



# Merrion High Alpha Fund

## FACTSHEET

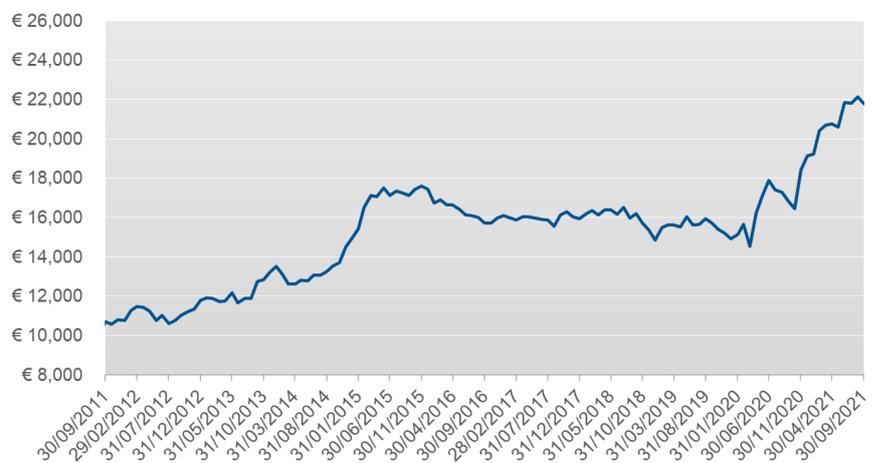
30th SEPTEMBER 2021

**Fund Strategy:** 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 KEY FEATURES

<b>Fund Type</b>	Absolute Return
<b>Bid/Offer Spread</b>	None
<b>Launch date</b>	15.08.2007
<b>Base Currency</b>	EUR
<b>Liquidity</b>	Daily
<b>Volatility*</b>	11.2%
<b>Benchmark</b>	7% Target Return

### GROWTH OF €10,000 OVER A 10 YEAR PERIOD



### ESMA Risk Rating



Source: Merrion Investment Managers

\*\*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 30.09.2021

	1 Month	3 Month	Year to date	1 Year	3 Years P.A.	5 Years P.A.	10 Years P.A.	Inception P.A.
<b>Merrion High Alpha Fund*</b>	-1.6%	-0.3%	13.9%	29.4%	10.4%	6.8%	7.4%	10.8%
<b>Fund Target</b>	0.6%	1.7%	5.2%	7.0%	7.0%	7.0%	7.0%	7.0%

Source: Merrion Investment Managers

\*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 30/09/2021. 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.

### ANNUAL RETURNS

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
0.6%	9.5%	14.5%	10.7%	16.7%	-7.7%	-0.9%	-6.8%	0.5%	28.2%

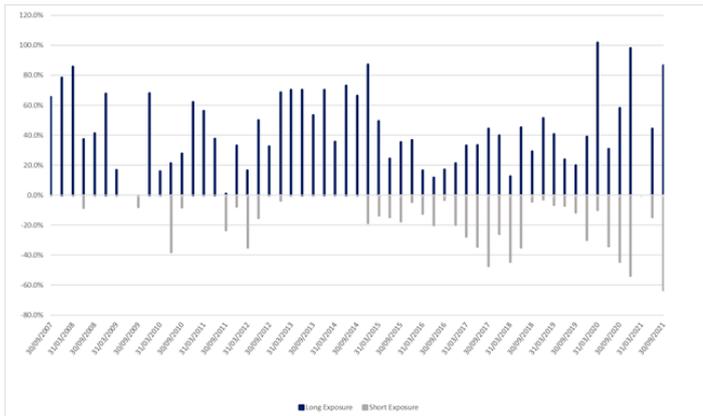
Source: Merrion Investment Managers

WARNING: Past performance is not a reliable guide to future performance.

WARNING: The value of your investment may go down as well as up.

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**HIGH ALPHA EXPOSURE SEPTEMBER**

The MSCI world in Euro terms finished the month down approximately 2% which leaves the Year-to-date return near 18%. There was notable sector dispersion with the Energy sector the standout leader returning 9.2% and the Materials (-7.6%) and Utilities (-7.55%) sector notable laggards.

Evergrande got lots of media attention during the month as it became clear they would not pay interest due on bank loans. Concerns over Evergrande drove some relative weakness in China property exposed sectors such as metals and mining. While more pain is possible in the near-term, given the too big to fail nature of Evergrande and the clearly weakening Chinese economy it is reasonable to expect a material step up in policy support in the coming months, the government will not want systemic risks to be in focus in the lead up to the 2022 CCP National Congress.

Developed markets saw a sharp pullback on the Evergrande news but as details became clearer that a managed unwind of the firm's assets, combined with a completion of their existing projects under some form of state supervision would be the most likely long-term resolution, western markets' attention gradually moved on.

There are also growing concerns over the supply chain with several companies highlighting issues including Fedex, Nike and Sherwin Williams.

Amid all that negative narrative, the delta wave has been showing clear signs of fading for the last number of weeks and vaccinations rates have risen rapidly. Corporate commentary, particularly in the consumer facing sectors, is encouraging with travel and leisure CEO's scrambling to upgrade their guidance as a surge in bookings for this winter and next year surprised all incumbents.

In other positive news, the ECB made clear they would keep financial conditions loose and Presidents Biden and Xi suggests better US / China relations ahead.

We had highlighted in our outlook at the start of the year that year 2 off a bear market low saw equity markets deliver an average annual return of 24%. With the MSCI world in Euro terms now up just under 18% at the time of writing it highlights the potential for further upside into year end.

Equity markets inflows are also hugely supportive with Global equity funds (including ETF's) having seen more inflows YTD, more than the cumulative inflows from 1996 through to 2020. Currently more than \$5 Trillion sits in US money market funds, well above pre-Covid level, conveying the potential for further inflows.

Despite the positive medium term back drop, sentiment and positioning have been relatively sanguine with a lot of our indicators at best neutral and no signs of the traditional euphoric activity that can sometimes mark the end of strong performances in equity markets. In fact, the US composite put call ratio recorded late September was at levels see at prior equity market lows.

Although many commentators are highlighting that equity valuations are the highest since the 1990's, its critical to note that in the late 1990's short term interest rates were 5%, 10 -year bond yields were 6% in nominal terms and 4% in real terms, so there is no comparison in relative terms.

Supply chain concerns are likely to remain a focal point for Q3 earnings season, but they will be sector dependent. It's worth noting that the recent decline in "supplier deliveries" across the US and EU PMI's suggest the worst may be behind us. Order volumes and corporate pricing power in the UK are at a 40 year high so rather than looking at rising input costs in isolation its important to look at them in the context of higher demand and pricing power.

Fiscal stimulus remains an important growth driver with the US infrastructure rollout (although timing is still uncertain) and the EU recovery fund likely to have a positive impact on economic activity into year end. Regards monetary stimulus, the markets are getting more comfortable with the much talked about Fed tapering which should see bonds yields continue higher, a steeper yield curve and an improvement of market breadth.

Over the month, the fund used weakness in the Technology sector to add to some high conviction ideas and reduced base metals miners on the bounce. The fund also opened new positions in the LCC Airlines given the risk reward into next year with consensus earnings forecasts looking sanguine. The fund also took profits on the long dated bond shorts given the sell off to extreme oversold conditions and as the inflation trade had become very consensus.

The Fund returned -1.6% for the month with the negative performance driven by long positions across the technology and base metals materials sectors. Long positions in names across the energy sector were positive contributors and profits were taking in these names as they got stretched to the upside late in the month.

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