

### 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.

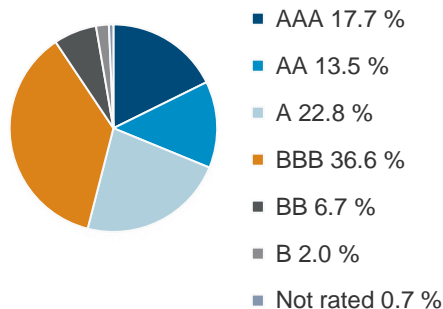
### Key information

#### Fund details

APIR code	MAQ0274AU
Inception date	30 September 2002
Fund size	\$734.3m
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 September 2021

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	-0.57	-0.63	-0.52	-0.11
3 months (%)	0.37	0.22	0.07	0.15
1 year (%)	1.32	0.70	-0.04	0.74
3 years (% pa)	5.31	4.66	3.23	1.43
5 years (% pa)	3.97	3.34	2.35	0.99
10 years (% pa)	5.03	4.38	4.12	0.26

#### 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>	43.1
Investment grade credit <sup>2</sup>	41.4
High yield	6.4
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	2.3 years
Interest rate duration	3.2 years
Standard deviation <sup>1</sup>	2.9% pa
Yield to maturity <sup>2</sup>	1.4% 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	12.2	37.8
Europe (ex UK)	-10.5	11.1
UK	18.9	6.6
Australia/New Zealand	53.3	29.4
Japan	-0.1	0.1
Others	26.2	15.0

<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 September 2021

## Fund highlights

The Fund delivered a negative return in the month of September. Bond yields rose across major markets in the month as the market keyed on the next policy action of central banks, improving fundamental data and higher inflation expectations as food and commodity prices ratcheted higher.

The duration of the Fund was increased in September, using the rise in yields to reduce our underweight to US Treasuries. We also changed some geographical allocations, favouring UK rates over Canada in the longer end given more favourable net supply during the month, and favouring short-end UK rates against similar maturity US securities on valuations. We also increased our Scandinavian exposure against core European rates as these bonds have been more attractive on a hedged yield basis. Interest rates strategies underperformed largely as a result of our UK exposures.

The Fund's credit positioning added to performance for the month, reflecting good relative performance in BB and BBB related credits. Amongst the strongest individual positions, holdings of airlines such as Air Canada and International Airlines Group (parent of British Airways) performed well as the US moved to open up transatlantic travel. Weaker performers included some portions of emerging markets debt, which have relatively underperformed with developments in the Chinese market. Overall, the Fund's emerging markets exposures contributed a flat result for the month.

The Fund added new credit holdings during the month, mostly in investment grade, though spreads continued to be generally tight with limited new issue concession. The Fund added a new bond from Qantas in AUD in new issue, as well as new issuance from global issuers such as Southern Company (US utility), which issued in Europe. In addition, some volatility in interest rates and equity markets offered some opportunities to build on existing holdings, such as adding to a hybrid exposure to Silicon Valley Bank, one of our favoured US regional banks. The Fund overall maintains its barbell of higher beta credit and high liquidity allocations.

## Market overview

With vaccination rates pushing higher and recovery (albeit stuttering) underway, it is not a surprise to hear from policy makers that they are considering withdrawing the huge stimulus support injected into the economy. Worker assistance schemes in many countries have either ended or been nearing an end, so fiscal support is already turning into fiscal drag. In September, the US Federal Reserve (Fed) and Bank of England sent signals that they are ready to taper their quantitative support. With rising asset prices the clear winner of global policy maker efforts, the prospect of this being reduced is causing some concern. On top of this, commodity prices (oil and natural gas prices in particular) are launching higher. This is fuelling inflation fears.

Bond yields have continued to trek higher, with the more hawkish-than-expected Fed meeting igniting an acceleration. Yield curves are steepening, with short rates protected by the prospect of target rates remaining on hold while longer rates embracing increased concerns that inflation will run 'hotter' for longer.

Risk markets have baulked but this came off tight levels, and credit spreads in fact ended the month unchanged or tighter. Emerging markets debt underperformed, with a stronger dollar and negative headlines coming from China the key drivers.

## Outlook

Financial markets have entered the fourth quarter with a plethora of uncertainties, yet risk assets remain near historically tight valuations. Though bond yields are edging upwards and the highs posted earlier in the year are not far away. From a macro perspective, the outlook remains uncertain largely because the pandemic continues, albeit differently in respective countries. The pandemic continues to exert its significant economic influence around the globe via compromised supply chains. These supply chain problems can only be fixed once the pandemic has passed. We are all experiencing the impact of the supply chain problems with inflation rates elevated and shortages of many goods. There are fierce debates about whether financial markets should believe that these problems are transitory or more persistent, characterised by higher inflation.

We observed that our inflation scorecards are signalling that the current inflation pulse is indeed being driven by cyclical factors while structural drivers remain benign. We remind ourselves that our research has shown persistent inflation is driven by demand, while the current inflation is largely driven by supply factors. Looking back to the 1970s (a common reference for supply-driven inflation), the problem with oil supply was a deliberate and persistent act of restraint by OPEC, but in contrast the current problem is a result of the pandemic and there is a global will to fix the problem. Another important contrast with the 1970s is that wages rose persistently due to high unionisation, which is quite different to today, with wage rises being delivered to targeted areas of labour shortages. However, stagflation was a big problem in the 1970s and there are worrying signs that this environment is emerging today, where rising inflation dampens growth. This is a challenging time for central banks and investors as risks for a misstep are high, but we remain true to our investment philosophy and processes to navigate this challenging path.

# Macquarie Dynamic Bond Fund

Monthly report – 30 September 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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