Macquarie Income Opportunities Fund

ARSN 102 261 834

Annual report - 30 June 2018

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

The Responsible Entity of Macquarie Income Opportunities Fund is Macquarie Investment Management Australia Limited (ABN 55 092 552 611). The Responsible Entity's registered office is No. 50 Martin Place, Sydney, NSW 2000.

Directors' Report
30 June 2018

The directors of Macquarie Investment Management Australia Limited ("MIMAL"), a wholly owned subsidiary of Macquarie Group Limited, the Responsible Entity of Macquarie Income Opportunities Fund, present their report together with the financial report of Macquarie Income Opportunities Fund (the "Trust") for the year ended 30 June 2018.

Principal activities

The Trust invests in unlisted unit trusts, debt securities and derivatives in accordance with 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 MIMAL (the "Responsible Entity") during the year or since the end of the year and up to the date of this report:

M Aubrey	
A Clubb	(appointed 29/05/2018)
R Gohil	
B Lewthwaite	(resigned 29/05/2018)
G Stephens	
B Terry	

Review and results of operations

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

Results

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

	2018	2017
Operating profit before finance costs attributable to unitholders ($'000)	**53,734**	128,095
Distributions		
Distributions paid and payable ($'000)	**91,667**	107,401
Distributions (cents per unit)	**2.98**	3.66

Significant changes in state of affairs

On 5 May 2016, a new tax regime applying to Managed Investment Trusts ("MITs") was established under the *Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016*. The Attribution Managed Investment Trust ("AMIT") regime allows MITs that meet certain requirements to make an irrevocable election to be an AMIT. The Responsible Entity has amended the Trust Constitution to allow the AMIT regime to apply to the Trust. For the year ended 30 June 2018, the Trust met the AMIT eligibility criteria and the Responsible Entity has made an irrevocable election that the AMIT regime will apply to the Trust. For each financial year that the Trust meets the AMIT eligibility criteria, the Responsible Entity will attribute the Trust’s income to unitholders for that year on a fair and reasonable basis, however, the Responsible Entity will not have a requirement under the Trust Constitution to distribute Trust income to unitholders. On 30 June 2018, upon adopting the AMIT regime, the Responsible Entity is no longer contractually obligated to pay distributions and the units in the Trust were reclassified from a financial liability to equity.

In the opinion of the directors, there were no other 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 30 June 2018 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 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 the Responsible Entity or the auditors of the Trust. Under the Trust Constitution, the 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.

Directors' Report
30 June 2018

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 the Trust property during the year are disclosed in note 10 of the financial statements.

No fees were paid out of the Trust property to the directors of the Responsible Entity during the year (2017: Nil).

The number of interests in the Trust held by the Responsible Entity, its directors or its associates as at the end of the financial year are disclosed in note 10 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

In accordance with Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, amounts in the directors' report and the financial report have been rounded off to the nearest thousand Australian dollars, unless otherwise indicated.

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 4.

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

Director: ....
B Terry

Sydney

24 September 2018

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Auditor's Independence Declaration to the Directors of Macquarie Investment Management Australia Limited

As lead auditor for the audit of Macquarie Income Opportunities Fund for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

Ernst & Young

Ernst & Young

R Da Silva

Rita Da Silva
Partner
24 September 2018

Statement of Comprehensive Income
For the Year Ended 30 June 2018

	Notes	2018 $'000	2017 $'000
Income			
Interest income		**1,056**	1,037
Distribution income	10	**34,640**	60,184
Net foreign exchange losses		**(3,918)**	(251)
Net gains on financial instruments held at fair value through profit or loss	5	**32,242**	75,377
Fee rebates	10	**4,737**	4,372
Other operating income		**112**	-
Total income		**68,869**	140,719
Expenses			
Responsible Entity fees	10	**(15,135)**	(12,624)
Total operating expenses		**(15,135)**	(12,624)
Operating profit		**53,734**	128,095
Finance costs attributable to unitholders			
Distributions to unitholders		**(91,667)**	(107,401)
Decrease/(increase) in net assets attributable to unitholders	6	**37,933**	(20,694)
Profit/(loss) for the year		**-**	-
Other comprehensive income for the year		**-**	-
Total comprehensive income for the year		**-**	-

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

Macquarie Income Opportunities Fund

Statement of Financial Position

As at 30 June 2018

	Notes	2018 $'000	2017 $'000
Assets			
Cash and cash equivalents	7	**98,752**	84,423
Cash collateral receivable		**16,749**	6,559
Margin accounts		**4,745**	22,895
Due from brokers - receivable for securities sold		**190**	12,277
Interest receivable		**552**	402
Fee rebates receivable	10	**1,112**	985
Other receivables		**201**	150
Financial assets held at fair value through profit or loss	8	**3,272,398**	2,708,000
Total assets		**3,394,699**	2,835,691
Liabilities			
Cash collateral payable		**-**	18,774
Redemptions payable		**10,424**	8,763
Distributions payable		**25,937**	43,235
Withholding tax payable		**9**	9
Responsible Entity fees payable	10	**3,999**	3,292
Due to brokers - payable for securities purchased		**15,695**	11,443
Financial liabilities held at fair value through profit or loss	9	**88,064**	12,976
Total liabilities (excluding net assets attributable to unitholders)		**144,128**	98,492
Net assets attributable to unitholders - liability*	6	**-**	2,737,199
Net assets attributable to unitholders - equity*	6	**3,250,571**	-

*Net assets attributable to unitholders are classified as equity at 30 June 2018 and as a financial liability at 30 June 2017 (see note 1).

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

Statement of Changes in Equity
For the Year Ended 30 June 2018

	Notes	2018 $'000	2017 $'000
Total equity at the beginning of the year		**-**	-
Total comprehensive income for the year		**-**	-
Transactions with owners in their capacity as owners		**-**	-
Reclassification due to AMIT regime implementation*		**3,250,571**	-
Total equity at the end of the year	6	**3,250,571**	-

*On 30 June 2018, the Trust's units have been reclassified from a financial liability to equity (see note 1).

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

Statement of Cash Flows
For the Year Ended 30 June 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities:			
Proceeds from sale of financial instruments held at fair value through profit or loss		**1,927,793**	1,843,835
Purchase of financial instruments held at fair value through profit or loss		**(2,405,779)**	(1,951,661)
Interest received		**61,500**	55,537
Fee rebates received		**4,610**	4,540
Other income received		**112**	-
Responsible Entity fees paid		**(14,479)**	(12,508)
Net cash outflow from operating activities	11(a)	**(426,243)**	(60,257)
Cash flows from financing activities:			
Proceeds from applications by unitholders		**1,051,849**	782,869
Payments for redemptions by unitholders		**(510,444)**	(616,194)
Distributions paid		**(97,387)**	(70,648)
Withholding tax paid		**(17)**	(13)
Net cash inflow from financing activities		**444,001**	96,014
Net increase in cash and cash equivalents		**17,758**	35,757
Cash and cash equivalents at the beginning of the year		**84,423**	49,949
Effects of foreign currency exchange rate changes on cash and cash equivalents		**(3,429)**	(1,283)
Cash and cash equivalents at the end of the year	7	**98,752**	84,423
Non-cash financing activities	11(b)	**11,561**	11,509

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

Notes to the Financial Statements
For the Year Ended 30 June 2018

1 General information

This financial report covers Macquarie Income Opportunities Fund (the "Trust") as an individual entity. The Trust was constituted on 21 December 1999. The Trust is a registered managed investment scheme domiciled in Australia. The financial report is presented in Australian dollars.

The Responsible Entity of the Trust is Macquarie Investment Management Australia Limited (the "Responsible Entity"). The Responsible Entity's registered office is No. 50 Martin Place, Sydney, NSW 2000.

The Investment Manager of the Trust is Macquarie Investment Management Global Limited (the "Investment Manager"). The Investment Manager delegated certain investment functions to Macquarie Bank International Limited ("MBIL") and Macquarie Investment Management Advisers ("MIMA"). On 20 December 2017, MBIL ceased performing the delegated investment functions and the Investment Manager delegated those investment functions to Macquarie Investment Management Europe Limited ("MIMEL").

The Trust is classified as an investment entity as it meets the definition of an investment entity and has the typical characteristics of an investment entity. No consolidated financial statements have been prepared. These financial statements are the only financial statements prepared for the Trust (see note 2(b) and note 10(a)).

On 5 May 2016, a new tax regime applying to Managed Investment Trusts ("MITs") was established under the *Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016*. The Attribution Managed Investment Trust ("AMIT") regime allows MITs that meet certain requirements to make an irrevocable election to be an AMIT. The Responsible Entity has amended the Trust Constitution to allow the AMIT regime to apply to the Trust. For the year ended 30 June 2018, the Trust met the AMIT eligibility criteria and the Responsible Entity has made an irrevocable election that the AMIT regime will apply to the Trust. For each financial year that the Trust meets the AMIT eligibility criteria, the Responsible Entity will attribute the Trust's income to unitholders for that year on a fair and reasonable basis, however, the Responsible Entity will not have a requirement under the Trust Constitution to distribute Trust income to unitholders. On 30 June 2018, upon adopting the AMIT regime, the Responsible Entity is no longer contractually obligated to pay distributions and the units in the Trust were reclassified from a financial liability to equity (see note 2(d), note 2(l) and note 6).

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 Constitution.

The financial statements were authorised for issue by the directors on 24 September 2018. 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 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.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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) Investment entities and subsidiaries

Subsidiaries are all those entities over which the Trust has the power to direct the relevant activities of the entity, exposure to significant variable returns and the ability to utilise power to affect the entity's own returns. The determination of control is based on current facts and circumstances and is continuously assessed.

The Trust has power over an entity when it has existing substantive rights that give it the current ability to direct the entity's relevant activities. Relevant activities are those activities that significantly affect the entity's returns. The Trust evaluates whether it has the power to direct the relevant activities. The Trust also considers the entity's purpose and design. If the Trust determines that it has power over an entity, the Trust then evaluates whether it has exposure or rights to variable returns that, in aggregate, are significant. All variable returns are considered including, but not limited to, debt or equity investments, guarantees, liquidity arrangements, variable fees and certain derivative contracts.

The Trust is classified as an investment entity as it meets the definition of an investment entity and has the typical characteristics of an investment entity. No consolidated financial statements have been prepared. These financial statements are the only financial statements prepared for the Trust (see note 10(a)).

Investments in subsidiaries are accounted for at fair value through profit or loss in the financial statements of the Trust.

(c) Financial instruments

(i) Classification

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

- Financial instruments held for trading

  These include derivative financial instruments such as futures, options, credit default swaps and interest rate swaps.

- 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 debt securities, unlisted unit trusts and derivative financial instruments such as foreign currency forward contracts. The Trust designates all foreign currency forward contracts as hedges in a hedging relationship. Details on the designated accounting hedges are disclosed in note 3(b)(ii).

2 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(i) Classification (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 comprise amounts due to 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.

Financial assets are derecognised when the right to receive cash flows from the investments has expired or the Trust has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligation under the liabilities are discharged.

(iii) Measurement

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

Financial assets and financial 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 financial instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

- Fair value in an active market

  The fair value of financial assets and financial liabilities traded in active markets is based on their quoted market prices as 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 ask prices.

- Fair value in an inactive or unquoted market

  The fair value of financial assets and financial 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 as at the statement of financial position date applicable for an instrument with similar terms and conditions.

2 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(iii) Measurement (continued)

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

For other pricing models, inputs are based on market data as 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 as at the statement of financial position date taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties.

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

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

(b) Loans and receivables

Loans and receivables are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest 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.

If any such indication of impairment exists, an impairment calculation is undertaken and any 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.

(iv) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a legally enforceable right to offset the recognised amounts at all times and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2 Summary of significant accounting policies (continued)

(d) Net assets attributable to unitholders

On 30 June 2018, the Trust's units were reclassified from a financial liability to equity as they satisfied the below criteria.

Reclassification of units from financial liability to equity

Units are classified as equity when they satisfy the criteria under AASB 132 *Financial instruments: Presentation* as below:

- the puttable financial instrument entitles the holder to a pro-rata share of net assets in the event of the Trust's liquidation;
- the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and class features are identical;
- the puttable financial instrument does not include any contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Trust, and it is not a contract settled in the Trust's own equity instruments; and
- the total expected cash flows attributable to the puttable financial instrument over the life are based substantially on the profit or loss.

Units are redeemable at the unitholders' option and 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) as at the statement of financial position date if unitholders exercised their right to put the units back to the Trust.

Prior to that, net assets attributable to unitholders were classified as a financial liability as the Responsible Entity was contractually obligated to pay distributions to the unitholders.

(e) Cash and cash equivalents

For the purpose of presentation in the statement 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 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.

(f) Cash collateral receivable

Cash collateral receivable comprises cash paid as collateral for over-the-counter derivative transactions. The cash is held by the broker and is receivable by the Trust.

Notes to the Financial Statements
For the Year Ended 30 June 2018

2 Summary of significant accounting policies (continued)

(g) Cash collateral payable

Cash collateral payable comprises cash received as collateral for over-the-counter derivative transactions. The cash is held by the Trust and is payable to the broker.

(h) 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.

(i) Income

Interest income is recognised in the statement of comprehensive income using the effective interest method for all financial instruments that are not held at fair value through profit or loss. Interest income on assets held at fair value through profit or loss is included in the net gains on financial instruments. 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 applicable, 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 from trusts are recognised on an entitlements basis.

Fee rebates from the Responsible Entity are recognised in the statement of comprehensive income on an accruals basis.

(j) Expenses

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

(k) Income tax

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

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

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

The Trust may incur withholding tax imposed by certain countries on investment income. Such income is recorded gross of withholding tax in the statement of comprehensive income.

Notes to the Financial Statements

For the Year Ended 30 June 2018

2 Summary of significant accounting policies (continued)

(k) Income tax (continued)

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

(l) Distributions to unitholders

On 30 June 2018, upon adopting the AMIT regime, the Responsible Entity is no longer contractually obligated to pay distributions. The Responsible Entity will attribute the Trust's income to unitholders on a fair and reasonable basis, however, the Responsible Entity will not have a requirement under the Trust Constitution to distribute Trust income to unitholders. Any subsequent distributions to unitholders will be recognised in the statement of changes in equity.

Prior to that, in accordance with the Trust Constitution, the Trust fully distributed its distributable income, and any other amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. The distributions to unitholders were recognised in the statement of comprehensive income as finance costs attributable to unitholders.

(m) Movement in net assets attributable to unitholders

Income and expenses that are not included in distributable income and not attributed to unitholders are included in net assets attributable to unitholders. Unrealised gains and losses on financial instruments are included in net assets attributable to unitholders as they are not distributed to unitholders until realised. Capital losses are not distributed to unitholders but are retained to be offset against any future realised capital gains. Movements in net assets attributable to unitholders are recognised in the statement of comprehensive income as finance costs attributable to unitholders.

(n) Foreign currency translation

(i) Functional and presentation currency

Items included in the Trust’s financial statements are measured using the currency of the primary economic environment in which it operates (the “functional currency”). This is the Australian dollar, which reflects the currency of the economy in which the Trust competes for funds and is regulated. The Australian dollar is also 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 as at the statement of financial position date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

The Trust does 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.

Notes to the Financial Statements
For the Year Ended 30 June 2018

2 Summary of significant accounting policies (continued)

(o) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased 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.

(p) Receivables

Receivables include assets and accrued income owing to the Trust which have not been received as at the statement of financial position date and may include such items as interest, distributions, fee rebates and Reduced Input Tax Credits ("RITC").

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. Distribution income is accrued when the right to receive payment is established. Fee rebates receivable from the Responsible Entity is recognised in the statement of financial position on an accruals basis. Amounts are generally received within 30 days of being recorded as receivables.

(q) Payables

Payables include liabilities and accrued expenses owing by the Trust which are unpaid as at the statement of financial position date.

The redemption amount payable to unitholders as at the statement of financial position date is recognised separately in the statement of financial position.

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

The withholding tax payable as at the statement of financial position date is recognised separately in the statement of financial position as under certain circumstances tax is withheld from distributions to unitholders in accordance with applicable legislation.

(r) 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.

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

Income, expenses and assets are recognised net of the amount of GST to the extent that the GST is recoverable from the Australian Taxation Office ("ATO"). Where GST is not recoverable, it is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are recognised inclusive of GST. RITC recoverable by the Trust from the ATO are recognised as receivables in the statement of financial position.

Cash flows are disclosed in the statement of cash flows on a gross basis and cash flows relating to GST, recoverable from, or payable to, the ATO are included as cash flows from operating activities.

2 Summary of significant accounting policies (continued)

(t) Use of estimates

The Responsible Entity 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.

Certain financial instruments, for example, over-the-counter derivatives and 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, inputs such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these inputs 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.

(u) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period. The Responsible Entity’s 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 consequential amendments

AASB 9 *Financial Instruments* applies to annual reporting periods beginning on or after 1 January 2018 and will therefore apply to the Trust from 1 July 2018. AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and financial liabilities. The current four categories of financial assets, stipulated in AASB 139 *Financial Instruments: Recognition and Measurement*, will be replaced with three classification categories: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The application of the Standard does not have a significant impact on the recognition, classification and measurement of the Trust's financial instruments as the Trust would continue to designate the financial instruments at fair value through profit or loss.

Hedge Accounting

The new hedge accounting requirements under AASB 9 simplify hedge accounting by more closely aligning hedge relationships with risk management activities of activities of Responsible Entity's risk management department. Hedge effectiveness testing will be less prescriptive under the new standard and make achieving hedge accounting more likely. The Trust has early adopted the hedge accounting requirements under AASB 9 prospectively for the reporting period beginning 1 July 2018. Accordingly, enhanced disclosures required by amendments to AASB 7 *Financial Instruments Disclosures* relating to hedge accounting will be disclosed in the Trust's financial statements. These amendments will not have a significant effect on the financial position nor performance of the Trust.

Standards and interpretations that are not expected to have material impact on the Trust have not been included.

2 Summary of significant accounting policies (continued)

(v) Rounding of amounts

In accordance with Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, amounts in the directors' report and the financial report have been rounded off to the nearest thousand Australian dollars, 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 (which may include price risk, foreign exchange risk and interest rate and credit spread risk), credit risk and liquidity risk.

The Responsible Entity's overall risk management programme focuses on ensuring compliance with the Trust's investment guidelines and seeks to maximise the returns derived for the level of risk to which the Trust is exposed. The Trust uses derivatives and other instruments for trading purposes and in connection with its risk management activities.

The Trust may use derivative financial instruments:

- to gain or reduce the Trust's exposure to a particular security or index
- to gain or reduce market exposure in the portfolio
- for currency hedging
- to hedge the credit exposure within the portfolio.

Derivatives may be used to gear (leverage) the portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceed the underlying value of the Trust.

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

The Responsible Entity reviews any identified high and medium severity exceptions to internal risk policies and procedures on a quarterly basis.

(b) Market risk

(i) Price risk

The Trust trades in financial instruments such as unlisted unit trusts, debt securities, and exchange traded instruments and over-the-counter instruments, such as derivatives. Price risk for the Trust's investments is a function of foreign exchange risk, interest rate and credit spread risk, credit risk and liquidity risk.

All securities investments present a risk of loss of capital. The Responsible Entity manages this risk through a careful selection of securities and other financial instruments within specified limits. The Trust's positions are monitored on a daily basis by the Responsible Entity.

3 Financial risk management (continued)

(b) Market risk (continued)

(i) Price risk (continued)

Price risk is managed by seeking to ensure that the Trust is investing in accordance with its stated objectives.

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

At 30 June 2018, the Trust's market risk is affected by changes in market prices. If the exposure of unlisted unit trusts at 30 June 2018 had increased by 0.25% with all other variables held constant, this would have increased net assets attributable to unitholders by approximately $2,641,343 (2017: 0.25%; $2,630,229). Conversely, if the exposure of unlisted unit trusts at 30 June 2018 had decreased by 0.25% with all other variables held constant, this would have decreased net assets attributable to unitholders by approximately $2,641,343 (2017: 0.25%; $2,630,229).

(ii) Foreign exchange risk

The Trust holds monetary and non-monetary assets and liabilities denominated in currencies other than the Australian dollar both directly and indirectly through its investments in underlying unit trusts. Foreign exchange risk arises as the value of monetary assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates. The foreign exchange risk relating to the non-monetary assets and liabilities is a component of price risk, not foreign exchange risk.

Foreign exchange risk on monetary and non-monetary assets and liabilities is managed by:

- managing currency exposure within limits
- hedging undesired currency exposure.

The Trust uses foreign exchange forward contracts to mitigate the risk from movements in foreign exchange rates by hedging the underlying trust's exposure to financial assets and liabilities denominated in currencies other than the Australian dollar. At 30 June 2018, the net fair value of the foreign exchange forward contracts is ($13,062,258) (2017: $9,046,648) and the net fair value of the financial assets and financial liabilities being hedged is $485,667,976 (2017: $426,403,796). The fair value net gains/(losses) arising on the hedging instruments and the hedged items during the year is $26,194,929 (2017: ($7,710,200)) and ($26,212,089) (2017: $8,091,092) respectively.

(iii) Interest rate and credit spread risk

The Trust is subject to interest rate and credit spread risk due to fluctuations in the prevailing levels of market interest rates and credit spreads both directly and indirectly through its investments in underlying unit trusts. Any excess cash and cash equivalents are invested at short-term market interest rates.

Interest rate and credit spread risk is managed by:

- only allowing investments into certain instrument types
- ensuring the Trust is tracking the benchmark within permitted ranges
- limiting the term of interest rate securities

3 Financial risk management (continued)

(b) Market risk (continued)

(iii) Interest rate and credit spread risk (continued)

- monitoring target interest rate durations.

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

The table below demonstrates the sensitivity of the Trust's profit/(loss) for the year to a reasonably possible change in interest rates and credit spreads, with all other variables held constant. The sensitivity of the profit/(loss) for the year is the effect of the assumed changes in interest rates on net interest income for the year based on the floating rate financial assets as at the statement of financial position date and changes in fair value of investments for the year based on revaluing fixed rate financial assets, including its indirectly held investments through underlying unit trusts, as at the statement of financial position date.

In practice, the actual results may differ from the below sensitivity analysis and the difference could be significant.

	Change in basis points	Sensitivity of interest income	Sensitivity of changes in fair value of investments relating to a change in interest rates	Sensitivity of changes in fair value of investments relating to a change in credit spreads
	Increase/ (decrease)	Increase/ (decrease)	(Decrease)/ increase	(Decrease)/ increase
		$'000	$'000	$'000
30 June 2018	**25/(25)**	**2,226/(2,226)**	**(7,720)/7,720**	**(29,987)/29,987**
30 June 2017	25/(25)	1,903/(1,903)	(7,212)/7,212	(27,973)/27,973

(c) Credit risk

Credit risk arises from the Trust's investment in debt securities.

Other credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions, counterparties to derivatives and amounts due from brokers. The maximum exposure to credit risk at the reporting date is the carrying amount of cash and cash equivalents, unsettled receipts and other financial assets. None of these assets are impaired nor past due but not impaired.

Credit risk is managed by:

- managing the Trust's exposures to issuers, deposit taking institutions, brokers and other counterparties
- using credit default swaps to manage credit exposure
- maintaining an approved broker and counterparty panel
- ensuring over-the-counter derivatives are traded with appropriately rated counterparties.

3 Financial risk management (continued)

(c) Credit risk (continued)

Credit default swap exposures are managed through limiting the aggregate long, short and net exposures permitted to such instruments by the Trust. Credit default exposures are also incorporated in existing Trust exposure limits by "looking-through" the contract to the underlying issuer-level exposure being provided.

The counterparties for cash and cash equivalents, deposits with banks and other financial institutions and derivatives have an investment grade credit rating (2017: investment grade credit rating) as determined by Standard and Poor's rating agency. An analysis of debt securities by credit rating is set out in the table below:

	2018 $'000	2017 $'000
Debt securities		
S&P long term ratings		
AAA	**504,334**	257,526
AA+	**1,423**	3,038
AA	**67,847**	48,838
AA-	**88,152**	98,756
A+	**57,904**	38,895
A	**81,542**	72,744
A-	**338,246**	272,549
BBB+	**238,023**	185,813
BBB	**460,550**	348,267
BBB-	**49,807**	67,870
BB+	**7,606**	8,078
BB-	**8,012**	8,012
B	**2,696**	2,529
NR	**28,653**	22,773
Total S&P long term rated securities	**1,934,795**	1,435,688
S&P short term ratings		
A1+	**55,934**	62,662
A1	**73,666**	118,518
NR	**34,794**	-
Total S&P short term rated securities	**164,394**	181,180
Total debt securities	**2,099,189**	1,616,868

In accordance with the Trust’s policy, the Responsible Entity's risk management department monitors the Trust’s credit exposure on a daily 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 can be generally liquidated within a short period of time.

The investments of the Trust may become illiquid. As a result, the Trust may not be able to liquidate quickly its investments in these instruments at an amount close to their fair value, or at all, to meet its liquidity requirements. No such investments were held as at the statement of financial position date.

3 Financial risk management (continued)

(d) Liquidity risk (continued)

Liquidity risk is managed by:

- restricting the use of borrowing in order to ensure the Trust has no debt obligations which may compromise solvency
- managing the exposure to less liquid securities.

Redeemable units are redeemed subject to the Trust's offer document and the Trust Constitution (as applicable).

The table below analyses the Trust’s financial liabilities into relevant maturity groupings based on the remaining period to the earliest possible contractual maturity date at 30 June 2018 and 30 June 2017. The amounts in the table are contractual undiscounted cash flows.

	Less than 1 month $'000	1-6 months $'000	1-5 years $'000	Over 5 years $'000	Total $'000
30 June 2018					
Redemptions payable	**10,424**	**-**	**-**	**-**	**10,424**
Distributions payable	**25,937**	**-**	**-**	**-**	**25,937**
Withholding tax payable	**9**	**-**	**-**	**-**	**9**
Responsible Entity fees payable	**3,999**	**-**	**-**	**-**	**3,999**
Due to brokers - payable for securities purchased	**15,695**	**-**	**-**	**-**	**15,695**
Financial liabilities held at fair value through profit or loss	**-**	**26,043**	**7,070**	**54,951**	**88,064**
Total liabilities (excluding net assets attributable to unitholders)	**56,064**	**26,043**	**7,070**	**54,951**	**144,128**

	Less than 1 month $'000	1-6 months $'000	1-5 years $'000	Over 5 years $'000	Total $'000
30 June 2017					
Cash collateral payable	18,774	-	-	-	18,774
Redemptions payable	8,763	-	-	-	8,763
Distributions payable	43,235	-	-	-	43,235
Withholding tax payable	9	-	-	-	9
Responsible Entity fees payable	3,292	-	-	-	3,292
Due to brokers - payable for securities purchased	11,443	-	-	-	11,443
Financial liabilities held at fair value through profit or loss	-	3,493	5,855	3,628	12,976
Total liabilities (excluding net assets attributable to unitholders)	85,516	3,493	5,855	3,628	98,492

3 Financial risk management (continued)

(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 financial liabilities not fair valued are short-term in nature.

The Responsible Entity 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 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 following table analyses within the fair value hierarchy the Trust's financial assets and financial liabilities (by class) measured at fair value.

30 June 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Financial assets held for trading:				
- Derivatives	3,248	112,947	-	116,195
Financial assets designated at fair value through profit or loss at inception:				
- Derivatives	-	477	-	477
- Debt securities	-	2,099,189	-	2,099,189
- Unlisted unit trusts	-	1,056,537	-	1,056,537
Total financial assets	3,248	3,269,150	-	3,272,398

3 Financial risk management (continued)

(e) Fair value estimation (continued)

30 June 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities				
Financial liabilities held for trading:				
- Derivatives	**12,258**	**62,267**	**-**	**74,525**
Financial liabilities designated at fair value through profit or loss:				
- Derivatives	**-**	**13,539**	**-**	**13,539**
Total financial liabilities	**12,258**	**75,806**	**-**	**88,064**

30 June 2017	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Financial assets held for trading:				
- Derivatives	5,103	24,792	-	29,895
Financial assets designated at fair value through profit or loss at inception:				
- Derivatives	-	9,145	-	9,145
- Debt securities	-	1,616,868	-	1,616,868
- Unlisted unit trusts	-	1,052,092	-	1,052,092
Total financial assets	5,103	2,702,897	-	2,708,000
Financial liabilities				
Financial liabilities held for trading:				
- Derivatives	3,029	9,848	-	12,877
Financial liabilities designated at fair value through profit or loss:				
- Derivatives	-	99	-	99
Total financial liabilities	3,029	9,947	-	12,976

During the year, there were no transfers between level 1 and 2 or into/out of level 3 (2017: Nil).

The fair value of publicly traded derivatives is based on quoted market prices or binding dealer price quotations at the reporting date (bid price for long positions and ask price for short positions) and have therefore been classified as level 1 in the fair value hierarchy.

For debt securities and over-the-counter derivatives, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models. These financial instruments have therefore been classified as level 2 in the fair value hierarchy.

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.

3 Financial risk management (continued)

(f) Offsetting financial instruments

Financial assets and financial liabilities are presented net in the statement of financial position where the Trust currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Certain derivative assets and liabilities are subject to legally enforceable master netting arrangements, such as an International Swaps and Derivatives Association ("ISDA") master netting agreement. Under the terms of these arrangements, if on any date amounts would otherwise be payable in the same currency and in respect to the same transaction with the counterparty, the obligation may be automatically satisfied and discharged if the party with the larger aggregate amount pays to the other party the excess of the larger aggregate amount over the smaller aggregate amount.

In certain circumstances, for example, when a credit event such as a default occurs, all outstanding transactions under an ISDA agreement are terminated, the termination value is assessed, and only a net amount is payable in settlement of all transactions. The aggregation into a net position owing/receivable to a single counterparty is subject to the terms of the arrangements and the insolvency laws of the relevant jurisdiction of the party in default. As at 30 June 2018, if this netting agreement was applied to the derivative portfolio the derivative assets of $116,671,668 (2017: $39,040,264) would be reduced by $59,106,709 (2017: $5,574,484) to the net amount of $57,564,959 (2017: $33,465,780) and the derivative liabilities of $88,064,066 (2017: $12,976,497) would be reduced by $59,106,709 (2017: $5,574,484) to the net amount of $28,957,357 (2017: $7,402,013).

The Trust has pledged cash collateral at 30 June 2018 of $16,748,806 (2017: $6,558,586) in relation to its derivative exposures. In the event of default, this collateral would further reduce the net derivative liabilities of $28,957,357 (2017: $7,402,013) as calculated above, to the net amount of $12,208,551 (2017: $843,427).

The Trust has received cash collateral at 30 June 2018 of Nil (2017: $18,774,449) in relation to its derivative exposures. In the event of default, this collateral would further reduce the net derivative assets of $57,564,959 (2017: $33,465,780) as calculated above, to the net amount of $57,564,959 (2017: $14,691,331).

4 Auditor's remuneration

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

	2018 $	2017 $
Audit services		
Audit of financial reports	**8,406**	8,406
Other audit work under the *Corporations Act 2001*	**700**	467
Non-audit services		
Taxation	**825**	620
Total remuneration paid/payable	**9,931**	9,493

Audit fees are paid out of the Responsible Entity's own resources.

Notes to the Financial Statements
For the Year Ended 30 June 2018

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

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

	2018 $'000	2017 $'000
Net gains on financial instruments held for trading	**898**	28,981
Net losses on financial instruments designated as at fair value through profit or loss	**(36,527)**	(11,944)
Interest income on financial instruments held at fair value through profit or loss	**67,871**	58,340
Net gains on financial instruments held at fair value through profit or loss	**32,242**	75,377

6 Net assets attributable to unitholders

As stipulated within the Trust Constitution, each unit represents an undivided share in the beneficial interest in 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.

Under AASB 132 *Financial instruments: Presentation*, puttable financial instruments meet the definition of a financial liability to be classified as equity where certain criteria are met. The Trust shall classify a financial instrument as an equity instrument from the date when the instrument has all the features and meets the conditions (see note 2(d)).

On 30 June 2018, the Trust met the AMIT eligibility criteria and the Responsible Entity no longer has a contractual obligation to pay distributions. Therefore, the net assets attributable to unitholders of the Trust meet the criteria set out under AASB 132 and are classified as equity. Prior to the reclassification to equity, the Trust classified the net assets attributable to unitholders as a financial liability in accordance with AASB 132.

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

	2018 No. '000	2017 No. '000	2018 $'000	2017 $'000
Opening balance	**2,690,098**	2,522,346	**2,737,199**	2,541,185
Applications	**1,028,184**	761,815	**1,051,849**	782,869
Redemptions	**(502,199)**	(605,334)	**(512,105)**	(619,058)
Units issued upon reinvestment of distributions	**11,375**	11,271	**11,561**	11,509
(Decrease)/increase in net assets attributable to unitholders	**-**	-	**(37,933)**	20,694
Closing balance*	**3,227,458**	2,690,098	**3,250,571**	2,737,199

*Net assets attributable to unitholders are classified as equity at 30 June 2018 and as a financial liability at 30 June 2017.

Capital risk management

The Trust manages its net assets attributable to unitholders as capital. 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 Responsible Entity monitors the impact of applications and redemptions relative to the liquid assets in the Trust.

Notes to the Financial Statements
For the Year Ended 30 June 2018

7 Cash and cash equivalents

	2018 $'000	2017 $'000
Cash at bank	**82,527**	53,817
Deposits at call	**16,225**	30,606
Total cash and cash equivalents	**98,752**	84,423

8 Financial assets held at fair value through profit or loss

	2018 Fair value $'000	2017 Fair value $'000
Held for trading		
Bond futures	**1,047**	5,103
Bond future options	**2,201**	-
Credit default swaps	**445**	1,392
Interest rate swaps	**112,502**	23,400
Total held for trading	**116,195**	29,895
Designated at fair value through profit or loss		
Asset backed securities	**504,097**	383,994
Corporate bonds	**707,662**	624,240
Foreign currency forward contracts	**477**	9,145
Floating rate notes	**510,506**	427,455
Government bonds	**286,196**	98,640
Negotiable certificates of deposits	**90,728**	82,539
Units in unlisted fixed interest trusts	**1,056,537**	1,052,092
Total designated at fair value through profit or loss	**3,156,203**	2,678,105
Total financial assets held at fair value through profit or loss	**3,272,398**	2,708,000

An overview of the risk exposures relating to financial assets at fair value through profit or loss is included in note 3.

9 Financial liabilities held at fair value through profit or loss

	2018 Fair value $'000	2017 Fair value $'000
Held for trading		
Bond futures	**9,770**	3,029
Bond future options	**2,488**	-
Credit default swaps	**2,027**	1,564
Interest rate swaps	**60,240**	8,284
Total held for trading	**74,525**	12,877
Designated at fair value through profit or loss		
Foreign currency forward contracts	**13,539**	99
Total designated at fair value through profit or loss	**13,539**	99
Total financial liabilities held at fair value through profit or loss	**88,064**	12,976

An overview of the risk exposures relating to financial liabilities at fair value through profit or loss is included in note 3.

10 Related party disclosures

(a) Subsidiaries

The subsidiaries included in this financial report are:

- Macquarie Debt Market Opportunity Fund. During the year ended 30 June 2017, the Trust gained control of Macquarie Debt Market Opportunity Fund
- Macquarie Emerging Markets Debt Fund
- Macquarie High Yield Bond Fund
- Macquarie Investment Grade Bond Fund.

As disclosed in note 2(b) to the financial statements, the Trust is an investment entity and measures its investment in subsidiaries at fair value through profit or loss.

The proportion of ownership interest and investment in the subsidiaries is disclosed in note 10(i). The subsidiaries are Australian registered managed investment schemes domiciled in Australia having their principal place of business in Australia.

(b) Responsible Entity

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

10 Related party disclosures (continued)

(c) Investment Manager

The Investment Manager of the Trust is Macquarie Investment Management Global Limited, a wholly owned subsidiary of MGL.

(d) Key management personnel

The following persons held office as directors of MIMAL from 1 July 2016 to the date of this report:

M Aubrey	
A Clubb	(appointed 29/05/2018)
R Gohil	(appointed 08/03/2017)
B Lewthwaite	(resigned 29/05/2018)
G Stephens	
B Terry	

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.

(e) Key management personnel unitholdings

No key management personnel held units in the Trust at any time during the year (2017: Nil).

(f) 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 (2017: Nil).

(g) Responsible Entity fees and other transactions

For the year ended 30 June 2018, in accordance with the Trust Constitution, the Responsible Entity received a total fee of 0.49% of net asset value (inclusive of GST, net of RITC available to the Trust) per annum (2017: 0.49%).

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 as at the statement of financial position date between the Trust and the Responsible Entity were as follows:

	2018 $	2017 $
Management fees charged to the Trust by the Responsible Entity	**(15,135,236)**	(12,623,904)
Fee rebates from the Responsible Entity*	**4,737,034**	4,372,289
Management fees payable by the Trust to the Responsible Entity at the reporting date	**3,999,429**	3,291,503
Fee rebates receivable from the Responsible Entity at the reporting date*	**1,112,025**	985,408

Notes to the Financial Statements
For the Year Ended 30 June 2018

10 Related party disclosures (continued)

(g) Responsible Entity fees and other transactions (continued)

*The Responsible Entity rebates management fees charged from other schemes managed by the Responsible Entity where the Trust invests in those schemes.

(h) Related party unitholdings

Parties related to the Trust (including MIMAL, its affiliates and other schemes managed by MIMAL) held no units in the Trust (2017: Nil).

(i) Investments

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

	Fair value of investments		Interest held		Distribution income	
	2018	2017	2018	2017	2018	2017
	$	$	%	%	$	$
Macquarie Debt Market Opportunity Fund	**142,101,012**	99,893,427	**75.46**	60.72	**4,426,440**	2,024,884
Macquarie Emerging Markets Debt Fund	**34,144,069**	34,916,411	**100.00**	100.00	**1,588,851**	1,523,546
Macquarie High Yield Bond Fund	**35,855,284**	26,819,351	**85.27**	63.70	**2,586,508**	11,414,199
Macquarie Investment Grade Bond Fund	**844,436,840**	890,462,533	**94.73**	74.65	**26,038,299**	45,221,395

There are no distributions receivable from the above related parties as at 30 June 2018 (2017: Nil).

There are no amounts due from the above related parties in respect of the units redeemed as at 30 June 2018 (2017: Nil).

The Trust held investments in debt securities issued by the following entities, which are also related parties of the Trust:

	Number of units		Fair value		Interest income	
	2018	2017	2018	2017	2018	2017
	No.	No.	$	$	$	$
Macquarie Bank Limited	**7,000,000**	7,000,000	**7,068,740**	7,063,350	**321,625**	205,455
MGL	**15,500,000**	-	**15,204,725**	-	**199,564**	-

There is no interest receivable from the above related parties as at 30 June 2018 (2017: Nil).

(j) Other transactions within the Trust

From time to time, the Trust may purchase or sell securities from/to other schemes managed by the Responsible Entity or its affiliates at the prevailing market rates.

Notes to the Financial Statements
For the Year Ended 30 June 2018

10 Related party disclosures (continued)

(j) Other transactions within the Trust (continued)

No directors of the Responsible Entity have entered into a material contract with the Trust in the current or previous financial year and there were no material contracts involving directors' interests subsisting at 30 June 2018 or 30 June 2017.

The Trust may hold bank accounts with Macquarie Bank Limited ("MBL"), a wholly owned subsidiary of MGL. The Trust may use Macquarie Securities (Australia) Limited, MBL or other wholly owned subsidiaries of MGL for broking and clearing services respectively. Bond Street Custodians Limited, a wholly owned subsidiary of MGL, is a custodian of the Trust. Fees and expenses are negotiated on an arm's length basis for all transactions with related parties.

The Investment Manager delegated certain investment functions to MBIL and MIMA, wholly owned subsidiaries of MGL. On 20 December 2017, MBIL ceased performing the delegated investment functions and the Investment Manager delegated those investment functions to MIMEL, a wholly owned subsidiary of MGL.

The Trust held futures, with MBL as counterparty, with the fair value at 30 June 2018 of ($868,705) (2017: $1,270,473).

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

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

	2018 $'000	2017 $'000
Profit/(loss) for the year	**-**	-
(Decrease)/increase in net assets attributable to unitholders	**(37,933)**	20,694
Distributions to unitholders	**91,667**	107,401
Distributions reinvested	**(34,640)**	(60,184)
Net foreign exchange losses	**3,918**	251
Net gains on financial instruments held at fair value through profit or loss	**(32,242)**	(75,377)
Proceeds from sale of financial instruments held at fair value through profit or loss	**1,927,793**	1,843,835
Purchase of financial instruments held at fair value through profit or loss	**(2,405,779)**	(1,951,661)
Movement in amortised interest on financial instruments held at fair value through profit or loss	**60,594**	54,541
Net change in receivables and other assets	**(328)**	137
Net change in payables and other liabilities	**707**	106
Net cash outflow from operating activities	**(426,243)**	(60,257)

(b) Non-cash financing activities

	2018 $'000	2017 $'000
Reinvestment of unitholder distributions	**11,561**	11,509

Notes to the Financial Statements
For the Year Ended 30 June 2018

12 Events occurring after the reporting date

No significant events have occurred since the reporting date which would impact on the financial position of the Trust disclosed in the statement of financial position as at 30 June 2018 or on the results and cash flows of the Trust for the year ended on that date.

13 Contingent assets, contingent liabilities and commitments

There are no outstanding contingent assets, contingent liabilities or commitments as at 30 June 2018 and 30 June 2017.

Directors' Declaration

In the opinion of the directors of the Responsible Entity:

(a) the financial statements and notes as set out on pages 5 to 32 are in accordance with the *Corporations Act 2001*, including:

- (i) complying with Australian Accounting Standards; and

- (ii) giving a true and fair view of the Trust's financial position as at 30 June 2018 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.

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.

Director ....

B Terry

Sydney

24 September 2018

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Independent auditor's report to the unitholders of Macquarie Income Opportunities Fund

Opinion

We have audited the financial report of Macquarie Income Opportunities Fund ("the Trust"), which comprises the statement of financial position as at 30 June 2018 the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Trust is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Trust's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Trust in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information Other than the Financial Report and Auditor's Report Thereon

The directors of Macquarie Investment Management Australia Limited ("the Responsible Entity") are responsible for the other information. The other information is the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Responsible Entity 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 control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Trust or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Trust's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

Ernst & Young

R Da Silva

Rita Da Silva
Partner
Sydney
24 September 2018