

# Macquarie Corporate Bond Fund - Class O Units

Quarterly report – 31 December 2022

## 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

Inception date	19 November 1997
Fund size <sup>+</sup>	\$520.4m
Distribution frequency	Monthly
Management fee <sup>*</sup>	0.36% pa
Unit prices and spreads	<a href="https://macquarie.com.au/unit_prices">macquarie.com.au/unit_prices</a>

<sup>\*</sup>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 31 December 2022

	Total Class return (gross)	Total Class return (net)	Benchmark return	Total excess return (net)
<b>3 months (%)</b>	1.16	1.12	0.74	0.38
<b>1 year (%)</b>	-0.06	-0.35	1.25	-1.60
<b>3 years (% pa)</b>	1.47	1.12	0.55	0.57
<b>5 years (% pa)</b>	2.13	1.75	1.01	0.74
<b>10 years (% pa)</b>	3.44	3.06	2.51	0.55
<b>Since inception (% pa)</b>	5.77	5.39	4.86	0.53

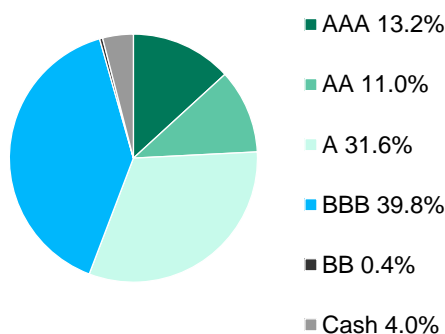
### Past performance is not a reliable indicator of future performance.

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 <sup>1</sup>	5.1% pa
Allocation to global securities (ex-Australia)	1.8%

<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.

## Top 5 asset allocation by industry

Industry	%
Banking	47.2
Residential Mortgage	10.1
REITs	7.9
Transportation	6.3
Electric	5.7

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## Fund highlights

The Fund outperformed the benchmark in December as Australian credit spreads edged tighter. With five-year major bank senior debt steady at around 100bps over the month, the higher beta names and sectors contributed to most of the outperformance. Tier 2 was a solid contributor, with spreads around 20bps tighter on the month as longer dated lines outperformed. Structured securities remain a strong contributor to excess returns, with issuance at historically wide levels and seasoned lines in high demand in the secondary market. After a significant 20bp rally in rates markets at the beginning of the month, interest rate duration was trimmed. Higher than benchmark carry also aided the outperformance. Over the month the Fund participated in transactions from issuers such as Suncorp and CONQ 2022-1.

## Market overview

### Australian cash market

For their final meeting of the year, the Reserve Bank of Australia raised the target cash rate a further 25bps taking the target cash rate to 3.10%, 300bps higher than at the start of the year. The minutes from the December board meeting acknowledged that the board considered several options including a 50bps increase (inflation remained too high, cash rate not yet at a high level historically), a 25bps increase (need to bring demand and supply in the economy more into balance, potential for longer policy lags due to the higher share of fixed mortgages) or no change in the cash rate (further emphasis on the lagged effects of the large policy adjustment to date, value of caution in an uncertain environment).

Data released domestically during the month was mixed. Q3 Gross Domestic Product rose by 0.6%, taking the annual rate to 5.9% which was below expectations of 6.3%. Household consumption remained solid, rising 1.1% on the quarter with particular strength in spending on services. The household saving rate continued to fall from the COVID highs, down from 8.3% in June to 6.9% in September and is expected to continue to decline.

Westpac consumer confidence improved 3% to 80.3 in December, bouncing back somewhat from last month's subdued result. NAB business confidence for November headed into negative territory for the first time since December 2021 at -4, while conditions remained strong but also deteriorated from 22 to 20.

Labour data remained robust in November, rising 64k and the unemployment rate was unchanged at 3.4%. Both full-time and part-time employment rose, up 34.2k and 29.8k respectively. Full time employment has been particularly robust in 2022.

### Australian credit market

Australian credit ground tighter by a further 10bps as the tightening of swap spreads partly helped with the spread compression. After a stellar month of performance in November, senior financial paper traded broadly sideways with 5-year major bank paper finishing the year at Bank Bill Swap Rate (BBSW) +100bps. Meanwhile after the underperformance in the first half of November, financial subordinated paper were the outperformers in December, particularly 10 year non-call 5 year which tightened around 10bps further in the fixed rate and 25bps in the floating rate notes to 215bps and 225bps, respectively. Corporate paper generally grinded tighter over the month with long-dated airline and airport related names outperforming. The primary market saw around \$A3bn of new issuance which was dominated by the financial sector again, with Suncorp printing \$A1bn of 5-year senior paper at Asset Swap Spread/BBSW+125bps.

## Outlook

The past year has been dominated by escalating supply tensions emanating from the war in Ukraine which pushed inflation much higher and for longer than anyone was expecting. The ramped-up response by central banks, in retrospect, should have been widely expected.

Looking into 2023 we feel that asset markets will have to work through the consequences of the above events of 2022. First, we must recognise that geopolitical tensions are likely to remain elevated and also assume that these tensions could take an unexpected turn at any time. Be warned and be prepared to adapt. Secondly, we can observe that many supply problems have dissipated and while there is no return to the pre-Covid norm, the economic impact from supply is likely to be much less in 2023. Third, we are expecting the year ahead to be the report card on demand destruction wreaked by the most aggressive monetary policy tightening cycle since the 1980s. And finally, we recognise that prevailing conditions for households and corporates have been robust compared to past tightening cycles, however the signalling from central banks is they intend to cause stress for both groups.

Again, we will thoroughly review our portfolio management strategy from the bottom up via the Strategic Forum during January. Our base case call has been for a recession in 2023 and that inflation will continue to fall through the year. We believe this combination will prove to be good news for sovereign bond yields. However, demand destruction is bad news for consumer spending and corporate earnings. This implies that credit spreads are vulnerable to widening from current levels.

Thus, sovereign bond yields can offer attractive value for investors during 2023, with the added attraction of offering portfolio protection against risky assets. We are cautious on corporate credit, preferring highly rated investment grade issuers that are not exposed to the cycle. Our approach to higher yield corporates and emerging market debt is more cautious, preferring selective opportunities.

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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.

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