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Monthly report
May 2020

Markets' review

Commodities joined the risk rally during May and is indicative that the bounce in global economic activity has broadened. The market rebound is occurring despite economic releases being very poor but not worse than consensus. Bond volatility has been very low reflecting central bank intervention but this will be tested if a V shaped recovery emerges. We think profitability and geopolitics will increasingly dominate liquidity and epidemiology as factors driving markets. Reopening economies comes with the risk of second waves of infection but this will only be known in June and July.

Performance and risk

Fund performance was 1.1% for May, 1.6% calendar year to date and 13.1% over the last 12 months. During May, the fund participated in gains made by equities and commodities while bonds and currencies detracted. Of the 32 asset allocation strategies, 22 made positive contributions and 10 were negative. During the month, all 3 speeds made similar positive contributions. The fund made minor increases to risk during the month though the relative allocations (gross volatility) were largely unchanged. Allocations finished the month as 13% to short dated bonds, 53% to long term bonds, 21% equities and 14% commodities.

Fund performance

	1 mth (%)	3 mth (%)	1 year (%)
Class A	1.1	-2.4	13.1
Objective	0.7	2.3	9.7
Excess return	0.3	-4.7	3.4
Class B (2019-08-01)	1.0	-2.0	
Volatility	8.7	18.2	14.2
Correlation	-56.5	23.1	13.3

Performance attribution

	1 mth (%)	3 mth (%)	1 year (%)
Equity	0.9	-5.4	-7.5
Bond	-0.8	-0.8	13.4
Short bond	0.3	2.8	5.0
Currency	-0.2	0.5	1.3
Agriculture	0.6	-0.9	-1.4
Energy	0.0	0.0	-0.3
Other	0.0	0.8	1.8

Source: Darling Macro. Notes: Fund performance is quoted as Total Return net of fees, assuming reinvestment of distributions and excluding impact of buy/sell fees, as at end May 2020. Class A inception 1 April 2019, Class B 2019-08-01 Inception 31 July 2019. Objective is outlined in the Information Memorandum available at www.darlingmacro.fund. Attribution, volatility and correlation calculations are based on Class A performance. Performance attribution is based on estimates and may not sum to Total return. Correlation is with indicative 70 equity:30 bond index. Past performance is not a reliable indicator of future performance. Refer to Information Memorandum for further detail. Report re-issued 3 September 2020 to amend mis-stated RBA Cash objective.

And finally

The rise in S&P500 has brought it back above October 2019 levels. Other equity markets using ERP (Equity Risk Premia) as a valuation tool have hit the same milestone. So a question to ponder...Was October 2019, assuming no virus, or June 2020, post covid-19 a more attractive outlook? In October, the IMF released a report ("Lower for longer"), their key insights were that policymakers should urgently tackle financial vulnerabilities, such as rising corporate debt burdens and increasing holdings of riskier and illiquid assets of institutional investors. The IMF's prescription was for stricter supervision of corporations and institutions, while implementing prudent sovereign debt management practices. They concluded that "medium-term risks to global growth and financial stability continue to be firmly skewed to the downside." Pretty sobering stuff. Fast forward to June 2020, Covid-19 has brought lower interest rates and more fiscal stimulus but huge unemployment and more debt - and lots more uncertainty. In our mind, economic risks have increased, yet aggregate equity valuations are now suggesting that the two outlooks are similar.
https://www.imf.org/en/Publications/GFSR/Issues/2019/10/01/global-financial-stability-report-october-2019

Fund details

Type of Fund	Wholesale per Info Memo 28 March 2019
Trustee	Evolution Trustees Limited
Manager	Darling Macro (347 Darling Pty Ltd)
Administrator	Apex Fund Services
Auditor	Ernst & Young
Tax advisor	Pitcher Partners
Buy / Sell Spread	0.1%/0.1%
Fund Distributions	Annually as at 30th June
Liquidity	Daily

Fees	Class A	Class B
Management fee	1%	0.5%
Performance fee	Nil	10%
Other costs & fees	Nil	Nil

Fees inclusive of GST after RITC, and are inclusive of all trustee, administration, audit and tax fees. Performance fee calculated semi annually on amounts above RBA cash plus the management fee.

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Investment strategy

1. The fund allocates risk between divergent global strategies generating higher risk adjusted returns than a strategic risk blend.
2. Signals are based on behavioural factors such as momentum, which we believe are more reliable indicators of prices in the short to medium term.
3. The investment process is systematic resulting in a consistent application of both the signals and 10 years of research.
4. Risk is managed on major futures markets enabling long or short positions and also daily liquidity.

Fund objectives

The Fund is aiming to achieve:

1. A return after fees of RBA Cash plus 9%, and
2. Annual volatility of 15% pa over rolling 5 years, and
3. Materially lower drawdown risk than equities, and
4. Low to moderate correlation to a 70:30 balanced fund, and
5. Easily observable valuations and daily liquidity.

Reasons to invest

1. Darling Macro is owned by the Co-CIOs who manage the portfolio and are personally invested in the fund.
2. The strategy is supported by a 2 year track record + 10 year out-of-sample index + 20 year in-sample backtest.
3. Performance is clearly differentiated from other alternative and multi asset funds.
4. There is significant unutilised investment capacity and ongoing research and process enhancements.
5. Operations and governance are supported by external service providers: independent trustee, registry and fund accounting, tax and audit, risk and compliance.

Co-CIO and Principals

Greg Burke and Mark Beardow have more than 50 years of asset management and trading experience accumulated at global institutions while serving investors located all over the world.