

## Investment objective

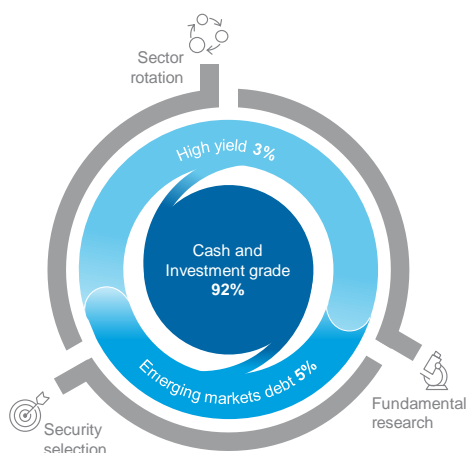
Aims to outperform the Bloomberg AusBond Bank Bill Index over the medium term (before fees). It aims to provide higher income returns than traditional cash investments at all stages of interest rate and economic cycles.

## Key information

| Fund details                |  |
|-----------------------------|--|
| APIR code                   | MAQ0277AU  |
| Inception date              | 18 September 2003  |
| Fund size                   | \$3,337.5m   |
| Distribution frequency      | Monthly  |
| Management fee*             | 0.492% pa  |
| Minimum investment (Direct) | \$20,000   |
| Unit prices and spreads     | <a href="http://macquarie.com.au/unit_prices">macquarie.com.au/unit_prices</a> |

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

## Current sector breakdown



| Sector limits         | (min/max) |
|-----------------------|-----------|
| Investment grade      | 0/100     |
| High yield            | 0/20      |
| Emerging markets debt | 0/15      |
| Cash                  | 0/100     |

## Fund performance to 30 April 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 (%)           | -0.08                     | -0.20                   | 0.00             | -0.20                     |
| 1 year (%)             | 4.79                      | 4.28                    | 0.07             | 4.21                      |
| 3 years (% pa)         | 2.89                      | 2.39                    | 1.06             | 1.33                      |
| 5 years (% pa)         | 3.48                      | 2.97                    | 1.36             | 1.61                      |
| 10 years (% pa)        | 4.08                      | 3.57                    | 2.27             | 1.30                      |
| Since inception (% pa) | 5.15                      | 4.64                    | 3.71             | 0.93                      |

**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.

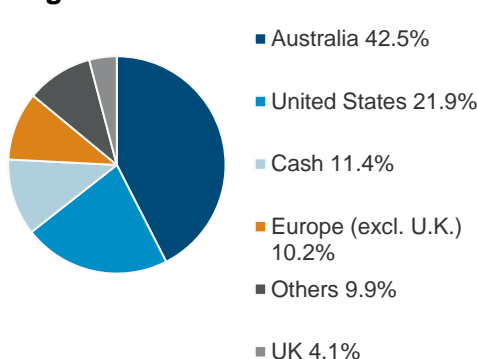
## Asset allocation

|  | Fund (%) |
|--|----------|
| Investment grade corporate <sup>^</sup>  | 50.5     |
| Investment grade government              | 8.4      |
| Asset-backed securities                  | 21.1     |
| High yield corporates <sup>^</sup>       | 3.4      |
| Emerging markets corporate               | 1.8      |
| Emerging markets government <sup>^</sup> | 3.4      |
| Cash                                     | 11.4     |

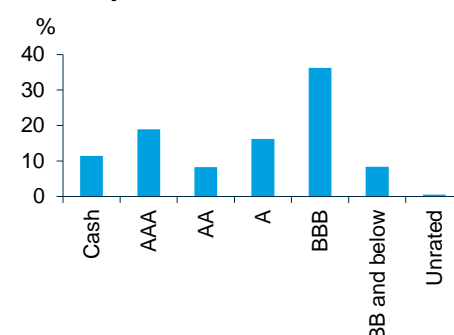
Asset-backed securities include but are not limited to residential mortgage backed securities, bank loans and other credit related securities.

<sup>^</sup>Fund holds 0.0% in investment grade, 5.3% in high yield and 0.2% in emerging markets credit hedges as synthetic cash (reduction in percentage of physical cash exposure).

## Region breakdown



## 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.

## Fund statistics

|  |           |
|--|-----------|
| Credit spread duration                           | 3.0 years |
| Interest rate duration                           | 1.2 years |
| Standard deviation <sup>1</sup>                  | 1.8% pa   |
| Yield to maturity <sup>2</sup>                   | 1.5% pa   |
| Cash   | 11.4%     |
| Cash exposure through credit hedges <sup>3</sup> | 5.5%      |

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

<sup>2</sup> 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.

<sup>3</sup> Credit hedges swap the return for underlying credit index for cash.

# Macquarie Income Opportunities Fund

Monthly report – 30 April 2021

## Fund highlights

Some challenges continue to present in fixed income markets. Starting with the facts, during April US President Biden unveiled two infrastructure packages targeted at an additional \$US4tn of stimulus, following hot on the heels of the third fiscal support package since the pandemic hit. In the US, as vaccine administration accelerates, new cases fall and pressure on hospitals eases, the process of re-opening the economy continues to be supported. Sentiment surveys rose, employment grew, and inflation jumped to 2.6%. Equities also surged to another new high and credit spreads tightened to pre-pandemic levels. Yet, bond yields were lower on the month.

Risk markets have been running on the growth recovery and the strength so far coming through in Q1 earnings. While bond yields marched higher through 4Q20 and 1Q21, reflecting the lifting of deflationary fears, price actions have suggested that inflation may not be as big a risk as many economists are suggesting. Central banks have dismissed the current and expected rise of inflation as transitory, citing deep scars from the pandemic that are at work to add to the pre-existing structural downward pressures on inflation. Calming words echoed by most central banks have quelled, but not eliminated, the fears in bond markets that monetary stimulus can be tapered.

The Fund outperformed the benchmark over April, with the contributors evenly spread across interest rate and credit market positionings. Amongst credit sectors, the Fund's investment grade (IG) exposure, particularly among BBB-rated issuers, was the largest sector contributor, while the emerging markets (EM) debt holdings contributed smaller positive gains. Australian mortgage-backed securities were also an outsize contributor this month, as new issuance re-priced tighter in spreads in the secondary market, particularly in the lower tranches where the Fund holds most of its exposure. The Fund's duration positioning benefited from the general stability in short-end rates in Australia, with the curve rolldown and carry in these positions being the most significant contributors to duration performance.

The Fund reduced some exposure to global IG credit over the month, given the overall less appealing returns outlook in this sector, coupled with the sector's significant credit duration which could mean potential price volatility. The reduction was balanced by some additions in high yield (HY) credit, which while also tighter than historical spread averages, still offers some upside relative to other parts of the market. Short-dated EUR and USD corporates (with an average maturity below 2 years) were also added after recent relative underperformance. We consider this part of the market offering some spread with minimal price volatility, and being a decent source of carry in an environment where there are few alternatives. The Fund has maintained a preference for higher-beta credit (including HY, EM debt and BBB-rated IG credit). We view the remaining upside in generic credit spreads as limited and opportunities as more driven by spread compression in names and sectors trading at wider spreads. New issuance volumes in April were generally strong and offered some opportunities to add positions, though overall spreads and concessions remained mostly limited. Issuance from US banks that posted strong earnings offered opportunities for the Fund to increase exposure, including to issuers such as auto-focused lender Ally Financial and Bank of America.

## Market review

### Global and Australian credit markets

US credit markets were slightly stronger in April with IG spreads finishing at 88bps, a post-COVID tight. Overall, fundamentals continued to improve, with strong revenue growth and cost controls put in place in 2020 helping to boost earnings, though this has been fully priced in. Among credit sectors, single-B and CCC credit were 9bps tighter in spreads on average, BBB was 4bps tighter, and single-A was 2bps tighter, though the pace of the rally in the lowest credit quality rungs has tapered off. European IG credit had another strong month as spreads inched tighter to close 6bps tighter at 84bps. Sectors with wider spreads continued to outperform, with lower-rated IG REITs tightening 20-50bps.

## Outlook

Divergence has been a theme since the onset of the pandemic. The virus impact and subsequent vaccine rollouts have been uneven across countries. While monetary policy has broadly been consistent, the applications of fiscal policy has diverged. This is leading to different economic cycles across countries. The upcycle has been led by China, with the US now in the spotlight and Europe expected to follow. However, restrictions in many countries will likely remain until 2022. In contrast, asset markets have traded to a consistent beat, with risk markets rallying, credit spreads narrowing and bond yields rising. This mismatch between fundamentals and valuations is a persistent discussion point amongst investors.

That said, 'recovery' continues to be the consensus theme. Though the more important question, 'recovery to what?', is hotly debated. The pre-pandemic growth trends were underpinned by massive monetary support, and since the pandemic, central banks have done 'even more'. What is different is that fiscal policy, previously shackled by concerns about deficits and debt, has been unleashed. However, the fiscal responses have mostly been 'support' not 'stimulus' (i.e. direct spending), so deficits and debt levels have risen but with little growth multiplier. The US is now shifting strategy and the infrastructure plans fit into the 'stimulus' mode, which opens up the potential for stronger growth in the future. While the passing of the stimulus plans can take months, we can conclude that infrastructure spending is an investment on the supply side of the economy, which can lift growth and productivity without necessarily lifting inflation.

Most of this could already be 'in the price' or at least within the markets' framework of understanding. This suggests that we could be in a period of consolidation until the outcomes become clear. This thinking, however, is at risk to any change in the technical forces within asset markets, change in positioning or seasonal factors such as 'sell in May'. We therefore expect a somewhat more challenging investment climate to persist, where our intention is to maintain discipline and recognise that opportunities will present themselves.

# Macquarie Income Opportunities Fund

Monthly report – 30 April 2021

**For more information speak to your financial adviser, call us on 1800 814 523, email [mim.clientservice@macquarie.com](mailto:mim.clientservice@macquarie.com) or visit [macquarie.com](http://macquarie.com)**

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