

Investment objective

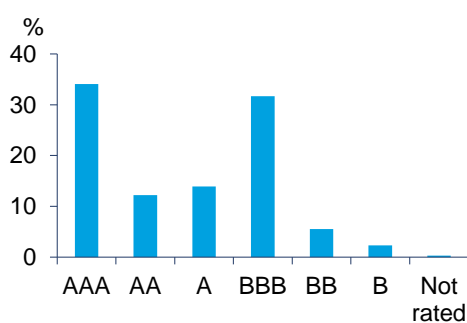
Aims to generate attractive returns by dynamically investing in global fixed income instruments. It aims to provide diversification against equity risk as well as capital growth and some income.

Key information

Fund details	
APIR code	MAQ0274AU
Inception date	30 September 2002
Fund size	\$693.9m
Distribution frequency	Quarterly
Management fee*	0.614% 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.

Credit profile breakdown



Average credit rating: A+
Less than BBB includes residual exposure to issuers held through global investment grade allocation

Fund performance to 30 November 2020

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	0.93	0.88	0.26	0.62
3 months (%)	1.40	1.24	0.50	0.74
1 year (%)	6.41	5.75	3.55	2.20
3 years (% pa)	5.81	5.16	3.49	1.67
5 years (% pa)	5.54	4.90	3.44	1.46
10 years (% pa)	5.91	5.26	4.88	0.38

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.

From 7 January 2019, the benchmark is Bloomberg Barclays Global Aggregate 1 to 10 years Index hedged to AUD. Prior to this, the benchmark was Bloomberg AusBond Composite 0+Yr Index. The performance information shown above is against the current benchmark. Further information in relation to the performance against the previous benchmark is available on request.

Asset allocation

	Fund (%)
Sovereign bonds ¹	43.7
Investment grade credit ²	45.4
High yield	6.0
Emerging markets debt ³	4.9

¹ Includes Australian government, Australian semi-government, supranational, global sovereign and cash

² Includes Australian and global investment grade credit

³ May include holdings of sub-investment grade instruments

Fund statistics

Credit spread duration	3.1 years
Interest rate duration	4.1 years
Standard deviation ¹	2.9% pa
Yield to maturity ²	1.5% pa

¹ Statistical measure of variance of Fund's post-fee monthly returns from its average post-fee return since inception used as gauge of volatility.

² Pre-fee return Fund would earn over next year based on current market conditions if there were no changes to interest rates or holdings of Fund. It is not an actual or estimated return.

Geographical exposure

	Interest rate duration ¹ (%)	Credit spread duration ² (%)
North America	39.5	47.4
Europe (ex UK)	4.0	16.1
UK	7.1	4.0
Australia/New Zealand	40.6	22.8
Japan	0.3	0.4
Others	8.5	9.3

¹ Calculated based on security's currency

² Calculated based on security issuer's currency

Macquarie Dynamic Bond 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 above environment, combined with our overweight position in credit, enabled the Fund to generate a strong return in November and considerably outperform its reference benchmark. The Fund's interest rate exposure was broadly steady in November and its overall duration level was stable at around 4.0 years, but with some rotation out of US Treasuries into Australia as the yield spread between the two had widened. The Fund has continued to run moderate levels of duration given the low level of yields. The duration positioning posted a modest positive contribution to performance in the month.

The Fund's credit positioning contributed to performance in November as global spreads narrowed, with its global investment grade sector allocation being one of the largest drivers of returns. Importantly, what also added considerable value were the additions of several selected issuers over the last several months that would benefit from an economic 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. The Fund's smaller holdings in emerging markets debt and high yield credit also performed strongly in the month.

The Fund maintained relatively steady levels of overall credit risk through the month, while adding further to selected recovery trades and rotating out of some less COVID-impacted issuers that offered limited upside. The additions included European toll road hybrid bonds and franchise bonds from a quick service restaurant operator in the US, which both performed well while still offering upsides from here. The Fund continues to implement a barbell strategy overall, owning selective high beta sectors and investment grade holdings with material spread tightening potential, strong liquidity levels, as well as lower exposure to generic investment grade credit which should remain supported but offer limited upside from current levels.

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 Dynamic Bond Fund

Monthly report – 30 November 2020

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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