

Macquarie Australian Equity Income Fund

ARSN 115 880 736

Annual report - 31 March 2011

Macquarie Australian Equity Income Fund

ARSN 115 880 736

Annual report - 31 March 2011

Contents

	Page
Directors' report	2
Auditor's independence declaration	5
Statement of comprehensive income	6
Statement of financial position	7
Statement of changes in equity	8
Statement of cash flows	9
Notes to the financial statements	10
Directors' declaration	25
Independent auditor's report to the unitholders of Macquarie Australian Equity Income Fund	26

This financial report covers Macquarie Australian Equity Income Fund as an individual entity.

The Responsible Entity of Macquarie Australian Equity Income Fund is MQ Portfolio Management Limited (ACN 092 552 611). The Responsible Entity's registered office is Mezzanine Level, No. 1 Martin Place, Sydney NSW 2000.

Directors' report

The directors of MQ Portfolio Management Limited (a wholly owned subsidiary of Macquarie Group Limited), the Responsible Entity of Macquarie Australian Equity Income Fund, present their report together with the financial report of Macquarie Australian Equity Income Fund ("the Trust") for the year ended 31 March 2011.

Principal activities

The principal activity of the Trust is to buy a portfolio of Australian shares and sell options over some or all of those shares, or options over a share price index or share price index futures, to enhance income and manage risk.

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 MQ Portfolio Management Limited during the year or since the end of the year and up to the date of this report:

Bruce Neil Terry
 Gervaise Robert John Heddle
 Scot Thompson

Review and results of operations

During the year, the Trust continued to invest 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	From 1 July 2009 to 31 March 2010
Operating profit before finance costs attributable to unitholders (\$'000)	<u>6,276</u>	<u>2,335</u>
<i>Distributions</i>		
Distribution paid and payable (\$'000)	<u>6,457</u>	<u>743</u>
Distribution (cents per unit)	<u>6.37</u>	<u>1.94</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.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 31 March 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.

Directors' report (continued)

Likely developments and expected results of operations

The Trust will continue to be managed in accordance with the investment objectives and guidelines set out in the governing documents of the Trust and in accordance with the provisions of the Trust 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 MQ Portfolio Management Limited or the auditors of the Trust. Under the Trust Constitution, MQ Portfolio 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 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.

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.

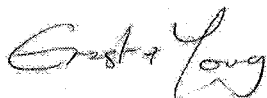


Scot Thompson
Director

Sydney
20 June 2011

Auditor's Independence Declaration to the Directors of MQ Portfolio Management Limited, as Responsible Entity for Macquarie Australian Equity Income Fund

In relation to our audit of the financial report of Macquarie Australian Equity Income Fund for the financial year ended 31 March 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.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Darren Handley-Greaves'.

Darren Handley-Greaves
Partner
20 June 2011

Statement of comprehensive income

	Notes	31 March 2011 \$'000	From 1 July 2009 to 31 March 2010 \$'000
Investment income			
Interest income		224	3
Dividend income		3,880	513
Net gains on financial instruments held at fair value through profit or loss	5	2,939	1,991
Other operating income		<u>3</u>	<u>9</u>
Total net investment income		<u>7,046</u>	<u>2,516</u>
Expenses			
Responsible entity's fees	11	716	108
Withholding taxes on foreign dividends and interest		2	-
Other operating expenses		<u>52</u>	<u>73</u>
Total operating expenses		<u>770</u>	<u>181</u>
Operating profit for the year		<u>6,276</u>	<u>2,335</u>
Finance costs attributable to unitholders			
Distributions to unitholders		(6,457)	(743)
Decrease/(Increase) in net assets attributable to unitholders	6	<u>181</u>	<u>(1,592)</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

		31 March	31 March
	Notes	2011	2010
		\$'000	\$'000
Assets			
Cash and cash equivalents	7	18,292	266
Deposits held with brokers for margins		22	1,456
Due from brokers - receivable for securities sold		3,918	-
Dividends receivable		556	101
Other receivables		20	6
Financial assets held at fair value through profit or loss	8	105,803	14,482
Total assets		<u>128,611</u>	<u>16,311</u>
Liabilities			
Bank overdraft	7	-	1,619
Distributions payable		67	26
Due to brokers - payable for securities purchased		4,698	78
Responsible Entity fees payable	11	259	44
Financial liabilities held at fair value through profit or loss	9	11,532	263
Total liabilities (excluding net assets attributable to unitholders)		<u>16,556</u>	<u>2,030</u>
Net assets attributable to unitholders - liability	6	<u>112,055</u>	<u>14,281</u>

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

Statement of changes in equity

	31 March 2011 \$'000	From 1 July 2009 to 31 March 2010 \$'000
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>

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

Statement of cash flows

	Notes	31 March 2011 \$'000	From 1 July 2009 to 31 March 2010 \$'000
Cash flows from operating activities			
Proceeds from sale of financial instruments held at fair value through profit or loss		41,421	28,864
Purchase of financial instruments held at fair value through profit or loss		(116,397)	(20,118)
Dividends received		3,424	547
Interest received		224	3
Other income received		30	20
Responsible Entity's fees paid		(537)	(128)
Other expenses paid		(58)	(82)
Net cash (outflow)/inflow from operating activities	12(a)	<u>(71,893)</u>	<u>9,106</u>
Cash flows from financing activities			
Proceeds from applications by unitholders		103,852	1,674
Payments for redemptions by unitholders		(12,109)	(10,578)
Distributions paid		(204)	(244)
Net cash inflow/(outflow) from financing activities		<u>91,539</u>	<u>(9,148)</u>
Net increase/(decrease) in cash and cash equivalents		19,646	(42)
Cash and cash equivalents at the beginning of the year		(1,353)	(1,314)
Effects of foreign currency exchange rate changes on cash and cash equivalents		<u>(1)</u>	<u>3</u>
Cash and cash equivalents at the end of the year	7(a)	<u>18,292</u>	<u>(1,353)</u>
Non-cash financing activities	12(b)	6,212	663

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

1 General information

The financial report covers Macquarie Australian Equity Income Fund ("the Trust") as an individual entity. The Trust was registered as a managed investment scheme and will terminate 80 years (less one day) after the date of establishment, unless terminated earlier by an extraordinary resolution as determined by the Trust's members; the date specified by the Trust's Responsible Entity in a notice given to the Trust's members or on another date as specified by and in accordance with the Trust's Constitution or by law.

The Responsible Entity of the Trust is MQ Portfolio Management Limited (the "Responsible Entity"). The registered office of the Responsible Entity 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 Equity Index Fund and the ultimate parent of the Trust is Macquarie Group Limited.

During the year, the Trust continued to invest 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.

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

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

(b) Financial instruments

(i) Classification

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

- Financial instruments held for trading

These include derivative financial instruments including options. 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 exchange traded equity instruments.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

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.

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 have 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.

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 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 in 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.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

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.

(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 and other short term, highly liquid investments with original maturities of three months or less 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 on 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) Margin accounts

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

(f) Investment income

Trust distributions are recognised on an entitlements basis.

Interest income on all financial instruments not held at fair value through profit or loss is recognised using the effective interest rate method.

(g) Expenses

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

(h) 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)

(h) 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.

(i) 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.

(j) 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.

(k) Receivables

Receivables may include amounts for dividends and interest. Dividends are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment in accordance with the policy set out in note 2(f) above. Amounts are generally received within 30 days of being recorded as receivables.

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

(l) 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 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.

(m) Payables

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

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.

(n) 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)

(o) 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.

(p) 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 majority of the Trust's financial instruments, quoted market prices are readily available. 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.

(q) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 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 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 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 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 Trust will apply the amended standard from 1 April 2011. The amendments will not have any effect on the Trust's financial statements.

2 Summary of significant accounting policies (continued)

(q) New accounting standards and interpretations (continued)

(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.

(r) Rounding of amount

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

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 management department under policies approved by MQ Portfolio Management Limited's senior managers or by the board of directors of the Responsible Entity (the Board).

The risks and the respective risk management policies employed by the Trust are discussed below. Refer to note 10 for further information on derivative financial instruments.

(b) Market risk

(i) Price risk

The Trust trades in financial instruments, taking positions in traded and over-the-counter instruments, including derivatives, to take advantage of short-term market movements in equity markets.

All securities investments present a risk of loss of capital. The investment manager 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 Trust's overall market positions are monitored on a daily basis by the Trust's Investment Manager.

In accordance with the Trust's policy, the Responsible Entity's risk management team monitors the Trust's overall market price sensitivity on a daily basis. This is done by:

3 Financial risk management (continued)

(b) Market risk (continued)

- seeking to ensure the Trust is fully invested.
- limiting investments in less liquid, long dated floats
- limiting exposure to floats
- managing exposure to particular sectors and single securities
- seeking to ensure stock weights are within defined limits
- seeking to ensure that the Trust is investing in accordance with its stated objectives

The Trust's equity securities and trading derivative financial instruments are susceptible to market price risk arising from uncertainties about future prices of the instruments.

At 31 March 2011, the Trust's market risk is affected by changes in market prices. If the S&P/ASX 200 Accumulation Index at 31 March 2011 had increased by 15% with all other variables held constant, this would have increased net assets attributable to unitholders by approximately \$15,870,510 (2010: \$2,172,300). Conversely, if the S&P/ASX 200 Accumulation Index at 31 March 2011 had decreased by 15% with all other variables held constant, this would have decreased net assets attributable to unitholders by approximately \$15,870,510 (2010: \$2,172,300).

(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 non-interest bearing. As a result, the Trust is not 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.

(c) Credit risk

Credit risk arises from cash and cash equivalents, margin accounts, deposits with banks and other financial institutions. None of these assets are impaired nor past due but not impaired.

The Trust restricts its exposure to credit losses on cash and cash equivalents by managing exposures to single issuers and only investing in banks.

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.

(d) 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 an active market and can be readily disposed of.

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 ensuring provisions are in place to manage liquidity obligations for all unitholders.

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

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

3 Financial risk management (continued)

(d) Liquidity risk (continued)

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 quickly liquidate 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 deterioration in the creditworthiness of any particular issuer or counterparty. No such investments were held at year end.

(e) 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).

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 Responsible Entity. The Responsible Entity 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 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 2011 and 31 March 2010.

As at 31 March 2011	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total balance \$'000
Financial assets				
Held at fair value through profit or loss:				
- Equity securities	105,803	-	-	105,803
Total assets	<u>105,803</u>	<u>-</u>	<u>-</u>	<u>105,803</u>
Financial liabilities				
Financial liabilities held for trading:				
- Derivatives	11,532	-	-	11,532
Total liabilities	<u>11,532</u>	<u>-</u>	<u>-</u>	<u>11,532</u>

3 Financial risk management (continued)

(e) Fair value estimation (continued)

As at 31 March 2010	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total balance \$'000
Financial assets				
Held at fair value through profit or loss:				
- Equity securities	14,482	-	-	14,482
Total	<u>14,482</u>	<u>-</u>	<u>-</u>	<u>14,482</u>
Financial liabilities				
Financial liabilities held for trading:				
- Derivatives	263	-	-	263
Total	<u>263</u>	<u>-</u>	<u>-</u>	<u>263</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	From 1 July 2009 to 31 March 2010
Audit services		
Audit of financial reports	5,250	5,000
Total remuneration for audit services	<u>5,250</u>	<u>5,000</u>

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

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

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

	31 March 2011 \$'000	From 1 July 2009 to 31 March 2010 \$'000
Net gains on financial instruments designated as at fair value through profit or loss	3,233	3,427
Net losses on financial instruments held for trading	(294)	(1,436)
Net gains on financial instruments held at fair value through profit or loss	<u>2,939</u>	<u>1,991</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. '000	31 March 2010 No. '000	31 March 2011 \$'000	31 March 2010 \$'000
Opening balance	22,049	35,626	14,281	20,930
Applications	177,622	2,661	103,852	1,674
Redemptions	(20,691)	(17,262)	(12,109)	(10,579)
Units issued upon reinvestment of distributions (Decrease)/increase in net assets attributable to unitholders	10,624	1,024	6,212	664
	-	-	(181)	1,592
Closing balance	<u>189,604</u>	<u>22,049</u>	<u>112,055</u>	<u>14,281</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 \$'000	31 March 2010 \$'000
Cash at bank	361	266
Deposits at call	17,931	-
Total	<u>18,292</u>	<u>266</u>

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the cash flow statement as follows:

	31 March 2011 \$'000	31 March 2010 \$'000
Balances as above	18,292	266
Bank overdrafts	-	(1,619)
Balances per statement of cash flows	<u>18,292</u>	<u>(1,353)</u>

8 Financial assets held at fair value through profit or loss

	31 March 2011 Fair value \$'000	31 March 2010 Fair value \$'000
Designated at fair value through profit or loss		
Equity securities	<u>105,803</u>	<u>14,482</u>
Total designated at fair value through profit or loss	<u>105,803</u>	<u>14,482</u>
Comprising:		
Equity securities		
Australian equity securities listed on a prescribed stock exchange	<u>105,803</u>	<u>14,482</u>
Total equity securities	<u>105,803</u>	<u>14,482</u>

9 Financial liabilities held at fair value through profit or loss

	31 March 2011 Fair value \$'000	31 March 2010 Fair value \$'000
Held for trading		
Derivatives (note 10)	<u>11,532</u>	<u>263</u>
Total held for trading	<u>11,532</u>	<u>263</u>
Comprising:		
Derivatives		
Australian Share Price Index options	<u>11,532</u>	<u>263</u>
Total derivatives	<u>11,532</u>	<u>263</u>

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.

10 Derivative financial instruments (continued)

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 Trust holds the following derivative instruments:

(a) 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 Trust are exchange-traded. The Trust is 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.

As at year end, the Trust held for trading the following outstanding derivative financial instruments:

31 March 2011

	Contract/ notional '000	Fair Values	
		Assets \$'000	Liabilities \$'000
Australian Share Price Index options	19,768	-	11,532
		<u>-</u>	<u>11,532</u>

31 March 2010

	Contract/ notional '000	Fair Values	
		Assets \$'000	Liabilities \$'000
Australian Share Price Index options	5,892	-	263
		<u>-</u>	<u>263</u>

An overview of the risk exposures relating to derivatives is included in note 3.

11 Related party transactions

Parent entities

As at 31 March 2011, Macquarie Equity Index Fund owned 95.59% (2010: Nil) of the units of Macquarie Australian Equity Income Fund. The ultimate parent entity is Macquarie Group Limited.

Responsible Entity

The Responsible Entity of Macquarie Australian Equity Income Fund is MQ Portfolio Management Limited, a wholly owned subsidiary of Macquarie Bank Limited which in turn is a wholly owned subsidiary of Macquarie Group Limited.

Key management personnel

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

Bruce Neil Terry
Gervaise Robert John Heddle
Scot Thompson

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.

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 fees and other transactions

For the period ended 31 March 2011, in accordance with the Trust Constitution, the Responsible Entity received a total fee of 0.95% of net asset value (inclusive of GST, net of RITC available to the Trust) per annum (2010: 0.95%).

All expenses in connection with the preparation of accounting records and the maintenance of the 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 Trust and the Responsible Entity were as follows:

	31 March 2011	31 March 2010
	\$	\$
Management fees for the year paid by the Trust to the Responsible Entity	716,352	108,326
Aggregate amounts payable to the Responsible Entity at the reporting date	258,619	43,923

11 Related party transactions (continued)

Related party schemes' unitholdings

Parties related to the Trust (including MQPML, its related parties and other schemes managed by MQPML), 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 Equity Index Fund	-	181,250,706	95.59	181,250,706	-	5,506,335
Macquarie Equity Enhanced Income Fund	2,021,137	-	-	-	2,021,137	-
Macquarie Bank Limited	<u>15,448,635</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,448,635</u>	<u>-</u>
Total	<u>17,469,772</u>	<u>181,250,706</u>		<u>181,250,706</u>	<u>17,469,772</u>	<u>5,506,335</u>

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 Equity Enhanced Income Fund	16,716,773	2,021,137	9.17	459,525	15,155,160	80,932
Macquarie Bank Limited	<u>15,357,851</u>	<u>15,448,635</u>	<u>70.06</u>	<u>866,338</u>	<u>775,554</u>	<u>496,310</u>
Total	<u>32,074,624</u>	<u>17,469,772</u>		<u>1,325,863</u>	<u>15,930,714</u>	<u>577,242</u>

Investments

The Trust held 24,784 shares in Macquarie Group Limited at 31 March 2011 (2010: 5,932)

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 directors of the Responsible Entity have entered into a material contract with 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 terminated the services of its prime broker Goldman Sachs International and appointed Macquarie Securities (Australia) Limited and Macquarie Bank Limited during the year. 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.

Bond Street Custodians Limited, a wholly owned subsidiary of Macquarie Group Limited was appointed as the custodian of the Trust during the year.

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

	31 March 2011 \$'000	31 March 2010 \$'000
(a) Reconciliation of profit/(loss) to net cash inflow from operating activities		
Profit/loss for the year	-	-
(Decrease)/Increase in net assets attributable to unitholders	(181)	1,592
Net gains on financial instruments held at fair value through profit or loss	(2,939)	(1,991)
Proceeds from sale of financial instruments held at fair value through profit or loss	41,421	28,864
Purchase of financial instruments held at fair value through profit or loss	(116,397)	(20,118)
Distributions to unitholders	6,457	743
Net change in receivables and other assets	(469)	30
Net change in payables and other liabilities	215	(14)
Net cash inflow from operating activities	(71,893)	9,106

(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

	6,212	663
--	-------	-----

As described in note 2(j), 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 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 MQ Portfolio Management Limited:

- (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 financial year 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.



Scot Thompson
Director

Sydney
20 June 2011