

# darling macro. darling macro fund.

Monthly report  
January 2020

## Markets' review

Globally, the January equity rally petered out on the coronavirus breakout. This is a classic market surprise, though investors are benchmarking their analysis on the 2003 SARS crisis which seems to be capping equity market downside, for now. Australian equities were the exception and outperformed most equity markets due to a weaker A\$. Oil, gas and other industrial commodities sank, while gold and bonds rose strongly. Strong earnings for US technology leaders helped growth and momentum styles outperform value, while lower bond yields boosted low volatility equities. The A\$ fell sharply and consequently unhedged global equities performed strongly.

## Performance and risk

Performance was 2.6% for January, with gains from bonds and currency offsetting losses on equities and commodities. All 32 of the underlying strategies generated positive performance for the month. Since inception performance is now 17.1%. Core portfolio risk allocations are highest to bonds over equities and commodities, with the largest positions in US and German bonds. The overlay protection in US and Japanese government bonds which was established in August 19 has matured and been unwound. This position protected the portfolio from rising bond yields, but detracted from performance in January. There is now no overlay protection in place.

### Fund performance

	1 mth (%)	3 mth (%)	Inception (%)
<b>Class A</b>	<b>2.6</b>	<b>-0.6</b>	<b>17.1</b>
Objective	0.9	2.5	8.4
Excess return	1.7	-3.0	8.7
<b>Class B (2019-08-01)</b>	<b>2.4</b>	<b>-0.4</b>	<b>3.9</b>
Volatility	5.5	8.1	12.5
Correlation	-11.2	12.3	-1.7

### Performance attribution

	1 mth (%)	3 mth (%)	Inception (%)
Equity	-1.0	1.4	2.3
Bond	2.6	-2.8	12.4
Short bond	0.7	0.2	2.4
Currency	0.7	0.4	0.2
Agriculture	-0.4	0.0	-2.5
Energy	-0.1	-0.3	-0.6
Other	-0.3	0.1	1.9

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 31/1/2020. 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](http://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

Our investment process is centred on 32 asset allocation strategies which are comprised of different markets across global bonds, global equities, currency and commodities. Our process then selects the best strategies taking account of how each strategy is diversified with each other. Each of these strategies is assembled utilising an approach which enables us to balance the risk contribution of more volatile markets with less volatile markets. This approach enables us to exploit the diversification potential of the full universe of assets. We estimate that this lowers portfolio risk by up to 25%.

Why don't mainstream funds pursue this approach? Research suggests that investors display an aversion to leverage and shorting, while other reasons may include a preference for concepts that are easier to understand, and a preference for speculating about potential returns rather than risk.

## 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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