

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.

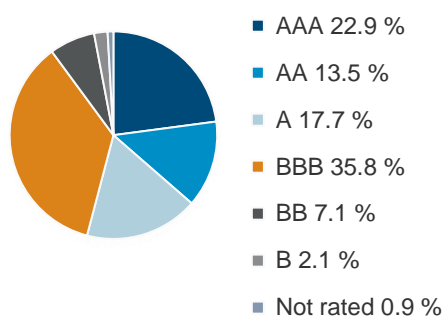
Key information

Fund details

APIR code	MAQ0274AU
Inception date	30 September 2002
Fund size	\$706.8m
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 28 February 2022

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	-1.26	-1.31	-0.85	-0.46
3 months (%)	-1.82	-1.98	-2.04	0.06
1 year (%)	-1.02	-1.65	-1.92	0.27
3 years (% pa)	3.32	2.69	1.67	1.02
5 years (% pa)	3.75	3.11	1.99	1.12
10 years (% pa)	4.52	3.88	3.49	0.39

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	38.4
Investment grade credit ²	50.5
High yield	6.7
Emerging markets debt ³	4.4

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	2.4 years
Interest rate duration	3.9 years
Standard deviation ¹	3.0% pa
Yield to maturity ²	3.1% 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	21.6	42.3
Europe (ex UK)	-12.9	11.9
UK	20.8	6.4
Australia/New Zealand	59.8	25.4
Japan	-0.5	0.0
Others	11.2	14.0

¹ Calculated based on security's currency

² Calculated based on security issuer's currency

Macquarie Dynamic Bond Fund

Monthly report – 28 February 2022

Fund highlights

The Fund delivered a negative return over February as markets performed poorly, with geopolitical tensions reaching a crescendo given the Russia-Ukraine conflict. As the concerning and saddening conflict in Ukraine continues to unfold, our thoughts are with the people impacted, and we hope for a swift resolution of the conflict.

Within the Fund's duration positioning, we increased the overall duration level by around 40bps during February, as we took advantage of the rise in bonds yields as markets continued to price in aggressive central bank tightening. We added to our existing overweight position in Australian duration, along with reducing some of our underweight position in EUR duration where valuations were more attractive in the wake of the Russia-Ukraine situation.

The Fund's credit allocations contributed to the underperformance for the month. There were two key drivers to the market moves: sharply more hawkish central bank rhetoric, mostly early in the month, and Russia's invasion of Ukraine in the second half. Apart from the clear humanitarian costs, the invasion increases both short and medium term economic uncertainty, including the impact on inflation, global growth, and even the plumbing of the financial system. Credit markets were sharply weaker overall, and the negative credit contribution was driven by the Fund's holdings of European crossover corporate credit and emerging markets (EM) credit – both of these sectors are clearly more impacted by the Russia-Ukraine situation. However, the geopolitical impact on markets have been more broad-based, and even sectors that are more remote from the situation have been affected. For example, Charter Communications (US-based cable operator) was one of the more meaningful detractors to returns for the month, amidst other more regionally impacted names such as European banks and industrials.

Over the last year, the Fund has meaningfully reduced investment grade (IG) credit exposures, and has been holding significant liquidity, which reduced the impact of market weakness and offers opportunities to take advantage of spread volatility over time. During the month, the Fund added some credit exposures on weakness, focusing in sectors that had underperformed, such as EUR-denominated IG where even names such as the Bank of America, not linked to Russia, had repriced sharply. On the other hand, we have reduced some Australian credit exposure, which had held in very well amid the volatility and moved only modestly.

Market overview

February was a month of two halves. The first half continued the theme from January, where central banks were focusing on the current higher-than-expected inflation and either hiking or preparing the market for higher rates. However, geopolitical events intervened during the month as the conflict between Russia and Ukraine turned into an actual war. The combination of themes during the month caused volatility to rise across asset markets, and trading ranges for most assets were wide. Markets were left wondering at the end of the month just how central banks will juggle the dilemma they are facing, that is, elevated inflation and increasing stress across asset markets. In the end, markets have navigated to a mid-point that still expects rate hikes in coming months but have pared back their worst fears for higher rates over the cycle.

In net terms, commodity prices have risen across the board. While the surge in energy prices rightly grabs the headlines, the rise in many key soft commodities will be felt directly by consumers and feed into inflation expectations. Markets therefore still expect central banks to act to contain inflation risks, but there is a concern that the combination of higher rates and more supply-driven inflation will hurt growth. Thus, while bond yields have shifted higher, yield curves (the spread between short and long maturity yields) have narrowed (or flattened). Faced with these forces, risk markets suffered in particular, with emerging market spreads underperforming and European investment grade credit spreads underperforming the US.

Outlook

Our recent Fixed Income Strategic Forum noted that while aggregate demand had rebounded, it was settling into the pre-pandemic trend that underpinned the lower-for-longer environment for policy and rates. Analysis shows that current elevated inflation is therefore largely a result of aggregate supply remaining compromised by the effects of the pandemic. If indeed the pandemic begins to fade as a dominant influence, the supply side of the global economy is expected to gradually repair, and with base effects kicking in, the path for inflation was forecast to trend lower during the second quarter and accelerate through the second half of 2022. Oil was a big risk to that view. And not only have the events in Ukraine pushed energy/commodity prices higher, but the resulting sanctions are also providing more difficulties for the supply side of the economy. We therefore modify our assessment and see risk in the short term for inflation to remain more elevated. However, we feel that the downside risks for growth have also increased in the medium term.

We came into 2022 expecting periodic volatility and a tricky investment path to navigate. Indeed, the price action in recent months is actually creating value opportunities. During 2021, our investment approach was cautious, holding low levels of duration and low levels of exposure to risk assets. This positioning provides our portfolios the opportunity to take advantage of expected volatility and a cheapening of valuation and add duration and risk, from both our top-down and bottom-up processes.

Macquarie Dynamic Bond Fund

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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

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