October 2015

Summit Mutual Funds

Third Quarter Comment 2015

Markets

The third quarter turned out to be the worst quarter for global equities since Q3 2011 with concerns over the extent of the slowdown in the Chinese economy dominating markets and giving rise to fears over possible contagion to the global economy, contributing to a significant sell off in equity markets. There was a sharp increase in equity market volatility over the quarter which was also evident across other asset classes.

Developments in Greece drove markets through July. Uncertainties regarding Greece's future in the Euro were finally removed as a third bailout programme was agreed when the government decided against forcing a Greek exit from the Euro given the significant negative repercussions for the Greek economy of such an outcome. With a compromise reached, concerns over possible negative contagion to peripheral markets and the Eurozone faded through late July and early August. Shortly after the Greek situation had been resolved, a new concern emerged for markets in early August. Fears over the outlook for the Chinese economy and extent of the slowdown being experienced increased significantly following the surprise devaluation of the Chinese currency on 11th August. The move was viewed by investors as an indication that the economy was in much worse shape than investors or the Chinese authorities had realised, with the devaluation seen as a drastic measure to boost exports and overall growth.

While economic news flow in developed economies remained resilient through the quarter, persistent disappointing economic news flow in China and across emerging markets generally maintained fears and concerns that ultimately, economies in developed markets would be negatively impacted by the deteriorating economic backdrop in emerging markets, thus threatening global economic and earnings growth forecasts..

Over the quarter, the FTSE All World equity benchmark fell -8.1% (-9.5% in €). Most of the losses in equity markets occurred from the 20th to 24th August when markets fell -8.6% as selling pressures related to the fundamental concerns regarding the Chinese economy were exacerbated by the breaking of technical chart support levels and forced hedge fund selling related to the surge in volatility to levels last seen at the height of the financial crisis in 2008/09.

Bond markets rose over the quarter with the Eurozone > 5 year benchmark rising 4.0% despite experiencing increased levels of volatility over the period, just as was the case with other asset classes. With renewed declines in oil prices as supplies continued to exceed demand and increased deflationary pressures from lower growth and currencies across emerging markets, downside risks to inflation were viewed as having increased. German 10 year yields declined to 0.59%. Peripheral spreads against Germany narrowed to 130bps and 113bps in the case of Spain and Italy respectively as the Greek crisis was resolved. The Spanish regional elections in Catalonia were completed with the risks of a disruptive secession debate viewed as having been reduced post the result with the main pro-independence party failing to win a majority on its own despite winning the largest share of the vote. Despite uncertainty over the exact future path of ECB policy, it was generally accepted that the possibility for increased levels of asset purchases by the ECB at some point in the future had increased which also contributed to lower bond yields across the Eurozone.

Summit Balanced Fund

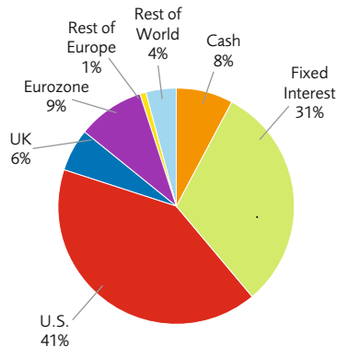
Review

CRH and Lancashire Holdings had performed poorly in the back half of last year for no convincing reason and have enjoyed strong recoveries this year. Lancashire, the specialty insurance company, in particular, has seen its valuation underpinned as a number of its peers have been subject to takeover offers. Despite a strong run this year, the stock valuation remains attractive.

The fund's holding in Dragon Oil was acquired by majority owner, Emirates National Oil Company (ENOC) in August. ENOC made a formal offer to acquire the shares held by all minority owners for £7.50 each back in June. We explained to both ENOC and Dragon Oil's Independent Committee, which endorsed the ENOC offer, that we believed the £7.50 offer was inadequate. We engaged with other key shareholders and the media to encourage other investors to consider our view that the business value exceeded the ENOC offer. We believe as a result of our efforts and those of a few other institutional investors, ENOC decided to increase its offer price to £8 per share – a price that better reflects Dragon's business value. We sold out of the fund and the cash has since been received.

Equity Sector Distribution	%
Financial	22.21%
Technology & Telecomms	12.74%
Pharmaceuticals	11.64%
Consumer Cyclicals	10.98%
Energy	9.75%
Consumer Staples	8.48%
Industrial Commodities	5.87%
Telecomms	5.87%
Industrial Services	5.01%
Capital Goods	4.57%
Utilities	2.88%

Top 10 holdings	%
DCC	2.29%
Owens Inc	1.95%
Markel Corp	1.93%
Berkshire Hathaway	1.79%
Fairfax Financial	1.78%
Lancashire Holdings	1.70%
Nike Inc	1.62%
CRH	1.62%
Sysco Corp	1.45%
Brookfield Asset	1.45%



Bid/Exit price at 30/09/2015 184.60

***Past Performance**

1 Year	6.24
2 Years	8.97
5 Years	7.26
10 Years	3.31

Source Moneymate ©

Summit Growth Fund

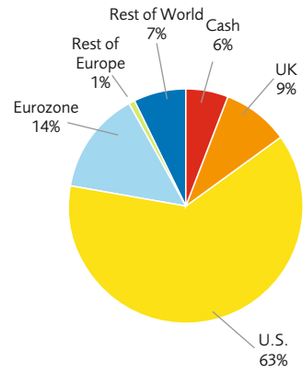
Review

The World Equity portfolio has out-performed global equity markets through the recent period of weakness. This is a consequence of our risk-averse orientation. The Fund's outperformance of the global equity index in the third quarter was driven mainly by stock selection, with sector allocation contributing modestly also. The sell-off in commodity prices and generalised concerns about deteriorating demand in China has caused some particular strain in certain market segments. Mining stocks have been amongst the worst-affected and we don't own any of these, which helped our relative performance.

DCC, a core holding in the portfolio, is an example of a business that has continued to perform well for many years. They announced the value-creative acquisition of Butagaz earlier this year which was well received and the share price rose accordingly. The stock's strong performance this year suggests other investors have been taking note.

Equity Sector Distribution	%
Financial	22.08%
Technology	12.93%
Pharmaceuticals	11.91%
Consumer Cyclicals	10.97%
Energy	9.83%
Consumer Staples	8.27%
Telecomms	5.79%
Industrial Commodities	5.74%
Industrial Services	5.02%
Capital Goods	4.60%
Utilities	2.86%

Top 10 holdings	%
DCC	3.59%
Owens Inc	2.96%
Markel Corp	2.94%
Berkshire Hathaway	2.77%
Fairfax Financial	2.70%
Lancashire Holdings	2.69%
Nike Inc	2.52%
CRH	2.47%
Brookfield	2.26%
Leucadia National Cor	2.25%



Bid/Exit price at 30/09/2015 181.20

***Past Performance**

1 Year	7.91
2 Years	10.74
5 Years	9.32
10 Years	2.67

Source Moneymate ©

Summit Global Leaders Fund

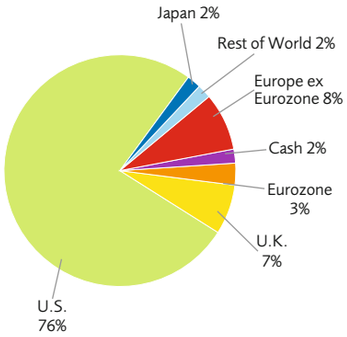
Review

Amazon, the US online retailer, was up 17.9% (local currency) during the third quarter. This followed a very impressive set of Q2 results driven by strong sales growth in International Electronic and General Merchandise and Amazon Web Services and margins comfortably ahead of market expectations. The company is reaping the benefits of its heavy investments in the Amazon Prime offering, category expansion and fulfilment centres.

Google, the US technology company, climbed 17.5% (lc) in the period as it reported strong Q2 revenue and earnings growth. Accelerating revenue growth was driven by mobile search and YouTube while operating margins expanded on the back of cost containment. In August, management announced a restructuring to deal with the growing complexity from the expanding scope and scale of the business. Investors welcomed the increased transparency and the closer alignment of management to business lines.

Equity Sector Distribution	%
Technology	26.41%
Pharmaceuticals	17.34%
Financial	12.80%
Consumer Staples	12.12%
Energy	10.66%
Consumer Cyclicals	8.08%
Telecomms	7.36%
Capital Goods	5.23%

Top 10 holdings	%
Apple	7.80%
Microsoft	4.42%
Exxon Mobile	3.81%
Johnson & Johnson	3.19%
General Electric	3.14%
Novartis	3.05%
Berekshire Hathaway	2.92%
J.P. Morgan	2.80%
Amazon	2.40%
Procter & Gamble	2.38%



Bid/Exit price at 30/09/2015
134.60

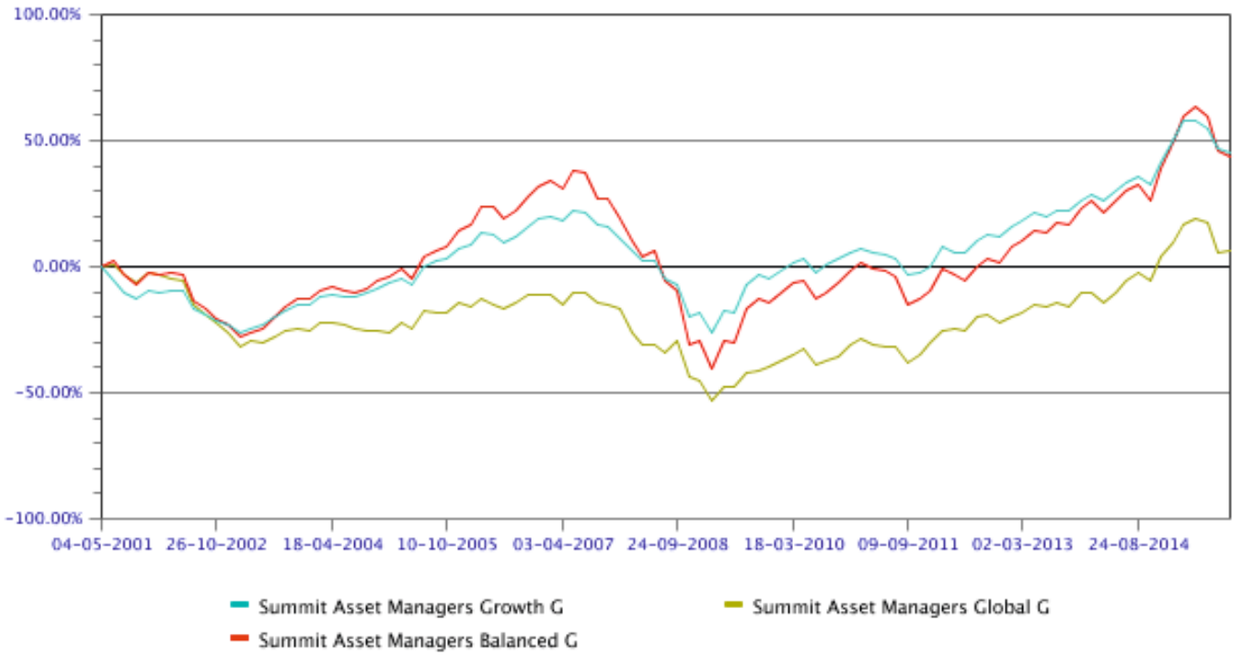
***Past Performance**

1 Year	– 4.13
2 Years	– 12.31
5 Years	– 10.85
10 Years	– 2.34

Source Moneymate ©

Fund Performance

Performance Report - Performance - 04/05/2001 to 01/10/2015



Investment Outlook

Equity Outlook

Equity markets continue to be supported by a number of factors. Fundamentals in terms of a positive economic growth backdrop, although growth is modest, and rising earnings are supportive of equities. Our belief is that concerns related to the growth outlook in China and its possible contagion to the global economy are overdone. Equity valuations are now attractive in absolute terms and are below long term averages on many metrics after recent falls related to concerns over Chinese growth. 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 global central banks' balance sheets continuing to expand even after the ending of QE3 in the US while interest rates have remained lower for longer than they historically have at this stage of the cycle, facilitated by ongoing low levels of inflation. Even in markets where interest rates are expected to be increased in coming quarters, notably the US and UK, the rate tightening cycles are expected to be much more gradual than has been the case previously. Central banks such as the ECB have suggested monetary stimulus could be increased in coming months given downside risks to inflation with the Bank of Japan at some point also possibly increasing its level of stimulus for similar reasons.

Flows into equities have generally been positive in recent years, notwithstanding outflows during the recent turmoil in markets, and are expected to remain positive over time 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.

Gains of around mid to high single digit returns from global equities are possible in 2015 and if the Euro remains weak, gains could be higher in Euro terms.

Markets have become more volatile over the last 10/12 months and are likely to remain so. Issues such as the exact timing of rate rises in the US and UK, political uncertainties and election cycles across Europe, the outlook for growth in China and perceived risks of deflation could all potentially giving rise to periods of anxiety and increased volatility in markets from time to time.

Bond Outlook

The ECB asset purchase programme announced in January surpassed expectations both in terms of its size and its open ended nature. Combined with the indication from the ECB that it will buy bonds under the programme down to negative yields of -0.2%, Eurozone bond yields fell to new all-time lows with German 10 year yields falling to 0.05% at their low point in mid-April.

From mid-April however German 10 year yields rose to a June high of 1.06%. This rise in yields was driven by fears of deflation easing as Eurozone inflation moved back from a low of -0.6% y/y to positive rates of inflation, a rebound in inflation expectations on the back of oil prices rising from their January low, a deterioration in bond market demand/supply dynamics due to a significant rise in net issuance in May and a suggestion by ECB President Draghi that investors should get used to greater volatility in bond markets at low levels of interest rates.

German 10 year yields however have fallen again from their June high to the current level of 0.60% as a renewed fall in the oil price since the end of June and concerns over growth in China and other emerging markets have eased inflation pressures again.

We expect German 10 year yields to trade within a range of 0.60/1.10% through the remainder of the year. The general improvement in Eurozone economic data and easing of deflation fears are behind the expected higher trading range compared to earlier this year. Trends and developments in oil price levels, upcoming Eurozone inflation readings and other economic data will determine where within the range yields are trading at any particular point.

Peripheral bonds over the medium to long term are expected to outperform with spreads against Germany likely to narrow further on the back of the ECB's asset.