

# Macquarie Real Return Opportunities Fund

(formerly Macquarie Multi-Asset Opportunities Fund)

Monthly report – 30 September 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	\$429.3m
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 duration	1.8 years
Interest rate duration	4.2 years

## Fund performance to 30 September 2022

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)	Australian inflation
<b>1 month (%)</b>	-1.67	-1.73	0.15	-1.88	0.41
<b>3 months (%)</b>	0.37	0.19	0.42	-0.23	1.50
<b>1 year (%)</b>	-7.24	-7.89	0.52	-8.41	4.99
<b>3 years (% pa)</b>	3.32	2.60	0.38	2.22	2.62
<b>5 years (% pa)</b>	4.95	4.19	0.95	3.24	2.22
<b>Since inception (% pa)</b>	4.79	3.99	1.53	2.46	2.19

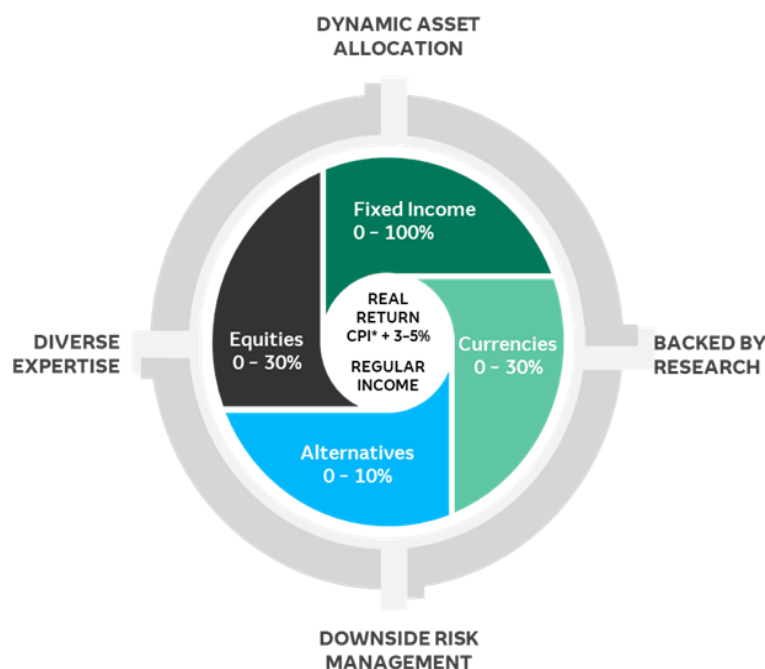
**Past performance is not a reliable indicator of future performance.**

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	43.7
	Structured securities	3.0
	High yield credit / Emerging markets debt	10.7
	Cash and government bonds	29.0
Listed equities	Australian equities	4.2
	International equities	-0.4
Alternatives	Alternative assets	9.8

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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 changes

In September, hedged international and Australian equities delivered a negative return with increased volatility, detracting -8.9% and -6.0%, respectively. With regard to fixed interest, the sector also delivered a negative result, returning -1.3% domestically and -3.4% offshore. Market sentiment weakened significantly towards the end of the month, driven by a more hawkish monetary policy than expected.

In September, investment sentiment was significantly impacted by higher than expected inflation in the US, multiple 'jumbo' rate hikes across several major central banks as well as an escalation of the Russia/Ukraine conflict. Broadly, the outcome of these developments was in line with our outlook for a continued deterioration in investment sentiment and macro-economic conditions.

Regarding the macro backdrop, there are a range of factors which in our view are likely to contribute to a weakening of economic conditions. First, significant increases in energy prices in Europe, compounded by a weaker Euro against the USD, and rising risk-free rates has the potential to present the greatest set of economic challenges for Euro region since the financial crisis of 2008. Second, the Chinese economy is slowing due to COVID-zero policies, which in turn will weaken global growth. Third, the US Federal Reserve (Fed) is unlikely to achieve its 2-3% price stability target in the coming months (explored further in the outlook section) and as a result, we expect the Fed will continue to increase interest rates rapidly. Ultimately, this translates to a strong USD, tighter credit conditions, weaker economic activity and lower asset prices.

Since the beginning of 2022, we have adopted a very cautious approach to asset allocation. The rapid deterioration in macro-economic conditions, exacerbated by unforeseeable geopolitical tension, extreme weather events such as the droughts in Europe and China, and the persistence of COVID-19 pandemic controls in China, have all brought forward the timeline and heightened the probability of a global economic recession. As such, we continue to expect elevated downside risks for growth assets to persist in the foreseeable future. In the short term, we also envision elevated volatility and downside risks in fixed income markets. However, we expect fixed income to outperform should unemployment climb, and market participants begin to appropriately price the risk of a global recession. We expect that the Model Portfolio may experience heightened volatility given the current market conditions. In response, we have maintained our asset allocation within the Model Portfolio to near-maximum defensiveness. It is important to note that our defensive bias will likely persist for a significant period of time, unless the trajectory of global monetary tightening becomes notably less aggressive.

## Asset allocation strategy and outlook

In September, upon the release of the US Consumer Price Index (CPI), Fed Chairman Jerome Powell's press conference had important implications to our outlook. With the US CPI climbing north of 8% YoY in September, it is reasonable to conclude that the Fed is not yet on track to achieve its price stability target of 2% - 3%. Importantly, with current US wage growth at 6%+, it is also fair to say that the federal reserve will not achieve its price stability target in the coming months. These observations offer us two important implications. First, the Fed will keep increasing the federal funds rate, or the rate will at least remain elevated for quite some time. Second, given elevated wage growth, the most likely means to curb inflation will be via a notable increase in unemployment. This is consistent with our view that economic growth indicators are already weakening, and a continued, rapid upward movement of risk-free rates will inevitably lead to weaker labour market as well as a further deterioration in economic growth.

We expect this to be a painful experience for both businesses and households. Businesses will suffer from declining margins as costs inflate rapidly, and revenues fall from weakening demand. Households will need to endure a higher cost of living, higher mortgage repayments, and possible job losses.

Equity, fixed income and currency markets have started to price these scenarios. However, it will be some time before the pain is truly felt in the real economy. In our view, when this scenario materialises in the real economy, central banks may pivot to more accommodative monetary policies. This may provide a catalyst for a shift in our asset allocation strategy towards a more aggressive stance, meaning a completely turnaround from an underweight bias to growth asset to an overweight bias.

We continue to anticipate faster and sharper cash rate movements and have indicated previously that higher, faster increases in cash rates will elevate the probability of a global recession and speed up the pace at which it unfolds. With several major developed markets currencies having depreciated significantly against the US dollar in recent months, and weaker liquidity across global markets, we believe the likelihood of a possible negative tail risk event have increased significantly and will continue to increase as the rate rises. Our portfolio's overweight bias towards fixed income asset in short term will increase portfolio volatility due to uncertainties associated with inflation. However, we expect losses generated by Australian fixed income asset is limited due to the size of household debt. In the medium term, fixed income offers attractive income and more importantly, in our view, fixed income assets will act as a significant capital buffer should one of these unforeseeable events and/or global recession unfold.

We anticipate further market volatility ahead in the coming months, as each economic data print is likely to be closely watched for clues on how it may impact monetary policy decisions and trigger subsequent repricing of recession risk. We are maintaining a focus on protecting the downside. We believe that this mentality is appropriate based on our expectations for inflation, monetary policies, and economic growth.

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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 AFSL 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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