

Investment objective

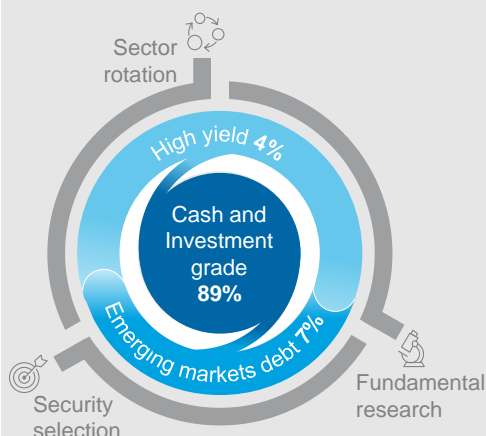
Aims to outperform the Bloomberg AusBond Bank Bill Index over the medium term (before fees). It aims to provide higher income returns than traditional cash investments at all stages of interest rate and economic cycles.

Key information

Fund details

| | |
|-----------------------------|--|
| APIR code | MAQ0277AU |
| Inception date | 18 September 2003 |
| Fund size | \$3,565.6m |
| 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.



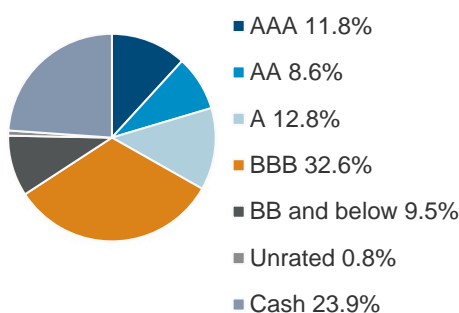
Fund performance to 31 October 2021

| | Total Fund return (gross) | Total Fund return (net) | Benchmark return | Total excess return (net) |
|-------------------------------|---------------------------|-------------------------|------------------|---------------------------|
| 1 month (%) | -0.74 | -0.79 | 0.00 | -0.79 |
| 3 months (%) | -0.53 | -0.65 | 0.00 | -0.65 |
| 1 year (%) | 1.50 | 1.00 | 0.03 | 0.97 |
| 3 years (% pa) | 2.68 | 2.18 | 0.73 | 1.45 |
| 5 years (% pa) | 2.87 | 2.37 | 1.17 | 1.20 |
| 10 years (% pa) | 4.00 | 3.49 | 2.02 | 1.47 |
| Since inception (% pa) | 5.02 | 4.50 | 3.61 | 0.89 |

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.

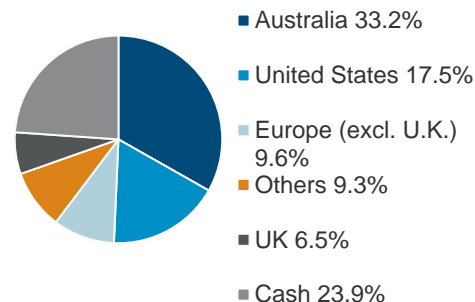
Credit profile breakdown



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 [^] | 43.1 |
| Investment grade government* | 0.2 |
| Asset-backed securities | 22.2 |
| High yield corporates [^] | 3.6 |
| Emerging markets corporates | 3.8 |
| Emerging markets government [^] | 3.2 |
| Cash and equivalents | 23.9 |

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 | 2.7 years |
| Interest rate duration | 1.4 years |
| Standard deviation ¹ | 1.8% pa |
| Yield to maturity ² | 1.8% pa |
| Cash | 23.9% |
| 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.

Macquarie Income Opportunities Fund

Monthly report – 31 October 2021

Fund highlights

The Fund underperformed the benchmark in October. Whilst credit holdings continued to contribute positively to performance the portfolio's small duration positioning used as a natural hedge to potential risk market volatility detracted from performance amid the significant and acute moves in short dated bond yields.

Bonds were the key focus during the month, with markets testing central bank commitment to maintaining low rates by pushing yields of shorter maturity bonds significantly higher. The dramatic moves were exacerbated by apparent unwinding of positions in markets such as Australia, seeing bond yield curves pricing in central bank rate hikes over the next 2 years, which we believe is fundamentally unjustified and extreme. The Fund held a lower strategic level of duration position compared to previous years, given lower overall global yields and the ongoing fear of inflation. Much of the portfolio duration exposure was held in Australia, which was amongst the most heavily affected by the market moves. Notably, while month-end marked the peak of the volatility, some rebound has already been evident in the early days of November. The Fund's credit positioning contributed positively to performance, with excess running yield earned on higher beta sectors (emerging markets and high yield, principally) helping as a counterbalance in a month of otherwise very minimal moves in credit markets.

The Fund reduced its holdings of investment grade credit over the month, further reflecting the tight spreads in the sector. We continue to maintain a 'barbell' approach in our credit allocations, with reduced investment grade exposure (particularly the higher quality, fully valued sectors), higher liquidity, and higher emerging markets and high yield exposure. This approach maintains some yield in an environment where yield is hard to come by, but also keeps liquidity available in case of market volatility. The Fund participated in a new deal from aircraft lessor AerCap, which brought a \$US21bn multi-tranche deal to fund its purchase of General Electric's leasing business – we had reduced some air transport exposure in previous months in anticipation of the deal. In duration positioning, the Fund added to positions in short maturity Australian rates over the month as the rates sell-off intensified, including some additions near the peak of the market stress and at levels we viewed as extreme.

Market overview

Financial markets have witnessed the surge in supply-driven inflation for months but remained comforted by central banks consistently remaining relaxed, underpinned by an assessment that the inflation pulse was transitory. The rate hikes across many emerging countries, and even in New Zealand, were viewed as idiosyncratic and therefore did not rattle the market's confidence. However, much changed during the course of September. Specifically, the Bank of England announced its intention to raise rates in the near term. This was followed by a more aggressive tone from the Bank of Canada. The Reserve Bank of Australia (RBA) surprised by not defending the yield curve control purchases on the April 2024 bond. Finally, the stoically easy policy of the European Central Bank was put to the test and the defence put forward by President Lagarde was considered too weak. The net impact of this apparent shift in tone from global central banks brought forward the expectations for rate hikes, causing a significant rise in shorter maturity rates, but interestingly the moves on longer maturity rates were contained and in fact 30 year yields ended lower in many countries. Thus, yield curve flattening was the major theme across bond markets during October.

Risk markets remained buoyant. Equities rallies and equity volatility fell. Credit spreads remained contained in narrow ranges and near historic tight spread levels.

US corporate credit was little changed over October. This stability defied meaningful volatility in other markets. High yield credit was similarly little changed at an index level. Amongst sectors and ratings, results were little differentiated, with the lowest rating band (CCC-rated credit) underperforming slightly, though the underperformance was more idiosyncratic. The US earnings season kicked off in October, and so far has been strong, with familiar themes. Performance of the financials sector has been exceptional from a credit perspective, with earnings growth and very strong asset quality. The primary theme this month in Europe was a repricing of central banks rate hikes led by the UK, which also spread to Europe as the month progressed. Credit markets, while marginally wider in spreads, were relatively benign in terms of market moves. Australian credit was marginally weaker as volatility in the bond market picked up substantially.

Outlook

The market repricing of short-term rate expectations and the change in tone by several central banks have unsettled the rate markets but, to date, these are being largely ignored by risk markets. Our sense is that the reaction across markets are not consistent, but the key test may not come until 2022 on whether central banks follow the markets lead and actually deliver tighter monetary policy.

Meanwhile, the macro fundamentals continue to fuel the debate over whether current inflation will prove transitory or structural. Commodity prices, particularly oil and gas, are re-fuelling the upside risk for inflation. Labour shortages and wage pressures are keeping central banks restless. However, growth during the third quarter was soft and in many cases the start of the fourth quarter remains soft. This mix of data has the stagflation debate raging across media, economists and market participants.

The core of the debate is around whether current inflation is being driven by supply chain problems or rising demand. In addition, the word 'transitory' was used to describe the inflation surge in 2021 without any clear definition of what transitory means. We sit firmly in the camp that the world continues to be driven by a unique event as a result of the pandemic and while this persists, so will the supply chain problems. Demand surge is largely the result of a redistribution of spending from services to goods, which was supported by unprecedented government transfers/support to displaced workers. The world is working together to move on from the pandemic and when this happens the supply chain problems too should be released, the problem is that we do not know when that will happen.

We fear that central banks could repeat the errors of the 1970s by using a demand tool to try and fix a supply driven problem that could simply make the situation worse. This means the current volatility spike could repeat in the months/quarters ahead as markets navigate this difficult fundamental path at the same time central banks are seemingly changing their tune (or not).

Macquarie Income Opportunities Fund

Monthly report – 31 October 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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