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Monthly report
August 2020

Markets' review

While technology continued to power the global equity markets in August, the equity rally spread to other sectors and geographies resulting in a very strong month for global equities. Optimism about the economic and earnings recovery gained ground as forecasts for inflation continued to rise. Bond yields rose somewhat but were mostly well anchored, paying heed to central banks promises to keep interest rates low for an extended period. The US dollar declined and commodities rose, with industrial metals and energy the standouts while the volatility of gold rose gold prices finished unchanged. Bond volatility edged up while equity volatility declined.

Performance and risk

Class A performance was -2.68% for August and 13.10% pa since 1 April 2019 (inception). Class B performance was -2.39% for August and 5.65% pa since 31 July 2019 (inception). Gains from July were partially unwound in August as losses on bonds exceeded gains on equities. Rises in bond volatility and deterioration in bond performance trends saw bond positions modestly reduced. Risk allocations finished the month as 80% to short and long dated bonds, 8% to commodities, 11% equities and 1% currency.

Fund performance

	1 mth (%)	3 mth (%)	1 year (p.a.%)	Inception (p.a.%)
Class A	-2.68	2.79	-5.03	13.10
Objective	0.79	2.38	9.58	9.74
Excess return	-3.47	0.41	-14.61	3.36
Class B (2019-08-01)	-2.39	2.97	-3.78	5.65
Volatility	11.4	9.5	12.7	13.2
Correlation	-20.7	-9.8	13.5	10.6

Performance attribution

	1 mth (%)	3 mth (%)	1 year (p.a. %)	Inception (p.a. %)
Equity	0.6	2.2	-6.2	-4.8
Bond	-2.4	-0.2	-4.4	13.1
Short bond	-0.6	0.1	3.0	4.8
Currency	-0.2	-0.8	0.1	0.3
Agriculture	0.0	0.1	-0.6	-3.1
Energy	0.0	0.0	-0.2	-0.4
Precious metals	0.0	1.3	1.6	1.5
Other	0.1	0.1	1.6	1.7

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 August 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.

And finally

Two unrelated events in August may have significance for markets and monetary policy in the future. Firstly, Shinzo Abe who was Japan's longest serving prime minister announced his resignation on health grounds. Abe oversaw a suite of policies known as Abe-nomics and comprised "3 arrows" which aimed to pull Japan away from deflation which had afflicted it since the mid 90s. One of the arrows is aggressive monetary stimulus which is a collaborative program with the BoJ to lower yields and to contribute to the goal of 2% inflation. This policy evolved over the period and has resulted in a substantial expansion of the monetary base, quantitative easing and yield targeting. However the goal of 2% was never achieved and the change in leadership represents a risk of policy change, with impacts for the Yen, equities and bond yields. Secondly, the US Federal Reserve announced the result of an 18 month review of its monetary policy framework. This was was last modified in 2012 to include a 2% inflation target. The findings of the review were well telegraphed and result in a new inflation averaging methodology which the Fed believes will anchor inflation expectations closer to 2%. The immediate market response was higher inflation expectations and higher bond yields. This may be an appropriate longer term outcome but our sense is that rates will stay low for some time. Both events bear monitoring and have the potential to reshape expectations of monetary policy and influence a similar review underway in Europe.

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 3 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.