MERRION
INVESTMENT MANAGERS

CANTOR Fitzgerald

Merrion Long Bond Fund FACTSHEET

31st March 2019

The Merrion Long Bond Fund returned 4.2% during the first quarter of 2019. The ICE BofAML 10+ Year Euro Government Index returned 5.2% over the same period.

FUND

Fund Type	Fixed Interest
Bid/Offer Spread	None
Launch date	19.10.2004
Base Currency	EUR
Liquidity	Daily
Risk Rating	4
Volatility*	8.0%
Benchmark	Emu Govt Bonds > 10 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

	L/Bond*	Average	Index[1]
1 Month	3.3%	3.6%	3.9%
Quarter 1	4.2%	4.8%	5.2%
1 Year	1.8%	3.7%	4.1%
3 Years p.a.	0.6%	1.7%	2.0%
5 Years p.a.	6.1%	6.9%	7.1%
10 Years p.a.	7.2%	7.3%	7.2%

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

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. 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.

DISTRIBUTION OF ASSETS AT 31.03.2019

	Merrion	EMU Govt Bonds
< 15 Years	53.8%	32.4%
15-20 Years	0.0%	24.9%
20-25 Years	16.0%	17.2%
25-30 Years	30.2%	19.0%
>30 Years	0.0%	6.5%
Total	**100.0%**	**100.0%**

DISTRIBUTION OF ASSETS AT 31.03.2019

	Merrion	EMU Govt Bonds > 10 Yr to Maturity[2]
Cash	2.1%	0.0%
Core	34.8%	49.7%
Periphery	44.7%	38.9%
Semi-Core	9.3%	11.4%
Inflation Linked Bonds	9.1%	0.0%
Total	**100.0%**	**100.0%**

1 Source ICE BofAML 10+ Year Euro Government Index

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2 Source: Bloomberg

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 have added some duration in the fund, through purchases of periphery bonds. The fund remains underweight duration, expressed via underweight positions in core (German) bond markets. We are also overweight inflation linked bonds.

Please refer to our website link: https://www.merrion-investments.ie/assets/documents/policy-research-third-party.pdf for our policy regarding the provision of research by third parties. In relation to Merrion Investment Trust - KIDs additional information are available on request from Merrion Investment Managers - please contact 670 2500 or e-mail info@merrion-investments.ie. Further details are available on request from Merrion Investment Managers.

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