Merrion High Alpha Fund FACTSHEET

MERRION INVESTMENT MANAGERS

CANTOR Fitzgerald

31st July 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	7.5%
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 31.07.2019

	High Alpha*	Fund Target
1 Mth	0.1%	0.6%
3 MTH	0.7%	1.7%
YTD	5.4%	4.0%
1 Yr	-5.2%	7.0%
3 Yr p.a	-0.9%	7.0%
5 Yr p.a	3.7%	7.0%
7 Yr p.a	5.7%	7.0%
10 Yr p.a	3.7%	7.0%
Inception*	206.2%	124.7%
Inc. p.a.*	9.8%	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 31/07/2019. 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.*

Global equities added to year-to-date gains in the month, rising by 2.4% in euro terms. However, this was flattered by the weakness in the euro, which fell by 2.6% against the US dollar. The key focus of the month for markets was the Federal Reserve meeting on the last day of the month, and speculation about how much they would cut rates. In the event, a 25 basis point rate cut was delivered, the first in ten years, though the dissent amongst the committee members, with two voting against a rate cut, coupled with Fed chairman Powell's categorisation of the rate cut as a "mid-cycle rate adjustment" in response to "threats to what is clearly a favourable outlook" suggests that markets may have priced in too much in terms of the beginning of a cycle of significant interest rate cuts. Various headlines about US-China trade made sporadic appearances, with talk of meetings and conversations but no actual progress beyond the usual rumours of further Chinese purchases of agricultural products. More importantly from an equity market perspective was the continued downgrades of earnings forecasts, ongoing weakness in hard economic data and forward-looking survey data, this latter particularly prevalent outside the US, where economic data showed some tentative signs of stabilisation. Earnings season has so far been mixed. The consumer in the US remains strong, but of particular note is the impact that the global industrial / manufacturing slowdown has had on the reported numbers of international companies. Of most interest in this regard is the impact this slowdown has had on US industrial companies, with rail and rental companies beginning to soften. Markets are still hopeful of a recovery in the second half, but as trade tensions linger and spread to new areas (the appointment of a new Prime Minister in Britain has marked a clear deterioration in relations between the EU and the UK) and leading economic indicators continue to deteriorate it is difficult to see where this pick up will come from.

The fund return was essentially flat on the month. We continue to hold little to no equities, with the exception of some small positions in AMD, a US technology stock and Tullow Oil ahead of a key drilling update in early August. We largely hold index puts to be positioned for a pull back in the markets which we expect given our views listed above and below. As markets globally were strong on the month this premium invested for July was naturally a drag on performance for the month. Our short position in Sterling versus the dollar added to performance as the probability of hard Brexit in investors minds has increased given the rhetoric out of Boris Johnson since his appointment of PM.

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. *Continued*

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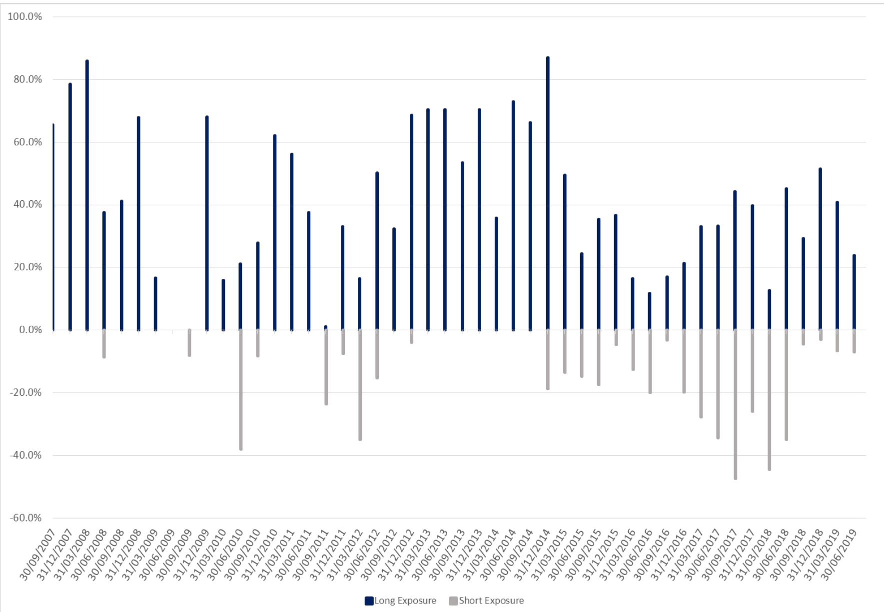
Year on Year Performance		
	High Alpha*	Fund Target
2008	6.6%	7.0%
2009	61.9%	7.0%
2010	7.7%	7.0%
2011	0.6%	7.0%
2012	9.5%	7.0%
2013	14.5%	7.0%
2014	10.7%	7.0%
2015	16.7%	7.0%
2016	-7.7%	7.0%
2017	-0.9%	7.0%
2018	-6.8%	7.0%

Given the extraordinary rally in equity markets since the beginning of the year valuations are unattractive, particularly given ongoing downgrades to earnings estimates. Overall, this makes risk-reward unfavourable. Medium term other policies remain supportive, though mainly this support is in the form of dovishness from central banks. As ECB President Draghi acknowledged, the backdrop for Europe is getting "worse and worse", and there is a limit to the effectiveness of monetary policy. The market rally in the first half of the year was predicated on a second half revival of economic fortunes globally, and a subsequent turn in earnings expectations. We are now past the mid-point of the year, and both remain conspicuous by their absence, leaving earnings estimates for the second half looking highly optimistic, despite the downward revisions we have seen year to date. More medium term, the poor macro environment combined with elevated expectations for growth in the second half of the year, continued downward pressure on earnings estimates amid already stretched valuations suggest equities will struggle from here.

Asset Allocation to 30/06/2019



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 is 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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