

## Investment objective

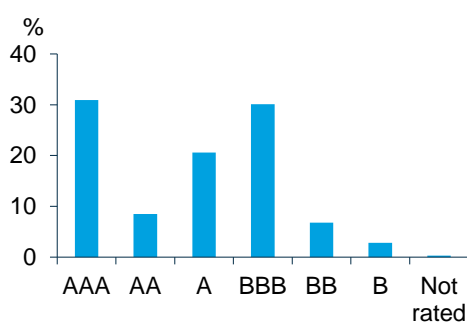
Aims to generate attractive returns by dynamically investing in global fixed income instruments. It aims to provide diversification against equity risk as well as capital growth and some income.

## Key information

Fund details	
APIR code	MAQ0274AU
Inception date	30 September 2002
Fund size	\$711.7m
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 30 April 2021

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	0.47	0.42	0.22	0.20
3 months (%)	-0.91	-1.06	-0.75	-0.31
1 year (%)	3.80	3.17	0.92	2.25
3 years (% pa)	5.46	4.81	3.35	1.46
5 years (% pa)	4.78	4.14	2.76	1.38
10 years (% pa)	5.37	4.73	4.57	0.16

### 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>	46.6
Investment grade credit <sup>2</sup>	37.3
High yield	7.4
Emerging markets debt <sup>3</sup>	8.7

<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	2.4 years
Interest rate duration	3.4 years
Standard deviation <sup>1</sup>	3.0% pa
Yield to maturity <sup>2</sup>	1.5% 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	17.8	35.0
Europe (ex UK)	-12.4	14.1
UK	7.6	6.9
Australia/New Zealand	54.6	26.8
Japan	0.1	0.1
Others	32.3	17.1

<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 – 30 April 2021

## Fund highlights

Some challenges continue to present in fixed income markets. Starting with the facts, during April US President Biden unveiled two infrastructure packages targeted at an additional \$US4tn of stimulus, following hot on the heels of the third fiscal support package since the pandemic hit. In the US, as vaccine administration accelerates, new cases fall and pressure on hospitals eases, the process of re-opening the economy continues to be supported. Sentiment surveys rose, employment grew, and inflation jumped to 2.6%. Equities also surged to another new high and credit spreads tightened to pre-pandemic levels. Yet, bond yields were lower on the month.

Risk markets have been running on the growth recovery and the strength so far coming through in Q1 earnings. While bond yields marched higher through 4Q20 and 1Q21, reflecting the lifting of deflationary fears, price actions have suggested that inflation may not be as big a risk as many economists are suggesting. Central banks have dismissed the current and expected rise of inflation as transitory, citing deep scars from the pandemic that are at work to add to the pre-existing structural downward pressures on inflation. Calming words echoed by most central banks have quelled, but not eliminated, the fears in bond markets that monetary stimulus can be tapered.

The Fund posted a solid performance in April, driven by the allocations to credit, the position on duration, and security selection within its emerging markets (EM) debt holdings.

The duration positioning has been maintained at around 3.5 years with some slight geographic shifts. The Fund took advantage of a widening in the differential between Scandinavian and core European yields to add some Swedish exposure, though our exposure to Australian government bonds has remained the dominant strategy.

The Fund's credit exposures contributed to performance in April. Amongst credit sectors, investment grade (IG) credit, particularly those that are BBB-rated, was the largest individual sector contributor, while EM debt holdings contributed smaller positive gains. Australian-mortgage-backed securities were also an outsize contributor this month, as new issuance re-priced tighter in spreads in the secondary market, particularly those in the lower tranches where the Fund holds most of its exposure.

The Fund trimmed some higher-beta exposures (lower-rated IG and higher-rated high yield (HY) credit) this month after their strong performance. This included a small number of corporate hybrids and longer-dated (10+ year maturity) US corporates, for example, a hybrid issued by BP that was added into the portfolio in September last year. This reduction was balanced by purchases of short-dated (2 year maturity on average) credit names after their recent relative underperformance, as this part of the market offers some spread with minimal price volatility. The Fund has maintained a preference for higher-beta credit (including HY, EM debt and BBB-rated IG credit). We view the remaining upside in generic credit spreads as limited and opportunities as more driven by spread compression in names and sectors trading at wider spreads. New issuance volumes in April were generally strong and offered some opportunities to add positions, though overall spreads and concessions remained mostly limited. Issuance from US banks that posted strong earnings offered opportunities for the Fund to increase exposure, including to issuers such as auto-focused lender Ally Financial and Bank of America.

## Outlook

Divergence has been a theme since the onset of the pandemic. The virus impact and subsequent vaccine rollouts have been uneven across countries. While monetary policy has broadly been consistent, the applications of fiscal policy has diverged. This is leading to different economic cycles across countries. The upcycle has been led by China, with the US now in the spotlight and Europe expected to follow. However, restrictions in many countries will likely remain until 2022. In contrast, asset markets have traded to a consistent beat, with risk markets rallying, credit spreads narrowing and bond yields rising. This mismatch between fundamentals and valuations is a persistent discussion point amongst investors.

That said, 'recovery' continues to be the consensus theme. Though the more important question, 'recovery to what?', is hotly debated. The pre-pandemic growth trends were underpinned by massive monetary support, and since the pandemic, central banks have done 'even more'. What is different is that fiscal policy, previously shackled by concerns about deficits and debt, has been unleashed. However, the fiscal responses have mostly been 'support' not 'stimulus (i.e. direct spending)', so deficits and debt levels have risen but with little growth multiplier. The US is now shifting strategy and the infrastructure plans fit into the 'stimulus' mode, which opens up the potential for stronger growth in the future. While the passing of the stimulus plans can take months, we can conclude that infrastructure spending is an investment on the supply side of the economy, which can lift growth and productivity without necessarily lifting inflation.

Most of this could already be 'in the price' or at least within the markets' framework of understanding. This suggests that we could be in a period of consolidation until the outcomes become clear. This thinking, however, is at risk to any change in the technical forces within asset markets, change in positioning or seasonal factors such as 'sell in May'. We therefore expect a somewhat more challenging investment climate to persist, where our intention 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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