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Monthly report
December 2019

Markets' review

2019 will be remembered for the large monetary shock delivered by central banks. In aggregate, this was the largest monetary easing since the financial crisis as 50 central banks delivered more than 100 rate cuts. Unconventional policy was also expanded or restarted in some major markets. The scale of the 'shock' can be viewed through the US Federal Reserve's own forecasts (dot-plots) for September 2020 which were slashed from 3.1% to 1.6%.

All major markets rose strongly, while economies and earnings slowed, and geopolitical risks simmered.

Performance and risk

Performance was -2.3% for December, with gains from equities and commodities offset by losses on global government bonds. Since inception performance is now 14.1%.

Risk allocations are highest to equities over bonds and commodities, with largest positions in US and Japanese equities. We retain some overlay protection in US government bonds which currently reduces our bond risk from the core portfolio.

Fund performance

	1 mth (%)	3 mth (%)	Inception (%)
Class A	-2.3	-3.9	14.1
Objective	0.8	2.4	7.5
Excess return	-3.1	-6.3	6.6
Class B (2019-08-01)	-2.0	-3.4	1.5
Volatility	10.2	9.1	13.1
Correlation	2.9	9.4	-1.4

Performance attribution

	1 mth (%)	3 mth (%)	Inception (%)
Equity	0.9	3.0	3.4
Bond	-3.1	-7.1	9.6
Short bond	-0.2	-0.7	1.7
Currency	-0.6	-0.6	-0.4
Agriculture	0.0	1.1	-2.1
Energy	0.0	-0.1	-0.5
Other	0.4	0.3	2.1

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 31/12/2019. 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

It's common to think in blocks of calendar years, though this really just a simplification of the the time periods facing investors, and may affect our understanding of markets. We believe there are several issues with the traditional year end preview and review - firstly, a failure to assess events of the prior year as to what was surprising and what can be learned; secondly, a tendency to anchor the assumptions for the upcoming year on current events; and thirdly, a tendency to groupthink and mean reversion. We think a more valuable approach to fundamental forecasting is to consider surprises and scenarios, thus the key questions are:

1. What surprised in the prior period and why? What can be learned?
2. What are potential market surprises? Why change might be greater/less?
3. What scenarios and impacts can be developed from these surprises?

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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