MACQUARIE

Macquarie Corporate Bond Fund - Class A Units

Monthly report – 30 September 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⁺	$413.4m
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 September 2023

	Total Class return (gross)	Total Class return (net)	Benchmark return	Total excess return (net)
1 month (%)	0.33	0.29	0.34	-0.05
3 months (%)	1.76	1.62	1.08	0.54
1 year (%)	5.38	4.79	3.56	1.23
3 years (% pa)	2.30	1.71	1.36	0.35
5 years (% pa)	2.54	1.93	1.28	0.65
10 years (% pa)	3.44	2.82	2.45	0.37
Since inception (% pa)	5.38	4.76	3.87	0.89

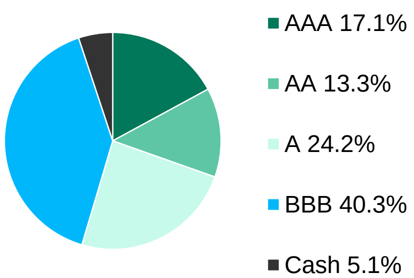
Past performance is not a reliable indicator of future performance.

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

Total net 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.

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	42.4
Residential Mortgage	14.3
REITs	8.2
Electric	4.7
Owned No Guarantee	4.2

Fund statistics

Credit spread duration	1.4 years
Interest rate duration	0.6 years
Yield to maturity*	5.4% pa
Allocation to global securities (ex-Australia)	0.5%

*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.

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Fund highlights

The Fund performed broadly in line with the benchmark in September as credit markets remained resilient amid a volatile rates backdrop. Performance from financials was relatively neutral, with major bank senior spreads rangebound over the month and fixed rate bonds retaining their appeal as outright yields remain enticing. Tier 2 was a modest positive despite a fairly volatile month in spread terms, with positioning focused in shorter dated, high carry bonds. Corporates were broadly steady, with shorter dated auto names outperforming. Structured securities remain a bright spot, spreads rallying further over the month and providing high quality and low beta carry for the Fund over relatively tight corporate spreads. The modest overweight duration position was a detractor from returns, though positioning is small and remains appropriate as a hedge against some of the credit risk. Higher than benchmark carry helped offset some of the instability in rates markets. Over the month, the Fund participated in transactions from issuers such as NBN Co, Royal Bank of Canada, Suncorp, Toyota, Volkswagen, WestConnex and Westpac.

Market overview

Australian cash market

The cash rate target was left unchanged at 4.10% at the Reserve Bank of Australia's (RBA) September Board Meeting. This was the third consecutive month that the RBA has left the cash rate on hold and did not surprise the market, with only a small chance of a hike priced. Moreover, 33 out of 34 economics were expecting the cash rate to remain on hold. The accompanying statement was somewhat dovish and mirrored August's statement, with forward guidance remaining data dependent. It repeated that "some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe," which would be "dependent upon the data and the evolving assessment of risks". A new line that the Board recognised that "inflation in Australia has passed its peak" was added. The subsequent Minutes, released mid-month, echoed previous RBA messaging. It acknowledged that "some further tightening in policy may be required should inflation prove to be more persistent than expected" and that the Board would continue to be "guided by the incoming data".

Australian economic data released during September indicated some softening in activity, although inflation remains above target and the labour market is still tight. Q2 GDP growth decelerated to 2.1% annualised (from 2.4% in Q1), which was in line with consensus expectations and slightly above RBA forecasts. There were some signs that cost-of-living pressures are impacting households. Notably, GDP per capita fell 0.3% QoQ, confirming a "per-capita recession". Household spending also slowed to 0.1% QoQ, and discretionary spending fell for the third consecutive quarter by 0.5%. The savings rate also fell to 3.2%, which is the lowest level since 2008. The unemployment rate remained unchanged in August at 3.7%. However, employment rebounded more than expected with 64.9k jobs created (consensus 25k), although the result was mostly driven by a 62.1k increase in part-time workers. Participation hit a record high of 67% over the month. August headline CPI reaccelerated over the month. Headline printed at 5.2% annualised (from 4.9% the previous month), while the trimmed measure was unchanged at 5.6%. The increase in headline was boosted by fuel (+9.1% MoM), elevated rental prices (+7.8% MoM) and food prices (+0.9% MoM).

Australian credit market

Australian credit outperformed its global counterparts in September, with the option-adjusted spread tightening a further 6bps. Despite most of the monthly move attributable to narrower swap spreads rather than credit spreads, the broad-based rally over the past six months has the index at 152bps and is the tightest since May 2022 when the RBA commenced its hiking cycle. Financials moved modestly wider, driven by the longer-end with 5-year major bank spreads drifting a couple bps in September despite the front-end being well anchored as we passed the first major "cliff" of Term Funding Facility repayments. Tier 2 bonds followed a similar move to senior spreads for the first half of the month and weakened by 10bps, however strong reinvestment flows, and a well-received Suncorp deal ignited a sharp rally over the final two weeks with a near 15bp turnaround to close 3-4bps tighter. Of note in September was APRA's release of a discussion paper on enhancing Australian Additional Tier 1 bonds, although any outcome is likely to take many months. The theme in corporates was more curve than sector based, with the broad-based rates sell-off providing support for longer-dated bonds to modestly tighten over the month. The front-end wasn't so lucky, 5-10bps wider in some sectors as interest rate curves steepened and switching activity into new primary deals became more commonplace. There was around $12bn of primary issuance in the Australian market in September, financials dominating once again.

Outlook

During September our global team conducted the third iteration of our Strategic Forum process for 2023. Our macro session concluded with a restatement of 'recession' as our base case outlook, noting that easier US fiscal policy has underpinned the more resilient growth that was expected in recent quarters. This has been in contrast with Europe in particular, where the slowdown has broadened. Thus, with the new fiscal year process in the US (from 1 October) rekindling the difficult political environment and rolling off student loan forbearance, our expectation is for fiscal policy to ease back to a more neutral impact on demand, therefore resulting in the overall policy mix (that is, in combination with monetary policy) to again move tighter. Thus, the growth slowdown should gradually emerge through the coming quarter and into 2024.

Our base case is for a cyclical recession, such as experienced in 2001. However, what happened in 2001 was the 'tech crash' which resulted in a more dramatic impact on asset markets than would have been expected given a mild recession for the economy. For this cycle we note similar risk environment for asset markets even if the economy does experience a mild recession. This risk stems from an environment of prolonged overtightening of monetary policy and tight credit conditions. Here we note that credit conditions are nothing like that of 2008, as here loan demand is already quite weak which offsets the fact that lenders have tightened lending conditions significantly. That said, we are alert to financial risk as a consequence of the current environment.

Managing duration has continued to be difficult with bond yields marching to levels not seen since 2007. Yet history guides that bond yields decline once the rate hike cycle has clearly peaked. Credit spreads have proved resilient despite the fact that earnings have entered a recession due to slowing revenue growth. While most companies entered this slowdown well prepared there has been a steady ‘chipping away’ at this resilience and the longer the tighter financial conditions persist the risks will continue to grow. Thus, the current pricing across asset markets when combined with our base case outlook is guiding our investment process to remain cautious despite the baying from the narrative that “this time (might) be different”.

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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