PENTAGON
High Conviction Bond Fund

MANAGED BY ICM

February 2024 – Share Class B (USD)

MORNINGSTAR ★★★★

Morningstar Category % Rank 5 Year

2

Best=1 Worst=100

Overall rating out of 912 Global High Yield Bond funds as of 29 February 2024.

THE FUND:
The Pentagon High Conviction Bond Fund is a subfund of Merrion Capital Investment Funds Plc., an open-ended investment company with variable capital incorporated in Ireland with registered number 427248 established as an umbrella fund with segregated liability between sub-funds.

OBJECTIVE:
The Pentagon High Conviction Bond Fund's objective is to target attractive risk adjusted returns through a combination of income and capital appreciation by investing in a concentrated portfolio of higher yielding global corporate bonds.

INVESTMENT APPROACH:
The Pentagon High Conviction Bond Fund looks to gain a meaningful exposure to 'higher alpha' global credit opportunities through an investment approach that focuses on value investing, bottom-up credit selection and delivering absolute investment returns.

INVESTMENT MANAGER
ICM Investment Management Limited is the sub-investment manager to the Pentagon High Conviction Bond Fund. www.icmim.limited

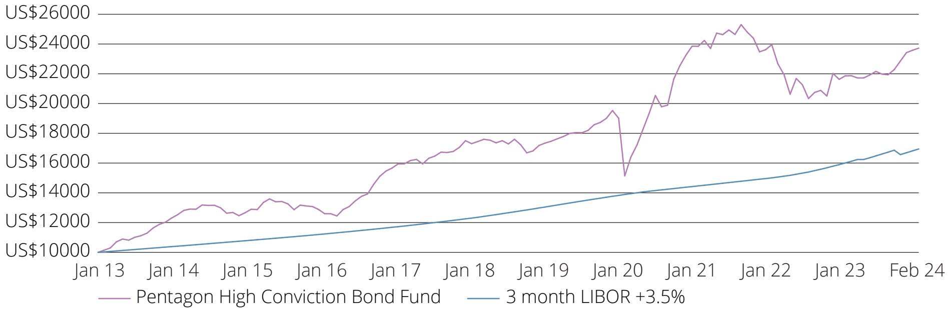
FUND INFORMATION

Total Net Assets	€11.57m
NAV per Share (Class USD)	$134.81
NAV at Launch (1 May 2018)	$100.00
Underlying Running Yield	5.54%
Effective Duration	3.97
Number of Positions	32

Domiciled	Ireland
Share Classes	Euro/USD
Minimum Subscription	€10,000
Sub Investment Manager	ICM Investment Management Ltd
Liquidity	Daily
Total Expense Ratio	1.50%
Investment Advisor	ICM Limited
Custodian	Northern Trust
Fund Administrator	Northern Trust
Investment Management Company	Merrion Capital Investment Funds PLC

PERFORMANCE

GROWTH OF US$10,000 SINCE INCEPTION

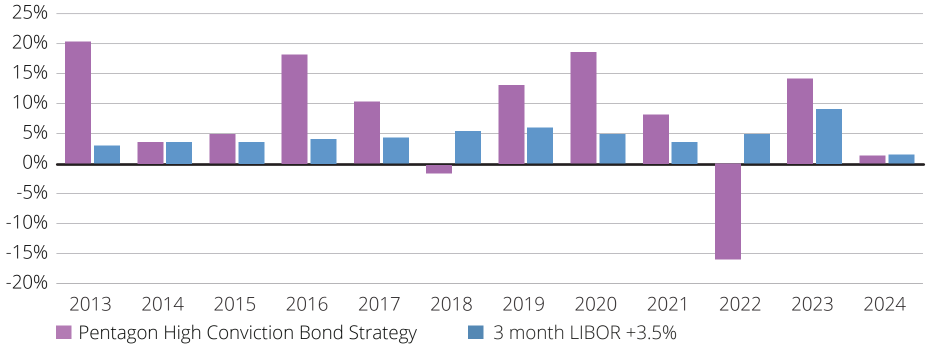


STRATEGY PERFORMANCE (USD)

	1 month	3 month	1-year	3-years	5-years	Annualised Return since Inception
Absolute Return	0.6%	3.8%	9.7%	-0.2%	6.5%	8.1%
	YTD*	**2023**	**2022**	**2021**	**2020**	**2019**
Absolute Return	1.3%	14.2%	-16.0%	8.2%	18.6%	13.1%

* Calendar year to date

PENTAGON HIGH CONVICTION BOND STRATEGY – ANNUAL PERFORMANCE (USD)



FUND DETAILS

SHARE CLASSES & MONTH-END NAV

Share Class	ISIN	Bloomberg	Month End NAV
Share Class A (EUR)	IE00BF1F4X98	BBG00KG5NFM3	€120.31
Share Class B (USD)	IE00BF1F4Y06	BBG00KG5NFS7	$134.81
Share Class E (GBP)	IE00BHR48L00	BBG00NDP1YN8	£91.63
Share Class G (USD)	IE000HLGDJJ3	BBG0141HCP84	$101.39
Share Class P (USD)	IE000P52VV31	BBG015HY7961	$98.89

TEAM
- Gavin Blessing, Portfolio Manager
- Conor Spencer, Portfolio Manager

The value of investments and the income therefrom may fall or rise. Past performance is not indicative of future performance. For the full Performance disclosure statement, please see the final page of this document.

FUND LETTER FEBRUARY 2024

February 2024 was another strong month for equity markets. In the U.S., the S&P 500 was up 5.2% (5.3% inclusive of dividends). In Europe, the Eurostoxx was up 4.9% (5.1% inclusive of dividends).

Over the past twelve months, the S&P 500 has outperformed the Eurostoxx by 13.3%, returning 28.4% versus 15.1% for the Eurostoxx. On a total return basis (i.e. including dividends), the S&P 500 has outperformed the Eurostoxx by 11.5%, returning 30.4% versus 18.9% for the Eurostoxx.

However, over the past thirty-six months, the Eurostoxx has outperformed the S&P 500 by 0.1% per annum, returning 10.3% annualised versus 10.2% for the S&P 500. On a total return basis (i.e. including dividends), the Eurostoxx has outperformed the S&P 500 by 1.9% per annum, returning 13.8% annualised versus 11.9% for the S&P 500.

We expect the S&P 500's recent outperformance to continue, given the diverging outlook for economic growth between the US and Europe. The European equity market also lacks exposure to technology names most likely to benefit from Artificial Intelligence ("AI"). If the Eurostoxx lacks exposure to technology names at 15.4%[i] versus 28.2% for the S&P 500[ii] , then the FTSE 100 has a serious deficit, with just 1.0% exposure to technology[iii]. The FTSE 100 return was flat for the month, it trails the S&P 500 by 10% already this year, and has underperformed the S&P 500 by 38% since the month-end low for the S&P 500 in September 2021.

Even Emerging market equity, a recent laggard in equities, was up 4.2% for the month after Chinese equities rallied by 6.6%. Year-to-date, emerging markets, as measured by the MSCI Emerging Market equity index, are flat.

In February, U.S. three-month treasuries continued to be subdued, increasing by just 2bps to 5.38%. Since the U.S. Federal Reserve last increased rates in July 2023, U.S. three-month treasuries have been range-bound between 5.33% and 5.44%.

If interest rate volatility is subdued at the short end of the curve, volatility at the longer end is anything but, with volatility reaching fresh post-GFC highs in February. In February, U.S. three-year treasuries lurched higher by 43bps to 4.41%, U.S. ten-year treasuries went higher by 34bps to 4.35%, while U.S. thirty-year treasuries went higher by 21bps to 4.38%. The yield curve remains deeply inverted. US Treasury bonds, measured by the Barclays US Aggregate Government Index, fell by 1.3%.

At the end of February, the interest rate differential between U.S. Treasuries and German bunds was c. 180bps, with German bunds offering a lower interest rate. The interest rate difference at the end of the month was broadly similar to the difference at the beginning of the month. European government bonds, as measured by the Barclays Euro Aggregate Government Index, fell by 1.2%.

Japanese Treasury Bonds had an interest rate c. 400bps lower than U.S. Treasuries, while U.K. gilts had an interest rate c. 10bps higher than U.S. Treasuries.

In the US high-yield market, as measured by the ICE Bank of America High-Yield Index, spreads tightened by 30bps from 3.59% to 3.29%. The high yield index returned 0.3% in February. High yield spreads have only been tighter than current levels c. 13% of the time since 1997. The all-time tight on high yield spreads was 2.53% in June 2007. The all-time wide on high yield spreads was 21.82% in December 2008.

In the US investment grade market, as measured by the ICE Bank of America US Corporate Index, spreads remained flat at c. 1.0%. The investment grade index returned negative 1.4% in February, mainly due to rising yields, as noted above. Bond prices fall as yields rise. Investment grade spreads have only been tighter than current levels c. 23.6% of the time

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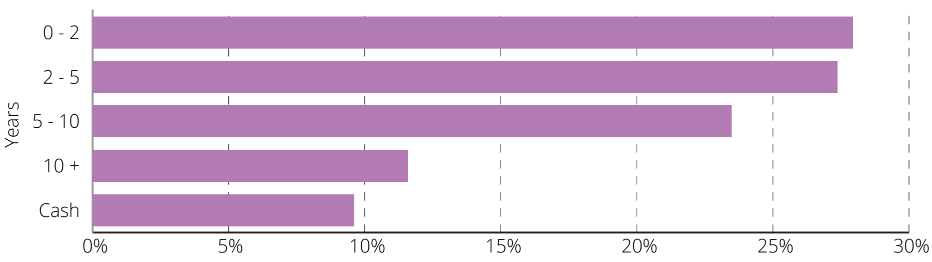
DURATION SPLIT OF INVESTMENTS



PORTFOLIO SUMMARY

TOP TEN HOLDINGS[1]		% of gross assets
1	Aris Gold 7.5% 2027	5.78
2	DNO 7.875% 2026 (Sep 2024)	5.67
3	Cosan O/seas. 8.25% Perp (Discrete 30 days notice)	5.25
4	Bath and Body Works 7.6% 2037	4.66
5	Aviva 6.875% 2058 (2034)	4.15
6	Arcelor Mittal 6.75% 2041	4.11
7	L&G 5.5% 2064	3.90
8	Coinbase 0.5% 2026	3.74
9	Just Group 5% Perp (Mar 31)	3.65
10	Block 0.125% 2025	3.59
TOTAL		**44.52**

INDUSTRY GROUP SPLIT OF INVESTMENTS	
Oil&Gas	17.50%
Insurance	13.47%
Sovereign	12.01%
Retail	9.86%
Cash	9.61%
Diversified Finan Serv	8.47%
Banks	6.58%
Mining	5.78%
Iron/Steel	4.11%
Commercial Services	3.59%
Pipelines	2.38%
Internet	1.99%
Healthcare-Services	1.60%
Building Materials	1.48%
Transportation	1.33%
Auto Manufacturers	0.23%
Other	0.03%

GEOGRAPHICAL SPLIT OF INVESTMENTS	
United States	40.27%
Great Britain	16.99%
Cash	9.61%
Norway	8.06%
Brazil	6.58%
Canada	5.78%
Luxembourg	4.11%
Switzerland	2.95%
France	2.04%
Singapore	1.99%
Italy	1.59%
Other	0.03%

HIGH CONVICTION STRATEGY ANALYTICS[1]	
Average Credit Quality	BBB
Sharpe Ratio (Risk Free Ref: US 3mth T-Bill)	0.65
Annualised Standard Deviation	10.55%
Correlation to Treasuries	-0.14
% Periods Up:	66
% Periods Down:	34

[1] Source: ICMIM

WARNING: Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up. If you invest in this fund you may lose some or all the money you invest. This fund may be affected by changes in currency exchange rates.

since 1997. The all-time tight on investment grade spreads was 0.53% in October 1997. The all-time wide on investment grade spreads was 6.56% in December 2008.

Gold was up 0.2% in February but remained below its all-time high of USD 2,077 per ounce in December 2023. Over the past twelve months, gold has increased by 12%.

Oil prices have increased by 8.5% since the beginning of the year, with Brent crude trading at USD 83.6 per barrel at the end of February. Meanwhile, U.S. natural gas prices fell by -11.4% in February 2024, bringing the total decline so far in 2024 to 26.0%. U.S. Natural gas is back to the same price as it was in July 2020. Welcome relief for consumers.

PERFORMANCE

In February, the Pentagon High Conviction Bond Fund (the "Fund") increased by 0.6%, versus negative 1.4% and positive 0.3% for the U.S. investment-grade and high-yield indices, respectively.

Year-to-date, the Fund has returned 1.3%, compared to negative 1.3% and positive 0.3% for the U.S. investment-grade and high-yield indices, respectively.

Since its inception, the Fund has returned over 137.2% in total or 8.1% annually.

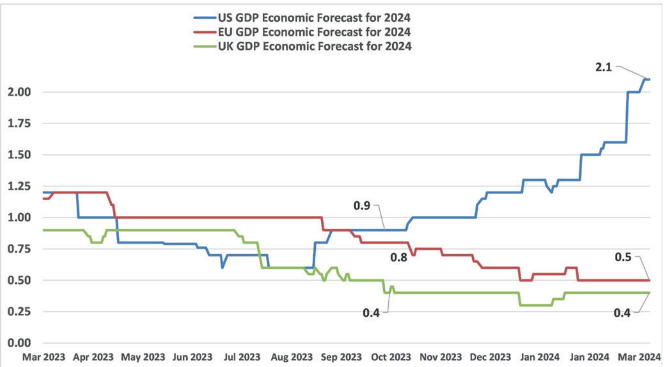
Per Morningstar, the Pentagon High Conviction Bond Fund is in the 2nd percentile of top-performing Global High Yield Bond Funds out of 674 funds over the past five years.

MARKET OUTLOOK

Of all the major developed economies, the U.S. continues to enjoy the best economic performance, has the best economic prospects, and, therefore, continues to see the best financial market results. While we expect the U.S. growth rate to be softer in Q1 2024 than Q3 and Q4 2023, due to below-average retail sales and reduced construction activity caused by adverse weather conditions, we still expect the U.S. economy to grow strongly in Q1 and throughout 2024. The Federal Reserve Bank of New York and the Atlanta Federal Reserve Bank expect a growth rate of 2.3% and 2%, respectively, in Q1 2024.

The following graph shows economic growth forecasts for 2024. Since the end of September 2023, the US GDP economic forecast for 2024 has increased from 0.9% to 2.1%. By comparison, over the same period, the U.K. and E.U. economic forecasts for 2024 have remained flat at 0.4% and declined to 0.5% from 0.8%, respectively.

GDP Forecast for 2024



Source: Bloomberg

Divergence in macroeconomic growth expectations

The divergence in macroeconomic growth expectations would suggest that the European Central Bank and the Bank of England are more likely to cut interest rates first. Not so, according to Bloomberg's World Interest Rate Probability (WIRP) index, which is derived from the prices of central banks' target funds futures. The WIRP function shows an 80% probability of a rate cut in June 2024 in the U.S. and Europe and 80% by August in the UK.

Irrespective of when the central banks start to cut, we expect a steadier and steeper cutting cycle in Europe and the UK, and the risk is skewed toward a later-than-expected start and possibly shallower cutting cycle in the U.S.

The U.S. Federal Reserve Bank has historically led the way in cutting cycles, but not this time. Already, a few major economies have started to cut rates to a more normal level after their period of elevated rates. These countries, emerging markets mainly, believe they have conquered inflation and must restimulate domestic growth. Brazil is the best example, where the central bank has cut its target rate by 50 basis points at its last five meetings since August 2023. Mexico, the emerging market country most sensitive to the U.S. economy and Federal Reserve interest rate policy, has not yet cut rates, even though inflation has fallen to 4.40% versus a twenty-year average of 4.45%. The ECB president, Christine Lagarde, said last week that the ECB will act independently of other central banks as necessary.

U.S. Dollar relative strength

The prevailing elevated Federal Reserve funds rate in the U.S. and the perception or belief that the U.S. Federal Reserve Bank will not cut rates as soon or as aggressively as other central banks are two sources of strength for the U.S. dollar.

Year to date, the U.S. dollar is c. 2.5% stronger versus its general international value. At one point, on February 13th, the Big Dollar Index (as it is known colloquially) was up 3.5% versus its trade-weighted basket of counterpart currencies. We believe the current correlation coefficient of 80%+ for US versus UK and EU two-year government bonds is too high, given the divergence in the economic forecast (above) and Q4 2023 corporate earnings. For instance, after 80% of S&P 500 companies had reported for Q4 2023, earnings per share growth was 7% year-on-year versus negative 11% for European corporates. This is another example of why we believe the U.S. dollar has outperformed and will likely continue to outperform in 2024 and why Europe will be the first to cut rates.

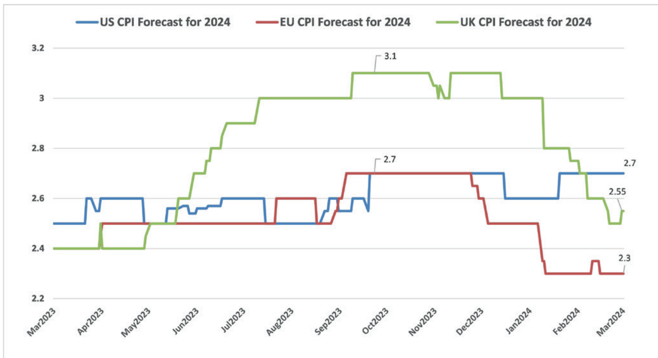
Based on the rate differential staying in the U.S.'s favour, we expect the U.S. dollar to remain relatively strong for the rest of 2024. In other words, we have no reason to believe the U.S. dollar will weaken because yields are probably not likely to fall much faster or more sharply than expected in the coming months.

Foreign investors will continue to be attracted by the higher-for-longer yield from U.S. bonds and better-performing U.S. companies. Based on equity market performance, the U.S. has the best-performing companies because they are the best-managed companies. For instance, the Magnificent Seven index attracts significant foreign capital for good reason. Maybe it could be said that The Famous Five is becoming a more apt name for the U.S. mega-cap sector, given that Tesla is down c. 28% and Apple is down c 10% year to date. NVIDIA, 22.22% of the Magnificent Seven index, is up 77% year to date, 17% of the index's absolute return.

Inflation forecasts are converging

The following graph shows CPI Forecasts for 2024 across various economic regions. The graph suggests that inflation rates across economic regions are converging, which may explain why investors are expecting synchronised central bank rate cuts if inflation continues to fall, as we expect.

Inflation Forecast for 2024



Source: Bloomberg

Any data pointing towards rising inflation would push the Federal Reserve's pivot deeper into 2024. While we expect the Federal Reserve to start cutting relatively soon, there are several reasons why inflation in the U.S. could remain sticky.

The U.S. Government has an America-First agenda, which has resulted in many U.S. companies "reshoring" their production facilities. This could keep labour markets tight, causing wage inflation. The U.S. partially reverses years of globalisation as geopolitical tensions disrupt supply chains.

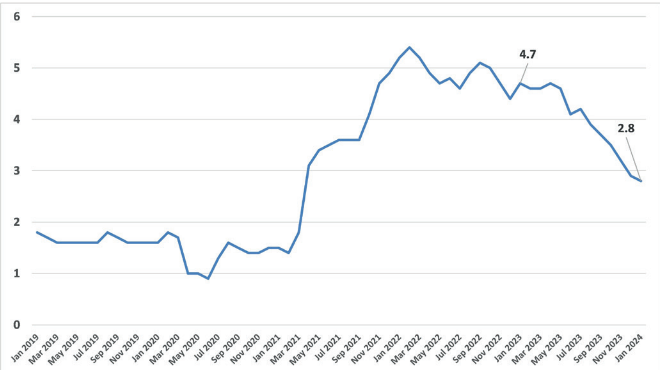
The risk of trade wars is potentially back on the horizon if Donald Trump is to win the next U.S. presidential election campaign. Given Mr Trump's record and propensity for trade wars under his past administration, his victory could result in even more reshoring and tariffs that should keep labour markets tight and potentially drive-up prices.

Central Banks have repeated ad nauseam that rate cuts depend on the prevailing data. Recent inflation data from Europe has pushed the probability of an ECB rate cut firmly into June, whereas investors had been expecting a cut in April 2024. Today, investors attribute a 92% probability that the U.S. Federal Reserve Bank will cut by 25 basis points in June. As a reminder, on the 15th of December, investors had been expecting 75 basis points of cuts in the U.S. by June 2024.

We welcome improving growth in the U.S. economy. However, we believe the U.S. economy has still not borne the full brunt of the Federal Reserve's monetary policy tightening, particularly in relation to the labour market. We expect further weakness to continue in this sector over time, which in turn should further alleviate wage inflation pressure.

Higher interest rates should curtail consumer demand. As measured by the Federal Reserve's Personal Consumption Expenditure measure, inflation is falling, and we expect this trend to continue.

U.S. Personal Consumption Expenditure Core Price Index



Source: Bloomberg

It is interesting to note that the U.S. yield curve remains inverted. It has been inverted since July 5th, 2022, 615 days already, the longest period of inversion in the past five decades. An inverted yield curve has historically been a classic signal of an impending recession. Since 1978, the yield curve has been inverted six times and has preceded a recession each time. Regular readers of this letter will know that we no longer expect a recession as we see plenty of signs of recovery on the manufacturing side of the U.S. economy. Hence, we believe the continuing yield inversion, more than likely, points to the fact that inflation is maybe stickier than previously thought but also that a predicted recession that never materialised and an economy that is now accelerating is not a recipe for lower short-end rates. The yield curve will eventually normalise, but this will require the market and the Federal Reserve to be convinced that the inflation battle is finally over. And it seems the Federal Reserve and the market will only believe this once it is confirmed in the economic numbers. Nothing will be taken for granted in inflation in this cycle.

Market Implications

US equity markets are hitting new highs daily, and commentators are increasingly questioning whether equities are in a bubble. We do not believe the current bull run is yet in bubble territory. In fact, we believe we are still relatively early in this current bull market. Of course, we expect volatility to increase and to have some notable drawdowns during this year, but we would view these as healthy. Sustainable markets generally never go up in a straight line; instead, they go up in a step fashion where every so often, the market pauses for breath, experiences some profit-taking, sees some price consolidation and then builds up energy to push upwards again. This is the type of equity market we expect to see in 2024 and probably for most of 2025.

In previous letters, we have written extensively about the cyclical tailwinds that will support financial markets in 2024 and our view has not changed. Indeed, in December's letter from last year, we said:

"We continue to reiterate our belief that we are in the early stages of an equity bull market, which will be supported by an economic environment of recovering economic growth, disinflation and falling interest rates."

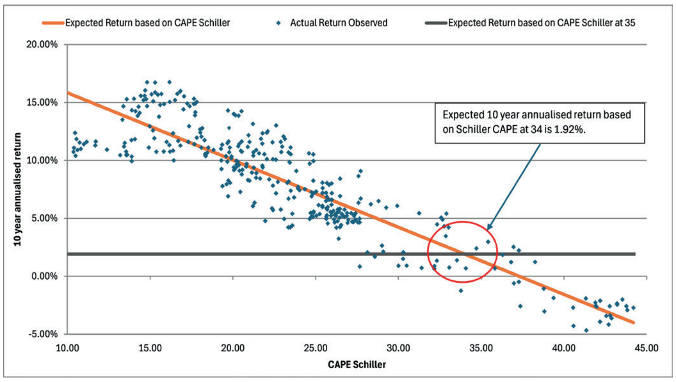
These cyclical forces are long-term in nature and typically last many quarters and even years. They do not change significantly from week to week or month to month. Hence, the cyclical forces we identified in previous letters will remain for the foreseeable future, at least well into 2025. These forces include recovering economic growth, continuing disinflation, easier monetary policy, improving financial conditions and rising global liquidity. They are finally topped off by the fact that 2024 is a U.S. presidential year, which is typically a year when we experience good stock market returns.

Let us look at current equity market valuations from a completely different perspective, through the prism of the Shiller Cyclically Adjusted Price Earnings ratio (CAPE). CAPE's ability to predict 10-year future returns is excellent.

In November 2021, the Schiller Cyclically Adjusted Price Earnings (CAPE) ratio peaked at 38.5, just ahead of a terrible 2022 for financial markets. The CAPE ratio had spent eleven months above 35x before U.S. equity markets peaked in November 2021. By the time U.S. equity markets turned upwards again in November 2022, that CAPE ratio was 27x. Today, the Schiller CAPE is just above 34x. It has been above 34x for less than a month. While we do not suggest equities are cheap, we do not believe we are in a bubble. We believe valuations are grounded in revenue growth and profit margins instead of speculation. So far, we have no reasons to suggest a sustained sell-off in 2024.

The following graph shows the 10-year annualised returns based on different valuations.

CAPE Predict 10-Year S&P Returns vs. Actual Returns 1985 - 2024



Source: Bloomberg and www.shillerdata.com

For context, the highest CAPE ratio ever was 44x in the last days of the dot-com bubble in 1999. Based on our analysis, investors who bought at 44x should expect a subsequent ten-year annualised return of negative 3.9%. The actual ten-year annualised return was negative 2.7%. Investors who buy today at 34x can expect a ten-year annualised return of c. 2%. While we expect greater annualised returns than this over the short and medium terms, it does suggest that harder times will return, but we do not expect this to occur until the 2026 timeframe and beyond.

Indeed, the recent run-up in equity markets poses a fresh challenge for the U.S. Federal Reserve Bank in that rate cuts could be a catalyst for equity markets to go even higher. Even though the Federal Reserve Bank has successfully guided inflation back down to 2%, it risks causing an equity market bubble when it starts cutting rates and potentially sparking inflation further down the line through the “wealth effect” phenomenon. The likelihood of such an outcome is relatively high in our minds, but this is probably something to worry about later in 2025 and 2026.

The equity market’s great run-up in 2024 has been led by renewed investor confidence that the U.S. economy is solid, helped a little bit by higher-growth companies such as Nvidia and other mega-cap tech stocks. So far in 2024, we have seen higher-growth assets rally fastest. As 2024 progresses, we believe U.S. growth will become broader-based, boosting valuations across all sectors. Unemployment has remained low, well below the long-term average. Disinflation continues. And yields have edged lower in the past few weeks in anticipation of the Federal Reserve Bank’s cutting cycle starting in June 2024, slightly later than expected.

The U.S. dollar has performed exactly as we anticipated and should hold its ground or modestly strengthen against most global currencies in 2024, thanks to the U.S.’s stronger economy and better prospects. This is particularly true if the Federal Reserve Bank pursues a shallower rate-cutting cycle than other G10 countries. Again, in December’s letter, we outlined the bull case for the U.S. dollar.

Despite recent stronger-than-expected U.S. economic and inflation data, we expect the Federal Reserve will cut interest rates in the coming months, and yields will fall. Our central case expectation is that short-end rates will fall by about 150-220 bps, bringing the Federal Funds rate down to 3.5%-4% from their very restrictive level of 5.5% today. We believe this range of 3.5% to 4% is in line with the long-term U.S. economic trend growth of 2% and inflation of 1.5%-2% and is therefore likely to be a sensible estimate of the neutral level of interest rates where the U.S. economy is neither being primed nor hindered by interest rate policy. We expect short rates will fall more than longer-term rates, but we expect all maturity tenors to fall. Therefore, we would expect U.S. Government bond prices to rise during the course of 2024.

We expect corporate spreads to perform in the environment we have already described, leading to a tightening in spreads or, at least, relatively stable spreads. Hence, the combination of falling yields and tightening or stable spreads should lead to an increase in corporate bond prices.

We expect sentiment toward emerging markets to continue improving as the volatility between emerging markets and developing markets converges with greater certainty for U.S. rates. Earnings yields in emerging markets have trended sideways this year, whereas earning yields in developed countries have trended down due to higher valuations. We believe the wider spread in yields makes emerging markets a more attractive risk-adjusted investment that will attract new investors in the coming months. Emerging markets tend to produce a lot of commodities. The Goldman Sach’s Commodity index is 6% higher year-to-date, and our outlook for commodities remains positive, especially in an environment where we see an upswing in manufacturing output.

Fund Positioning

In February, the fund’s duration organically declined to 4.0 versus 4.1 in January. We remain aligned with the duration of the high yield index and long relative to our historical average duration. We believe it is an excellent time to add longer maturity bonds at attractive yields. Bond prices rise when yields fall.

The fund added Boise Cascade during the month. Boise Cascade is a low-risk bond that provides a superb return, given its outstanding credit metrics. Boise Cascade has negative net debt, which means it has enough cash on hand to cover debt. Boise Cascade has cash on its balance sheet of USD 1.2 billion versus USD 529 million total debt. Boise Cascade has a negative interest expense, meaning it earns more on its cash than it pays on its debt. Quarterly interest expense is USD 6.4 million versus interest income of USD 13.8 million. Over the past twelve months, Boise generated an EBITDA of USD 800 million. Over the past five years, Boise Cascade has made a positive net income in all but one quarter.

The fund remains overweight oil & gas and retail companies, sectors that we believe are oversold and will rally in 2024.

Conor Spencer, March 14th, 2024

Source Data: ICM, Bloomberg as of February 29th, 2024

[i] https://www.stoxx.com/document/Bookmarks/CurrentFactsheets/SX5GT.pdf
[ii] https://www.investopedia.com/top-25-stocks-in-the-s-and-p-500-7974612
[iii] https://siblisresearch.com/data/ftse-100-sector-weights/