MERRION INVESTMENT MANAGERS

CANTOR Fitzgerald

Merrion High Alpha Fund FACTSHEET

30th April 2019

The High Alpha Fund was launched in August 2007*. It is a process-driven absolute return fund. The fund may hold cash from time to time in order to protect capital. The fund does not reference a benchmark, instead it targets a return in excess of 7% per annum for the investor, notwithstanding how equity markets perform.

FUND PARTICULARS	
Fund Type	Absolute Return
Performance Fee	20% of the excess return over 7% p.a.
Bid/Offer Spread	None
Launch date	15/08/2007
Base Currency	EUR
Liquidity	Daily
Risk Rating*	4
Volatility	7.3%
Benchmark	7% Target Return

** '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 30.04.2019

	High Alpha*	Fund Target
1 Mth	-0.5%	0.6%
YTD	4.6%	2.3%
1 Yr	-5.3%	7.0%
3 Yr p.a	-2.2%	7.0%
5 Yr p.a	3.9%	7.0%
7 Yr p.a	4.7%	7.0%
10 Yr p.a	5.8%	7.0%
Inception*	204.0%	120.9%
Inc. p.a.*	10.0%	7.0%

**The Merrion High Alpha Fund (QIAIF) was launched in August 2007. The High Alpha Fund (RIAIF) returns are shown from the end of Q3 2008. Source: Merrion Investment Managers 30/04/2019. Performance Figures are quoted gross of Management Fees. Management fees are detailed in the relevant share class addendum. There is a performance incentive linked directly to the success of the fund. Merrion Investment Managers will share 20% of the excess return over 7% p.a. Fund performance is quoted net of the performance fee.*

The rally in equities that began in Q1 continued through April, the MSCI AC World Index in euro terms rising by another 3.4% to bring the year-to-date return to 18.4%. The latest leg of the rally was led by cyclical sectors. The market took comfort from the small improvement in Chinese data, as evidenced by the small beat in the PMI index at the start of the month, and a positive surprise from US employment data, also at the beginning of the month. As the month progressed however economic data points have consistently failed to confirm the economic green shoots that equity markets are increasingly pricing in. An example of this was the US GDP report for the first quarter which appeared quite strong at +3.2%. However net exports and inventory build accounted for more than half of this figure indicating the domestic economy is not as strong as the headline figure suggested. Confirming the general weakness in the global economy, earnings season was mixed at best.

In the very short-term, the Brexit cliff appears to have been pushed out to October, which is a positive in the short-term. Medium-term though it is difficult to see how the ongoing uncertainty that the continuous rolling of potential exit dates inevitably creates is a positive for economic momentum. The US-China trade talks continue, with the US apparently willing to give up a number of its key demands in regard to China changing its industrial policies, and are also now open to mutual enforcement of any deal, something they had previously refused. The significance of these developments is that we feel it increases the chance of a "deal" being announced soon but that also decreases the likelihood of there being any positive surprises for the market. If anything it materially increases the chances of the market being disappointed with the details. In addition it would appear that trade talks between the US and the EU are deteriorating before they begin, with demands on climate change and a refusal to discuss agriculture from the European side.

Given the extraordinary rally in equity markets since the beginning of the year valuations are clearly no longer as attractive as they were. Earnings estimates are still being revised down, and whilst there have been some strong data from China, data elsewhere is so far failing to show any sign of recovery, making risk-reward unfavourable. Medium term other policies are supportive, 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 political risks in the US are growing, both in regards to the president's domestic issues but also with what appears to be an ever slowing of progress in trade talks with all of its main trading peers. This potential breakdown in trade talks is a key concern for us going into the summer months. *Continued*

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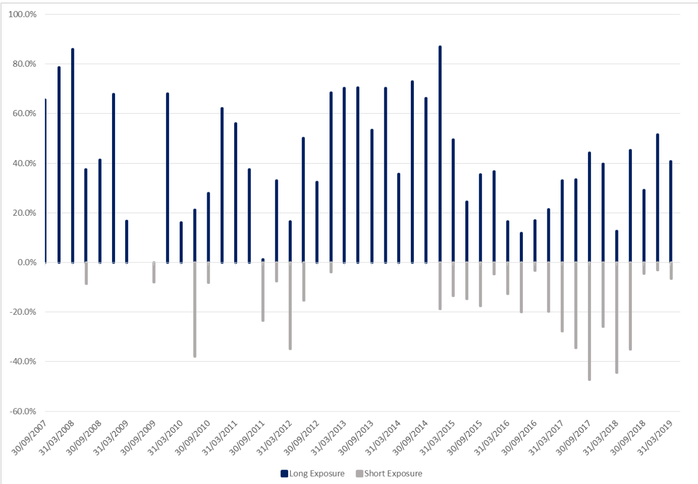
Year on Year Performance		
	High Alpha*	Fund Target
2008	6.6%	7.0%
2009	61.9%	7.0%
2010	7.7%	7.0%
2011	0.6%	7.0%
2012	9.5%	7.0%
2013	14.5%	7.0%
2014	10.7%	7.0%
2015	16.7%	7.0%
2016	-7.7%	7.0%
2017	-0.9%	7.0%
2018	-6.8%	7.0%

Asset Allocation to 31/03/2019



Many indices are overbought and the recent leg of the rally has been on declining volume and weak breadth. There are also a number of divergences which would give us pause including the following: the number of stocks in the US above their respective 200 day moving averages has not made a new high, even as the market has; US small cap and mid cap indices have lagged in the rally; equal weighted indices have failed to confirm recent price moves in underlying indices; important economically sensitive sectors such as transports and financials have been relatively weak. A number of sentiment measures are also no longer supportive include the AAII Bull bear survey, DSI sentiment data and put-call ratios.

Technically the market rally was led by pro-risk, pro-cyclical equities, but more recently as we moved through resistance and economic concerns remained, global bond yields have fallen, defensive sectors have begun to outperform and market breadth has declined. The recent strength of the US dollar has raised questions about emerging markets, and the technical outlook for the USD remains more constructive with the USD looking bullish against most currency pairs and this is despite the very dovish Federal Reserve.

Given the risks listed in the previous paragraphs the fund was relatively quiet in April. After a solid first quarter we have de risked the majority of the equity holdings. We feel there will be better opportunities to own equities later in the year. The most interesting trade we feel there is at the moment is being long equity volatility through owning downside index put options. Despite all the geopolitical tensions and macroeconomic uncertainty the options market is not only pricing in a very benign summer but the market now has a record short position in volatility, as seen through the VIX futures positioning. This is at a level even greater than that which preceded the great sell off in January 2018, nicknamed “volmageddon”.

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