

Macquarie Corporate Bond Fund - Class A Units

Monthly report – 28 February 2023

Investment objective

Aims to outperform the Bloomberg AusBond Bank Bill Index, after costs but before tax, over a rolling three-year basis. It aims to provide regular monthly income with some potential for growth while aiming to preserve capital value.

Key information

Fund details

APIR code (Class A Units)	AMP0557AU
Inception date	23 June 2009
Fund size ⁺	\$507.1m
Distribution frequency	Monthly
Management fee [*]	0.53% pa
Minimum investment (Direct)	\$500,000
Unit prices and spreads	macquarie.com.au/unit_prices

⁺Read the Product Disclosure Statement for more details on fees and costs.

^{*}As the Fund has one or more classes of units on issue, this figure represents the assets under management (AUM) of the Fund as a whole (rather than the AUM attributable to the class of units specified in this report).

Class performance to 28 February 2023

	Total Class return (gross)	Total Class return (net)	Benchmark return	Total excess return (net)
1 month (%)	0.44	0.40	0.24	0.16
3 months (%)	1.72	1.60	0.76	0.84
1 year (%)	1.58	1.06	1.76	-0.70
3 years (% pa)	1.69	1.13	0.66	0.47
5 years (% pa)	2.26	1.67	1.05	0.62
10 years (% pa)	3.46	2.85	2.49	0.36
Since inception (% pa)	5.39	4.78	3.87	0.91

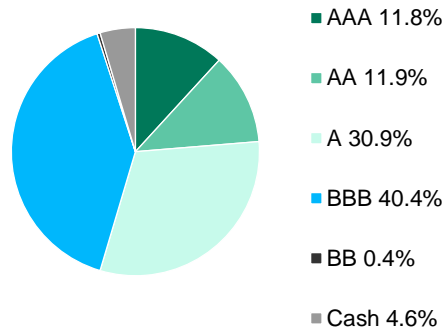
Past performance is not a reliable indicator of future performance.

Total returns are calculated based on changes in net asset values and assumes the reinvestment of distributions.

Total net Class 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.

Macquarie Investment Management Global Limited (MIMGL) was appointed as the investment manager of the Fund from 26 March 2022 and Macquarie Investment Management Australia Limited (MIMAL) was appointed as the responsible entity of the Fund from 26 April 2022. Prior to these dates, the fund was managed or operated by another entity or entities. Please see the offer document of the Fund or contact Client Service on 1800 814 523 for further information.

Credit profile breakdown



Average credit rating: A

BB and below include direct holdings and residual exposure to issuers held through our investment grade and emerging markets allocation.

Fund statistics

Credit spread duration	1.5 years
Interest rate duration	0.6 years
Yield to maturity ¹	5.0% pa
Allocation to global securities (ex-Australia)	1.9%

¹ Pre-fee returns Fund would earn over next year based on current market conditions if there were no changes to interest rates or holdings. It is not an actual or estimated return.

Top 5 asset allocation by industry

Industry	%
Banking	48.5
Residential Mortgage	9.0
REITs	8.3
Transportation	5.8
Electric	5.4

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Fund highlights

The Fund outperformed the benchmark in February as Australian credit spreads outperformed global peers. Excess returns were driven by BBB credits and higher beta corporates, with further credit curve flattening as the market digests a lack of issuance and higher all-in yields. Senior financials moved tighter despite heavy supply, with Tier 2 bonds also benefitting performance with primary not able to satisfy investor demand particularly in fixed rate tranches. Structured securities were a strong contributor, with spread tightening of over 20bps over the month and very strong demand from investors. Higher than benchmark carry also benefitted the Fund. Over the month the Fund participated in transactions from issuers such as Westpac Banking Corporation, MUFG Bank, FPTT 2023-1 and TRTN 2023-1.

Market overview

Australian cash market

The Reserve Bank of Australia (RBA) met in early February for the first time for 2023 and continued their hiking cycle, raising the target cash rate 25bps to 3.35%. The accompanying policy statement was more hawkish than expected by markets and economists, with the RBA clearly focused on inflation. "The Board expects that further increases in interest rates will be needed over the months ahead to ensure inflation returns to target and that this period of high inflation is only temporary". The meeting minutes noted that the Board considered two options for its policy decision: "a 50bp increase and a 25bp increase". In contrast to the December meeting, the option to keep rates on hold was not considered. While they expect inflation to decline this year due to both global factors and slower domestic growth, it is only expected to return to the top of the target band by mid-2025.

The RBA have stated that they are paying close attention to the evolution of labour costs and the price-setting behaviour of firms. The Q4 Wage Price Index came in below expectations at 0.8%, taking the annual rate to 3.3% which is the highest in a decade, but below both market and RBA forecasts of 3.5%. Given the RBA's emphasis on avoiding a wage price spiral, this latest release will provide some comfort but is unlikely to deter them from raising the cash rate further at coming meetings.

Consumer and business confidence diverged in February. Westpac consumer confidence returned to historic lows, falling 6.9% from 84.3 to 78.5. This result was likely impacted by the consumer price index release in late January which showed Australia's inflation at a 32 year high, and also rising interest rates. The survey was taken during the week of the first RBA meeting for the year in which they hiked another 25bps and clearly signalled more rate rises to come. NAB Business confidence rose 6 points to +6, back to around the series average after dipping into negative territory late in 2022.

Other domestic data releases were also mixed. Retail sales for January were stronger than expected increasing by 1.9%, partially offsetting some of the weakness seen in December. Employment for January disappointed, with the headline falling 11k against expectations for a 20k rise and full-time employment driving the result. The unemployment rate also rose from 3.5% to 3.7%.

Australian credit market

Australian credit outperformed global peers closing 10bps tighter on an option-adjusted spread basis. The outperformance was broad-based with senior financials tightening 8bps. Subordinated financials also performed well with spreads 15bps tighter in bonds with longer call dates despite a couple of new deals from ANZ and Suncorp. The outperformance in the long-end BBB corporates continued into February along with a rebound in some of the COVID-impacted real estate investment trust names. Given the lack of issuance in the corporate space and with expectations that long-end corporate issuance will likely be lackluster, long-dated bonds relatively outperformed. As a result, the credit curve flattened considerably. Residential Mortgage Backed Securities experienced considerable tightening in February by close to 20bps in the senior tranche as new deals attracted significant amount of interest with one non-bank issuer printing its senior AAA tranche 30bps tighter than its last deal in November. The primary supply was all from banks with more than \$A12bn issued in February.

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 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.

The above information is not personal advice and does not take into account the investment objectives, financial situation or needs of any person. Please review the Target Market Determination for the Fund available at macquarieim.com/TMD and consider if the Fund may be suitable for you. Investors should consider the offer document relating to the Fund in deciding whether to acquire or continue to hold units in the Fund. The offer document is available by contacting us on 1800 814 523. Past performance is not a reliable indicator of future performance. Future results are impossible to predict. This report includes opinions, estimates and other forward-looking statements which are, by their very nature, subject to various risks and uncertainties. Actual events or results may differ materially, positively or negatively, from those reflected or contemplated in such forward-looking statements. Forward-looking statements constitute the investment manager's judgement as at the date of preparation of this report and are subject to change without notice.

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