MERRION INVESTMENT MANAGERS

Fund Factsheet

Merrion Managed Fund

30th November 2017

The Merrion Managed Fund returned –1.3% during November 2017. The peer group average returned –0.2% 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 30.11.2017

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

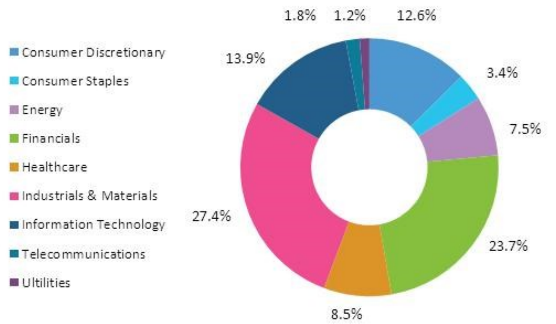
* 'Volatility' on a risk scale of 1 to 7, with level 1 being generally low risk and level 7 being generally high risk. The volatility is measured from past returns over a period of five years using weekly and monthly data where applicable. Prior to making an investment decision, you should talk to your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

PERFORMANCE UPDATE AT 30.11.2017

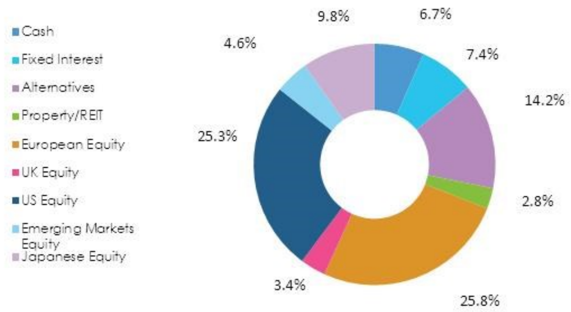
	Managed*	Pooled Multi-Asset Fund Average
1 Month	-1.3%	-0.2%
3 Months	5.3%	3.0%
YTD	5.0%	5.5%
1 Year	7.7%	7.6%
3 Years p.a.	7.0%	5.6%
5 Years p.a.	10.9%	8.1%
10 Years p.a.	5.6%	3.7%
15 Years p.a.	7.0%	5.7%
20 Years p.a.	7.7%	6.3%

Source: Aon Hewitt & MoneyMate 30.11.2017
*Performance figures are quoted gross of management fees.

SECTORAL DISTRIBUTION OF EQUITIES



ASSET DISTRIBUTION



Please note - The alternatives allocation of 14.2% for month ending 30th November 2017 is based on a 6.3% exposure to growth assets and the balance being exposed to defensive assets.

Global equities were -0.1% lower on the month in euro terms, to stand 8.2% higher year-to-date. Economic data over the month continued to point to robust growth globally.

Eurozone equity markets fell by -1.9% over the month (+13.4% year-to-date), whilst the US equity market rose by +0.7% (+6.0% year-to-date), the 2.2% rally in the euro against the US dollar all but negating the +3.0% local currency return. The Japanese market was the strongest performer, rising by +0.8% on the month and +8.8% year-to-date (+2.0% on the month in local currency terms).

Shorter dated bond yields in the US were higher over the month as strong data encouraged a re-pricing of the speed of interest rate hikes. However the interest rate the market thinks the Fed will ultimately reach has seen no reassessment, the result being little or no change in longer dated bond yields. Bond yields in Europe were lower over the month despite an apparent acceleration of economic data in the Eurozone.

At a sector level defensive sectors such as consumer staples (+1.3% on the month, +2.2% year-to-date), telecoms (+0.7% on the month, -5.7% year-to-date) and healthcare (+0.1% on the month, +6.5% year-to-date) outperformed. Materials (-1.5% on the month, +10.4% year-to-date), technology (-1.3% on the month, +25.6% year-to-date) and energy (-1.0% on the month, -9.2% year-to-date) underperformed.

Corporate earnings continue to deliver attractive growth, with Japanese equities seeing the biggest upgrades.

The impressive synchronised rebound in global growth continued in November, with a notable acceleration in Eurozone economic data.

Different regions however are clearly at different stages of the economic cycle: US earnings are no longer outperforming global earnings; there are signs that depressed European earnings are starting to recover; and an improving shareholder-friendly environment in Japan is clearly boosting returns. Additionally, from a macro perspective, the US is seeing a distinct lack of credit growth whereas European and Japanese credit growth is positive and appears to be accelerating. The US equity market therefore remains expensive relative to global equities, with the lack of relative earnings growth at these elevated levels a cause for concern. The successful passage of US tax reform in the US and any subsequent large cut in corporation taxes that would accompany this would however, all else being equal, mean that US equity market valuations are less stretched. Over the course of the last month the US Congress appears to be making progress in this regard, with passage of the bill through the Senate being smoother than the market had anticipated.

Whilst inflation this year has 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.

Financial markets have yet to price in a normalisation of the last decade's ultra-loose monetary policy, despite evidence that the global economy itself has returned to a normal path. As such just two more (0.25%) interest rate hikes by the Federal Reserve are fully priced by the end of 2018, with US interest rates of only 2% in three years' time. Given the appointment of the continuity candidate Jerome Powell, a continuation of policy normalisation is most likely. Similarly, although the ECB has announced a tapering of its Quantitative Easing, market pricing indicates that ECB interest rates will still be marginally negative in two years' time. This leaves scope for an upward reassessment which should keep upward pressure on US and European bond yields.

If the global economic upswing is maintained, we expect US rate hike expectations regain momentum as inflation returns to a more normal path. 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, 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.