

Investment objective

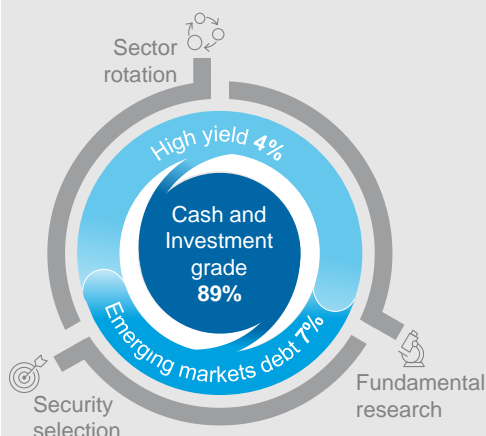
Aims to outperform the Bloomberg AusBond Bank Bill Index over the medium term (before fees). It aims to provide higher income returns than traditional cash investments at all stages of interest rate and economic cycles.

Key information

Fund details

APIR code	MAQ0277AU
Inception date	18 September 2003
Fund size	\$3,686.5m
Distribution frequency	Monthly
Management fee*	0.492% pa
Minimum investment (Direct)	\$20,000
Unit prices and spreads	macquarie.com.au/unit_prices

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



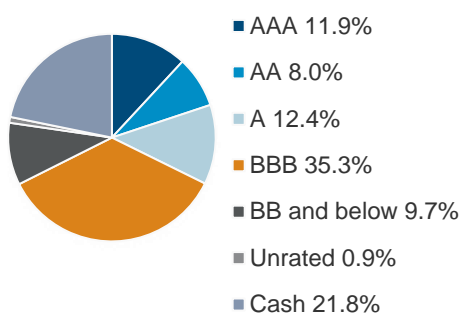
Fund performance to 31 December 2021

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	0.38	0.34	0.00	0.34
3 months (%)	-0.17	-0.29	0.01	-0.30
1 year (%)	0.78	0.29	0.03	0.26
3 years (% pa)	2.84	2.34	0.63	1.71
5 years (% pa)	2.97	2.47	1.11	1.36
10 years (% pa)	3.97	3.46	1.94	1.52
Since inception (% pa)	5.01	4.49	3.58	0.91

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.

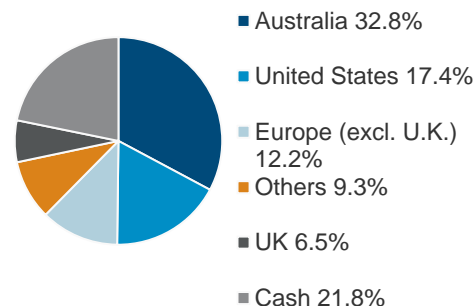
Credit profile breakdown



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 [^]	45.2
Investment grade government*	0.2
Asset-backed securities	22.0
High yield corporates [^]	3.9
Emerging markets corporates	3.9
Emerging markets government [^]	3.0
Cash and equivalents	21.8

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

[^]Fund holds (0.0%) in investment grade, (0.8%) 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	2.7 years
Interest rate duration	1.3 years
Standard deviation ¹	1.8% pa
Yield to maturity ²	1.8% pa
Cash	21.8%
Cash exposure through credit hedges ³	0.9%

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

² 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.

³ Credit hedges swap the return for underlying credit index for cash.

Macquarie Income Opportunities Fund

Monthly report – 31 December 2021

Fund highlights

The Fund outperformed the benchmark in December, with a year-end rally in credit spreads the largest contributor to the positive result. The improvement in credit markets had several drivers, including much lower issuance volumes into year end, lower liquidity, reduced concern about the new Omicron variant, and apparent comfort from broad markets with the US Federal Reserve's approach of accelerating the tapering of their asset purchase. The key drivers of performance were allocations to high yield and higher-beta investment grade credit, which benefited from the improved economic outlook and have been somewhat more shielded from government bond market volatility. The Fund's duration positioning had a neutral impact on performance, with bond yields volatile but overall mostly unchanged, while the FX positioning was a small negative after several months of strong positive performance contributions. Within the Fund's credit holdings, some of the top performers included travel-sensitive sectors such as airlines – including International Airlines Group and Air Canada – reflecting the reduced fears around Omicron. Commodity-linked high yield holdings in metals and paper and packaging were also additive, given the rebound in energy and industrial commodity prices.

The Fund continued to add short-dated credit during the month, with some yield on offer and limited interest rate duration exposure – this remains our preferred use of cash when there is limited new issuance or higher yielding options. After a rebound in investment grade spreads, some longer-dated new bonds that were added in November were trimmed back. Given the lower new issue volumes, most activities in the Fund were in the secondary market this month.

Market overview

Asset markets were buffeted during December by the prospect that the path of global monetary policy tightening was spreading from emerging market to developed market central banks and by the surge in new cases from the arrival of the Omicron variant. That said, risk markets performed, largely because they already reacted (negatively) heading into the end of November and partly because there is a consensus building that the health risk from Omicron is less than the Delta variant. Amidst this were three key central bank meetings: the US Federal Reserve (Fed), European Central Bank (ECB) and Bank of England (BoE). In summary, the guidance was more hawkish than markets expected, which was a bias for tighter monetary policy going forward. In fact, the BoE delivered a 0.25% hike in its base rate, while the Fed guided its intention to hike rates earlier (in 2022) and more quickly. Even the perma-dovish ECB was leaning more hawkish. The driving factor behind their messaging was "higher and persistently higher-than-expected inflation".

With central banks moving to remove the pandemic stimulus, at the same time Omicron has created uncertainty on the economic outlook. Despite this uncertainty, asset markets ended the year with an aura of calm. Bond yields were broadly contained within ranges and yield curves were relatively flat given the elevated fears on inflation. Credit spreads, while off their lows, ended the year at the tighter end of valuations. Only emerging market spreads are cheaper, albeit modestly, and not a surprise given the stronger bias of the dollar of late.

In US credit, a lack of issuance in the second half of December contributed to spread tightening as investors chased limited investment options in credit, though the most significant factor was the improved sentiment on the economic outlook and low end of year liquidity. In European credit, investment grade spreads also closed tighter. Supply was seasonally light, which helped the technical backdrop. The best performing areas were cyclical BBB credit and REITs. High yield airlines remained slightly off recent highs as the outlook for international travel has deteriorated. Australian credit underperformed its global counterparts with spreads broadly unchanged. Another bout of volatility in rates markets led to underperformance at the front-end of the credit curve, while in the longer-end generic BBB spreads continued to drift wider. The mid-curve remained the tenor of choice for outperformance this month, though most of the focus was on Tier 2 bonds with the optically wide spread levels enticing buyers across the spectrum with strong interest into month-end.

Outlook

The pandemic has defined the past two years' investment climate. While the signs are positive that the world is reaching a turning point in 2022, the legacy of the pandemic will linger for some time. As we consider the outlook for 2022, two questions come to the forefront: as fiscal stimulus wanes and central banks begin to withdraw support, where will the trend of economic growth settle; and how persistent is the inflation impulse?

We previously identified that the future trend of monetary policy was shifting from easing to tightening. The fiscal shift is less clear and even less understood. Asset markets embraced the global fiscal stimulus through 2020-2021. However, with the US seemingly unable to get the promised new fiscal stimulus through Congress it is a timely reminder that government spending is in fact decelerating from the initial surge, which will act as a drag on growth during 2022. And it should not be lost that many governments have an intent to begin the process of clawing back the explosion of government deficits. How these play out in 2022 will have important implications for growth, where our bias is that with the gyrations the trend will likely settle on the pre-pandemic trend.

The inflation outlook is complicated by the global disruption to supply. If this disruption persists, then even the uninspiring pre-pandemic growth trend would likely be enough to keep inflation elevated relative to pre-pandemic averages. Yet, forward looking asset markets could foresee a scenario where policy tapering begins to slow demand at the same time the supply chain begins to normalise, which could deliver a disinflation impulse.

Thus, we confront the outlook having to balance investors' need for yield against tight valuations and a high level of uncertainty and multiple possible scenarios for 2022. We remain invested but with balance, with the intention of using periodic volatility to selectively participate in opportunities.

Macquarie Income Opportunities Fund

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For more information speak to your financial adviser, call us on 1800 814 523, email mim.clientservice@macquarie.com or visit macquarie.com

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