Macquarie Real Return Opportunities Fund

(formerly Macquarie Multi-Asset Opportunities Fund)

Monthly report – 30 September 2023

Investment objective

Aims to provide positive returns of 3% to 5% per annum above Australian inflation[1] 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	$491.5m
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	4.2 years

Fund performance to 30 September 2023

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)	Australian inflation
1 month (%)	-1.00	-1.06	0.34	-1.40	0.48
3 months (%)	0.91	0.73	1.08	-0.35	0.90
1 year (%)	2.72	2.00	3.56	-1.56	5.92
3 years (% pa)	1.26	0.55	1.36	-0.81	4.16
5 years (% pa)	4.46	3.72	1.28	2.44	3.05
Since inception (% pa)	4.58	3.79	1.73	2.06	2.57

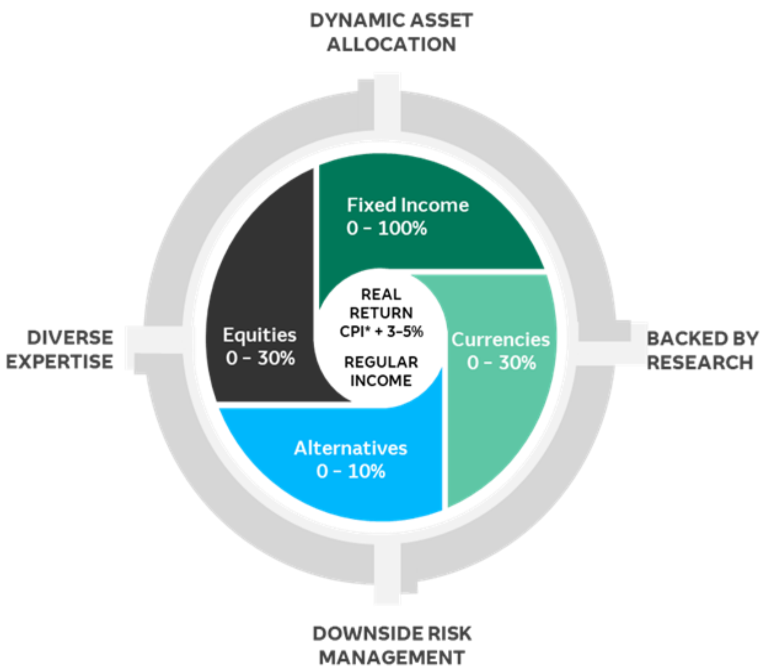
Past performance is not a reliable indicator of future performance.

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	39.3
	Structured securities	7.2
	High yield credit / Emerging markets debt	10.4
	Cash and government bonds	32.3
Listed equities	Australian equities	4.5
	International equities	0.9
Alternatives	Alternative assets	5.4

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Fund performance and positioning

The Fund delivered a negative return over the month, which was driven by both the Fund's growth asset and defensive asset exposure.

Asset allocation changes

In September, we observed negative performances in hedged international equities and Australian equities, both declining by -3.8% and -2.9%, respectively. Volatility also surged during the month, compounding the challenges faced. The fixed interest sector, both domestically and offshore, delivered negative results, detracting -1.5% and -1.9%, respectively.

September was marked by heightened volatility in both growth and defensive assets. Notably, there were significant developments in future interest rate projections, yield curve profiles, and inflation.

During the month, a hawkish press conference from the US Federal Reserve (Fed) reinforced the 'higher for longer' narrative in the market. This shift reduced the likelihood of near-term rate cuts and led to substantially higher long-term borrowing costs. This, in turn, had a negative impact on asset values across various asset classes.

Regarding inflation, there is mounting evidence, especially in some major developed countries, suggesting that wage pressures and declining productivity pose significant challenges in achieving sustained inflation at the 2% target. Additionally, the issue of increasing rents is a notable inflationary concern in countries experiencing significant migration, such as Canada and Australia. While this is not our base case scenario, it's crucial to acknowledge the increasing risks and their potential implications on neutral interest rates and asset price behaviours across different asset classes.

Throughout the month, our Fund maintained a defensive posture, closely monitoring developments in the fixed income market. In the near term, we anticipate a higher probability of increasing positive correlation between defensive and growth assets, an unusual phenomenon that does not warrant an immediate portfolio response, in our view.

In summary, as volatility has risen and asset values have improved recently, we are closer to a shift back into growth assets. We also note the continued weakness of the AUD, presenting an opportunity in the currency market.

Asset allocation strategy and outlook

September brought important insights into our asset allocation strategy and outlook for the coming months. Inflation data, the Fed's interest rate decision, and developments in oil prices played significant roles.

In terms of inflation, Canadian inflation re-accelerated, with the CPI rising to +0.44% monthly, the strongest since May 2022. Traditional core inflation remained firm at 0.34% monthly. These numbers underscore the challenges of wage pressures and declining productivity in achieving sustained inflation. In the UK, despite inflation releases falling below expectations, factors like wage growth, which reached 8.5% in July, point to a forward-looking indicator misaligned with a 2% inflation target. These inflation trends reinforce the 'higher for longer' narrative in the fixed income market.

Furthermore, the market is beginning to align with Fed Chair Jeremy Powell's view that rate cuts are unlikely in the near future, contributing to substantially higher long-term government bond yields. This rise in borrowing costs has led to lower valuations across major asset classes, with increased correlation between our defensive and growth assets. While this is unusual, it does not necessitate an immediate portfolio response, except in the unlikely event of stagflation. While our primary scenario does not envision stagflation, a condition characterised by low or negative economic growth combined with high inflation, we maintain a watchful stance on inflationary trends. It is our conviction that central banks are poised to take decisive action in the event of a significant inflation surge. Specifically, they would likely raise interest rates to curb inflationary pressures. Consequently, we assess the likelihood of stagflation as low under the current circumstances. However, we must acknowledge that the risk of stagflation has increased in light of recent economic developments.

In terms of asset allocation, while we observe a 3 to 5% decline in growth assets valuation across the board, we believe we are closer to the point where a potential rotation may become more viable. However, it is important to note that we haven't reached that point just yet. The landscape presents several factors that warrant caution, including looming recession risks, the resumption of student debt repayments in the US, the ongoing China property crisis, and the recent increase in long-term borrowing costs. These factors collectively contribute to increased downside risks for growth assets.

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 embodies the dexterity to navigate evolving market currents.

MACQUARIE ASSET MANAGEMENT

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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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