

Directors' Report – Remuneration Report

for the financial year ended 31 March 2011

continued

Post-2009 DPS Plan

The Post-2009 DPS Plan comprises exposure to a notional portfolio of Macquarie-managed funds. These retained amounts for Executive Directors are notionally invested over the retention period. This investment is described as 'notional' because Executive Directors do not directly hold securities in relation to this investment. However, the value of the retained amounts will vary as if these amounts were directly invested in actual securities, giving the Executive Directors an effective economic exposure to the performance of the securities.

The notional portfolio is set for each Executive Director according to their role, as determined by the BRC. The BRC makes an annual determination as to how each Executive Director's retained profit share that is invested in Macquarie-managed fund equity (retained DPS in the DPS Plan) for that year should be notionally invested by Macquarie. The Executive Director has no input into that decision or its timing. The following general principles are used in making this decision:

- retained DPS in the DPS Plan for Executive Directors who are involved in the management of a particular fund (e.g. the Chief Executive Officer of a fund), will be 100 per cent notionally invested in that particular fund
- retained DPS in the DPS Plan for Executive Directors who are involved more generally in the management of one of Macquarie's funds businesses, including certain Operating Group Heads, will be notionally invested in a portfolio of funds managed by that particular business
- retained DPS in the DPS Plan for other Executive Committee members will be notionally invested in a general portfolio of Macquarie-managed fund equity
- retained DPS in the DPS Plan for all other Executive Directors will be notionally invested in a general portfolio of Macquarie-managed fund equity.

MEREP

Retained profit share invested in Macquarie shares is held under the equity plan, the MEREP. The MEREP has a flexible plan structure that offers different types of equity grants depending on the jurisdiction in which the participating employees are based. In most cases, the equity grants are in the form of units comprising a beneficial interest in a Macquarie share held in a trust for the staff member (Restricted Share Units or RSUs). An RSU comprises a beneficial interest in a Macquarie share held on behalf of a MEREP participant by the Trustee. The participant is entitled to receive dividends on the share and direct the Trustee how to exercise voting rights in the share. The participant also has the right to request the release of the share from the Trust, subject to the vesting and forfeiture provisions of the MEREP. RSUs are the primary form of award under the MEREP. Where legal or tax rules make the grant of RSUs impractical, due to different tax rules for employee equity and different securities laws, equity grants will be in the form of:

- shares held by the staff member subject to restrictions (Restricted Shares). A Restricted Share comprises a Macquarie share transferred from the MEREP Trust and held by a MEREP participant subject to restrictions on disposal, vesting and forfeiture rules. The participant is entitled to receive dividends on those Restricted Shares and to vote those Restricted Shares; or
- the right to receive Macquarie shares in the future (Deferred Share Units or DSUs). A DSU comprises the right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by Macquarie in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP. A MEREP participant holding a DSU has no right or interest in any share until the DSU is exercised. Macquarie may issue shares to the Trustee or procure the Trustee to acquire shares on-market for potential future allocations to holders of DSUs. Generally DSUs provide for cash payments in lieu of dividends paid on Macquarie shares before the DSU is exercised. Further, the number of shares underlying a DSU will be adjusted upon any bonus issue or other capital reconstruction of Macquarie in accordance with the ASX Listing Rules, so that the holder of a DSU does not receive a benefit that holders generally of Macquarie shares do not receive. These provisions are intended to provide the holders of DSUs, as far as possible, with the same benefits and risks as provided to holders of Restricted Shares or RSUs. However, holders of DSUs have no voting rights as to any underlying Macquarie share.

These different types of equity grants enable Macquarie through the MEREP to offer substantially similar economic benefits to staff across multiple jurisdictions.

3.3.3 Income on invested retained profit share

Notional returns on retained profit share invested in the Post-2009 DPS Plan may be paid annually to Executive Directors. These amounts are required to be disclosed as remuneration for Executive KMP. The notional returns are calculated based on total shareholder return. If the notional investment of retained profit share results in a notional loss, this loss will be offset against any future notional income until the loss is completely offset.

Employees with retained profit share invested in the MEREP are entitled to receive either dividends or cash payments or additional equity in lieu of dividends paid on Macquarie shares.