

# Summit Investment Funds

Third Quarter 2016

## Markets

Investment markets continued the rebound evident at the end of the second quarter post Brexit and generated strong returns, particularly in equities. Hopes for increased levels of fiscal stimulus and possibly greater co-ordination of policies between fiscal and monetary authorities contributed to the gains as did an improvement in economic news flow through the quarter. In particular, UK economic releases were much more resilient than expected after the Brexit vote to leave the EU while the earlier than expected appointment of the new UK Prime Minister, Theresa May helped ease political uncertainty. US macro data also strengthened early in the quarter, easing concerns relating to the global economy. There were mixed signals from central banks over the period. The Bank of England surprised positively when relaunching asset purchases and cutting interest rates with a suggestion that additional measures would be announced if required. The ECB and Bank of Japan however disappointed investors, indicating a reluctance to increase the levels of stimulus which gave rise to fears that central banks could be reaching the limits of monetary policy tools. The US Fed became more hawkish, indicating it plans to raise interest rates before year end.

Bonds once again experienced steady gains over the quarter, benefiting from persistent low inflation and the continued decline in inflation expectations. Despite the ECB not making any adjustments to its asset purchase programme, expectations of continued ECB buying in the market combined with expectations that asset purchases will ultimately be extended beyond the current scheduled end date of March 2017 maintained yields at their recent lower levels.

Over the quarter, the MSCI AC World equity benchmark rose 5.2% (4.2% in €). Emerging markets rose 7.7% (7.9% in €) as economic data across EM countries continued to stabilise and EM equity funds experienced strong inflows. A growing sense that despite the Fed possibly raising interest rates again in December, the pace of rate rises in the current cycle will be extremely gradual also supported EM markets as did the continued stability in the US dollar. The UK rose 7.0% (2.8% in €) as economic releases post Brexit were more resilient than expected while a weaker sterling continued to support exporters. The US lagged, rising 4.1% (2.9% in €), impacted by growing expectations of a rate rise in December and uncertainty related to the upcoming Presidential election.

The Eurozone > 5 year sovereign bond benchmark rose 1.1% during the quarter. German 10 year yields fell to new all-time lows of -0.20% before ending the quarter at -0.12%. Yields remained low on the back of continued low levels of inflation, declining inflation expectations and expectations of continued and even possibly extended ECB bond purchases beyond March 2017. Peripheral spreads against Germany narrowed, particularly in the case of Spain by 35bps to 101bps on the back of continued ECB buying and increasing hopes that a Spanish government would finally be formed after two elections since December last year. Italian spreads narrowed by only 7bps to 131bps as concerns over the Italian banking sector and uncertainty ahead of the upcoming senate reform referendum caused Italian bonds to underperform those in Spain.

The Euro rose against the US dollar over the quarter from 1.111 to 1.124 as the Fed revised down the number of expected interest rate rises in 2017 while the ECB disappointed investors by not announcing any new stimulus measures over the three month period. Commodities were volatile during the quarter, mainly driven by sharp swings in the oil price and were down -4.2% (-5.2% in €) with Brent oil down -1.2%, despite an announcement by OPEC that it plans to cap production levels from November onwards.



## Summit Balanced Fund

### Review

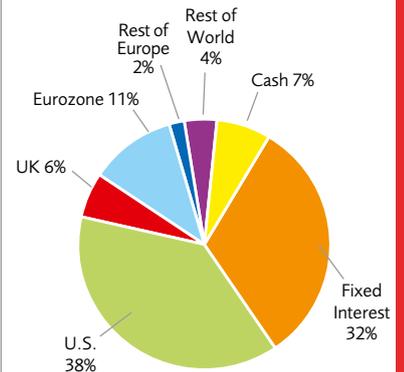
The fund's Energy holdings were the largest detractor in the quarter, notably Devon Energy and National Oil Varco, with the latter continuing to suffer from exploration and production capital spending declines of 50% in North America, curbing new orders and eroding the company's order backlog. Clearly these developments pressure profit margins in the short term, however the extent of capital and labour disinvestment in the industry is laying the seeds for a potentially significant recovery in the medium term. Meanwhile NOV's balance sheets strength helps the company survive through the interim period.

#### Equity Sector Distribution %

Financial	22.2%
Telecomms & Technology	20.7%
Pharmaceuticals	12.0%
Consumer Cyclical	10.8%
Energy	8.3%
Consumer Staples	7.8%
Capital Goods	6.2%
Industrial Commodities	6.0%
Industrial Services	3.3%
Utilities	2.7%

#### Top 10 holdings %

DCC	2.04%
Oshkosh Truck Corp	1.88%
Berkshire Hathway	1.86%
Owens	1.85%
CRH	1.82%
Fairfax	1.70%
Leucadia Natl Corp	1.54%
Samsung Electronic	1.45%
Federated Invs	1.44%
Johnson Controls	1.37%



**Bid/Exit price at 30/09/2016**  
**286.70**

**\*Past Performance**  
**1 Year - 9.24**  
**2 Years - 6.53**  
**5 Years - 8.66**  
**10 Years - 2.98**

Source Moneymate ©

## Summit Growth Fund

### Review

ADT remained attractive to us despite succumbing to worst excesses of shareholder activism in 2013, when they underinvested in marketing and lost share to rivals while preferring to engage in a debt funded buy back of over \$2.5bn worth of stock. Nevertheless the shares traded at a material discount to private market values while the share price continued to underperform. Private Equity firm Apollo already had exposure to residential security, duly and opportunistically bid \$42 per share, or a 56% premium to ADT's share price. We could quibble over whether we extracted full value, but to be honest we are happy to move on here.

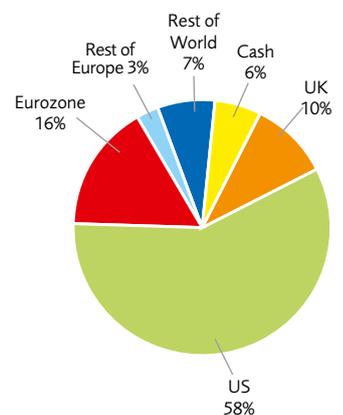
Johnson Controls (JCI), a business that makes and supplies heating and cooling systems, is acquiring Tyco in reverse merger that creates value via \$500m of cost synergies and \$150m in tax synergies as a result of JCI moving their tax domicile to Ireland. With an annualised return of 18.8% over our 5 year and 4 month ownership period of these assets, versus the market's 12% annual equivalent, we consider this a very satisfactory outcome.

#### Equity Sector Distribution %

Financial	22.4%
Telecomms & Technology	20.7%
Pharmaceuticals	11.9%
Consumer Cyclical	10.8%
Energy	8.3%
Consumer Staples	7.9%
Capital Goods	6.1%
Industrial Commodities	5.8%
Industrial Services	3.2%
Utilities	3.0%

#### Top 10 holdings %

DCC	3.12%
Berkshire Hathway	2.90%
Oshkosh Truck	2.80%
Owens	2.76%
CRH	2.72%
Fairfax	2.65%
Leucadia Nat Corp	2.40%
Federated Inv	2.25%
Samsung Electronic	2.19%
Johnson & Johnson	2.06%



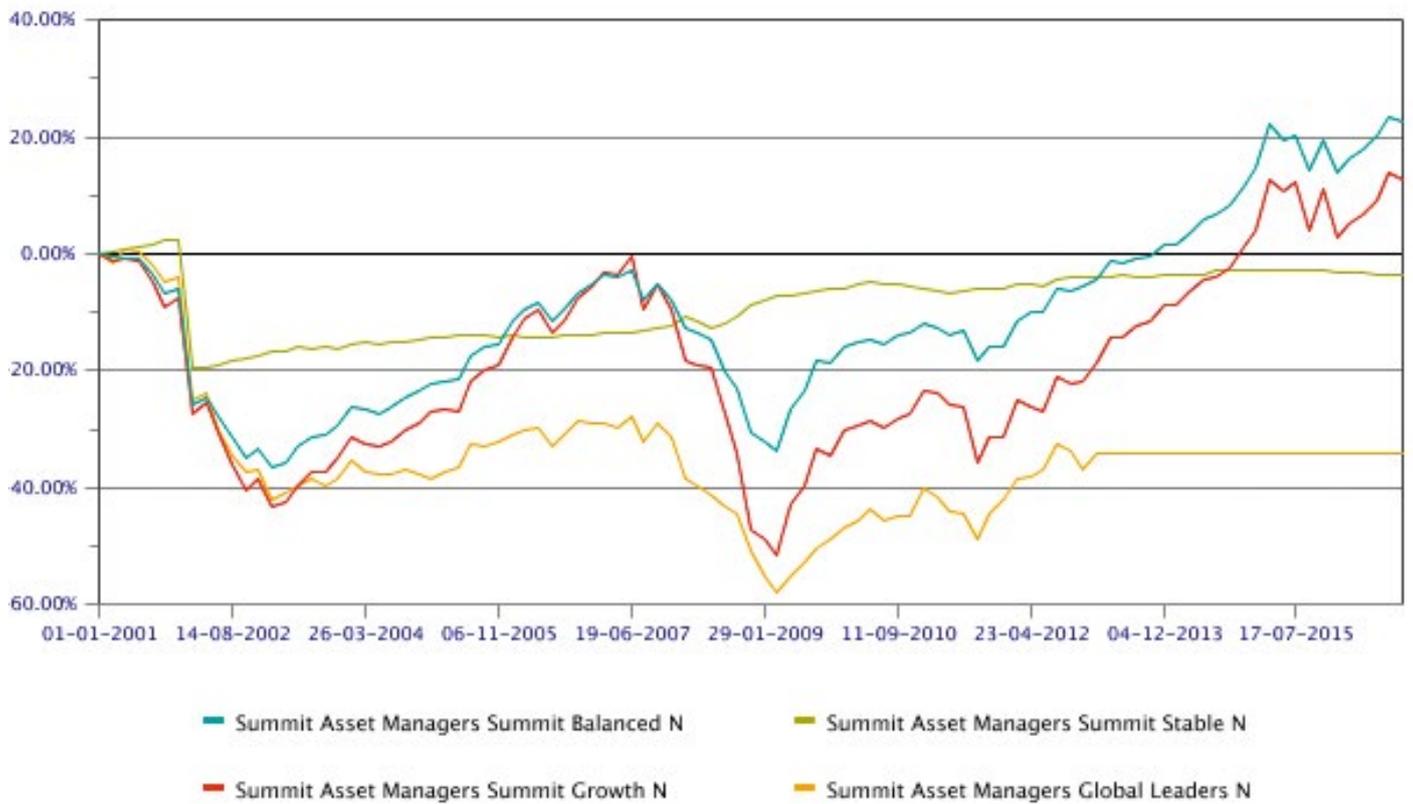
**Bid/Exit price at 30/09/2016**  
**314.30**

**\*Past Performance**  
**1 Year - 11.08**  
**2 Years - 7.59**  
**5 Years - 12.18**  
**10 Years - 2.28**

Source Moneymate ©

# Fund Performance

Performance Report - Performance - 01/01/2001 to 30/09/2016



Presented by: MoneyMate Limited

The figures shown are based on the following:

Local Currency, Offer to Offer, Gross income re-invested on Ex-dividend date

Past performance is not necessarily a guide to future performance; Unit prices may fall as well as rise

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## Equity Outlook

Global equity markets have recovered from the lows of early February which were associated with concerns over Chinese growth and are now up low to mid-single digits year to date in local currency terms. On a 12 month forward P/e valuation basis, global equities are currently above their long term average at 15.5x. While a positive economic growth backdrop and the resultant expected modest growth in earnings provide support for equities, current consensus global earnings growth forecasts for 2017 of 13% appear ambitious. Historically when global economic growth has been in the region of 2.5%, global earnings growth has only been in the order of 3%. Downgrades to 2017 global earnings forecasts are thus likely to be a feature in coming months.

Equity markets initially experienced sharp falls following the Brexit referendum result but quickly recovered these losses on the back of central bank policy responses related to the provision of additional liquidity to prevent a tightening of financial conditions and to aid the smooth functioning of financial markets. However over the last 12/15 months, the positive impact of central bank policy actions on equity markets has begun to wane. Also, recent reluctance on the part of both the ECB and Bank of Japan to extend their asset purchase programmes has given rise to questioning about whether central banks have reached the limits of monetary policy which has been a significant support for equity markets in recent years.

Equity markets have recently rebounded on expectations of increased levels of fiscal stimulus combined with greater coordination between fiscal and monetary authorities. We believe the scope for significant additional fiscal stimulus is limited, particularly in regions where it is probably most needed such as the Eurozone while global central banks appear reluctant to commit to more permanent loosening of monetary policy to facilitate the introduction of 'helicopter money'. Thus we believe equity markets have probably over discounted the potential for a boost to growth from increased fiscal spending facilitated by permanently looser monetary policy.

While appearing fairly valued on absolute valuation measures such as P/e, p/book and dividend yield, equity markets do look very attractive on a relative valuation basis versus other assets such as bonds and cash given the low yields currently available on these assets. With yields expected to remain low for some time, relative valuations provide support for equities at current levels.

Following the strong rally in equities in recent years the upside in markets from current levels is probably limited given that risks to global growth and earnings forecasts are possibly more to the downside, the undervaluation of equities in absolute terms evident immediately post the financial crisis has been removed, monetary policies appear to be having less of a positive impact on equity markets and there are increasing questions as to whether central banks have reached the limits with regard to monetary policy.

Removal of uncertainty related to the potential economic and political contagion from the Brexit referendum outcome and also with regard to the global earnings growth outlook is probably required before equities could be expected to generate further meaningful gains. With risks to growth and earnings however viewed as being more to the downside, we believe there is limited upside in equity markets from current levels.

Markets have become more volatile over the last 18/24 months and are likely to remain so. Issues such as the outlook for Chinese and global economic growth, earnings forecasts, the pace and extent of further rate rises in the US, political uncertainties and election cycles across Europe, potential policy uncertainty post the upcoming US Presidential election and perceived risks of deflation all can potentially continue to give rise to periods of anxiety and increased volatility in markets from time to time although these in themselves may provide opportunities to investors at some point.

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