

Macquarie Real Return Opportunities Fund

(formerly Macquarie Multi-Asset Opportunities Fund)

Monthly report – 30 November 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	\$472.8m
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 duration	1.6 years
Interest rate duration	4.4 years

Fund performance to 30 November 2022

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)	Australian inflation
1 month (%)	0.93	0.87	0.25	0.62	0.50
3 months (%)	0.94	0.79	0.64	0.15	1.80
1 year (%)	-4.39	-5.01	1.01	-6.02	6.14
3 years (% pa)	3.89	3.19	0.49	2.70	3.06
5 years (% pa)	4.98	4.24	0.99	3.25	2.48
Since inception (% pa)	5.00	4.21	1.56	2.65	2.33

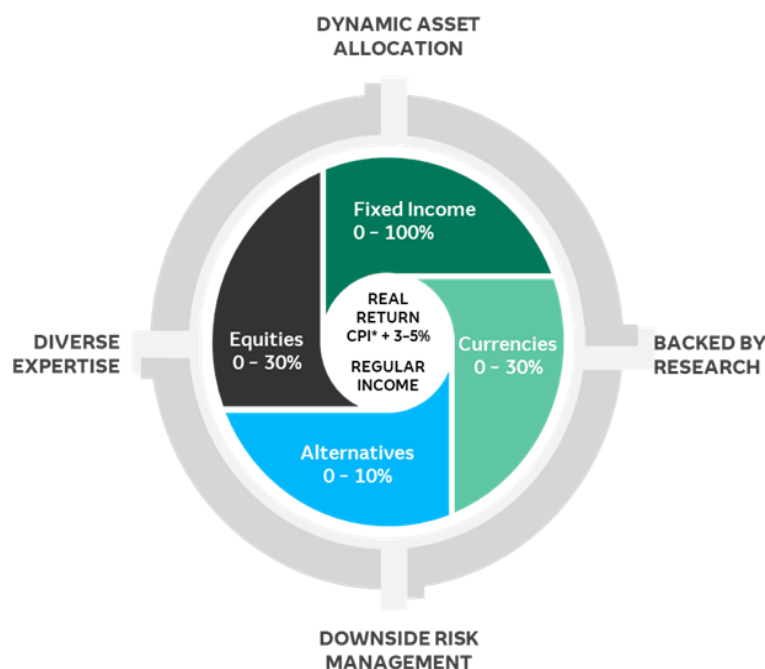
Past performance is not a reliable indicator of future performance.

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	40.3
	Structured securities	3.2
	High yield credit / Emerging markets debt	10.5
	Cash and government bonds	30.6
Listed equities	Australian equities	4.8
	International equities	0.7
Alternatives	Alternative assets	9.9

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Fund performance and positioning

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

Asset allocation changes

In November, hedged international equities and Australian equities delivered strong performance, albeit with increased volatility, contributing +6.5% and +5.4%, respectively. With regard to fixed interest, the sector also delivered a positive result, returning +1.6% domestically and +2.0% offshore.

Investment sentiment continued to improve in November. The positive sentiment was driven by a lower-than-expected inflation, speculation that the pace of rate hikes might moderate in the US, and the prospect of a re-opened China.

Within our Fund we retained our highly defensive positioning, continuing to anticipate the potential for significant downside risk to growth assets. It is important to note that our defensive bias is strategic in nature and as such is likely to persist for some time, unless the trajectory of global monetary tightening becomes notably less aggressive.

We acquired put option protection on Australian equities through the dynamic active core as market valuations improved and volatilities declined. This movement translated into a more defensive stance in our Fund positioning and is in-line with our long term strategic bias.

Asset allocation strategy and outlook

As we prepare to farewell a challenging 2022 and welcome the upcoming holiday season, we observed a marked improvement in market sentiment. This was driven by a trio of assumptions – that the pace of interest rate increases from the U.S. Federal Reserve (Fed) will slow, that inflation has finally peaked, and that China will re-open.

Regarding the pace of hiking from the Fed, a slow-down in the rate of hiking was always a logical evolution of monetary policy, with the Fed unable to hike 75bps each meeting into perpetuity. In our view, while the quantum and frequency of rate hikes is interesting, the “terminal rate”, or the level of interest rates where the central bank will stop hiking, is far more material in determining economic outcomes and asset prices throughout each rate cycle. A higher terminal rate implies tighter financial conditions, higher cost of borrowing for businesses and higher mortgage service costs for households. This translates into weaker earnings, higher unemployment and lower consumption. Currently, the market is pricing a terminal rate of 5.0% in the US and 3.6% in Australia. In our view, interest rates of this level are sufficiently high enough to create demand destruction, should they eventuate.

On the assumption that inflation has peaked: Short-term indicators appear to be pointing to a peak in inflation. However, a more nuanced assessment requires consideration of the Fed's breakdown of core inflation – core goods inflation, housing services inflation and inflation in core services other than housing. The Fed's own commentaries on these appear to be showing a more mixed picture. Core goods inflation is moderating, housing services and core services less housing are rising and staying at stubbornly elevated levels with an anticipation that housing service inflation may subside (mainly rents). We agree with the Fed. It is also clear that inflation will stay higher than the central banks' 2-3% inflation target, for a significant period. We have recently observed a period of lower-than-expected inflation data triggering a repricing, implying expectations that terminal interest rates will be lower globally. While the prospects of a continued moderation in inflation without a recession (a soft-landing) will be a welcomed scenario for global markets, we are starting to see early signs of demand destruction instigated from the level of current interest rates. As a result, we believe that the 'soft landing' scenario is unlikely.

On the prospects of a re-opened China - Given the dynamic zero policy in China is no longer a sustainable policy due to the high transmissibility of the COVID-19, China will have to consider the prospects of acute stress being placed on its public health system, and it will be forced to contend with the long-term impact of COVID-19 becoming part of normalcy, much like the rest of the world. A re-opened China will almost certainly improve the previously depressed investment sentiment. However, we are less certain about its impact to long term macro-economic development. For example, the acute impact to the Chinese health care system, the potential emergence of new Covid-variants and the on-going health care burden due to the aging populations. Whilst the long term outcome is uncertain, we view this development as positive to global growth and asset prices.

Our takeaway from the current state of play is two-fold. First, the risk of continued increases in the rate of inflation has reduced. Second, elevated inflation, while less likely to increase further, will be more persistent than we had initially anticipated. We have previously commented that we believed higher, faster increases in cash rates may elevate economic and geopolitical risks across the globe. 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 negative tail risk event has increased significantly as cash rates have crept higher. We see these risks as being compounded by expectations of a higher peak in interest rates, which will also be expected to persist for longer. To sum up, the macro-economic developments in November continue to reinforce our market outlook, specifically that significant downside risks to growth assets remain.

In 2022, market focus was dominated predominately by inflation, as well as the pace and speed of rate hikes. In our view, the real concern going forward into 2023 is going to be the growth outlook and corporate earnings instead of inflation. Ultimately, we anticipate further market volatility in 2023. We are maintaining a focus on protecting the Fund against downside risks. We believe that this mentality is

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appropriate based on our expectations for inflation, monetary policies, and economic growth and will help investors navigate 2023, which we expect to pose further challenges but overall has the potential to deliver a more prosperous year.

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