

# darling macro. darling macro fund.

Monthly report  
July 2020

## Markets' review

Despite rising Covid-19 infections, economic data continued to outperform forecasts. Seemingly positive news about vaccine development encouraged investors. However, there are signs that new social distancing measures are starting to impede growth. Global equities were up strongly with almost universal gains across countries and sectors. Growth and momentum continued to be the best performing equity styles. The sentiment for the US\$ turned and it reached a 2 year low which is a remarkable change from mid March. Precious metals such as gold were the standout. Bond yields fell as major central banks made noises about maintaining low rates.

## Performance and risk

Fund performance was 4.43% for July, 7.26% calendar year to date, 8.71% over 12 months and 16.33% since inception. July was a very strong month for the fund as it participated in gains in all markets except currency. All 32 asset allocation strategies made positive contributions, with contributions ranging from 0.57% to 0.0% (small positive). We added to risk particularly in US\$ rates and government bonds. Total ex ante risk (anticipated) is now 90% higher than in April though realised volatility remains lower than long term objectives. Risk allocations finished the month as 79% to short and long dated bonds, 8% to commodities, 11% equities and 2% currency.

### Fund performance

	1 mth (%)	3 mth (%)	1 year (p.a.%)	Inception (p.a.%)
<b>Class A</b>	<b>4.4</b>	<b>6.7</b>	<b>8.7</b>	<b>16.4</b>
Objective	0.8	2.3	9.6	9.8
Excess return	3.6	4.4	-0.9	6.6
<b>Class B (2019-08-01)</b>	<b>4.4</b>	<b>6.5</b>		
Volatility	6.8	8.3	13.3	13.3
Correlation	3.7	-19.7	12.5	11.7

### Performance attribution

	1 mth (%)	3 mth (%)	1 year (p.a. %)	Inception (p.a. %)
Equity	0.7	2.6	-8.0	-5.5
Bond	1.9	1.4	9.3	16.0
Short bond	0.5	1.0	5.5	5.6
Currency	-0.3	-0.8	0.5	0.5
Agriculture	0.4	0.8	-1.9	-3.2
Energy	0.0	0.0	-0.2	-0.4
Precious metals	1.1	1.6	2.0	1.6
Other	0.1	0.2	1.4	1.7

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 end July 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

Gold is one of the 34 markets we invest in and it is included in 3 of the 32 asset allocation strategies. We pair gold with oil and also with commodity economies to benefit from changes in inflation expectations. Its role in the fund is to participate in regimes where inflation risks rise, and bonds and equities typically perform poorly. Recently inflation expectations have been rising in line with generally improving sentiment about economies reopening, but they have not yet reached levels seen before Covid-19 struck. Gold has now risen 27% in 2020 which is only surpassed by Silver in our universe. Despite rising inflation expectations, nominal yields have been declining back to levels seen in April as central banks assert their power to manage bond yield curves. The confluence of these moves has resulted in a new all time record for negative real yields and has propelled the US\$ lower and gold higher. Typically we would have expected nominal yields to rise as inflation expectations rose but central banks are using ultra low bond yields to stimulate economies and soak up spare labour. Will this policy work? It seems that increased government spending, financed by low rates and money printing, will also be required. The fear of monetary debasement may now be spurring the rises in gold as investors seek alternatives to FIAT money as a store of value. However sharp rises in inflation like the late 70s seem a way off, unless, of course, there are supply shocks to vital commodities, which may be more likely as the geopolitical tectonic plates shift.

## 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 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.

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