MERRION INVESTMENT MANAGERS

CANTOR Fitzgerald

Merrion Long Bond Fund FACTSHEET

30th June 2019

The Merrion Long Bond Fund returned 8.1% during the second quarter of 2019. The ICE BofAML 10+ Year Euro Government Index returned 7.6% 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*	8.1%
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 30.06.2019

	L/Bond*	Average	Index[1]
1 Month	5.5%	4.3%	5.1%
Quarter 2	8.1%	6.5%	7.6%
YTD	12.6%	11.2%	13.2%
1 Year	12.3%	11.7%	13.6%
3 Years p.a.	1.9%	2.1%	2.8%
5 Years p.a.	6.6%	6.9%	7.5%
10 Years p.a.	8.1%	7.9%	8.0%

Source: MoneyMate 30.06.2019

**Performance figures are quoted gross of management fees.*

Management fees are detailed in the relevant share class addendum.

In a volatile quarter, equities rallied further in April, adding to Q1's gains, slid back over the course of May and rebounded strongly in June to finish the quarter near the highs, the MSCI AC World Index in euro terms rising by 2.4% over the quarter to stand +17.2% year-to-date. Bonds globally rallied, with yield curves flattening and some parts of the US curve inverting. Continued weakness in economic indicators and ongoing downward revisions to earnings forecasts had soured sentiment somewhat even before the rhetoric around US-China trade relations worsened early in the quarter, and the increased threats of tariffs, coupled with a ban on US technology companies from supplying the Chinese mega-tech company Huawei did not help. To add to concerns US/Iranian tensions also ratcheted higher, and in the UK, the divisions in the country were laid bare by the European elections, where Nigel Farage's newly-formed Brexit party performed strongly, but so did the pro-European Liberal Democrats. In June, dovish central banks added to the global bond rally, with the ECB suggesting interest rates could be lowered further, along with a renewal of quantitative easing, and the Federal Reserve performing a second pivot in the space of six months and implying an imminent move lower in interest rates.

It remains difficult to see how the ongoing trade friction between the US and China, Brexit uncertainty and geopolitical risks in the Middle East is a positive for economic momentum, despite the apparent willingness of central banks to ease monetary policy. However, bonds have priced in a very negative scenario. Globally $12.5tln, or 12% of total outstanding debt securities, trade with a negative yield. Valuations are clearly unattractive.

Drivers of performance

Having been underweight duration in the first quarter, we added duration early in the second quarter as the economic data continued to deteriorate, investing in long-dated bonds. This contributed positively to performance, as did an overweight position in periphery bonds as spreads tightened dramatically.

Fund positioning

Macro Analysis

The outlook for global growth continues to deteriorate. Dovishness from central banks can help, to an extent, but the prolonged period of uncertainty over trade, a significant inventory-build globally, declining growth in business investment in addition to the seemingly never-ending Brexit saga creates significant headwinds to the chances of that second half revival. Global PMI indicators suggest continued weakness in the months ahead, as do flattening yield curves, with a bond market pricing a very pessimistic outcome for global growth and global inflation. We have been saying for some months that 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 (as we have also been saying for some months) neither of these outcomes appears imminent.

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DISTRIBUTION OF ASSETS AT 30.06.2019

	Merrion	EMU Govt Bonds
< 15 Years	41.9%	30.3%
15-20 Years	0.0%	24.6%
20-25 Years	14.3%	17.8%
25-30 Years	31.7%	19.6%
>30 Years	12.1%	7.7%
Total	100.0%	100.0%

Valuation Analysis

Given the weaker outlook for global growth, inflation and company earnings, central banks globally have pivoted to a significantly more dovish stance. However longer dated bond yields have collapsed, and financial markets are pricing in significant rate cuts from the Federal Reserve, and further rate cuts (into even more negative territory) from the ECB. 10 year German bond yields have reached new lows (-0.4%), as have 30 year German bond yields (0.3%) leaving valuations looking even more stretched than before.

Technical Analysis

We are more positive on US bond yields as they have traded close to recent bearish targets. The 2% level has been an important longer term support and the weekly RSI traded into the low 20's along with Demark buy signals and bullish RSI divergences seen over the last week of June. A bounce in US yields could see EU yields follow, which would be worrisome given the sizeable flows into bonds globally over the last quarter in particular. The global quest for yield has driven periphery spreads back to the lower end of recent ranges.

Positioning

We added duration in the fund in the early part of the quarter, investing primarily in longer dated bonds. This brought the fund duration to a more neutral stance, but with an overweight position in very long dated bonds. We are also overweight inflation linked bonds.

DISTRIBUTION OF ASSETS AT 30.06.2019

	Merrion	EMU Govt Bonds > 10 Yr to Maturity[2]
Cash	1.9%	0.0%
Core	37.4%	48.1%
Periphery	44.4%	40.5%
Semi-Core	8.3%	11.4%
Inflation Linked Bonds	8.0%	0.0%
Total	100.0%	100.0%

1 Source ICE BofAML 10+ Year Euro Government Index

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2 Source: Bloomberg

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