

darling macro. darling macro fund.

Monthly report
October 2020

Markets' review

Australian equities rose by 1.5% while US equities fell -2.6% and European equities fell -7.3%. Plausible explanations for Australia's outperformance include announcements of further Australian fiscal and monetary support, the weaker A\$, clear outperformance on virus control and lower equity market sensitivity to rising bond yields. Unusually, despite the falls in most equities, defensive assets, such as US 10 year government bonds also fell, by -0.9%, seemingly reacting to a steady supply of stronger than expected US economic data. US yields have now risen well above lows established in March. Gold -0.8%, also fell while equity volatility rose.

Objectives

The Darling Macro Fund seeks a high absolute return which is competitive with equities while offering less risk than equities and low to moderate correlation with equities which make it attractive as an alternative growth asset.

Since inception the Fund is meeting its performance and risk objectives. Over shorter periods, while the Fund has done a solid job of managing risk and protecting from drawdown during the Covid-19 crisis, total returns have been below the Fund's objectives.

Fund performance

	1 mth (%)	3 mth (%)	1 year (p.a.%)	Inception * (p.a.%)
Class A	-3.01	-3.88	-0.09	10.79
Class B (2019-08-01)	-2.67	-3.39	0.75	4.03
Class B	-2.94			-2.69

* Class A and Class B (2019-08-01) have different inception dates. Class A inception 1 April 2019, Class B 2019-08-01 Inception 31 July 2019, Class B Inception 3 September 2020.

Fund performance attribution

	1 mth (%)	3 mth (%)	1 year (p.a.%)	Inception (p.a.%)
Equity	-0.3	0.0	-8.2	-4.7
Bond	-2.4	-3.4	2.0	10.9
Short bond	-0.4	-0.4	4.9	4.5
Currency	0.1	0.1	0.9	0.5
Agriculture	0.1	0.2	-1.6	-2.6
Energy	0.0	0.0	-0.3	-0.3
Precious metals	-0.1	-0.5	1.3	1.0
Other	0.0	0.1	0.9	1.5

Fund objectives

	1 mth (%)	3 mth (%)	1 year (p.a.%)	Inception * (p.a.%)
Performance	-3.01	-3.88	-0.09	10.79
Volatility	8.9	10.1	12.1	12.9
Fund drawdown				-16.6
Equities drawdown				-36.5
Correlation	-16.7	7.1	16.4	11.2
S&P/ASX 200	1.93	0.98	-8.15	0.36

The Fund is aiming to achieve:

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

Source: Darling Macro, S&P Dow Jones Indices. 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 October 2020. Objective is outlined in the Information Memorandum available at www.darlingmacro.fund. Fund drawdown, attribution, volatility and correlation calculations are based on Class A performance. Performance attribution is based on estimates and may not sum to Total Return. Drawdown is daily data and not annualised. Equities drawdown is based on S&P/ASX 200. 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.

Analysis and risk allocations

Risk allocations remain strongly tilted to bonds and precious metals over equities and commodities. During October, the fund's allocation to defensive markets such as US bonds was the main performance detractor. The top performing sub-strategy was a basket comprising bonds and natural gas, and the bottom strategy comprised bonds and live cattle. Fast moving strategies lost more than slow strategies, which reflects their higher bond exposures. The global economic outlook remains entwined with the development of a vaccine, normalisation of economic activity and reduction in unemployment. Despite market skittishness around the US election and a potential COVID vaccine, there are no indications that low interest rates are no longer required to support the recovery. Bonds will remain a sound strategy to offset uncertainty and diversify equity risk.

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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.

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.

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.

Ratings



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