

## Investment objective

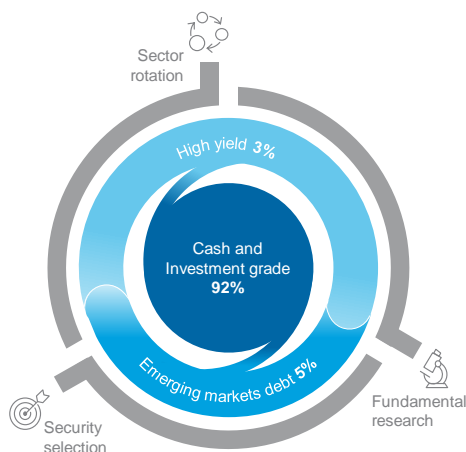
Aims to outperform the Bloomberg AusBond Bank Bill Index over the medium term (before fees). It aims to provide higher income returns than traditional cash investments at all stages of interest rate and economic cycles.

## Key information

Fund details	
APIR code	MAQ0277AU
Inception date	18 September 2003
Fund size	\$3,313.4m
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 November 2020

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	0.89	0.85	0.01	0.84
3 months (%)	1.60	1.48	0.03	1.45
1 year (%)	2.45	1.94	0.44	1.50
3 years (% pa)	3.01	2.50	1.31	1.19
5 years (% pa)	3.65	3.15	1.56	1.59
10 years (% pa)	4.54	4.03	2.48	1.55
Since inception (% pa)	5.26	4.74	3.80	0.94

### 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.

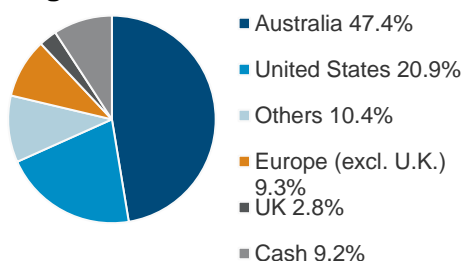
## Asset allocation

	Fund (%)
Investment grade corporate <sup>^</sup>	50.0
Investment grade government	13.1
Asset-backed securities	19.6
High yield corporates <sup>^</sup>	3.4
Emerging markets corporate	1.7
Emerging markets government <sup>^</sup>	3.0
Cash	9.2

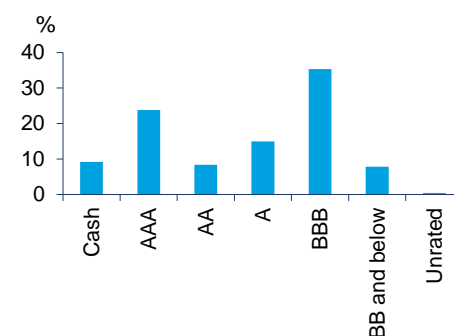
Asset-backed securities include but are not limited to residential mortgage backed securities, bank loans and other credit related securities.

<sup>^</sup>Fund holds 3.1% 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).

## 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	3.5 years
Interest rate duration	0.9 years
Standard deviation <sup>1</sup>	1.8% pa
Yield to maturity <sup>2</sup>	1.3% pa
Cash	9.2%
Cash exposure through credit hedges <sup>3</sup>	4.1%

<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 November 2020

## Fund highlights

November was a solid month for financial markets, driven by positive news on vaccines and more clarity on the outcome of the US election. Two potential disruptive concerns, however, could likely be overlooked at present, namely the logistics of distribution and vaccination for the global population, and a split US Congress. The pattern of markets performance in November was led by risk assets across multiple asset classes. In fixed income, high yield credit led the way, while in currencies it was emerging markets. There was a rotation out of safe havens, with gold (-5.4%) and silver (-4.3%) giving back some of their strong gains of recent months. Notably though, global bond yields were resilient, with both US and European yields ending the month lower and spreads in peripheral Europe becoming tighter. However, New Zealand and Australia were the underperformers as their yields rose over the month.

The Fund outperformed the benchmark in November, as positivity around the vaccine progress strongly boosted 'recovery' trades in credit markets. The Fund's global investment grade (IG) sector allocation was the largest contributor to performance, reflecting broad market performance. But importantly, also added value were the additions of selected issuers over the last several months that would benefit from a recovery in some of the most COVID-impacted sectors. Holdings of selected airlines (such as Qantas and Delta Air Lines), air leasing companies, and airports were all strong contributors to returns. In addition, holdings of emerging markets (EM) debt and high yield (HY) credit also performed strongly. Duration exposures in the Fund were neutral contributors to performance through the month.

The Fund maintained its overall risk exposure levels, while adding further to selected recovery trades during the month. This included additions of toll road hybrid bonds, and franchise bonds from a quick service restaurant operator in the US. Most of the 'recovery' trades in the Fund were accumulated in the past several months at attractive spread levels, and performed well in November. Most of the new additions were made in secondary purchases, as primary markets have been offering somewhat less attractive pricing. The Fund continues to build a 'barbell' strategy overall, owning selective higher beta sector and IG holdings with material spread tightening potential, as well as strong liquidity levels, to allow the Fund to take advantage of further opportunities and potential volatility. Issuance volumes were higher in November, but net issuance remained low – a key support for credit markets. The demand for credit remained strong in a world of low yields, and was reflected in the low volatility in credit markets despite news around COVID-19 and the withdrawal of the US Federal Reserve's (Fed) support programs.

## Market review

### Global and Australian credit markets

USD credit performed well during November, with most of the performance driven by large gains in the 'recovery' trades over the month. For example, airline spreads tightened by over 100bps in November for some issuers. Issuers with lower credit ratings also outperformed, with BBB credit outperforming single-A and HY generally outperforming IG. European IG spreads closed the month 23bps tighter at 93bps, which was only 4bps from pre-COVID levels as the majority of defensive, central bank-eligible sectors now trade inside such levels. Australian credit also performed strongly, in line with global credit markets, with spreads generically tighter by 20bps over the month.

## Outlook

December is seasonally a good month for risk assets and indeed financial markets are in the mood to extend the rally started in November. However, the fundamental backdrop remains challenging. Virus cases are still rising globally and social restrictions remain in place. This presents a real risk for a double-dip recession in Europe and the UK. While the US is less likely to double-dip, we expect a bumpy ride through 4Q20, and possibly 1Q21. Reflecting on the situation in January 2020, simply for the economy to return to that point, which will take several quarters for many countries, was an environment of uninspiring, low inflationary growth.

Financial markets are looking past the current fundamentals and focusing on the release of 'animal spirits' during 2021 once the vaccination process is underway. At their back is a very strong commitment by central banks to maintain easing monetary policy and do more if necessary. Fiscal policy was significantly engaged during 2020, and expectations are for fiscal support to extend through 2021 and actual fiscal stimulus to also be embraced. However, with fiscal policy 'politics' involved, experience says that nothing can be taken for granted.

Thus, as we consider the 2021 outlook, the prospects are for a return to growth. However, the key risks are clear in that growth may disappoint, and that fiscal policy makers may either fail to deliver enough support or consider fiscal tightening. This environment suggests that fixed income investors should not be fearful of inflation and that yields are likely to remain lower for longer. The absence of yield in sovereign markets is expected to keep the hunt for yield continuing in riskier markets. Investment grade spreads are likely able to grind tighter in this environment, and we expect compression on high yield and emerging markets spreads. Though the path is expected to be pocketed by spikes in volatility as markets reassess fundamental risks and/or policy actions. In this environment, leveraging sector rotation, assessment of credit quality, curve and security selection will play an important part in portfolio performance.

# Macquarie Income Opportunities Fund

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**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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