

Macquarie Real Return Opportunities Fund

(formerly Macquarie Multi-Asset Opportunities Fund)

Monthly report – 31 August 2023

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	\$496.8m
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	4.0 years

Fund performance to 31 August 2023

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)	Australian inflation
1 month (%)	0.97	0.91	0.37	0.54	0.48
3 months (%)	0.06	-0.11	1.04	-1.15	0.90
1 year (%)	2.03	1.32	3.37	-2.05	5.92
3 years (% pa)	1.67	0.96	1.25	-0.29	4.16
5 years (% pa)	4.68	3.94	1.24	2.70	3.05
Since inception (% pa)	4.73	3.94	1.71	2.23	2.57

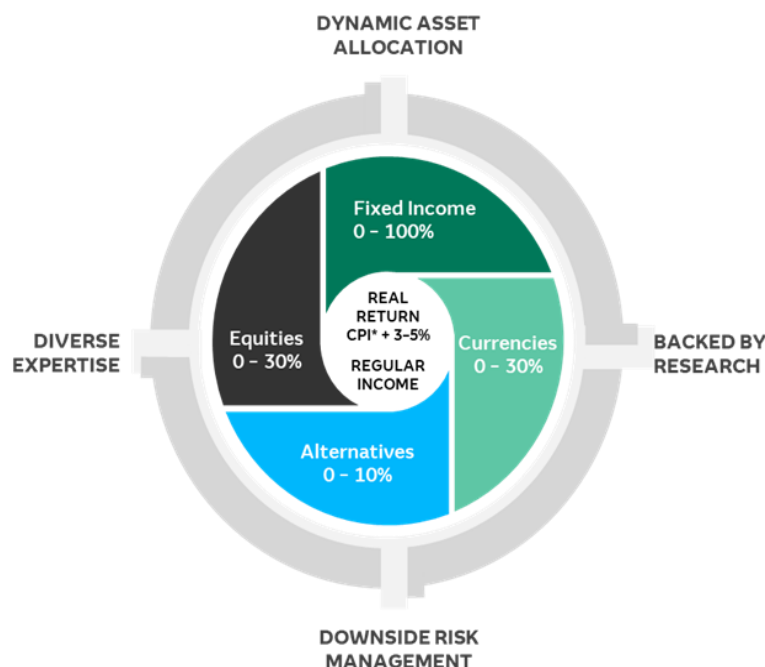
Past performance is not a reliable indicator of future performance.

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	40.5
	Structured securities	6.1
	High yield credit / Emerging markets debt	10.5
	Cash and government bonds	32.5
Listed equities	Australian equities	4.0
	International equities	1.3
Alternatives	Alternative assets	5.1

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Fund performance and positioning

The Fund delivered a positive return over the month, which was driven by the Fund's defensive asset exposure.

Asset allocation changes

In August, hedged international equities detracted -1.9% while Australian equities fell by -0.8%. The fixed interest sector delivered a mixed result, contributing +0.7% domestically and detracting -0.3% offshore.

In August, we observed heightened volatility in both growth and defensive assets. Sentiments toward growth assets were negatively impacted by the potential default of one of China's largest property developers, Country Garden. The significant deterioration in the financial health of prominent Chinese property developers, such as Evergrande Group and Country Garden, raised concerns about the Chinese housing sector's stability. This subsequently led to apprehensions about severe youth unemployment, Chinese economic growth, and the banking system and triggered substantial drawdowns in the Chinese and Hong Kong stock markets.

The Chinese government responded with stimulus efforts including reducing borrowing costs, easing apartment purchase restrictions, and lowering stock trading stamp duties. These measures provided temporary support to market sentiment, but the improvement was short-lived. The extent of these stimulus measures appeared underwhelming compared to market expectations. In other regions, we continue to observe weakness in European economic activities, particularly in the manufacturing sector, as indicated by manufacturing PMI releases. Additionally, previously robust services PMI indicators for Germany, the Euro Zone, and the UK have contracted. In Europe, the "bad news is good news" philosophy seems to have taken hold, where deteriorating economic conditions are perceived positively due to expectations the "bad news" will result in less restrictive European Central Bank policies. On the domestic front, Australia experienced an uptick in unemployment rates and ongoing consumption weakness.

In August the Fund closed out a short AUD position as the AUD/USD rate fell by -3.5% hitting a low just above 0.64. The AUD depreciation was driven by weaker economic performance and interest rate differentials. Our Fund remained defensively positioned in light of heightened risks and potential spillover effects surrounding the China property market and tighter financial conditions.

Asset allocation strategy and outlook

In China, a notable deceleration in its property sector has unfolded, prompting bankruptcy and credit defaults among major players like Evergrande and Country Garden. This significant downturn casts a shadow of concern over financial stability. The repercussions could ripple beyond national borders, affecting global financial markets. The implications manifest across two critical dimensions: firstly, the broader aggregate demand landscape, and secondly, the intricate dynamics shaping the US treasury market. These implications are anchored in China's substantial US treasury holdings.

The slowdown in China's economic growth and property sector casts a gloom over domestic consumption. Rising unemployment propels higher savings rates, counterintuitively influenced by limited social support for unemployment and substantial healthcare expenses. This economic uncertainty drives the Chinese populace to bolster savings as a safeguard for unforeseen challenges, thereby curbing consumption. Consequently, we anticipate this consumption deceleration to reverberate through various sectors, denting demand for consumption, global travel and impacting both soft and hard commodities markets.

The deceleration in China's economy and the monetary policy-driven stimulus could potentially trigger unintended consequences across global financial markets. As China's cash rate declines against a backdrop of rising rates elsewhere, this scenario often ushers in RMB depreciation against other currencies and even capital outflows. China aims to manage this depreciation and curb capital flight, but the currency trinity principle highlights the challenge in achieving this equilibrium. In practical terms, mitigating RMB depreciation and capital outflows requires drawing from Chinese foreign reserves—an approach that would predominantly involve tapping into US treasuries. This could drive a cascading effect, resulting in increased supply and subsequent downward pressure on US treasury prices, ultimately translating into higher interest rates.

We are alert to the potential headwinds facing US consumers as the resumption of Federal Student loan payments loom. These loan payments were temporarily suspended and accrued 0% interest as part of the Covid19 emergency relief measures brought in by the government in March 2020. The relief measures impacted about 45 million people, approximately 30% of the workers in US employment. The accruing of interest, at much higher interest rates, begins on 1st September and outright payments resume on the 1st of October. Loan repayments in early August 2022 were averaging about \$190m a day. If repayments increased back towards the pre-covid peak levels of \$400m - \$500m a day, disposable income for a large proportion of the US population would be materially reduced. Consequently, we expect there to be negative impact to economic activity as this money drains from the private sector. We will be closely monitoring the situation in coming months.

In summary, our strategic response remains rooted in an extended defensive portfolio posture, reflecting the anticipated persistence of restrictive monetary policies by central banks. This stance remains in lockstep with our assessment of heightened recession risks and provides greater flexibility to navigate evolving markets.

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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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