

Macquarie Corporate Bond Fund - Class A Units

Monthly report – 30 April 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 ⁺	\$460.3m
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 30 April 2023

	Total Class return (gross)	Total Class return (net)	Benchmark return	Total excess return (net)
1 month (%)	0.42	0.38	0.30	0.08
3 months (%)	1.06	0.93	0.83	0.10
1 year (%)	3.23	2.63	2.37	0.26
3 years (% pa)	2.45	1.86	0.81	1.05
5 years (% pa)	2.33	1.73	1.11	0.62
10 years (% pa)	3.38	2.76	2.42	0.34
Since inception (% pa)	5.37	4.76	3.87	0.89

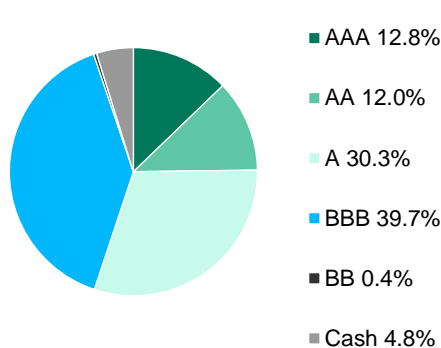
Past performance is not a reliable indicator of future performance.

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	1.6 years
Interest rate duration	0.4 years
Yield to maturity ¹	4.8% pa
Allocation to global securities (ex-Australia)	2.1%

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	46.6
Residential Mortgage	9.7
REITs	8.7
Electric	5.8
Transportation	5.7

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Fund highlights

The Portfolio outperformed the benchmark in April despite ongoing US regional bank troubles. Financials were the largest contributor to the outperformance as spreads tightened in major bank senior and subordinated paper. The Portfolio's focus on shorter dated corporate credit was a positive for returns with long-end bonds underperforming. Structured securities again contributed to performance, with a small amount of tightening over the month in AAA spreads despite ongoing supply. Over the month, the Portfolio participated in transactions from issuers such as Apollo 2023-1 and Worley.

Market overview

Australian cash market

After a cumulative 350bps of tightening since May last year, the Reserve Bank of Australia (RBA) kept the cash rate target unchanged at 3.60% at their April meeting. The policy statement was dovish relative to expectations, with the RBA softening their tone compared to last month with respect to the forward guidance. In March, they had noted that "further tightening of monetary policy will be needed to ensure inflation returns to target", but in April the wording suggested the RBA were less certain that more tightening would be required, concluding that "some further tightening of monetary policy may well be needed to ensure that inflation returns to target". However, the April minutes released mid-month were more hawkish, noting that the Board considered hiking 25bps due to persistently high inflation and a tight labour market. They decided to err on the side of caution due to the significant tightening that has already occurred and to allow more time to gather information on the economic outlook.

Westpac consumer confidence surged 9.4% to 85.8 in April as consumers were bolstered by the RBA pause. However, confidence still remains well below 100 so pessimists continue to outweigh optimists. The NAB business conditions eased 2pts to +16 in March but remains above the long run average and business confidence improved to -1 from -4.

March labour force data was stronger than expected, rising 53k. The details were also strong, with the result being driven by a surge in full-time employment, which rose 72k. The unemployment rate remained unchanged at 3.5%.

The all-important Q1 CPI headline printed at 1.4% QoQ, bringing the annual rate down to 7% from 7.8% and confirming that inflation likely peaked at the end of last year. The trimmed mean rose 1.2% QoQ against RBA expectations of 1.4% and the annual rate fell from 6.9% to 6.6%. Goods inflation looks to have peaked, but services inflation is continuing to climb higher and is now at its highest annual rate since 2001.

Australian credit market

Australian credit performed largely in line with European investment grade (IG) and outperformed US IG on an option-adjusted spread basis as the index spread tightened 7bps, though much of the option-adjusted spread tightening was driven by the narrowing of swap spreads. Unsurprisingly the main underperformers included REITs and long-dated corporates with most of the REITs widening 5-20bps across the curve over the month as concerns around the commercial real estate sector weighed on spreads. Meanwhile, the financial sector fared better in April across the capital structure with major bank senior and subordinated bonds 5-10bps tighter across the curve. Some of the Total Loss Absorbing Capacity financial paper also performed strongly after underperforming significantly in the second half of March, such as Lloyds which tightened 25-30bps in the 4-6-year part of the curve. In the primary market, there was around \$A3.5bn of IG issuance and \$A3.5bn of structured supply.

Outlook

The economic data continues to point to more supply recovery and greater demand deceleration. This mix will deliver lower inflation, always. However, central banks continue to fear inflation and further rate hikes are expected in upcoming meeting in May. These actions, against the deteriorating economic backdrop, simply increase the probability of recession later this year.

Asset markets can see this picture and are therefore speculating that the expected further rate hikes in May are likely to be soon followed by rate cuts. This 'hope' is underpinning risk markets despite the historical data pointing to 'risk off' if a recession actually materialises. This contrast between hope and likely reality points to further spikes in volatility in the coming months and affirms a key recommendation from our January Strategic forum, that current high level of sovereign yields implies that duration now offers attractive protection against risk assets.

Looking forward, the 'mini' financial crisis during May is expected to see increased scrutiny on central bank reports on the state of financial conditions. Early May will see the release of the US Senior Loan Officers Survey where regional evidence is pointing to further tightening, of already tighter financial conditions. Interest will also be on 'loan demand' from both households and businesses. While this data is actually 'lagging' that is, largely relates to activity in the first quarter, history shows that if loan demand trends weaker a recession typically follows. The earnings season is underway, and while this too largely reflects 'lagging' information there is 'leading' information in the forward guidance provided by companies. Both these data sets will add important detail to the traditional macroeconomic indicators that are watched and feed into the key central bank meetings that will take place in the month of May. We suspect the old adage "sell in May" and go away will be heard several times, but for fixed income clients this should be read as buy duration and feel protected.

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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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