Merrion Managed Fund

31st March 2018

The Merrion Managed Fund returned –2.1% during March 2018. The peer group average returned –1.4% 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 31.03.2018

FUND PARTICULARS	
Fund Type	Multi Asset
Bid/Offer Spread	None
Launch date	20.10.1993
Base Currency	EUR
Liquidity	Daily
Risk Rating	5
Volatility*	10.9%
Benchmark	Pooled Multi-Asset Fund Average

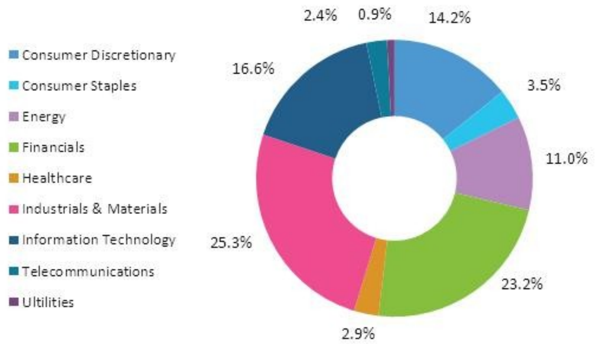
* 'Volatility' on a risk scale of 1 to 7, with level 1 being generally low risk and level 7 being generally high risk. The volatility is measured from past returns over a period of five years using weekly and monthly data where applicable. Prior to making an investment decision, you should talk to your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

PERFORMANCE UPDATE AT 31.03.2018

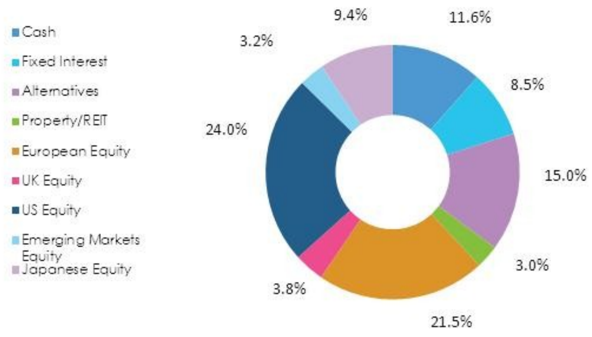
	Managed*	Pooled Multi-Asset Fund Average
1 Month	-2.1%	-1.4%
3 Months	-2.3%	-2.2%
1 Year	0.0%	1.3%
3 Years p.a.	-0.1%	1.8%
5 Years p.a.	8.6%	6.5%
10 Years p.a.	6.4%	4.7%
15 Years p.a.	7.7%	6.3%
20 Years p.a.	6.0%	5.1%

Source: Aon Hewitt & MoneyMate 31.03.2018
*Performance figures are quoted gross of management fees.
Management fees are detailed in the relevant share class addendum.

SECTORAL DISTRIBUTION OF EQUITIES



ASSET DISTRIBUTION



Please note - The alternatives allocation of 15.0% for month ending 31st March 2018 is based on a 1.9% exposure to growth assets and the balance being exposed to defensive assets.

Impressive global growth continues to be evident in 2018, despite recent market volatility. 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. Globally some growth indicators, although still buoyant, have slowed slightly relative to elevated levels at the end of 2017. Whilst the US Tax reform was undoubtedly positive for global markets the more recent actions out of the current US administration have increased market volatility noticeably. An adversarial stance towards traditional allies over long standing trade relationships and a scatter-gun approach to potentially regulating large US Technology companies has the potential to undo all the benefits of the pro-business/ pro growth policies which were implemented towards the end of 2017.

US tax reform has given both US earnings and the US economy a huge boost. There have been almost 10% upgrades to analysts' estimates for corporate earnings, about 20-30bps upgrades to GDP estimates and an unprecedented amount of share buy-back announcements. 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. The US equity market remains expensive relative to global equities, but the undoubted benefit of the US tax reform has reduced this gap considerably. Globally equity markets have de-rated substantially over the course of the first quarter of 2018 as they sold off in spite of a strong earnings backdrop. We will look to use any further equity weakness to add to stocks and sectors were we feel the valuations have become too compelling to ignore.

Whilst inflation last year had been lower than expected, more recent inflation indicators would suggest that inflation rates will move upwards from here. This was clearly evident in the recent wage inflation data from the US which so surprised markets at the beginning of February. 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 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 and are slowly starting to increase their expectations for further rate hikes in 2019. This is closer to both our own thinking and that laid out by the members of the Federal Reserve. The new Federal Reserve chairman's first public statements of substance vindicated this view. Testifying in front of the House Services Financial Committee Mr Powell gave a remarkably frank insight into his thinking. He highlighted how his personal outlook for the US economy had improved markedly since December, fuelled by US tax reform. He showed no sign of any concern over the equity market sell off over the course of Q1 and gave no indication he would be taking periods of market volatility into account when formulating monetary policy.

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.

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. The recent fiscal stimulus by the US administration has fuelled an already strong economy which had already begun to show some signs of being late in its economic cycle.

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.

WARNING: Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up.
Merrion Capital Investment Managers Limited (trading as Merrion Investment Managers) is regulated by the Central Bank of Ireland.