MERRION INVESTMENT MANAGERS

Merrion Long Bond Fund FACTSHEET

30th September 2019

The Merrion Long Bond Fund returned 7.1% during the third quarter of 2019. The ICE BofAML 10+ Year Euro Government Index returned 8.4% 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*	8.3%
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 30.09.2019

	L/Bond*	Average	Index[1]
1 Month	-0.6%	-0.5%	-0.7%
Quarter 3	7.1%	6.9%	8.4%
YTD	20.6%	19.0%	22.7%
1 Year	22.2%	21.2%	25.2%
3 Years p.a.	3.9%	4.0%	5.1%
5 Years p.a.	6.8%	7.0%	7.9%
10 Years p.a.	8.3%	8.0%	8.3%

Source: MoneyMate 30.09.2019

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

Management fees are detailed in the relevant share class addendum.

1 Source ICE BofAML 10+ Year Euro Government Index

In another volatile quarter, equities moved higher in July, sold off aggressively in August only to recoup most of those losses in early September, before drifting lower as the quarter came to a close. Although the global equity market ended the quarter higher by +4.2% in euro terms, the weakness of the euro, which fell by 4.2% against the US dollar accounted for all of those gains. Bonds globally rallied, particularly in August, with yield curves flattening and the US curve inverting. US 10 year yields were lower by 34 basis points over the quarter, their German equivalents falling by 24 basis points. 30-year yields fell even further, by 42 basis points in the US and 33 basis points in Germany. Central banks are once again in easing mode, with two rate cuts of 25 basis points each from the US Federal Reserve and a deeper move into negative territory (by 10 basis points to -0.5%) for the ECB, which also announced a restart of quantitative easing, just nine months after ending the program.

The flattening of yield curves implies the market is pricing ever-slower growth and inflation. This is clearly due to the uncertainty created by trade wars, the ongoing Brexit saga and geopolitics in the Middle East. To add to the uncertainty, towards the end of the quarter, revelations regarding a whistle-blower complaint about a request by President Trump to President Zelensky of Ukraine to investigate Joe Biden, a political rival, led to the instigation of impeachment proceedings by the Democrat-controlled House of Representatives. Political chaos is not confined to the US of course, with the Brexit saga dragging on and the UK Supreme Court ruling that the government suspension of the UK Parliament was illegal.

Drivers of performance

Having been neutral duration at the beginning of the quarter and overweight longer dated bonds, we moved to an underweight position during the quarter given what we saw as extremes of valuation in European bonds. This contributed negatively to performance on a relative basis, as yields continued to move lower, somewhat mitigated by an overweight position in periphery bonds, which saw spreads continue to tighten.

Fund positioning

Macro Analysis

The outlook for global growth has deteriorated further over the last few months. With interest rates globally already very low or negative, there is a limit to how much monetary policy can do, and it is clear that the prolonged period of uncertainty over trade has had a significant dampening effect on global growth. Global PMI indicators have weakened further and more worryingly for Europe in particular, the weakness in manufacturing (trade related) appears to be seeping out to weakness in the service sector. We have been saying for some months that the removal of the two main headwinds to global growth (Brexit and the trade war) would no doubt be a positive for the global economic outlook, but neither appears any closer to a resolution.

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DISTRIBUTION OF ASSETS AT 30.09.2019

	Merrion	EMU Govt Bonds
< 15 Years	54.1%	32.6%
15-20 Years	0.0%	23.9%
20-25 Years	21.1%	17.9%
25-30 Years	16.0%	17.5%
>30 Years	8.8%	8.1%
Total	**100.0%**	**100.0%**

DISTRIBUTION OF ASSETS AT 30.09.2019

	Merrion	EMU Govt Bonds > 10 Yr to Maturity[2]
Cash	15.3%	0.0%
Core	30.0%	46.9%
Periphery	41.7%	41.5%
Semi-Core	5.2%	11.6%
Inflation Linked Bonds	7.8%	0.0%
Total	**100.0%**	**100.0%**

1 Source ICE BofAML 10+ Year Euro Government Index

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2 Source: Bloomberg

Valuation Analysis

Given the continuation of a weaker outlook for global growth, inflation and company earnings, central banks globally have pivoted to a significantly more dovish stance, with the US Federal Reserve and the ECB in easing mode. However longer dated bond yields have collapsed, and financial markets are pricing in significant further rate cuts from the Federal Reserve. With German 10-year yields at -0.6% and 30 year yields also slightly negative, valuations are clearly unattractive.

Technical Analysis

US and European bond yields remain in downtrends with a series of lower highs and lower lows in place and the technical view is unlikely to change until evidence of a trend reversal. Looking at the longer-term chart of the US 10 year yield it is near support from the 2016 and 2012 lows but the recent price action with moves up in yield not holding leads us to believe this support is at risk and that US yields can play catch up German yields to the downside.

Positioning

Having reduced our duration from neutral mid-way through the quarter, we have maintained this position. At current levels, bonds look expensive, even given the weak economic outlook, and we look for better levels to add to duration. We remain overweight periphery markets and inflation linked bonds.

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