

Investment objective

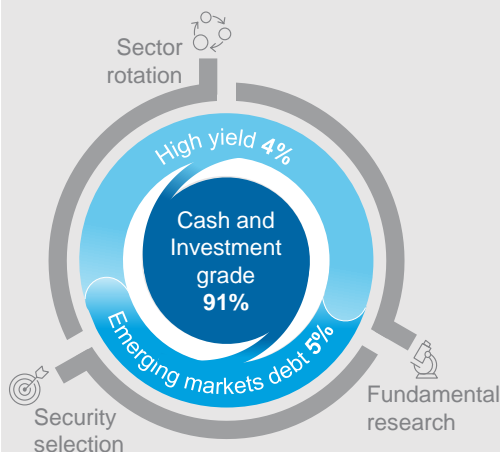
Aims to outperform the Bloomberg AusBond Bank Bill Index over the medium term (before fees). It aims to provide higher income returns than traditional cash investments at all stages of interest rate and economic cycles.

Key information

Fund details

| | |
|-----------------------------|---|
| APIR code | MAQ0277AU |
| Inception date | 18 September 2003 |
| Fund size | \$3,401.8m |
| 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.



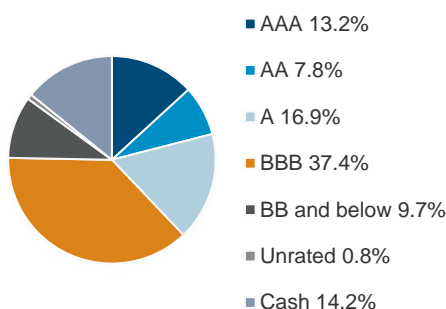
Fund performance to 31 July 2021

| | Total Fund return (gross) | Total Fund return (net) | Benchmark return | Total excess return (net) |
|-------------------------------|---------------------------|-------------------------|------------------|---------------------------|
| 1 month (%) | 0.26 | 0.22 | 0.00 | 0.22 |
| 3 months (%) | 0.73 | 0.61 | 0.01 | 0.60 |
| 1 year (%) | 2.88 | 2.37 | 0.05 | 2.32 |
| 3 years (% pa) | 3.00 | 2.50 | 0.89 | 1.61 |
| 5 years (% pa) | 3.26 | 2.75 | 1.26 | 1.49 |
| 10 years (% pa) | 4.06 | 3.55 | 2.15 | 1.40 |
| Since inception (% pa) | 5.12 | 4.61 | 3.66 | 0.95 |

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.

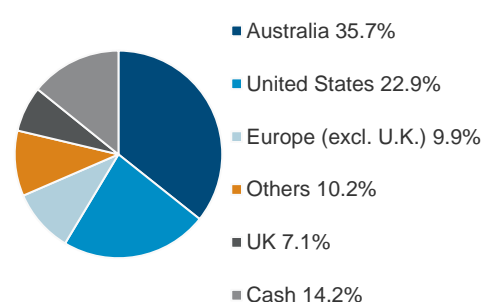
Credit profile breakdown



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 [^] | 52.4 |
| Investment grade government* | 0.2 |
| Asset-backed securities | 23.9 |
| High yield corporates [^] | 3.9 |
| Emerging markets corporates | 1.9 |
| Emerging markets government [^] | 3.5 |
| Cash and equivalents | 14.2 |

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, (3.1%) 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 | 3.2 years |
| Interest rate duration | 1.1 years |
| Standard deviation ¹ | 1.8% pa |
| Yield to maturity ² | 1.3% pa |
| Cash | 14.2% |
| Cash exposure through credit hedges ³ | 3.2% |

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 July 2021

Fund highlights

The Fund outperformed the benchmark in July, driven by interest rate positioning. A rally in bond yields globally benefited the Fund's duration positioning, with Australian bond yields in particular (where the Fund has a greater interest rate exposure held) outperforming amongst developed markets. Credit risk sectors were mixed during the month, with a small positive contribution from investment grade (IG) credit and Australian residential mortgage-backed securities, while somewhat offset by the emerging markets exposure. Overall, credit sectors delivered a generally flat result. The strongest individual credit contributors included mortgage-backed securities, reflecting the continued strong housing market and the continued chase for yield. Despite the extended lockdown in Australia, AUD corporate credit generally held in well, reflecting strong overall demand and some expectations for further policy support, though there was some modest weakness in directly COVID-impacted sectors. USD credit was weaker in general, driven by strong new issuance and some growth concerns. Emerging markets were the weakest amongst global credit sectors, reflecting the same global growth concerns and continued spread of the Delta variant. Accordingly, amongst the larger detractors for the month were small holdings of Latin American sovereign issuers, where yields could not keep pace with the significant rally in US Treasury yields.

Portfolio changes at an overall level were modest over the month, focused mainly on the continuation of sourcing lower volatility carry in short-dated EUR and USD securities. These offer an attractive alternative to cash and longer-dated credit, providing ongoing running yield but much less exposure to spread or bond yield volatility. The Fund reduced its holdings of USD air leasing companies, a space that still has a strong fundamental trajectory but has spreads tightened significantly – we expect opportunities to potentially re-enter this space later in the year with upcoming M&A deals due to be funded. Given lower spreads and yields globally, and lower issuance volumes given Australia's lockdowns and the northern hemisphere summer, there were limited attractive new issuance over the month. The Fund's duration positioning has been maintained, and continues to be weighted towards AUD duration.

Market review

The US Federal Reserve (Fed) surprised markets by shifting its tone and forecast for the outlook of rate hikes, whilst the US Administration disappointed with the progress of its fiscal strategy. The Federal Open Market Committee continued to emphasise that the recent rise of inflation is transitory, yet markets viewed the upward shift in rate expectations as validation of their speculation. This caused shorter-term yields to push higher, and longer-dated bond yields went the other way with a flatter yield curve the result. The debate amongst market participants was not only interpreting the Fed's signal, but also why the bond market rallied. There is merit in the view that earlier-than-expected Fed tightening could put a lid on the recovery and hence cap inflation, but there were also more subtle technical forces at play, which combined to squeeze many 'short' positions that further fuelled the rally in Treasury yields. Whilst these events were unique to the US, the impact rippled across countries, and curve flattening was a common theme.

Risk assets were mixed in July amid concerns around the Delta variant and the impact on growth. Equities hit new highs, but credit markets were moderately softer and bonds continued to rally.

US credit markets were modestly weaker. The investment grade (IG) credit index widened 6bps to finish at 86bps, though still close to post-financial crisis tightness. High yield credit was also softer, though this simply reversed some of the strong rally from previous months. The earnings season began and results were overall strong so far, with almost 90% of the reported companies beating earnings expectations. European IG spreads closed 1bp wider at 83bps and issuance were low in primary markets. The airline sector was the main mover in European markets given concerns around the Delta variant, though many IG airline names recovered the majority of the moves later in the month. The Australian IG market experienced little volatility in July. Still ample liquidity in the market kept spreads broadly in check. A number of COVID-impacted sectors (such as airlines, airports and industrials) underperformed, while financial subordinated paper outperformed.

Outlook

As we move into the second half of 2021, attention is on the shape of economic recovery, and whether the current inflation pulse will prove transitory as expected by policy makers or persistent. A key feature of the pandemic was massive government support to workers and businesses, but this is nearing its end and many states in the US are deciding to withdraw the federal support early in the hope that this encourages people back to work. The speed at which furloughed/unemployed workers return to work will be key in determining the shape of the recovery, but businesses trying to re-open have reported difficulty in hiring and many have offered financial incentives, including higher wages. This has fuelled concerns that inflation will become persistent, yet the data has shown that the majority of government transfers to these workers during the pandemic was saved, suggesting that persistent uncertainty will hold back consumption. While supply chain disruption is likely to continue to pressure inflation, in our opinion, the evolution of consumer income and demand will prove the decisive determinant of inflation longer-term.

There are still many unanswered questions on the future such as: when will normal activity resume; when will international travel resume; and what will the post-virus workplace look like? These vital but unanswered questions, combined with low bond yields and tight valuations, guide to a cautious approach to investment. However, we also recognise the ferocious insatiable need for yield. We balance these forces by maintaining discipline and 'doing the work' to determine the best risk-adjusted positioning for portfolios.

Macquarie Income Opportunities Fund

Monthly report – 31 July 2021

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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