

## Investment objective

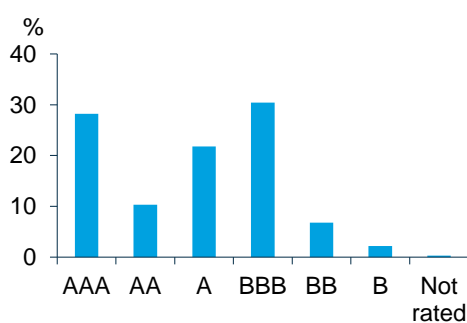
Aims to generate attractive returns by dynamically investing in global fixed income instruments. It aims to provide diversification against equity risk as well as capital growth and some income.

## Key information

Fund details	
APIR code	MAQ0274AU
Inception date	30 September 2002
Fund size	\$704.4m
Distribution frequency	Quarterly
Management fee*	0.614% 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.

## Credit profile breakdown



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

## Fund performance to 28 February 2021

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	-1.56	-1.61	-0.75	-0.86
3 months (%)	-1.51	-1.66	-0.70	-0.96
1 year (%)	1.97	1.34	0.94	0.40
3 years (% pa)	5.35	4.71	3.45	1.26
5 years (% pa)	4.79	4.15	2.93	1.22
10 years (% pa)	5.45	4.81	4.72	0.09

### 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 <sup>1</sup>	51.9
Investment grade credit <sup>2</sup>	33.9
High yield	7.0
Emerging markets debt <sup>3</sup>	7.2

<sup>1</sup> Includes Australian government, Australian semi-government, supranational, global sovereign and cash

<sup>2</sup> Includes Australian and global investment grade credit

<sup>3</sup> May include holdings of sub-investment grade instruments

## Fund statistics

Credit spread duration	2.2 years
Interest rate duration	3.5 years
Standard deviation <sup>1</sup>	2.9% pa
Yield to maturity <sup>2</sup>	1.9% pa

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

<sup>2</sup> 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 <sup>1</sup> (%)	Credit spread duration <sup>2</sup> (%)
North America	13.8	38.0
Europe (ex UK)	-3.2	17.2
UK	10.6	5.8
Australia/New Zealand	57.4	29.3
Japan	0.1	0.2
Others	21.3	9.5

<sup>1</sup> Calculated based on security's currency

<sup>2</sup> Calculated based on security issuer's currency

# Macquarie Dynamic Bond Fund

Monthly report – 28 February 2021

## Fund highlights

The reflation theme gripped bond markets during February, fuelled by the roll-out of vaccines, the continued surge in oil and copper prices, rising expectations for a large US fiscal package being agreed in March, and the continued strength across the manufacturing sector. Bond yields surged higher and yield curves steepened, with the Antipodean markets leading the charge. It was interesting to observe that credit spreads actually tightened amidst this big move in bond markets, which supports the thought that the movements in yields were generated by a belief in stronger growth rather than an outright fear of sustained higher inflation. Central bankers have weighed into this debate, arguing that the market is re-pricing because of growth. Despite the market bringing forward rate hike expectations, they are maintaining their already stated commitment to keeping policy focused on supporting the recovery.

While the Fund's overweight credit positioning positively contributed to performance, with bond yields rising sharply in February, the total return of the Fund was impacted negatively by the outsized moves over the month despite the low levels of duration held by the Fund relative to its historical levels.

The Fund's credit allocations were a positive contributor in February, driven by exposures to emerging markets (EM), high yield (HY) and higher-beta investment grade (IG) credit, as spreads continued to compress in the higher-beta sectors.

The Fund's strategy of owning higher-beta exposures in EM and HY, while holding less 'generic' IG credit, continues to work and be suited to the current environment. Further small reductions to IG credit were made during the month, particularly in the space of longer-maturity IG bonds. For example, we trimmed the Fund's exposure to construction firm Lafarge Holcim, a BBB-rated issuer that we remain fundamentally supportive of, but whose EUR 2031 bonds have rallied to less than 100bps in spreads and offer minimal upside going forward, even if markets continue to perform well. The Fund's credit duration exposure is now back to levels near its historical lows and much lower than the peak of exposure in 2H20, with the holdings generally focused in the higher-beta sectors. We believe this has been appropriate given the less attractive spreads on offer, particularly in the lower-beta and generic 'IG' space, and we are prudently opportunistic toward adding risk on any market volatility.

The Fund's duration exposure has remained at low levels, while its geographical allocations shifted away from US Treasuries during February as we felt that the reflation themes were beginning to heavily impact price actions. The beneficiaries were primarily Chinese and European government bonds as we consider these yield curves to be less impacted given the different regional fundamentals, and we continue to prefer holding them. We also increased our allocation to UK gilts and Australian fixed income as the rise in yields represented better value given the growth and inflation outlook.

The Fund's interest rate duration positioning detracted from performance largely due to our positions in Australia, and to a lesser extent, Canada and the UK. However, the higher yields are beginning to offer some value, given that we expect the longer-term outlook for yields to be contained. Despite the recent sharp moves higher in Australian yields in particular, we remain fundamentally comfortable with the interest rate duration position given the commitment from central banks, including the Reserve Bank of Australia (RBA), to maintaining highly accommodative policy over the next several years, as well as the positioning on the curve that offers attractive roll-down in yields.

## Outlook

Market narratives can at times seem at odds to actual fundamentals, and February bore witness to this exact situation. Fundamentals shift slowly and the noise around the current trend is large. Despite this, the market narrative is embracing the re-opening of economies through 2021, as well as the expected big rebound in growth and possibly higher inflation. While we do expect a growth rebound in 2021 and strong cyclical inflation pressures through the coming quarters, our focus is on whether this recovery will lead to disappointment through 2022 as the huge structural headwinds gradually reassert. For fixed income investors, this debate manifests into a question: is this rise in yields a great buying opportunity or should investors be shedding duration into every rally?

Certainly, this rise in yields has been much quicker than expected. If the US Federal Reserve sticks with its new policy of targeting average inflation, then the steepening yield curves make sense as the economy recovers. However, if the recovery is to evolve from the 'animal spirits' generated by the re-openings, then income levels need to rise on a sustainable basis. Over the past year, governments have made significant transfer payments to boost income for workers and businesses impacted by the pandemic, which staved off a worse economic outcome. The key to the recovery being sustained to generate higher inflation will be the labour market. As transfers taper, will job creations be quick enough to fill the employment gap opened during the pandemic? Structural dislocation has occurred in sectors such as retail, business travel and transport. It is unclear how jobs in these sectors will return, let alone the re-training needed to enable those workers to move to another sector.

This debate will not be settled next month. In fact, cyclical forces are likely to be stronger in the coming months, implying that there is still upside risk to bond yields. But how high can bond yields go before their levels begin to bite heavily indebted economies? We expect the disconnect between market narratives and fundamentals to persist for several months or even quarters. This implies a challenging investment climate particularly for fixed income, and our focus is to maintain discipline and recognise that opportunities will present themselves.

# Macquarie Dynamic Bond 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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