

### Investment objective

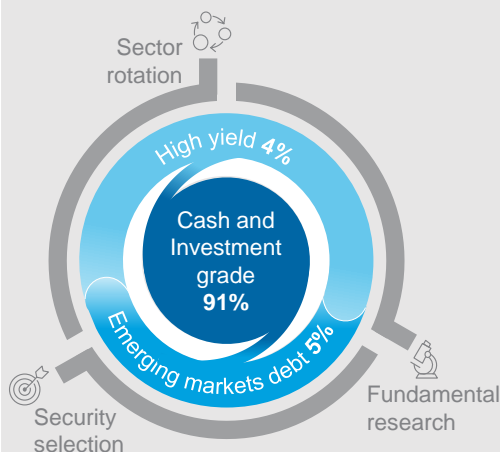
Aims to outperform the Bloomberg AusBond Bank Bill Index over the medium term (before fees). It aims to provide higher income returns than traditional cash investments at all stages of interest rate and economic cycles.

### Key information

#### Fund details

APIR code	MAQ0277AU
Inception date	18 September 2003
Fund size	\$3,485.7m
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.



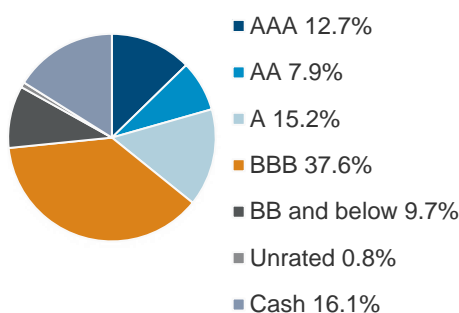
### Fund performance to 31 August 2021

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	0.32	0.28	0.00	0.28
3 months (%)	0.87	0.74	0.01	0.73
1 year (%)	3.09	2.58	0.05	2.53
3 years (% pa)	3.01	2.51	0.84	1.67
5 years (% pa)	3.15	2.65	1.22	1.43
10 years (% pa)	4.16	3.65	2.10	1.55
Since inception (% pa)	5.12	4.60	3.64	0.96

**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.

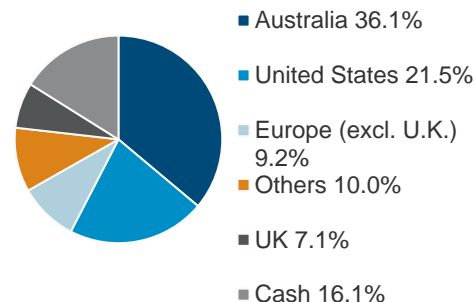
### Credit profile breakdown



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 <sup>^</sup>	51.4
Investment grade government*	0.2
Asset-backed securities	23.0
High yield corporates <sup>^</sup>	4.0
Emerging markets corporates	1.9
Emerging markets government <sup>^</sup>	3.4
Cash and equivalents	16.1

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, (0.9%) 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	1.0 years
Standard deviation <sup>1</sup>	1.8% pa
Yield to maturity <sup>2</sup>	1.3% pa
Cash	16.1%
Cash exposure through credit hedges <sup>3</sup>	1.0%

<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 – 31 August 2021

## Fund highlights

The Fund outperformed the benchmark in August while markets mostly traded in tight ranges. Performance was chiefly driven by running yield on credit holdings and currency option positions, which were implemented as an alternative to interest rate duration to provide downside protection for the Fund. All credit sectors contributed to performance, including the investment grade, high yield and emerging markets holdings which rebounded from last month's flat result. Spread moves were minimal from the end of July, masking some intra-month volatility, so most of the performance driver was excess running yield. Top individual performers in credit were holdings of recovery trades such as cruise lines, which rebounded, and Latin American sovereign credits in emerging markets, which also regained ground on political developments after a weak July. AUD currency options were also a key contributor to returns, with an option structure implemented to provide protection to the Fund if the AUD falls. This was put in place as an alternative downside protection structure to interest rate duration, which currently offers less upside and more potential volatility. The currency position added value even as risk markets were steady and with growing pessimism over the pace of the Australian economic growth given the extended lockdowns, and the position was partly covered before the currency began rebounding into month-end.

Portfolio changes in global credit focused on a continued barbel of higher beta and recovery trades, with additions to BBB-rated credit and travel-related exposures in Europe. The changes were also focused on individual opportunities rather than wholesale sector moves given lower new issuance volumes and limited spread volatility, meaning that overall sector opportunities were limited. The Fund's modest interest duration positioning was maintained and continued to be weighted towards AUD duration. This was supplemented by an AUD option structure, which generated significant performance and was partially hedged by month-end.

## Market review

All eyes were on Jackson Hole Economic Symposium looking for hints from the US Federal Reserve (Fed) Chair Powell on when they may begin the process of tapering the accumulation of assets on their balance sheet, where risk markets were pleased by his message that the Fed is not looking to move early on evolving its policy. Elsewhere, COVID-19 restrictions have been tightened in enough countries to remind consumers that a return to normal remains elusive. Consumers are important to the recovery, though the surge in consumer spending, underpinned by significant government transfers which are now gradually being withdrawn, has slowed. Financial markets now see evidence that the strong GDP growth of the second quarter is likely being followed by a much slower third quarter and increased uncertainty at the strength of recovery thereafter. On top of these themes lies inflation. It may be transitory but for many consumers whose income growth remains modest or is underpinned by government support, the surge in costs is adding to their caution. So we are left in a situation where the real economy is experiencing very uneven growth, supply driven inflation is persisting and consumers who are now more cautious, but asset markets remain firmly underpinned by the flow of liquidity from policy makers.

In August, global credit markets traded in a tight range with lower new issuance volumes. Specific sectors within credit, notably higher beta sectors such as high yield and energy, experienced some volatility, but generally market volatility was subdued. Investors are increasingly questioning whether the earlier optimistic expectations for economic growth can be sustained. As a result, the lowest rated portion of high yield credit underperformed. Energy credit also underperformed mid-month as oil prices fell, though supply disruptions into month end drove prices back up, reversing much of the weakness in oil producers.

Australian credit moved marginally tighter in spreads with little volatility. The theme of favouring shorter-dated credit continued. COVID-impacted sectors, such as airlines, airports and retail REITs, marginally retraced some of the underperformance from last month, and similar moves were observed in the financial subordinated curve.

## Outlook

For financial assets, the focus in coming months will be acutely on the next steps by policy makers. On one hand, several central banks are signalling that the stimulus to provide liquidity will be gradually reduced. On the other hand, fiscal policy is entering a period of transition, where the dramatic actions by governments should not be underestimated in terms of the flow of liquidity to financial assets in the form of higher private sector savings. During September, several support measures to displaced workers are being withdrawn. Whether workers replace that income by finding work or run down savings will be important for consumption. In Europe, the Recovery Plan spending is now flowing, while in the US we should find clarity on the shape and size of the proposed infrastructure spending. Here, fiscal flows can help offset the potential for central bank tapering, hopefully minimising the risk for asset markets. That said, there are many uncertainties as we navigate this period of transition, which means potential for volatility in asset markets.

For the real economy, the medium term outlook is less clear. The approach of the northern winter will be an important test for how vaccination stands up in the face of the evolving coronavirus and increasing realisation that vaccine efficacy fades over time. The real economy continues to battle with ongoing supply chain problems. Labour markets are entering a period of transition where the dilemma of high vacancy rates and large numbers of unemployed should evolve to reveal the extent of scarring from the pandemic, which will be important for the outlook for consumer spending. Meanwhile, geopolitical concerns remain heightened, and several significant elections are approaching that have the potential to see shifts in the political balance.

With respect to portfolio positioning, we have gradually moved to a more cautious positioning to reflect the increasing uncertainties being faced. As we enter September, our global team will again convene to reassess the outlook while recognising that investors still face an insatiable need for yield.

# Macquarie Income Opportunities Fund

Monthly report – 31 August 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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