MACQUARIE ASSET MANAGEMENT

MACQUARIE

Macquarie Dynamic Bond Fund

Monthly report – 31 August 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	$1,042.4m
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.

Fund performance to 31 August 2023

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	0.10	0.04	-0.27	0.31
3 months (%)	-0.38	-0.53	-0.47	-0.06
1 year (%)	1.10	0.48	-1.17	1.65
3 years (% pa)	-1.95	-2.55	-3.84	1.29
5 years (% pa)	1.55	0.93	0.06	0.87
10 years (% pa)	3.07	2.44	2.46	-0.02

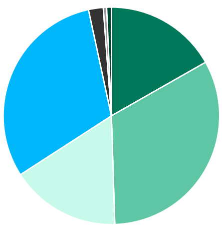
Past performance is not a reliable indicator of future performance.

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 24 August 2021, the Bloomberg Barclays fixed income benchmark indices were rebranded as the "Bloomberg Indices". As a result, the "Bloomberg Barclays Global Aggregate 1 to 10 years Index hedged to AUD", was renamed "Bloomberg Global Aggregate 1 to 10 years Index hedged to AUD."

From 1 January 2023, the benchmark is the Bloomberg Global Aggregate Index (Hedged to AUD). Prior to this, the Fund had different benchmarks. The Benchmark return and Total excess return (net) information shown above is based on the current benchmark. Over certain periods, these returns may be materially higher than the returns against the previous benchmarks. Further information about the performance of the Fund against the previous benchmarks is available on request.

Credit profile breakdown



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

Asset allocation

	Fund (%)
Sovereign bonds^	40.4
Investment grade credit*	54.5
High yield	1.4
Emerging markets debt⁺	3.7

^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	2.7 years
Interest rate duration	5.7 years
Standard deviation^	3.5% pa
Yield to maturity*	4.6% 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	51.2
Europe (ex UK)	11.5
UK	12.3
Australia/New Zealand	21.6
Japan	-1.6
Others	5.0

^Calculated based on security's currency

Macquarie Dynamic Bond Fund

Monthly report – 31 August 2023

Fund highlights

The Fund added around 40bps of duration in August. The rise in the long end of the Japanese yield curve made for good entry levels to add exposure in our view, particularly when considering this translates to around 7% on a currency hedged basis. The Fund also used the back up in bond yields to add some Australian and European duration as those central banks are close to finishing their policy tightening cycles. The Funds duration holding of 5.7 years is relatively high, compared to recent history, with yields now in some markets at decade highs and most of the policy tightening behind us. The Funds exposure remains to US Treasuries with a bias to holding short to medium tenor securities given how flat yield curves are in most developed market sovereign bond markets.

The Fund's credit positions contributed to outperformance over the benchmark for August. Positive contributions from investment grade were the main contributor, via security selection in BBB issuers. This was somewhat offset by security selection in emerging markets. Mortgage-backed securities (both US Agency MBS, but particularly Australian Residential Mortgage-Backed Securities (RMBS) were positive contributors, reflecting ongoing stable excess running yield on these securities. Emerging markets detracted, reflecting underperformance of small holdings of African sovereign issuers.

The Fund made small changes to credit exposure over the month, favouring further additions to Agency mortgage securities as historically wide spreads due to volatile rates markets, remain attractive. The Fund trimmed exposure to selected higher beta issuers that had performed strongly (such as International Consolidated Airlines) and added to mid-curve Australian corporates and selected new US issuance, where we see specific opportunities. The Fund also participated in new Australian RMBS issuance during the month, viewing spreads there as an attractive long-term source of carry. We continue to expect opportunities to add to credit positions over time - but at higher spread levels, given the likelihood of economic weakness in the medium term.

Market overview

August marks the holiday season in the Northern Hemisphere but it was no holiday for financial markets, which were taken on a wild roller-coaster ride. US 10-year yields spiked from 3.96% to 4.34% during the month, before closing at 4.09%. This was despite a benign inflation print and a weaker than expected employment reports. The much stronger than expected retail sales report was a key driver of the bond market sell-off. This combined with ongoing tough talk from US Federal Reserve (Fed) Governors, which translated into the market (again) debating a rate hike at the September meeting but more importantly revising back expectations for rate cuts in 2024.

The market narrative with regard to the economic outlook has evolved toward a belief that a soft landing can be achieved, and this has been fuelled by surging GDP. The estimate for Q3 growth, provided by the Atlanta Fed, moved from 3.9% to 5.9% (annualised quarterly growth). While stronger growth is theoretically good news for equities and credit, both risk markets came under (modest) pressure in the month, largely reflecting concerns about the Fed's interest rate hiking cycle. Like rates, credit spreads retreated from higher levels into month end, where high yield notably outperformed in the month.

The picture globally is more mixed, where China remains a key area of concern. Here, policy efforts to drip stimulus into the economy are being met with scepticism as the consumer has hunkered down, the export sector is struggling with slowing global demand and the property sector remains a key structural concern. Inflation is likely to pressure more rate hikes in Europe and the UK, despite clearly softening economic growth. Meanwhile the Australian central bank is edging towards neutral with a new Governor at the helm and an economy that is slowing but with inflation sticky in its decline.

Outlook

Globally inflation has peaked and in retreat, the debate now is, can this move lower be sustained? The narrative on growth has been more volatile, with a once high conviction on a recession coming under attack in recent months as economic data continued to surprise on the upside.

While attention continues to be on central banks and "will they / won't they" hike rates again, we continue to point to fiscal policy being the big surprise in 2023. In fact, the fiscal impulse from the US through 2023 to date has also been behind the "US exceptionalism" narrative. In Q1, fiscal provided a boost via large cost of living adjustments and military spending. In Q2, the debt ceiling process threatened to reverse this thrust, but the battle was ultimately won by the Democrats and fiscal spigots remained firmly open, including through Q3. Our analysis suggest that this fiscal action has worked to underpin growth or temper the slowdown that was underway, rather than kick start to higher growth. On the other side, this action has made the job for central bankers harder, which is why their rhetoric implies that monetary policy will err on over-tightening.

Our Strategic Forum is set for mid-September, where we comprehensively review the drivers of the outlook and re-assess each of the asset classes. Our base case outlook for a recession will be hotly debated in the context of the changing policy mix that has been experienced. If the US new year fiscal process (starts 1 October) stalls or reverses, the recession/soft landing debate is likely to swing again, especially with monetary policy being pushed into even greater over-tightening mode. The debate is keeping interest rate markets and duration as the source of volatility across portfolios, with risk markets remaining remarkably resilient. This balance could shift decisively in the coming months if recession fears elevate again, with potential further cracks in the employment market tipping that balance.

Macquarie Dynamic Bond Fund

Monthly report – 31 August 2023

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

PRRP-MDBF-ANZ