

darling macro fund. dmf.

July, 2019

About the fund

The Darling Macro Fund pursues a global macro strategy, which aims to dynamically allocate long and short exposure across many liquid markets within 4 major global asset classes: Equities, Bonds, Commodities and Currencies.

The objective of the Darling Macro Fund is to generate a risk adjusted positive return over the medium to long term, which is less correlated to the movements in core equity and bond allocations.

The fund is aiming to achieve:

1. A return of 9 % net of costs p.a. in excess of the Australian cash rate over a rolling 5-year period, as measured by RBA Cash Rate.
2. Annual volatility measured over the same 5-year rolling period is expected to be 15 % pa.
3. Materially lower drawdown risk than equities over the medium term.
4. Low to moderate correlation to a strategic asset allocation of equities and bonds (70:30) over the medium term.
5. Easily observable valuations and high liquidity.

| Performance | | 1 mth | 3 mth | 6 mth | Cytd | 1 Year | 3 Year | SinceInception |
|--------------------|------------------|-------|-------|-------|-------|--------|--------|----------------|
| Darling Macro Fund | Class A | 1.1% | | | 12.6% | | | 12.6% |
| | RBA Cash plus 9% | 0.9% | | | 3.5% | | | 3.5% |

Risk and Attribution

| | | | | | | | | |
|-------------------------|----------------------|-------|--|--|-------|--|--|-------|
| Volatility | | 11.9% | | | 13.2% | | | 13.2% |
| Correlations | SAA Index | -4.4% | | | 7.5% | | | 7.5% |
| Performance Attribution | Equity | 0.0% | | | 0.8% | | | 0.8% |
| | Bond | 1.0% | | | 12.1% | | | 12.1% |
| | Short Bond | -0.7% | | | 2.0% | | | 2.0% |
| | FX | 0.3% | | | 0.1% | | | 0.1% |
| | Agri | 0.4% | | | -2.5% | | | -2.5% |
| | Energy | -0.1% | | | -0.4% | | | -0.4% |
| | Other including cash | 0.0% | | | 0.2% | | | 0.2% |
| Risk allocations | Equity | -1.8% | | | | | | |
| | Bond | 97.8% | | | | | | |
| | FX & Commodity | 4.0% | | | | | | |

Notes:

Performance is net of all management fees
Risk and attribution is based on Class A performance
SAA Index is comprised 70% of equities and 30% bonds.
Refer to disclosures for important information
Refer to the Information Memorandum for further detail

Source: Darling Macro (347 Darling Pty Ltd AFSL 491106)

Commentary

A brief review of markets

Bonds fell and equities rose early in the month as investors digested the seemingly positive news about trade and also company earnings. However bonds rallied back as investors focussed on rate cuts from central banks.

6 months after changing direction on rates and creating a facade of data dependent patience, the US Fed cut rates in late July by 0.25%. Jay Powell signalled 'global factors' plus inflation outcomes which were below their target. He appeared to guide the markets expectations to three +/- cuts of 0.25% over a period of 6 - 9 months. Market reaction saw the yield curve flatten and inflation expectations sink - both signal increased probability of recession in the US and neither is a ringing endorsement of Fed policy. Further, the explicit linking of the trade dispute to rate cuts seems to give Trump the ability to now control monetary policy, which he took advantage of soon after by announcing further tariffs on Chinese goods.

Replacing Draghi at the ECB was a risk factor for European bonds given his strong support for negative rates and asset purchase programs. However the recruitment of Christine Lagarde who has voiced strong support for current ECB policy reduces the risk of a change in policy direction.

Risk allocations

The fund's risk allocation is tilted strongly to bonds, across the US, Germany and Japan.

Commentary

Performance and attribution

In July the Darling Macro Fund generated 1.1% after fees.

Performance was generated from Bonds 0.4%, Equity 0.0%, FX 0.3% and Commodities 0.3%.

For the month, 19 of the 32 strategies generated a positive return.

And finally.....

When we think about countries that exhibit soft consumer propensity to spend and investment due to high debt, regulatory scrutiny of the financial system, worries about trade and ineffective government fiscal policy, we could be talking about China or Australia. We continue to think that Chinese economic performance, in particular manufacturing and consumer demand is having a larger negative impact than realised on global trade and growth.

A no deal Brexit which would be messy and disruptive seems more likely as the deadline for agreement looms and Brexit.

Key Details

Type of fund: The Darling Macro Fund is an unregistered managed investment scheme for the purposes of the Corporations Act

Eligible investor: Any offer or invitation to acquire Units in the Darling Macro Fund will only be extended to a person if the person has first satisfied the Investment Manager and the Trustee that the person is a Wholesale Client.

Information Memorandum: The IM is dated 28 March 2019

Inception: 1 April 2019

Investment Management fees: Class A 1% pa of NAV. Class B 0.5% pa of NAV plus 10% of the cumulative performance of the Fund (after the Management Fee but before the deduction of Performance Fees (paid or accrued) above the Performance Hurdle.

Performance hurdle: RBA Cash Rate

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