

# Macquarie Corporate Bond Fund - Class A Units

Monthly report – 30 June 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 <sup>+</sup>	\$434.1m
Distribution frequency	Monthly
Management fee <sup>*</sup>	0.53% pa
Minimum investment (Direct)	\$500,000
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.

<sup>+</sup>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 June 2023

	Total Class return (gross)	Total Class return (net)	Benchmark return	Total excess return (net)
<b>1 month (%)</b>	0.21	0.17	0.30	-0.13
<b>3 months (%)</b>	0.93	0.77	0.90	-0.13
<b>1 year (%)</b>	4.15	3.52	2.89	0.63
<b>3 years (% pa)</b>	2.16	1.57	1.01	0.56
<b>5 years (% pa)</b>	2.37	1.76	1.17	0.59
<b>10 years (% pa)</b>	3.43	2.81	2.51	0.30
<b>Since inception (% pa)</b>	5.35	4.73	3.87	0.86

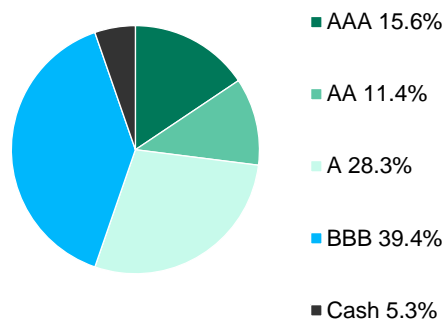
### Past performance is not a reliable indicator of future performance.

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.

## Top 5 asset allocation by industry

Industry	%
Banking	43.5
Residential Mortgage	12.0
REITs	8.0
Electric	5.8
Transportation	5.0

## Fund statistics

Credit spread duration	1.4 years
Interest rate duration	0.6 years
Yield to maturity <sup>1</sup>	5.6% pa
Allocation to global securities (ex-Australia)	0.5%

<sup>1</sup> 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.

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## Fund highlights

The Portfolio underperformed the benchmark in June as protection duration positioning detracted from performance. Credit positioning provided a partial offset with senior financials contributing the most to performance as the curve bull-flattened. Subordinated financial paper also helped drive performance as spreads tightened uniformly across the curve. Corporates provided solid performance across most sectors and the recently issued deals especially in the utility sector such as Ausnet 10-year senior led the strong performance from the sector. Structured securities were a large positive contributor with spreads marked tighter over the month. The Portfolio continued to benefit from higher than benchmark carry. Over the month, the Portfolio participated in transactions from issuers such as Harvey 2023-1, Lion 2023-1, Westpac Banking Corporation, QBE Insurance Group, AGI Finance and Transpower New Zealand.

## Market overview

### Australian cash market

The Reserve Bank of Australia (RBA) raised the cash rate another 25bps at the June Board meeting, taking the target to 4.10%. This surprised economists and markets with consensus expectations for a pause in rate hikes and only a small chance of an increase priced. Despite maintaining a tightening bias, the commentary that “Medium-term inflation expectations remain well anchored”, which had been in place since July 2022, was removed. The June minutes released mid-month indicated that the decision to hike or to hold was a “finely balanced one”. However, the RBA judged that the argument to raise the cash rate at this meeting was the stronger one and focused on the “increased risk that inflation would take longer to return to target than had been expected”. The June outcome was driven by observations that “the monthly indicator of headline inflation had surprised on the upside in April” and “services price inflation had not yet shown signs of moderating and the evidence from abroad suggested that it may prove to be persistent.

Economic data was relatively mixed over the month, with continued concerns about the persistently tight labour market and elevated activity. The unemployment rate fell back to 3.6%, which was below consensus forecasts (3.7%). Labour supply was also supportive with the participation rate increasing to 66.9%, which is an all-time high. Retail trade rose by 0.7% MoM in May and was much stronger than market consensus (0.1%). However, this was partially attributed to “some resilience in spending with consumers taking advantage of larger than usual promotional activity and sales events for May”, according to the Australian Bureau of Statistics. Consumer sentiment was relatively flat over the month at 79.2pts. This is a level that remains consistent with prior major economic dislocations. Both business conditions and confidence fell in May, to -4 and +8 respectively. Business confidence is now well below the long-term average. Although headline CPI for May decelerated over the month (5.6% YoY), the underlying measures were less encouraging. CPI excluding volatile items and holiday travel, which was referenced by the RBA in their June minutes, was mostly unchanged from the previous month (6.4% YoY). Similarly, trimmed-mean inflation fell marginally by 0.6% to 6.1% YoY in May.

### Australian credit market

Australian credit tightened 9bps on option-adjusted spread basis in June with a portion of the performance driven again by tighter swap spreads. Contribution to the performance was broadly based with credit spreads across sectors marginally tighter over the month. Even though financial senior paper edged 1-2bps, bank subordinated bonds outperformed with spreads narrowing around 10bps despite Westpac's 15NC10 and 10NC5 and QBE's subordinated transactions during the month. Corporates were broadly unchanged to slightly tighter over the month despite more primary supply from three more utility companies in the 7-year part of the curve. The primary market remained active in June with more than \$A10bn of new supply as three utility companies issued more than \$A1.2bn in aggregate in the 7-year part of the curve. Higher beta issues were also well-supported with Westpac and QBE printing \$A2.9bn and \$A300m subordinated deals, respectively.

## Outlook

Given the move in asset markets over the past month our team view from the May Strategic Forum, to hold a constructive view on duration and cautious outlook for risk markets was challenged. That said, we recognised that the path forward held a high level of uncertainty. Our investment process uses our weekly global meetings to view new information and review our strategy.

At the macro level, the key change since the Forum has been on fiscal policy, where the resolution of the debt ceiling has enabled stronger than expected Federal spending through the early months of the year. This was largely due to military and cost-of-living adjustments to social benefits which has been extended through the second quarter and likely the third quarter. Government spending has a rapid transmission into the economy, compared to the long and variable lags and impact of monetary policy, and this is working to soften the slowdown in growth that is underway. However, this is placing more of the burden of reducing inflation onto monetary policy. We concluded at the Forum that for many economies, monetary policy was already near or had crossed into over-tightening territory. The action and guidance from Central Banks in the past month shows that their intent is to keep going on hiking rates. This sends a clear message that monetary policy over-tightening is now a key risk for asset markets. History shows that while tighter monetary policy does not always end in recession it does, particularly if credit conditions are tightening at the same time, end with something ‘breaking’. We therefore believe that financial risk is more elevated, where the stress around US Regional Banks in Q1 could manifest in other areas of financial assets in the quarters ahead and this could be the trigger that tips economies into recession.

From a risk perspective, again history guides that risky assets do not tend to react significantly until evidence of a downturn or financial risk become clearly evident. We therefore maintain a strategically constructive view on duration and cautious of risk markets, recognising that the pathway ahead is potholed by a high level of uncertainty.

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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.

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](http://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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