darling macro fund.dmf.

September, 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 of equities and bonds (70:30) over the medium term.
5. Easily observable valuations and high liquidity.

Performance		1 mth	3 mth	1 Year	3 Year	SinceInception
Darling Macro Fund	Class A	-5.36%	6.61%			18.74%
	Class B (2019-08-01)	-4.83%				5.02%
	RBA Cash plus 9%	0.85%	2.58%			5.09%

Risk and Attribution

Volatility		16.6%	14.6%	14.6%
Correlation	SAA Index	-37.5%	-5.5%	-5.5%
Performance Attribution	Equity	1.0%	0.4%	0.4%
	Bond	-5.2%	19.2%	19.2%
	Short Bond	-1.3%	2.4%	2.4%
	FX	-0.2%	0.1%	0.1%
	Agri	0.7%	-3.2%	-3.2%
	Energy	0.0%	-0.3%	-0.3%

Notes:
Report re-issued 3 September 2020 to amend mis-stated RBA Cash objective
Class A inception 1 April 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
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 ….
After divergence in August, September brought convergence. The sharp rally in bond yields in August unwound very quickly in early September. US 10 year yields which tightened from 2.05% at end July to 1.50% at end August, rose to 1.90% by mid September, but finished the month at 1.69%. Similar patterns for bond yields occurred in Japan and Germany.

Equity markets gyrated but not to the same degree, and ended the month higher. Australia was up 1.8%, US 1.9%, Europe 2.7% and Japan 4.2%. Commodities had a boost from the oil price spike but finished only modestly higher by 1.7%.

Economic data was mostly below expectations, with poor data in particular from China and Germany.

There was a mixture of news on the trade dispute. An announcement that trade talks would resume saw equities rally, but rumours that Chinese access to US stock markets would be curbed resulted in equity market falls.

The biggest price spike in oil since 1989 was short lived as repairs were made to Saudi oil processing plants and no immediate followup attacks or retaliatory action was taken.

We think data and news doesn’t satisfactorily explain the price moves in bonds and we prefer to regard it as market exhaustion and a response to the vicious bond rally in August. Interestingly, the correlations we observed last month between equity factors and bond yields persisted in September, and value style equities rallied hard as bond yields rose.

Commentary

Risk allocations
We entered September with the core portfolio strongly tilted to bonds, but as we wrote in the August report, our protection overlay signals had caused us to begin hedging this position. As a reminder, the overlay which is implemented systematically aims to capture momentum reversals. The overlay is implemented as synthetic options and its primary role is to dampen drawdowns.

The rise in bond volatility during August continued during early September and we added to hedges while also reducing the core portfolio's bond positions. The combination of overlay hedges and core position reduction resulted in the US treasury position and most of the German bund position being neutralised.

Commentary

Performance and attribution
Performance was -5.4% for the month as bond yields rose, partially reversing performance from August.

Taking the last 2 months together performance was 5.5%.

And finally…..
Forecasting risk in the short to medium term is not done with certainty but we believe is more dependable than forecasting returns. We measure risk in terms of realised price volatility and correlation. The market forecast of risk, "implied volatility", usually syncs with realised volatility.

What's particularly interesting is how "economic uncertainty" relates to these measures of risk. We have been tracking the rise of "economic uncertainty" for a few years now, and note the widening spread between measures of "economic uncertainty" and volatility. Might this mean that one of these measures has become inaccurate, or is the spread indicative of something else?

Several theories attempt to explain the increase in uncertainty in the developed world such as the falling levels of trust in democracy and capitalism, the seemingly less effective monetary policy system, rising risk from climate change and more recently the reduction in multilateralism. The challenge for policy makers is that if uncertainty catalyses in extreme economic outcomes then volatility will surely rise.

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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