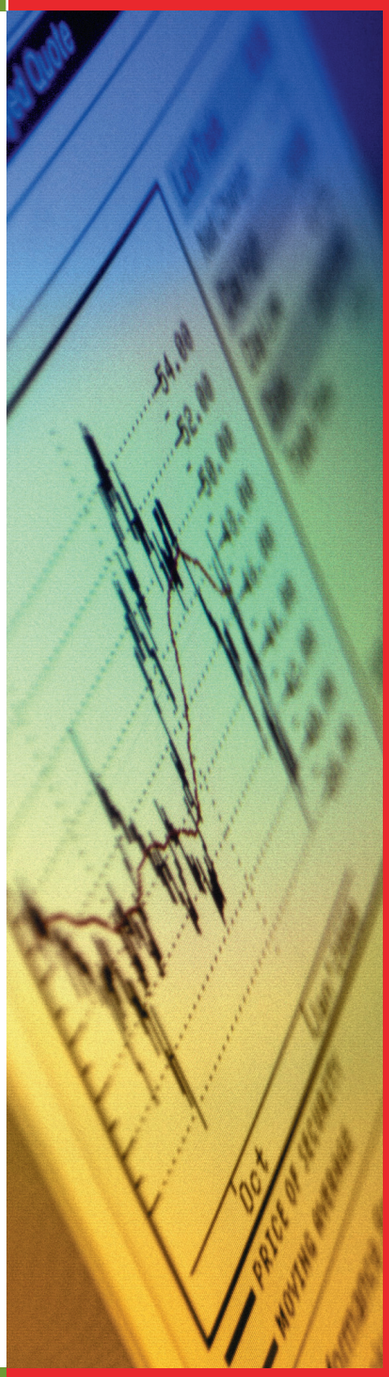
October 2013

Summit Mutual Funds

Quarterly Review



Markets

Equity markets were strong during the third quarter, but remained somewhat volatile, following weakness in the second quarter as the Fed indicated tapering of QE3 could begin before year end. Central banks in the US, Europe and the UK emphasised that interest rates would remain low and monetary policies would remain accommodative for a considerable time. If anything, the Fed's comments became increasingly dovish through the quarter and this shift was confirmed when the Fed surprised the market by delaying the beginning of tapering of QE3 beyond September, the month in which the market had expected the reduction of asset purchases to begin.

During the quarter, cyclical sectors tended to outperform as global economic data generally improved and exceeded expectations. Industrials, commodities and consumer discretionary sectors all outperformed. In contrast, defensive sectors lagged with consumer staples, utilities and healthcare all underperforming.

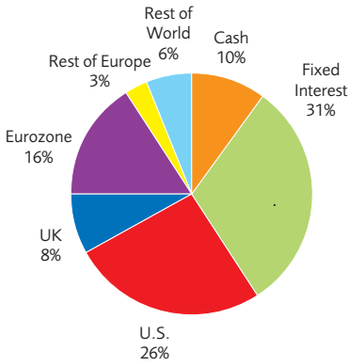
Generally, the extension of current levels of monetary stimulus for longer than expected was positive for equities.as global economic data surprised positively and showed improving momentum. In the middle of the quarter, tensions in Syria caused an increase in volatility but moves towards a diplomatic resolution of the crisis led to a recovery of the losses experienced in equity markets in August. Core global bond yields over much of the period moved higher in anticipation of the reduction in asset purchases by the Fed and in response to the improving economic news flow. However, yields fell from their highs when QE3 tapering was delayed. Rising political tensions towards quarter end as the US Congress failed to agree an annual budget which led to a partial shutdown of non-essential government activities and risks of the Italian government falling when Berlusconi pulled his ministers out of the cabinet, also contributed to the falls in core global bond yields at quarter end and caused equities to give up some their gains. Over the quarter, the FTSE World equity benchmark rose 6.4% in local currency (3.9% in €). Europe gained 9.7% while the Pacific Basin rose 6.7% (4.5% in €). The UK lagged, gaining 5.0% (7.7% in €).

Summit Balanced Fund

Review

During the quarter, **Kingfisher**, the UK and European home improvement retailer, was bought as it offered improving fundamental prospects as well as good value relative to European industry peers. Kingfisher benefits from market leading positions and structural advantages, specifically the ability to mitigate the risks that store based retailers face from sales shifting online. We are confident that the company's restructuring program will deliver significant margin improvement, driven by efficiency gains and direct sourcing initiatives.

During the quarter Cyclical sales growth, driven by a UK housing upturn, will generate further upside in earnings. Given its strong cash generation and minimal debt, we would expect a future return of cash to shareholders.



Equity Sector Distribution	%
Capital Goods	23.20%
Financial	14.00%
Consumer Staples	12.80%
Pharmaceuticals	9.50%
Energy	8.30%
Consumer Cyclicals	7.50%
Technology & Teclecomms	11.00%
Industrial Commodities	6.90%
Industrial Services	4.10%
Utilities	2.60%

Top 10 Holdings	%
CRH	1.06%
Ryanair	0.86%
Kerry Group	0.71%
Exxon Mobil	0.67%
HSBC	0.64%
Microsoft	0.63%
Nestle	0.60%
Apple	0.59%
Novartis	0.58%
Aryzta	0.53%

Bid/Exit price at 30/9/2013
155.50

***Past Performance**
1 Year – 9.42
2 Years – 13.27
5 Years – 6.20
10 Years – 4.17

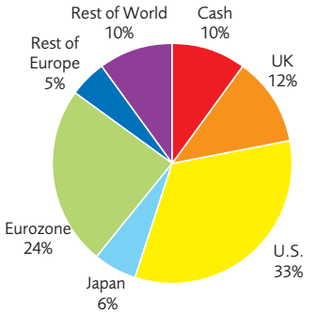
Source Moneymate ©

Summit Growth Fund

Review

During the quarter, **C&C Group** was bought. The stock was trading at relatively attractive valuations compared to peers which provided downside protection even in a worst case growth scenario. The stock price declined following the release of poor market share data for the company's US cider business. This is attributable to disruptions in its distribution network following an acquisition in addition to a significant increase in competition and the share price was thought to have overly discounted the news. Consensus forecasts were seen as conservative with growth opportunities in the fast growing US cider market where market penetration of cider is extremely low compared to other developed markets. There is significant operating leverage in the business with capacity utilisation running at relatively low levels. The company has a strong balance sheet with limited capex requirement following recent investments and provides opportunities for shareholder returns or further acquisitions.

Stocks which were reduced during the quarter included Kerry Group, Aryzta, the food and fresh bakery company, Carlsberg, Ahold, the Dutch food retailer, Anheuser Busch Inbev, Nestle and Unilever.



Equity Sector Distribution	%
Capital Goods	23.12%
Financial	14.06%
Consumer Staples	12.68%
Pharmaceuticals	9.56%
Energy	8.25%
Technology	7.61%
Consumer Cyclicals	7.48%
Industrial Commodities	6.94%
Industrial Services	6.73%
Telecomms	3.57%

Top 10 Holdings	%
CRH	1.58%
Ryanair	1.28%
Kerry Group	1.03%
Exxon Mobil	1.00%
HSBC	0.96%
Microsoft	0.95%
Apple	0.90%
Nestle	0.87%
Novartis	0.87%
IBM	0.82%

Bid/Exit price at 30/9/2013
147.80

***Past Performance**
1 Year – 14.72
2 Years – 18.73
5 Years – 6.29
10 Years – 3.68

Source Moneymate ©

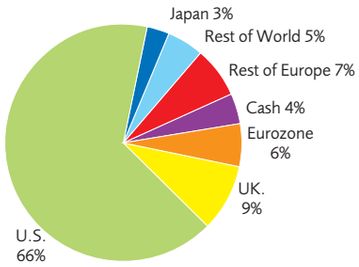
Summit Global Leaders Fund

Review

Over the quarter, **Gazprom**, the Russian gas company rose 33.9% as a dividend increase became increasingly likely following a requirement that state related companies pay 25% of IFRS net income in dividends. An agreement with Ukrainian authorities to facilitate the transit of gas supplies to European customers also provided support.

Banco Santander, the Spanish bank, rose 23.0% following a broker recommendation upgrade as return on tangible equity estimates were raised and cost of equity estimates lowered. The general economic recovery across the Eurozone with evidence that it was spreading to peripheral countries also encouraged investors to increase equity weightings in European and peripheral countries with large cap stocks such as Banco Santander benefiting from these flows.

Stocks which were sold included Conoco Phillips, the US oil and gas company, Eni SpA, the Italian oil and gas company and Mc Donald's.



Equity Sector Distribution	%
Technology	21.48%
Energy	15.09%
Pharmaceuticals	14.88%
Financial	12.37%
Consumer Staples	11.62%
Capital Goods	9.86%
Telecomms	8.78%
Industrial Services	2.48%
Consumer Cyclicals	2.21%
Industrial Commodities	1.23%

Top 10 Holdings	%
Apple	5.21%
Exxon Mobile	4.39%
Microsoft	2.90%
General Elec	2.87%
Johnson & Johnson	2.75%
Texaco	2.71%
Google	2.67%
Nestle	2.58%
Novartis	2.38%
Procter & Gamble	2.37%

Bid/Exit price at 30/9/2013 106.70

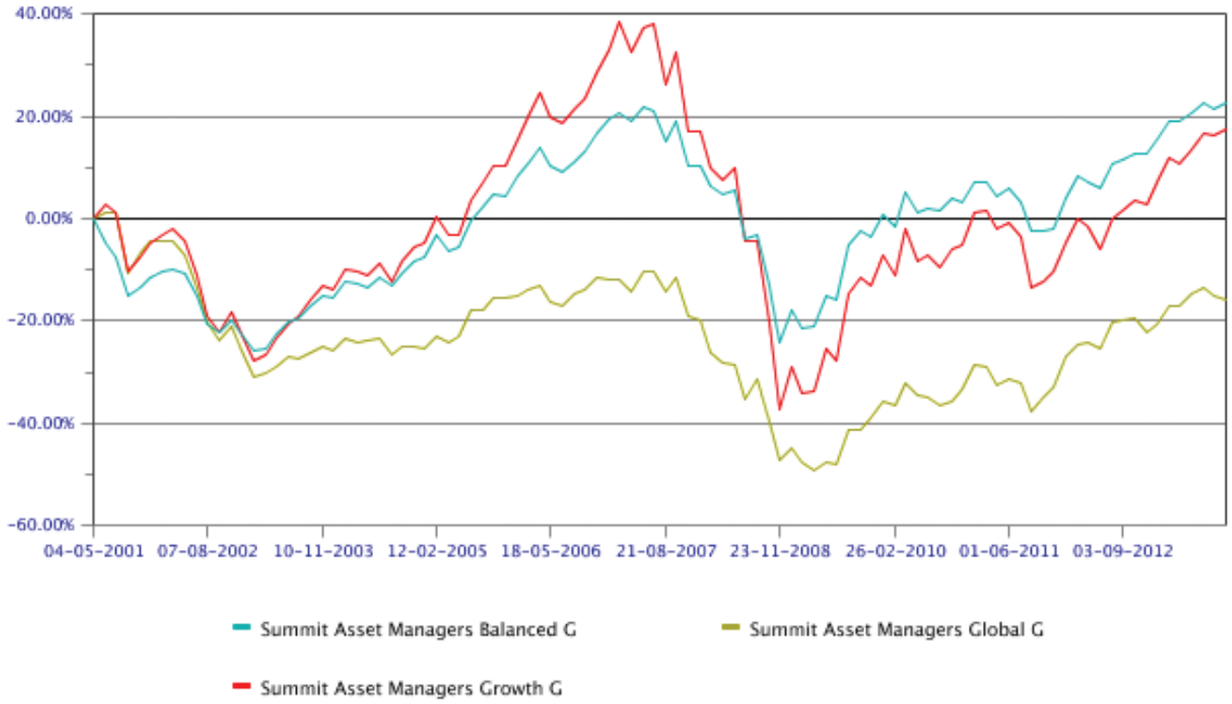
***Past Performance**

1 Year –	3.92
2 Years –	15.82
5 Years –	5.12
10 Years –	1.61

Source Moneymate ©

Fund Performance

Performance Report - 4/5/2001 to 01/10/2013



Investment Outlook

Investment markets have been supported by the unprecedented level of monetary stimulus being provided by global central banks in an effort to improve the growth outlook for global economies. This has been most notable in the US where the third Quantitative Easing (QE3) programme was launched by the Federal Reserve in September 2012. However, the Fed has indicated that the level of asset purchases under QE3 will begin to be reduced in the coming months. Such timing to be determined by progress in relation to the resolution of fiscal issues in the US. The outlook for the housing market and overall economy and conviction within the Fed that the economic recovery is sustainable. With tapering only beginning if and when the Fed is confident, the macro backdrop should be supportive of equities and offset the impact of reduced levels of asset purchases. The Fed also has sought to separate any decision on tapering from increases in interest rates with the latter unlikely to occur until 2015. As a result, monetary policy will remain accommodative for the foreseeable future, even as the economy recovers.

In Japan, the Bank of Japan has agreed to a doubling of its inflation target to 2% and announced a significant increase in the level of asset purchases, committing to buy more bonds, equities and property assets and double its monetary base by buying Y60/70trn of assets per year. In Europe, the ECB had been reluctant to provide additional stimulus as it saw policy as already being accommodative and financial market conditions having improved. Weaker economic data in the first quarter and reversals in business sentiment surveys has however led to a cut of 25bps in the ECB's main refinancing interest rate to 0.5%. The ECB also indicated that work is underway to try and develop a securitized SME loan market to encourage increased lending to European corporates although this is still at the early stages of development. Recent comments from both the ECB and Bank of England have indicated that interest rates in both these regions will remain low for extended periods of time. The Bank of England has set a threshold level of 7% unemployment before it will begin to consider raising interest rates.

Momentum in the global economy improved early in 2013. Although there were indications at the beginning of the second quarter that that the pace of growth had eased and a temporary soft patch might be in the offing. This proved to be transitory, with a pick-up in growth becoming evident again in recent economic releases in developed markets. Consumer balance sheets are strong in the US and the housing market remains firm. Japan continues to show signs of stabilisation as industrial production are increasing modestly, bank lending continues to grow, consumer confidence is up and business sentiment surveys are improving. Recent data from the UK has also been stronger and growth rates have improved through the first two quarters and look set to improve further through the second half of the year. Industrial production, services and manufacturing readings are all steadily improving in the UK. In Europe, after weakness through March and April, sentiment surveys have again improved in recent months while the region exited recession in the second quarter as GDP grew 0.3% q/q and the recovery looks set to be maintained through the second half of the year. China had shown signs of slowing growth momentum through the first half of the year although recent economic data has shown signs of stabilisation. Some other emerging markets however have shown signs of slowing growth with countries which have large current account deficits experiencing currency weakness and forced to raise interest rates to address these deficits and rising inflation.

Overall, equity markets should continue to benefit from the supportive policies of global central banks and moves to reduce the tail risks across Europe. Economic momentum should continue to improve through the remainder of the year and into 2014 and would be supportive of equity markets which remain attractive on valuations terms both in absolute terms and relative to other asset classes, even after gains since the middle of 2012. However, markets will remain sensitive to political and economic news flow. Particularly in relation to monetary stimulus programmes which could cause some negative surprises from time to time but overall equity markets should continue to move higher. If the Fed does begin to reduce the level of asset purchases under QE3 later this year, this should only occur because growth is improving and is seen as sustainable. This improved growth outlook would be positive for equities and help offset the negative impact of reduced monetary support. Over the next twelve months, global equities could rise between 5/10%.