

### 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.

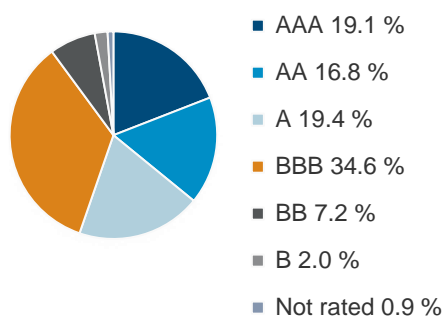
### Key information

#### Fund details

APIR code	MAQ0274AU
Inception date	30 September 2002
Fund size	\$719.8m
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 January 2022

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	-0.84	-0.89	-1.04	0.15
3 months (%)	0.13	-0.02	-0.84	0.82
1 year (%)	-1.33	-1.94	-1.83	-0.11
3 years (% pa)	3.93	3.29	2.01	1.28
5 years (% pa)	4.05	3.41	2.28	1.13
10 years (% pa)	4.66	4.02	3.65	0.37

#### 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>	38.9
Investment grade credit <sup>2</sup>	49.7
High yield	6.9
Emerging markets debt <sup>3</sup>	4.5

<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	3.6 years
Standard deviation <sup>1</sup>	3.0% pa
Yield to maturity <sup>2</sup>	2.3% 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	25.1	41.3
Europe (ex UK)	-5.2	11.7
UK	15.3	7.5
Australia/New Zealand	51.9	25.9
Japan	-0.1	0.0
Others	13.0	13.6

<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 January 2022

## Fund highlights

The Fund delivered a negative return over the month of January.

The Fund's duration remains at relatively low levels, though it did increase slightly to take advantage of rising global yields. The Fund retains its exposure to Australian fixed income where the level of inflation appears more subdued and monetary policy is expected to be slower to respond than in other major developed markets.

The Fund's credit exposures modestly detracted from performance for the month, with positive contributions from structured securities and investment grade security selection, more than offset by the detraction from high yield security selection. The move in credit spreads in January was the sharpest widening since March 2020, which underscores the pace of the move in the month but also the generally low volatility environment that we are now likely exiting. The Fund's high yield and emerging markets debt holdings were detractors – for example, BB-rated credits (such as Air Canada) and high yield cable issuers traded wider, with no changes to fundamentals but more uncertainty on the pace of the US Federal Reserve rate hikes. In contrast, UK travel exposures such as International Airlines Group and Gatwick Airport contributed positively as the UK announced they would ease cross-border travel restrictions, and selected energy exposures also performed well, including US pipeline holdings.

The Fund added some credit exposures during the month, with wider spreads on offer and strong issuance offering some opportunities. This included US banks in new issuance, where volumes were very strong, and short-dated credit, where we continue to see attractive spread levels and limited duration risk.

Overall, the Fund maintains a healthy liquidity allocation and lower overall risk exposures, and we remain open to using market volatility as an opportunity to vigilantly add to preferred positions. With central banks pivoting to a message of rate hikes and stimulus withdrawal in recent months, we expect bouts of volatility to be much more prevalent versus 2021.

## Market overview

The main theme in January was the hawkish pivot by multiple central banks in response to continued and persistent inflation. While many emerging market central banks are already advanced in their monetary policy tightening cycle, it has been the messaging from the US Federal Reserve (Fed) that has had the most dramatic impact across global financial markets. Expectations for the number of Fed rate hikes (of +0.25% increments) during 2022 increased to almost five by month end. The impact across rates markets was broadly for bond yields to rise and yield curves to flatten, where short-dated yields have risen more than long-dated yields. Risk markets, underpinned for most of the past two years by easy and easier monetary and fiscal policy, reacted negatively. Equity indices broadly ended the monthly lower and volatility was higher. This dragged on credit markets, where spreads widened with lower quality names/ratings underperforming. The US dollar reversed its pullback in the previous month, with the Australian and New Zealand currencies notably weak despite the continued strength across commodity prices in the month.

During December and through January, the Omicron variant rippled across the world. While some countries tweaked restrictions tighter, most relied on voluntary measures and gradually the data is firming a belief that this variant may be more virulent but seems to be much less of a concern for hospitals and health in general. Thus, the UK's move to remove most restrictions towards the end of January is being viewed as the likely path for most countries in the coming months. Though, with the virus, nothing is assured.

## Outlook

Fixed income markets are acutely focused on the outlook for inflation and the reaction by central banks. These two themes were central to our debates within the Macquarie Fixed Income team's recent global Strategic Forum. From a macroeconomic perspective, a deep dive into the drivers of aggregate demand and aggregate supply has enabled us to understand that the currently high inflation has been largely a product of a slow recovery in supply and demand being broadly back to the pre-pandemic trend. Looking into 2022, we asked what are the big demand drivers and noted that policies – both monetary and fiscal – were moving in the opposite direction from those of the past two years. Gradually, we expect this action to drag demand lower. We note the narrative that the consumers can drive demand higher, fuelled by higher wages and excess savings, but see that there is little actual evidence in the spending data that supports an above-trend consumption. Finally, on the supply side, we note that the pandemic needs to pass for a sustainable improvement to take place, and recent evidence gives optimism for progress through this year.

Thus, we expect inflation to trend lower in 2022, notably in the second quarter and more noticeably later in the year. This should offer respite the investor and central bank fear that inflation is a structural problem, but this path is not without risks from the virus, factors such as oil as well as policy (error). This implies a tricky investment outlook path to navigate, where periods of volatility spikes should be expected. We also recognise the investors' need for yield. During 2021, our investment approach was cautious, holding low levels of duration and low levels of exposure to risk assets. This gives our team the opportunity to take advantage of expected volatility in 2022 to add duration and risk either from both our top-down and bottom-up processes.

# Macquarie Dynamic Bond Fund

Monthly report – 31 January 2022

**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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