

darling macro. darling macro fund.

Monthly report
February 2020

Markets' review

The 2003 SARS crisis proved to be a too optimistic scenario as COVID 2019 spread beyond China and efforts to contain it have only been partially successful. A much more negative scenario emerged as containment measures have disrupted supply chains and activity. Governments have focussed their efforts on the health system response, and in some cases have announced spending stimulus. Incredibly equity markets were up strongly in the first half of the month, but closed down; -8.2% S&P 500, -8.1% Global, and -7.7% Australia. Commodities also fell, in particular energy and livestock. Bonds rallied, which saw global and regional all maturity bond indices up by about 1%.

Performance and risk

Performance for the fund was up 1.4% for February, 18.7% since inception and 10% ahead of objective. The value of bonds as a diversifier during growth shocks was proven again, as gains on the fund's bond exposures outweighed losses on equities and commodities. During the second half of the month, volatility rose and equity performance fell sharply, consequently equity exposure was reduced. The fund retains exposures to a range of equity indices but exposures to US, German and Japanese bonds are the fund's largest exposures. Our value at risk analysis shows that the largest fund loss scenarios occur when bond yields rise.

Fund performance

	1 mth (%)	3 mth (%)	Inception (%)
Class A	1.4	1.7	18.7
Objective	0.7	2.4	9.1
Excess return	0.6	-0.8	9.6
Class B (2019-08-01)	1.3	1.6	5.2
Volatility	11.4	9.4	12.4
Correlation	9.2	4.3	-0.1

Performance attribution

	1 mth (%)	3 mth (%)	Inception (%)
Equity	-5.7	-5.8	-3.5
Bond	7.1	6.4	20.4
Short bond	1.4	1.9	3.8
Currency	0.5	0.6	0.7
Agriculture	-1.1	-1.5	-3.6
Energy	0.0	-0.1	-0.5
Other	-0.1	0.0	1.2

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 28/2/2020. 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

In periods of acute uncertainty, investors find it difficult to make forecasts and form expectations, while events will easily surpass current expectations. Large price moves can occur as investors build in a new margin of safety into new forecasts and expectations. Recovery in prices can occur when new more conservative exceptions have been established and "positive" surprises occur. We are following 13 dimensions that define expectations about the outbreak of COVID 2019, and serve to establish current prices. For example, there is a current expectation that the morbidity rate is about 2%. If further data confirms that the actual rate is lower then this would be supportive for equities. Another expectation is that containment in China has been successful, if data showed another breakout in a major Chinese city then this would likely lower equities. Our process does not seek to make fundamental forecasts as such but the phenomena of under appreciating the significance of new data and then overcompensating is fundamental to the patterns of behavioural economics which we analyse.

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.

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