Macquarie Investment Management

Macquarie Dynamic Bond Fund

Monthly report – 31 August 2021

Investment objective

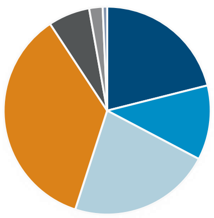
Aims to generate attractive returns by dynamically investing in global fixed income instruments. It aims to provide diversification against equity risk as well as capital growth and some income.

Key information

Fund details	
APIR code	MAQ0274AU
Inception date	30 September 2002
Fund size	$728.4m
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 August 2021

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	0.18	0.13	-0.13	0.26
3 months (%)	1.30	1.14	0.68	0.46
1 year (%)	2.09	1.47	0.63	0.84
3 years (% pa)	5.36	4.72	3.33	1.39
5 years (% pa)	4.04	3.41	2.52	0.89
10 years (% pa)	5.15	4.50	4.21	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]	42.0
Investment grade credit[2]	42.5
High yield	6.4
Emerging markets debt[3]	9.1

[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	2.3 years
Interest rate duration	2.9 years
Standard deviation[1]	2.9% 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	14.2	37.3
Europe (ex UK)	-8.4	11.3
UK	9.8	7.0
Australia/New Zealand	62.3	29.6
Japan	0.0	0.1
Others	22.1	14.7

[1] Calculated based on security's currency
[2] Calculated based on security issuer's currency

Fund highlights

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

Within duration positioning, the Fund's duration exposure was reduced in August by further selling US Treasuries with the likelihood that peak monetary easing in the US is behind us, which should see US yields rise from here in the medium term. The Fund has continued to favour Australian interest rate exposure despite the recent outperformance given the COVID-19 situation in Australia and the likelihood of the Reserve Bank of Australia (RBA) policy remaining on hold while peers gradually reduce stimulus. The higher yields and better rolldown also favour Australian bonds.

The AUD currency options held in the Fund were a key contributor to performance, with an option structure implemented to provide downside protection to the Fund if the AUD falls. This was put in place as an attractive downside protection alternative to interest rate duration, which currently offers less upside and more potential volatility. The currency position added value even as risk markets were steady and with growing pessimism over the pace of Australian economic growth given the extended lockdowns, and the position was partly covered before the currency began rebounding into month end.

The Fund's credit positioning also contributed positively to returns. Spread moves were minimal from the end of July, masking some intra-month volatility, and as such, the key driver of credit performance was excess running yield. Top individual performers in credit were holdings of recovery trades such as cruise lines, and Latin American sovereign credits in emerging markets, which both rebounded somewhat after a weaker July performance. Portfolio changes in global credit focused on a continued barbel of higher beta and recovery trades, with additions to BBB-rated credit and travel-related exposures in Europe. The changes in credit positioning were also focused on individual opportunities rather than wholesale sector moves given lower new issuance volumes and limited spread volatility, meaning that overall sector opportunities were limited.

Market overview

All eyes were on Jackson Hole Economic Symposium looking for hints from the US Federal Reserve (Fed) Chair Powell on when they may begin the process of tapering the accumulation of assets on their balance sheet, where risk markets were pleased by his message that the Fed is not looking to move early on evolving its policy. Elsewhere, COVID-19 restrictions have been tightened in enough countries to remind consumers that a return to normal remains elusive. Consumers are important to the recovery, though the surge in consumer spending, underpinned by significant government transfers which are now gradually being withdrawn, has slowed. Financial markets now see evidence that the strong GDP growth of the second quarter is likely being followed by a much slower third quarter and increased uncertainly at the strength of recovery thereafter. On top of these themes lies inflation. It may be transitory but for many consumers whose income growth remains modest or is underpinned by government support, the surge in costs is adding to their caution. So we are left in a situation where the real economy is experiencing very uneven growth, supply driven inflation is persisting and consumers who are now more cautious, but asset markets remain firmly underpinned by the flow of liquidity from policy makers.

Outlook

For financial assets, the focus in coming months will be acutely on the next steps by policy makers. On one hand, several central banks are signalling that the stimulus to provide liquidity will be gradually reduced. On the other hand, fiscal policy is entering a period of transition, where the dramatic actions by governments should not be underestimated in terms of the flow of liquidity to financial assets in the form of higher private sector savings. During September, several support measures to displaced workers are being withdrawn. Whether workers replace that income by finding work or run down savings will be important for consumption. In Europe, the Recovery Plan spending is now flowing, while in the US we should find clarity on the shape and size of the proposed infrastructure spending. Here, fiscal flows can help offset the potential for central bank tapering, hopefully minimising the risk for asset markets. That said, there are many uncertainties as we navigate this period of transition, which means potential for volatility in asset markets.

For the real economy, the medium term outlook is less clear. The approach of the northern winter will be an important test for how vaccination stands up in the face of the evolving coronavirus and increasing realisation that vaccine efficacy fades over time. The real economy continues to battle with ongoing supply chain problems. Labour markets are entering a period of transition where the dilemma of high vacancy rates and large numbers of unemployed should evolve to reveal the extent of scaring from the pandemic, which will be important for the outlook for consumer spending. Meanwhile, geopolitical concerns remain heightened, and several significant elections are approaching that have the potential to see shifts in the political balance.

With respect to portfolio positioning, we have gradually moved to a more cautious positioning to reflect the increasing uncertainties being faced. As we enter September, our global team will again convene to reassess the outlook while recognising that investors still face an insatiable need for yield.

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For more information speak to your financial adviser, call us on 1800 814 523, email mim.clientservice@macquarie.com or visit macquarie.com