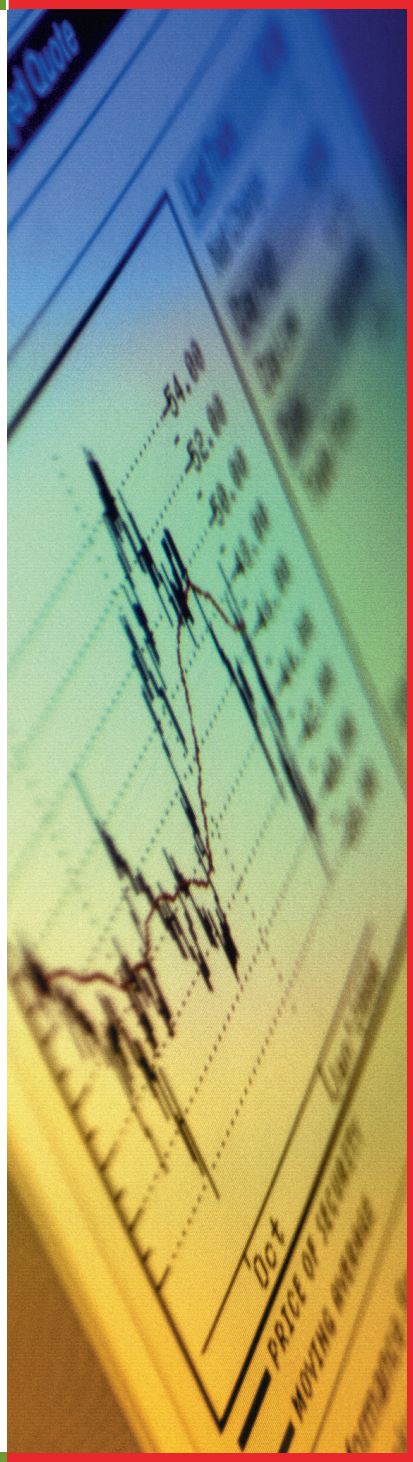
April 2015

Summit Mutual Funds

First Quarter Comment 2015



Markets

It was generally a positive quarter for investment markets with both equities and bonds rising over the period, although equity markets proved to be slightly more volatile. The weaker Euro boosted returns from overseas assets in Euro terms. Uncertainty was created by the calling of a Greek general election in late December which resulted in the anti-bailout party, Syriza, winning power. This gave rise to renewed fears of a Greek exit from the Euro and contributed to early weakness in equity markets. The announcement of an asset purchase programme by the ECB in late January which exceeded market expectations helped equity markets recover these early losses and also contributed to further gains in bond markets. The continued provision of liquidity by global central banks was positive for both equities and bonds. In addition, many global central banks continued to cut interest rates, facilitated by on going low levels of inflation and low oil prices. Expectations for the timing of the first interest rate rise in both the US and UK fluctuated through the quarter and contributed to some additional volatility in markets. By the end of the quarter, expectations for the first rate rise in the US had pushed out to September 2015 and in the case of the UK, out to the second half of 2016 which again supported both equities and bonds.

Regional equity market performance was quite varied as global economic data was mixed through the quarter with generally softer data in the US, with the notable exception of labour market data, partly offset with significantly better data in Europe. Significant dollar strength and further Euro weakness was also a feature as monetary policy paths between the Fed and ECB continued to diverge. During the quarter equity markets ignored the on going downward revisions to global earnings forecasts, which were concentrated in the energy and materials sectors due to the declines in oil and commodity prices, instead focusing on the benefits to the global economy from the lower oil price backdrop and the looser monetary policy environment this facilitated.

Over the quarter, the FTSE World equity benchmark rose 5.0% (15.5% in €). Europe rose 14.9% (18.6% in €) following the announcement of the ECB's asset purchase programme and better economic news flow. Japan rose 10.8% (24.8% in €) on expectations of additional monetary stimulus as inflation remained well below the Bank of Japan's 2% target and on hopes that the negative economic impact of last year's sales tax rise would fade. The US lagged, rising 1.3% (14.1% in €), impacted by softer economic data and negative impact of the stronger dollar on earnings and the overall economy. The UK also lagged, rising 4.4% (12.0% in €) as uncertainty ahead of the May general election held the market back.

Eurozone >5 year bonds rose 6.7%, with German 10 year yields falling to all time historic lows of 0.17% before ending the quarter at 0.18%. The launch of the ECB's sovereign bond asset purchase programme, within which the ECB indicated that it would buy bonds contributed to the continued fall in yields. The Euro fell significantly to 1.074 against the US dollar as monetary policy paths between the Fed and ECB continued to diverge. Commodities fell -8.2% (+3.4% in €). Brent oil fell -3.9% having rebounded 18.3% from its January lows. Other commodity prices were also generally weaker, partly impacted by the slower growth backdrop in China.

Summit Balanced Fund

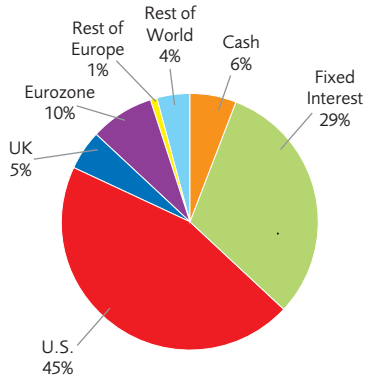
Review

The Johnson & Johnson is a highly diversified healthcare company, providing valuable products and services in more than sixty countries worldwide. While the company is headquartered in the US, more than half of group profits are derived from outside the US. J&J operates a decentralised approach through more than 250 operating companies. Since acquisition, the stock has produced solid returns. We consider the overall business risk characteristics of this company to be below average and therefore it is somewhat satisfying that it has performed well. In other words, we believe we took lower than average risk to capture these returns.

J&J sold over $30 billion worth of pharmaceuticals in 2014.This unit accounted for just over half of group profits last year.Having stagnated for a number of years due to various patent expiries, this business grew strongly in recent years, helped by a number of new product launches.Most of J&J's sales here are in "specialty" categories (e.g. oncology, immunology), which produce fantastic profits as there is no need for a vast GP-sales force and pricing power is strong as customers are typically reluctant to switch from drugs they perceive to be effective. Also demand tends to be relatively insensitive to broader economic trends.We estimate that approximately half of the pharmaceutical division sales pertain to biotechnology drugs, making J&J probably one of the top 6 biotech companies in the world. It is difficult for generic manufacturers to copy Biotech drugs and this provides J&J with longevity in profits that many traditional drug companies don't possess Nonetheless; long-term success will be determined by developing new innovative drugs and bringing these to market. On this front, J&J's long-term record is good.

Equity Sector Distribution	%
Financial	22.0%
Technology & Telecomm	18.3%
Pharmaceuticals	11.2%
Consumer Cyclicals	11.0%
Energy	10.3%
Consumer Staples	8.6%
Industrial Services	5.7%
Industrial Commodities	5.3%
Capital Goods	4.6%
Utilities	3.1%

Top 10 holdings	%
Fairfax Financial	2.05%
DCC	1.99%
Owens Inc	1.89%
Berkshire Hathaway	1.84%
Markel Corp	1.83%
Nike Inc	1.62%
Sysco Corp	1.59%
Brookfield Asset	1.53%
CRH	1.52%
Leucadia	1.47%



Bid/Exit price at 31/03/2015 202.60

***Past Performance**

1 Year	– 23.05
2 Years	– 14.99
5 Years	– 9.06
10 Years	– 5.44

Source Moneymate ©

Summit Growth Fund

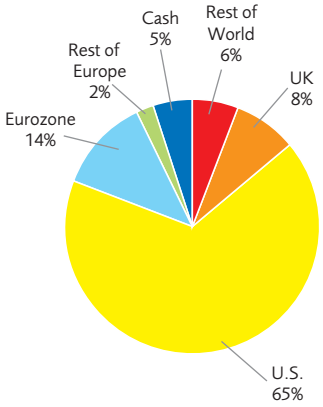
Review

The Fund sold out of five holdings during the quarter, namely DST Systems in the Technology sector, Home Retail in the Consumer Discretionary sector, California Resources and Seacor Holdings in the Energy sector, and Chong Hing Bank in the Financials sector. Collectively these came to less than 1% of the Fund and only DST and Home Retail were of any notable size.

US software firm DST has performed well over its holding period. Still a great company, its valuation meant it no longer deserved a place in the Fund. The Fund's experience of Home Retail was not quite so rosy. Its Argos stores have been hit by the shifting of consumer purchases online. The company has outlined an ambitious ("required") capex program to win over customers. Consumer Discretionary manager David Byrne is downbeat on the likelihood that the capex program will prove successful and believes he has better risk-adjusted investment alternatives elsewhere. The crumbs of good news are that group has learned lessons for the future. One is that retailing is a very tough, competitive business; Amazon in particular, is a formidable animal. Another is that the leverage in the business model is high. Margins are thin, leaving little room for the business to deviate from its flightpath, compounded by store leases that are expensive to exit if sales contract.

Equity Sector Distribution	%
Financial	21.6%
Telecomms & Technology	18.3%
Consumer Cyclicals	11.6%
Pharmaceuticals	11.4%
Energy	10.2%
Consumer Staples	8.1%
Industrial Services	5.7%
Industrial Commodities	5.3%
Capital Goods	4.7%
Utilities	3.1%

Top 10 holdings	%
DCC	2.93%
Owens Inc	2.75%
Fairfax Financial	2.69%
Markel Corp	2.67%
Berkshire Hathaway	2.63%
Nike Inc	2.36%
Sysco Corp	2.31%
Brookfield	2.22%
CRH	2.21%
Oshkosh	2.18%



Bid/Exit price at 31/03/2015 204.40

***Past Performance**

1 Year	– 28.48
2 Years	– 19.60
5 Years	– 11.24
10 Years	– 5.29

Source Moneymate ©

Summit Global Leaders Fund

Review

During the quarter, the Healthcare sector performed well amid some continuing M&A activity. The Consumer Discretionary Sector was also up as lower energy prices are seen as having a positive impact on consumer confidence and spending. The Utilities sector was weak as depressed power prices negatively impact on profitability. The fall in the oil price continued to weigh on the Energy sector.

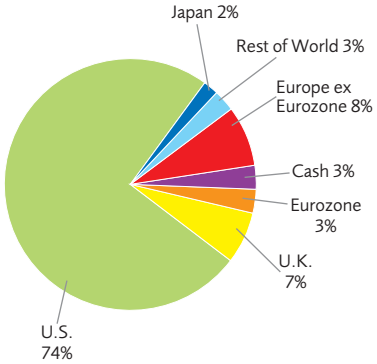
Sanofi, the French pharmaceutical company, was up 21.5% (local currency) in the first quarter. The share price fell in the latter months of 2014 following the departure of the CEO and a weaker outlook for its key diabetes franchise. This left the company at a relative valuation discount to peers and the shares recovered strongly as the company made progress on finding a replacement CEO and the Healthcare Sector continued to perform well.

Apple, the US technology company, climbed 12.7% (local currency) in the first three months of the year. Results for the last quarter of 2014 significantly exceeded market expectations on particularly strong iPhone sales volumes and better than expected Average Selling Prices.

GlaxoSmithKline, the UK pharmaceutical company, rose 12.4% (local currency) during the period. The announcement of an R&D day in October has prompted hopes that meaningful new programmes could emerge in the company's relatively weak drug pipeline while the high dividend yield has also helped support the share price.

Equity Sector Distribution	%
Technology & Telcomms	50.7%
Pharmaceuticals	26.7%
Financial	19.2%
Energy	18.3%
Consumer Staples	18.0%
Capital Goods	9.2%
Consumer Cyclicals	8.7%

Top 10 holdings	%
Apple	8.16%
Exxon Mobile	4.00%
Microsoft	3.73%
Johnson & Johnson	3.16%
Novartis	3.30%
Berekshire Hathaway	2.96%
General Electric	2.84%
Nestle	2.80%
J.P. Morgan	2.56%
Pfizer	2.55%



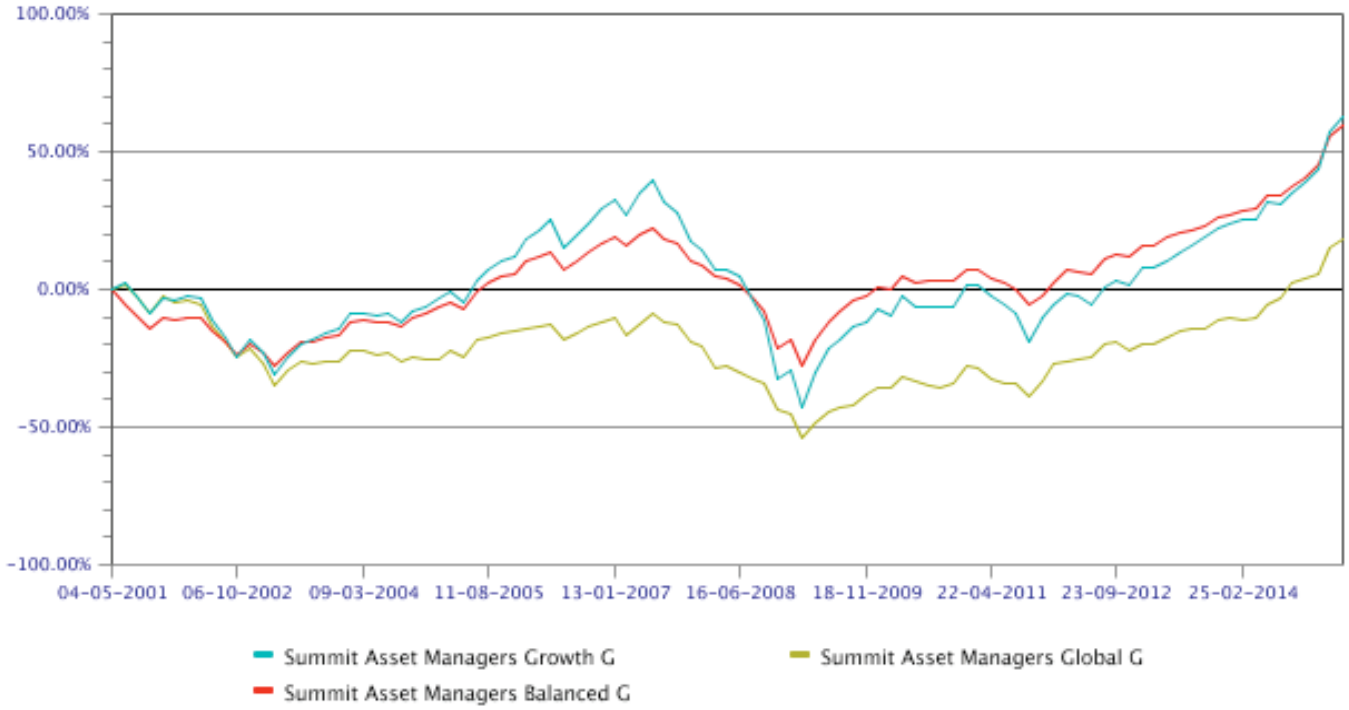
Bid/Exit price at 31/03/2015
149.70

*Past Performance	
1 Year	– 31.49
2 Years	– 17.85
5 Years	– 12.12
10 Years	– 4.49

Source Moneymate ©

Fund Performance

Performance Report - Performance - 04/05/2001 to 01/01/2015



Equity Outlook

Equity markets continue to be supported by a number of factors. Fundamentals in terms of a modestly improving global economic environment and rising earnings are positive. Equity valuations are not stretched and are around fair value based on historic averages although the economic, inflation and interest rate backdrop provide scope for some further rise in valuation multiples. Equities remain extremely attractive relative to other asset classes, particularly bonds.

Monetary policies remain accommodative with central banks' balance sheets continuing to expand even after the ending of QE3 in the US while expectations for the timing of interest rates rises are being pushed out, facilitated by on going low levels of inflation. Numerous central banks have also cut interest rates in recent months, facilitated by low inflation and oil prices.

Flows into equities have been positive and are expected to remain so given switching by investors into what is seen as an attractive asset class which should continue to benefit from improving fundamentals and better growth while corporate managements remain disciplined and maintain a focus on shareholder value.

Markets could be more volatile than they have been in recent years, with issues such as the exact timing of rate rises in the US and UK, political uncertainties and election cycles across the Eurozone and the UK, the outlook for growth in China and perceived risks of deflation if inflation expectations fail to rise, all potentially giving rise to periods of anxiety and increased volatility in markets from time to time.

Recent concerns related to political developments in Greece highlight this potential for increased volatility in markets. The election of an anti-austerity/bailout government in Greece contributed to uncertainty and concerns over the eventual outcome of negotiations related to Greece's high debt levels. The new Greek government initially called for a write down of the greater part of Greece's outstanding debt but the Troika refused to grant this. Greece has since applied for a four month extension of the existing bailout programme and committed to a reform agenda. This extension should provide more time for an ultimate compromise to be reached between the Greek government and the Troika but until this occurs, uncertainty and volatility are likely to remain a feature.