

# Macquarie Evolve Balanced Multi Asset Portfolio

Monthly report – 30 June 2023

## Model portfolio performance to 30 June 2023

	Total model portfolio return (gross)	Income	Growth	Total model portfolio return (net)	Investment return objective*	Total excess return (net)	Australian inflation
1 month (%)	0.31	1.14	-0.87	0.27	0.91	-0.64	0.53
3 months (%)	0.31	1.24	-1.07	0.17	2.33	-2.16	1.20
1 year (%)	7.60	3.04	3.97	7.01	11.05	-4.04	6.55
2 years (% pa)	0.25	3.29	-3.60	-0.30	9.69	-9.99	5.19
3 years (% pa)	5.57	4.04	0.94	4.99	8.35	-3.36	3.85
Since inception (% pa)	4.85	6.05	-1.78	4.27	8.18	-3.91	3.68

### Model portfolio details

**Investment objective** Aims to provide positive returns of 4.5% pa above Australian inflation over the medium term (before fees)

**Inception date** 25 November 2019

**\*Read the Product Disclosure Statement for more details on fees and costs.**

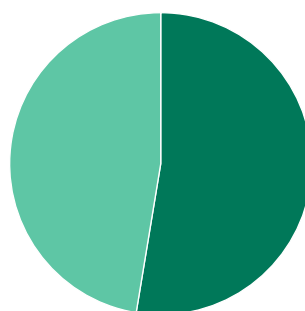
### Past performance is not a reliable indicator of future performance.

Gross returns are quoted prior to the deduction of all fees and expenses. Net returns are quoted after the deduction of the management fee and indirect costs. The management fee is 0.205% pa (inclusive of GST), the highest management fee applicable for an SMA managed in accordance with the Macquarie Evolve Balanced Multi Asset Portfolio. Indirect costs include the net fees of the underlying investments, such as managed funds, held by the model portfolio.

Total returns are calculated based on changes in net asset values and assumes the reinvestment of distributions. Due to individual investor circumstances (including different management fees and fees, expenses or other costs charged by the operator of an investor's managed account), the net returns of an individual investor may differ from the net returns quoted above.

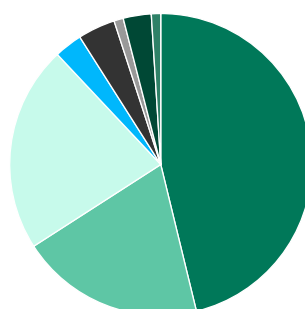
\*Benchmark return represents the investment return objective of 4.5% pa above Australian inflation over the medium term (before fees). Inflation is defined as the Consumer Price Index as measured by the Reserve Bank of Australia Trimmed mean, as published by the Australian Bureau of Statistics.

## Current growth/income profile



- Growth 52.6%  
(Neutral growth split 60%)
- Income 47.4%  
(Neutral income split 40%)

## Portfolio allocations



- Dynamic core 46.2%
- Australian equities 19.7%
- International equities 22.1%
- Global real estate 3.0%
- Global infrastructure 4.0%
- Global fixed interest 1.0%
- Australian fixed interest 3.0%
- Cash 1.0%

The performance information and commentary is based on a model portfolio. The information does not take into account differences between the model portfolio and the actual portfolio implemented by the operator of your managed account or any fees, expenses or other costs charged by the operator of your managed account.

The performance of your managed account will differ to that of the model portfolio (and may differ significantly) due to factors including an incomplete implementation of all trades, the timing of trades, the individual circumstances of an investor as well as the fees, expenses and other costs charged by the operator of your managed account.

All references to selling, investing, participating, positioning or similar are references to the model portfolio only and may not reflect the holdings in your actual portfolio.

Please contact the operator of your managed account for further information.

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## Look through portfolio allocations

Risk sector	Asset class exposure	%
Income	Credit - investment grade	16.7
	Credit - high yield & EM	4.8
	Structured securities	2.3
	Australian fixed interest	3.0
	International fixed interest	1.0
	Cash and government bonds	19.6
	<b>Total Income</b>	<b>47.4</b>
Growth	Australian equities	21.2
	International equities	22.0
	Global real estate	3.0
	Global infrastructure	4.0
	Alternatives	2.4
	<b>Total Growth</b>	<b>52.6</b>

## Market performance by asset class

Market by asset class*	1 month performance (%)
Australian bonds	-1.95
Global government bonds	-0.36
Australian equities - ASX 200	1.76
Australian equities - ASX 300	1.73
International equities	3.12
International equities (hedged)	5.59
Global real estate	0.13
Global real estate (hedged)	2.81
Global infrastructure	-0.30
Global infrastructure (hedged)	1.56

\*Refer to disclaimer below for market index for each asset class

## Model Portfolio highlights

- **Performance:** The Model Portfolio delivered a positive return over the month, which was driven by the Model Portfolio's growth asset exposure.
- **Portfolio changes:** The Model Portfolio took profit on some of its ASX put option at the beginning of June and extend the put-option protection to September maturity.
- **Asset allocation strategy:** Maintain highly defensive asset allocation positioning.
- **Long term market outlook:** Maintain strategic defensive bias, albeit with a focus on opportunities to acquire undervalued assets despite heightened volatility.

## Sector performance and 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. Finally, our global real estate and global infrastructure assets delivered positive results, +2.8% and +1.6% 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 Model Portfolio maintained a defensive stance, approaching the maximum allowable level. 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 within 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

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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.

### Underlying fund holdings

Fund	APIR code	Portfolio (%)
Macquarie Real Return Opportunities Fund	MAQ3069AU	46.3
Macquarie True Index Australian Shares Fund	MAQ0288AU	19.7
Macquarie Australian Shares Fund	MAQ0443AU	0.0
Macquarie Australian Small Companies Fund	MAQ0454AU	0.0
Macquarie True Index International Equities Fund	MAQ0633AU	13.4
Macquarie Hedged Index International Equities Fund	MAQ0421AU	8.7
Walter Scott Emerging Markets Fund	MAQ0651AU	0.0
Macquarie True Index Global Real Estate Securities Fund	MAQ0832AU	0.0
Macquarie Hedged Index Global Real Estate Securities Fund	MAQ0830AU	3.0
Macquarie True Index Global Infrastructure Securities Fund	MAQ0831AU	4.0
Macquarie Hedged Index Global Infrastructure Securities Fund	MAQ0829AU	0.0
Macquarie True Index Australian Fixed Interest Fund	MAQ0211AU	3.0
Macquarie Hedged Index Global Bond Fund	MAQ0266AU	1.0
Cash	-	1.0

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**For queries regarding your managed account, please contact your adviser or the managed account provider.**

**For any investment related queries, call us on 1800 814 523 or email [mam.clientservice@macquarie.com](mailto:mam.clientservice@macquarie.com)**

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## Market indices for asset classes

**Australian bonds:** Bloomberg AusBond Composite 0+ Yr Index; **Global government bonds:** JPM Government Bond Index; Australian equities: ASX 200 Accumulation Index and ASX 300 Accumulation Index; **International equities:** MSCI World ex-Australia ex-Tobacco Index; **International equities (hedged):** MSCI World ex-Australia ex-Tobacco Hedged Net Total Return Index; **Global real estate:** FTSE EPRA Nareit Developed Net Total Return Index (in AUD (unhedged)); **Global real estate (hedged):** FTSE EPRA Nareit Developed Index Net Total Return Index (hedged in AUD); **Global infrastructure:** S&P Global Infrastructure Index (Net Total Return in \$A); **Global infrastructure (hedged):** S&P Global Infrastructure Index (Net Total Return \$A Hedged).