July 2018

Summit Mutual Funds

Second Quarter 2018

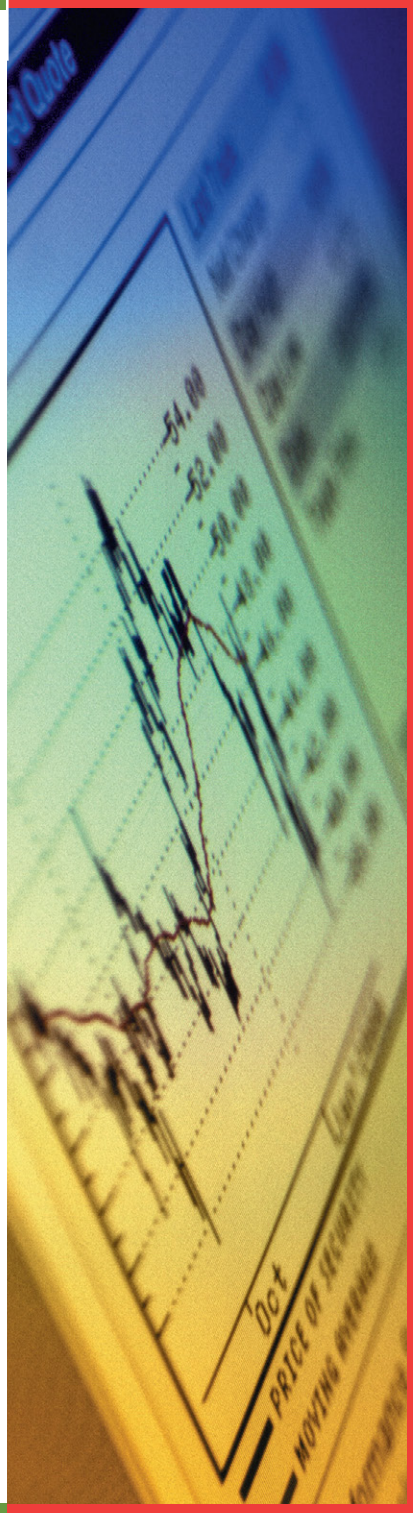
During Quarter 2 trade issues dominated and sentiment oscillated, depending on the latest developments or comments on potential trade restrictions. Overall, concerns grew that the increasing 'tit-for-tat' nature of tariff announcements could escalate into a global trade war. This outcome would obviously have negative repercussions for global growth. Equities reacted skittishly to any perceived escalation in trade tensions.

Equities shook off trade worries to post gains, buoyed by positive global growth. The US economy was a particular bright spot, with estimated growth of 4% (annualised) in Quarter 2. In 2018 to date, global growth has been less synchronised than it was in 2017, with European growth particularly strong. That said, global growth still looks set to grow in line with 2017 at around 3.4%, with an increased contribution from the US. Towards quarter-end, there were some tentative signs of stabilisation in European growth, as PMIs recovered.

At the close of last year, the consensus forecast for global earnings growth in 2018 was 10%. Since then, earnings forecasts have been upgraded to over 16%. This is due to US corporate tax rates being lowered to 21%, and a buoyant first-quarter global earnings reporting season, in which results exceeded expectations across most regions. This trend also supported equities over the quarter.

The ICE BofA Merrill Lynch Eurozone > 5-year sovereign bond benchmark fell -1.1% during the quarter. German 10-year yields fell to 0.30% due to the flight to safety associated with the Italian political crisis and the dovish interest-rate guidance from the ECB. Italian 10-year yield spreads against Germany rose to 238 basis points (bps), having reached a peak of 320bps in late May at the height of the crisis. Spanish 10-year spreads were also pulled higher by events in Italy, ending the quarter at 102bps. Similarly, Portuguese spreads rose to 148bps. The diminished prospect of the greater EU integration proposed by France's President Macron also contributed to the widening of peripheral spreads.

Commodities rose 8.0% (13.8% in euro terms). West Texas Intermediate (WTI) oil rose 14.2% as the US withdrew from the Iranian nuclear deal, re-imposing a full set of sanctions on Iran and demanding that all countries cease importing Iranian oil by November. This effectively removed a significant element of oil supply from the market. An agreement by OPEC to increase oil production by up to 1mbl per day over the second half of the year failed to offset the impact of reduced supplies from both Iran and elsewhere, as global oil supplies experienced disruptions in various regions, including Venezuela and Libya.



Summit Balanced Fund

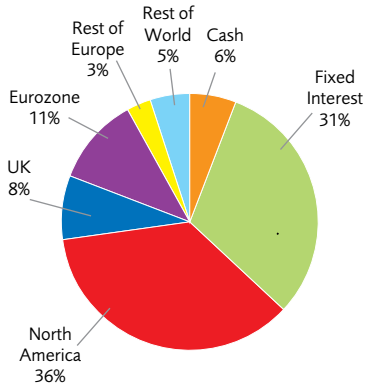
Review

With the improved investor sentiment towards oil, it's perhaps no surprise that our energy holdings occupied the top performance slots. **Diamond Offshore, HollyFrontier, Occidental Petroleum** and **Imperial Oil** were up 30-50% in Q2. Ericsson was also up strongly 29% following results that suggest growth is returning after a number of difficult years; our purchase in Q3 2017 was timely.

In the IT sector we purchased **Playtech**, the largest global provider of software and gaming content to the online gambling industry. Its business model is to provide content and IT infrastructure to online gambling operators and in return they receive a percentage of the gross gaming revenue generated by the operator. With online gambling penetration continuing to increase and more and more global markets regulating online gambling, Playtech is in a prime position to benefit from these structural tailwinds. Its healthy balance sheet, strong dividend and attractive valuation all combined to warrant an initial investment in this market leading company.

Equity Sector Distribution	%
Telecomms & Technology	22.64%
Financial	20.62%
Pharmaceuticals	11.46%
Consumer Cyclicals	10.22%
Energy	8.92%
Consumer Staples	8.33%
Capital Goods	5.67%
Industrial Services	4.78%
Industrial Commodities	4.75%
Utilities	2.60%

Top 10 holdings	%
Microsoft	1.92%
DCC	1.79%
Berkshire Hathaway	1.78%
Jefferies Financial	1.59%
Melrose Industrial	1.56%
Oshkosh Truck Corp	1.53%
Owens Inc	1.51%
CRH	1.48%
Fairfax	1.44%
CISCO Sys	1.43%



Bid/Exit price at 30/06/2018 220.60

*Past Performance	
1 Year	3.57
2 Years	4.95
5 Years	7.90
10 Years	5.93

Source Moneymate ©

Summit Growth Fund

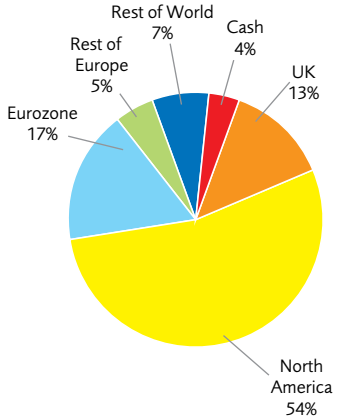
Review

During the quarter Nike was also strong with a surged of 30% a new high. Nike is a long-time portfolio holding and is up around seven-fold since first purchased in the summer of 2009.

In the manufacturing industry, the company Kennametal (one of three dominant global companies selling carbide cutting tools) was sold out during Q2, although in reality it was a tiny position in the end, having been sold down from a c.1% fund weight over the previous year as we took advantage of a very strong share price We were always aware that Kennametal was a cyclical company, but most importantly it had a sound balance sheet to ride out the weak demand environment, which gave us confidence to hold on in expectation of better times. Our patience was ultimately rewarded as the share price rapidly recovered in 2016 and 2017, peaking at twice our initial purchase price. This is a good example of how sound businesses can overcome unexpected, temporary difficulties.

Equity Sector Distribution	%
Telecomms & Technology	22.64%
Financial	20.72%
Pharmaceuticals	11.30%
Consumer Cyclicals	10.41%
Energy	8.67%
Consumer Staples	7.92%
Capital Goods	5.66%
Industrial Services	4.93%
Industrial Commodities	4.88%
Utilities	2.87%

Top 10 holdings	%
Microsoft	2.91%
DCC	2.81%
Berkshire Hathaway	2.76%
Jefferies Financial	2.45%
CRH	2.38%
Melrose Indust	2.36%
Oshkosh Truck	2.34%
Owens Inc	2.33%
Fairfax	2.25%
Cisco	2.20%



Bid/Exit price at 30/06/2018 234.7

*Past Performance	
1 Year	5.11
2 Years	8.68
5 Years	10.73
10 Years	6.58

Source Moneymate ©

Summit Global Leaders Fund

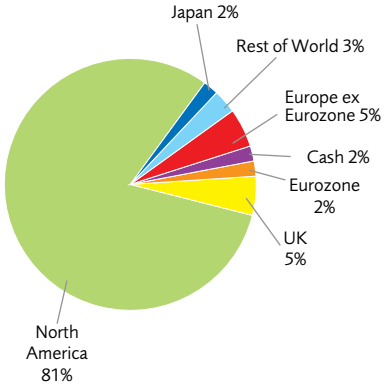
Review

BP, the UK energy company, rose 22.3% (lc) during the period as the oil price strengthened. Supply cuts from OPEC and Russia have seen oil inventories fall as demand has improved. Geopolitical tensions are also contributing. A US withdrawal from the Iran nuclear deal was also supportive for oil price. Houthi rebels in Yemen have stepped up attacks on Saudi Arabian oil infrastructure. Venezuela's economic and political crisis has seen oil output drop.

Facebook, the US social media company, was up 21.6% in local currency in the second quarter. Strong mobile demand and ongoing growth in the user base continue to drive the business. The data privacy scandal involving Cambridge Analytica appears to have had a limited impact on user demand.

Equity Sector Distribution	%
Telecomms & Technology	42.8%
Pharmaceuticals	12.8%
Financial	12.4%
Consumer Cyclicals	10.7%
Energy	9.4%
Consumer Staples	8.2%
Capital Goods	3.7%

Top 10 holdings	%
Apple	8.33%
Microsoft	6.83%
Amazon	6.15%
Facebook	4.25%
Berekshire Hathaway	3.18%
JP Morgan	3.14%
Exxon Mobil	3.04%
Alphabet Inc	3.02%
Johnson & Johnson	2.84%
Bank of America	2.53%



Bid/Exit price at 30/06/2018
183.6

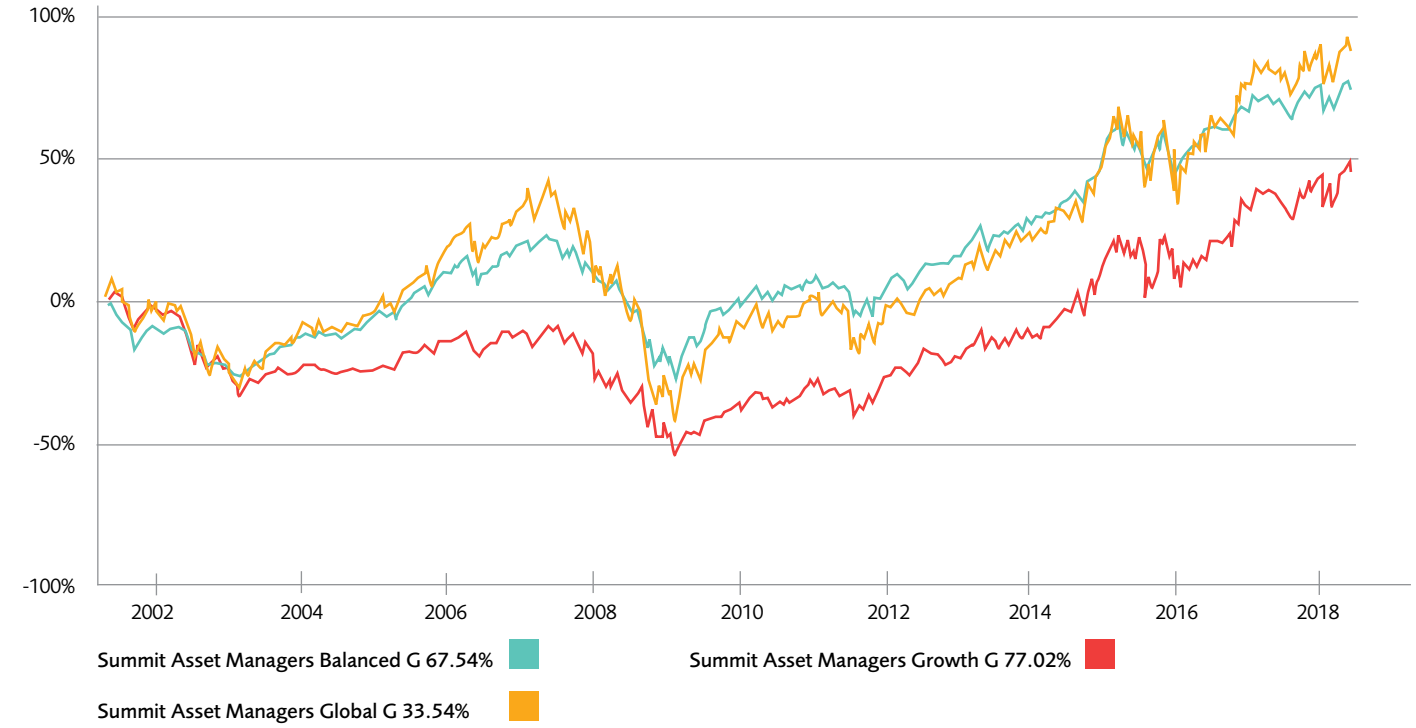
***Past Performance**

1 Year	8.96
2 Years	11.12
5 Years	11.53
10 Years	8.39

Source Moneymate ©

Fund Performance

Performance Report - Performance - 06/05/2001 to 01/07/2018



Investment Outlook

An improving global economic and earnings backdrop supported equity markets in 2017 and is expected to remain in place through 2018, despite recent concerns on trade issues and softer economic data in the first quarter of the year. Global economic data has generally been strong over the last 15/18 months and 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, despite some seasonal and weather related softness in global data through the first quarter of 2018.

While the fundamental backdrop remains positive, there are a number of risks which have acted as overhangs on equity markets in recent months. In a global context the biggest concern has centred on a potential global trade war. Announcements of tariffs of 25% and 10% on US steel and aluminium imports and subsequent proposals for reciprocal 25% tariffs on $50bn of US and Chinese imports from each other have contributed to increased volatility in markets and the decline in equities 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. The recent round of 'tit for tat' tariff announcements with further rounds of tariff increases threatened have added to these concerns. Given the well-known costs associated with a full blown trade war, it is uncertain if such an escalation will ultimately occur but the risks around this have obviously increased. We believe there is still a willingness to address the trade issues between global trading partners with an ultimate agreement and compromises expected which could avoid an escalation into a global trade war but markets may remain volatile until the eventual outcome is clearer.

Other issues which have contributed to volatility in markets in recent months include the concerns over higher wage and headline inflation in the US earlier this year which gave rise to fears of potentially more aggressive tightening of monetary policy by the US Fed and a rise in bond yields which contributed to falls in equities. While some increase in inflation is likely, we believe this will be modest and will not result in significantly higher bond yields or a notable increase in the pace of policy tightening by the Fed and other central banks. While headline Eurozone inflation has surprised to the upside and risen to 2.0% y/y in June, this is seen as being due to temporary base effects which are anticipated to fade in the second half of the year and leave inflation closer to 1.5% by year end. As a result, while ECB asset purchases are set to end by the end of 2018, official interest rates are unlikely to rise until nearer the end of 2019.

Given the above factors, bouts of volatility in equity markets, as have been evident since the end of January, are possible during the year as these risks potentially come to the fore from time to time. Nevertheless, following the 20% gains in local currency terms in global equities in 2017, there is a potential gain of high single to double digits in 2018 as a whole as we believe the positive fundamental backdrop will outweigh these concerns.