

Merrion Fixed Interest Fund **FACTSHEET**

31st March 2019

The Merrion Fixed Interest Fund invests in Government securities, money market instruments and corporate bond issues. By anticipating movements in interest rates and yield curves the fund seeks to earn superior returns from a diversified portfolio of fixed income instruments. The Merrion Fixed Interest Fund returned 3.2% during the first quarter of 2019. The ICE BofAML 5+ Year Euro Government Index returned 3.8% over the same period.

FUND

Fund Type	Fixed Income
Bid/Offer Spread	None
Launch date	13.01.1999
Base Currency	EUR
Liquidity	Daily
Risk Rating	4
Volatility*	5.8%
Benchmark	Emu Govt Bonds > 5 Yr to Maturity

Volatility on a risk scale of 1 to 7, with level 1 being generally low risk and level 7 being generally high risk. The volatility is measured from past returns over a period of five years using weekly and monthly data where applicable. Prior to making an investment decision, you should talk to your financial advisor or broker in relation to the risk profile most suitable for you.

PERFORMANCE UPDATE AT 31.03.2019

	Fixed Interest*	Average	Index ¹
1 Month	2.4%	2.4%	2.7%
Quarter 1	3.2%	3.5%	3.8%
1 Year	1.3%	2.5%	3.3%
3 Years p.a.	0.8%	1.5%	1.7%
5 Years p.a.	5.0%	5.4%	5.2%
10 Years p.a.	6.7%	6.2%	5.8%
15 Years p.a.	5.5%	5.6%	5.4%

Source: MoneyMate 31.03.2019

*Performance figures are quoted gross of management fees.

Management fees are detailed in the relevant share class addendum.

Equity market staged a very strong recovery in the first quarter, most of which was concentrated into the first month of the year, with some follow-through in late February after an initial pause. Whilst there were a number of reasons for the strong equity rally, principal among them was a significant change of direction from the US Federal Reserve. Statements over the course of January from Federal Reserve officials emphasised not simply data dependence but made specific reference to their sensitivity to market movements and, critically, highlighting that the Fed was open to tweaking the balance sheet run-off. This latter statement was a significant change of direction from December, when the Fed chairman had glossed over investor concerns about the tightening of financial conditions that this represents. The European Central Bank also tilted more dovish as growth concerns in Europe resurfaced.

March saw the return of market concerns that had been lurking in the background but had to an extent been ignored. Economic growth concerns resurfaced - a combination of weaker US data (manufacturing ISM and retail sales) and particularly weak European data, with purchasing managers indices for manufacturing falling further into contractionary territory. It seems clear that a combination of trade concerns, Brexit, weather and financial market volatility have all contributed to weakening the current mix of global growth. Whilst trade talks are continuing, they appear nowhere closer to a resolution. Likewise Brexit, which is further prolonging uncertainty.

Medium term other policies are supportive of economic growth, such as China's ongoing stimulus, the ECB's TLTROs and the clear message from central banks, the Federal Reserve in particular, that interest rates are on hold.

The combination of growth concerns, dovish leanings from central banks with no signs of inflationary pressures even in the US where labour markets appear quite tight served to push bond yields lower over the quarter as financial markets moved to price out any possibility of rate hikes from the ECB and even moved to price in rate cuts from the Federal Reserve.

Drivers of performance

Our underweight duration position contributed negatively to relative performance, particularly as core bond yields fell.

Fund positioning

Macro Analysis

The outlook for global growth has deteriorated, despite the dovish tilt from global central banks. It is clear that the combination of Brexit, trade concerns, bad weather and the US government shutdown have had a reasonably large impact. The change in tune from the US Federal Reserve, coupled with the renewed dovish tilt from the ECB and yet more stimulus measures from the Chinese authorities go some way to offset these concerns, but the prolonged period of uncertainty with trade talks taking longer than expected and no clarity whatsoever in terms of the Brexit process muddies the waters in the short-term.

DISTRIBUTION OF ASSETS AT 31.03.2019

	Merrion	EMU Govt Bonds > 5 Yr to Maturity ²
0-10 Years	54.0%	50.5%
10-15 Years	27.4%	16.1%
15-20 Years	0.0%	12.3%
> 20 Years	18.6%	21.1%
Total	100.0%	100.0%

A particular concern remains the European economy. Whilst employment growth should support the consumer, Italy entered a technical recession in the fourth quarter (two quarters of negative growth) and Germany barely avoided one. Businesses are more likely to hold off on investment plans in a period of such heightened uncertainty, which means that in the short-term it is difficult to see a renewed upswing in the European economy. If Brexit can at the very least be resolved in a positive way and a trade deal between China and the US concluded this would no doubt be a positive for the global economic outlook, but neither of these outcomes appears imminent. Add to that the possibility of renewed trade tensions between the US and Europe (auto and agriculture related) post conclusion of a Chinese trade deal, and the outlook is clearly more clouded than it was a few months ago.

Valuation Analysis

The upward pressure on short-term interest rates has played out for now, as the weaker economic data and equity market concerns mean the Federal Reserve can pause its rate hike cycle. Despite the rebound in equity markets after December's sell-off, bond yields have continued to move lower – and with the market now pricing in rate cuts from the Federal Reserve, and negative rates in Europe for the foreseeable future, 10 year German bond yields have again reached zero, leaving valuations looking even more stretched than before.

Technical Analysis

Having again breached zero to trade with a negative yield, but subsequently reversed, 10 year German Bunds are approaching resistance to the upside, but remain in a downtrend that is unlikely to be conclusively broken absent a sudden revival in economic data. Periphery yield spreads are relatively stable within recent ranges.

Positioning

We added some duration in the fund in the early part of the quarter, investing cash primarily in periphery bonds. The fund remains underweight duration, expressed via underweight positions in core (German) bond markets. We are also overweight inflation linked bonds.

DISTRIBUTION OF ASSETS AT 31.03.2019

	Merrion	EMU Govt Bonds > 5 Yr to Maturity ²
Cash	2.0	0.0
Core	36.3	47.7
Periphery	44.0	41.2
Semi-Core	9.0	11.1
Inflation Linked Bonds	8.7	0.0
Total	100.0%	100.0%

¹ Source: ICE BofAML 5+ Year Euro Government Index

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² Source: Bloomberg

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