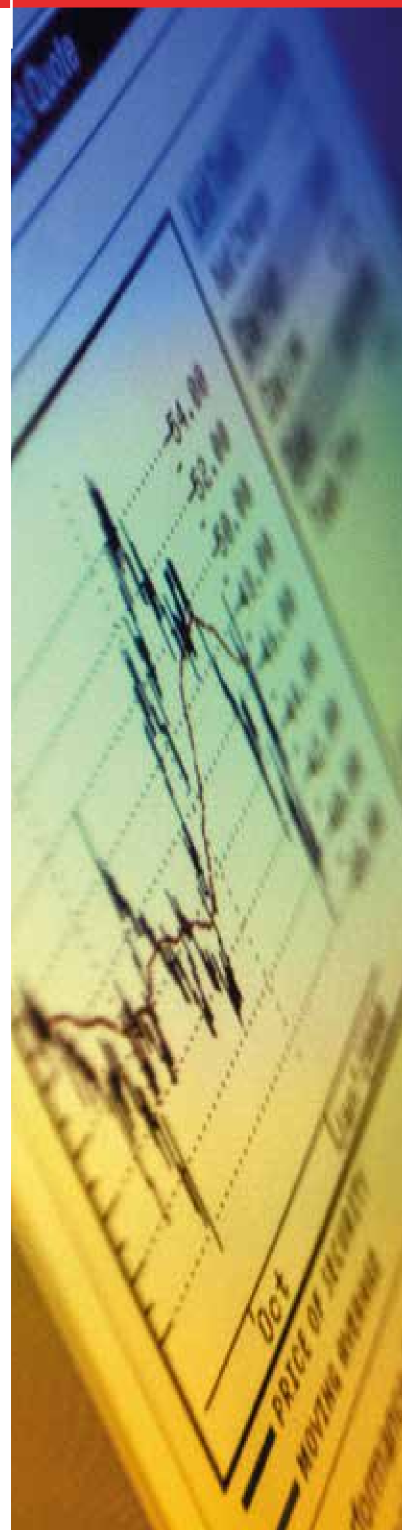
October 2018

Summit Investment Funds

Third Quarter 2018



Equities performed well in the third quarter, helped by robust corporate earnings and firmer economic growth. Much of the performance was attributable to the US – growth eased in most other regions compared with last year. The trade war issue stayed at the forefront of investors' minds, but compromises and the suspension of some threatened tariffs helped to dissipate tensions. This contributed to core bond yields rising and falls in Eurozone sovereign bonds. The earnings season for quarter two continued the strong trend of recent quarters. Earnings in the US, Europe and Japan grew 25%, 12% and 8% year on year, respectively. Results were 5%, 1% and 7%, respectively, ahead of expectations. Consensus forecasts for global earnings growth for 2018 have risen from 10% at the end of last year to 16.4% currently. This is due to lower corporate tax rates in the US, positive global earnings reporting seasons in the year to date and the still-positive global economic backdrop.

Concerns around Brexit grew throughout the quarter. Earlier optimism surrounding Theresa May's Chequers proposal was dashed when the EU rejected it in September. Ongoing political divisions within the Conservative Party (and at a national level) have contributed to uncertainty. Consequently, it is proving extremely difficult for all groups involved to find a consensus deal that would enable the UK to officially exit the EU at the end of March and obtain a transition deal. As a result, the probability of a 'no deal' hard Brexit in March 2019, with the associated significant risks to the UK economy, has increased. However, the current probability still sits at less than 50%.

Over the quarter, the MSCI AC World equity benchmark rose 4.8% (4.9% in euro terms). The US rose 7.5% (8.1% in euro terms) on the back of strong economic and earnings growth. Japan rose 6.5% (4.4% in euro terms). Policy continuity was expected following the re-election of Prime Minister Abe as the LDP leader, the economic outlook was generally positive (despite some mixed data releases) and the yen was weaker, which helps exporters. The UK fell -0.4% (-1.1% in euro terms) as Brexit-related uncertainty acted as a drag. Emerging markets lagged, rising only 0.1% (-0.4% in euro terms), negatively impacted by trade related uncertainties, rising US bond yields and idiosyncratic issues, such as the developments in Turkey.

The euro was somewhat volatile, reacting at times to the tensions in Italy and Turkey. Over the quarter as a whole, it fell slightly against the US dollar to 1.1604, having reached a low of 1.13. The euro found some support from the easing in trade tensions and a sense that the market is now closer to fully discounting the Fed's rate tightening path. This removed some of the support for the US dollar, which has been evident through much of 2018.

There was also a sense that it is difficult for the ECB to provide more dovish guidance around future policy decisions, having pushed out expectations for the first interest-rate rise to late 2019. Commodities rose 1.3% (1.9% in euro terms). West Texas Intermediate (WTI) oil fell -1.2% due to Chinese oil demand weakening as growth slowed. The markets' expectations that increased oil production from both OPEC and non-OPEC producers would fill the gap from lower Iranian exports, from November onwards also contributed to the slight fall in the oil price.

Summit Balanced Fund

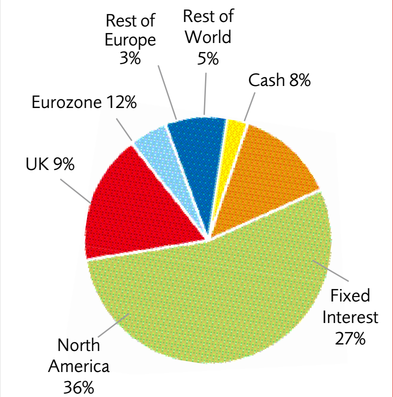
Review

Once again this quarter, the headlines were dominated by uncertainties around trade tariffs and Brexit and their potential to disrupt corporate supply chains. In the context of the tightening credit conditions, global equity markets somewhat surprisingly remained strong with investors perhaps more focused on strong corporate earnings and benign economic conditions.

A noteworthy positive contributor was **Owens-Illinois**, the glass bottle manufacturer. Last quarter we commented that "O-I has gotten no credit from investors for achieving operational and financial improvements over the last 2+ years. We expect that continuing evidence of operational stability and improving cash flows will ultimately be rewarded with a re-rating of the shares. This ongoing tension between improving fundamentals and a lacklustre share price prompted a long-time shareholder to press for more aggressive action to create value.

Equity Sector Distribution	%
Telecomms & Technology	23.11%
Financial	20.08%
Pharmaceuticals	12.15%
Consumer Cyclicals	9.56%
Consumer Staples	8.78%
Energy	8.54%
Capital Goods	5.56%
Industrial Services	5.07%
Industrial Commodities	4.66%
Utilities	2.49%

Top 10 holdings	%
DCC	2.01%
Berkshire Hathaway	1.92%
Microsoft	1.90%
Owens	1.65%
CISCO	1.49%
Oshkosh	1.49%
Jefferies Financial	1.46%
Melrose Indust	1.45%
CRH	1.36%
ERICSSON	1.34%



Bid/Exit price at 30/09/2018

312.80

*Past Performance	
1 Year	4.76
2 Years	4.45
5 Years	6.14
10 Years	5.91

Source Moneymate ©

Summit Growth Fund

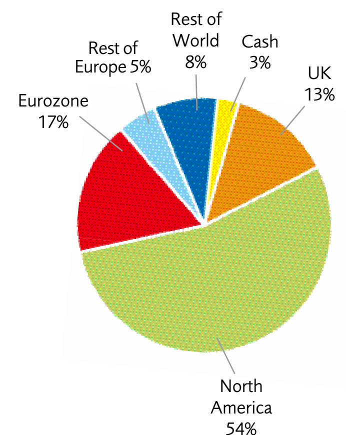
Review

During the quarter we made one new investment this quarter, namely fuel forecourt retailer **Apple Green Plc**. The company operates in Ireland, the UK and the United States. It was founded in 1992 by current CEO Bob Etchingham. The business may be considered a convenience retailer that sells fuel, food to be consumed immediately and other convenience products. The fuel retailing industry has seen the oil majors exit their distribution arms to focus on upstream exploration and development projects. This meant that Applegreen was able to add to the estate significantly over the last decade, going from 53 sites operated in 2008 to 342 at the end of last year.

We have followed the business for some time and became shareholders by participating in their equity placing to raise €175m, the proceeds of which will be used to acquire a 50% interest in complementary business Welcome Break, the UK motor way service area business.

Equity Sector Distribution	%
Telecomms & Technology	22.6%
Financial	20.4%
Pharmaceuticals	12.2%
Consumer Cyclicals	10.3%
Energy	8.6%
Consumer Staples	7.8%
Capital Goods	5.6%
Industrial Services	5.1%
Industrial Commodities	4.7%
Utilities	2.6%

Top 10 holdings	%
DCC	3.03%
Berkshire Hathaway	2.97 %
Microsoft	2.78 %
Owens Inc	2.51 %
Jefferies Financial	2.26 %
Melrose Indust	2.25 %
Oshkosh Truck	2.25 %
CISCO	2.18 %
CRH	2.05 %
Fairfax	2.02 %



Bid/Exit price at 30/09/2018

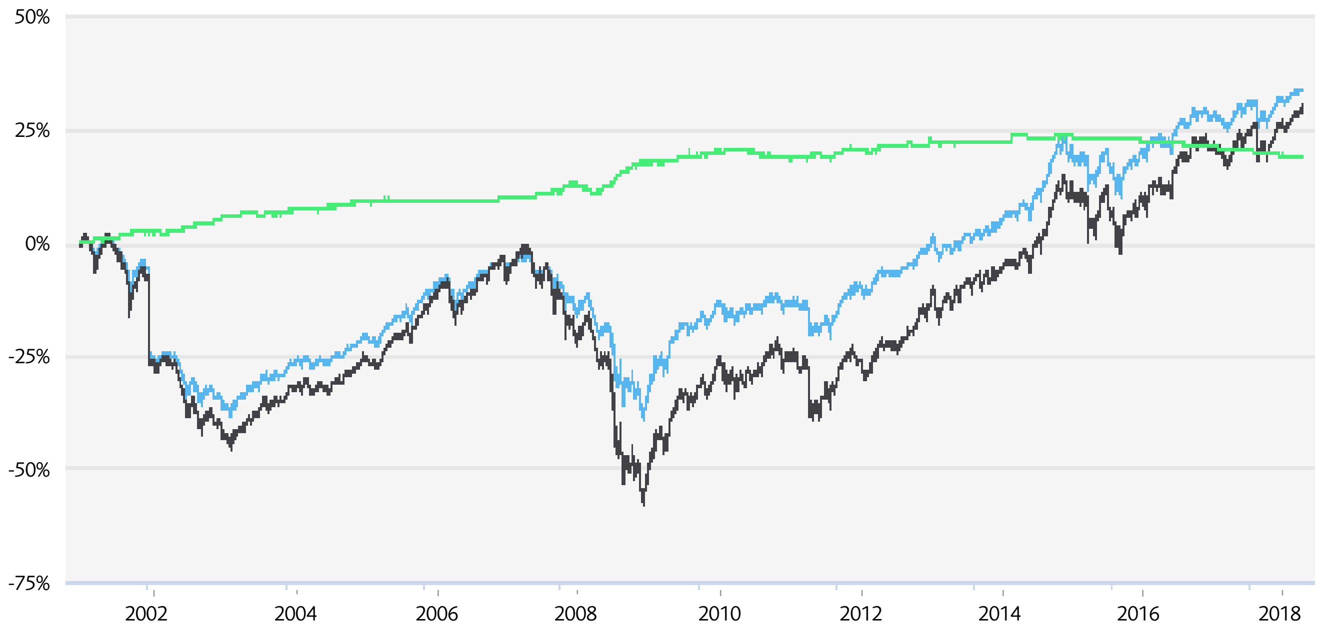
364.10

*Past Performance	
1 Year	7.85
2 Years	7.63
5 Years	8.14
10 Years	7.45

Source Moneymate ©

Fund Performance

Performance Report - Performance - 01/01/2001 to 01/10/2018



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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Investment Outlook

There seems to be a positive outlook for equity markets, with possible returns of mid to high single digits for 2018.

The positive outlook for equities is underpinned by a strong fundamental economic and earnings growth backdrop. Following a seasonal and weather related slowdown in Q1, global growth appears to have recovered in Q2. While growth is less synchronised in 2018 compared to last year with the US being the main engine of growth in developed markets in 2018, global growth is expected to remain above 3% at approx. 3.2% for the year as a whole with stronger US growth offsetting slower growth in Europe and Japan.

This positive economic growth backdrop is underpinning global earnings growth. Consensus growth forecasts for global earnings in 2018 have risen from 10% at the beginning of this year to 16.4% currently and have been boosted by both the strong economic environment and the reduction in US corporate tax to 21%. Earnings are forecast to grow 9.7% in 2019.

On other absolute valuation measures such as price to book and dividend yield, equities are trading close to long term averages and do not appear stretched in valuation terms. On a relative valuation basis equities appear very attractive relative to other asset classes such as bonds and cash given the relatively low yields available on these assets compared to historic levels. Given these valuation levels and supportive fundamental backdrop, there is a possibility equity markets could rise further in 2018 and into 2019.

The main risk to this positive outlook relates to the concerns around global trade. Global growth could be threatened if the recent spate of tariff announcements continue and these and possibly additional tariffs are actually implemented. In such a scenario, current global growth and earnings expectations would prove to be too optimistic and equity valuation multiples could decline leading to falls in equity markets. Ultimately the well-known costs associated with the outbreak of a global trade war should prevent this from happening and we expect compromises and concessions to be made between trading partners which will enable growth to be maintained at current levels. Compromises already reached in the form of the recent agreement of a new NAFTA trade deal between the US, Mexico and Canada. The agreement between the US and Japan to enter bilateral trade talks and the calling of a truce in the trade war between the US and EU all suggest a worst case outcome on the trade issue can be avoided.

An additional risk relates to the ongoing reduction of policy accommodation by global central banks. Policy accommodation reduction has already been well flagged and should not be a surprise to investors. It is occurring because global growth has improved to the point where the level of policy accommodation provided since the financial crisis is no longer required. We believe the positive growth backdrop should offset any negative impact on equity markets from reduced levels of policy accommodation.

The risk of higher inflation could also pose a threat to equity markets if it were to lead to a significant tightening of monetary policy relative to current expectations. While inflation has risen from abnormally low levels, we believe a number of structural issues will keep inflation relatively low in coming years and hence significantly higher official interest rates and bond yields which could pose a threat to equities from a relative valuation perspective are seen as unlikely.

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