

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.

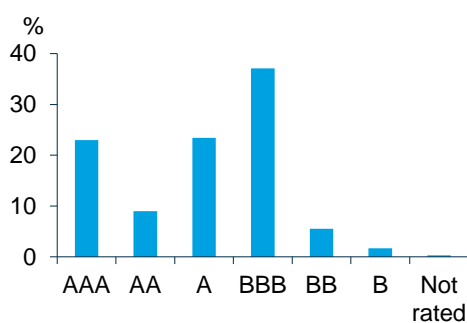
Key information

Fund details

APIR code	MAQ0274AU
Inception date	30 September 2002
Fund size	\$712.7m
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 May 2021

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	0.27	0.22	0.15	0.07
3 months (%)	0.93	0.77	0.16	0.61
1 year (%)	3.13	2.50	0.71	1.79
3 years (% pa)	5.47	4.83	3.30	1.53
5 years (% pa)	4.55	3.91	2.72	1.19
10 years (% pa)	5.31	4.66	4.46	0.20

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	45.5
Investment grade credit ²	38.2
High yield	6.6
Emerging markets debt ³	9.7

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	2.1 years
Interest rate duration	3.1 years
Standard deviation ¹	3.0% pa
Yield to maturity ²	1.6% 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	15.8	35.2
Europe (ex UK)	1.5	16.1
UK	13.5	7.6
Australia/New Zealand	48.4	30.0
Japan	0.1	0.1
Others	20.7	11.0

¹ Calculated based on security's currency

² Calculated based on security issuer's currency

Macquarie Dynamic Bond Fund

Monthly report – 31 May 2021

Fund highlights

While society is discussing the evolving pandemic, vaccination rollouts and the re-opening of economies (or occasional lockdowns), fixed income investors are obsessing about inflation. During May, the data for April revealed that inflation was indeed rising, yet bond markets barely reacted. This was because the reasons behind the rise of inflation have been telegraphed. There are base effects, including the big declines in inflation at this time of 2020 now being reversed, logistical challenges as a result of supply chain disruption, and the impact of economic re-openings with a resultant surge in demand. It is also expected that these same forces will persist for the next few months. Over the past decade, fixed income markets have moved to fully embrace the theme of 'lower for longer', that is, persistently low interest rates. Therefore, inflation is a material threat to the current environment. We therefore expect the debate about inflation to rage for some time, which means that we are in a period of heightened sensitivity to inflation risk for fixed income markets.

While bond yields broadly moved within narrow ranges during May, this masked another theme – the lack of 'global synchronisation'. COVID-19 had an uneven impact across countries in 2020, which resulted in differentiated economic outcomes. The vaccine rollouts are also inconsistent across countries, which is expected to have a differentiated economic impact on countries through 2021. This can be observed microscopically in relative spreads. For example, US Treasury yields peaked at the end of March and have been grinding lower in subsequent months, while European yields posted their highs in late May. The relative spread moves are still modest because central banks globally have maintained a consistent 'dovish' approach to their policy, but as this evolves in the months ahead we suspect that spread volatility can increase.

Risk markets have resisted the seasonal bias for a correction in May, underpinned by an improving current assessment and guidance from corporates during the Q1 reporting of earnings. The performance of credit and rates markets during the month enabled the Fund to deliver a solid positive return. However, given the current challenges to the environment we are keeping risk levels modest relative to target and continue to look for opportunities to tighten the risk profile of the Fund.

The Fund's interest rate duration was lowered in May by around 40bps. Our view remains that yields are likely to rise in the coming months as growth and inflation continue to improve. Despite the lower levels of duration, Australia remains a favourable allocation given the level of yields relative to other markets and the steepness of the curve. The Fund has also maintained more moderate allocations to US Treasuries, UK gilts, Canadian and Chinese government bonds.

There were modest changes to the corporate credit positioning of the Fund during the month. Generic investment grade (IG) credit was further trimmed. In addition, there were some reductions in the Fund's US high yield exposure in bringing the overall portfolio risk exposure somewhat lower. We have continued to favour BB-rated credit over the broader IG market. However, given the spread compression so far we are overall prudent around the credit allocations given the risk-reward balance has become much less favourable. The Fund added short-dated credit (for example, short-dated European bank subordinated financials that offer some carry but very low duration risk), and has generally maintained its higher-beta exposures, aside from the reductions mentioned above.

Outlook

In the debate over the outlook for inflation, our research guides our thought process to separate the drivers of 'cyclical' from 'structural' factors. The structural factors driving inflation lower over the past decade are now well known: the rising government debt level, aging demographics, digitalisation of the workforce, dependency on low interest rates, and the trend towards de-globalisation. An interesting observation we have made in the past year is that many of these trends have actually worsened during the pandemic. Thus, currently the structural trends supporting 'lower for longer' remain very much intact. Cyclical forces, by their nature, can be very strong but tend to be 'transitory' as most central bankers are describing. However, supply chain disruptions continue and many companies are reporting difficulties in re-hiring workers laid off during the pandemic. The fear amongst economists and fixed income markets is that these cyclical forces will become persistent.

A key factor that could turn the tide on low inflation could be active fiscal policy. US President Biden's twin infrastructure investment package provided substance to analysing this possibility, where we asked whether the spending package would be large, targeted and persistent enough to turn the tide of inflation? We assessed that it is indeed likely to be targeted and planned to be persistent, but may not be large enough – even in the size proposed. The risks are that politics can negotiate the actual spending to be much lower than the President hoped. We therefore concluded that while fiscal spending may extend the transitory period of higher inflation, it is unlikely to be large enough to turn the structural forces that is needed to end the 'lower for longer' environment.

That said, with cyclical forces 'in play' for a few months we are navigating a cautious path in terms of managing our duration positions, as well as our credit risk exposures. Overall, we expect a challenging investment climate to persist, where our intention is to maintain discipline and recognise that opportunities will present themselves.

Macquarie Dynamic Bond Fund

Monthly report – 31 May 2021

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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