MACQUARIE

Macquarie Real Return Opportunities Fund

(formerly Macquarie Multi-Asset Opportunities Fund)

Monthly report – 31 July 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	$488.5m
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	1.5 years
Interest rate duration	3.1 years

Fund performance to 31 July 2023

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)	Australian inflation
1 month (%)	0.96	0.90	0.37	0.53	0.48
3 months (%)	-1.85	-2.03	0.97	-3.00	0.90
1 year (%)	-0.33	-1.03	3.15	-4.18	5.92
3 years (% pa)	1.40	0.69	1.13	-0.44	4.16
5 years (% pa)	4.58	3.83	1.20	2.63	3.05
Since inception (% pa)	4.66	3.88	1.69	2.19	2.57

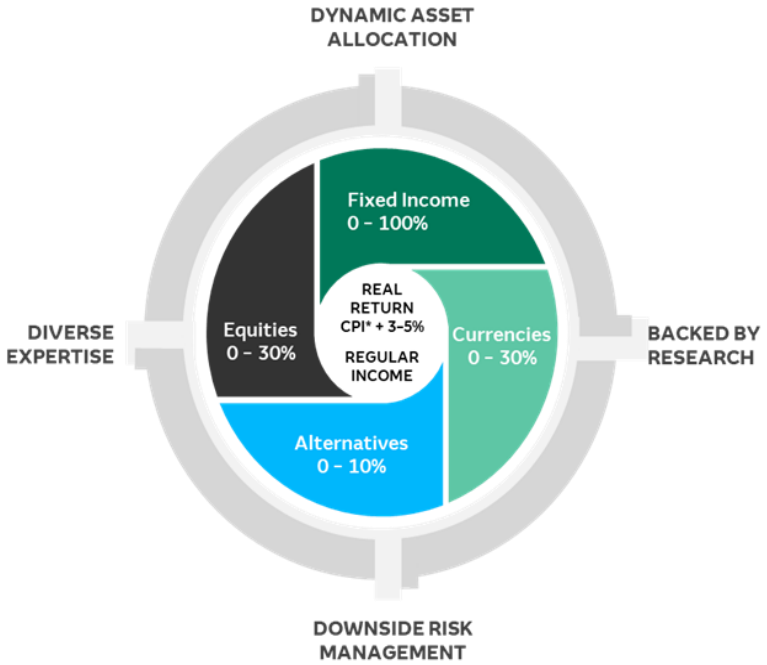
Past performance is not a reliable indicator of future performance.

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	38.5
	Structured securities	5.3
	High yield credit / Emerging markets debt	10.6
	Cash and government bonds	34.6
Listed equities	Australian equities	4.4
	International equities	1.7
Alternatives	Alternative assets	4.9

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Fund performance and positioning

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

Asset allocation changes

In July, hedged International equities and Australian equities performed positively while volatility continued to decline, both contributed +2.9%. The fixed interest sector delivered a mixed result, contributed +0.5 domestically and detracted -0.5% offshore.

In July, there was a significant improvement in investor sentiment towards growth assets. A series of better than expected inflation data in the US reinforced the market's belief in the 'soft-landing' scenario. A soft-landing scenario sees inflation and economic growth slowing, but not to an extent which drives a significant increase in the unemployment rate. In Australia, the Reserve Bank of Australia paused raising interest rates but signalled further tightening measures to come. Most market participants now anticipate this interest rate cycle will peak at 4.3%, 0.3% lower than last month. Finally, Bank of Japan kept its short-term interest rate target below zero, but shocked markets by adjusting a policy that effectively raised the cap on the 10-year government bond yield from 0.5% to 1.0%. Relative to growth asset, fixed income assets continued to experience significant volatility.

Throughout the month, our Fund maintained a defensive stance. Despite recent improvements in market sentiment and valuation, we continue to favour a defensive asset allocation stance in our portfolio due to the high level of interest rates and rich equity valuations.

Asset allocation strategy and outlook

In July, we continue to see improvement in inflation levels domestically and offshore. The lower than expected inflation print, higher than expected US Q2 GDP growth and robust labour markets globally fuelled the market with optimism. Global central banks are also responding to the inflation data by 'pausing' the hiking cycle and indicating that current policy settings should be 'sufficiently restrictive'. This implies that further significant rate rises should be limited. This macroeconomic backdrop can be conducive for equity P/E expansion.

On a separate note, the Q2 earnings season in the US is half way through. The S&P500 reported blended earnings decline of -7.3% and blended revenue growth at +0.1%. In our view, these numbers are poor given the high level of inflation which should have supported revenue growth in nominal terms. Due to the weakness in earnings, the recent rally in equities market is largely associated with P/E expansion. It is possible the current P/E expansion and equity market valuations could be justified if recession were to be avoided AND interest rates were cut. However, we do not believe that central banks will reduce the cash rate materially in the near term in the absence of a recession. The forward 12-month P/E ratio for the S&P 500 is 19.4. This P/E ratio is above the 5-year average (18.6) and above the 10-year average (17.4). In our view, the potential growth (P/E expansion) that has been priced into equity markets is too optimistic, considering the current economic conditions and the cautious stance of central banks.

In summary, we continue to anticipate that 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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