Corporate Client Update

July 2017

Market Review Q2 2017

Market Resilience & important victories for Europe
Global equity markets in Euro terms were negative over the quarter driven principally by the strengthening of the Euro versus its peers. The unlikely positive sentiment that followed Donald Trump's victory in the US presidential elections last November has begun to fade with each controversy, however markets in local terms remain resilient. The failure of Marine Le Pen to win the French elections in May was considered a win for Europe as it temporarily relieved pressures on the current construct of the European Union. Likewise Theresa May's decision to call an election and subsequently collapse from what appeared to be an unassailable position of strength added to the positive sentiment surrounding the EU as it was seen as softening the UK's stance in BREXIT negotiations.

The Bull market continues
In Europe, the FTSE Eurofirst 300 Index rose +0.86%. The ISEQ Overall index rose +2.93%, making it the best performing major European index in Q2.

In the US, the S&P 500 Index was up +3.09% over the quarter. The tech-heavy NASDAQ index jumped +4.16%, despite end of quarter struggles driven by the FAANG stocks (Facebook, Amazon, Alphabet, Netflix & Google).

In Asia, performance was mixed. Japan's Nikkei 225 index rose +6.15%, helped by a weaker Yen. China's Hang Seng index of Hong Kong listed shares rose +8.51% while China's Shanghai Composite index was down -0.93%.

Disconnect in fixed income markets
There appears to be a disconnect between fixed income markets and equity markets. In the US many investors appear sceptical of the Fed's newfound confidence in markets. Despite electing to raise interest rates for the third time in as many quarters – the US treasury yield dropped by 9 basis points. Many pointed to disappointing underlying inflation data & underwhelming jobs growth as evidence of weak fundamentals.

In Europe, comments from ECB President Mario Draghi at the end of June suggesting the ECB will reduce stimulus measures in the Eurozone produced a spike in yields, the German 10 year, for example, rose 21bps in the final week of the quarter to end at 0.47%. Up to this point, Eurozone yields had fluctuated around year end 2016 values.

Euro Strength
The positive sentiment in Europe was also reflected in currency markets. The dollar sunk to a 10 month low against the Euro at the end of the quarter after Draghi's bullish remarks. The Euro finished up trading at $1.14, up +6.64% since the end of Q1. Similarly it finished at £0.88, up +2.66% this quarter, helped by Theresa May's travails.

Oil concerns back to the fore
An ongoing concern this quarter has been the volatile oil price. After a poor first quarter – investors had hoped that an OPEC-led intervention would boost the price of oil in Q2. This appeared to come in May when the Cartel extended limits on its output agreement for another 2 years. Unfortunately this agreement is being undermined by several other key producers who are exempt from output freezes, notably the US (due to its extensive oil fracking industry) & Libya. WTI Crude Oil & Brent Crude Oil lost -8.94% & -9.12% respectively over the quarter.

Active Managed Fund Highlights

Average Return for Q2 *-0.9%*

Best Performer for Q2 *0.2%*
Standard Life Investments

Average Return 1 Year *10.8%*

Best Performer 1 Year *13.6%*
New Ireland

Best over 3 years *10.6% p.a*
Setanta Asset Management

Best over 5 years *13.1% p.a.*
Setanta Asset Management

Best over 10 years *6.0% p.a.*
Setanta Asset Management

Market Indices – Summary of Returns to 30th June 2017 (in Euro terms)

	Q2 %	YTD %	1 Yr %	3 Yrs % p.a.	5 Yrs % p.a.
Cash: 3 Month Euro Bank Deposit	0.0	-0.2	-0.4	-0.2	0.0
Government Bonds: ML EMU Gov't > 5 Year Bond Index	-0.7	-1.5	-5.0	4.8	7.4
LT Government Bonds: ML EMU Gov't > 10 Year Bond Index	-0.8	-2.6	-8.4	6.5	9.3
Euro Corp Bonds: ML EMU Corporate Large Cap Bond Index	-0.5	0.7	1.3	2.7	4.5
Global Equity: FTSE World Index	-0.9	3.2	16.3	12.2	13.9
Emerging Mkt Equity: MSCI Emerging Markets Index	-0.3	9.7	21.0	7.8	6.6
Commodities: 50% GSCI + 50% GSCI Non-Energy Index	-1.6	-10.5	-7.5	-11.1	-7.9

Summary of Managed Fund Returns

Active Managed Funds – Summary of Returns to 30th June 2017

Manager	Q2 %	Rank	YTD %	Rank	1 Year %	Rank	3 yrs % p.a.	Rank	5 yrs % p.a.	Rank	10 yrs % p.a.	Rank
Davy Asset Management	-1.0	4=	2.0	6	9.2	6	9.8	2	11.5	3	3.5	5
Friends First/F&C	-0.8	2	3.3	2	11.9	2	8.7	4	11.0	5	3.0	7
Merrion Investment Managers	-1.4	6=	0.9	7	7.5	7	8.2	6	10.9	6=	4.0	4
New Ireland	-1.0	4=	2.9	3	13.6	1	8.1	7	10.9	6=	3.3	6
Setanta Asset Management	-1.4	6=	2.4	5	10.7	5	10.6	1	13.1	1	6.0	1
Standard Life Investments	0.2	1	5.1	1	11.6	3	8.6	5	11.9	2	4.8	2
Zurich Life	-0.9	3	2.6	4	11.3	4	9.4	3	11.2	4	4.7	3
Average	-0.9		2.7		10.8		9.1		11.5		4.2	

Active Managed Funds – Percentage Asset Allocation as at 30th June 2017

Manager	Equities											
	Ireland	UK	Europe ex ROI & UK	North America	Japan	Other	Total	Fixed Interest	Property	Cash	Alternative Assets	Total
Davy Asset Management	0.0	4.7	12.6	44.2	1.3	6.4	69.1	10.6	11.7	8.6	0.0	100.0
Friends First/F&C	1.4	3.9	14.8	35.2	8.8	7.4	71.4	27.1	0.0	1.5	0.0	100.0
Merrion Investment Managers	3.4	3.8	18.8	25.7	3.3	10.7	65.7	8.1	2.7	9.7	13.8	100.0
New Ireland	1.9	3.5	26.0	32.0	5.6	7.4	76.4	14.3	4.7	4.6	0.0	100.0
Setanta Asset Management	7.4	9.4	9.7	37.7	1.8	1.4	67.3	11.1	9.0	11.5	1.2	100.0
Standard Life Investments	1.5	3.7	21.0	35.3	1.9	11.3	74.6	9.7	9.7	6.0	0.0	100.0
Zurich Life	6.0	5.0	18.0	28.0	6.0	6.0	69.0	27.0	0.0	4.0	0.0	100.0
Average	3.1	4.8	17.3	34.0	4.1	7.2	70.5	15.4	5.4	6.5	2.1	100.0

Active Managed Funds – Yearly Performance Figures

	2016		2015		2014		2013		2012
Setanta	12.2%	Merrion	13.6%	Setanta	17.8%	Standard Life	19.6%	Standard Life	17.5%
New Ireland	9.6%	Standard Life	10.7%	Merrion	16.7%	Setanta	18.5%	New Ireland	16.1%
Zurich Life	6.6%	Davy	10.4%	Davy	16.2%	Merrion	16.3%	Merrion	16.0%
Davy	6.3%	Zurich Life	9.8%	Aviva	16.2%	Friends First/F&C	16.0%	Davy	14.5%
Friends First/F&C	5.2%	Setanta	7.9%	Friends First/F&C	15.1%	Zurich Life	15.9%	Setanta	14.2%
Standard Life	1.1%	Friends First/F&C	7.4%	Standard Life	15.1%	Davy	15.8%	Kleinwort Benson	13.5%
Merrion	-0.7%	New Ireland	6.6%	Zurich Life	15.1%	Aviva	15.7%	Friends First/F&C	13.1%
		Kleinwort Benson	6.4%	Kleinwort Benson	14.5%	New Ireland	15.6%	Aviva	13.0%
		Aviva	6.3%	New Ireland	11.9%	Kleinwort Benson	14.7%	Zurich Life	12.9%
Average	5.8%	Average	8.8%	Average	15.4%	Average	16.5%	Average	14.5%

Warning: Past performance may not be a reliable guide to future performance. While every care has been taken in collecting this data from investment managers, it has not been audited or verified for accuracy.

Consensus Funds – Summary of Returns to 30th June 2017

Fund Name	Q2 %	YTD %	1 Year %	3 Yrs % p.a.	5 Yrs % p.a.	10 Yrs % p.a.
Friends First/F&C	1.2	3.5	11.0	9.1	11.4	4.2
Irish Life Investment Managers	0.8	2.8	11.7	9.5	11.6	3.9
Average	0.2	3.2	11.4	9.3	11.5	4.1

Representative Fund Performance

Summary of Returns to 30th June 2017

Fund Name	Type of Fund	Q2 %	YTD %	1 Yr %	3 Yrs % p.a.	5 Yrs % p.a.	10 Yrs % p.a.
Davy Global Equity	Global Equity	-1.7	3.5	14.3	10.3	12.3	2.6
Friends First/F&C International Equity	Global Equity	-1.6	4.3	16.2	10.6	12.9	5.0
ILIM Dynamic Global Value	Global Equity (Traditional Value Style)	-2.4	2.9	14.2	12.8	15.3	-
KBI GI Dividend Plus Global Equity	High Yield Global Equity	-3.7	0.0	15.1	9.8	13.3	6.0
KBI GI Innovator	Alternative Investment Themes/Trends	-2.0	3.6	13.7	2.6	5.0	-0.3
Merrion Global Equity	Global Equity	-3.3	0.1	10.0	9.6	11.9	4.1
Merrion High Alpha	Concentrated Absolute Return Fund	-1.1	-1.9	-2.8	5.2	6.0	-
New Ireland Consensus IRIS 2022+	Target Date Lifestyle Fund	0.4	1.9	5.4	5.5	8.5	2.0
Setanta Dividend Fund	High Yield Equity	-2.3	2.6	11.6	10.3	14.2	5.9
Setanta Global Focus Fund	Concentrated Global Equity	-2.6	1.8	10.1	10.3	12.8	8.0
Standard Life GARS	Absolute Return Fund	1.1	0.8	3.0	1.6	3.3	5.2
Standard Life Global Equities	Global Equity	-1.5	3.6	16.8	8.4	13.3	4.9
SSgA International Equity	Global Equity	1.9	6.6	26.0	6.3	12.3	3.9
Zurich Life 5*5 Global Equity	Concentrated Global Equity	-1.1	3.1	16.3	10.7	11.1	3.7
Zurich Life International Equity	Global Equity (Rotational Style)	-1.8	3.3	16.1	11.8	13.3	5.6

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Market Outlook

Briefly outlined below are some of the key considerations with respect to the outlook for the economy, monetary policy and various asset classes.

Better than ever, but not good enough

At their most recent meeting in June – the Organisation for Economic Co-operation and Development (OECD) stated that the global economic outlook is looking better than ever but has not yet improved sufficiently to make a material difference to people's lives. OECD have projected that the world economy is likely to grow 3.5% this year which would be the fastest growth since 2011 and an upward revision of the November prediction of 3.3%. The global economy grew at 3% in 2016.

Although the tone of the report was (unsurprisingly) positive the outlook is still clouded with substantial risks. While the overall global GDP was revised upwards – the US GDP prediction was reduced from its November prediction of 2.3% to 2.1%. Recent failures by the Trump administration to pass reforms in the Senate as well as swirling controversies around his connections with Russia have given reason for a less optimistic assessment of his administration. Amidst unusually low financial market volatility (the VIX has been trading in and around 10 for the last 6 months) the fear is that another policy miss-step could cause a sudden market reassessment of policy-related risk and provoke financial stress. All eyes will be on the White House this quarter as they promise to unveil their tax reform bill in early September.

Contrasting fortunes in the US & Europe

After spending years facing criticism for not being aggressive enough with raising interest rates – the Fed is now facing new criticism of moving too fast. We have now seen 3 rate hikes in the last 18 months in the US after going over 7 years with no action. Such a long period of accommodative monetary policy has understandably hooked market participants and there is now a real fear of what will happen when the 'punch bowl' is taken away. Most of the major US indices look wildly overpriced having consistently scaled new heights over the last 6 months & many investors now expect a correction that may be triggered by more restrictive monetary policy. Inflation data in the US suggest that the US economy is still undercooked with core PCE coming in at 1.7% - below the 2% target but Janet Yellen has nonetheless proceeded with her plans to raise interest rates gradually.

Europe, on the other hand, appears to be emerging from a tumultuous year in 2016 with renewed hope & strength. Mario Draghi finds himself in the unusual position of being free of political pressures having seen off most of the populist movements around the EU. The Dutch elections turned out to be a non-event while populist candidate Marine Le Pen was defeated in the French elections in May. With European inflation figures having improved and economic growth returning to the euro area – there is increasing argument to normalize monetary policy in the EU.

The long goodbye

One year on from Brexit and we are no closer to a resolution. The 19th of May 2017 marked the official commencement of negotiations between the UK & EU with a 2 year deadline. Theresa May's failure to secure a majority on the 8th of June was seen by many as a victory for Europe. May has been immovable in her stance of achieving the very best possible deal for the UK which has translated in many cases to unrealistic expectations. Her failure to capture a majority should soften the UK stance and allow for more constructive negotiations. While the UK has managed to generally weather the Brexit storm – the pound has struggled since the referendum and should be a consideration for investors when assessing their currency exposure.

Preparing for all eventualities

Given the influence of central bank policy since 2009, investors have become accustomed to rising equity markets with very little volatility. However it is important to remember that equities have historically been the most volatile asset class. So to expect the current trend to continue indefinitely would be ill-advised.

A return of volatility does not necessarily have to be bad news as it can give opportunities for active managers to demonstrate their skill and add value. Absolute return funds have had periods of underperformance over the last few years but in reality in a rising equity environment, there is little reward for positioning the portfolio more cautiously (as is their mandate). It may be that we are just approaching the time when these strategies may be needed the most.

The most important thing for members of a pension scheme is to align oneself to the most appropriate fund given one's willingness and ability to take risk, time to retirement and overall retirement goal.

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