

Merrion Long Bond Fund

FACTSHEET

30th SEPTEMBER 2022

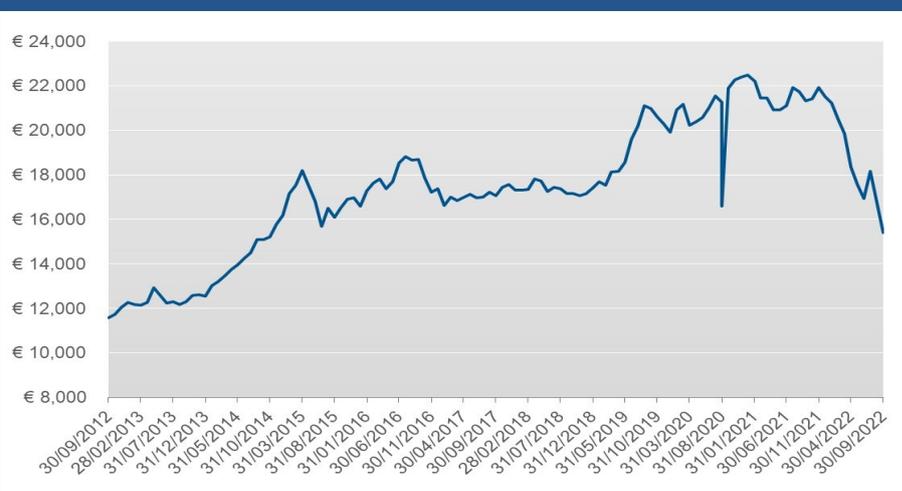


Fund Objective: The Long Bond Fund is designed as an investment vehicle to meet long term pension fund liabilities. It invests primarily in longer dated Eurozone Government Fixed Interest securities.

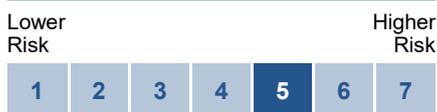
FUND KEY FEATURES

Fund Type	Fixed Income
Bid/Offer Spread	None
Launch date	19.10.2004
Base Currency	EUR
Liquidity	Daily
Volatility*	13.0%
Benchmark	Emu Govt Bonds > 10 Yr to Maturity

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 30.09.2022

	Q3	Year to Date	1 Year	3 Years P.A.	5 Years P.A.	10 Years P.A.	15 Years P.A.
Merrion Long Bond*	-9.0%	-28.5%	-28.2%	-10.0%	-2.2%	2.8%	4.2%
Average	-8.6%	-28.2%	-28.5%	-10.8%	-2.3%	2.8%	4.2%
Index¹	-8.8%	-29.6%	-29.9%	-11.8%	-2.7%	2.6%	3.8%

Source: Aon Hewitt & MoneyMate 30.09.2022

*Performance figures are quoted gross of management fees (0.10%)
Management fees are detailed in the relevant share class addendum.
1 Source ICE BofAML 10+ Year Euro Government Index

ANNUAL RETURNS

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
19.4%	2.5%	29.0%	2.7%	4.7%	-0.4%	0.5%	14.4%	12.9%	-4.8%

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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DISTRIBUTION OF ASSETS AT 30.09.2022

	Merrion	EMU Govt Bonds
>15 Years	36.0%	37.6%
15-20 Years	22.8%	25.3%
20-25 Years	5.4%	15.5%
25-30 Years	35.8%	13.7%
>30 Years	0.0%	7.9%
Total	100.0%	100.0%

DISTRIBUTION OF ASSETS AT 30.09.2022

	Merrion	EMU Govt Bonds > 10 Yr to Maturity ²
Cash	1.2%	0.0%
Core	31.8%	50.3%
Periphery	51.5%	38.4%
Semi-Core	15.5%	11.3%
Inflation Linked Bonds	0.0%	0.0%
Total	100.0%	100.0%

Source: ICE BofAML 10+ Year Euro Government Index

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² Source: Bloomberg

Please refer to our Monthly Market Update for the latest details on strategy and outlook from the investment team.

<https://www.cantorfitzgerald.ie/merrion-investment-managers/market-updates/>

FUND COMMENTARY

The fund returned -9.0% over the quarter, bringing the year-to-date return to -28.5%. The ICE BofAML 10+ Year Euro Government Index returned -8.8% over the same period, bringing the year-to-date return to -29.6%. The third quarter saw continued volatility, a 14% rally for global equities in the first six weeks of the quarter completely negated by quarter end, global equities returning -0.2% in euro terms over the quarter. Bonds also fared poorly, an initial drop in yields more than reversing to leave 10-year German bond yields almost 80 basis points higher on the quarter, with a similar rise in US 10-year yields. Stubbornly high inflation readings and the resultant hawkish rhetoric from central banks, particularly from mid-point of the quarter was the main driver of market volatility. At the end of the quarter, global equities are down 13.5% year-to-date in euro terms, a number that is flattered by the 14% fall in the value of the euro. Globally bond yields have risen by more than 200 basis points year-to-date, leading to large drawdowns in bonds (more than 20%). The Federal Reserve has increased rate by 300 basis points so far following 3 consecutive 75 basis point rate hikes and markets are currently pricing a further 125 basis points before the year is out. Even the ECB has finally moved away from negative rates, moving the deposit rate to zero in July and 75 basis points in September, with another 125 basis points priced before year-end.

The rapid tightening of monetary policy has raised significant concerns that central banks will over-do it. There are ample signs that inflation has peaked, and that the continued high inflation prints in the US are now largely being driven by lagging components such as shelter which will continue to keep reported data elevated for some time - even though current house price and rental data show that the market has already slowed materially. Indeed, The Fed has continually moved the goalposts over the course of the year, worrying about gasoline, (which is back to pre-invasion levels), supply chain issues (while still an issue, or excuse, for certain corporates, the shortages have eased materially and freight rates are falling rapidly), neon shortages (?!), inflation expectations (University of Michigan inflation expectations have fallen from 3.1 to 2.7% in recent months), and are now focusing on lagging indicators, while Chairman Powell appears obsessed with emulating Paul Volcker and focusing on historic precedent rather than the facts at hand. The strong dollar and the rising risk that the Fed will overtighten has pressured risk assets across the board. Adding to the uncertainty, the final week of the quarter saw unprecedented volatility in the UK gilt market. The UK's unfunded and un-costed mini-budget led to the collapse of the gilt market, particularly the long end. This opened the liability-driven-investment (LDI) can of worms, exposing LDI providers and their pension fund clients to enormous collateral calls, which generated yet more forced selling, leading to further collateral calls, the potential doom loop forcing an amazing about turn from the Bank of England. The bank, which had only last week said they would begin actively selling their large gilt holdings was forced to intervene, postponing these gilt sales for one month and offering to buy large quantities of long dated gilts. The gyrations in the gilt market had a huge effect on other asset classes, the largest bond market in the world seeing 25-30 basis point swings in yield, the rise in yields leading to lower equity prices and a stronger dollar. The about-turn from the Bank of England (which should be viewed more as yield curve control than QE) appears to have calmed things for now, having removed a left-tail risk. But the path ahead for the UK remains extremely difficult: a large (>4% of GDP) current account deficit combining with an unquantifiable government deficit, potentially financed by the central bank does not make for a good look. The (eventual) agreement to get an OBR costing for the mini budget has calmed things a little further. Whatever about the UK's policies, the events of the last week have shown just how difficult it will be for central banks to shrink their balance sheets, with pockets of leverage in arcane sectors of the market that nobody considers until something breaks. The move in yields had already seen the housing market in the US grind almost to a standstill, and the gilt market fiasco has led to a significant number of mortgage deals being pulled in the UK, if only temporarily. Indeed, the most hawkish Fed member (James Bullard) said this week that they "need some time to assess the impact of balance sheet run-off" and that "the Fed weighs the impact of international developments in the US". Forward looking indicators suggest weaker growth and much lower inflation. Monetary policy operates with a lag, and the Fed has raised rates more aggressively than at any time in history. More rate hikes are to come (and are fully priced), but we are more convinced than ever that we are near the end of this rate hiking cycle.

Drivers of performance: The fund entered the second quarter with duration close to that of the index, being overweight periphery debt and underweight core debt. Periphery spreads were generally stable over the quarter, though Italian spreads widened marginally. We reduced duration (selling long dated German bonds) after July's rally in bonds, though we reinvested some of the cash in late August, bringing the fund's duration back to close to that of the index.

Fund positioning and outlook: The fund enters the fourth quarter with duration close to that of the index, being overweight periphery debt and underweight core debt. The fund is also underweight longer dated 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.



Want to talk to us about investments? Contact us.

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