

Macquarie Real Return Opportunities Fund

(formerly Macquarie Multi-Asset Opportunities Fund)

Monthly report – 31 March 2022

Investment objective

Aims to provide positive returns of 3% to 5% per annum above Australian inflation¹ over the medium term (before fees). It also seeks to provide regular income.

¹ 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	\$372.3m
Distribution frequency	Monthly
Management fee*	0.70% pa
Minimum investment (Direct)	\$20,000
Unit prices and spreads	macquarie.com.au/unit_prices

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

Fund statistics

Credit spread duration	2.2 years
Interest rate duration	2.2 years

Fund performance to 31 March 2022

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)	Australian inflation
1 month (%)	-0.28	-0.33	0.00	-0.33	0.22
3 months (%)	-3.41	-3.57	0.01	-3.58	1.00
1 year (%)	1.17	0.47	0.04	0.43	2.62
3 years (% pa)	7.19	6.45	0.46	5.99	1.78
5 years (% pa)	6.42	5.64	1.02	4.62	1.75
Since inception (% pa)	5.66	4.86	1.56	3.30	1.91

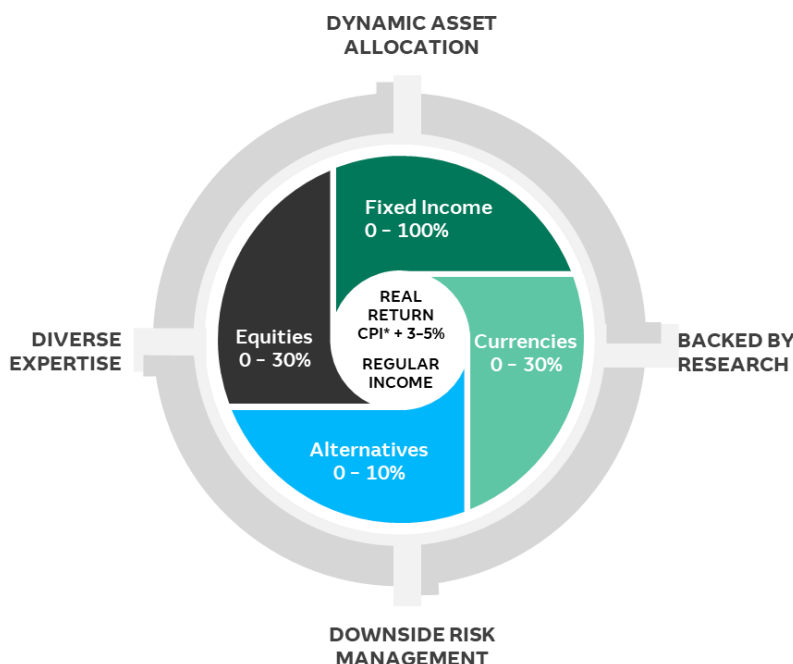
Past performance is not a reliable indicator of future performance.

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	37.6
	Structured securities	2.6
	High yield credit / Emerging markets debt	16.2
	Cash and government bonds	22.1
Listed equities	Australian equities	9.7
	International equities	4.5
Alternatives	Alternative assets	7.3

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Fund performance and positioning

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

Asset allocation changes

In March, international and Australian equities performed positively, albeit with heightened volatilities, returning +2.9% and +6.9%, respectively. With regard to fixed interest, the sector delivered a negative result, returning -3.7% domestically and -2.2% offshore. Market participants continue to digest the economic impact from the Russia-Ukraine conflict, renewed public health measures in China and accelerating monetary policy trajectories of central banks. Throughout March, we continued to observe significant volatility across different asset markets, with trading ranges for most assets.

In our Fund, we maintained a low absolute allocation to growth assets throughout March in anticipation of higher volatility across asset markets. The option structures employed within the Fund aided in capitalising on changes in market volatility. However, whilst the Fund gained from the equity sector allocation, performance was offset by the detraction from the Funds defensive asset holdings. 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 continues to present 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 March, we reduced our underweight position in European equities and continued to accumulate equities particularly in Australia and US. As equity volatility stabilised towards the end of the month, we acquired put option protection to manage the Fund's downside risks. These positions aided in partially buffering drawdowns as well as reducing overall return volatility.

Asset allocation strategy and outlook

With the first quarter of 2022 at an end, we have witnessed another black swan event – the escalating tension between Russia and Ukraine. 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. Importantly, we have observed significant price movements in commodities, rates as well as currency markets. There are complex reason behind these price movement such as demand/supply imbalances, inflation expectations and inventory management. Nevertheless, these significant price movements are indicating to us that tail risks are rising in the global economy and asset markets.

We continue to 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 persistently higher global inflation via further interruptions to the global supply chain. Furthermore, COVID-19 continues to trigger significant public health measures in China. As we have learnt from the past 2 years, public health measures (such as lockdowns) tend to weaken economic activities in the short term, generate supply crunches and subsequently inflationary pressures. The geopolitical conflict, coupled with the COVID-19 pandemic may create higher and more persistent inflation than we originally anticipated.

In terms of the removal of accommodative central bank policies, we anticipate dual impacts. Firstly, in a financial system with a significant level of debt and moderating fundamentals, a rise in interest rates can lead to 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'.

Ultimately, we expect the outlook for returns in both growth and defensive asset will be challenged in 2022. We view the risk of a significant risk-aversion event as rising. However, given the current level of very low risk-free rates as well as the strong corporate earnings and economic fundamentals, we expect growth assets to continue to deliver positive returns in near term, despite with higher volatility. In navigating this uncertain environment, we continue to implement a diversified portfolio, including an expanded allocation to alternatives, whilst adopting a highly flexible asset allocation process.

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For more information speak to your financial adviser, call us on 1800 814 523, email mim.clientservice@macquarie.com or visit macquarieim.com

Important information

Macquarie Investment Management Australia Limited ABN 55 092 552 611 AFS Licence 238321 is the issuer of units in, and responsible entity of the Fund. Macquarie Investment Management Global Limited ABN 90 086 159 060 AFSL 237843 is the investment manager of the Fund.

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