

### Investment objective

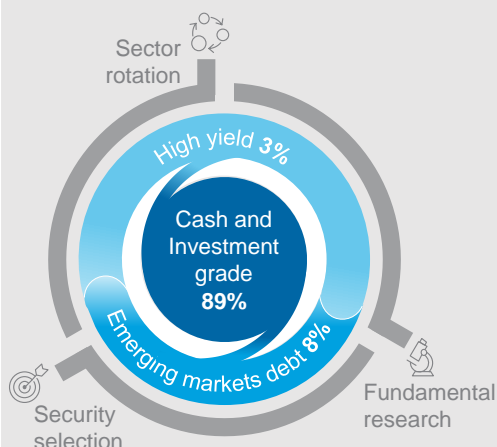
Aims to outperform the Bloomberg AusBond Bank Bill Index over the medium term (before fees). It aims to provide higher income returns than traditional cash investments at all stages of interest rate and economic cycles.

### Key information

#### Fund details

APIR code	MAQ0277AU
Inception date	18 September 2003
Fund size	\$3,542.7m
Distribution frequency	Monthly
Management fee*	0.492% pa
Minimum investment (Direct)	\$20,000
Unit prices and spreads	<a href="http://macquarie.com.au/unit_prices">macquarie.com.au/unit_prices</a>

\*Read the Product Disclosure Statement for more details on fees and costs.



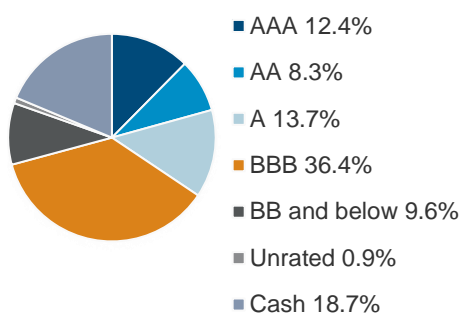
### Fund performance to 30 September 2021

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
<b>1 month (%)</b>	-0.10	-0.14	0.00	-0.14
<b>3 months (%)</b>	0.48	0.35	0.01	0.34
<b>1 year (%)</b>	2.81	2.31	0.04	2.27
<b>3 years (% pa)</b>	2.91	2.41	0.78	1.63
<b>5 years (% pa)</b>	3.09	2.59	1.20	1.39
<b>10 years (% pa)</b>	4.11	3.60	2.07	1.53
<b>Since inception (% pa)</b>	5.09	4.57	3.62	0.95

**Past performance is not a reliable indicator of future performance.**

Total returns are calculated based on changes in net asset values and assumes the reinvestment of distributions. Total net Fund returns are quoted after the deduction of fees and expenses. Due to individual circumstances, your net returns may differ from the net returns quoted above.

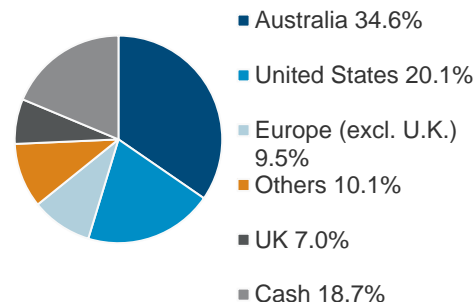
### Credit profile breakdown



Average credit rating: A-

BB and below include direct holdings and residual exposure to issuers held through our investment grade and emerging markets allocation.

### Region breakdown



### Asset allocation

Sector	Market value %
Investment grade corporates <sup>^</sup>	47.1
Investment grade government*	0.2
Asset-backed securities	22.8
High yield corporates <sup>^</sup>	3.3
Emerging markets corporates	4.6
Emerging markets government <sup>^</sup>	3.3
Cash and equivalents	18.7

Asset-backed securities include but are not limited to residential mortgage backed securities, bank loans and other credit related securities.

<sup>^</sup>Fund holds (0.0%) in investment grade, (0.9%) in high yield and (0.1%) in emerging markets credit hedges as synthetic cash (reduction in percentage of physical cash exposure).

### Fund statistics

Credit spread duration	3.1 years
Interest rate duration	1.1 years
Standard deviation <sup>1</sup>	1.8% pa
Yield to maturity <sup>2</sup>	1.3% pa
Cash	18.7%
Cash exposure through credit hedges <sup>3</sup>	1.0%

<sup>1</sup> Statistical measure of variance of Fund's post-fee monthly returns from average post-fee return since inception, used as gauge of volatility.

<sup>2</sup> Pre-fee returns Fund would earn over next year based on current market conditions if there were no changes to interest rates or holdings. It is not an actual or estimated return.

<sup>3</sup> Credit hedges swap the return for underlying credit index for cash.

# Macquarie Income Opportunities Fund

Monthly report – 30 September 2021

## Fund highlights

The Fund underperformed the benchmark in September, mostly influenced by interest rate performance. Global bond yields rose materially over the month, with the US benchmark 10 year yield rising 18bps to just under 1.50%. The Fund maintained a low interest rate exposure of just over 1 year, below the 2019-220 levels and below neutral levels for the strategy. The Fund's developed market credit positioning contributed offsetting positive performance on the other hand – both investment grade (IG) and high yield credit were strong, reflecting good relative performance in BB and BBB-related credits. Amongst the strongest individual positions, holdings of airlines such as Air Canada and International Airlines Group (parent of British Airways) performed well as the US moved to open up transatlantic travel. Weaker performers included some portions of emerging markets debt, which has relatively underperformed with developments in the Chinese market. Overall, emerging markets exposures contributed a flat result for the month.

The Fund added new credit holdings during the month, mostly in IG credit, though spreads continued to be generally tight with limited new issue concession. The portfolio added a new bond from Qantas in AUD in new issue, as well as new issuance from global issuers such as Southern Company (US utility company), which issued in Europe. In addition, some volatility in interest rates and equity markets offered some opportunities to build on existing holdings, such as adding to a hybrid exposure to Silicon Valley Bank, one of our favoured US regional banks. The Fund overall maintains its barbell of higher beta credit and high liquidity allocations. We began adding back some duration in the Fund late in the month, again reflecting the late month sell-off in rates. So far, the additions of duration position have been via options, hence with minimal immediate impact on the Fund's duration exposures.

## Market review

With vaccination rates pushing higher and recovery (albeit stuttering) underway, it is not a surprise to hear from policy makers that they are considering withdrawing the huge stimulus support injected into the economy. Worker assistance schemes in many countries have either ended or been nearing an end, so fiscal support is already turning into fiscal drag. In September, the US Federal Reserve (Fed) and Bank of England sent signals that they are ready to taper their quantitative support. With rising asset prices the clear winner of global policy maker efforts, the prospect of this being reduced is causing some concern. On top of this, commodity prices (oil and natural gas prices in particular) are launching higher. This is fuelling inflation fears.

Bond yields have continued to trek higher, with the more hawkish-than-expected Fed meeting igniting an acceleration. Yield curves are steepening, with short rates protected by the prospect of target rates remaining on hold while longer rates embracing increased concerns that inflation will run 'hotter' for longer.

Risk markets have baulked but this came off tight levels, and credit spreads in fact ended the month unchanged or tighter. Emerging markets debt underperformed, with a stronger dollar and negative headlines coming from China the key drivers.

US credit markets outperformed other risk assets in September and were marginally stronger, mostly reflecting a rebound from some earlier weakness. High yield (HY) credit finished unchanged on the month, influenced by heavy issuance into month end and more directly affected by the late equity market weakness; while investment grade (IG) credit finished 3 bps tighter. Leveraged loans (which has similar credit quality to high yield but much lower duration) finished the month stronger. Oil and gas related issuers performed strongly, as did airlines. European IG spreads closed the month unchanged at 84bps with spread volatility in IG remaining benign. Australian credit underperformed global credit, with spreads around 4bps wider over the month.

## Outlook

Financial markets have entered the fourth quarter with a plethora of uncertainties, yet risk assets remain near historically tight valuations. Though bond yields are edging upwards and the highs posted earlier in the year are not far away. From a macro perspective, the outlook remains uncertain largely because the pandemic continues, albeit differently in respective countries. The pandemic continues to exert its significant economic influence around the globe via compromised supply chains. These supply chain problems can only be fixed once the pandemic has passed. We are all experiencing the impact of the supply chain problems with inflation rates elevated and shortages of many goods. There are fierce debates about whether financial markets should believe that these problems are transitory or more persistent, characterised by higher inflation.

We observed that our inflation scorecards are signalling that the current inflation pulse is indeed being driven by cyclical factors while structural drivers remain benign. We remind ourselves that our research has shown persistent inflation is driven by demand, while the current inflation is largely driven by supply factors. Looking back to the 1970s (a common reference for supply-driven inflation), the problem with oil supply was a deliberate and persistent act of restraint by OPEC, but in contrast the current problem is a result of the pandemic and there is a global will to fix the problem. Another important contrast with the 1970s is that wages rose persistently due to high unionisation, which is quite different to today, with wage rises being delivered to targeted areas of labour shortages. However, stagflation was a big problem in the 1970s and there are worrying signs that this environment is emerging today, where rising inflation dampens growth. This is a challenging time for central banks and investors as risks for a misstep are high, but we remain true to our investment philosophy and processes to navigate this challenging path.

# Macquarie Income Opportunities Fund

Monthly report – 30 September 2021

**For more information speak to your financial adviser, call us on 1800 814 523, email [mim.clientservice@macquarie.com](mailto:mim.clientservice@macquarie.com) or visit [macquarie.com](http://macquarie.com)**

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