darling macro fund.dmf.

October, 2019

About the fund

The Darling Macro Fund pursues a global macro strategy, which aims to dynamically allocate long and short exposure across many liquid markets within 4 major global asset classes: Equities, Bonds, Commodities and Currencies.

The objective of the Darling Macro Fund is to generate a risk adjusted positive return over the medium to long term, which is less correlated to the movements in core equity and bond allocations.

The fund is aiming to achieve:

1. A return of 9 % net of costs p.a. in excess of the Australian cash rate over a rolling 5-year period, as measured by RBA Cash Rate.
2. Annual volatility measured over the same 5-year rolling period is expected to be 15 % pa.
3. Materially lower drawdown risk than equities over the medium term.
4. Low to moderate correlation to a strategic asset allocation (SAA) of equities and bonds (70:30) over the medium term.
5. Easily observable valuations and high liquidity.

Performance		1 mth	3 mth	6 mth	1 Year	3 Year	Inception
Darling Macro Fund	Class A	-0.83%	4.60%				17.75%
	Class B	-0.71%	4.31%				7.32%
	Class B (2019-08-01)	-0.70%	4.28%				4.28%
	RBA Cash plus 9%	0.83%	2.50%				5.92%

Risk and Attribution

		1 mth	3 mth	6 mth	1 Year	3 Year	Inception
Volatility		9.1%	14.9%				14.0%
Correlation	SAA Index	-7.3%	-17.1%				-5.1%
Performance Attribution	Equity	0.5%	0.1%				0.9%
	Bond	-2.0%	3.6%				15.6%
	Short Bond	-0.2%	0.3%				2.2%
	FX	-0.3%	-0.3%				-0.2%
	Agri	0.7%	0.0%				-2.5%
	Energy	0.1%	0.1%				-0.3%
	Other including cash	0.0%	0.6%				1.5%
Risk	Equity	76.9%					
	Bond	22.5%					
	Currency and Commodity	0.6%					

Notes:
Report re-issued 3 September 2020 to amend mis-stated RBA Cash objective
Class A inception 1 April 2019, Class B inception 21 June 2019 Class B 2019-08-01 Inception 31 July 2019
RBA Cash plus 9% inception is 1 April 2019
Performance is net of all management fees and annualised for periods beyond 1 year
Risk and attribution is based on Class A performance
Risk is based on 4015 business day 99.8% Var
SAA Index is comprised 70% of equities and 30% bonds
Refer to disclosures for important information
Refer to the Information Memorandum for further detail

Source: Darling Macro (347 Darling Pty Ltd AFSL 491106)

Commentary

A brief review of markets ….
During October bonds fell as yield curves steepened in most markets other than the US, while commodities and equities rallied. Yield curves steepened reflecting improved sentiment and in the US the yield curve un-inverted due mostly to the short end.

US equities hit new highs despite further evidence that US growth is decelerating. Based on a broad array of measures growth is close to 3 year low in aggregate activity. The start of a recession is very unlikely over next 3 months but possible in mid 2020 at the current path.

The markets judgement seems to be that with support from central banks and a partial resolution of the trade dispute, economic activity should bounce and recession risk will subside.

The bounce for the equity value style continued during October. Value and quality are strongly outperforming momentum and low volatility, this should be an improved environment for active equity funds, many of which favour value and avoid low volatility.

Commentary

Risk allocations
The combination of overlay hedges and core position reduction during September meant that we started October with the US and German bond position being neutralised. Further reductions in positions during October meant we were short in both markets by the end of the month. We retain a long position in Japanese government bonds.

There was little change to equity and commodity positions, however these now represent a greater proportion of risk. Total risk and volatility has shifted down while the protection positions remain in place.

Commentary

Performance and attribution
Performance was -0.8% for the month, with gains from equities and commodities offset by losses on Japanese bonds. Taking the last 3 months together performance was 4.6%, and since inception performance is 17.7%. (Class A)

And finally…..
The reversal of central bank policy has boosted the returns of equities and bonds in 2019 notwithstanding the headlines surrounding trade wars, negative yields, and inverted yield curves.

Taking a longer perspective, the last 10 years has generated the best risk adjusted returns (measured by Sharpe) for a 60:40 blend of US equities and bonds when compared to each of the decades for the last 100 years. This result was surely not foreseen by many in 2009.

Looking at the last 10 years and examining monthly data for Australian equities and bonds, equities rose 62% of all months, while bonds rose 70% of all months. In total, both rose 43% of the time, while 47% of the time one rose and one fell and 10% of the time both fell. In aggregate, either equity or bond rose 90% of all months. The returns for strategic long allocations to equities and bonds will be challenged if the next decade reverses these patterns. We believe the ability to protect capital by utilising short positions while also varying the blend of equities and bonds will be critical.

Key Details

Type of fund: The Darling Macro Fund is an unregistered managed investment scheme for the purposes of the Corporations Act

Eligible investor: Any offer or invitation to acquire Units in the Darling Macro Fund will only be extended to a person if the person has first satisfied the Investment Manager and the Trustee that the person is a Wholesale Client.

Information Memorandum: The IM is dated 28 March 2019

Inception: 1 April 2019

Investment Management fees: Class A 1% pa of NAV. Class B 0.5% pa of NAV plus 10% of the cumulative performance of the Fund (after the Management Fee but before the deduction of Performance Fees (paid or accrued) above the Performance Hurdle.

Performance hurdle: RBA Cash Rate

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