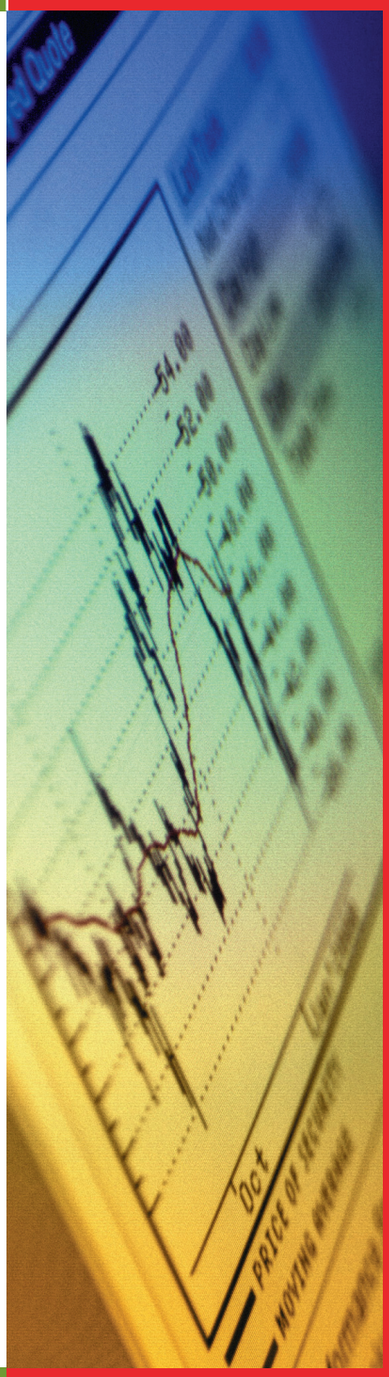
October 2012

Summit Mutual Funds

Quarterly Review



Markets

The third quarter proved to be a positive one for investment markets with the only significant period of weakness being experienced in the middle of July. Subsequent to this, markets generally reacted positively to political, monetary and economic developments.

At the beginning of July, there was an initial positive reaction to the proposal at the June EU Summit meeting to allow the European Stability Mechanism directly recapitalise European banks and remove legacy bank debt from sovereign balance sheets. This quickly unravelled given lack of clarity on the implementation of the proposal and disagreements among politicians as to what had actually been agreed. European peripheral bond yields rose to new highs as Spanish 10 year yields hit 7.5% and 2 year yields reached 6.6% at which point Spain effectively no longer had access to funding markets. In contrast, German and US yields hit new lows of 1.17% and 1.39% respectively as the flight to safe haven assets continued. The Euro hit a two year low against the US dollar of 1.2040 as fears grew of a Euro break up.

The President of the ECB, Mario Draghi, responded to the heightening crisis by saying it would do whatever it takes to preserve the Euro and assured that measures taken would be enough to do so. The ECB justified its intervention by saying the premia evident in peripheral European bond markets came under its mandate as they were interfering with the monetary transmission mechanism across Europe whereby low official interest rates were not filtering through across the European economy in relation to the availability of adequate funding at low costs. At its August monthly meeting, the ECB said it would design a bond buying programme which would be of an adequate size to meet its objectives of ensuring the survival of the Euro and the proper functioning of bond markets so that peripheral countries could fund themselves in the market. Investors were encouraged that for the first time since the European crisis began, progress was finally being made to properly address the issues being faced and was being driven by an entity with the credibility, authority and necessary resources to do so.

The eventual announcement of the details of the ECB bond buying plan in early September provided a further uplift for markets as proposals at least met if not exceeded investor expectations. The programme, called Outright Monetary Transactions (OMT) will be of unlimited size, will not have any formal yield target for bonds purchased, will be focused on maturities out to three years, will remove the seniority status of the ECB for bonds purchased and thus not devalue bonds held by other private investors and will be available for countries exiting current assistance programmes when they regain market access. Conditionality applies in that countries requesting assistance will have to agree terms and conditions in relation to fiscal policies to reduce deficits. Markets rose on the back of these developments, particularly in Europe and the Euro began to recover as the tail risks of a Euro break up and severe economic dislocation began to recede, ending the quarter at 1.2922 against the US dollar. Peripheral bond yields fell substantially with Spanish 10 year yields declining to 5.87% by quarter end while those in core markets rose with German yields ending the period at 1.44%. European equity markets also responded positively as markets rerated higher on a valuation basis with downside risks being removed while global equity markets also benefited as fears of a European induced world recession eased.

At the same time as progress was being made on the European policy front, economic data began to improve in the US with retail sales, personal income and in particular the housing market in terms of activity levels and house prices all showing positive movements which exceeded expectations. Despite the improvement, growth remained modest and below levels considered normal prior to the financial crisis. As a result, the Federal Reserve announced the launch of its third Quantitative Easing Programme (QE3). This involves the purchase of $40bn of Mortgage Backed Securities (MBS) per month and is open ended in nature with no set end date. Additional asset purchases will be undertaken as appropriate with the size, pace and composition of the programme being altered as required to meet its objective of lower unemployment and stimulating growth. Policy will remain accommodative for a considerable time after the economic recovery strengthens while the time frame over which interest rates will be kept low was extended out to mid 2015. This provided further support for markets.

Summit Balanced Fund

Review

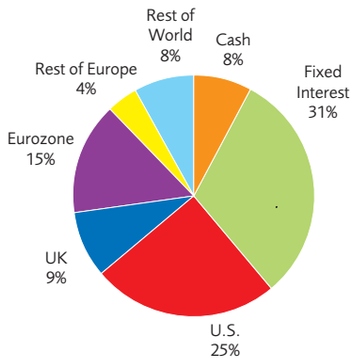
During the quarter we bought Berkshire Hathaway, the holding company managed by Warren Buffet with interests in a variety of activities, the largest one being insurance. The stock is trading at one of its lowest historic valuations and has $34bn of cash on the balance sheet which could be used for share buybacks if no alternative uses are found. It has significant capacity in its reinsurance operations and is set to benefit from improving property reinsurance rates.

Strong earnings growth is expected from its railroad, manufacturing, service, retail and utilities activities with very low intrinsic values being discounted for these operations in the current share price. McDonald's was bought after recent weakness in same store sales figures provided an opportunity as valuation levels fell to two year lows.

Over the quarter, Verizon Communications, the US telecoms company gained 16.2% as average revenue per user for mobile phones rose to $55.43 due to the growth in wireless data.

Equity Sector Distribution	%
Capital Goods	24.0%
Financial	12.5%
Consumer Staples	11.2%
Telecomms & Technology	11.1%
Energy	9.5%
Consumer Cyclicals	9.5%
Pharmaceuticals	9.2%
Industrial Commodities	7.0%
Utilities	3.0%
Industrial Services	3.0%

Top 10 Holdings	%
Apple	0.97%
CRH	0.94%
Exxon Mobil	0.82%
HSBC	0.77%
Kerry Group	0.72%
Shell	0.72%
Ryanair	0.68%
Microsoft	0.68%
IBM	0.66%
AT&T	0.60%



Bid/Exit price at 30/09/2012
142.10

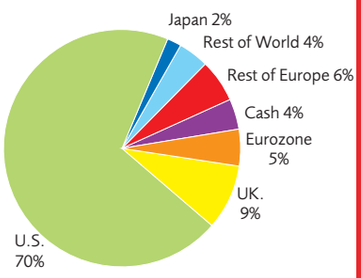
***Past Performance**
1 Year – 17.24
2 Years – 4.54
5 Years – - 0.77
10 Years – 3.90

Source Moneymate ©

Summit Global Leaders Fund

Review

During the quarter, we added to the position in Old Mutual, the UK insurance company with significant exposure to South Africa and operations also in Europe, the UK and US. The company has strong growth potential in South Africa and across the African continent as it expands into other countries with current low penetration levels in the insurance market. The company is restructuring by disposing of non core assets and becoming more streamlined and focused on growth markets. In the UK, the Skandia investment platform is well positioned to win market share as new regulations facilitate a switch of business to this distribution channel and is likely to result in greater concentration in the market place with larger, successful players gaining more share. We reduced positions in HSBC and Barclays, the two UK banks.



Equity Sector Distribution	%
Technology	24.25%
Energy	17.16%
Pharmaceuticals	15.11%
Consumer Staples	12.45%
Capital Goods	9.99%
Financial	7.93%
Telecomms	7.71%
Consumer Cyclicals	3.93%
Industrial Commodities	1.48%

Top 10 Holdings	%
Apple	7.66%
Exxon Mobil	5.29%
General Electric	3.03%
IBM	2.89%
Texaco	2.88%
AT & T	2.83%
Microsoft	2.75%
Nestle	2.65%
Google	2.48%
Procter & Gamble	2.39%

Bid/Exit price at 30/09/2012
102.70

***Past Performance**
1 Year – 29.07
2 Years – 12.99
5 Years – -1.42
10 Years – 0.82

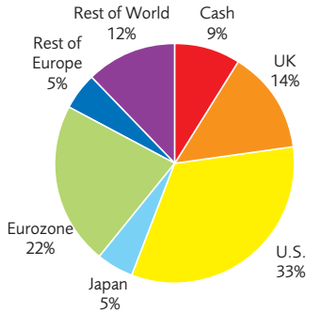
Source Moneymate ©

Summit Growth Fund

Review

During the quarter stocks held performed as follows. Walmart gained 15%. Shares enjoyed a rerating after it delivered a second quarter of positive sales.

Swiss Re rose 9%. Results were 72% ahead of consensus. Renewals have been strong with risk adjusted pricing up 17%. Further price rises are expected. Solvency was strong at 213%. At its investor day it reiterated its financial targets and was more constructive on a special dividend payment if alternative uses are not found for its excess capital.



Equity Sector Distribution	%
Capital Goods	23.9%
Financial	12.5%
Consumer Staples	11.2%
Telecomms & Technology	11.0%
Consumer Cyclicals	9.5%
Energy	9.5%
Pharmaceuticals	9.2%
Industrial Commodities	7.0%
Industrial Services	3.3%
Utilities	2.9%

Top 10 Holdings	%
Apple	1.46%
CRH	1.44%
Exxon Mobil	1.23%
HSBC	1.14%
Kerry Group	1.11%
Microsoft	1.02%
Ryanair	1.02%
IBM	0.99%
Shell	0.90%
AT&T	0.89%

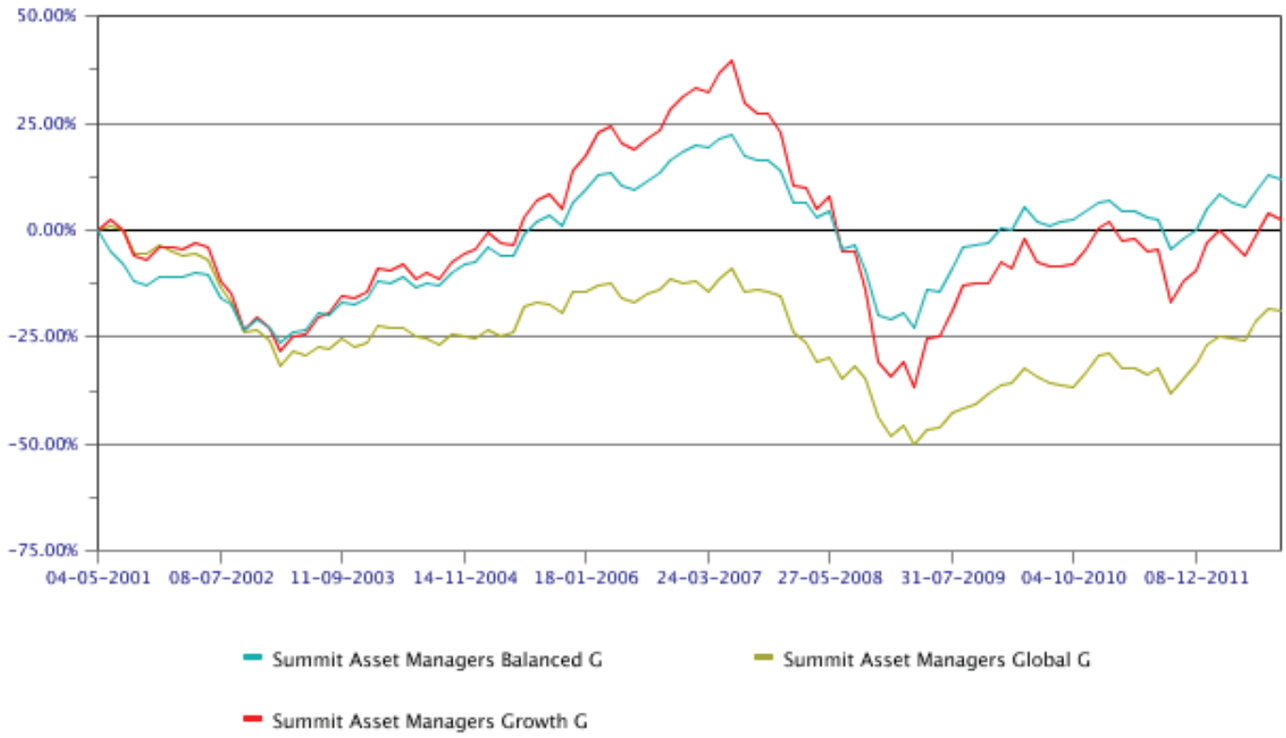
Bid/Exit price at 30/09/2012 128.80

***Past Performance**
1 Year – 22.88
2 Years – 5.35
5 Years – -4.39
10 Years – 3.04

Source Moneymate ©

Fund Performance

Performance Report - 04 May 2001 to 01 October 2012



Investment Outlook

Looking into the remainder of 2012, markets are likely to remain volatile and will be sensitive to news flow on a variety of factors but equity markets are expected to have an upward bias. In Europe, while the sovereign debt crisis remains an overhang, recent policy initiatives suggest that some progress is being made in terms of trying to find a resolution. The most important development has been the creation of a bond buying programme by the ECB called Outright Monetary Transactions (OMT) which is of unlimited size. This fund will buy bonds out to three year maturities in an effort to allow the monetary transmission mechanism to function properly whereby the current low level of official interest rates actually flows through to the overall economy in peripheral countries. While no country has yet applied, short and long term bond yields have already fallen significantly in peripheral markets with further falls expected once the programme is implemented with Spain expected to be the first to apply. The ECB is seen as the most credible entity to tackle the crisis with sufficient resources to do so and this move has removed the tail risks of a Euro breakup and the consequent severe economic dislocation. The overall resolution process will be long and drawn out but for the first time, real progress is being made.

Global central banks have increased monetary stimulus in recent weeks, most notably in the US where the third Quantitative Easing (QE3) programme was launched by the Federal Reserve. This is open ended with no fixed end date and will remain in place until unemployment improves and the economy strengthens. It involves the purchase of $40bn of Mortgage Backed Securities (MBS) per month and the Fed has indicated it will increase the size, composition and pace of the programme as required to meet its objectives. This is supportive of economic growth and equity markets. The Fed has also said it will remain accommodative for a considerable time even after the recovery strengthens.

In relation to bonds, core markets in Europe such as Germany have benefited from a flight to quality as investors sought capital preservation and yields fell to historic lows. With moves by the ECB to address the crisis, funds have begun to flow out of German bonds and yields have risen. This trend of rising core market bond yields and falling peripheral market yields is likely to continue although as elsewhere, volatility is expected to remain a feature.

Risks and uncertainties relate to the forthcoming 'fiscal cliff' in the US where a number of tax breaks and allowances are due to finish at year end and together could take up to 4% from GDP if all were removed at the same time. Some compromise is expected so that the overall negative impact is likely to be closer to 1% although negotiations around this issue could cause some anxiety. Questions remain over the pace of slowdown in the Chinese economy which is crucially important for the global economy. Further fiscal and monetary stimulus measures are expected in China but economic news flow will be carefully monitored.

Overall, investment markets should continue to benefit from the supportive policies of global central banks and moves to reduce the tail risks across Europe. They will however remain sensitive to political and economic developments which could cause some negative surprises from time to time.