

### 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.

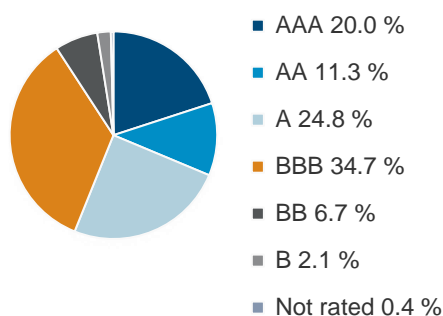
### Key information

#### Fund details

APIR code	MAQ0274AU
Inception date	30 September 2002
Fund size	\$719.7m
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 31 July 2021

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	0.77	0.25	0.71	-0.46
3 months (%)	1.39	0.76	0.96	-0.20
1 year (%)	2.02	0.93	0.65	0.28
3 years (% pa)	5.60	4.79	3.50	1.29
5 years (% pa)	4.21	3.48	2.56	0.92
10 years (% pa)	5.23	4.54	4.37	0.17

#### 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>	42.4
Investment grade credit <sup>2</sup>	42.2
High yield	6.3
Emerging markets debt <sup>3</sup>	9.1

<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	3.3 years
Standard deviation <sup>1</sup>	2.9% pa
Yield to maturity <sup>2</sup>	1.3% 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	22.9	35.2
Europe (ex UK)	-7.2	14.8
UK	9.2	6.1
Australia/New Zealand	54.7	28.0
Japan	0.0	0.1
Others	20.4	15.8

<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 – 31 July 2021

## Fund highlights

The Fund delivered a positive return over the month of July.

The Fund's interest rate duration exposure was reduced during the month, with the changes coming in the Europe (particularly Germany) exposure, where bonds have again fallen into deeply negative territory, and we consider valuations unattractive over the medium term. We increased the Fund's exposure to Scandinavia where bonds had cheapened sufficiently to become relatively attractive on a hedged basis to Australian investors.

The Fund's credit positioning contributed to performance, with security selection adding value even as credit markets generally traded weaker. Amongst sectors, investment grade (IG) credit security selection and Australian mortgage-backed securities were key positive contributors, with hybrid exposures in banks and corporates and a rebound in European travel exposures amongst the top performers. Emerging markets (EM) debt detracted from performance in July, with exposures in selected Latin American issuers trading weaker on global growth concerns and the sharp rally in developed market bond yields, as well as specific concerns around some high yield EM issuers weighing on sentiment for the broader market. Despite the extended lockdown in Australia, holdings of AUD corporate credit generally held in well, reflecting strong overall demand and some expectations for further policy support, though there was some modest weakness in direct COVID-impacted sectors such as airlines and other travel sectors. USD credit was weaker in general, driven by strong new issuance and some growth concerns.

Portfolio changes in credit focused mainly on the continuation of sourcing lower volatility carry in short-dated EUR and USD securities, which provide some carry with only small exposure to rates and credit market volatility. The Fund reduced its holdings of USD air leasing companies, a space that still has a strong fundamental trajectory but has spreads tightened significantly – we expect opportunities to potentially re-enter this space later in the year with upcoming M&A deals due to be funded.

## Market overview

The US Federal Reserve (Fed) surprised markets by shifting its tone and forecast for the outlook of rate hikes, whilst the US Administration disappointed with the progress of its fiscal strategy. The Federal Open Market Committee continued to emphasise that the recent rise of inflation is transitory, yet markets viewed the upward shift in rate expectations as validation of their speculation. This caused shorter-term yields to push higher, and longer-dated bond yields went the other way with a flatter yield curve the result. The debate amongst market participants was not only interpreting the Fed's signal, but also why the bond market rallied. There is merit in the view that earlier-than-expected Fed tightening could put a lid on the recovery and hence cap inflation, but there were also more subtle technical forces at play, which combined to squeeze many 'short' positions that further fuelled the rally in Treasury yields. Whilst these events were unique to the US, the impact rippled across countries, and curve flattening was a common theme.

Risk assets were mixed in July amid concerns around the Delta variant and the impact on growth. Equities hit new highs, but credit markets were moderately softer and bonds continued to rally. Emerging markets debt underperformed as the US dollar reversed its downward trend, but also because the pandemic has had a differentiated but significant impact on many countries.

## Outlook

As we move into the second half of 2021, attention is on the shape of economic recovery, and whether the current inflation pulse will prove transitory as expected by policy makers or persistent. A key feature of the pandemic was massive government support to workers and businesses, but this is nearing its end and many states in the US are deciding to withdraw the federal support early in the hope that this encourages people back to work. The speed at which furloughed/unemployed workers return to work will be key in determining the shape of the recovery, but businesses trying to re-open have reported difficulty in hiring and many have offered financial incentives, including higher wages. This has fuelled concerns that inflation will become persistent, yet the data has shown that the majority of government transfers to these workers during the pandemic was saved, suggesting that persistent uncertainty will hold back consumption. While supply chain disruption is likely to continue to pressure inflation, in our opinion, the evolution of consumer income and demand will prove the decisive determinant of inflation longer-term.

There are still many unanswered questions on the future such as: when will normal activity resume; when will international travel resume; and what will the post-virus workplace look like? These vital but unanswered questions, combined with low bond yields and tight valuations, guide to a cautious approach to investment. However, we also recognise the ferocious insatiable need for yield. We balance these forces by maintaining discipline and 'doing the work' to determine the best risk-adjusted positioning for portfolios.

# Macquarie Dynamic Bond Fund

Monthly report – 31 July 2021

**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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