

Macquarie Real Return Opportunities Fund

(formerly Macquarie Multi-Asset Opportunities Fund)

Monthly report – 31 December 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	\$494.1m
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	1.5 years
Interest rate duration	3.7 years

Fund performance to 31 December 2022

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)	Australian inflation
1 month (%)	-1.51	-1.57	0.25	-1.82	0.50
3 months (%)	1.12	0.94	0.74	0.20	1.80
1 year (%)	-6.82	-7.47	1.25	-8.72	6.14
3 years (% pa)	3.45	2.73	0.55	2.18	3.06
5 years (% pa)	4.64	3.89	1.01	2.88	2.48
Since inception (% pa)	4.78	3.99	1.57	2.42	2.33

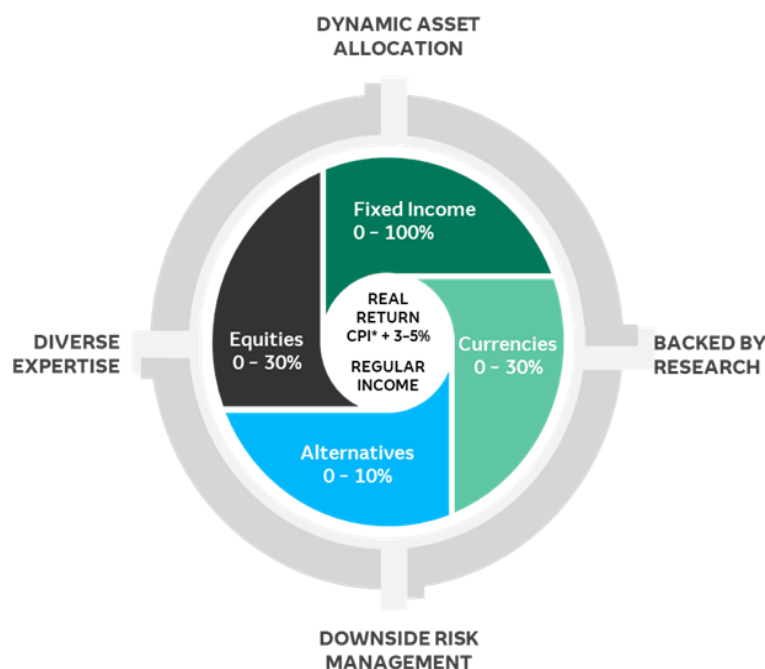
Past performance is not a reliable indicator of future performance.

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	37.2
	Structured securities	3.3
	High yield credit / Emerging markets debt	10.7
	Cash and government bonds	34.8
Listed equities	Australian equities	3.6
	International equities	0.5
Alternatives	Alternative assets	9.9

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Fund performance and positioning

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- **Performance:** The Fund delivered a negative return over the month, which was driven by both the Portfolio's growth asset and defensive asset exposure.
- **Portfolio changes:** the Fund acquired an out-of-the-money put option in Australian equities, as a protective tool.
- **Asset allocation strategy:** Maintain highly defensive asset allocation positioning.
- **Long term market outlook:** Maintain defensive bias, albeit with a focus on opportunities to acquire undervalued assets despite heightened volatility.

Asset allocation changes

In December, hedged international and Australian equities performed poorly with increased volatility, detracting -5.2% and -3.3%, respectively. With regard to fixed interest, the sector also delivered a negative result, detracting -2.1% domestically and -1.9% offshore.

In December, markets across all asset classes were volatile. Despite the positive sentiment from lower-than-expected inflation prints, this was offset by increasing concerns of a global recession, corporate earnings downgrades, the ongoing COVID-19 outbreaks in China and the prevalence of higher terminal cash rates in the US.

We expected that the Fund may need to weather heightened volatility given current market conditions, as such we expect to retain defensive positioning for some time. However, should valuations in growth assets improve significantly or the trajectory of global monetary tightening becomes notably less aggressive, our focus will shift accordingly to focus on capturing upside opportunities within growth assets.

Asset allocation strategy and outlook

In 2022, hedged international and Australian equities detracted -18.3% and -1.8%, respectively. In fixed interest, domestic fixed interest detracted -9.7% and -13.1% offshore. Clearly, 2022 was a challenging year for investors, in which market participants placed acute focus on inflation, the risk of stagflation and the tightening of financial conditions. As a result, the majority of asset classes experienced significant drawdowns. We were defensively positioned through 2022, focusing primarily on downside risk management, which limited portfolio drawdowns to a degree. In sector allocation, our long-held overweight bias towards Australian equities and Australian fixed interest also aided in minimising portfolio losses.

As we enter 2023, we continue to expect a challenging market environment, albeit distinctive from 2022. In 2023, we expect market participants will instead focus on the risk of recession, a potential rise in unemployment, anticipated downward corporate earnings revision and liquidity risks. Therefore, we expect asset market volatility will remain elevated. However, should valuations improve, our focus will shift accordingly aiming to capture opportunities to acquire undervalued growth assets, despite the heightened volatility, or as postulated by Warren Buffett be "greedy when others are fearful". Ultimately, we believe that this mentality is appropriate based on our current portfolio positioning and market outlook for 2023, aiming to navigate what we expect to be a challenging but potentially prosperous year.

With regard to inflation, short term indicators are suggesting that inflation has now peaked. However, given the robust labour market, inflation may remain elevated, relative to central bank targets, for a considerable period. While the prospects of continued moderating inflation without a recession (soft-landing) will be a welcomed scenario for the global markets, we are starting to see early signs of demand destruction from the current high levels of interest rates. As a result, we believe that the 'soft landing' scenario will be unlikely.

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 globally. 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 higher peak interest rates, which will also be expected to persist for longer. To sum up, the macro developments in December continue to reinforce our market outlook, specifically that significant downside risks to growth assets remain.

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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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