

Investment objective

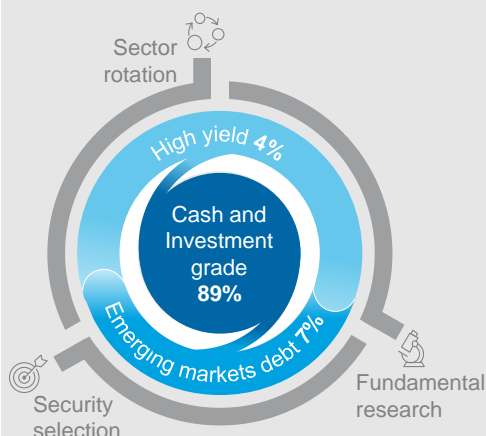
Aims to outperform the Bloomberg AusBond Bank Bill Index over the medium term (before fees). It aims to provide higher income returns than traditional cash investments at all stages of interest rate and economic cycles.

Key information

Fund details

APIR code	MAQ0277AU
Inception date	18 September 2003
Fund size	\$3,691.8m
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.



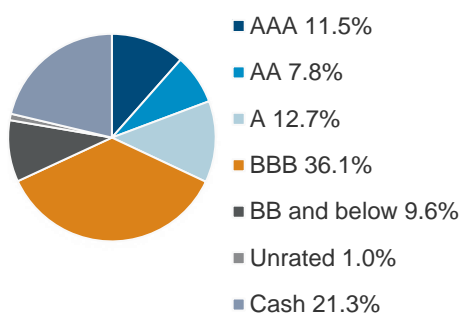
Fund performance to 31 January 2022

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	-0.36	-0.40	0.01	-0.41
3 months (%)	0.21	0.09	0.01	0.08
1 year (%)	0.33	-0.16	0.03	-0.19
3 years (% pa)	2.46	1.96	0.57	1.39
5 years (% pa)	2.76	2.26	1.08	1.18
10 years (% pa)	3.89	3.38	1.90	1.48
Since inception (% pa)	4.96	4.45	3.56	0.89

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.

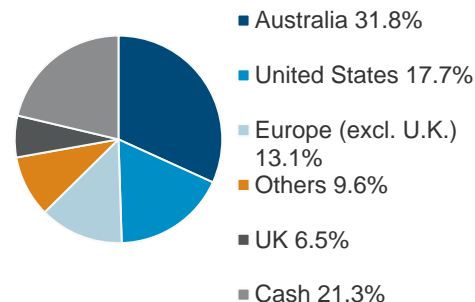
Credit profile breakdown



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 [^]	46.0
Investment grade government*	0.2
Asset-backed securities	21.5
High yield corporates [^]	3.9
Emerging markets corporates	4.0
Emerging markets government [^]	3.1
Cash and equivalents	21.3

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, (0.7%) in high yield and (0.2%) 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	1.4 years
Standard deviation ¹	1.8% pa
Yield to maturity ²	2.0% pa
Cash	21.3%
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 January 2022

Fund highlights

The Fund underperformed the benchmark for the first month of 2022 amid the volatility in both government bond and credit markets. The move in credit spreads was the sharpest widening since March 2020, and the performance of government bonds (using US Treasuries) was the worst since 2016, as investors digested changes in the tone from several central banks. The performance of the Fund's duration and credit positionings were impacted by the widespread volatility in markets, though our risk positions had been trimmed back meaningfully over the past several months in anticipation of market volatility, and our duration exposure has remained well below levels held pre-pandemic. The Fund's remaining high yield and emerging markets holdings detracted from performance, for example, BB-rated credit such as Air Canada and high yield cable issuers traded wider in spreads, though with no changes to fundamentals but more uncertainty on the pace of central bank rate hikes. In contrast, UK travel exposures such as International Airlines Group contributed positively to performance, as the UK announced that they would ease cross-border travel restrictions.

During the month, the Fund continued to add short-dated credit, which provides some yield on offer but limited interest rate risk exposure – this remains our preferred use of cash when there is limited new issuance or higher yielding options, and this portion of the credit market has performed well during the recent volatility. The Fund opportunistically added some longer-dated European credit, including REITs and packaging companies, with recent volatility offering more attractive entry points.

Markets had already begun to rebound into the end of the month, which had some degree of positive impact on performance. Overall, the Fund maintains a healthy liquidity allocation and lower overall risk exposures, and we remain open to using market volatility as an opportunity to add to preferred positions. With central banks pivoting to a message of rate hikes and stimulus withdrawal in recent months, we expect bouts of volatility to be much more prevalent versus 2021.

Market overview

The main theme in January was the hawkish pivot by multiple central banks in response to continued and persistent inflation. While many emerging market central banks are already advanced in their monetary policy tightening cycle, it has been the messaging from the US Federal Reserve (Fed) that has had the most dramatic impact across global financial markets. Expectations for the number of Fed rate hikes (of +0.25% increments) during 2022 increased to almost five by month end. The impact across rates markets was broadly for bond yields to rise and yield curves to flatten, where short-dated yields have risen more than long-dated yields. Risk markets, underpinned for most of the past two years by easy and easier monetary and fiscal policy, reacted negatively. Equity indices broadly ended the monthly lower and volatility was higher. This dragged on credit markets, where spreads widened with lower quality names/ratings underperforming. The US dollar reversed its pullback in the previous month, with the Australian and New Zealand currencies notably weak despite the continued strength across commodity prices in the month.

During December and through January, the Omicron variant rippled across the world. While some countries tweaked restrictions tighter, most relied on voluntary measures and gradually the data is firming a belief that this variant may be more virulent but seems to be much less of a concern for hospitals and health in general. Thus, the UK's move to remove most restrictions towards the end of January is being viewed as the likely path for most countries in the coming months. Though, with the virus, nothing is assured.

US credit spreads widened in January, the largest monthly move since March 2020, though that reflected the low volatility environment of 2021 more than suggesting a significant move wider. Equity markets led the weakness while credit markets were more orderly. This partly reflected differing weights: tech, which led the sell-off, is around a third of the S&P 500 Index, compared to less than 10% in US investment grade (IG) credit. In contrast, energy and financials were much better performers, and make up almost 40% of IG credit, compared to only 15% in the S&P 500. With moves not significantly differentiated across the credit ratings spectrum, this suggests that credit was heavily influenced by the rates market volatility than growth concerns, given the lowest-rated credit are usually much more sensitive to economic growth. The US earnings season kicked off and was well advanced by month end, with about a third of the companies reported. Overall, earnings have continued to be supportive but with notably fewer upgrades to guidance. European IG closed 10bps wider at a spread of 105bps, and credit curves steepened, with the longer maturities (10+ years) widening 15bps and swap spreads drifting wider again. Australian IG credit relatively outperformed its global peers, with spreads ending the month broadly unchanged. Credit curves bull-steepened over the month as the shorter maturities grinded tighter in spreads and longer-dated bonds leaked wider, particularly bonds rated in the BBB category.

Outlook

Fixed income markets are acutely focused on the outlook for inflation and the reaction by central banks. These two themes were central to our debates within the Macquarie Fixed Income team's recent global Strategic Forum. From a macroeconomic perspective, a deep dive into the drivers of aggregate demand and aggregate supply has enabled us to understand that the currently high inflation has been largely a product of a slow recovery in supply and demand being broadly back to the pre-pandemic trend. Looking into 2022, we asked what are the big demand drivers and noted that policies – both monetary and fiscal – were moving in the opposite direction from those of the past two years. Gradually, we expect this action to drag demand lower. We note the narrative that the consumers can drive demand higher, fuelled by higher wages and excess savings, but see that there is little actual evidence in the spending data that supports an above-trend consumption. Finally, on the supply side, we note that the pandemic needs to pass for a sustainable improvement to take place, and recent evidence gives optimism for progress through this year.

Thus, we expect inflation to trend lower in 2022, notably in the second quarter and more noticeably later in the year. This should offer respite the investor and central bank fear that inflation is a structural problem, but this path is not without risks from the virus, factors such as oil as well as policy (error). This implies a tricky investment outlook path to navigate, where periods of volatility spikes should be expected. We also recognise the investors' need for yield. During 2021, our investment approach was cautious, holding low levels of duration and low levels of exposure to risk assets. This gives our team the opportunity to take advantage of expected volatility in 2022 to add duration and risk either from both our top-down and bottom-up processes.

Macquarie Income Opportunities Fund

Monthly report – 31 January 2022

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

Important information

Macquarie Investment Management Australia Limited ABN 55 092 552 611 AFS Licence 238321 is the issuer of units in, and responsible entity of the Fund.

The information in this report is provided for general information purposes only and is not, and should not be construed as, an advertisement, an invitation, an offer, a solicitation of an offer or a recommendation to participate in any investment strategy or take any other action, including to buy or sell any product offered by any member of the Macquarie Group. The above information is not personal advice and does not take into account the investment objectives, financial situation or needs of any person. Please review the Target Market Determination for the Fund available at macquarieim.com/TMD and consider if the Fund may be suitable for you. Investors should consider the offer document of the Fund in deciding whether to acquire or continue to hold units in the Fund. The offer document is available by contacting us on 1800 814 523. Past performance is not a reliable indicator of future performance.

Future results are impossible to predict. In preparing this document, reliance may have been placed, without independent verification, on the accuracy and completeness of information available from external sources. This report may also include opinions, estimates and other forward-looking statements which are, by their very nature, subject to various risks and uncertainties. Actual events or results may differ materially, positively or negatively, from those reflected or contemplated in such forward-looking statements. Forward-looking statements constitute the investment manager's judgement as at the date of preparation of this report and are subject to change without notice. To the maximum extent permitted by law, no member of the Macquarie Group nor its directors, employees or agents accept any liability for any loss arising from the use of this document, its contents or otherwise arising in connection with it.

The Fund may have exposure to instruments that reference a market determined rate such as LIBOR. Current and future regulatory developments may lead to the cessation of some of these rates. This may adversely impact the value and/or liquidity of these instruments.

Other than Macquarie Bank Limited (**MBL**), none of the entities noted in this document are authorised deposit-taking institutions for the purposes of the Banking Act 1959 (Commonwealth of Australia). The obligations of these entities do not represent deposits or other liabilities of MBL. MBL does not guarantee or otherwise provide assurance in respect of the obligations of these entities, unless noted otherwise.

Bloomberg Finance L.P. and its affiliates (collectively, '**Bloomberg**') are not affiliated with Macquarie and do not approve, endorse, review, or recommend the Fund. Bloomberg and the Bloomberg AusBond Index referred to in this document are trademarks or service marks of Bloomberg and have been licensed to Macquarie. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to the Bloomberg AusBond Index referred to in this document.