

Macquarie Income Opportunities Fund

Monthly report – 30 April 2022

Investment objective

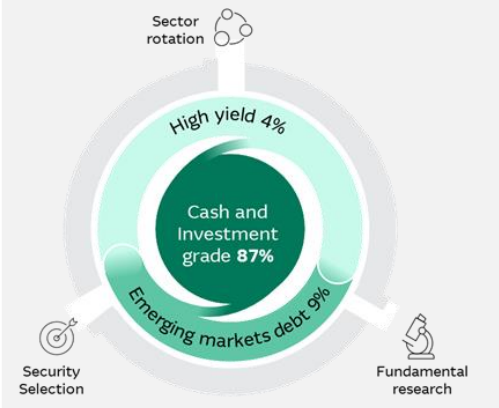
Aims to outperform the Bloomberg AusBond Bank Bill Index over the medium term (before fees). It aims to provide higher income returns than traditional cash investments at all stages of interest rate and economic cycles.

Key information

Fund details

APIR code	MAQ0277AU
Inception date	18 September 2003
Fund size	\$3,637.0m
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 30 April 2022

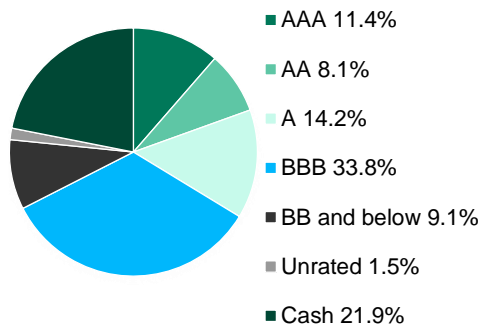
	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	-1.18	-1.22	-0.02	-1.20
3 months (%)	-2.94	-3.06	-0.01	-3.05
1 year (%)	-2.53	-3.01	0.02	-3.03
3 years (% pa)	0.86	0.37	0.40	-0.03
5 years (% pa)	1.88	1.39	0.99	0.40
10 years (% pa)	3.35	2.85	1.79	1.06
Since inception (% pa)	4.73	4.21	3.51	0.70

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.

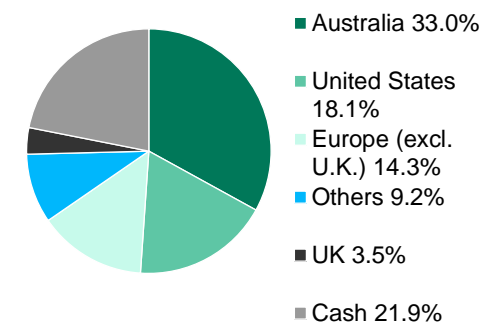
Credit profile breakdown



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 [^]	44.0
Investment grade government*	0.2
Asset-backed securities	20.8
High yield corporates [^]	4.0
Emerging markets corporates	6.8
Emerging markets government [^]	2.3
Cash and equivalents	21.9

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	2.6 years
Interest rate duration	1.4 years
Standard deviation ¹	1.9% pa
Yield to maturity ²	4.3% pa
Cash	21.9%
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.

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Fund highlights

The Fund underperformed the benchmark for the month, with moves again heavily influenced by significant government bond market weakness. That continued the trend from the first quarter of 2022, where inflation and increasingly hawkish central banks globally combined to drive very significant rises in bond yields (causing lower bond prices), particularly at the shorter maturity part of the yield curve. Holdings of short-dated Australian government bond exposures were the largest contributor, with hawkish messaging from the Reserve Bank of Australia driving a sharp repricing of rate hike expectations over the month – moving from an already elevated 6 hikes, to almost 10 hikes by year end. Credit markets were also weaker during the month, with US investment credit (IG) credit recording its worst month for spread widening since March 2020 – which was also a contributor to underperformance this month. Within the credit market, exposures in IG and high yield credit led the weakness, with the Fund's positions in global BBB-rated IG the largest single sector grouping. Issuers that we have strong fundamental comfort with, such as toll-road operator Transurban Queensland and US bank JP Morgan, were amongst the largest single name detractors, reflecting the broad market re-pricing of credit risk.

The Fund's positioning remains positioned with significant liquidity (with cash and short-dated IG credit totalling over 40% of holdings), enabling us to begin looking at meaningful opportunities for the Fund to participate in a sharply higher yield environment. For example, US banks are now issuing at spreads near, or wider than levels at the peak of the 2018 market stress – which we think begins to offer an attractive entry point in a sector that has made significant progress in improving capital levels and simplifying operations. The Fund added Bank of America in April, which issued in EUR with a spread of almost 2% over government bonds, or an AUD-equivalent yield of approximately 5%, which we believe offers value for an issuer that should be relatively resilient in a volatile market and economic backdrop. In contrast, spread tightening from the post-Russian invasion wides offered an opportunity to trim higher-beta exposures, removing selected more cyclical industrial names, such as Ford Motor Credit. On interest rate duration positioning, the Fund added modestly to its AUD yield curve exposure, judging yields on offer to be increasingly attractive – though with expectations that this is likely to continue to be volatile.

Market overview

The upward pressure on inflation and increasing hawkishness of global central banks continue to be the main theme impacting fixed income markets. The Russia-Ukraine conflict continues as does the debate about its impact. The geopolitical environment is being shaken and likely re-shaped while the global economy is having to endure another significant and broader supply shock. We have often described the investment climate in recent years as 'contained', where central bank actions were to contain risks and create stability for investors. This 'container' is not only being shaken but potentially broken with the uncertainties on the outlook piling up, and at the same time central banks have shifted focus completely embarking on a rate hike cycle, the likes of which has not been witnessed for decades.

Global government bond yields have been pulled higher by inflation. However, it has been the urgency from central banks to tame inflation that has been the key driver of current higher yields. During April, after the rapid trend of yield curve flattening, the longer-dated bonds underperformed and yield curves steepened, in some cases brutally. However, by month-end some curve flattening returned as evidence emerged that the high inflation was beginning to weaken demand. Risk markets have been under pressure, but to date this continues to be an orderly sell-off, with corporates able to pass on higher prices at this stage of the cycle and therefore maintain relatively good earnings and credit profiles.

The spread on the US investment grade (IG) index widened by 19bps to 135bps. This was the worst month for credit spreads since March 2020 and extending the worst start to year on record in total return for IG credit. Weakness was broad-based amongst sectors, with underperformance from financials and media. Financials underperformance was driven by economic concerns, but also very heavy issuance volumes. Relatively strong performers included less cyclical sectors such as utilities, but also airlines and US autos (with resilient results in these sectors providing support). Earnings season kicked off in the US. Overall summary results were generally positive, with over 60% beating on sales and 80% on earnings. Investors are also focused on cost pressures – for the most part, companies remain confident in passing on costs to consumers, but causing some issuers to lower their guidance. European credit markets finished April weaker, with the ongoing Russia-Ukraine conflict and its implications being the main focus. The increasingly hawkish messaging from the European Central Bank on rate hikes and potential timing of the end of net asset purchases as early as July also an underlying headwind. The spread widening was most notable in cyclical sectors such as airlines and financials. Some non-cyclical sectors also suffered in pockets, such as utilities with heavy exposure to Russian gas. Australian credit weakened further in April with spreads widening 13bps on option-adjusted spread basis. Risk sentiment continues to remain lacklustre given a further escalation of the Russia-Ukraine war and inflationary pressures, prompting markets to price in more aggressive hikes by major global central banks. The Australian credit shifted wider across the curve.

Outlook

The impact of the pandemic supply shock continues to reverberate around the global, with attention moving back to China, who is persisting with a 'COVID-zero' policy, and as the latest variant spreads from Shanghai to other areas concerns about supply chain, growth and inflation have re-escalated. This is on top of a new supply shock stemming from the invasion of Ukraine. Inflation rates have moved even higher while just a few months ago expectations were for inflation to begin a steady trend lower by the start of Q2. Central banks have made inflation their prime focus and aggressive rate hikes are now expected. It is recognised that rate hikes will dampen demand and therefore slow growth in the medium term, but what is less understood is how inflation will react. Our view is that supply problems have been the primary driver of current high inflation and this factor is unlikely to be influenced by the central bank tightening. While economies and labour markets in particular are resilient, the medium-term outlook is clouded with uncertainty on how these colliding forces will impact both inflation and economic growth trend 2 to 4 quarters ahead.

A soft landing for the economy and inflation back towards target is the ultimate goal for policy makers. However, stagflation and recession risks are realistic scenarios for the medium-term outlook. For asset markets, the desired outcome is a soft landing but the questions overhanging investors is how to balance the risks for stagflation or recession with the knowledge that it will take considerable time before probabilities of any scenario becomes clear enough to position portfolios with conviction. Amidst this sea of uncertainties, there is one

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element of clarity emerging. Bond yields are becoming attractive. Timing is tricky with central banks hiking but for those investors with a longer term view, a gradual accumulation strategy of high quality sovereign bonds will add balance to a portfolio of credit and equities, which are vulnerable to any scenario that is not a soft landing.

For more information speak to your financial adviser, call us on 1800 814 523, email mim.clientservice@macquarie.com or visit macquarieim.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. Macquarie Investment Management Global Limited ABN 90 086 159 060 AFSL 237843 is the investment manager of the Fund.

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