

# Macquarie Dynamic Bond Fund

Monthly report – 30 June 2022

## 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.

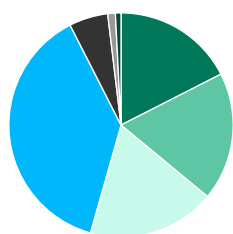
## Key information

### Fund details

APIR code	MAQ0274AU
Inception date	30 September 2002
Fund size	\$602.4m
Distribution frequency	Quarterly
Management fee*	0.614% pa
Minimum investment (Direct)	\$20,000
Unit prices and spreads	<a href="https://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



- AAA 17.5%
- AA 18.5%
- A 18.4%
- BBB 38.1%
- BB 5.6%
- B 1.1%
- Not rated 0.8%

Average credit rating: A  
Less than BBB includes residual exposure to issuers held through global investment grade allocation

## Fund performance to 30 June 2022

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	-2.30	-2.35	-1.16	-1.19
3 months (%)	-4.52	-4.67	-2.76	-1.91
1 year (%)	-8.52	-9.08	-6.67	-2.41
3 years (% pa)	-0.46	-1.07	-0.92	-0.15
5 years (% pa)	1.97	1.34	0.83	0.51
10 years (% pa)	3.28	2.65	2.76	-0.11

### 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>^</sup>	31.1
Investment grade credit*	59.8
High yield	4.4
Emerging markets debt <sup>+</sup>	4.7

<sup>^</sup>Includes Australian government, Australian semi-government, supranational, global sovereign and cash

\*Includes Australian and global investment grade credit

<sup>+</sup>May include holdings of sub-investment grade instruments

## Fund statistics

Credit spread duration	2.8 years
Interest rate duration	3.9 years
Standard deviation <sup>^</sup>	3.1% pa
Yield to maturity*	5.1% pa

<sup>^</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.

\*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>^</sup> (%)	Credit spread duration*(%)
North America	35.5	48.5
Europe (ex UK)	5.1	12.3
UK	9.5	4.6
Australia/New Zealand	61.1	25.1
Japan	-13.1	0.0
Others	1.9	9.5

<sup>^</sup>Calculated based on security's currency

\*Calculated based on security issuer's currency

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### Fund highlights

The Fund delivered a negative return during the month amid the continued broad-based volatility in markets and rising bond yields, driven by central bank tightening and concerns around rising inflation.

Fund duration fell over June, largely due to a reduction in Japanese exposure as a hedge against the Bank of Japan potentially changing its Yield Curve Control program. Elsewhere, the Fund took advantage of the higher yields in the early part of the month to add duration – mostly in higher quality sovereigns. The Fund also made some geographical shifts, allocating some US Treasury exposure into Canadian yields with those spreads at 10 year wides and also moved some UK gilt exposure into core Europe after gilts had outperformed European fixed income quite markedly this year. There were also small reductions in exposure to periphery bonds after spreads to core markets narrowed over June.

The Fund's credit allocations detracted from performance for the month, reflecting sharp volatility and weakness in global credit markets. Amongst sectors, there was similar contributions from investment grade, high yield and emerging markets holdings, with each of these sectors trading poorly. European holdings were the worst individual performers, given the weaker growth outlook in that market and very sharp credit market moves. Among individual underperformers, EUR-denominated bonds from Bank of America, Southern Company (a US utility) and airline IAG were a few of the largest detractors – we remain fundamentally comfortable with the issuers, but market pricing has moved aggressively wider in anything denominated in EUR, even where the business operates outside that region.

The Fund's credit positioning remains with lower overall exposure, and a preference for investment grade, offering attractive possibilities to consider new opportunities in a sharply higher yield environment. The Fund reduced exposure to high yield issuers early in the month before the material spread widening, judging that the higher beta exposures offered more downside risk in this environment. Offsetting this, the Fund held and added modestly to its investment grade holdings, with spreads much wider offering more balanced risk-reward outlooks, and in issuers (such as building materials supplier Holcim) where we have strong fundamental conviction through the cycle.

### Market overview

Inflation is the 'problem' facing central bankers, a fact strongly reiterated at the recent central banking forum in Sintra, Portugal by the heads of the US Federal Reserve, the European Central Bank and the Bank of England, who are committed to bringing inflation back down to target ranges. Globally, central bank target rates rose again in June, though the Bank of Japan stands in contrast by remaining committed to its yield curve control target. Whilst inflation and central bank action remain dominant themes, for asset markets there has been a rapidly emerging concern that this combination will push economies into recession in 2023. Recent data is suggesting growth is already slowing, and with inflation being underpinned by a second supply shock stemming from the war in Ukraine, asset markets fear central bankers are heading for a policy mistake by overtightening. We have already seen consumer confidence drop lower to well below average levels, and parts of the housing market have begun to turn. There have been some tentative signs, in spending data too, of some softening demand, and this is a difficult investment climate where volatility will continue.

### Outlook

Our outlook for the economy is that the global economy has entered a stagflationary environment, where inflation remains well-above target but growth slows significantly. Recession is a risk, but not a certainty, for 2023 as we have experienced twin supply-shocks to the global economy and central bankers have the potential to deliver policy overtightening with aggressive rate hikes. Central banks are attempting to solve inflation problems, which are largely a result of supply chain issues, by restricting demand, yet these demand management tools will not directly impact the source of the inflation problem. Rate hikes will weaken demand and the prospect is that a sharp downshift in demand will be needed to match reduced supply levels so as to lower inflation. This points to a difficult environment where there is scope for higher yields and flatter curves amongst the volatility and momentum, but also one that will ultimately see a bid return to rates and duration.

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**For more information speak to your financial adviser, call us on 1800 814 523, email [mam.clientservice@macquarie.com](mailto:mam.clientservice@macquarie.com) or visit [macquarieim.com](http://macquarieim.com)**

### Important information

Macquarie Investment Management Australia Limited ABN 55 092 552 611 AFS Licence 238321 is the issuer of units in, and responsible entity of the Fund. Macquarie Investment Management Global Limited ABN 90 086 159 060 AFSL 237843 is the investment manager of the Fund.

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