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

The consolidated entity and the Trust classify 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).

### 3 Financial risk management (continued)

#### (f) Fair value estimation (continued)

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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 consolidated entity and the Trust. The consolidated entity and the Trust consider 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 table below sets out the consolidated entity and the Trust's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2011 and 30 June 2010.

Consolidated - as at 30 June 2011	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total balance \$'000
<b>Financial assets</b>				
Financial assets held for trading:				
- Derivatives	60	150	-	210
Financial assets designated at fair value through profit or loss at inception:				
- Unlisted unit trusts	-	23,309	-	23,309
- Fixed interest securities	-	169,156	-	169,156
- Floating rate notes	-	150,367	-	150,367
- Asset backed securities	-	399,869	-	399,869
<b>Total</b>	<b>60</b>	<b>742,851</b>	<b>-</b>	<b>742,911</b>
<b>Financial liabilities</b>				
Financial liabilities held for trading:				
- Derivatives	296	2,185	-	2,481
<b>Total</b>	<b>296</b>	<b>2,185</b>	<b>-</b>	<b>2,481</b>
<b>Parent - as at 30 June 2011</b>				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total balance \$'000
<b>Financial assets</b>				
Financial assets designated at fair value through profit or loss at inception:				
- Unlisted unit trusts	-	357,082	-	357,082
- Asset backed securities	-	95,078	-	95,078
<b>Total</b>	<b>-</b>	<b>452,160</b>	<b>-</b>	<b>452,160</b>
<b>Liabilities</b>				
Financial liabilities held for trading:				
- Derivatives	5	-	-	5
<b>Total</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>5</b>

### 3 Financial risk management (continued)

#### (f) Fair value estimation (continued)

Consolidated - as at 30 June 2010	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total balance \$'000
<b>Financial assets</b>				
Financial assets designated at fair value through profit or loss:				
- Unlisted unit trusts	-	350,412	-	350,412
- Asset backed securities	-	87,306	-	87,306
<b>Total</b>	<u>-</u>	<u>437,718</u>	<u>-</u>	<u>437,718</u>

Parent - as at 30 June 2010	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total balance \$'000
<b>Financial assets</b>				
Financial assets designated at fair value through profit or loss:				
- Unlisted unit trusts	-	350,412	-	350,412
- Asset backed securities	-	87,306	-	87,306
<b>Total</b>	<u>-</u>	<u>437,718</u>	<u>-</u>	<u>437,718</u>

During the year, there were no transfers between Level 1 and 2 or into/out of Level 3 (2010: \$Nil).

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include unlisted unit trusts valued at the redemption value per unit, as reported by the managers of such trusts.

### 4 Auditor's remuneration

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

	Consolidated		Parent	
	30 June 2011 \$	30 June 2010 \$	30 June 2011 \$	30 June 2010 \$
<b>Audit services</b>				
Audit of financial reports	12,900	4,300	4,450	4,300
Other audit work under the <i>Corporations Act 2001</i>	620	290	310	290
<b>Total remuneration for audit services</b>	<u>13,520</u>	<u>4,590</u>	<u>4,760</u>	<u>4,590</u>

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

## 5 Net gain on financial instruments held at fair value through profit or loss

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

	Consolidated		Parent	
	30 June 2011 \$'000	30 June 2010 \$'000	30 June 2011 \$'000	30 June 2010 \$'000
Net loss on financial instruments held for trading	(1,641)	(7)	(18)	(7)
Net gain on financial instruments designated as at fair value through profit or loss	12,374	15,751	8,725	15,751
Interest income on financial instruments held at fair value through profit or loss	10,561	2,533	5,740	2,533
Net gain on financial instruments held at fair value through profit or loss	<u>21,294</u>	<u>18,277</u>	<u>14,447</u>	<u>18,277</u>

## 6 Net assets attributable to unitholders of the parent

Movements in number of units and net assets attributable to unitholders of the parent 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.

	Parent		Parent	
	30 June 2011 No. '000	30 June 2010 No. '000	30 June 2011 \$'000	30 June 2010 \$'000
Opening balance	443,809	437,583	447,516	424,984
Applications	115,300	74,902	119,259	74,940
Redemptions	(110,472)	(82,456)	(114,129)	(81,887)
Units issued upon reinvestment of distributions	19,505	13,780	20,049	13,740
Increase in net assets attributable to unitholders of the parent entity	-	-	8,695	15,739
Closing balance	<u>468,142</u>	<u>443,809</u>	<u>481,390</u>	<u>447,516</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

	Consolidated		Parent	
	30 June 2011 \$'000	30 June 2010 \$'000	30 June 2011 \$'000	30 June 2010 \$'000
Cash at bank	358	101	93	101
Deposits at call	95,990	9,941	30,447	9,941
	<u>96,348</u>	<u>10,042</u>	<u>30,540</u>	<u>10,042</u>

## 8 Financial assets held at fair value through profit or loss

	Consolidated		Parent	
	30 June 2011 Fair value \$'000	30 June 2010 Fair value \$'000	30 June 2011 Fair value \$'000	30 June 2010 Fair value \$'000
<b>Held for trading</b>				
Derivatives	210	-	-	-
Total held for trading	<u>210</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Designated at fair value through profit or loss</b>				
Unlisted unit trusts	23,309	350,412	357,082	350,412
Fixed interest securities	169,156	-	-	-
Asset backed securities	399,869	87,306	95,078	87,306
Floating rate securities	150,367	-	-	-
Total designated at fair value through profit or loss	<u>742,701</u>	<u>437,718</u>	<u>452,160</u>	<u>437,718</u>
<b>Total financial assets held at fair value through profit or loss</b>	<u>742,911</u>	<u>437,718</u>	<u>452,160</u>	<u>437,718</u>

	Consolidated		Parent	
	30 June 2011 Fair value \$'000	30 June 2010 Fair value \$'000	30 June 2011 Fair value \$'000	30 June 2010 Fair value \$'000
<b>Comprising:</b>				
<b>Derivatives</b>				
Australian exchange traded options	44	-	-	-
Australian fixed interest futures	16	-	-	-
International credit default swaps	150	-	-	-
Total derivatives	<u>210</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Unlisted unit trusts</b>				
Units in Australian unit trusts	23,309	350,412	357,082	350,412
Total unlisted unit trusts	<u>23,309</u>	<u>350,412</u>	<u>357,082</u>	<u>350,412</u>
<b>Fixed interest securities</b>				
Corporate bonds	169,156	-	-	-
Total fixed interest securities	<u>169,156</u>	<u>-</u>	<u>-</u>	<u>-</u>

## 8 Financial assets held at fair value through profit or loss (continued)

	Consolidated		Parent	
	30 June 2011 Fair value \$'000	30 June 2010 Fair value \$'000	30 June 2011 Fair value \$'000	30 June 2010 Fair value \$'000
<b>Floating rate securities</b>				
Floating rate notes	<u>150,367</u>	-	-	-
Total floating rate securities	<u>150,367</u>	-	-	-
<b>Comprising:</b>				
<b>Asset backed securities</b>				
Collateralised mortgage obligations	<u>399,869</u>	<u>87,306</u>	<u>95,078</u>	<u>87,306</u>
Total asset backed securities	<u>399,869</u>	<u>87,306</u>	<u>95,078</u>	<u>87,306</u>
<b>Total financial assets held at fair value through profit or loss</b>	<u>742,911</u>	<u>437,718</u>	<u>452,160</u>	<u>437,718</u>

## 9 Financial liabilities held at fair value through profit or loss

	Consolidated		Parent	
	30 June 2011 Fair value \$'000	30 June 2010 Fair value \$'000	30 June 2011 Fair value \$'000	30 June 2010 Fair value \$'000
<b>Held for trading</b>				
Derivatives (note 10)	<u>2,481</u>	-	<u>5</u>	-
Total held for trading	<u>2,481</u>	-	<u>5</u>	-
<b>Total financial liabilities held at fair value through profit or loss</b>	<u>2,481</u>	-	<u>5</u>	-

	Consolidated		Parent	
	30 June 2011 Fair value \$'000	30 June 2010 Fair value \$'000	30 June 2011 Fair value \$'000	30 June 2010 Fair value \$'000
<b>Comprising:</b>				
<b>Derivatives</b>				
Australian fixed interest futures	296	-	5	-
Australian interest rate swaps	2,142	-	-	-
International credit default swaps	43	-	-	-
Total derivatives	<u>2,481</u>	-	<u>5</u>	-
<b>Total financial liabilities held at fair value through profit or loss</b>	<u>2,481</u>	-	<u>5</u>	-

## 10 Derivative financial instruments

In the normal course of business the consolidated entity and the Trust enter 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 instruments such as options, futures, interest rate swaps and credit default swaps. Derivatives are considered to be part of the investment process. The use of derivatives is an essential part of the consolidated entity and 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.

The consolidated entity and the Trust held the following derivative financial instruments as at 30 June 2011 (2010: Nil):

### (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) Options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price. Options held by the consolidated entity and the Trust are exchange-traded. The consolidated entity and the Trust are exposed to credit risk on purchased options to the extent of their carrying amount, which is their fair value. Options are settled on a gross basis.

### (c) Credit default swaps

Credit default swaps are contracts in which the consolidated entity and the Trust pay or receive an interest flow in return for the counterparty accepting all or part of the risk of default or failure to pay by a reference entity on which the swap is written. Where the consolidated entity and the Trust have bought protection the maximum potential loss is the value of the interest flows the consolidated entity and the Trust are contracted to pay until maturity of the contract. Where the consolidated entity and the Trust have sold protection the maximum potential loss is the nominal value of the protection sold.

### (d) 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 swaps is the estimated amount that the entity would receive or pay to terminate the swap at the statements of financial position date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

## 10 Derivative financial instruments (continued)

The consolidated entity and the Trust's derivative financial instruments as at 30 June 2011 are detailed below:

### Consolidated 30 June 2011

	Contract/ notional '000	Fair Values	
		Assets \$'000	Liabilities \$'000
<b>Buy</b>			
Australian fixed interest futures	33,620	16	-
Credit default swaps - Euro (EUR)	46,600	150	-
Credit default swaps - US Dollars (USD)	11,400	-	43
		<u>166</u>	<u>43</u>
<b>Sell</b>			
Australian exchange traded options	12,763	44	-
Australian fixed interest futures	120,739	-	296
Australian interest rate swaps	184,800	-	2,142
		<u>44</u>	<u>2,438</u>
		<u>210</u>	<u>2,481</u>

### Parent 30 June 2011

	Contract/ notional '000	Fair Values	
		Assets \$'000	Liabilities \$'000
<b>Sell</b>			
Australian fixed interest futures	2,171	-	5
		<u>-</u>	<u>5</u>
		<u>-</u>	<u>5</u>

## 11 Related party disclosures

### (a) Subsidiaries

The subsidiary included in this financial report is Macquarie Diversified Treasury (A) Fund.

The proportion of ownership interest and investment in the subsidiary is disclosed in note 11(h). The subsidiary is an Australian registered managed investment scheme.

### (b) Responsible Entity

The Responsible Entity of Macquarie Diversified Treasury (AA) Fund is Macquarie Investment Management Limited ("MIML"), a wholly owned subsidiary of Macquarie Group Limited.

## 11 Related party disclosures (continued)

### (c) Key management personnel

The following persons held office as directors of MIML 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 (resigned 21/06/2011)  
K Vincent (appointed 21/06/2011)  
T Graham

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

### (d) Key management personnel unitholdings

At 30 June 2011, no key management personnel held units in the Trust (2010: Nil).

### (e) 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 (2010: \$Nil).

### (f) Responsible Entity's fees and other transactions

For the year ended 30 June 2011, in accordance with the Trust Constitution, the Responsible Entity received a total fee of 0.31% of net asset value (inclusive of GST, net of RITC available to the Trust) per annum (2010: 0.31%).

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.

All related party transactions are conducted on normal commercial terms and conditions. The transactions during the year and amounts payable at year end between the consolidated entity and the Responsible Entity were as follows:

	Consolidated		Parent	
	30 June 2011 \$	30 June 2010 \$	30 June 2011 \$	30 June 2010 \$
Management fees for the year paid to the Responsible Entity	<u>1,669,632</u>	<u>1,289,417</u>	<u>1,411,935</u>	<u>1,289,417</u>
Rebate of management fees received from the Responsible Entity*	<u>1,063,194</u>	<u>1,077,272</u>	<u>1,058,779</u>	<u>1,077,272</u>
Aggregate amounts payable to the Responsible Entity at the reporting date	<u>612,862</u>	<u>336,699</u>	<u>85,721</u>	<u>336,699</u>

\* The Responsible Entity rebates management fees charged by other trusts managed by the Responsible Entity where the Trust invests into those trusts.

## 11 Related party disclosures (continued)

### (g) Related party schemes' unitholdings

Parties related to the Trust (including MIML, its related parties and other trusts managed by MIML) held no units in the Trust as at 30 June 2011.

Parties related to the Trust (including MIML, its related parties and other trusts managed by MIML) held units in the Trust as at 30 June 2010 as follows:

#### 30 June 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 No. 1	3,353,080	-	-	4,327	3,357,407	-

### (h) Investments

The Trust held investments in the following trusts which are also managed by MIML or its related parties:

	Fair value of investment		Interest held		Distributions received/receivable	
	2011 (\$)	2010 (\$)	2011 (%)	2010 (%)	2011 (\$)	2010 (\$)
Macquarie Diversified Treasury (A) Fund	357,082,073	10,597,071	50.25	3.31	17,081,078	12,208,039
Macquarie Diversified Floating Rate Fund	-	339,814,611	-	30.99	-	476,722

There are no distributions receivable from the underlying trusts as at 30 June 2011 (2010: \$Nil).

### (i) Other transactions within the Trust

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

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

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 from operating activities

	Consolidated		Parent	
	30 June 2011 \$'000	30 June 2010 \$'000	30 June 2011 \$'000	30 June 2010 \$'000
<b>(a) Reconciliation of profit/(loss) to net cash inflow from operating activities</b>				
Profit/loss for the year	-	-	-	-
Increase in net assets attributable to unitholders	8,695	15,739	8,695	15,739
Decrease in net assets attributable to minority interests	(3,752)	-	-	-
Distributions reinvested	(12,271)	(12,685)	(17,081)	(12,685)
Net gain on financial instruments held at fair value through profit or loss	(21,294)	(18,278)	(14,447)	(18,278)
Proceeds from sale of financial instruments held at fair value through profit or loss	136,416	363,439	123,245	363,439
Purchase of financial instruments held at fair value through profit or loss and derivative financial instruments	(123,115)	(349,736)	(111,565)	(349,736)
Distributions to unitholders	29,342	15,402	23,197	15,402
Movement in amortised interest	9,148	1,562	5,401	1,562
Net change in receivables and other assets	617	37	(1)	37
Net change in payables and other liabilities	271	9	12	9
<b>Net cash inflow from operating activities</b>	<b>24,057</b>	<b>15,489</b>	<b>17,456</b>	<b>15,489</b>

### (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>25,382</u>	<u>13,740</u>	<u>20,049</u>	<u>13,740</u>
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As described in note 2(m), 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 year end which would impact on the financial position of the consolidated entity and the Trust disclosed in the statements of financial position as at 30 June 2011 or on the results and cash flows of the consolidated entity and the Trust for the year ended on that date.

## 14 Contingent assets, contingent liabilities and commitments

There are no outstanding contingent assets, contingent liabilities or commitments as at 30 June 2011 and 30 June 2010.

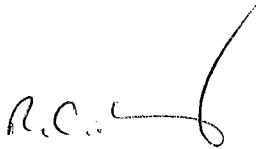
## Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 31 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 Consolidated Entity's financial position as at 30 June 2011 and of its performance, for the financial year ended on that date.
- (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.

The directors declare that the notes to the financial statements include an explicit and unreserved statement of compliance with the International Financial Reporting Standards (see note 2(a)).

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



R Cartwright  
Director

Sydney  
26 September 2011

## Independent auditor's report to the unitholders of Macquarie Diversified Treasury (AA) Fund

We have audited the accompanying financial report of Macquarie Diversified Treasury (AA) Fund (the "fund"), which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

### Directors' responsibility for the financial report

The directors of Macquarie Investment Management Limited, the responsible entity of the fund, are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 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, the auditor considers internal controls relevant to the preparation of the financial report that gives a true and fair view 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 responsible 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.

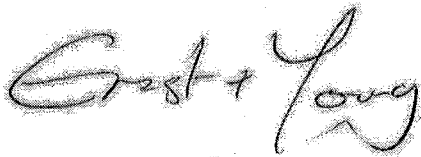
### Independence

In conducting our audit we have complied with 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 with the directors' report.


## Opinion

In our opinion:

- a. the financial report of Macquarie Diversified Treasury (AA) 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 30 June 2011 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

A stylized, handwritten signature of the Ernst & Young firm, written in dark ink.

Ernst & Young

A handwritten signature of Darren Handley-Greaves, written in dark ink.

Darren Handley-Greaves  
Partner  
Sydney  
26 September 2011