April 2018

Summit Mutual Funds

First Quarter 2018

It was a mixed quarter for investment markets with a very positive start to the year for equities in January followed by two relatively volatile months which resulted in equities being down for the quarter as a whole in local currency terms and by slightly more in Euro terms given the continued strength in the Euro. In contrast, following initial losses early in the year, Eurozone bonds recovered, particularly in March and ended the quarter in positive territory.

Equities were initially supported by the passing of the US fiscal package in late December which boosted the US economic and earnings growth outlook. Through January, global economic and earnings releases both continued to surprise positively resulting in upgrades to forecasts that contributed to strong gains in equities, which at their peak were up 5.8% for the year. In early February equities began to reverse when US wage and inflation data surprised to the upside resulting in fears that the Fed could be forced to tighten monetary policy more aggressively.

In March, the re-emergence of concerns over the possible outbreak of a global trade war following the announcement of plans by the US to impose tariffs on steel and aluminium and on up to $60bn of Chinese imports contributed to another sell off in equity markets. Stock specific issues in some large cap technology names in the US also added to the downward pressure on equity markets through March.

Guidance from global central banks was somewhat mixed through the quarter although the gradual shift towards tighter monetary policy continued. The Fed raised interest rates by 0.25% and increased forecasts for the number of rate rises in both 2019 and 2020. The ECB began to prepare the market for a reduction in the level of policy accommodation but emphasised that this process would be very gradual given the subdued nature of inflation. The Bank of England indicated interest rate rises would be required earlier and at a faster pace than it had previously suggested. The Bank of Japan maintained existing policy but began to comment on the eventual need to reduce policy accommodation once its inflation target was reached although, similar to the ECB, reaching this objective in the short to medium term was seen as unlikely.

On the political front, tensions related to North Korea eased as talks between President Trump and Kim Jong-Un were planned. In Germany, the Grand Coalition between Merkel's CDU/CSU and the SPD was reformed with a mandate for increased fiscal spending and further EU integration. The Italian election resulted in a hung parliament with EU sceptic parties doing better than expected. Markets reacted benignly to the outcome following the significant scaling down of anti EU rhetoric by the anti-establishment parties. A transition deal to the end of 2020 was eventually agreed in Brexit talks which effectively enables the UK to remain in the EU until that time and allows talks to progress to trade issues.

Summit Balanced Fund

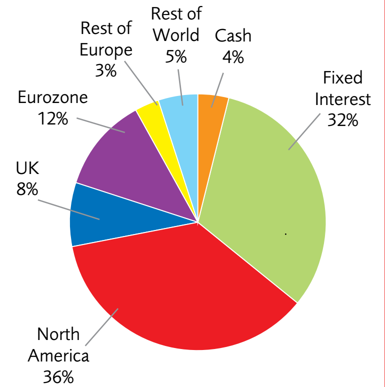
Review

During the quarter we bought Saga Plc who sells tailored financial services (mainly motor and home insurance) and holidays to the over-50s in the UK. It might look like an odd combination, but Saga is a trusted brand and its multi-product strategy has enjoyed great success since it broadened out its travel-only offering in the 1980s. Although a relatively minor profit contributor, one of Saga's greatest assets is its very popular cruise liner business, where it provides a first rate, hassle free service to passengers, which in turn helps strengthen the overall Saga brand and keep customer loyalty high (reducing the need for high levels of 'traditional' advertising).

That's not to say that Saga has it all its own way and indeed an unexpected step-up in the competitive environment in insurance in the last couple of months in 2017 caused management to reduce its expectations for company profit over the next year or two. The share price reacted by falling by more than one-third. We have extensively researched the company since then. We believe investors have placed too much emphasis on near-term profit and are ignoring the its undoubted strengths that will play out over the long term including: a growing over-50s demographic; an insurance operating that is capital light and has a significant cost advantage over peers; two new highly-efficient (read: very profitable) cruise ships that will come into operation over the next couple of years; and a brand new IT system that will reduce costs and hopefully allow them better win and retain customers. At acquisition we believe Saga was trading on less than 10x P/E and had a dividend yield of 7.5%. We believe these profits are broadly sustainable over the medium term and if we are correct the stock will prove to be exceptionally cheap.

Equity Sector Distribution	%
Telecomms & Technology	22.50%
Financial	21.82%
Consumer Cyclicals	12.49%
Pharmaceuticals	11.03%
Consumer Staples	7.83%
Energy	7.66%
Industrial Commodities	5.72%
Industrial Services	4.97%
Capital Goods	3.41%
Utilities	2.58%

Top 10 holdings	%
Owens Inc	1.96%
DCC	1.89%
Berkshire Hathaway	1.89%
Microsoft	1.84%
CRH	1.70%
Oshkosh Truck Corp	1.69%
Federated Invests	1.68%
Melrose Indust	1.68%
Fairfax	1.65%
CISCO Sys	1.61%



Bid/Exit price at 31/03/18 212.70

***Past Performance**
- **1 Year – -1.85**
- **2 Years – 5.07**
- **5 Years – 6.78**
- **10 Years – 5.06**

Source Moneymate ©

Summit Growth Fund

Review

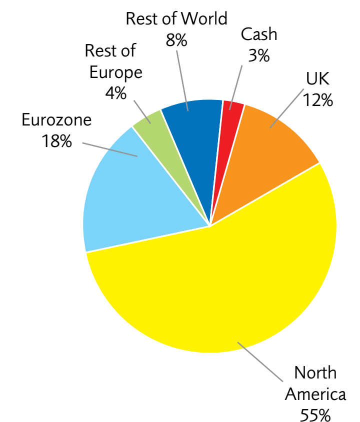
During the quarter we sold Fair Isaac (FICO) which had been one of the best performers in the Technology sector portfolio since initial acquisition in July 2010. The stock was purchased at an average price of $22.77, generating a return for the portfolio of 548% versus a return of 225% for the MSCI IT Benchmark.

Fundamentally, the strength of FICO's business model is highly attractive - they have an almost monopoly like position in credit scoring and have proven they can leverage this technology into other areas like Falcon fraud protection, Triad customer management software and other Decision Management Software products which have helped revenue and profitability growth.

We had been trimming the stock as valuation became increasing expensive, trading on a P/E of 28x or 33x including stock based compensation. Since the financial crisis, US consumer credit has grown at a 5% CAGR, with the current economic expansion 103 months old, some 44 months longer than the average of the prior 11 business cycles. Essentially our fear was that much of the growth that is required for FICO to maintain its lofty valuation will not materialise as inferred by the market.

Equity Sector Distribution	%
Telecomms & Technology	22.7%
Financial	21.8%
Pharmaceuticals	10.8%
Consumer Cyclicals	10.0%
Consumer Staples	7.6%
Energy	7.5%
Capital Goods	6.1%
Industrial Commodities	5.7%
Industrial Services	5.0%
Utilities	2.9%

Top 10 holdings	%
Owens Inc	2.98
Berkshire Hathaway	2.88
DCC	2.85
Microsoft	2.75
Federated Invs	2.55
CRH	2.55
Fairfax	2.53
Melrose Indust	2.51
Oshkosh Truck	2.51
Cisco	2.43



Bid/Exit price at 31/03/18 222.70

***Past Performance**
- **1 Year – -2.87**
- **2 Years – 8.39**
- **5 Years – 9.29**
- **10 Years – 5.49**

Source Moneymate ©

Summit Global Leaders Fund

Review

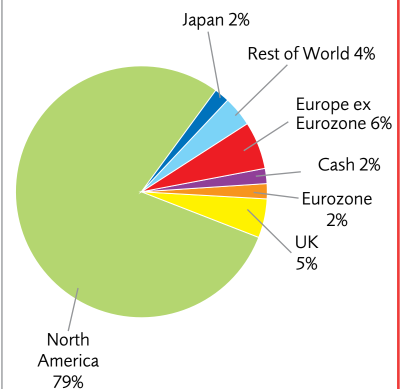
The first quarter of 2018 delivered negative returns in equity markets. Following a positive start in January, trade war concerns sparked by President Trump's decision to impose tariffs on certain Chinese imports and negative news flow around some bellwether growth stocks gave rise to declines in February and March. Despite this, Technology was still the best performing sector in the quarter followed by Consumer Discretionary. The Telecoms and Consumer Staples Sectors were laggards in the period.

Amazon, the US online retailer rose 23.8% (lc) in the quarter. The company continues to deliver strong growth in online retail, Amazon Prime subscriptions, Amazon Web Services, advertising and Alexa / Echo. As ever there is potential for margin uplift although the company's preference has historically been to continue to invest for strong top line growth.

Intel, the US technology company, was up 13.6% (lc) in the period. A re-acceleration in sales in the higher gross margin data centre business coupled with an improved Personal Computer (PC) market backdrop helped to deliver good results in Q4 2017 and underpinned faith in the stronger than expected sales outlook for 2018.

Equity Sector Distribution	%
Technology	36.45%
Financial	13.40%
Pharmaceuticals	13.29%
Consumer Cyclicals	11.28%
Energy	9.08%
Consumer Staples	8.86%
Telecomms	3.84%
Capital Goods	3.81%

Top 10 holdings	%
Apple	7.73%
Microsoft	6.32%
Amazon	5.15%
Facebook	3.46%
Berekshire Hathaway	3.46%
JP Morgan	3.36%
Johnson & Johnson	3.09%
Exxon Mobil	2.88%
Alphabet Inc	2.80%
Bank of America	2.73%



Bid/Exit price at 31/03/18
169.40

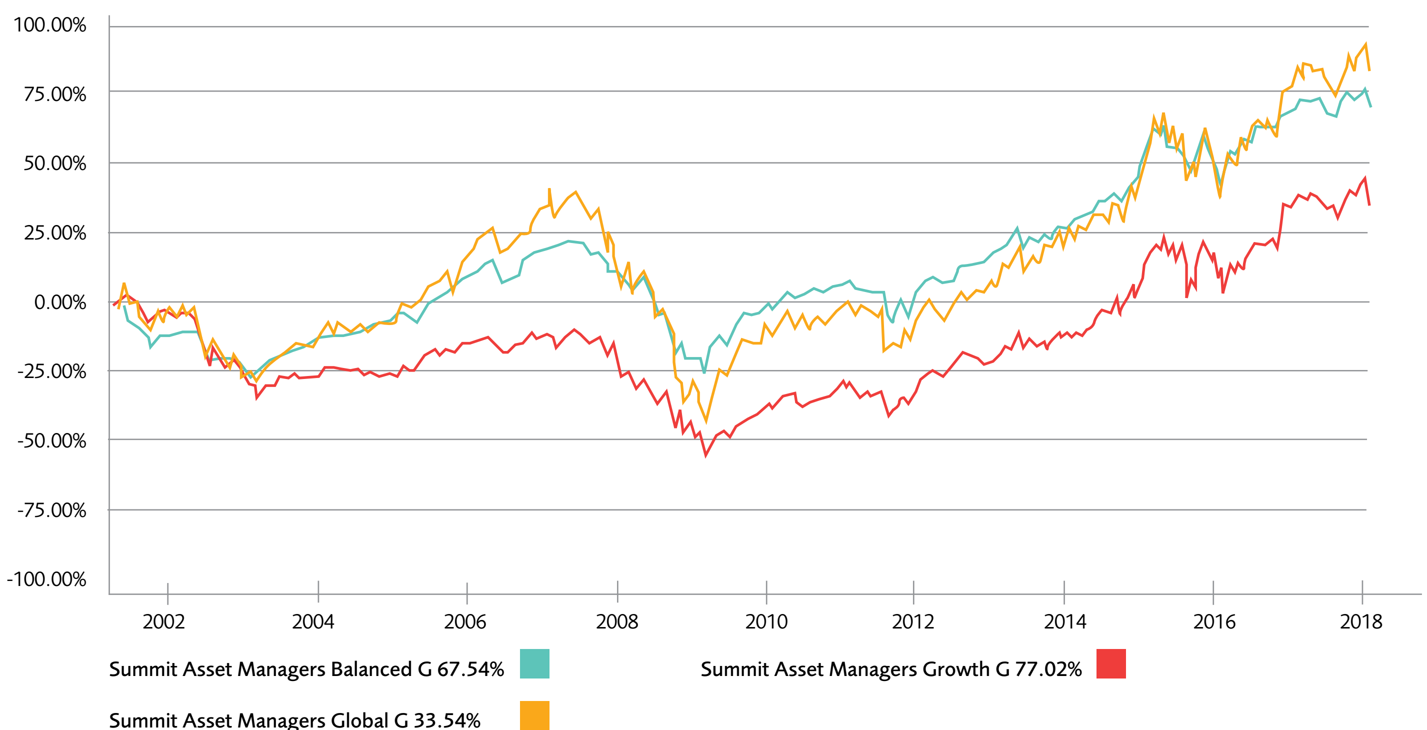
***Past Performance**

1 Year	**-3.10**
2 Years	**9.33**
5 Years	**9.46**
10 Years	**6.75**

Source Moneymate ©

Fund Performance

Performance Report - Performance - 06/05/2001 to 31/03/2018



Equity Outlook

An improving global economic and earnings backdrop supported equity markets in 2017 and is expected to remain in place through the coming year, despite recent concerns on trade issues.

Global economic data has generally been stronger than expected over the last 15/18 months and when combined with leading indicators suggests global growth in 2018 will be approx. 3.4%, significantly above the 2.5/3% range evident from 2010 to 2016. With the expected recovery in global earnings on the back of this improving growth backdrop, supported further with an additional boost to US earnings from the recent reduction in corporate tax to 21%, global earnings are expected to grow approx. 14% in 2018. While on absolute valuation measures, the significant undervaluation of equities evident immediately post the financial crisis has been removed, valuations post the recent set back in markets are still slightly below the long term average and do not appear stretched. The positive earnings growth backdrop referred to above enables equities to rise in line with earnings growth without leading to further rises in valuation multiples. Equities remain very attractive on a relative valuation basis against bonds and cash given the historically low yields currently available on these assets.

While the fundamental backdrop remains positive, there are a number of risks which have acted as overhangs on equity markets in recent months. Most recently these have centred on concerns related to a potential global trade war. Announcements of tariffs of 25% and 10% on US steel and aluminium imports and subsequent proposals for 25% tariffs on US imports from China worth up to $60bn have caused equity markets to retreat from their earlier all-time highs on fears over the possible escalation of these trade developments into a global trade war with negative repercussions for global growth. Given the well-known costs associated with a full blown trade war, we do not believe such an escalation will occur. Recent scaling back of the initial rhetoric and initiatives such as those which have resulted in temporary exemptions being granted on up to 70% of US steel imports suggests a worst case scenario can be avoided. Likewise, in the case of the Chinese proposals, negotiations have opened between both countries with China offering to address some of the issues raised by the US in relation to alleged unfair trading practices on the part of China. Ultimately we believe compromises and concessions will be achieved on the various issues, thus avoiding an outright trade war with its negative implications for growth and equity markets.

Elsewhere, signs of higher wage and headline inflation in the US earlier this year gave rise to fears of significantly more aggressive tightening of monetary policy by the US Fed with potentially higher bond yields which could pose difficulties for equities. While some pick up in inflation is likely, we believe this will be modest and will not result in significantly higher bond yields or a significant increase in the pace of policy tightening by the Fed and other central banks. Already there have been some signs of an easing of the wage and inflation pressures evident in the US in February.

In addition to the possible impact of the general reduction in the level of policy accommodation by global central banks, other issues which could negatively impact equity markets through the year include political uncertainties and tensions across Europe, the US, the Middle East and Asia.

Given the above factors, bouts of volatility in equity markets as has been evident since the end of January are possible during the year as these risks potentially come to the fore. Nevertheless, following the 20% gains in local currency terms in global equities in 2017, we expect gains of high single to double digits in 2018 as a whole as we believe the positive fundamental backdrop will outweigh these concerns. The eventual path of global growth and earnings and developments in the various risk factors will determine if and how markets vary from this potential return path over the year with sudden or extreme moves possibly presenting investors with opportunities to enhance returns at various points through the year.

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