

Macquarie Income Opportunities Fund

Monthly report – 28 February 2023

Investment objective

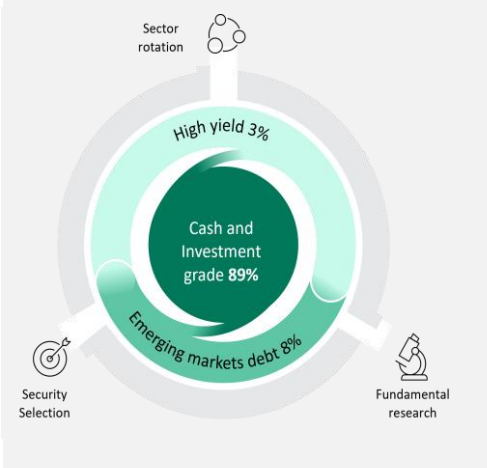
Aims to outperform the Bloomberg AusBond Bank Bill Index over the medium term (before fees). It aims to provide higher income returns than traditional cash investments at all stages of interest rate and economic cycles.

Key information

Fund details

APIR code	MAQ0277AU
Inception date	18 September 2003
Fund size	\$3,396.3m
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 2023

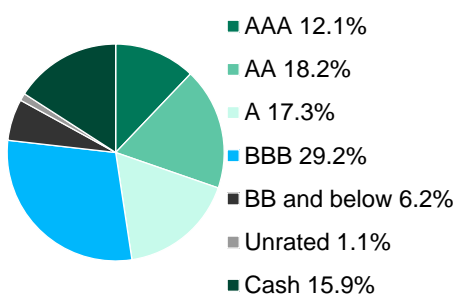
	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	-0.85	-0.89	0.24	-1.13
3 months (%)	0.89	0.77	0.76	0.01
1 year (%)	-1.05	-1.54	1.76	-3.30
3 years (% pa)	-0.02	-0.51	0.66	-1.17
5 years (% pa)	1.40	0.91	1.05	-0.14
10 years (% pa)	2.75	2.25	1.68	0.57
Since inception (% pa)	4.57	4.06	3.45	0.61

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.

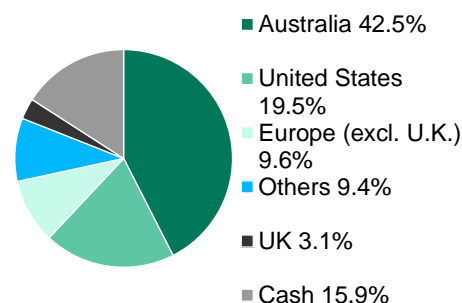
Total net Fund returns are quoted after the deduction of fees and expenses. Due to individual circumstances, your net returns may differ from the net returns quoted above.

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 [^]	54.4
Investment grade government*	0.1
Asset-backed securities	19.3
High yield corporates [^]	2.7
Emerging market corporate	5.1
Emerging market government [^]	2.5
Cash and equivalents	15.9

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

[^]Fund holds (6.1%) in investment grade, (0.9%) in high yield and (0.0%) in emerging markets credit hedges as synthetic cash (reduction in percentage of physical cash exposure).

Fund statistics

Credit spread duration	2.4 years
Interest rate duration	2.9 years
Standard deviation [^]	2.0% pa
Yield to maturity*	4.8% pa
Cash	15.9%
Cash exposure through credit hedges ⁺	7.0%

[^]Statistical measure of variance of Fund's post-fee monthly returns from its average post-fee return since inception used as gauge of volatility.

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

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

Macquarie Income Opportunities Fund

Monthly report – 28 February 2023

Fund highlights

The Fund underperformed the benchmark over the month, with renewed pressure on global interest rates the key driver of the underperformance. The Fund's credit positioning added value, with global investment grade credit and Australian Residential Mortgage-Backed Securities the key drivers of that contribution. Strong data releases in the US and Europe (as well as evidence of a deceleration in inflation improvement) impacted bond markets: in the US, for example, the peak rate Federal Reserve (Fed) rate priced by the market rose from 4.90%, to 5.41%, and long duration bonds followed suit. The Fund's duration is weighted to Australia, and Australian duration materially outperformed global moves (yields rose less), though still rose overall. Credit markets overall were mixed, but the Fund's positioning in higher quality credit added value: positioning in financials was key, which again outperformed the broader market.

Amongst individual credits, Australian and bank exposures were key positive contributors, as subordinated debt in the local market continued to perform well. US investment grade (IG) credit exposures were a detractor, with holdings of JP Morgan and Valero, a US refiner, giving up a portion of their recent impressive gains.

The Fund trimmed some higher beta European credits during the month (including a real estate investment trust (REIT) and a crossover rated industrial issuer) after strong performance. European credit still offers a spread pickup versus other global markets, but the rebound has been significant – with structural energy and inflation problems still lingering. The Fund also trimmed exposures to longer dated Australian corporates after significant spread tightening. Offsetting this, the Fund added short dated exposures in Australian banks and mortgage-backed securities, to maintain income in a lower volatility sector of the market.

The Fund added to duration positions over the month as yields renewed their sell-off: the Fund added short dated Australian duration, underscoring our view that short rates in Australia are attractive, and that the impact of the Reserve Bank of Australia rate hikes is beginning to have a slowing impact on the economy.

We continue to view the moves in bond markets as offering opportunities to add to both credit and duration positions over time - but at higher yield levels, particularly in credit, where spreads are now inside long-term averages and are not realistically discounting the possibility of economic weakness or recession later this year. The Fund remains positioned with significant liquidity to take advantage of opportunities – we believe markets will continue to be volatile as we navigate the challenges of bringing inflation down, while trying to avoid overtightening policy. The Fund's credit exposures overall are heavily weighted to investment grade, with small emerging markets and very modest high yield holdings. We think that best reflects the environment looking ahead and look forward to opportunities to add to higher beta sectors.

Market overview

The new year has started off with a bang for investor returns. Bond yields have fallen, credit spreads have narrowed, equities are higher and the US dollar has weakened. This was welcome news after the brutal performance across asset markets during 2022. With supply continuing to adjust the awareness that demand destruction would be the theme for 2023 was evident in multiple data releases. This combination not only confirms that inflation has peaked but also that the path is for much lower inflation through this year. Central banks continue to be key players in the outcomes for asset markets and while many are signalling a likely slowing in the size of their rate hikes none are calling their job as complete, that is, further hikes can be expected. The US Fed, the European Central Bank (ECB) and the Bank of England meet and deliver their policy decisions early in February, which their decisions and messaging key for setting the investment climate for the months ahead.

Developed sovereign bond yields see the prospect of an ideal mix of slowing growth and falling inflation underpinning a golden year for returns. The problem for investors is that extent of the rally in January has removed the 'easy' valuation option and implying that further volatility should be expected as the year unfolds. Credit investors are facing the prospects of a recession and earnings slide with credit spreads at tight valuation levels.

The start of 2023 was positive for both risk and rates markets as easing data allowed markets to price in an increased probability of a soft landing, despite the most aggressive interest rate tightening in over 40 years.

US Credit performed strongly to start 2023. Investment grade (IG) spreads tightened by 13bps, to 117bps, to the tightest since early April 2022; and high yield spreads tightened by 49bps, to 420bps. Higher beta credit spreads compressed, with BBB- credits (the lowest investment grade rung) tightening by 30bps, the most in the IG index, and CCC by over 100bps, the most in the high yield (HY) index. Issuance was solid – which is common to start the year – totaling \$US146bn, weighted heavily to financials. On a sector basis, European banks were very strong performers, recovering sharply from losses last year. Other strong performers included 2022 laggards such as media (especially streaming companies) and air travel and lodging issuers. Overall, US IG spreads are inside long-term averages, somewhat at odds with the uncertain outlook, but clearly driven by the market's growing expectation that a soft landing is possible.

European credit performed well this month closing 15bps tighter to 152bps, while European HY rallied 52bps. The overall risk tone was strong, despite a heavy new issue market, as expectations of a European recession are moving lower and bearish consensus from Q3/Q4 is being unwound. Primary market activity was strong with €107.5bn coming to market. Financials struggled in the early part of the month due to the volume of senior supply and concessions reaching 15-20bps. but this was erased as the month progressed. REITs was the strongest performing sector this month having materially underperformed in Q4, the sector rallied over 50bps with Aroundtown (German BBB+ REIT) outperforming following a bond tender. The overall theme was one of compression with BBB- names rallying an average of 36bps as cyclical, lower rated IG showed strong performance. Valuations have compressed materially in European IG by over 80bps from

Macquarie Income Opportunities Fund

Monthly report – 28 February 2023

the wiles of October as spreads move away from pricing a recession. However, the outlook is mixed given the ECB is expected to continue tightening aggressively and credit valuations are now less compelling.

Outlook

With Q1 and 2023 growth forecasts being revised higher, we asked ourselves: has the global economy experienced a mid-air refuelling? Our base case outlook, presented and discussed at the January Strategic Forum, is for a cyclical recession during 2023. The process for determining this view is built around our Recession alert process. Step 1 is to ask if the global economy has experienced any of the key triggers for previous recessions: a supply shock, a financial crisis, and, or policy overtightening. Clearly, there has been two supply shocks, the pandemic and that resulting from the Ukraine war. Step 2 is identifying if either the yield curve or our proprietary Warning and Crisis signals have triggered. The 2-year-10-year yield curve inverted in late July and the 3 month-10 year curve inverted in November, which combined to give a strong warning of a recession 12 months ahead. Our warning signal is +4 which is an amber alert. Step 3 is to check prevailing conditions. Here our analysis suggests that both Households and Businesses are in a better starting position than typical should a recession materialise in 2023. This should help soften the impact of a recession, and why our base case is for a cyclical recession not a hard landing.

Reflecting on data and market pricing during February we conclude that the risk for central banks to push monetary policy into over-tightening mode has increased. This would trigger a second Step 1 signal for recession. In addition, the expected fiscal drag has been much less in recent months than expected. In the US, the approach of the debt ceiling was pushed back by use of extraordinary measures, but these will run out around May, and we expect fiscal drag to again reassert just at the same time the lagged effects of monetary tightening begin to bite. Therefore, demand destruction is expected to dominate the second half of this year and recession remains our base case, with risk that the probability for a hard landing is increased in coming months.

Macquarie Income Opportunities Fund

Monthly report – 28 February 2023

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

Important information

Macquarie Investment Management Australia Limited ABN 55 092 552 611 AFSL 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.

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 relating to 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. This report includes 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.

In preparing this document, reliance may have been placed, without independent verification, on the accuracy and completeness of information available from external sources. 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.

Other than Macquarie Bank Limited ABN 46 008 583 542 ("Macquarie Bank"), any Macquarie Group entity noted in this material is not an authorised deposit-taking institution for the purposes of the Banking Act 1959 (Commonwealth of Australia). The obligations of these other Macquarie Group entities do not represent deposits or other liabilities of Macquarie Bank. Macquarie Bank does not guarantee or otherwise provide assurance in respect of the obligations of these other Macquarie Group entities. In addition, if this document relates to an investment, (a) the investor is subject to investment risk including possible delays in repayment and loss of income and principal invested and (b) none of Macquarie Bank or any other Macquarie Group entity guarantees any particular rate of return on or the performance of the investment, nor do they guarantee repayment of capital in respect of the investment.

Bloomberg Finance L.P. and its affiliates (collectively, "Bloomberg") are not affiliated with Macquarie and do not approve, endorse, review, or recommend the Portfolio. Bloomberg and the Bloomberg AusBond Index or Indices 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 or Indices referred to in this document.