MERRION
INVESTMENT MANAGERS

Fund Factsheet

Merrion Managed Fund

31st January 2018

The Merrion Managed Fund returned 1.1% during January 2018. The peer group average returned 1.0% over the same period. The Merrion Managed Fund is the number 1 performing, global multi-asset fund in the Irish market over the past 20 years. Source: MoneyMate 31.01.2018

FUND PARTICULARS	
Fund Type	Multi Asset
Bid/Offer Spread	None
Launch date	20.10.1993
Base Currency	EUR
Liquidity	Daily
Risk Rating	5
Volatility*	10.6%
Benchmark	Pooled Multi-Asset Fund Average

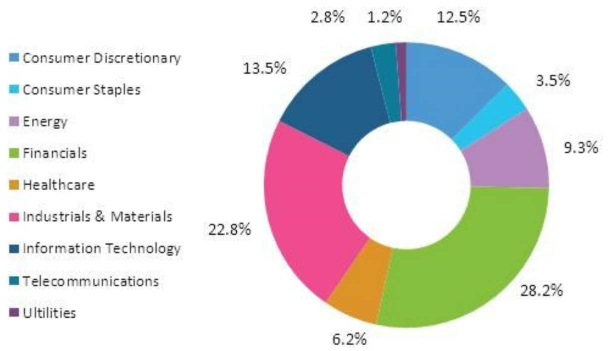
* 'Volatility' on a risk scale of 1 to 7, with level 1 being generally low risk and level 7 being generally high risk. The volatility is measured from past returns over a period of five years using weekly and monthly data where applicable. Prior to making an investment decision, you should talk to your financial advisor or broker in relation to the risk profile most suitable for you.

PERFORMANCE UPDATE AT 31.01.2018

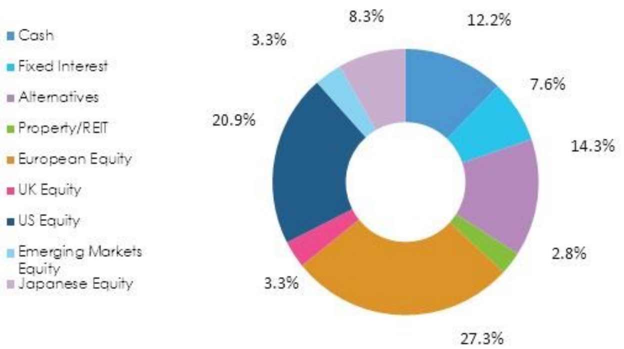
	Managed*	Pooled Multi-Asset Fund Average
1 Month	1.1%	1.0%
3 Months	-0.3%	1.4%
1 Year	7.1%	7.5%
3 Years p.a.	4.7%	4.8%
5 Years p.a.	10.2%	8.1%
10 Years p.a.	6.2%	4.7%
15 Years p.a.	7.7%	6.5%
20 Years p.a.	7.0%	5.5%

Source: Aon Hewitt & MoneyMate 31.01.2018
*Performance figures are quoted gross of management fees.

SECTORAL DISTRIBUTION OF EQUITIES



ASSET DISTRIBUTION



Please note - The alternatives allocation of 14.3% for month ending 31st January 2018 is based on a 2.6% exposure to growth assets and the balance being exposed to defensive assets.

The impressive synchronised rebound in global growth continued into 2018. Early economic indicators, especially those out of the US continue to point towards robust growth. The European economy is managing to maintain the elevated levels of activity it witnessed at the end of 2017. The year got off to a buoyant start for asset markets globally. Equity markets, and in particular High Beta equity markets boasted record returns. Emerging markets in particular were up almost 10 percent as record inflows buoyed the already ebullient mood from the end of 2017.

The much spoken about US tax reform was finally passed, giving US earnings a huge boost. There could be as much as 10% upgrades to analysts' estimates. Despite significant headwinds from an appreciating currency, there are further signs that depressed European earnings are continuing to recover; and an improving shareholder-friendly environment in Japan is clearly boosting returns. From a macro perspective, the US is seeing a lack of credit growth whereas European and Japanese credit growth is positive and appears to be accelerating. The US equity market remains expensive relative to global equities, but the undoubted benefit of the US tax reform has reduced this gap considerably.

Towards the end of the month however some warning signs began to emerge that need close attention. Post record one month inflows into equities we noted that market positioning data and sentiment indicators were at unprecedented levels. The amount of protection other funds had in place indicated a worrying level of complacency and a surprising belief in the enduring nature of the recent low level of volatility. As we head into February we have the lowest equity exposure we have had in a long time. Mindful of the potential for a severe pullback we are keen to be in a position to add stocks we like, just at more attractive levels.

Whilst inflation last year had been lower than expected, more recent inflation indicators would suggest that inflation rates should drift upwards from here. This view is supported by evidence that industrial capacity is becoming scare by historical standards, particularly in Japan and the Eurozone. Similar tightness is also evident in labour markets, with unemployment rates continuing to fall in all the major economic regions. Anecdotally, we have seen a surge in the number of corporates highlighting inflationary pressures in their business over the recent reporting season. The Federal Reserve's meeting at the end of January proved a more insightful one than had been anticipated. Being Yellen's last meeting it was expected to be a non-event. However there was a noticeable hawkish shift to the language. Given yields were already selling off all month it will be an interesting test for the markets to see how equities react to a more hawkish Federal Reserve as they can no longer ignore the inflationary pressures building. The underestimation of the return of inflation, especially US inflation is a key theme for us and it is encouraging to see it begin to play out in the data, market expectations and Central Bank commentary.

Financial markets are increasingly beginning to price in the normalisation of ultra-loose monetary policy. Bond yields globally appear to be starting 2018 by breaking out of multi-year down trends. Market participants have increased their bets on further rate hikes in the US this year to 3 in total. This is closer to both our own thinking and that laid out by the members of the Federal Reserve. Given the appointment of the continuity candidate Jerome Powell, a continuation of policy normalisation is most likely. Similarly, although the ECB has started a tapering of its Quantitative Easing, market pricing indicates that ECB's first rate hike will be in the summer of 2019.

If the global economic upswing is maintained, we expect US rate hike expectations regain momentum as inflation accelerates due to the powerful fiscal stimulus recently enacted by the administration. This should put upward pressure on the US dollar and global bond yields, and would likely benefit European and Japanese equity markets in particular, presenting a headwind to the recent outperformance of US and Emerging Market equities.

Given the above, portfolios hold overweight positions in European domestically-focussed equities and Japanese export-oriented companies, underweight positions in US and Emerging market equities (driven by relative valuation and relative earnings growth concerns), and underweight positions in bonds. Within bonds, we have switched some holdings into inflation linked bonds. These will provide protection against future inflation. In addition, we hold overweight positions in cyclical sectors such as financials, industrials and materials, and underweight positions in defensive sectors such as consumer staples, telecoms and utilities. Our three pillar investment process is indicating that our current positioning has the scope to deliver significant outperformance if the synchronised improvement in global economic data is maintained which will allow central banks to gradually normalise policy after almost a decade of ultra-loose monetary policy.

Among the risks to the outlook are political concerns in Europe and the US, stalling Brexit negotiations, a controlled slow-down in Chinese growth by the relevant authorities, and concerns that rising US bond yields cause financial conditions to tighten too quickly and cause a growth shock at a time when inflationary pressures surprise on the upside.

The Merrion Managed Fund may invest in alternative investment funds run by Merrion Capital Investment Managers or external fund managers where a performance related fee may be paid. Where the Managed Fund invests in other funds managed by Merrion Capital Investment Managers, the management charge will be rebated to the Managed Fund. Further details are available on request from Merrion Investment Managers. Merrion Investment Managers pay trade commissions ranging between 0.10% and 0.20% on trading client securities, depending on the size, nature, execution venue and other considerations relating to the execution of the trade order. An element of this trade commission may be allocated for the purposes of receiving investment research. The purpose of this research is to enhance the quality of the service to the client provided by MIM to its clients. Further details are available on request from Merrion Investment Managers.