

Investment objective

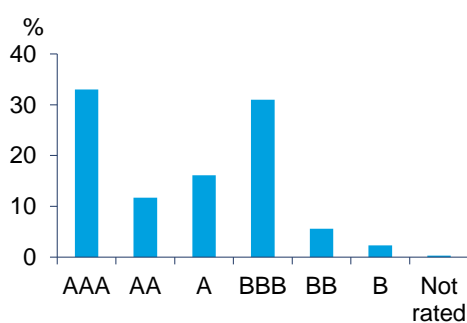
Aims to generate attractive returns by dynamically investing in global fixed income instruments. It aims to provide diversification against equity risk as well as capital growth and some income.

Key information

Fund details	
APIR code	MAQ0274AU
Inception date	30 September 2002
Fund size	\$703.4m
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 31 December 2020

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	0.31	0.26	0.20	0.06
3 months (%)	1.52	1.37	0.54	0.83
1 year (%)	6.80	6.15	3.77	2.38
3 years (% pa)	6.07	5.42	3.53	1.89
5 years (% pa)	5.58	4.94	3.49	1.45
10 years (% pa)	5.84	5.19	4.90	0.29

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	45.3
Investment grade credit ²	43.7
High yield	6.4
Emerging markets debt ³	4.6

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	2.8 years
Interest rate duration	4.0 years
Standard deviation ¹	2.9% pa
Yield to maturity ²	1.3% 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	43.0	47.1
Europe (ex UK)	4.5	16.0
UK	2.1	4.2
Australia/New Zealand	41.9	22.9
Japan	0.2	0.2
Others	8.3	9.6

¹ Calculated based on security's currency

² Calculated based on security issuer's currency

Macquarie Dynamic Bond Fund

Monthly report – 31 December 2020

Fund highlights

Financial markets ended a tumultuous 2020 with the expectation that the new year will be a pathway to returning to normality. Risk assets continued to rally into year end, buoyed by the news that mass vaccination has begun. But at its core, the rally has been underpinned by the unprecedented monetary and fiscal responses across the globe. Global sovereign yields, in contrast, only edged cautiously higher while embracing the fundamental reality that the global economy has experienced a massive deflationary shock as a result of the pandemic, and that the road to recovery is likely to be long and rocky.

The Fund's performance in December was supported by the grind tighter in credit spreads. The combination of very low sovereign bond yields and direct central bank support has been driving a search for yield by investors. This was illustrated by the fact that high yield and emerging markets USD-denominated sovereign spreads were back to their February (pre-pandemic) levels despite the significant deterioration in macroeconomic fundamentals. While global sovereign yields are now higher than their mid-year historic lows, the overall level of yields has remained well below their pre-pandemic levels.

The Fund's credit exposures added value over the month against a backdrop of spread compression in global credit markets. The largest contributor to the Fund's performance was investment grade (IG) credit security selection – and in particular holdings of BBB-rated IG credit – with recovery trades such as selected air leasing and toll road issuers performing strongly. Other credit sectors including emerging markets debt and high yield credit also added value. Early in the month, the Fund trimmed its exposure to longer-dated 'generic' IG credit, viewing the upside remaining in the 5 year and longer maturity bonds as less attractive, particularly in the sectors less impacted by the virus. This was replaced by holdings of short-dated subordinated bank holdings, which we believe offer some yield, but more importantly, are likely to be much better supported in the event of any renewed volatility.

The Fund's duration positioning was a small detraction from performance in December, largely coming from our overweight allocation to Australian securities. The level of duration in the Fund was relatively steady at around 4 years with geographical allocations tilted towards Australia, which remained attractive on a relative value basis versus US Treasuries. The Fund's UK gilt exposure was reduced in the wake of the EU-UK free trade deal.

Outlook

What are the themes that will shape 2021? First, the global vaccination process has begun, but the pace is expected to vary across geography, particularly depending on supplies and the particular choice of vaccine being used. While the manufacturing sector has continued to recover, the service sector in much of the northern hemisphere has been devastated. The overhang of unemployment and destruction to many small businesses will likely take a number of years to get back to where things were in January 2020. Central bankers have extended their already massive level of support with a commitment to do more if necessary. In 2020, fiscal budget deficits and debt soared globally. However, we would argue that the expansion of fiscal policy was largely due to the delivery of necessary 'support' to those most severely impacted by the pandemic, rather than 'stimulus'. This will be a challenge of 2021, that is, whether governments can shift their support to growth-generating stimulus.

Second, risk assets have ended the year at levels that seemingly ignored the fundamental shock to the economy. The solving ingredient has been the overwhelming policy support. In addition, lessons have been learned from actions to reverse, for example, the taper tantrum (2013) and the Fed tightening through 2017-18, such that markets are assuming that the bar for policy reversal will be much higher in the future. Turning to fiscal policy, where politics has often been seen to get in the way of common sense, it is far less certain how the path will look in 2021. Thus, our expectation is that the decisions made on fiscal policy could be an important driver on how asset markets re-assess their outlook through the coming year.

To date, we have acted to participate in the risk asset rally, leveraging sector rotation, assessment of credit quality, curve and name selection to generate performance. Duration holdings have been near historically low levels and we expect it to gradually accumulate if yields push higher.

Macquarie Dynamic Bond Fund

Monthly report – 31 December 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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