

### Investment objective

Aims to provide positive returns of 3% to 5% per annum above Australian inflation<sup>1</sup> over the medium term (before fees). It also seeks to provide regular income.

<sup>1</sup> Defined as the Consumer Price Index (CPI) as measured by the Reserve Bank of Australia Trimmed Mean and as published by the Australian Bureau of Statistics.

### Key information

Fund details	
APIR code	MAQ3069AU
Inception date	30 September 2013
Fund size	\$361.3m
Distribution frequency	Monthly
Management fee*	0.70% pa
Minimum investment (Direct)	\$20,000
Unit prices and spreads	<a href="http://macquarie.com.au/unit_prices">macquarie.com.au/unit_prices</a>

\*Read the Product Disclosure Statement for more details on fees and costs.

### Fund statistics

Credit spread duration	2.1 years
Interest rate duration	2.5 years

### Fund performance to 28 February 2022

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)	Australian inflation
1 month (%)	-1.02	-1.07	0.01	-1.08	0.22
3 months (%)	-2.07	-2.24	0.01	-2.25	1.00
1 year (%)	2.76	2.05	0.03	2.02	2.62
3 years (% pa)	7.79	7.03	0.51	6.52	1.78
5 years (% pa)	6.68	5.89	1.05	4.84	1.75
Since inception (% pa)	5.76	4.95	1.58	3.37	1.91

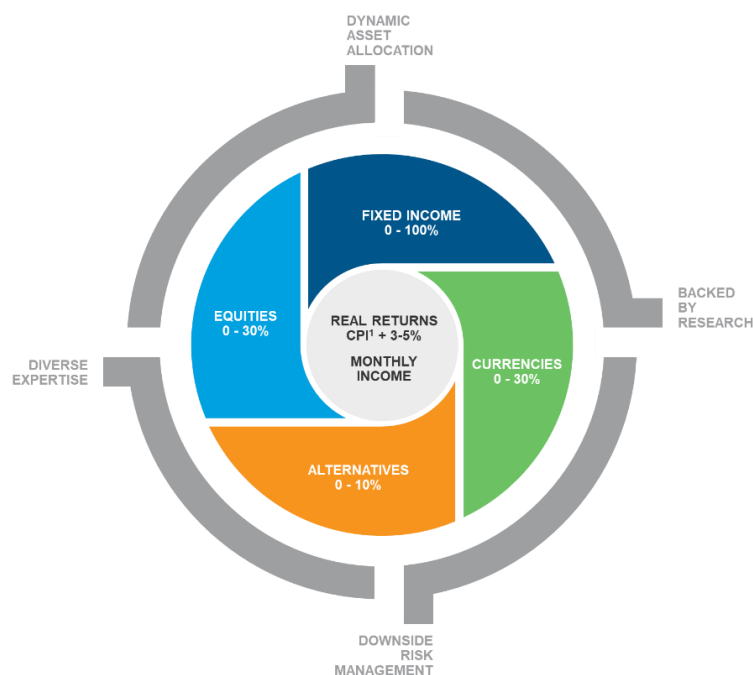
#### Past performance is not a reliable indicator of future performance.

Total returns are calculated based on changes in net asset values and assumes the reinvestment of distributions.

Total net Fund returns are quoted after the deduction of fees and expenses. Due to individual circumstances, your net returns may differ from the net returns quoted above.

Benchmark is Bloomberg AusBond Bank Bill Index.

### Asset allocation



Sector	Security type	Fund (%)
Fixed income and cash	Investment grade credit	37.0
	Structured securities	2.7
	High yield credit / Emerging markets debt	16.4
	Cash and government bonds	21.3
Listed equities	Australian equities	12.6
	International equities	5.2
Alternatives	Alternative assets	4.8

# Macquarie Real Return Opportunities Fund

Monthly report – 28 February 2022

## Fund performance and positioning

The Fund delivered a negative return over the month, which was driven by the Fund's allocation to both growth and defensive assets.

## Asset allocation changes

In February, international and Australian equities were mixed with heightened volatilities, detracting -2.8% and contributing 2.1%, respectively. With regard to fixed interest, the sector also delivered a negative result, returning -1.2% domestically and -0.9% offshore. February was a month of two halves. The first half continued the theme from January, where central banks were focusing on the current higher-than-expected inflation and either hiking or preparing the market for higher rates. However, geopolitical events intervened during the month as the conflict between Russia and Ukraine escalated. The combination of themes during the month caused volatility to rise across asset markets, and trading ranges for most assets were wide.

In our Fund, we maintained a low allocation to growth assets throughout February in anticipation of higher volatilities across asset markets. We expect the volatility experienced year to date in both defensive and growth assets is likely to persist for a significant period of time. This presents both opportunities and challenges for our Fund.

A fragile and volatile market tends to lead to larger mispricing's and greater market inefficiency. Thus, our portfolio construction aims to provide enhanced flexibility across multiple asset classes, in order to capture these opportunities as they arise. Throughout February, we established underweight position in European equities and overweight position in US and Australian equities. We also utilised option structures, aiming to capitalise on the rising volatility environment. Finally, we have increased our allocation towards alternative asset (four liquid hedge funds) to further enhance the Fund's level of diversification in an environment where traditional asset classes' expected return are falling with heightened volatilities. These positions aided in partially buffering drawdowns as well as reduced overall return volatility.

## Asset allocation strategy and outlook

As we welcome 2022, we have witnessed another black swan event – the escalating tension between Russia and Ukraine. Our thoughts are with the people impacted, and we hope for a swift resolution of the conflict. The impact of this geopolitical tension is likely to influence financial markets twofold. Firstly, via the uncertainty of further escalation and the corresponding global political dynamic and secondly via the impact of financial and political sanctions against Russia on the global economy. The increased geopolitical tension has created greater market tail-risk. However, we view a further significant escalation as unlikely, and have positioned the Fund accordingly.

Despite this, we expect the severe financial and political international sanctions against Russia will likely persist regardless of the severity or duration of the conflict. We expect these sanctions will likely impair the Russian economy, interrupt global supply chains and lead to higher commodity prices. In turn, this may lead to weaker global growth and more persistently high global inflation via further interruptions to the global supply chain. The geopolitical conflict coupled with the COVID-19 pandemic may create higher, more persistent inflation than we originally anticipated.

In terms of the removal of accommodative central bank policies, we see anticipate dual impacts. Firstly, in a financial system with a significant level of debt and declining fundamentals, a rise in interest rates has only a few probable outcomes – namely, increased credit risks, as refinancing risks rise, and downward pressure on earnings, which may weaken economic growth as well as the labour market. These possible outcomes, coupled with abnormally high asset valuations, could result in an eventual “bubble burst”. Secondly, in a more complex setting, we also need to examine the impact on real interest rates (nominal interest rates minus inflation) in a rising nominal interest rate and rising inflation environment. In theory, in an environment where the nominal interest rate increases at a slower pace than inflation (i.e. real interest rates to fall), the overall impact to credit growth will be positive, if corporate earnings and wages continue to grow in line with inflation. This is because borrowers will be able to ‘inflate the debt away’ despite a higher nominal interest rate. Conversely, if the nominal interest rate were to rise faster than inflation, real interest rates will increase, which will be contractionary to credit markets and economic activities in general. We believe that, due to the significant level of debt in the system, a moderate increase in nominal interest rates will likely be an effective curb to inflation. It will subsequently lead to a rise in the real interest rate, which may become a headwind to economic recovery, corporate earnings as well as the health of credit market in the long run.

Ultimately, we think the outlook for returns in both growth and defensive asset will be challenged in 2022. Furthermore, uncertainties in inflation in a rising interest rate environment will likely spark higher volatility. In navigating this uncertain environment, we continue to implement a diversified portfolio, including an expanded allocation to alternatives, as well as adopting a highly flexible asset allocation process.

# Macquarie Real Return Opportunities Fund

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**For more information speak to your financial adviser, call us on 1800 814 523, email [mim.clientservice@macquarie.com](mailto:mim.clientservice@macquarie.com) or visit [macquarie.com](http://macquarie.com)**

## **Important information**

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