

### Investment objective

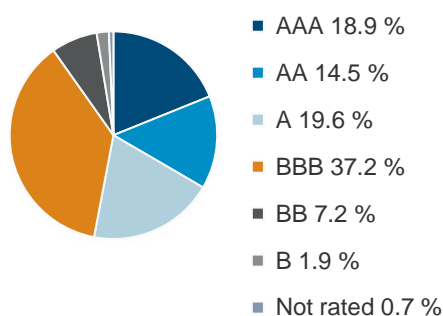
Aims to generate attractive returns by dynamically investing in global fixed income instruments. It aims to provide diversification against equity risk as well as capital growth and some income.

### Key information

Fund details	
APIR code	MAQ0274AU
Inception date	30 September 2002
Fund size	\$714.4m
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 November 2021

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	0.71	0.66	0.37	0.29
3 months (%)	-1.40	-1.55	-0.71	-0.84
1 year (%)	-0.73	-1.33	-0.58	-0.75
3 years (% pa)	4.98	4.34	3.02	1.32
5 years (% pa)	4.38	3.74	2.61	1.13
10 years (% pa)	4.78	4.14	4.07	0.07

#### 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>	39.8
Investment grade credit <sup>2</sup>	48.8
High yield	6.8
Emerging markets debt <sup>3</sup>	4.6

<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	2.5 years
Interest rate duration	3.3 years
Standard deviation <sup>1</sup>	3.0% pa
Yield to maturity <sup>2</sup>	2.5% 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	21.2	40.3
Europe (ex UK)	-8.3	11.1
UK	12.7	7.1
Australia/New Zealand	59.8	27.6
Japan	-0.1	0.0
Others	14.7	13.9

<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 November 2021

### Fund highlights

The Fund delivered an overall positive return over the month of November despite some volatility in rates markets and weakness in credit markets.

The Fund's duration positioning remained stable over the month at around 3.3 years, with most exposures in Australian fixed income where yields have remained relatively attractive. The Fund also moved some UK gilt exposure into US Treasuries after the Bank of England surprised the market by keeping rates unchanged at its November meeting. This saw UK gilts at their most expensive levels versus US Treasuries since last April.

The Fund's credit allocations modestly detracted from returns, reflecting volatile spreads through the month and a particularly weak finish to November. The weakness late in November was driven by news of the new Omicron variant, followed by an apparent change in tack from the US Federal Reserve, as they changed their characterisation of inflation, dropping the word 'transitory' from their vocabulary on the subject. Emerging markets (EM) were also a detractor, reflecting the broader macro concerns, as well as EM's generally higher sensitivity to growth and inflation changes.

The Fund's currency positioning added value to performance, as we have engaged in a number of FX option structures recently to help protect downside risk in the Fund – principally short AUD positions against USD and JPY. Those risk hedges were effective in offsetting credit market weakness, which was led by investment grade credit and EM. The Fund made no material changes to its credit exposure over the month, apart from participating in some new issues, which offered value. These include a new Melbourne Airport bond and an Ampol hybrid that came wide in spreads relative to existing bonds from the issuers, as well as selected new US issuers.

### Market overview

The inflation debate has been building into a crescendo, culminating in surging headline rates in many countries. Most emerging market countries have already tightened monetary policy, in some cases significantly. The Reserve Bank of New Zealand raised rates in November and focus was turning to the Bank of England to shortly follow, while the US Federal Reserve (Fed) is expected to kick start tapering its asset purchases in December. Bond yields had been rising, but most were still within existing ranges. Risk markets were still well supported, though emerging markets were struggling with the strength of the US dollar. This environment changed rapidly when news of the Omicron variant risk hit the newswires, magnified by low liquidity due to the US Thanksgiving holiday. By month end, bond yields were lower, dramatically so in Australia, while credit spreads were wider in emerging markets, particularly with local currency debt underperforming.

Uncertainty is never welcomed by financial markets, and it may take a few weeks until substantive facts become available on the significance of the new variant. Against this backdrop, the Fed, European Central Bank and Bank of England all meet in December and markets will be scrutinising their signalling closely to see if Omicron has changed their thinking, though Fed Chair Powell strongly suggested that inflation risk is at the forefront of their consideration when they meet in December.

### Outlook

The very recent developments around the Omicron variant reminds that, with the pandemic, nothing is assured and the year-ahead outlook has a cloud of uncertainty on top of all the more obvious uncertainties faced when looking ahead. We ponder whether markets will be revising their outlook before year end?

That aside, the debate on the outlook is keenly focused on inflation risk. Rightly so, with headline rates soaring, core rates being pulled higher and increasing reports of wages growth. Initially, the belief that inflation would be proven transitory was strong as the world had obviously experienced a sharp supply shock. Many now believe that demand is behind inflation. A core problem is that supply only adjusts slowly and this can only be done once the pandemic influence has passed, that is, where society has moved on from pandemic to endemic. Demand though can change quickly, and government support, re-opening after restrictions were lifted and re-distribution from services to goods have all made demand appear strong. The key question is: will these moves be sustained?

Current inflation, driven by energy and supply blockages is crushing real income. Wages are rising in some sectors but economy wide the consumer is under real income pressure. This demand risk is not part of the consensus narrative but is central to the risk of stagflation risk for coming quarters. With fiscal stimulus already turned into fiscal drag, if monetary policy tapering/tightening is layered on top then the demand theme will soon be tested.

We have positioned cautiously in recent months fearing a spike in volatility. This approach enables the opportunity to selectively add risk and duration. However, the level of uncertainty suggests there will be further volatility episodes ahead, so maintaining a cautious and disciplined approach to investing is the preferred path.

# Macquarie Dynamic Bond Fund

Monthly report – 30 November 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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