January 2019

Summit Investment Funds

Fourth Quarter 2018

Having reached new all time highs in late September, equities fell sharply in Q4 ending the year in negative territory. The initial weakness in early October was triggered by the move higher in US 10 year yields to 3.24% which reduced the relative attractiveness of equities on a yield comparison basis. Comments by US Fed Chairman Powell which suggested the Fed would continue raising interest rates through 2019 at a steady pace also gave rise to fears that the Fed was potentially making a policy mistake with the risk that continued tightening could push the US economy into recession. Concerns around growth increased as global economic data tended to weaken, particularly in Europe and China. Ongoing uncertainty in relation to the eventual outcome of the US/China trade dispute, numerous political tensions and downward revisions to corporate earnings for the first time in a number of years also contributed to the declines in equity markets through the quarter. In contrast Eurozone sovereign bonds rose over the period, benefiting from the increasing concerns over growth and persistence of low inflation, particularly given the sharp fall in oil prices in the fourth quarter. Italian bond spreads were volatile, reacting to developments in the fiscal discussions between Italy and Europe although an eventual compromise on the issue enabled spreads to narrow into year end.

Over the quarter, the MSCI AC World equity benchmark fell -12.4% (-11.3% in €). Japan fell -17.1% (-12.8% in €) having been one of the better performing regions in Q3 and was negatively impacted by the stronger Yen which was a drag on exporters. The US fell -13.7% (-12.3% in €) on fears of a possible policy mistake on the part of the US Fed and increased political uncertainty into year end. The Pacific Basin ex Japan outperformed falling -6.5% (-6.4% in €) as economic releases were relatively positive and two of the larger markets, Hong Kong and Australia, proved to be relatively resilient. Emerging markets also outperformed, declining -7.4% (-5.9% in €), benefiting from relatively attractive valuations and hopes of an ultimate resolution to the US/China trade dispute as a truce was announced in December to allow formal negotiations to be held.

The ICE BofA Merrill Lynch Eurozone > 5 year sovereign bond benchmark rose 1.9% during the quarter. Following the initial rise in the German 10 year yield to 0.57% on the back of the rise in US yields, yields declined through the rest of the quarter to 0.24% by year end as European economic data weakened and inflation remained low. Italian spreads were volatile as the impasse between the Italian government and EU over the proposed 2019 Italian fiscal deficit continued through most of the period. An ultimate compromise with Italy agreeing to a lower deficit enabled Italian 10 year spreads against Germany to narrow to 250bps by quarter end while Spanish 10 year spreads were 118bps and Portuguese spreads 148bps at year end.

Commodities fell -22.9% (-21.7% in €). WTI oil fell -38.0% despite OPEC announcing plans for production cuts of 1.2 million barrels per day until June 2019. A rise in oil inventory levels back above the five year average due to increased US production, the granting of exemption waivers for six months to eight countries from the ban on importing Iranian oil and reduced oil demand forecasts due to concerns over slower growth all contributed to the sharp fall in the oil price.

Summit Balanced Fund

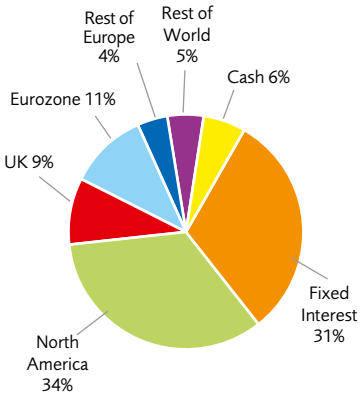
Review

The fund fell modestly during the year, slightly outperforming its global equity benchmark. Although this extends the fund's strong relative performance track record, we were somewhat disappointed because the types of companies we invest in have tended to do relatively well in weak markets in the past. That said, the fund is ahead of the benchmark over the last 3 years and 5 years, a very solid achievement when a sizeable majority of funds have underperformed.

The performance of telecom equipment supplier **Ericsson** was particularly satisfying, as it was purchased in mid-2017 with the shares at that point having spent more than a decade in the doldrums, against a backdrop of FANG stocks seeming like a one-way bet. If you recall from our discussion at the time, the company had problems of its own doing. It had a grow-at-all-costs mentality which led them to take on low- or no-margin customer service contracts and in general the organisation had become bloated. Ericsson's core products and services were still held in high regard, especially where governments are wary of allowing their Chinese competitors a look-in. The company's new CEO has since trimmed the business back to basics and removed excess costs.

Equity Sector Distribution	%
Telecomms & Technology	23.0%
Financial	20.9%
Pharmaceuticals	13.0%
Consumer Staples	9.3%
Consumer Cyclicals	9.2%
Energy	7.4%
Capital Goods	5.4%
Industrial Services	4.7%
Industrial Commodities	4.5%
Utilities	2.8%

Top 10 holdings	%
Berkshire Hathaway	2.17%
Microsoft	1.87%
DCC	1.78%
Owens	1.70%
Lancashire Holdings	1.50%
Federated Investment	1.50%
Oshkosh	1.44%
Ericsson	1.43%
Jefferies Financial	1.41%
Melrose Indust	1.33%



Bid/Exit price at 31/12/2018

295.80

***Past Performance**

1 Year	-2.57
2 Years	0.27
5 Years	4.47
10 Years	5.91

Source Moneymate ©

Summit Growth Fund

Review

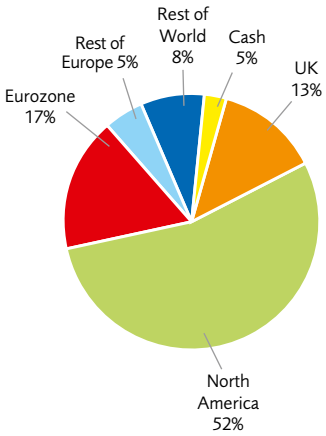
In 2018, a number of our UK stocks fared poorly due to a combination of Brexit fears, expected cyclical demand weakness, general competitive struggles and/or valuation e.g. **DCC** and **Melrose** both lost around 20% of their value in the year, Euro-terms.

Elsewhere, the share prices of what we consider high-quality albeit cyclical companies fell surprising sharply, such as luxury goods maisons **Richemont / Swatch** (down around a quarter in 2018) due to fears of slowing Chinese demand, a key consumer of luxury products. Also, some of our financial stocks were heavily hit during the year, notably **Jefferies Financial Group**, formerly known as Leucadia, which was down 30% due to continued poor performance at its key investment banking subsidiary.

Some of the above listed risks and worries will prove to be real and long-lasting, while others will be overblown or fleeting and these latter cases and their share prices will recover. At an individual stock level we cannot tell which will occur, it is just the nature of investing. However at a portfolio level, we remain confident that the fund will prove more durable than the market if there is a prolonged spell of economic or stock market weakness.

Equity Sector Distribution	%
Telecomms & Technology	23.03%
Financial	20.60%
Pharmaceuticals	13.04%
Consumer Cyclicals	9.93%
Consumer Staples	8.55%
Energy	7.42%
Capital Goods	5.33%
Industrial Services	4.66%
Industrial Commodities	4.54%
Utilities	2.92%

Top 10 holdings	%
Berkshire Hathaway	3.27%
Microsoft	2.85%
DCC	2.72%
Owens Inc	2.60%
Lancashire Holdings	2.25%
Federated Investments	2.22%
Ericsson	2.21%
Oshkosh Truck	2.21%
Jefferies Financial	2.13%
Melrose Indust	2.00%



Bid/Exit price at 31/12/2018

334.00

***Past Performance**

1 Year	3.52
2 Years	0.60
5 Years	5.40
10 Years	7.45

Source Moneymate ©

Fund Performance

Performance Report - Performance - 01/01/2001 to 31/12/2018

Summit Asset Managers Balanced N 33.97%

Summit Asset Managers Growth N 30.39%

Summit Asset Managers Stable N 19.00%

Performance is net of annual management charges. Please note that some providers may take out further charges which will not be represented in the performance figures above.

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Past performance is not necessarily a guide to future performance; Unit prices may fall as well as rise.

Investment Outlook

2018 proved to be a very volatile and disappointing year for global equity markets. Despite hitting new all time highs in late September, global equities experienced sharp declines in the fourth quarter, mainly due to rising concerns over the global growth outlook. These concerns were exacerbated by fears that continued tightening of US monetary policy by the Fed could contribute to a significant US slowdown or even recession in 2019. For the year global equities declined -7.2% in local currency terms or -4.3% in Euro terms.

Looking forward to 2019, while global growth has probably peaked and is expected to slow compared to 2018, growth nevertheless is still anticipated to remain positive with both the US and global economies expected to avoid a recession. Leading indicators such as global Purchasing Managers Indices (PMI's) have fallen but are at levels consistent with global growth of 2.8%, still a healthy level and above that experienced in most years since the financial crisis with the recent exception of 2017 and 2018 when growth rebounded to over 3%.

While risks to growth do remain, our sense is that these can be overcome in 2019. Concerns linger over the risk to growth associated with trade issues. Following a number of compromises through the summer including the agreement of a new NAFTA trade agreement between the US, Mexico and Canada, we believe the tail risks to global growth from the potential outbreak of a global trade war have been significantly reduced. The recent announcement of a truce in the trade dispute between the US and China has also raised the possibility of a compromise being reached between the world's two largest economies, which would significantly reduce the uncertainty which has acted as a drag on sentiment, investment and activity in both countries. Comments from officials on both sides have been cautiously optimistic that an agreement can ultimately be reached.

In terms of the risk posed by higher interest rates and increased tightening of monetary policies, we believe the recent concerns over growth and tightening of financial conditions will result in a much slower pace of policy restraint through 2019. The US Fed has already reduced its forecast for the number of rate rises in 2019 to two from three previously with an increasing likelihood that the Fed could announce at least a temporary pause to further interest rate rises if its actions were perceived as posing a risk to growth. Increased levels of fiscal stimulus across various regions in 2019 should also provide support to the economic backdrop. Other potential risks however such as political issues around Brexit, European politics in general and the policy agenda of the US administration are also acting as headwinds for markets and are likely to result in volatility remaining elevated in 2019 as various ongoing uncertainties continue to act as headwinds for markets.

Following the recent falls in markets, equities now appear to be discounting the risks to growth with valuations having reset lower to below long term averages. Global equities are currently trading on a 12 month forward P/e multiple of 13.0x versus a long term average of 15.6x while equities are also now trading below long term averages on a dividend yield and price to book basis.

Having generally trended higher since the lows evident in mid 2016, global bond yields began to move lower again in late 2018 as renewed concerns emerged about global growth and the persistence of low levels of inflation.

The recent fall in yields already appear to be discounting slower growth, lowering inflation and less monetary policy tightening in 2019. The potential range in which yields are likely to trade through 2019 however remains wide and is sensitive to the ultimate economic backdrop. Continued deterioration in global growth would lead to lower yields, while a stabilisation of global growth close to 3% would probably result in higher yields.

We expect a mixed outlook with respect to peripheral bond markets in Europe. The recent compromise between Italy and the EU in relation to the 2019 fiscal deficit has allowed Italy to avoid sanctions from the EU and has enabled 10 year Italian spreads against Germany to narrow to 256bps. Despite the temporary respite, political uncertainties in Italy and questions over Italy's long term debt sustainability remain. As a result, the expected range for Italian spreads over Germany in 2019 is expected to be 200/400bps with modest scope for further spread narrowing following the recent compression. We believe Spanish 10 year spreads against Germany which are currently 123bps reflect the better economic, fiscal and political backdrop in Spain and do offer scope for some further modest narrowing in the event of an avoidance of a recession or systemic risks to the EU and Eurozone. Overall, peripheral spreads are expected to remain sensitive to political developments across Europe, including the upcoming European elections in May 2019.