

Macquarie Corporate Bond Fund - Class A Units

Monthly report – 31 August 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 ⁺	\$422.1m
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 31 August 2023

	Total Class return (gross)	Total Class return (net)	Benchmark return	Total excess return (net)
1 month (%)	0.64	0.60	0.37	0.23
3 months (%)	1.64	1.50	1.04	0.46
1 year (%)	5.06	4.42	3.37	1.05
3 years (% pa)	2.27	1.67	1.25	0.42
5 years (% pa)	2.53	1.92	1.24	0.68
10 years (% pa)	3.45	2.83	2.47	0.36
Since inception (% pa)	5.39	4.77	3.87	0.90

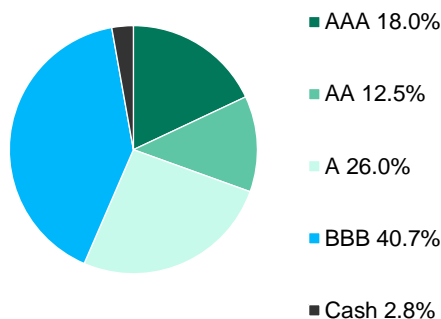
Past performance is not a reliable indicator of future performance.

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	1.4 years
Interest rate duration	0.6 years
Yield to maturity ¹	5.3% pa
Allocation to global securities (ex-Australia)	0.5%

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	43.7
Residential Mortgage	15.2
REITs	8.6
Transportation	5.1
Electric	4.7

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Fund highlights

The Fund outperformed the benchmark in August as Australian credit spreads marginally tightened. Financials continued to be an important driver of performance in August, with significant contribution particularly from some of the longer dated European names. The corporate sector contributed to a significant portion of the excess performance with higher beta industrials and wider-trading names narrowing materially in spread. Structured securities continued their recent robust performance with new deals providing further proof of the strong demand for high quality bank Residential Mortgage-Backed Securities (RMBS) paper. Longer than benchmark duration positioning also contributed to returns, with yields moving lower over the month. Over the month, the Fund participated in transactions from issuers such as ANZ, CBA, Westpac, NBN Co, LT 2023-1 and IDOLT 2023-1.

Market overview

Australian cash market

The Reserve Bank of Australia left the cash rate target unchanged for the second consecutive month at 4.10% at their August meeting. Once again, this did not surprise the market, with only a small chance of a hike priced. However, 18 out of 30 economists had expected a 25bp hike. The accompanying statement outlined the Board's decision to pause being that "interest rates have been increased by 4 percentage points since May last year", and that "higher interest rates are working to establish a more sustainable balance between supply and demand in the economy". It was noted that the Board would benefit from "further time to assess the impact of the increase in interest rates to date and the economic outlook". The concluding remarks repeated that "some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe", however added the new language "but that would depend upon the data and the evolving assessment of risks". The subsequent Minutes, released mid-month, suggested that "the information received on inflation over the prior month had been reassuring", but the risks remained on both sides of the inflation forecast.

Australian economic data pointed towards a slowdown in activity and signs of a deceleration in inflation. The unemployment rate rose to 3.7% in July, from 3.6% the previous month. This is the highest level since May 2022. Participation over the month also declined slightly, with the participation rate at 66.7% (from 66.8% the prior month). July CPI was also below expectations, printing at 4.9% on annualised terms. However, the Australian Bureau of Statistics noted that electricity prices, which rose by 6% in the month, were partially offset by government subsidies and "without the Energy Bill relief rebates in July 2023, electricity prices would have risen to 19.2% in the month". Q2 Wage Price index was softer than anticipated, decelerating to 3.6% YoY. Nevertheless, consumption rebounded over the month, with July retail sales stronger than expected at 0.5% (above consensus of 0.3%).

Australian credit market

Australian credit performed solidly again with Index option-adjusted spread tightening 8bps in August, though this was largely driven by narrowing of swap spreads. The outperformance was broad-based across sectors with utilities and higher beta transportation continuing to grind tighter. REITs performed broadly in line with the general credit beta, though industrial REITs outperformed while some of the longer dated bonds with greater office exposures lagged. In financials, major bank senior paper ended the month 1-3bps tighter with 3-5year part of the curve flattening 2bps despite a deluge off senior primary issuance from major banks as 13bn for the 19bp issuance in investment grade (IG) primary market was accounted for by supply from 3 major banks in August. Major bank subordinated bonds finished broadly unchanged in August, though this masked the intra-month volatility which saw spreads widen during the month as some switching activity followed Lloyds Banking Group's 10NC5 T2 issuance as well as Mizuho's 6NC5 TLAC deal. In the structured space, RMBS spreads were marked tighter again in August given the strong demand and oversubscription for primary deals. There was circa 19bn of IG primary issuance in the Aussie credit market with majority of the supply coming from financial institutions.

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.

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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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