MACQUARIE INVESTMENT MANAGEMENT

Macquarie Income Opportunities Fund

Monthly Report - April 2012

Investment objective

The Fund aims to provide higher income returns than traditional cash investments and has some volatility over short time periods. The Fund is benchmarked against the UBS Bank Bill Index.

Fund performance to 30 April 2012

	Gross Fund Returns	Net Fund Returns*	Benchmark Returns**	Net Excess Returns
1 month (%)	0.37	0.33	0.38	-0.05
3 months (%)	2.19	2.07	1.11	0.96
1 year (%)	4.58	4.07	4.86	-0.79
2 years (% pa)	6.83	6.31	4.89	1.42
3 years (% pa)	9.05	8.52	4.47	4.05
5 years (% pa)	6.20	5.68	5.35	0.33
Since inception (% pa)	6.41	5.88	5.54	0.34

Past performance is no indication of future performance.*Net returns are quoted after the deduction of all fees and expenses. Due to individual investor circumstances, your net returns may differ from the net returns quoted above. **The benchmark is the UBS Bank Bill Index.

Fund highlights

Markets ended April slightly softer, as investors took a pause after the previous quarter's strong returns. Debt levels in European sovereigns began to rear their heads again over the month, with yields on Spanish government debt in particular reaching levels not seen since November 2011. This was somewhat offset by corporate earnings' reports in the US, which added to market confidence as a significant majority of companies reported better than expected earnings in the preceding quarter.

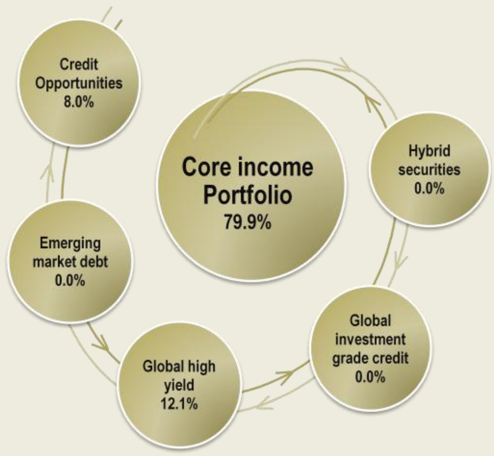
Concerns around European sovereigns continued to resurface in April, with investors focused on Spain in particular. The country remains under significant pressure, with an unemployment rate of 24%, and notably a youth unemployment level of over 50%, as well as a weak property and financial sector. Reflecting this, the cost to insure against default of the Spanish government rose to an all time high of 515bps over the month, eclipsing previous highs seen in November 2011. Political developments elsewhere in the Eurozone also highlighted the ongoing difficulty in implementing the austerity measures that European leaders are demanding. In the Netherlands, the coalition government fractured over budget cuts in the country, which prompted an election to be held in September. In France, election campaigning saw the ECB's role become increasingly politicised, with current front-runner Hollande calling for the central bank to cut its rate and lend directly to embattled member states.

Corporate earnings in the US came in above expectations during the month, which buoyed market confidence somewhat. As April drew to a close, approximately 70% of companies in the S&P 500 had reported. Over 70% of earnings were above analyst predictions, with an average beat of 6.5%. Standouts included Apple, which reported record earnings and sales well above expectations, and the large US banks JP Morgan and Bank of America which also reported stronger than expected earnings.

The Australian economy has increasingly became the subject of attention over recent months, with some softening in Chinese economic data and continuing softness in the housing market raising some concerns. Yields on Australian government bonds fell to historic lows, with the 10 year falling to a low of 3.66% over the month, reflecting investors' concerns over future growth rates and the desire for a safe haven.

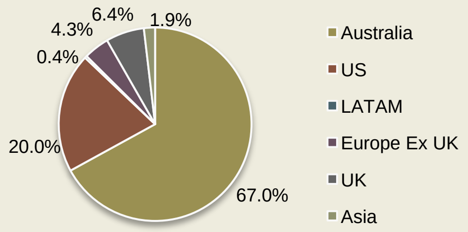
Despite a softer month in global markets, the Fund produced results that were generally in line with the benchmark. Holdings of insurers, mortgage backed securities and utilities positively contributed to performance, with the Australian credit market remaining resilient to selected weakness offshore. Holdings of longer dated banks, which had performed strongly in previous months, detracted from performance over the period. Issuance volume decreased over the period in both local and offshore markets, following heavy volumes of new debt issued in the preceding months. Of the limited volume of new issues, bonds from Colonial and Powercor, a Victorian electricity distributor, were most notable. New issuance continues to be well supported by the market.

Sector breakdown

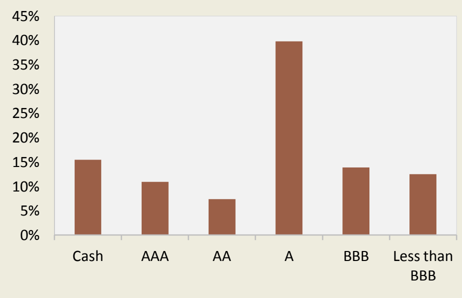


Sector limits %	(min/max)
Core Income Portfolio	20/100
Domestic Hybrid Securities	0/10
Global investment Grade	0/40
Global High Yield	0/15
Emerging Market Debt	0/15
Credit Opportunities	0/20

Region breakdown



Credit profile breakdown



Average Credit Rating: A-

Amongst the satellite sectors, the Fund increased its exposure to high yield during the month, favouring the historically high spreads on offer combined with relatively strong bottom up fundamentals. For the month however, the satellite sectors made a negligible impact on performance.

The Fund continues to hold high quality credit securities across a diverse range of sectors. Despite strong corporate earnings in the US over the month, the market ended softer as concerns about European sovereign sustainability continued to re-emerge. Credit markets are likely to encounter bouts of volatility in future periods, and the Fund will continue to employ defensive hedges to reduce the impact of market weakness on performance. We view central bank actions over previous quarters as supportive of markets, and credit markets in particular. Accordingly, the Fund remains positioned to participate in the performance of credit markets going forward, with a defensive bias in case of increased market risk aversion.

Market review

April macroeconomic data readings were mixed. Key metrics were indicative of deteriorating conditions in Australia and Europe, in contrast to China where data broadly firmed. US data was largely consistent with expectations of resilient albeit tepid growth; however some weakness raised concerns of a slowdown in the pace of recovery.

Domestically, the March quarter consumer price data was heavily in the spotlight following RBA rhetoric which suggested that a soft CPI reading would likely trigger an interest rate cut at the May meeting given weaker than expected economic data year to date. This eventuated, with CPI printing at a weaker than expected 0.1%, indicating that inflationary pressures across the economy remain subdued. Despite challenging conditions across a number of sectors of the Australian economy, key employment metrics remain surprisingly strong, with the unemployment rate remaining steady in March at 5.2%.

European economic data deteriorated further in April. Most notably, the Euro area manufacturing index fell deeper into contractionary territory at 46.0, its lowest level since 2009. In the UK, Q1 GDP disappointed, printing at -0.2%. Despite tipping the economy into technical recession, an uptick in retail sales and service sector PMI readings over the month suggest that economic momentum is improving heading into Q2

US manufacturing and non-manufacturing ISM readings continue to point to a reasonable demand environment, however weakness in a number of readings over the month did raise concerns that momentum may be slowing. Advanced 1Q12 GDP printed at an annualised pace of 2.2%, below the 2.5% growth rate achieved in 2011, and the positive trend in employment data evident earlier in the year appears to have slowed. The softer data provides further impetus for the US Federal Reserve to embark on a third round of quantitative easing amid market speculation that this will be announced before mid-2012.

In China, annual growth slowed to 8.1% in the first quarter from 8.9% in the prior quarter, the fifth consecutive quarter of slowdown in the world's second largest economy. However, an uptick in a number of leading manufacturing and export indicators, including the PMI index which printed at 53.3, a 13-month high, and new export orders, indicated that economic activity has started to recover from the first-quarter trough, supporting expectations of a soft landing characterised by growth of around 8% for the country over 2012.

Outlook

Markets took a pause in April, as investors reassessed positioning after the strong gains seen in the preceding quarter. A re-emergence of concerns surrounding European sovereigns, in particular Spain, and looming elections in France and Holland has increased risk aversion somewhat, though market sentiment remains strong outside of countries directly involved. We continue to view credit markets as the asset class of choice, as spreads on offer remain wide compared to historical comparables. Investment grade credit in particular offers attractive value, considering the conservative nature of the underlying assets. We consider income-based investment strategies, a prudent alternative to growth-orientated investment strategies in the current environment.

Top 5 asset allocation by industry (%)

RMBS	18.3
Bank Sub	14.6
High Yield	12.1
Diversified Financials	7.8
Banks	7.3

Fund statistics

Credit Spread Duration	3.0 years
Interest Rate Duration	0.1 years
Standard Deviation	1.3% p.a
Yield to Maturity	6.6% p.a

* Calculated using month end returns over 12 months.

Unit prices

Application price: $0.9854
Redemption price: $0.9824
NAV price: $0.9839

Fund details

APIR code: MAQ0277AU
Inception date: 19 September 2003
Fund size: $764 m
Distribution frequency: Monthly
Management fee: 0.492% pa
Buy/Sell spread: +0.15% / -0.15%
Minimum investment (Direct): $20,000

Available platforms include:

AMP
AXA
ASGARD
BT
Colonial
IOOF
Macquarie
MLC
Navigator
Netwealth
OASIS
Perpetual
Portfolio One
Synergy

Rated by:

Lonsec
S&P
van Eyk
Zenith
For more information, please refer to macquarie.com.au/mim

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