Corporate Client Update

July 2019

Market Review Q2 2019

Speed Bumps and Propane
Quarter 2 of 2019 saw markets press forward and retreat in a staccato like boom and bust fashion. April saw markets pressing ahead with corporate earnings results supporting the positive momentum experienced through the first quarter of the year. May brought about a swift retreat in markets driven by signs the political deadlock between the US and China was far from concluded. Amidst the political stand-off that followed the tweets was tit-for-tat tariffs. Fears of protracted negotiations and an exacerbated slowdown in global growth resulted in markets falling over 5% as "safe haven" assets reigned supreme. The final month of the quarter demonstrated the juxtaposed interaction of central banks and markets with reassuring tones seeing investors march back into the playground to the sound of that familiar tune of "You've got a friend in me".

Global equities finished the quarter up 2.6% in euro terms. This performance was driven by further softening in political risk, more accommodative central bank tones and no surprises on the corporate earnings side.

Central Banks – To Infinity and Beyond!!
If the show isn't wrong then just keep repackaging it. That seems to be the central bank policy at present as both the US Federal Reserve (Fed) and European Central Bank (ECB) look to appease the baying crowd. With stagnating inflation and signs of a slowdown in global growth, markets began pricing in cuts in US interest rates. As momentum gathered on this view, the Fed has positioned itself to deliver a tonic the market is unsure whether it truly needs but ultimately desires.

Where the Fed has the potential to deliver a blockbuster, the ECB lurks in the shadows charming audiences that they have the capacity to deliver whatever is necessary but ultimately playing the supporting role. Monetary policy globally looks to be adopting a similar pattern of not just turning Japanese but embracing it.

PTSD - Politics, Trade and Social Disquiet
The global economy has endured an abrasive number of months with political stalemates driving market scepticism. Donald Trump, no stranger to controversy, stoked the embers of China and Mexico on trade deals and Iran on its nuclear enrichment program. Elsewhere within Europe, Brexit discussions continued at pace, or should I say the lack thereof, whilst the European elections saw significant gains for non-traditional parties as the electorate expressed their disquiet at mainstream parties.

The UK's withdrawal from the EU has become a localised issue with suitors for Theresa May's leadership role pledging to renegotiate the deal struck with the EU and to leave the union this year. These assertions appear unlikely, although with political point scoring and saving face appearing more important than the subsequent outcome, it is not inconceivable that a no deal Brexit could transpire. Parish politics continues to take the lead.

Active Managed Fund Highlights

Average Return for Q2 — *1.9%*

Best Performer for Q2 — *3.1%*
Merrion Investment Managers

Average Return 1 Year — *5.3%*

Best Performer 1 Year — *8.9%*
Davy Asset Management

Best over 3 years — *8.1% p.a.*
Davy Asset Management

Best over 5 years — *8.9% p.a.*
Davy Asset Management

Best over 10 years — *11.0% p.a.*
Setanta Asset Management

Key Market Indices – Summary of Returns to 30th June 2019 (in Euro terms)

Asset Class	Q2 %	YTD %	1 Yr %	3 Yrs % p.a.	5 Yrs % p.a.
Cash: 3 Month Euro Bank Deposit	-0.1	-0.2	-0.4	-0.4	-0.3
Government Bonds: ML EMU Gov't > 5 Year Bond Index	5.0	9.1	9.6	2.3	5.3
LT Government Bonds: ML EMU Gov't > 10 Year Bond Index	7.6	13.2	13.6	2.8	7.5
Euro Corp Bonds: ML EMU Corporate Large Cap Bond Index	2.2	5.4	4.8	2.4	2.8
Global Equity: FTSE World Index	2.6	17.1	9.2	11.3	10.8
Emerging Mkt Equity: MSCI Emerging Markets Index	-0.7	11.2	4.2	10.2	6.7
Commodities: 50% GSCI + 50% GSCI Non-Energy Index	-2.5	7.3	-4.9	-1.3	-6.1

Summary of Managed Fund Returns

Active Managed Funds – Summary of Returns to 30th June 2019

Manager	Q2 %	Rank	YTD %	Rank	1 Year %	Rank	3 yrs % p.a.	Rank	5 yrs % p.a.	Rank	10 yrs % p.a.	Rank
Friends First	1.6	5	11.7	4	4.7	5	7.7	2	7.5	4	9.4	5
Merrion Investment Managers	3.1	1	14.4	1	3.1	7	5.0	7	6.5	6=	8.8	7
New Ireland	1.6	4	11.6	5	4.8	4	7.2	4	6.5	6=	9.1	6
Davy Asset Management	2.6	2	13.2	2	8.9	1	8.1	1	8.9	1	10.2	3
Setanta Asset Management	1.0	7	10.6	7	6.1	2	7.5	3	8.7	2	11.0	1
Aberdeen Standard Investments	1.5	6	12.9	3	4.0	6	6.9	6	7.0	5	10.5	2
Zurich Life	1.9	3	11.3	6	5.2	3	7.2	5	7.7	3	9.7	4
Average	1.9		12.2		5.3		7.1		7.5		9.8	

Active Managed Funds – Percentage Asset Allocation as at 30th June 2019

	Equities											
Manager	Ireland %	UK %	Europe ex ROI & UK %	North America %	Japan %	Other %	Total %	Fixed Interest %	Property %	Cash %	Alternative Assets %	Total %
Friends First	1.1	2.6	11.3	42.9	4.9	10.2	72.8	25.7	0.0	1.4	0.0	100.0
Merrion Investment Managers	3.2	5.6	10.7	32.6	1.6	5.5	59.2	15.4	3.1	8.0	14.3	100.0
New Ireland	1.2	3.5	23.4	31.1	6.1	6.4	71.7	18.0	4.1	6.2	0.0	100.0
Davy Asset Management	0.0	4.6	13.0	44.3	5.5	1.4	68.8	14.2	10.7	6.3	0.0	100.0
Setanta Asset Management	7.4	9.4	11.2	32.3	1.0	2.2	63.5	14.4	10.2	10.9	1.1	100.0
Aberdeen Standard Investments	0.8	4.3	15.7	39.4	5.1	8.7	74.0	19.4	6.4	0.2	0.0	100.0
Zurich Life	0.0	4.0	11.0	42.0	5.0	4.0	66.0	32.0	0.0	2.0	0.0	100.0
Average	2.0	4.8	13.8	37.8	4.2	5.5	68.0	19.9	4.9	5.0	2.2	100.0

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.

Active Managed Funds – Yearly Performance Figures

	2018		2017		2016		2015		2014
Davy	-2.0%	Aberdeen Standard	9.3%	Setanta	12.2%	Merrion	13.6%	Setanta	17.8%
Setanta	-2.7%	Friends First	8.2%	New Ireland	9.6%	Aberdeen Standard	10.7%	Merrion	16.7%
Zurich Life	-3.7%	New Ireland	7.6%	Zurich Life	6.6%	Davy	10.4%	Davy	16.2%
Friends First	-4.6%	Setanta	6.8%	Davy	6.3%	Zurich Life	9.8%	Aviva	16.2%
Aberdeen Standard	-6.9%	Davy	6.4%	Friends First/F&C	5.2%	Setanta	7.9%	Friends First/F&C	15.1%
New Ireland	-7.1%	Zurich Life	6.1%	Aberdeen Standard	1.1%	Friends First/F&C	7.4%	Aberdeen Standard	15.1%
Merrion	-8.9%	Merrion	4.4%	Merrion	-0.7%	New Ireland	6.6%	Zurich Life	15.1%
						Kleinwort Benson	6.4%	Kleinwort Benson	14.5%
						Aviva	6.3%	New Ireland	11.9%
Average	-5.1%	Average	7.0%	Average	5.8%	Average	8.8%	Average	15.4%

Consensus Funds – Summary of Returns to 30th June 2019

Fund Name	Q2 %	YTD %	1 Year %	3 Yrs % p.a.	5 Yrs % p.a.	10 Yrs % p.a.
Friends First/F&C	2.7	12.5	5.1	7.5	7.8	10.3
Irish Life Investment Managers	2.4	12.9	6.7	8.0	8.2	10.1
Average	2.6	12.7	5.9	7.8	8.0	10.2

Representative Fund Performance

Summary of Returns to 30th June 2019

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	2.9	17.2	10.4	11.2	10.0	11.4
Friends First/F&C International Equity	Global Equity	1.3	14.1	6.0	10.6	9.6	11.9
ILIM Dynamic Global Value	Global Equity (Traditional Value Style)	0.2	13.3	6.8	9.1	10.3	12.9
KBI GI Dividend Plus Global Equity	High Yield Global Equity	-0.5	11.6	1.7	7.6	7.4	12.3
KBI GI Innovator	Alternative Investment Themes/Trends	2.0	15.4	7.3	8.1	3.7	5.6
Merrion Global Equity	Global Equity	3.0	17.7	3.5	6.5	7.7	10.4
Merrion High Alpha	Concentrated Absolute Return Fund	-0.2	4.5	-4.8	-2.5	2.1	3.6
New Ireland Consensus IRIS 2022+	Target Date Lifestyle Fund	1.8	7.2	4.3	4.6	5.0	8.8
Setanta Dividend Fund	High Yield Equity	-0.7	11.7	8.9	8.2	8.8	12.1
Setanta Global Focus Fund	Concentrated Global Equity	-1.1	8.7	-2.4	6.5	8.0	12.9
Aberdeen Standard Investment GARS	Absolute Return Fund	0.9	4.5	2.0	0.3	0.6	4.4
Aberdeen Standard Global Equities	Global Equity	3.0	19.0	4.4	7.8	6.4	11.6
Zurich Life 5*5 Global Equity	Concentrated Global Equity	3.0	16.3	6.6	11.0	9.8	10.5
Zurich Life International Equity	Global Equity (Rotational Style)	2.2	16.2	7.2	10.3	10.1	12.1

Market Outlook

Briefly outlined below are some key considerations with respect to the outlook for the economy in 2019 with a specific focus on drivers of global growth and political sentiment. Also included is a snippet from the latest edition of the Invesco Education Series.

Central Bank Policy – unlimited refills
Central banks continue to draw close investor focus. With the likelihood of a protracted pause or even cut in interest rates, the party continues within global markets. Without wanting to turn on the lights and stop the music, central banks have taken to offering unlimited refills as a means to keeping the attendees from fleeing for the exits en masse. Despite the potential limitless supply of beverages, however, central banks have forgotten that they also need attendance to run a successful venue. No point playing to an empty dancefloor after all. Going forward central banks, using all tools available to them, may even take to paying people to enter the venue in addition. The coming months for central banks promises as much entertainment and discussion as Love Island, irrespective of whether you want to join the party or stare at it from across the road.

Growth and Corporate Profitability – keeping the train moving
Whilst the political discussions proliferate the media some items worth keeping an eye on are that of global growth and corporate profitability. It is worth remembering that these two factors ultimately drove the sell-off in Q4 2018 when the trade discussion stalemate between the US and China was noted as having an impact on global growth. Whilst this was brushed aside in 2019 as corporate revenues and profitability stood firm, the protracted nature of global trade discussions will ultimately have an impact on individual corporate profitability. With relaxed central bank policy the option of increasing debt levels to drive corporate profitability may be enticing in the short term, but economists will watch closely that corporates do not gorge on cheap credit.

2019 thus far has been very strong within markets. Given those gains, the new years' resolution of carrying out a health check and ensuring your investment strategy is appropriate to your time horizon and risk appetite could be beneficial.

Invesco Education Series – Smaller Companies
Equity markets have benefitted from significant upside over the past decade, none more so than small cap equities. As part of our Q2 2019 Invesco Education Series we have provided an insight on smaller companies. If you would like to learn more about this topic and some of the conclusions we came to - please contact your Investment Consultant. We would be happy to forward on the recently completed paper on the topic.

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