MACQUARIE

Macquarie Dynamic Bond Fund

Monthly report – 28 February 2023

Investment objective

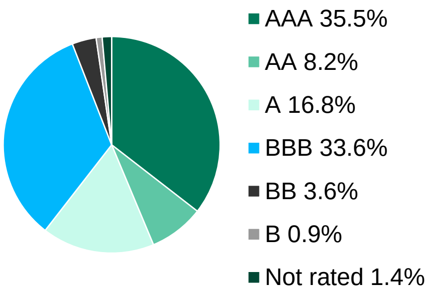
Aims to generate attractive returns by dynamically investing in global fixed income instruments. It aims to provide diversification against equity risk as well as capital growth and some income.

Key information

Fund details	
APIR code	MAQ0274AU
Inception date	30 September 2002
Fund size	$773.5m
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 2028

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	-1.99	-2.04	-1.80	-0.24
3 months (%)	-0.28	-0.43	-1.04	0.61
1 year (%)	-6.13	-6.71	-9.40	2.69
3 years (% pa)	-1.79	-2.39	-4.05	1.66
5 years (% pa)	1.67	1.05	0.02	1.03
10 years (% pa)	2.94	2.32	2.30	0.02

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 1 January 2023, the benchmark is Bloomberg Barclays Global Aggregate Index (Hedged to AUD). From 7 January 2019 to 31 December 2022, the benchmark was 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 benchmarks is available on request.

Asset allocation

	Fund (%)
Sovereign bonds^	39.5
Investment grade credit*	53.6
High yield	2.3
Emerging markets debt⁺	4.6

^Includes Australian government, Australian semi-government, supranational, global sovereign and cash

*Includes Australian and global investment grade credit

⁺May include holdings of sub-investment grade instruments

Fund statistics

Credit spread duration	2.5 years
Interest rate duration	5.7 years
Standard deviation^	3.0% pa
Yield to maturity*	4.7% pa

^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 returns 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^(%)
North America	42.4
Europe (ex UK)	11.6
UK	4.1
Australia/New Zealand	44.8
Japan	-4.1
Others	1.2

^Calculated based on security's currency

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Fund highlights

The Fund's interest rate duration rose by around 50bps in February to 5.70%. The rise in yields brought about by stronger data and expectations of higher central bank policy has provided another opportunity to add duration at attractive levels. The increase in interest rate exposures were centered in our core holdings of US Treasuries and Australian government bonds.

The Fund's credit exposures positively contributed to performance versus the benchmark over the month, with global investment grade credit and Australian c the key drivers of that contribution. Amongst individual credits, Australian and bank exposures were key positive contributors, as subordinated debt in the local market continued to perform well. US investment grade credit exposures were a detractor, with holdings of JP Morgan and Valero, a US refiner, giving up a portion of their recent impressive gains.

The Fund trimmed some higher beta European credits during the month (including a real estate investment trust and a crossover rated industrial issuer) after strong performance. European credit still offers a spread pickup versus other global markets, but the rebound has been significant – with structural energy and inflation problems still lingering. The Fund also trimmed exposures to longer dated Australian corporates after significant spread tightening.

The Fund's credit exposures overall have come down materially and are heavily weighted to investment grade, with small emerging markets and very modest high yield holdings. We think that best reflects the environment looking ahead and look forward to opportunities to add to higher beta sectors.

Market overview

The macroeconomic data has surprised on the upside in the new year, driven by a combination of a sharp fall in energy prices, particularly gas; easier than expected fiscal policy; and unusually mild weather across the northern hemisphere. In addition, inflation data is proving 'sticky', disappointing hopes for a rapid easing through 2023. This combination has ignited a debate about whether the outlook for year is a soft landing verses a hard landing or in is in fact the data pointing to a 'no landing' scenario (roughly defined as no recession and persistent above target inflation)?

Central banks continue to raise interest rates. The no landing scenario is not an option for any central banks with an inflation target, thus, financial markets initially reacted by removing the late year rate cut hopes then built in even higher terminal rates into expectations. This behaviour has paved the way for central banks to continue to tighten policy in the months ahead, where further hikes are expected in March and again in the second quarter. For rates markets this repricing was rapid and quickly reversed a large part of the strong returns for investors in January. Surprisingly, risk markets, while weaker in the month, have been relatively resilient to the repricing higher of interest rates.

Outlook

With Q1 and 2023 growth forecasts being revised higher, we asked ourselves: has the global economy experienced a mid-air refuelling? Our base case outlook, presented and discussed at the January Strategic Forum, is for a cyclical recession during 2023. The process for determining this view is built around our Recession alert process. Step 1 is to ask if the global economy has experienced any of the key triggers for previous recessions: a supply shock, a financial crisis, and, or policy overtightening. Clearly, there has been two supply shocks, the pandemic and that resulting from the Ukraine war. Step 2 is identifying if either the yield curve or our proprietary Warning and Crisis signals have triggered. The 2-year-10-year yield curve inverted in late July and the 3 month-10 year curve inverted in November, which combined to give a strong warning of a recession 12 months ahead. Our warning signal is +4 which is an amber alert. Step 3 is to check prevailing conditions. Here our analysis suggests that both Households and Businesses are in a better starting position than typical should a recession materialise in 2023. This should help soften the impact of a recession, and why our base case is for a cyclical recession not a hard landing.

Reflecting on data and market pricing during February we conclude that the risk for central banks to push monetary policy into over-tightening mode has increased. This would trigger a second Step 1 signal for recession. In addition, the expected fiscal drag has been much less in recent months than expected. In the US, the approach of the debt ceiling was pushed back by use of extraordinary measures, but these will run out around May, and we expect fiscal drag to again reassert just at the same time the lagged effects of monetary tightening begin to bite. Therefore, demand destruction is expected to dominate the second half of this year and recession remains our base case, with risk that the probability for a hard landing is increased in coming months.

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For more information speak to your financial adviser, call us on 1800 814 523, email mam.clientservice@macquarie.com or visit macquarieim.com

Important information

Macquarie Investment Management Australia Limited ABN 55 092 552 611 AFSL 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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