

darling macro.

# Q2 2021 Quarterly Review

Darling Macro: 4 years of liquid alternative investing

July 2021

Wholesale Investors only

# Darling Macro's unique perspective



1

## Risk management at the core

Analysis and management of multi asset risk is at the core of the strategy, with systematised risk controls and overlays.

2

## Exploit Behavioural inefficiencies

Systematic analytical insights exploit persistent behavioural market inefficiencies while minimising our own.

3

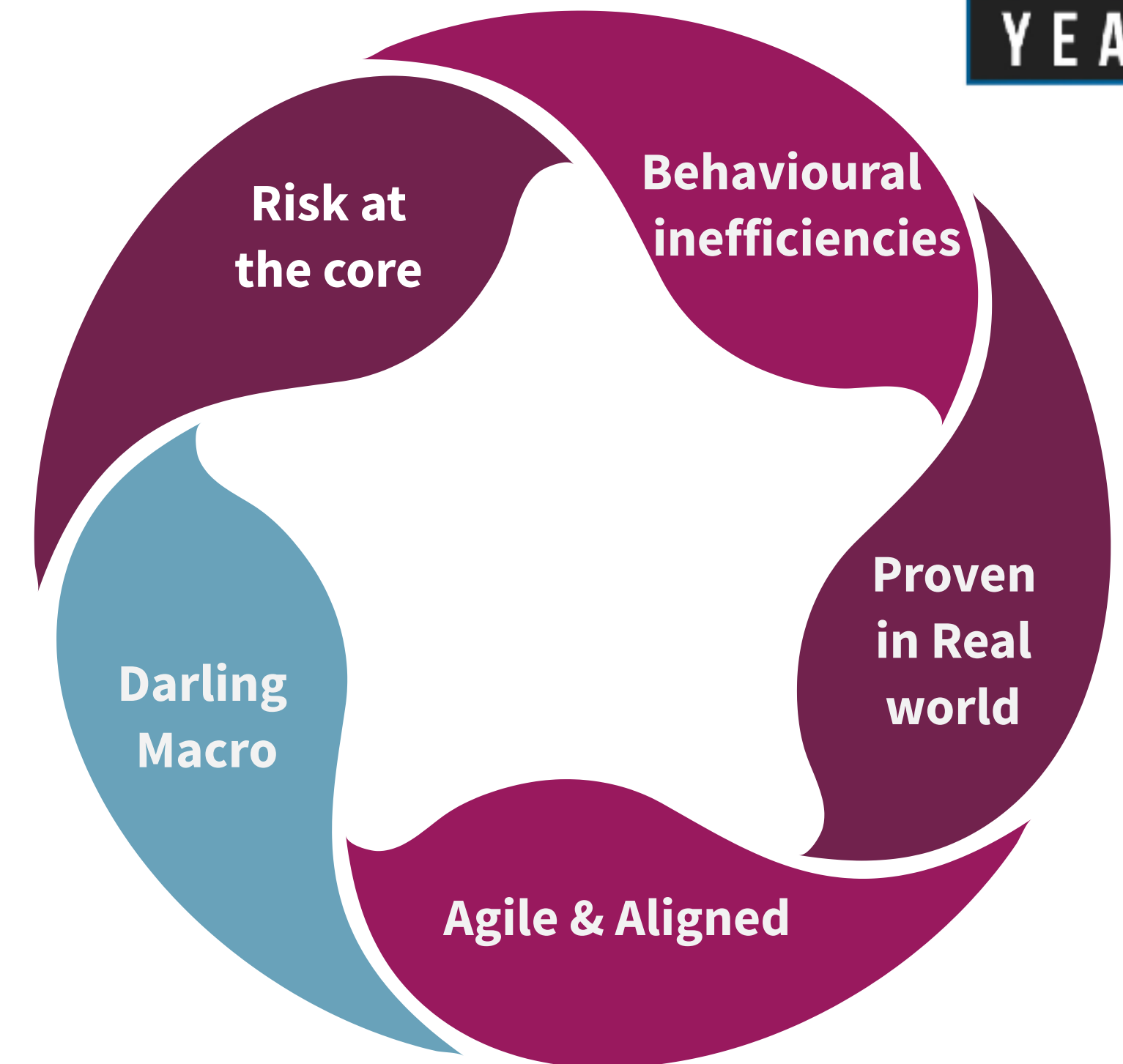
## Proven alternative in the real world

Strategy based on actual and diverse experiences in markets not just academic studies, and proven in real world situations.

4

## Agile and Aligned

Smaller AUM means lower risk of crowding and better execution with investors' interests firmly aligned with founders.



# Unique perspective drives outcomes



1

4 year track record return of 9% pa

2

Powerful equity market diversification

3

Superior performance compared to other liquid alternatives

## Darling Macro Fund

### Objectives

- A return of 9 % p.a. above cash, after costs.
- Low to moderate correlation to equities.
- Materially lower drawdowns than equities.
- Easily observable valuations and daily liquidity.
- Annual volatility similar to equities.

### Inception Fees

1 April 2019  
Class A. Fee: 1% incl GST  
Class B. Fee 0.5% + 10% above Cash + 0.5%, incl GST

### Liquidity Manager Trustee

Daily  
Darling Macro (347 Darling Pty Ltd)  
Evolution Trustees

### Administrator

APEX Fund Services

### Auditor

Ernst and Young

### Tax advisor

Pitcher Partners

### Investors

Eligible wholesale investors only

### Rating

Superior by SQM Research



	3m	1yr	2yr pa	3yr pa	Inception pa Fund	Inception pa Manager
<b>Darling Manager Track Record</b>	5.6%	-0.5%	2.3%	6.3%	na	8.8%
<b>Alternative funds peer group *</b>	4.2%	7.1%	na	3.0%	na	na
<b>Darling Macro Fund (DMF)</b>	5.6%	-0.5%	2.3%	na	7.1%	na
<b>DMF correlation vs Aus Equity</b>	93%	5%	22%	na	23%	na
<b>DMF Maximum Drawdown</b>					-19%	na

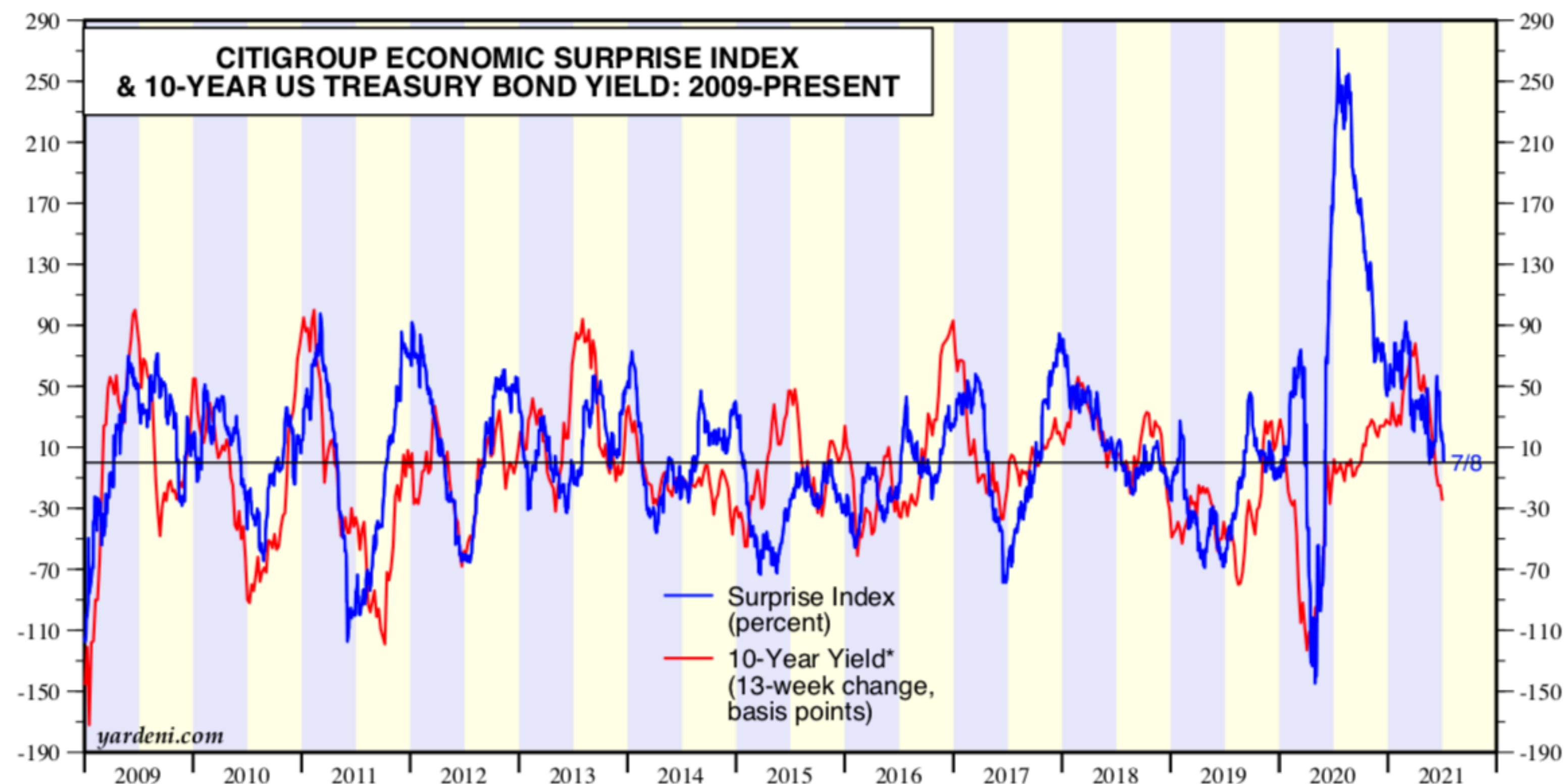


darling macro.

# Q2 Quarterly Review

# 2021 Q2: Expectations have caught up with the US economic recovery

- Expectations have caught up with the US economic recovery
- Possible reasons for this include:
  - The process of investors slowly adjusting their forecasts to reflect the better than expected recovery,
  - Ongoing interruptions to supply chains,
  - Lingering effects of Covid which is constraining labour supply and business investment,
  - Chinese surprises turning negative.



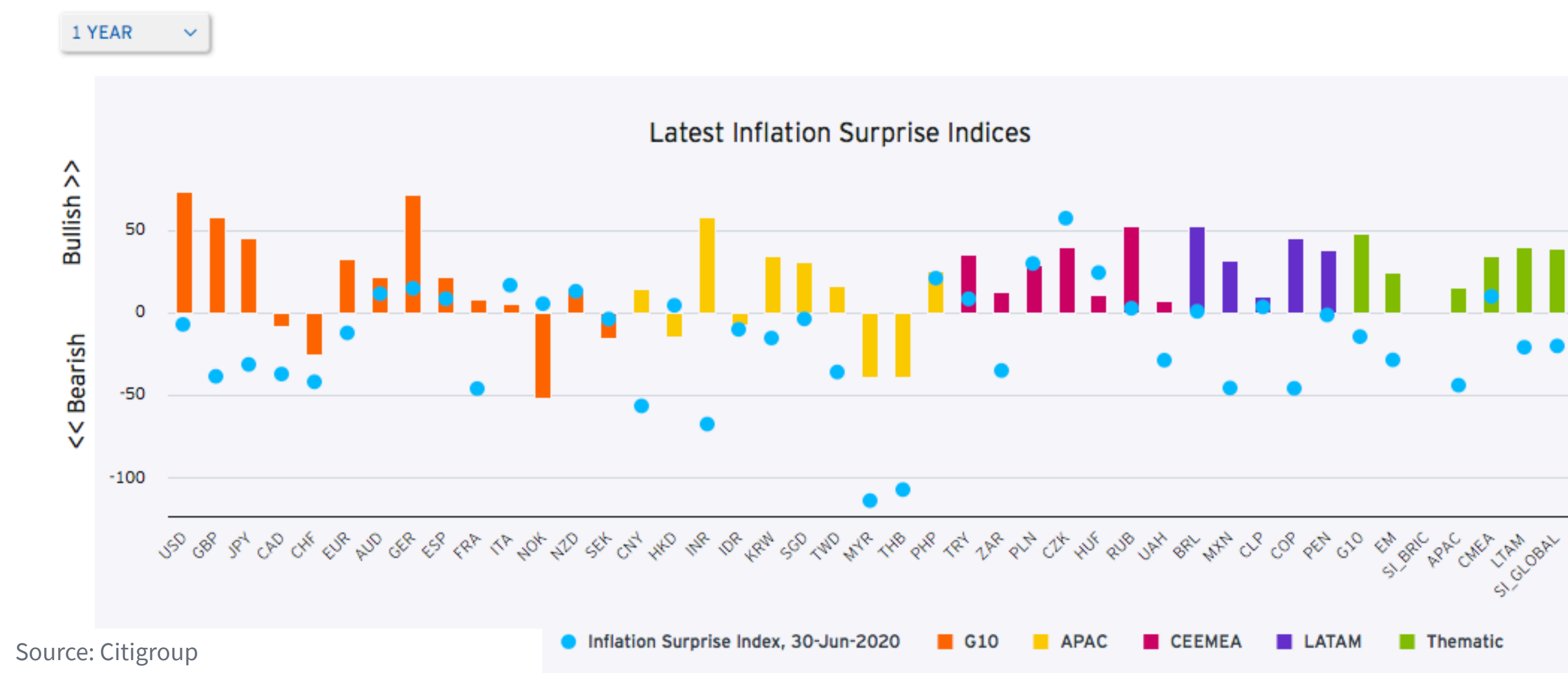
\* Average for the week ending Friday.  
 Note: Blue shaded areas denote first half of each year.  
 Source: Federal Reserve Board and Citigroup.



# 2021 Q2: Inflation surprises but future expectations for inflation fall back

- In Q1, we tracked the rise in inflation expectations (Australia 10 year rose from 1.78% to 2.07% in the quarter) and we noted that there had been few inflation shocks of the same magnitude since 2000.
- However we concluded that the rise likely represented the effects of a positive growth shock and that bonds were likely oversold in Q1 and would rebound.
- In Q2, the trend in positive Inflation surprises was sustained. However, in the US this did not translate to higher longer term inflation expectations as 5 year breakeven inflation rates fell from 2.54% to 2.47% and 10 year breakeven inflation rates fell from 2.47% to 2.41%
- A more hawkish Fed communicated their preparedness to tighten policy if inflation was not as transitory as expected. This assured the market that the Fed was less likely to get behind the curve on inflation.

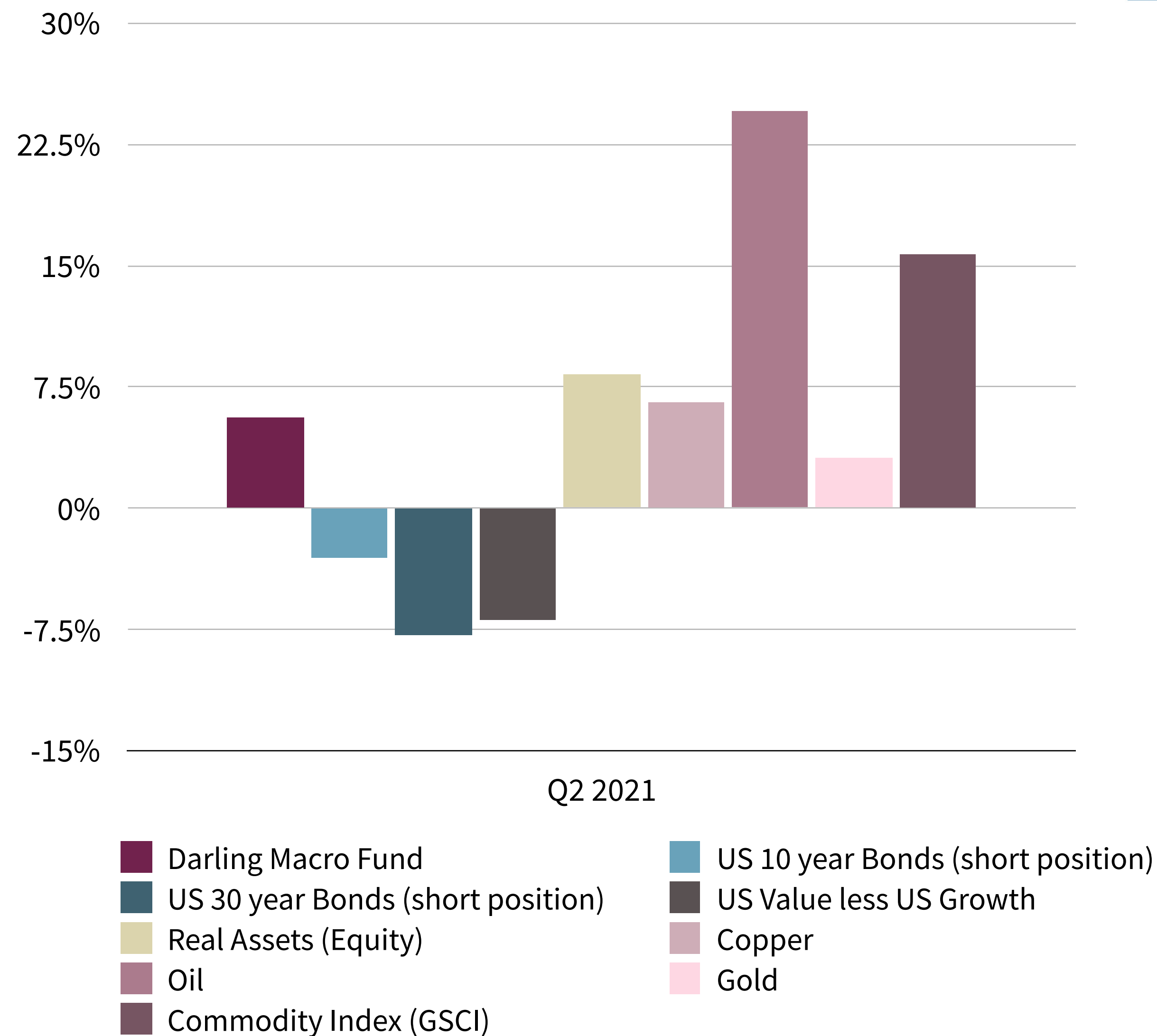
Source: Darling Macro



- The majority of countries and regions have moved from negative inflation surprises June 2020 to positive surprises.
- Economies most impacted by Covid-19 are showing the largest surprises : US, UK and India. Evidence that inflation may be transitory.

# 2021 Q2: Inflation hedges suggest inflation more likely to be “transitory”

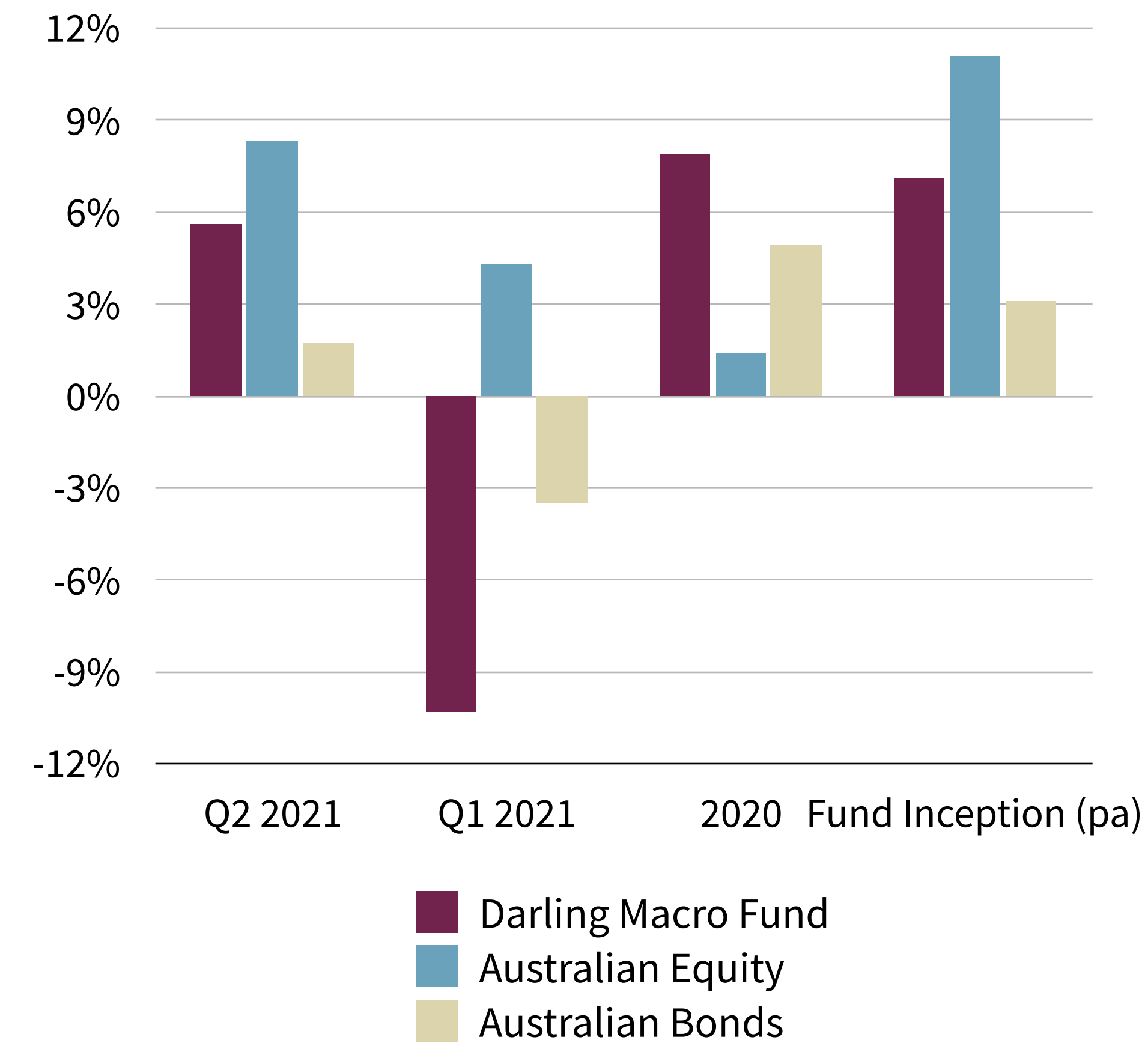
- Investors went "all in" on reflation, during Q1, selling down defensive and hedging assets.
- But in Q2....
- Inflation hedges were a mixed bag as a reversal took hold.
- Near term inflation pricing was strong with commodities and especially energy exceptionally strong.
- However long term inflation signals underperformed, as:
  - US Value equities underperformed Growth equities, and
  - Bonds rallied back after steep losses in Q1, causing losses for “Short” positions.





# How did the Darling Macro Fund perform?

		Q2 2021	Q1 2021	2020	Fund Inception (pa)
	<b>Darling Macro Fund</b>	5.6%	-10.3%	7.9%	7.1%
Growth	Australian Equities	8.3%	4.3%	1.4%	11.1%
	Global Equities Unhedged	9.3%	6.3%	5.7%	16.5%
Defensive	Australian Bonds	1.7%	-3.5%	4.9%	3.1%
	Global Bonds	1.0%	-2.9%	5.1%	3.3%
Liquid Alts	MySuper Benchmark	4.7%	1.7%	7.1%	10.2%



Source: Darling Macro, S&P, MSCI, Bloomberg. Darling Macro Fund Inception 1 April 2019 and performance shown for Class A after fees. Australian Equities is S&P ASX/200 TR, Global Equities unhedged is MSCI World Ex-Australia, Australian Bonds is S&P ASX Australian Fixed Interest Index TR, Global Bonds is BBgBarc Global Aggregate TR Hdg AUD, Liquid Alternatives is APRA MySuper Alternatives benchmark. Performance shown as Inception (pa) is from 1 April 2019.



# How did markets perform in Q2 2021?

Showing top 5 and bottom 5 markets with Darling Macro universe



Q2 2021		Q1 2021		2020	
Market	Performance	Market	Performance	Markets	Performance
<b>Top 5</b>	Gas			Silver	43.9%
	Corn			Taiwan equities	33.9%
	Coffee			Copper	23.3%
	Oil			Gold	20.8%
	Sugar			US Small cap equities	20.0%
<b>Bottom 5</b>	Japan equity (Nikkei)			Oil	-45.9%
	A\$/US\$			Natural Gas	-45.1%
	Cattle			UK Equity	-11.5%
	Japan equity (Topix)			Live Cattle	-10.2%
	German Bond			Singapore Equity	-8.1%
		Oil	22.0%		
		Corn	19.2%		
		Taiwan Equity	14.7%		
		US Small cap equities	12.6%		
		Copper	12.4%		
		Gold	-9.7%		
		Silver	-7.7%		
		US Govt bond 10yr	-4.3%		
		Wheat	-4.2%		
		Coffee	-3.0%		

# Which markets contributed to Fund performance?



	Q2 2021	Q1 2021	2020	Inception (pa)
<b>Darling Macro Fund</b>	5.6%	-10.3%	7.9%	7.1%
<b>Attribution</b>				
Equity	4.3%	2.6%	-7.7%	0.9%
Bond	0.7%	-8.6%	7.5%	3.7%
Short Bond	-0.3%	-3.7%	6.8%	2.0%
Currency	0.4%	-0.7%	1.0%	0.1%
Agriculture	0.8%	-0.3%	-1.5%	1.4%
Energy	1.3%	-0.1%	-0.1%	0.3%
Precious metals	-1.4%	-0.2%	1.3%	0.0%
Metals	-0.2%	0.0%	0.0%	-0.1%
Other	-0.2%	0.7%	0.7%	1.6%

# How is the Fund's risk budget allocated?

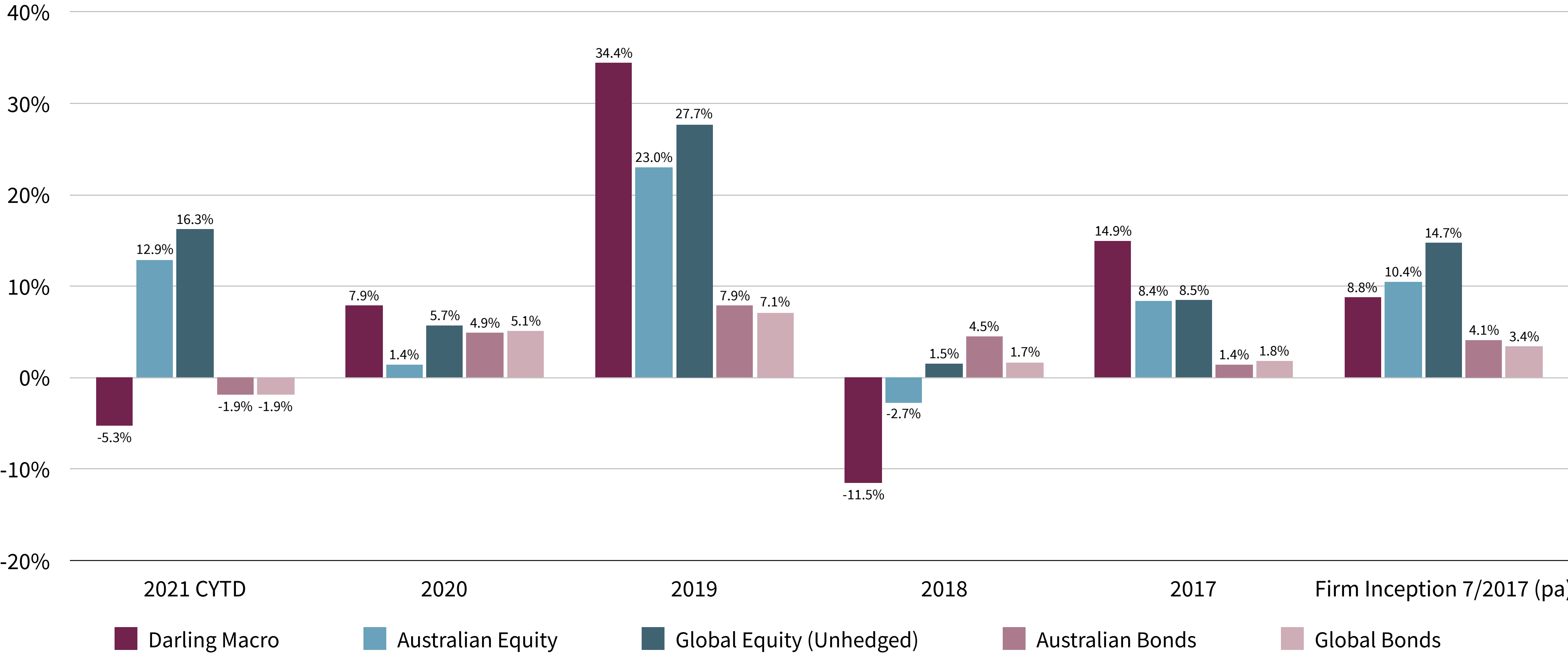
Energy and Equity were added and Short dated Bonds were reduced during the quarter

	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Equity	37.5%	22.6%	11.2%	8.3%	14.7%	22.1%	38.6%
Long dated Bond	10.5%	7.3%	26.2%	38.9%	46.1%	49.9%	34.4%
Short dated Bond	22.6%	54.0%	56.5%	44.8%	26.7%	11.3%	9.4%
Currency	0.7%	4.1%	0.6%	1.2%	2.1%	3.5%	3.5%
Agriculture	5.3%	3.6%	4.0%	3.4%	4.8%	8.5%	8.6%
Energy	18.0%	6.1%	0.0%	0.0%	0.0%	0.0%	1.2%
Precious metals	1.4%	2.2%	1.4%	3.4%	5.6%	4.8%	4.2%
Metals	4.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%





# What is the Darling Macro lifetime track record since it was established in 2017?



Source: Darling Macro. Darling Macro manager track record after fees and expenses comprises managed accounts from 1 July 2017 to 31 March 2019, Darling Macro Fund (Class A) from 1 April 2019 thereafter. Australian Equities is S&P ASX/200 TR, Global Equities unhedged is MSCI World Ex-Australia, Australian Bonds is S&P ASX Australian Fixed Interest Index TR, Global Bonds is BBgBarc Global Aggregate TR Hdg AUD,

darling macro.

**FAQ**

# Frequently asked questions



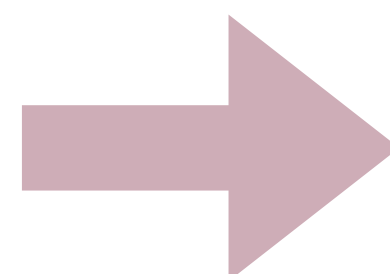
1. How does the Darling Macro Fund fit within a portfolio?
2. Why are alternatives and the Darling Macro strategy attractive now?
3. Is the fund rated?
4. What environments are favourable and unfavourable for the fund's investment strategy?
5. How did the Darling Macro Fund perform during 2020?
6. How did Darling Macro Index perform during earlier periods of equity stress?
7. How has the managers' track record compared with other alternatives?
8. What is the correlation of the strategy with equities?
9. How does the Darling Macro Fund manage the risk budget without significant shorting?
10. What is the purpose of leverage used in the fund?
11. What is the Darling Macro Index?



# How does Darling Macro Fund fit in a typical portfolio?

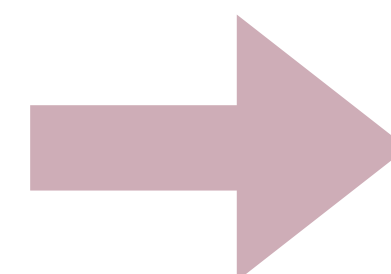
## Purpose of Growth Alternatives

1. Complements equity, real estate and infrastructure allocations
2. Contribute to total portfolio return over medium term
3. Enhance total portfolio diversification: lowering drawdowns and provide protection when needed.
4. Liquidity to facilitate total portfolio SAA rebalancing.



## Alternatives design

1. Funded from equity risk allocation.
2. Target absolute return: Minimum of cash plus 5%+ and comparable with equity after fees.
3. Low correlation with strategic equity allocation:  $< 0.3$  over rolling 3 year periods.
4. Reliable liquidity.



## Total portfolio outcomes

1. Maintain total portfolio return objectives.
2. Lower portfolio risk, reduce drawdowns and enhance money weighted returns.
3. Enhance capacity to increase risk from other portfolio allocations.
4. Meet total portfolio investor liquidity needs and portfolio liquidity enhances ability to rebalance SAA during stress.

# Why diversify with alternatives ?

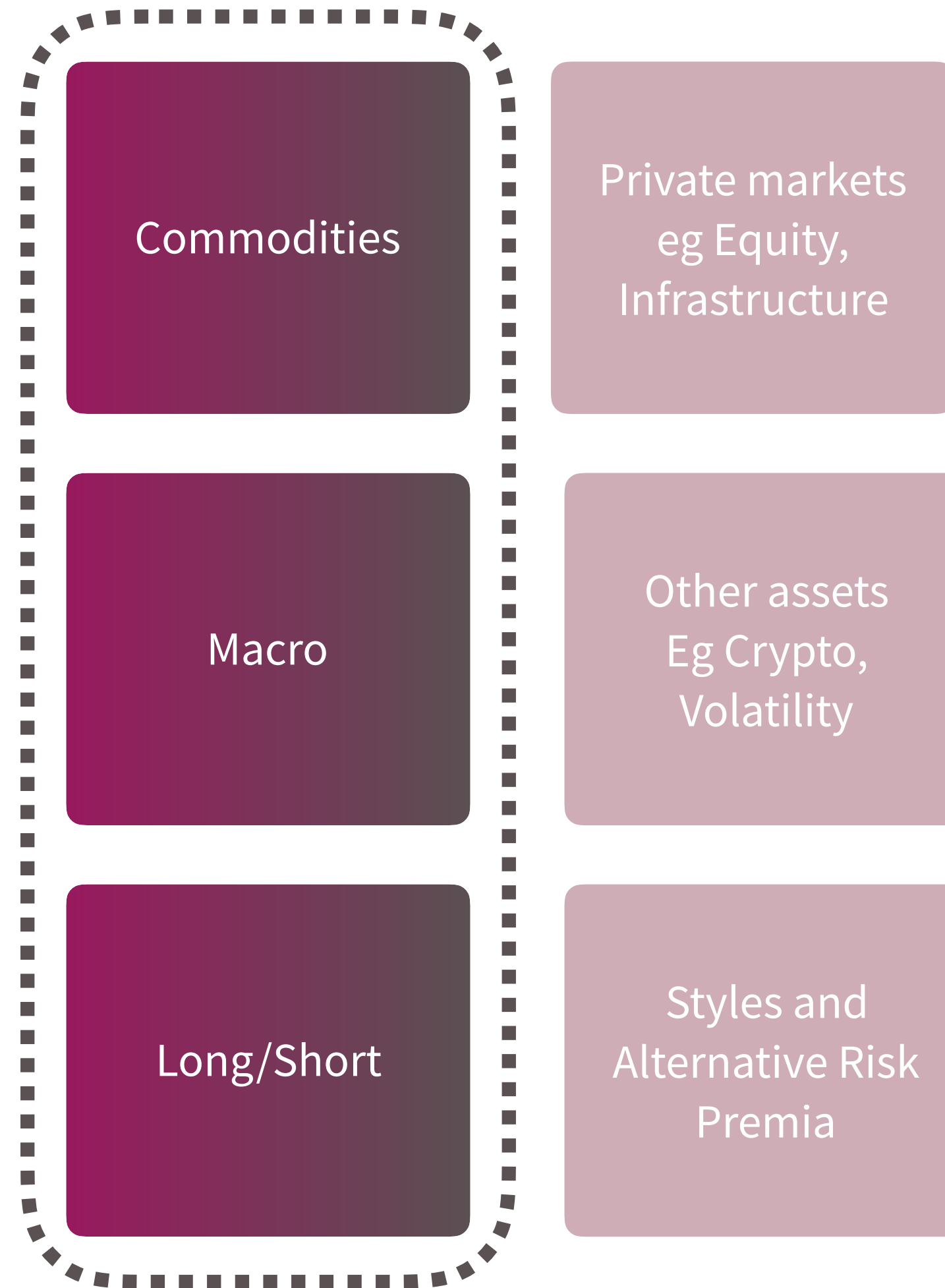


Returns from equities and bonds have been brought forward and there is now an opportunity to rebuild diversification

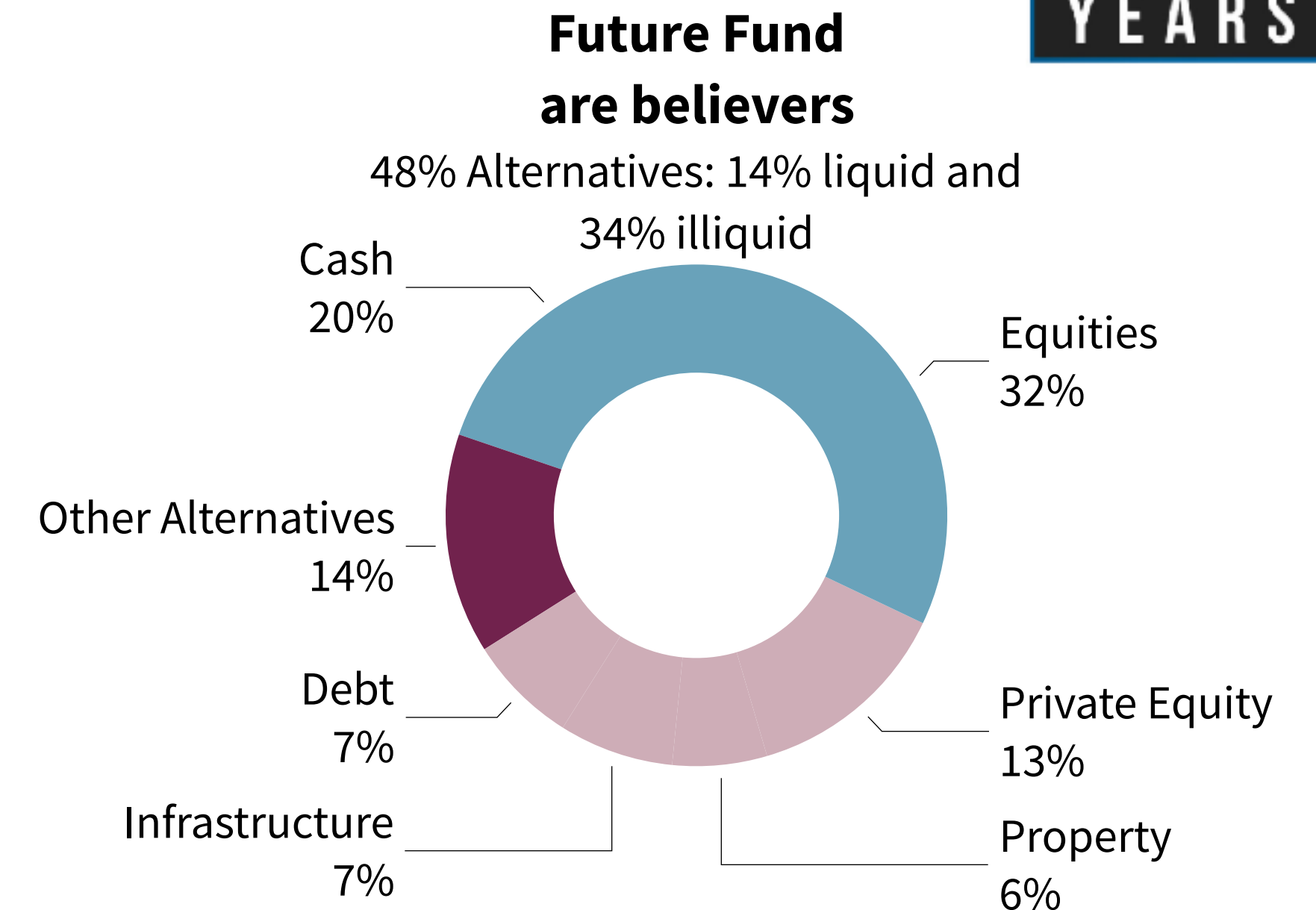
- High current valuations mean investors' total returns may not meet objectives,
- Uncertainty of multiple potential paths for growth and markets,
- Portfolio risk is dominated by equity risk and represents potential for large drawdowns,
- Bonds and other diversifiers are less effective due to low yields,
- Superior to holding cash.

Outcomes?

- Reduce intensity of negative equity months and drawdowns,
- Maintain total portfolio return objectives,
- Enable rebalancing to monetise emerging opportunities and rebuild defence,



## ALTERNATIVES



	3yr	10yr	10yr Sharpe	10yr Volatility
<b>Traditional Balanced (no Alternatives)</b>	8.9%	8.4%	0.7	9.4%
<b>Future Fund</b>	8.3%	9.1%	1.7	4.0%

# Is the fund rated?

The Darling Macro Fund has been awarded an inaugural rating of “Superior 4 stars” and its top investment grading of “High Investment Grade” by SQM Research.



SQM outlined 6 key strengths of the fund in its report:

darling macro fund.

- 1 A seasoned investment team with many years of experience over numerous market cycles.
- 2 Performance in a challenging market (Covid-19) has held up well.
- 3 Over relatively short history has strongly out-performed its peer group.
- 4 A well-articulated investment process with strong focus on managing risk.
- 5 The Fund is competitively priced (both Class A and B), relative to peers.
- 6 Strong alignment of management and unit-holders interests in the performance of the Fund.



The fund is available to qualified wholesale investors only and a full rating report is available on request.

The rating contained in this document is issued by SQM Research Pty Ltd ABN 93 122 592 036 AFSL 421913. SQM Research is an investment research firm that undertakes research on investment products exclusively for its wholesale clients, utilising a proprietary review and star rating system. The SQM Research star rating system is of a general nature and does not take into account the particular circumstances or needs of any specific person. The rating may be subject to change at any time. Only licensed financial advisers may use the SQM Research star rating system in determining whether an investment is appropriate to a person's particular circumstances or needs. You should read the product disclosure statement and consult a licensed financial adviser before making an investment decision in relation to this investment product. SQM Research receives a fee from the Fund Manager for the research and rating of the managed investment scheme.



# What environments are favourable and unfavourable for the Darling Macro Fund's investment strategy?



The investment strategy operates in global markets and exploits macro risk premia and behavioural anomalies. The optimal market conditions for the investment strategy achieving its absolute return objectives have the following features:

1. There is clear dispersion of recent returns – that is, when there is a spread between the risk adjusted returns of equities, bonds, commodities and currencies,
2. Markets continue to demonstrate a tendency to trend,
3. The correlations between markets are stable or moderately trending, and
4. Volatility is moderate.

Unfavourable conditions, which historically have not occurred often or for long periods of time, include:

1. Most of the universe of global markets don't outperform cash,
2. There is little dispersion of recent returns – that is, when there is minimal spread between the risk adjusted returns of equities, bonds, commodities and currencies,
3. There are frequent reversals within returns of the investment universe,
4. The correlations between markets are volatile or high,
5. Volatility of volatility is high.

In the event of unfavourable conditions, our de-risking techniques are designed to reduce the size of underperformance.

# Resilient in Q1 and top for the full year: Darling passed the acid test for alternatives in 2020

- One of the Fund's core objectives is to protect investors during severe market drawdowns while still participating in up markets.
- The fund's de-risking and diversification techniques were tested by the extreme market conditions in 2020.

	Q1 2020	Q2, Q3, Q4 2020	2020
<b>Growth alternatives</b>			
<b>Darling Macro Fund</b>	-1.8%	9.9%	7.9%
<b>Growth</b>			
<b>Australian Equities</b>	-23.1%	31.9%	1.4%
<b>Global Equities (unhedged)</b>	-9.0%	16.2%	5.7%
<b>Defensive</b>			
<b>Australian Bonds</b>	3.4%	1.4%	4.9%
<b>Global High Yield</b>	-13.8%	19.0%	2.6%
<b>Managed futures</b>	-3.9%	5.8%	1.7%

Source: Darling Macro, S&P, SQM. Darling Macro Fund after fees and expenses, Australian Equities is S&P ASX/200 TR, Global Equities unhedged is MSCI World Ex-Australia unhedged, Australian Bonds is S&P ASX Australian Fixed Interest Index TR, Global Bonds is BBgBarc Global Aggregate TR Hdg AUD, Global High Yield is IHS Markit Global High Yield Bond in A\$ Index, Managed Futures is composite by SQM Research, Liquid Alternatives is APRA MySuper Alternatives benchmark.

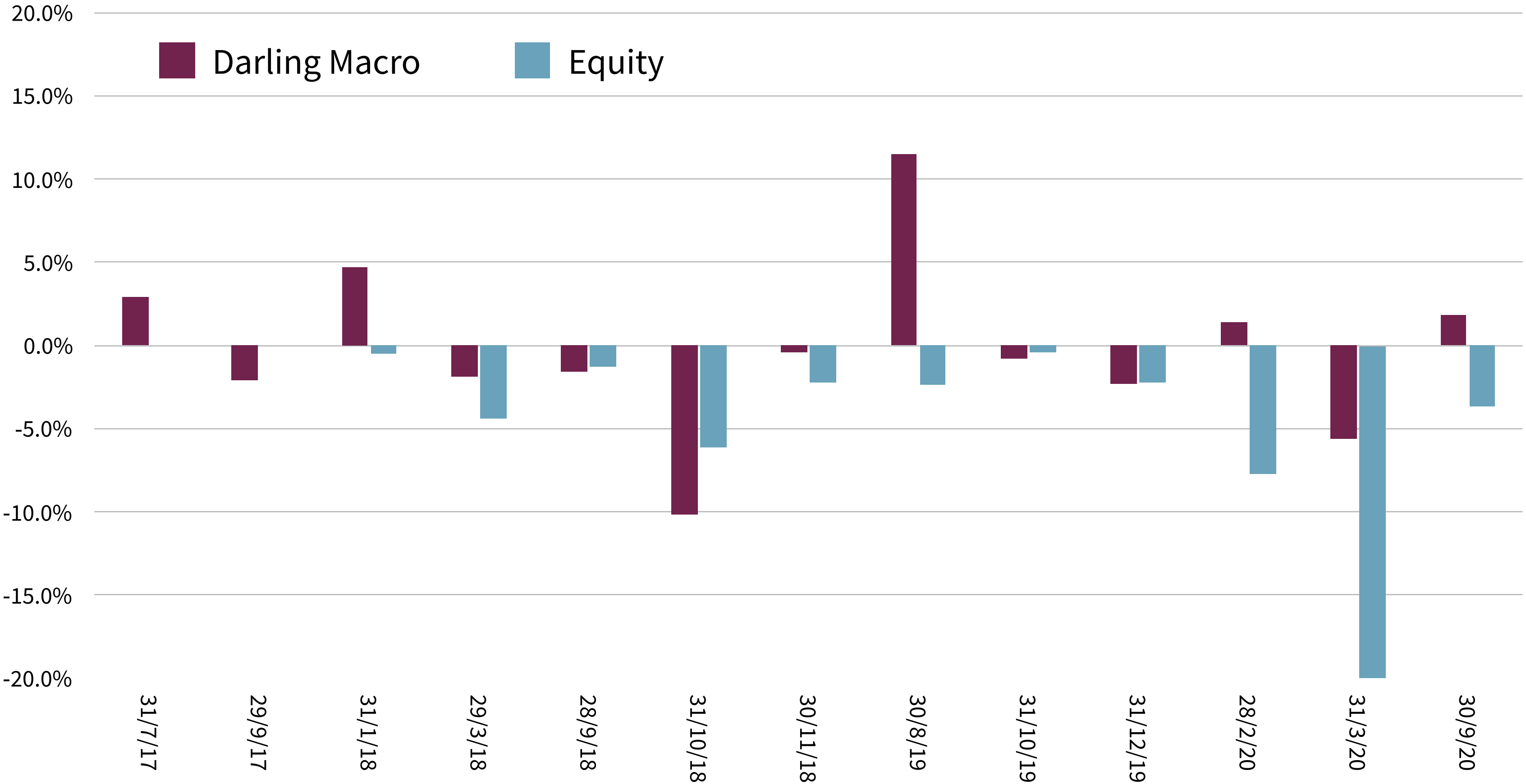
# Darling shines in negative equity months

4  
YEARS

- Australian equity experienced losses in 13 out of 48 Months since Darling's inception

In those months:

- Cumulative losses for equities were -51.2%
- Cumulative losses for Darling Macro were -2.6%



EQUITY DIVERSIFICATION

Source: Darling Macro, S&P. Results are the Darling Macro track record. ASX200 is TR. S&P500 is hedged in AUD. As at end May 2021



# How did the Darling Macro Index perform during earlier periods of equity market stress?

Performance comparison during a crisis

Event	Period	ASX200 (%)	S&P500 (%)	Darling Macro Index (%)
Lehman collapse	Aug-Nov 08	-23.1	-24.5	1.4
Euro Sovereign crisis	May-Sep 11	-14.9	-17.0	-1.9
Gulf war 2	Dec-Mar 02/03	-4.4	-10.2	13.1
Sub prime crisis	Nov-Feb 07/08	-16.3	-10.2	37.7
9/11	Sep 01	-6.4	-8.2	11.4
Covid 19	Feb-Mar 20	-26.7	-19.6	-4.0

Largest Drawdown comparison

Prior period	Darling Macro Index (%)	ASX200 (%)
15 years	-21.5	-50.7

EQUITY DIVERSIFICATION

# Strong Track Record compared with Alternative Funds



As at 31 May 2021

3m return %	1yr return %	3yr return % pa	3yr Stdev %	3yr Sharpe	AUM \$m	APIR	Fund #
-------------	--------------	-----------------	-------------	------------	---------	------	--------

## Growth alternative funds

<b>Darling Macro Manager Track Record</b>	5.7	2.3	6.5	15.4	0.4			
P/E Global FX Alpha Fund	-2.9	-23.0	0.8	15.9	0.1	102	MAQ5143AU	41746
MAN AHL Alpha (AUD)	5.9	11.9	8.5	8.0	1.0	263	MAN0002AU	17475
GMO Systematic Global Macro Trust Class B	0.2	1.9	-1.1	7.8	-0.2	2,019	GMO0006AU	14830
Winton Global Alpha	5.1	0.5	-3.7	8.2	-0.5	445	MAQ0482AU	15811
Pinebridge Global Dynamic Asset Allocation	6.2	22.8	5.9	10.9	0.5	1,493	PER0731AU	40674
Ironbark GCM Global Macro	0.7	8.1	0.3	8.3	-0.0	154	DEU0109AU	5842
Bridgewater All Weather Australia Series 2	8.5	18.9	6.6	13.5	0.2	N/a	BPF0008AU	
Insight Diversified Inflation Plus	3.6	13.3	3.7	8.0	0.4	332	ETL0396AU	41442
Aspect Diversified Futures (Class A)	10.3	9.8	6.1	12.3	0.5	217	FSF1086AU	17744
<b>Average fund excluding Darling Macro</b>	4.2	7.1	3.0	10.3	0.2	628		

## Growth indices

Australian Equities	8.5	28.1	9.9
Global Equities	9.7	20.3	13.6

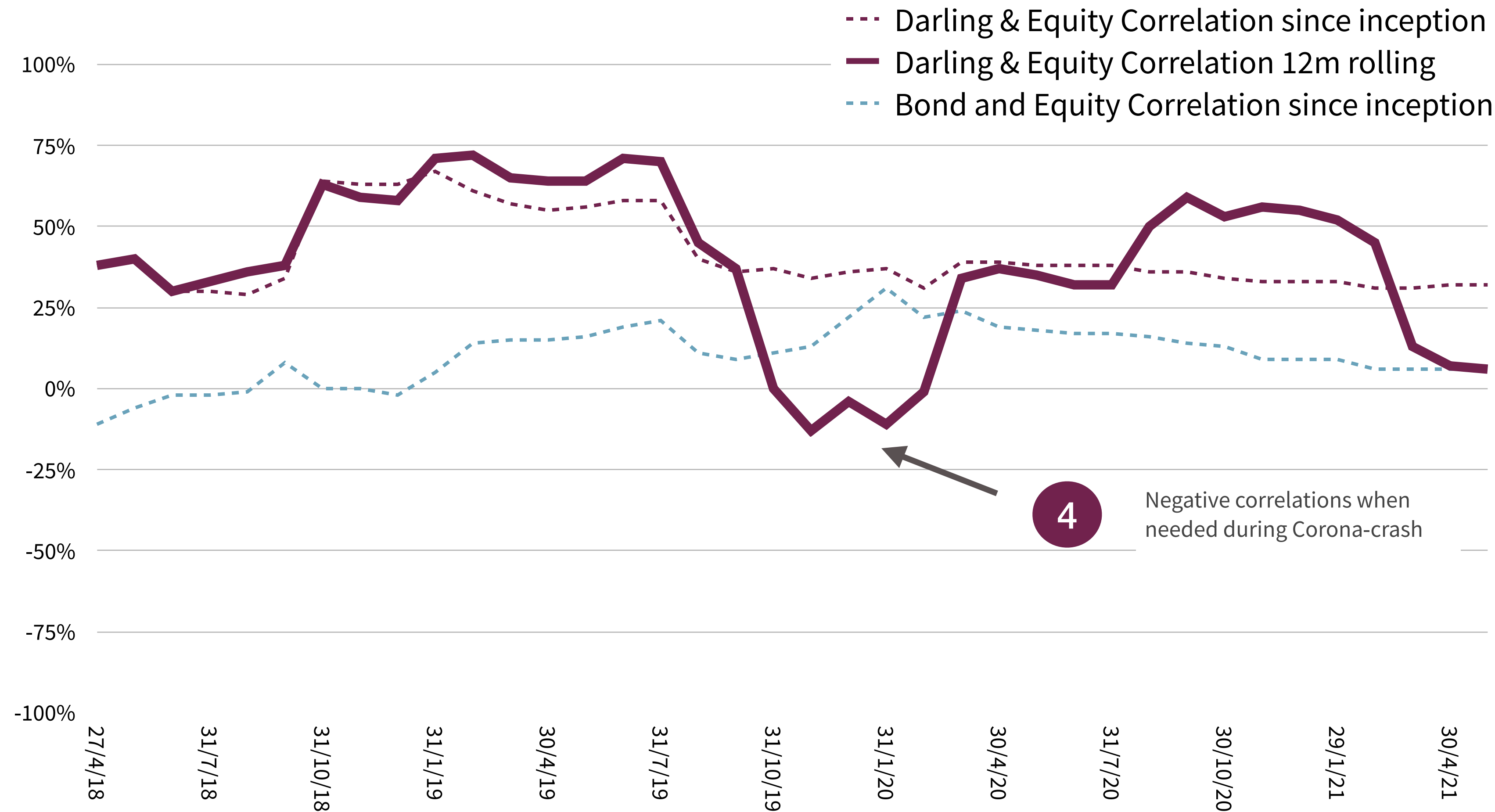
## Defensive indices

Australian Bonds	1.8	-1.4	4.4
Global Bonds	-0.1	-0.5	3.8
Liquid Alternatives (MySuper)	4.7	13.0	8.7

Source: Darling Macro, Morningstar, Money Management and fund websites. Not all funds have 3 year results. Results for the Darling Macro incorporate managed accounts from 1 July 2017 to 31 March 2019, and Darling Macro Fund from 1 April 2019 to date of report. StDev = Standard Deviation of monthly returns. Sharpe = Return-Cash/StDev. Australian equities is S&P/ASX 200 TR AUD, Global equities is MSCI World ex-Australia NR AUD, Australian Bonds is S&P/ASX Australian Fixed Interest, Global Bonds is BBgBarc Global Aggregate TR Hdg AUD, Liquid Alternatives is My Super benchmark. Growth alternatives have volatility >7%,. As at 31 May 2021.

# Low average correlations to equity, extra low when it mattered

4  
YEARS



- 1 Since inception correlation of Darling Macro with Equity is 32%.
- 2 Rolling 12 month Darling and Equity correlations range from -13% to 72%.
- 3 Since inception correlation of Bonds with Equity is 6% and Rolling 12 month correlations range from -23% to 47%.

4 Negative correlations when needed during Corona-crash

EQUITY DIVERSIFICATION



32 asset allocation strategies perform differently in each economic regime. Weights within strategies are dynamically rebalanced and optimal strategies are selected to form final portfolio



35 Markets

2-4 Markets per strategy

32 Strategies

3 Speeds

96 Strategy variations

30 Strategies selected



32 Strategies

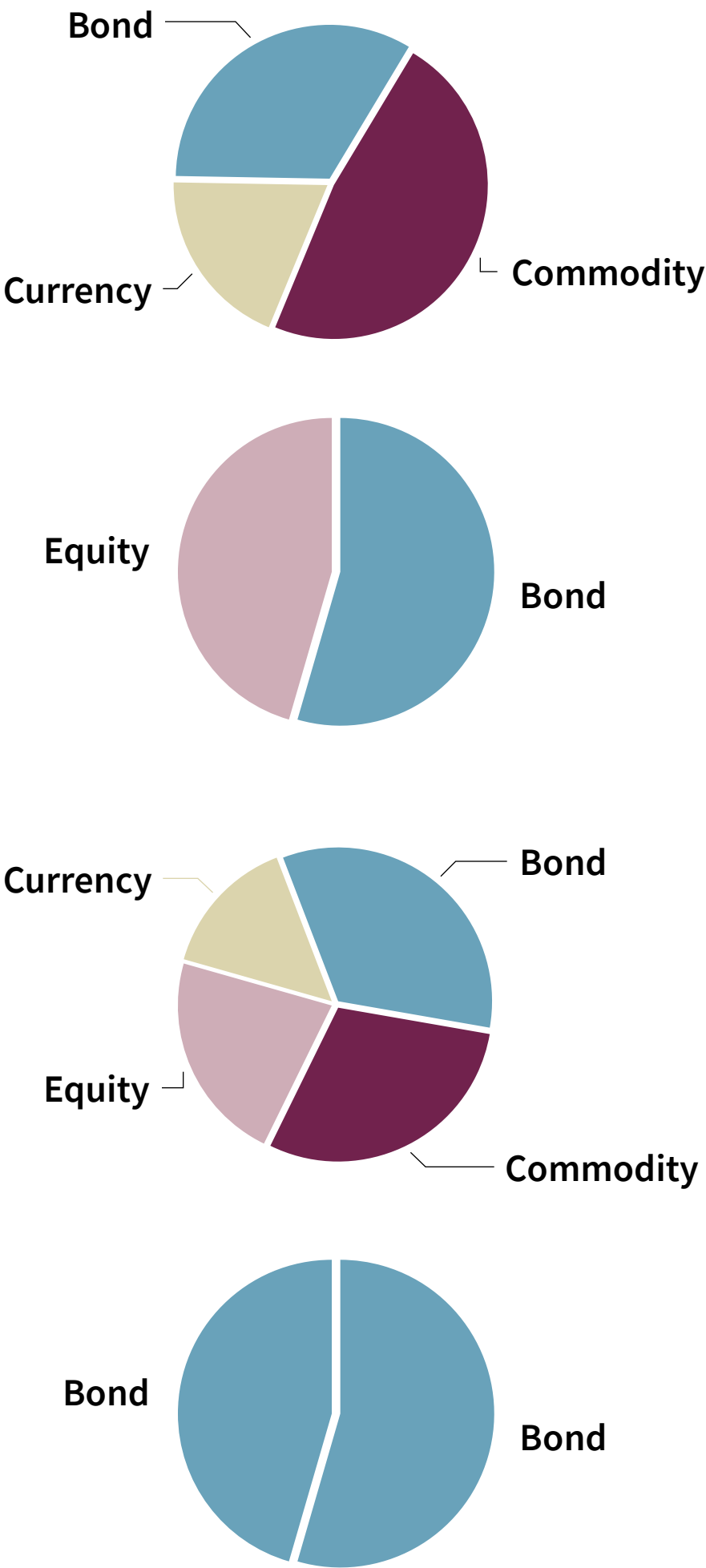
- Inflation signals

12 strategies  
( 2 - 4 markets)  
eg. Gold, Oil and Eurodollars
- Growth signals

15 strategies  
( 2 - 4 markets)  
eg. US Equities and Eurodollars
- Regional growth signals

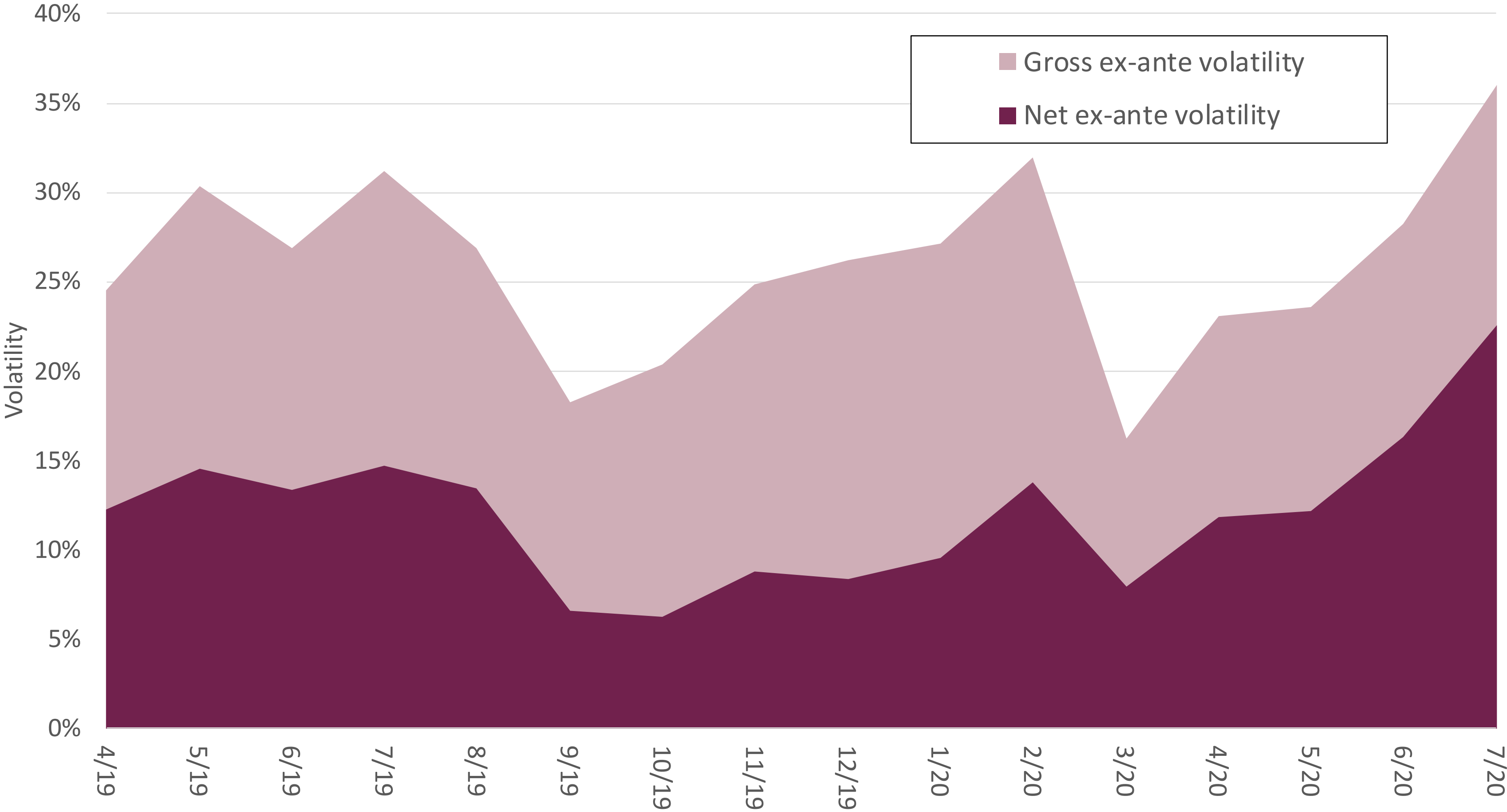
3 strategies  
(2 to 4 markets)  
eg. Gold, A\$, Aust bonds & equities
- Regional policy Strategies

2 strategies  
(2 to 4 markets)  
eg. US and German long and short bonds



Source: Darling Macro. Stagflation = negative bond and equity performance; Inflationary Growth = negative bond and positive equity; Deflationary Growth = positive bond and equity; Deflationary Bust = positive bond and negative equity.

# How does the Darling Macro Fund manage the risk budget without significant shorting?



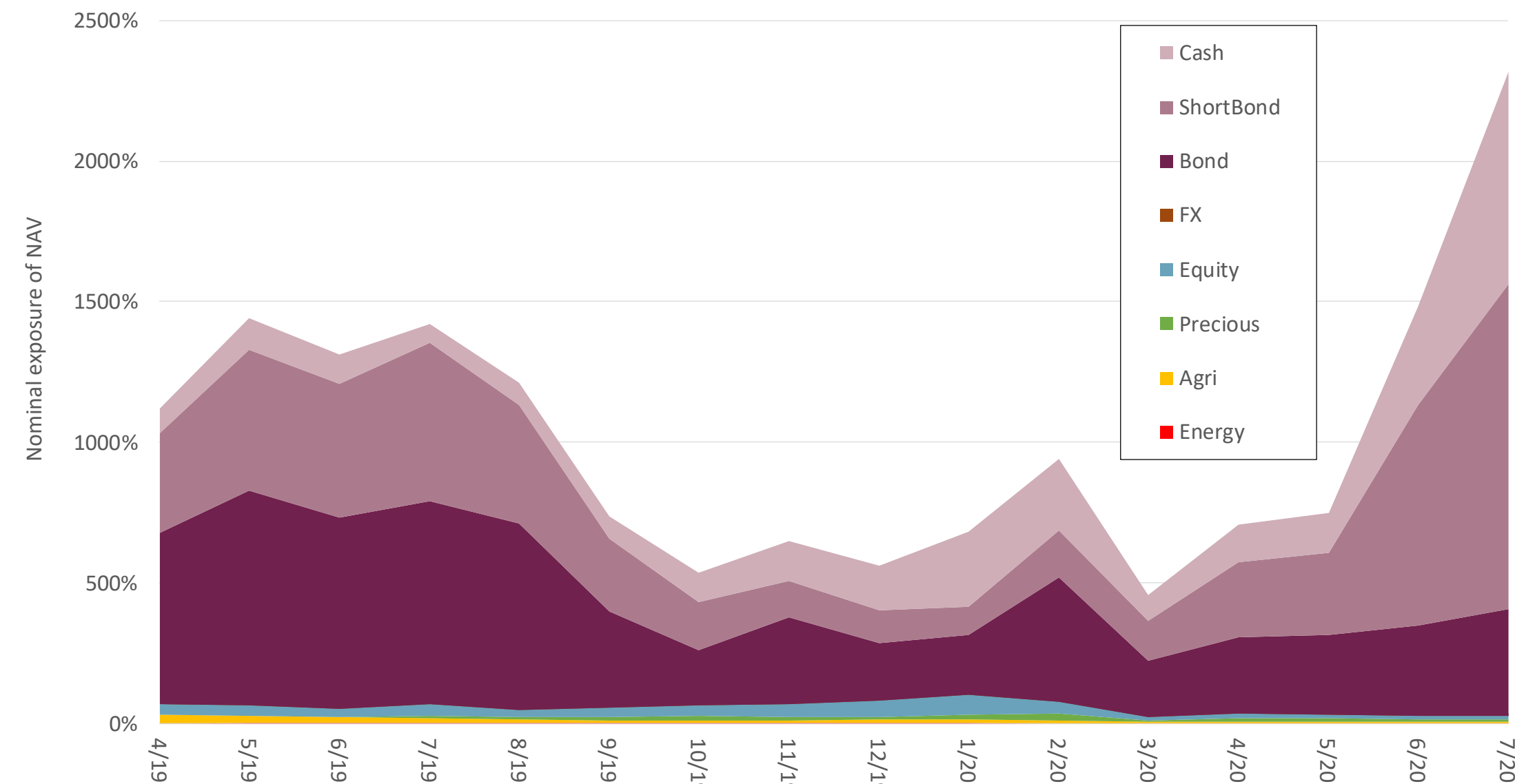
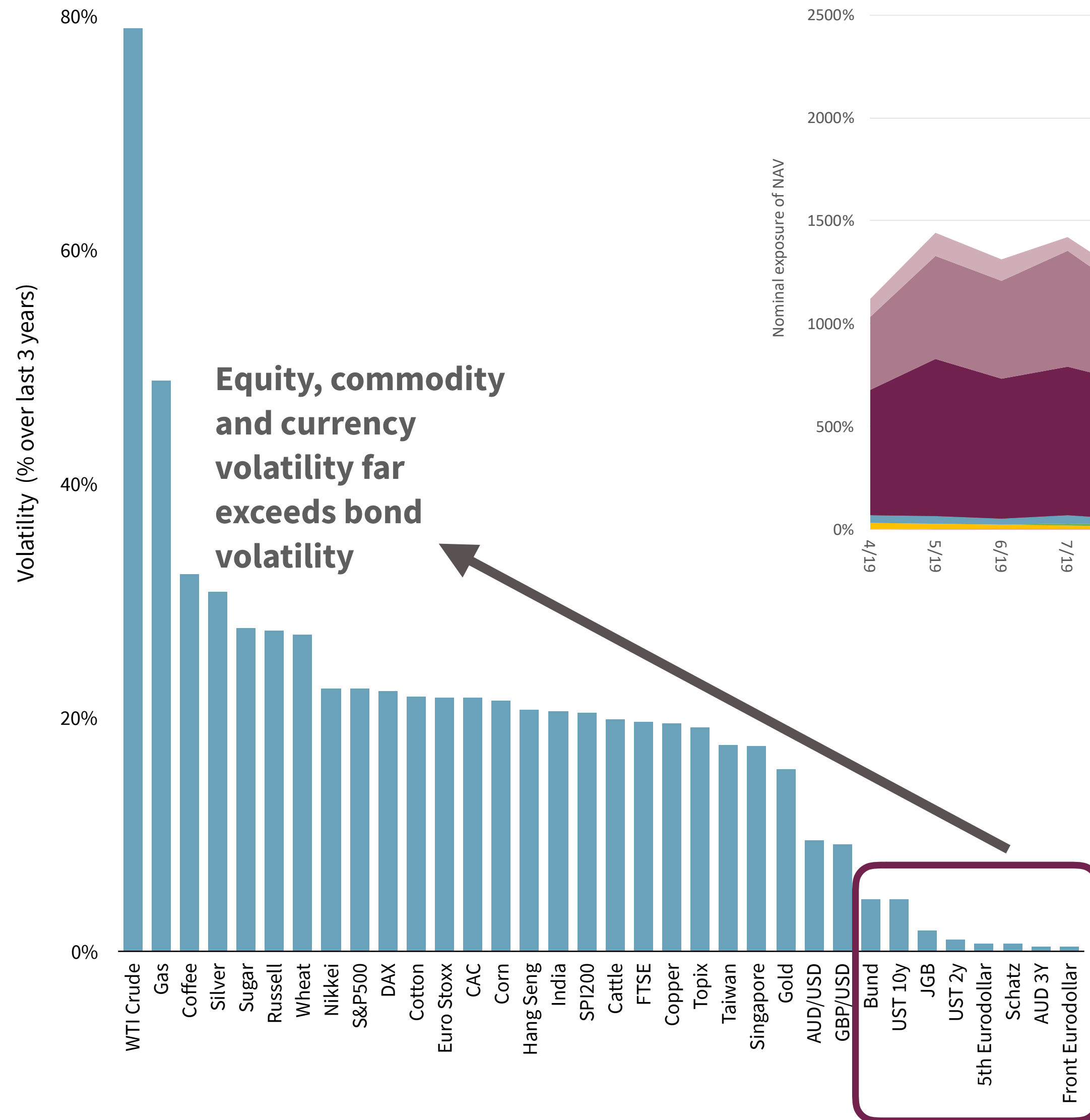
- 1 Net volatility takes account of diversification benefit.
- 2 Volatility shown as standard deviation using 24 months data.

Source: Darling Macro. Darling Macro Fund since fund inception.

# Darling Macro pursues volatility weighting methodology

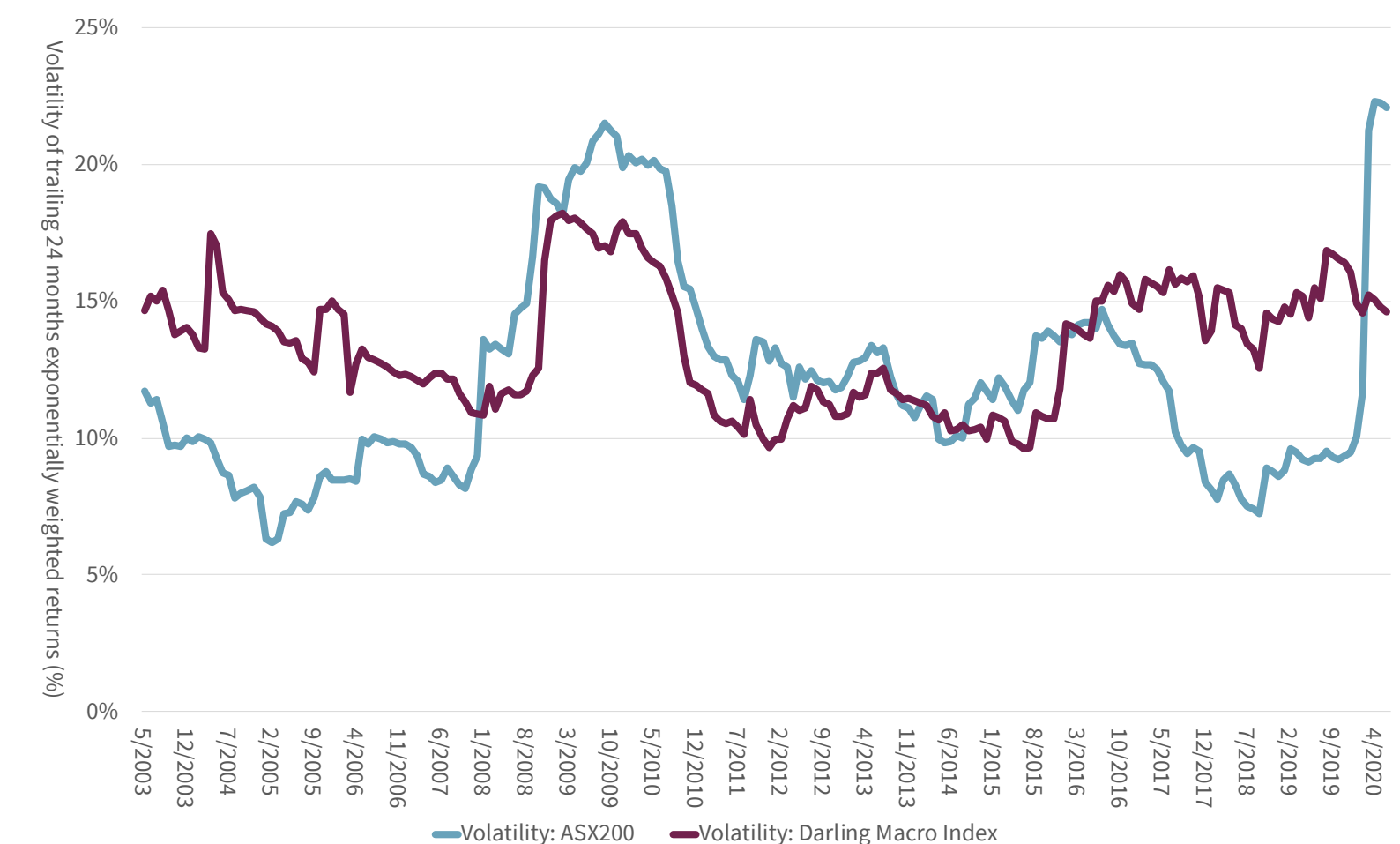
Leverage achieved through listed futures increases the risk contribution from short and long dated bonds to generate equivalent volatility of circa 15%, and total fund nominal exposure exceeds 100%

4  
YEARS



Majority of nominal exposure to cash, short and long dated bonds to “balance” the risk from FX, equity and commodity

Combination of higher weights to bonds together with equity, commodity and currency has resulted in volatility of c.15% and similar to ASX200 over medium to long term



# What is the Darling Macro Index?



## Key Features

Description	The Darling Macro Index (DMI) is designed to measure the performance of a hypothetical allocation to the Darling Macro investment strategy, calibrated at approximately 15% volatility
Objectives	<p>Annual volatility measured over the same 5-year rolling period is expected to be 15 % pa.</p> <p>Higher risk adjusted returns than static allocations to major developed bond, equity, commodity and currency markets.</p> <p>Low to moderate correlation to a strategic asset allocation of equities and bonds (70:30) over the medium term.</p> <p>Investible</p>
Launch date	March 2009
First value date	September 2000
Fees	Gross and net of fees is calculated
Costs	Costs of trading including rebalancing are incorporated
Calculation	Daily on Global Business Days where all relevant exchanges are open for trading



# Disclosures

This document is issued by 347 Darling Pty Ltd ABN (38 604 854 999), AFSL (491106) (“347 Darling”) on behalf of the Darling Macro Fund (“Fund”). 347 Darling is the Investment Manager of the Fund. The information provided in this document is general information only, does not constitute investment or other advice and is only for Wholesale Clients. The content of this document does not constitute an offer or solicitation to subscribe for units in the Fund or an offer to buy or sell any financial product. Accordingly, reliance should not be placed on this document as the basis for making an investment, financial or other decision. This information does not take into account your investment objectives, particular needs or financial situation. Neither 347 Darling nor the Fund accepts liability for any inaccurate, incomplete or omitted information of any kind or any losses caused by using this information. An Information Memorandum issued by 347 Darling dated 28th March 2019 is available for the Fund. Performance figures assume reinvestment of income. Past performance is not a reliable indicator of future performance. Performance comparisons are provided for information purposes only and are not a direct comparison against benchmarks or indices that have the same characteristics as the Fund or the Benchmark used to determine any performance fees payable to 347 Darling. Neither 347 Darling nor the fund guarantee repayment of capital or any particular rate of return from the Fund. 347 Darling does not give any representation or warranty as to the reliability, completeness or accuracy of the information contained in this document. All opinions and estimates included in this document constitute judgments of 347 Darling as at the date of this document and are subject to change without notice.