

# Macquarie Real Return Opportunities Fund

(formerly Macquarie Multi-Asset Opportunities Fund)

Monthly report – 31 May 2022

## 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	\$392.9m
Distribution frequency	Monthly
Management fee*	0.70% pa
Minimum investment (Direct)	\$20,000
Unit prices and spreads	<a href="https://www.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	2.0 years
Interest rate duration	3.0 years

## Fund performance to 31 May 2022

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)	Australian inflation
<b>1 month (%)</b>	-0.49	-0.55	0.03	-0.58	0.30
<b>3 months (%)</b>	-2.25	-2.42	0.02	-2.44	1.40
<b>1 year (%)</b>	-2.57	-3.25	0.05	-3.30	3.65
<b>3 years (% pa)</b>	5.80	5.07	0.36	4.71	2.11
<b>5 years (% pa)</b>	5.65	4.87	0.97	3.90	1.93
<b>Since inception (% pa)</b>	5.30	4.51	1.54	2.97	2.03

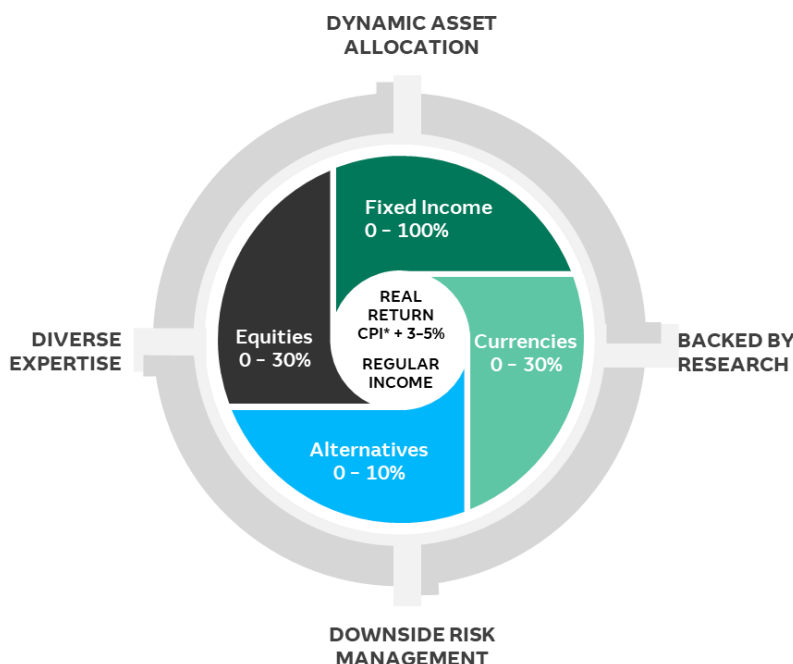
### Past performance is not a reliable indicator of future performance.

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	38.0
	Structured securities	3.2
	High yield credit / Emerging markets debt	12.4
	Cash and government bonds	19.1
Listed equities	Australian equities	6.7
	International equities	11.1
Alternatives	Alternative assets	9.5

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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 both growth and defensive assets.

### Asset allocation change

In May, international and Australian equities performed negatively with significant volatility, detracting -0.9% and -2.8%, respectively. With regard to fixed interest, the sector continued to deliver a negative result, returning -0.8% domestically and -0.6% offshore. Our hedged international infrastructure and property exposure delivered a mixed result, contributing 2.0% and detracting -4.7% respectively. Market sentiment continued to dampen driven by the economic impact from the Russia-Ukraine conflict, renewed public health measures in China and monetary policy trajectory. Throughout May, we continued to observe significant volatility across different asset markets, with wide trading ranges for most asset classes.

In May, we continued to dynamically manage the funds equities exposure. We tactically accumulated US equities throughout the month as market started to weaken. The option structures employed by the Fund helped capitalise on changes in market volatility.

We expect the volatility experienced year to date in both defensive and growth assets to persist for a significant period of time. As a result, we are poised to position the Model Portfolio defensively in the coming months. It is important to emphasise that the defensive bias in our portfolio positioning is strategic and will persist for a significant period of time. Tactically, we continue to focus on managing asset allocation in order to capture opportunities or protect capital. Within our growth asset exposure, we have reduced the Model Portfolio's Australian equities allocation as a step towards shifting the strategic asset allocation more defensive. In the coming months, we expect to further reduce our allocation to growth assets.

### Asset allocation strategy and outlook

Throughout 2021 and early 2022 we have remained alert to two major risk factors. First, the risk of stagflation and second, the risk of further public health measures to curb COVID-19 in China. In our view, both risks have materialised, and are likely to have a significant impact on the global economy, the current world order, living standards around the globe, and global asset prices. In our view, the likely outcome of these two risks materialising is a notable decline in living standards and an increase in poverty rates. We expect these to subsequently elevate the risks of social unrest, dampening economic activity and asset valuations globally.

We expect significant global supply chain disruptions to continue due to the ongoing Russia-Ukraine conflict, as well as the lockdown in Shanghai. Whilst we don't have a strong view with respect to the trajectory of the Russia-Ukraine conflict, it appears likely to persist for some time. In China, so long as the 'dynamic zero' policy is enforced, we expect further large-scale lockdowns in major Chinese cities to be inevitable and frequent. As a result, we expect current shortages in products such as silicon chips and cars to persist, if not worsen. We also anticipate that shortages in various essential products, such as fertilisers, wheat, cooking oils and rice, will eventually emerge. With respect to essential supplies, various countries may be incentivised to stockpile supplies amidst shortages and elevated prices. In May, we observed an increase in food export bans globally. For example, Malaysia canned poultry export, India limited sugar exports, whilst 20 countries imposed wheat export bans. Such export bans are inflationary, and the non-discretionary nature of these products will ultimately result in the overrepresentation of staple expenditure within household budgets, dampening global consumption and growth. This, in our view, greatly elevates the risk of a severe global stagflation scenario materialising.

Market participants continue to price in the aggressive removal of accommodative central bank policies. In a financial system substantially loaded with debt, coupled with declining fundamentals, a rise in interest rates will likely lead to increased credit risks, and downward pressure on corporate earnings, which may weaken economic growth and labour markets. When coupled with abnormally high asset valuations, this may result in wide-spread downward revaluations across all asset classes. However, in our opinion, it is unlikely that global central banks will be able to hike rates aggressively due to the size of debt and weakening demand. As a result, we see opportunities emerging within fixed income markets pertaining to the current level of interest rates and the shape of the yield curve.

Developments in the month of May continue to reinforce our view that the outlook for returns in both growth and defensive assets will be challenged in 2022, necessitating the positioning of the Model Portfolio in a more defensive manner in the coming months. Uncertainties for 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, adopting a highly flexible asset allocation process, with a view to notably increase the allocation to fixed income securities in the coming months, as these begin to offer increasingly attractive yields.

Whilst we see significant challenges in the coming months, we will continue to use all the tools that we have in our disposal to combat these challenges and aiming achieve the long-term portfolio objective.

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