darling macro fund.dmf.

August, 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	11.45%	22.46%		25.46%			25.46%
	Class B (2019-08-01)	10.35%			10.35%			10.35%
	RBA Cash plus 9%	0.82%	2.52%		4.24%			4.24%

Risk and Attribution

		1 mth	3 mth	6 mth	Cytd	1 Year	3 Year	SinceInception
Volatility		15.9%			13.9%			13.9%
Correlation	SAA Index	-13.5%			-2.2%			-2.2%
Performance Attribution	Equity	-1.5%			-0.8%			-0.8%
	Bond	12.5%			26.3%			26.3%
	Short Bond	1.7%			3.6%			3.6%
	FX	0.1%			0.2%			0.2%
	Agri	-1.4%			-3.9%			-3.9%
	Energy	0.0%			-0.4%			-0.4%
Risk allocations	Equity	-3.2%						
	Bond	98.6%						
	FX & Commodity	4.6%						

Notes:
Report re-issued 3 September 2020 to amend mis-stated RBA Cash objective
Class A inception 1 April 2019, Class B 2019-08-01 Inception 31 July 2019
Performance is net of all management fees and annualised for periods beyond 1 year
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 ….
Equity markets reversed course in August seemingly taking fright from poor economic data in Europe, the emergence of weak data in the US and ongoing negative rhetoric on the trade dispute.

Negative bond yields and curve inversion became topic "du jour" in the media as the rally in bonds was extended.

Volatility rose as equities fell, and while bond/equity correlations were negative over the month, the underlying trend has been for more positive correlation.

Interestingly low volatility and momentum US equity styles outperformed, which is consistent with the strong performance from our low volatility and momentum factors.

Risk allocations
The underlying asset allocations are dominated by Japanese, US and German bonds. This allocation has been in place since the end of 2018. While both equities and bonds plus gold have performed strongly since the start 2019, risk adjusted performance from bonds has dominated.

Commentary

Performance and attribution
In August, the Darling Macro Fund (Class A units) generated 11.5%, since inception the fund has returned 25.5%.

Performance was driven by Bonds 13.5%, Equity -1.5% and Commodities 0.3%.

For the month, 31 of the 32 underlying econmic strategies generated a positive return. Over a rolling 12 month period, 67% of monthly returns for the economic strategies were positive and 33% were negative.

Darling Macro Index
The Darling Macro Index measures the simulated performance of the investment strategy over a long period.

The Index has now rallied 44% since the drawdown of 8.5% in October 2018. This is an extraordinarily strong bounce back but is not indicative of the potential returns over the medium to long term.

Our protection overlay is designed to detect over-mature momentum cycles and dampen the potential for drawdown and increases in volatility. Significantly during August, the overlay protection signals indicated the maturation of the rally in bond yields. We have therefore partially reduced the bond positions.

The overlay cost the portfolio 0.8% during the month as bond yields continued to fall. However we believe the reduction in risk allocated to bonds is prudent.

And finally…..
In our collective experiences we have witnessed a sustained bias and preference by professional investors towards targeting the highest return assets, with less consideration of risk adjusted returns. We believe that several factors drive this bias and that this contributes to these investments offering lower risk adjusted returns over the long run. For example, in equity mandates, it is common to see a bias to small caps, growth and emerging markets and a bias against utilities and large caps, while in bond mandates, investment grade credit is preferred over sovereign, high yield is preferred over credit and everything is preferred over Japanese government bonds!. In contrast, we believe low risk assets are under appreciated and have the potential to offer higher risk adjusted returns and superior diversifying properties.

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

Disclaimer