MERRION INVESTMENT MANAGERS

Fund Factsheet

Merrion Managed Fund

30th June 2017

The Merrion Managed Fund returned –0.5% during June 2017. The peer group average returned -0.7% 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 30.06.2017

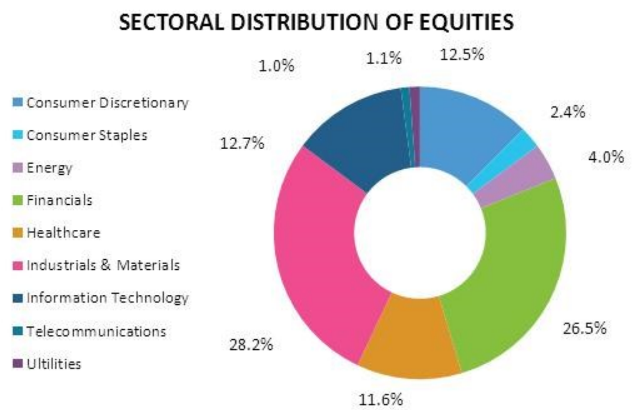
FUND PARTICULARS	
Fund Type	Multi Asset
Bid/Offer Spread	None
Launch date	20.10.1993
Base Currency	EUR
Liquidity	Daily
Risk Rating	5
Volatility*	10.7%
Benchmark	Pooled Multi-Asset Fund Average

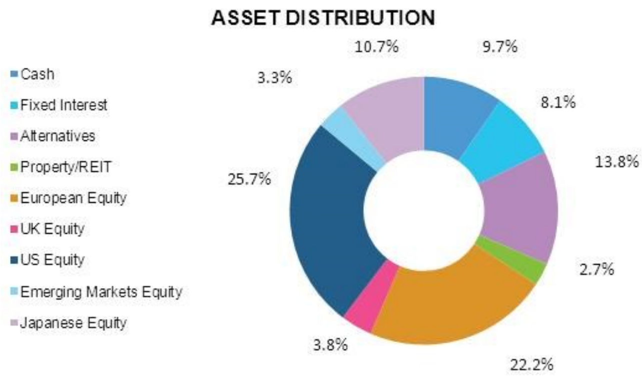
* 'Volatility' on a risk scale of 1 to 7, with level 1 being generally low risk and level 7 being generally high risk. The volatility is measured from past returns over a period of five years using weekly and monthly data where applicable. Prior to making an investment decision, you should talk to your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

PERFORMANCE UPDATE AT 30.06.2017

	Managed*	Pooled Multi-Asset Fund Average
1 Month	-0.5%	-0.7%
Quarter 2	-1.3%	-0.3%
1 Year	8.0%	8.2%
3 Years p.a.	8.8%	6.4%
5 Years p.a.	11.4%	8.6%
10 Years p.a.	4.5%	2.8%
15 Years p.a.	6.4%	5.1%
20 Years p.a.	7.8%	6.3%

Source: Aon Hewitt & MoneyMate 30.06.2017





Please note - The alternatives allocation of 13.8% for month ending 30th June 2017 is based on a 4.3% exposure to growth assets and the balance being exposed to defensive assets.

Global equities fell by -2.3% on the quarter in euro terms, to stand +3.0% higher year-to-date.

Since the end of the first quarter, US economic data has been decent, but nonetheless below consensus forecasts, whilst European data has remained strong. Indeed, the ongoing strength in European economic data, coupled with a slightly more hawkish tone of late from the ECB helped push the euro higher over the quarter, by +7.3% against the US dollar and by 8.2% against the Japanese yen.

Eurozone markets were marginally higher over the quarter at +1.2% (+8.4% year to date). The strength of the euro depressed returns achieved by euro based investors in other markets, the US equity market falling by -3.5% in euro terms (+0.9% year-to-date), Japanese equities falling by -1.4% (+1.6% year-to-date) and emerging markets falling by -0.4% (+9.4% year-to-date).

The Federal Reserve hiked interest rate again in the second quarter, the third rate hike in six months. Despite this, US bond yields spent most of the quarter drifting lower. The was partly explained by a lack of any significant strength in US activity data but additionally inflation data has disappointed, leading many to question the "reflation-trade" and markets moved to reprice expectations for Federal Reserve interest rate hikes lower. In addition, the yield curve flattened as longer dated yields fell even as short dated yields drift higher, and this put pressure on financials and other cyclical sectors in relative terms.

Towards the end of the quarter though a slightly more hawkish tone from central banks globally coupled with a strong bounce in commodity prices helped to push bond yields and inflation expectations higher again, causing yield curves to re-steepen. This trend, should it continue, should help financials to recoup their underperformance year to date.

At a sector level defensive sectors such as telecoms (-6.9% on the quarter, -5.9% year-to-date) and utilities (-3.2% on the quarter, +2.3% year-to-date) underperformed. Weakness in commodity prices pushed the basic materials sector lower by 4.6% on the quarter (+1.6% year-to-date), whilst healthcare (-0.2% on the quarter +7.0% year-to-date) was the best performing sector.

At a global level, earnings revisions have turned slightly negative, with US equities seeing the biggest downgrades. Our strongest conviction for the past six months, based on our 3 pillar process is that long term yields in the US should resume the uptrend which commenced in H2 2016, driven by ongoing strength in economic data and a reassessment (upwards) by the market of the likely path of Federal Reserve interest rates. This in turn should lead to a stronger US dollar, though given our expectation of continued strength in European economic data we preferred to express this via the Japanese yen rather than the euro. Additionally, at an equity sector level our analysis suggests that financials and other cyclical sectors should outperform defensive sectors such as telecoms, utilities and consumer staples.

Our expectations for a stronger European domestic economy, a strong US dollar versus Japanese yen and rising bond yields (globally) means 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. 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.

We believe that the recent low inflation we have seen is transitory in nature, driven by one-off declines in specific sectors, and will therefore not prevent the Federal Reserve from continuing to hike interest rates. In fact at the last FOMC meeting, the Fed Chair Janet Yellen emphasised that the recent low inflation data was driven by one-off declines in drug and telephony prices. The market however expects just two more interest rate hikes by the end of 2018, leaving scope for an upward reassessment which should put upward pressure on US bond yields. Hence we are viewing the decline in bond yields year-to-date as temporary given the still-strong economic activity data and scope for rising inflationary pressures to resume across all regions.

If the global economic upswing is maintained, we expect the dollar to strengthen as rate hike expectations regain momentum. The combination of a strong dollar and higher yields globally on the back of stronger economic activity would likely benefit European and Japanese equity markets in particular and should present a headwind to the recent outperformance of US and Emerging Market equities.

Among the risks to the outlook are political concerns, in both Europe and the US, the potential for a rise in trade protectionism, and concerns that rising US bond yields cause financial conditions to tighten too quickly and cause a growth shock.

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.