Macquarie Real Return Opportunities Fund

(formerly Macquarie Multi-Asset Opportunities Fund)

Monthly report – 30 June 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	$486.6m
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	1.3 years
Interest rate duration	3.4 years

Fund performance to 30 June 2023

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)	Australian inflation
1 month (%)	-1.83	-1.89	0.30	-2.19	0.53
3 months (%)	-2.69	-2.86	0.90	-3.76	1.20
1 year (%)	2.17	1.46	2.89	-1.43	6.55
3 years (% pa)	1.39	0.68	1.01	-0.33	3.85
5 years (% pa)	4.59	3.84	1.17	2.67	2.95
Since inception (% pa)	4.60	3.82	1.67	2.15	2.54

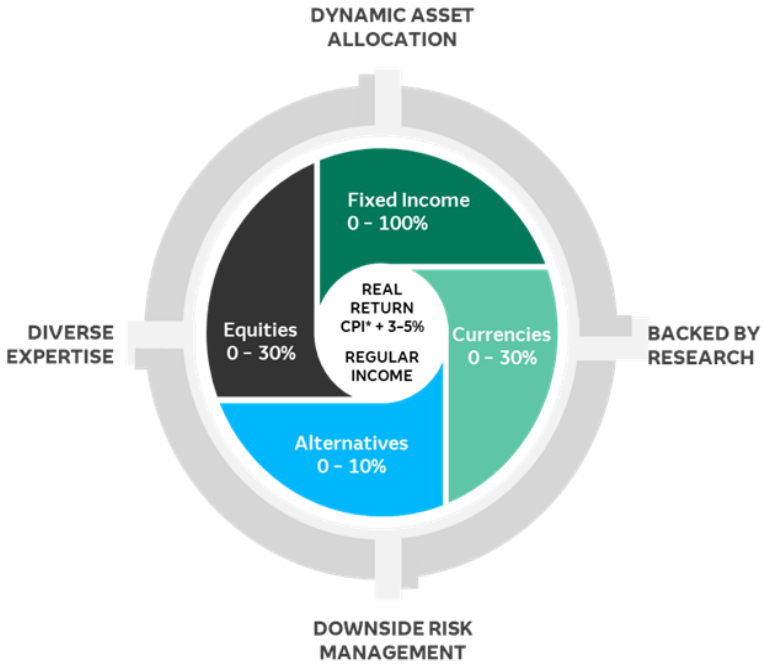
Past performance is not a reliable indicator of future performance.

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	36.2
	Structured securities	5.0
	High yield credit / Emerging markets debt	10.3
	Cash and government bonds	39.8
Listed equities	Australian equities	3.3
	International equities	0.1
Alternatives	Alternative assets	5.3

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Fund performance and positioning

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

Asset allocation changes

In June, hedged International equities improved significantly as volatility continued to decline, contributing +5.6%. Australian equities underperformed relative to global shares with a +1.7% return. The fixed interest sector delivered a negative result, detracting -2.0% and -0.4% for the Australian and International sectors respectively.

Market sentiment in growth assets continues to be driven by the positive outlook surrounding AI and tech shares, especially during the first half of the month. In fixed income, interest rates along the curve have generally increased as evidence suggests that inflation may be stickier than initially anticipated. In Australia, the Reserve Bank of Australia surprised the market with a +0.25% increase in the cash rate, bringing it to 4.1%, and signalling further tightening measures to come. Market participants now anticipate an additional 0.5% increase by September this year. This has resulted in substantial underperformance in Australian fixed interest compared to International fixed interest. Australian equities have also experienced notable underperformance and increased volatility.

Throughout the month, our fund maintained a significant defensive stance. Looking ahead, we anticipate a shift in market focus from "inflation" to "recession" over the medium term. This shift is driven by factors such as the high cash rate, tighter credit conditions resulting from the recent banking crisis in the US, and the global decline in office values. Despite recent improvements in market sentiment and valuations in growth assets, we continue to favour a significantly defensive asset allocation stance in our portfolio.

Asset allocation strategy and outlook

June has been an interesting month marked by a significant dislocation between objective facts and subjective perception. Objectively, we have witnessed sticky inflation in developed countries, more hawkish central banks, and a continuing deterioration in the office real estate sector. Subjectively, major equity indices have not reflected these negative developments. Instead, AI and the technical bull market in the US remain the dominant themes for equity markets and the “fear of missing out” sentiment has driven markets higher.

In terms of macroeconomics, inflation continues to exhibit a high level of stickiness. In the UK, CPI has exceeded expectations at 8.7% YoY and 0.7% MoM. The 0.7% monthly CPI figure indicates that it is highly improbable that the Bank of England will achieve its 2% inflation target anytime soon. Looking at the US Personal Consumption Expenditures, which is the US Federal Reserve's preferred inflation measure, the services component of inflation has remained relatively unchanged at around 0.3% to 0.4% on a monthly basis over the past 12 months. This persistence of services inflation at these levels suggests that inflation will be stickier than the market anticipated. It should be emphasised that we anticipate inflation will gradually decrease, although it is unlikely to reach the central bank’s price stability target of 2 to 3% in near term. This means that it will take a considerably longer period of time for central banks to reach their CPI targets, subsequently necessitating a "higher for longer" cash rate scenario. Research from Drechsler, I., Savov, A., and Schnabl, P. (2018) published in The Journal of Finance, "A model of monetary policy and risk premia” suggests that low nominal rates lead to greater leverage, lower risk premia, higher asset prices, and increased volatility over the long run, and vice versa. Given a significant and rapid increase in interest rates, we would expect a substantial rise in risk premia across all asset classes. These impacts, including lower leverage, higher risk premia, and lower asset prices, are likely to be magnified if market participants anticipate interest rates to remain "higher for longer."

Additionally, we continue to closely monitor the commercial real estate sector, particularly the office space. The sector has experienced a significant downturn, characterized by loan defaults and write-downs leading to substantial losses. We believe that this sector has the potential to create financial instability in the future, as there is evidence pointing to its continued deterioration. The office sector faces strong headwinds as the shift towards remote working has reduced demand for office space and higher interest rates are increasing funding costs as loan maturities require refinancing. We anticipate further deterioration in the sector, with significant losses expected among equity holders and debt holders, including banks.

Given the sticky inflation, we anticipate central banks will maintain their restrictive monetary policies for an extended period. As a result, we believe it is necessary to maintain a defensive stance in our portfolio for a longer duration than initially anticipated. However, we remain open to pivoting towards growth-oriented assets if valuations improve significantly or if central banks implement interest rate cuts. This defensive position aligns with our outlook of a "high likelihood of recession" and provides us with flexibility to adjust our portfolio in response to market conditions. This remains our primary focus for our portfolio in 2023.

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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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