

Investment objective

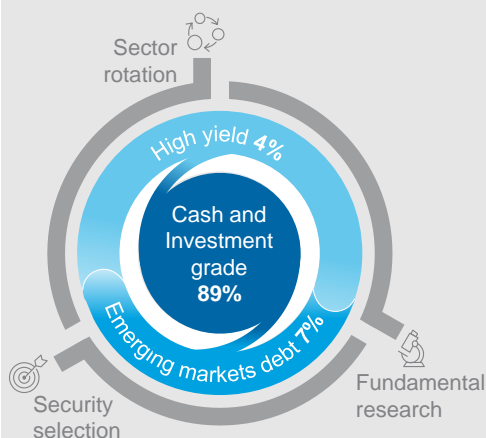
Aims to outperform the Bloomberg AusBond Bank Bill Index over the medium term (before fees). It aims to provide higher income returns than traditional cash investments at all stages of interest rate and economic cycles.

Key information

Fund details

| | |
|-----------------------------|--|
| APIR code | MAQ0277AU |
| Inception date | 18 September 2003 |
| Fund size | \$3,671.4m |
| 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.



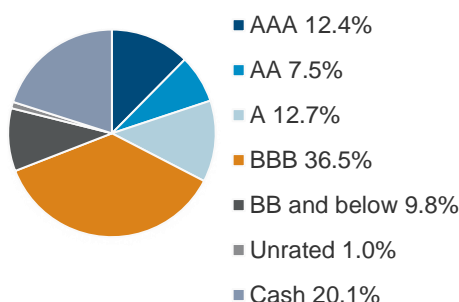
Fund performance to 28 February 2022

| | Total Fund return (gross) | Total Fund return (net) | Benchmark return | Total excess return (net) |
|------------------------|---------------------------|-------------------------|------------------|---------------------------|
| 1 month (%) | -0.98 | -1.02 | 0.01 | -1.03 |
| 3 months (%) | -0.97 | -1.08 | 0.01 | -1.09 |
| 1 year (%) | -0.06 | -0.54 | 0.03 | -0.57 |
| 3 years (% pa) | 1.95 | 1.45 | 0.51 | 0.94 |
| 5 years (% pa) | 2.48 | 1.98 | 1.05 | 0.93 |
| 10 years (% pa) | 3.69 | 3.18 | 1.87 | 1.31 |
| Since inception (% pa) | 4.89 | 4.37 | 3.54 | 0.83 |

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.

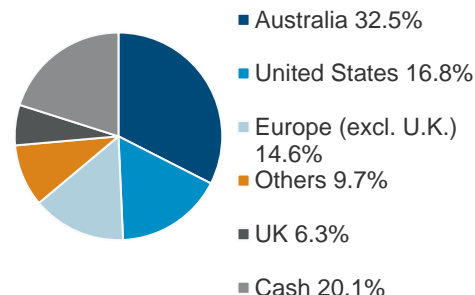
Credit profile breakdown



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 [^] | 46.7 |
| Investment grade government* | 0.2 |
| Asset-backed securities | 22.2 |
| High yield corporates [^] | 4.0 |
| Emerging markets corporates | 3.8 |
| Emerging markets government [^] | 3.0 |
| Cash and equivalents | 20.1 |

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 (0.1%) in emerging markets credit hedges as synthetic cash (reduction in percentage of physical cash exposure).

Fund statistics

| | |
|--|-----------|
| Credit spread duration | 2.6 years |
| Interest rate duration | 1.6 years |
| Standard deviation ¹ | 1.9% pa |
| Yield to maturity ² | 2.6% pa |
| Cash | 20.1% |
| Cash exposure through credit hedges ³ | 0.8% |

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 – 28 February 2022

Fund highlights

The Fund underperformed the benchmark for the month, with repricing in both government bond and credit markets contributing to the result. There were two key drivers to the market moves: sharply more hawkish central bank rhetoric, mostly early in the month, and Russia's invasion of Ukraine in the second half. Apart from the clear humanitarian costs, the invasion increases both short and medium term economic uncertainty, including the impact on inflation, global growth, and even the plumbing of the financial system. Credit markets overall were sharply weaker, and the negative credit contribution was driven by the Fund's holdings of European investment grade (IG) and emerging markets (EM) credit – both of these sectors are clearly more impacted by closer linkages to Russia/Ukraine. EM were initially less impacted, but clearly underperformed after geopolitical tensions flared. Bond markets were generally torn between higher inflation and more aggressive central bank activity, and a flight to safe haven assets as geopolitical tensions flared. Overall, bond yields were higher over the month, and the Fund's modest duration positioning detracted.

Over the last year, the Fund has meaningfully reduced IG credit exposures, and has been holding significant liquidity levels (with cash and short-dated IG credit totalling over 40% of assets), which reduced the impact of market weakness and offers opportunities to take advantage of spread volatility over time. During the month, the Fund added some credit exposures on weakness, focusing in sectors that had underperformed – such as EUR-denominated IG, where even names such as Bank of America, not linked to Russia, had repriced sharply – while reduced some Australian credit exposure, which had held in very well amid the volatility and moved only modestly. We also took the opportunity to add to the Fund's duration exposure in Australia, judging market expectations of rate hikes as likely too aggressive given the economic uncertainty and recent messaging from the Reserve Bank of Australia.

Market overview

The concerning and saddening conflict in Ukraine continues to unfold, with Russia advancing toward the major cities of Kyiv and Kharkiv. Our thoughts are with the people impacted, and we hope for a swift resolution of the conflict.

February was a month of two halves. The first half continued the theme from January, where central banks were focusing on the current higher-than-expected inflation and either hiking or preparing the market for higher rates. However, geopolitical events intervened during the month as the conflict between Russia and Ukraine turned into an actual war. The combination of themes during the month caused volatility to rise across asset markets, and trading ranges for most assets were wide. Markets were left wondering at the end of the month just how central banks will juggle the dilemma they are facing, that is, elevated inflation and increasing stress across asset markets. In the end, markets have navigated to a mid-point that still expects rate hikes in coming months but have pared back their worst fears for higher rates over the cycle.

In net terms, commodity prices have risen across the board. While the surge in energy prices rightly grabs the headlines, the rise in many key soft commodities will be felt directly by consumers and feed into inflation expectations. Markets therefore still expect central banks to act to contain inflation risks, but there is a concern that the combination of higher rates and more supply-driven inflation will hurt growth. Thus, while bond yields have shifted higher, yield curves (the spread between short and long maturity yields) have narrowed (or flattened). Faced with these forces, risk markets suffered in particular, with emerging market spreads underperforming and European investment grade credit spreads underperforming the US.

US credit was weak, with benchmark investment grade (IG) credit spreads 16bps wider to a post-pandemic wide of 122bps. This continues the theme of weak year-to-date performance, with 2022 recording the worst start to the year (in total return) in at least 20 years. Key drivers of the moves were: continued concerns around interest rate volatility and US Federal Reserve support, and the war in Ukraine. Amongst sectors, banks and telecom were the worst major industry performers, reflecting more so their relatively strong liquidity as investors are able to exit these holdings, rather than a link to the conflict. Spread decompression was only modest, with BBB, single-A, and BB credit (the highest credit rating category in high yield) all widening by a similar amount. It was the worst month for European IG credit since March 2020, with IG spreads closing 39bps wider to 144bps. Initially, European credit underperformed, as a hawkish tone taken by the European Central Bank brought forward the timeline for ending quantitative easing to Q3 and markets priced in rate hikes immediately after. In the latter half of the month, the tragic events in Ukraine added further volatility to European credit, which was the most exposed of global markets. In broad terms, spreads decompressed across rating bands in IG credit and curves bear flattened. The Australian IG market weakened by 10bps in February, outperforming offshore credit markets.

Outlook

Our recent Fixed Income Strategic Forum noted that while aggregate demand had rebounded, it was settling into the pre-pandemic trend that underpinned the lower-for-longer environment for policy and rates. Analysis shows that current elevated inflation is therefore largely a result of aggregate supply remaining compromised by the effects of the pandemic. If indeed the pandemic begins to fade as a dominant influence, the supply side of the global economy is expected to gradually repair, and with base effects kicking in, the path for inflation was forecast to trend lower during the second quarter and accelerate through the second half of 2022. Oil was a big risk to that view. And not only have the events in Ukraine pushed energy/commodity prices higher, but the resulting sanctions are also providing more difficulties for the supply side of the economy. We therefore modify our assessment and see risk in the short term for inflation to remain more elevated. However, we feel that the downside risks for growth have also increased in the medium term.

We came into 2022 expecting periodic volatility and a tricky investment path to navigate. Indeed, the price action in recent months is actually creating value opportunities. During 2021, our investment approach was cautious, holding low levels of duration and low levels of exposure to risk assets. This positioning provides our portfolios the opportunity to take advantage of expected volatility and a cheapening of valuation and add duration and risk, from both our top-down and bottom-up processes.

Macquarie Income Opportunities Fund

Monthly report – 28 February 2022

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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