Irish Life

Life \ Pensions \ **Investments**

December 2022 in review
Summit Investment Funds

Helping people build better futures

MARKET REVIEW

Both equities and bonds fell in December, with central banks guiding towards monetary policies remaining restrictive for longer to rein in inflation. While US inflation fell for the fifth straight month and was lower than expected, the US Federal Reserve (Fed) continued to caution over wage pressures from a tight labour market which could exert upward pressure on services inflation. US recession fears resurfaced following a downbeat US financials conference where commentary from leading US banks was cautious in relation to the economic outlook. Meanwhile, the European Central Bank (ECB) suggested significantly higher interest rates are warranted in coming months, and the Bank of Japan announced a surprise increase in its target range for its 10-year bond yield, which contributed to a rise in Japanese and global bond yields. Global economic data remained mixed, although sentiment surveys pointed to a milder recession in Europe. A surprisingly rapid exit from China's 'zero tolerance' Covid policy failed to provide relief to markets as weak Chinese economic data highlighted that the road to reopening and recovery is likely to remain bumpy.

MARKET ROUND-UP

Equities

The MSCI AC World equity index fell -4.7% (-7.3% in euros). US equities fell -5.9% (-9.2% in euros) as the US Federal Reserve (Fed) suggested markets should expect a sustained period of restrictive policy. Mixed economic data releases and some growing concerns about the possibility of a recession in 2023 also contributed to the weakness.

Japan fell -5.2% (-3.2% in euros) as the Bank of Japan announced a surprise change in policy by increasing the target range for its 10-year bond yield, raising fears of further tightening of policy in coming months.

Pacific Basin equities outperformed, falling only -0.6% (-3.1% in euros) on hopes for a recovery in Chinese and regional growth in 2023 as China reopens following the abandonment of its 'zero tolerance' Covid policy.

The UK also outperformed, falling -1.4% (-3.9% in euros) as October growth surprised positively and the Bank of England appeared the least aggressive on interest rate policy amongst the major central banks.

Bonds

The Eurozone >5-year bond index fell -6.1%. German 10-year yields rose to a new high for the year of 2.57%, following the ECB's announcement of further significant interest rate rises and start of quantitative tightening. The surprise decision by the Bank of Japan to increase the target range for its 10-year bond yield also contributed to the rise in yields in the latter part of the month.

European investment grade corporate bonds fell -1.6% as yields rose by 0.41% to 4.21%. High yield corporate bonds fell -0.7% as yields rose by 0.31% to 7.98%.

Emerging market local debt was down -1.3% as yields rose slightly to 6.92%. Emerging market currencies were weaker against the euro, which was a slight drag on performance, while sentiment towards emerging markets improved with hopes for a full reopening of the Chinese economy in 2023.

Currencies and commodities

The euro rose 2.9% against the dollar to 1.0705. Strength in the euro was spurred by growing beliefs that the Fed was moving closer to the peak of interest rates in the current cycle, combined with a much more aggressive ECB – the latter guided markets to expect further significant tightening of policy through higher rates and a reduced balance sheet.

Commodities fell -1.4% (-4.9% in euros). Brent oil was marginally lower by -0.4%. Oil faced several factors pulling in opposite directions, which ultimately left the price only slightly changed on the month. Short-term weakness in Chinese growth was offset by hopes for a recovery in growth in 2023 as the economy fully reopens. The agreement by the G7 on a price cap of $60 on Russian oil was offset by suggestions by Russia that it would cut supply in response. OPEC+ confirmed that it would maintain the 2 million barrels per day production cuts announced previously, although this was offset by concerns around global growth in 2023.

European gas prices remained volatile and were down -49.2% as the cold weather spell across Europe ended and demand pressures eased, with gas prices returning close to pre-war levels.

Gold rose 4.1%, supported by a weaker US dollar. Metals were mixed, although copper rose 1.6% on hopes for a better housing and growth outlook in China through 2023.

MARKET SNAPSHOT

Market returns (EUR)

Equity Markets (EUR)	QTD Return (%)	YTD Return (%)	2021 Return (%)
MSCI Ireland	11.5	-21.1	17.1
MSCI United Kingdom	7.4	1.4	27.5
MSCI Europe ex UK	10.3	-11.9	25.4
MSCI North America	-1.6	-13.8	36.6
MSCI Japan	4.0	-10.8	9.8
MSCI EM (Emerging Markets)	0.8	-14.5	5.2
MSCI AC World	0.9	-12.6	28.1
10-Year Yields	**Yield Last Month (%)**	**2021 Yield (%)**	**2020 Yield (%)**
US	3.87	1.51	0.91
Germany	2.57	-0.18	-0.57
UK	3.67	0.97	0.20
Japan	0.42	0.07	0.02
Ireland	3.13	0.24	-0.30
Italy	4.70	1.17	0.54
Greece	4.62	1.34	0.63
Portugal	3.59	0.47	0.03
Spain	3.66	0.57	0.05
FX Rates	**End last month**	**2021 Rates**	**2020 Rates**
U.S. Dollar per Euro	1.07	1.14	1.22
British Pounds per Euro	0.89	0.84	0.90
U.S. Dollar per British Pounds	1.21	1.35	1.37
Commodities (USD)	**QTD Return (%)**	**YTD Return (%)**	**2021 Return (%)**
Oil (Brent)	-2.3	6.7	55.0
Gold (Oz)	9.8	-0.3	-3.4
S&P Goldman Sachs Commodity Index	3.4	26.0	40.4

Source: ILIM, Bloomberg. Data is accurate as at 1 January 2022.

MARKET OUTLOOK

Irish Life Investment Managers' (ILIM's) view – looking ahead

The outlook for equity markets over the next 12 months is dependent on several factors including central bank policy, growth, inflation, and geopolitical issues including the Russia/Ukraine crisis.

Equities struggled in 2022 amid slower growth, tighter monetary policy and higher bond yields. Such factors undermined the relative attractiveness of equities.

While the scale of monetary tightening and sharp rise in bond yields now seem discounted by equity markets, lingering growth- and earnings-related uncertainty may not yet be fully discounted.

While equities are expected to generate positive returns for the year as a whole, a better buying opportunity might present itself in the early part of the year as a slowing growth environment (with risk of earnings downgrades) could lead to further losses before a trough is reached in equity markets.

The greatest risk to equities relates to the potential for further downgrades to earnings forecasts in a slower growth/recessionary environment. Consensus forecasts are currently for earnings growth of 3% in 2023, which could be too high if the US and global economy enter a recession.

A potential offset to the risk of another leg down in equities would be evidence that the Fed and other central banks are achieving a soft landing, whereby they successfully lower inflation and manage to avoid a recession.

If consensus economic and earnings forecasts prove to be correct and we are just in a mid-cycle slowdown, there is double digit upside in equity markets on a one-year view. A moderation in inflation with no additional policy tightening beyond what is currently discounted in markets – along with possible rate cuts at some point in 2023 – would be supportive for equity markets.

Even though a further dip in equities in early 2023 is possible, we believe the asset class can end the year higher. Equity markets are forward-looking and always discount ahead. With an eventual recovery in growth expected by the end of 2023/beginning of 2024, equities should begin to regain ground before mid-year. With returns in the initial recovery stage generally tending to be relatively strong, equities can generate positive returns for the year, even if they struggle somewhat in the early part of 2023.

Navigating equity markets is difficult even in a benign environment, but it is especially arduous given the current backdrop of heightened uncertainty on many issues. As a result, the increased volatility evident in 2022 is likely to continue.

Outlook dependent on economic and earnings growth. Uncertainty on growth due to policy tightening, squeeze on real incomes, weaker business and consumer sentiment.

The global economy contracted in 2020 by -3.6% with a rebound of 6.0% in 2021. Growth of 2.9% is expected in 2022 post recent downgrades. There are rising risks of a recession in 2023 given tighter monetary policy, high inflation, falling business and consumer confidence.

Russia/Ukraine, monetary policy tightening, fiscal stimulus, inflation developments, energy prices, supply chain issues and China reopening will all be key for growth.

Equity valuations in absolute terms have fallen below long-term averages although when more realistic earnings growth assumptions are used, they are higher than the long-term average of 16.0x. Equities' relative undervaluation against bonds has been removed with the rise in bond yields

Following the downgrades to growth forecasts, expected downward revisions to earnings and the rise in bond yields YTD, equity markets are still vulnerable to short term downside before finding a trough and potentially recovering in H2.

Volatility is likely to remain a feature due to uncertainty over impact of Russia/Ukraine crisis, risks around inflation, tighter monetary policy, slower growth and other geopolitical risks.

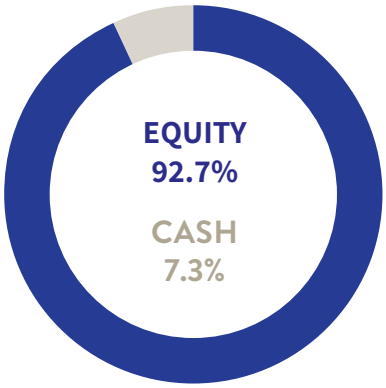
SUMMIT GROWTH FUND

The Summit Growth Fund aims to achieve growth by investing exclusively in global equities. From July 2014, equity management has been sub-advised to Setanta Asset Management. Equities are managed under the Setanta Global Equity Strategy.

Fund update for December

The Summit Growth Fund returned -4.0%, net of fund management fee, over December. Healthcare, Materials and Financials were the best performing sectors. The Technology, Communication Services and Energy sectors lagged over the month. The stocks that contributed most to the fund's return were Tencent Holdings, Bank of Ireland Group and Lancashire Holdings. The stocks that detracted the most were Costco Wholesale, Alphabet and Microsoft.

Asset allocation

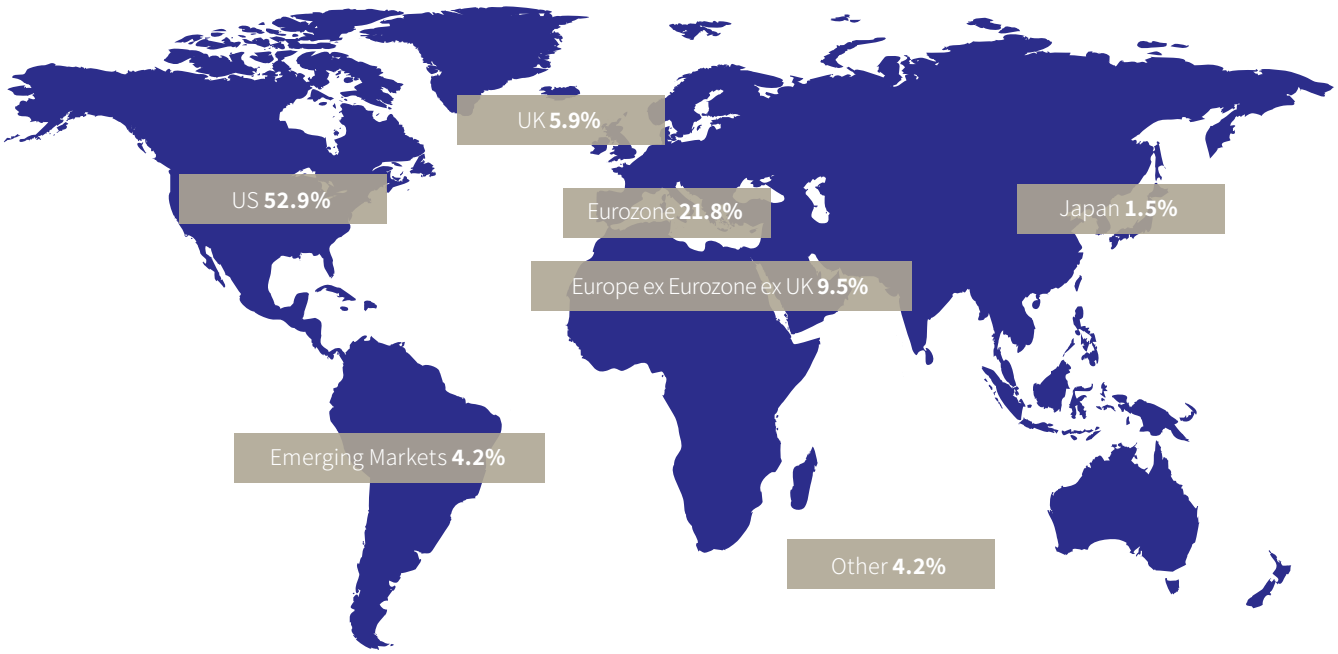


Top Ten Share Holdings

Stock name	% of fund
Microsoft	4.1
Berkshire Hathaway	3.7
Oracle	3.1
Johnson & Johnson	2.7
McDonald's	2.7
Nike	2.6
Johnson Controls International	2.5
Costco Wholesale	2.5
Keysight Technologies	2.4
Alphabet	2.3

Source: ILIM, Factset. Data is accurate as at 31 December 2022.

Share regional distribution



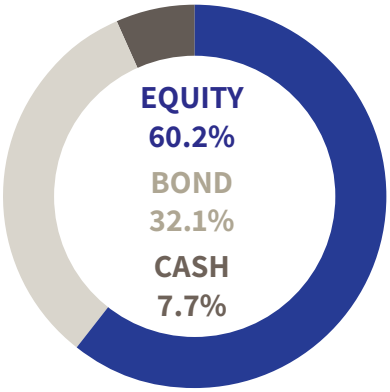
SUMMIT BALANCED FUND

The objective of the Summit Balanced Fund is to avoid excessive volatility while still providing solid returns over the medium to long term. The Fund invests in global equities but also maintains a minimum of 33% invested in a mix of fixed income and cash. From July 2014, equity management has been sub-advised to Setanta Asset Management. Equities are managed under the Setanta Global Equity Strategy.

Fund update for December

The Summit Balanced Fund returned -3.7%, net of fund management fee, over December. From a sector perspective, Healthcare, Materials and Financials were the best performers. The Technology, Communication Services and Energy sectors lagged over the month. Both equities and bonds fell in December, with central banks being more aggressive than expected in combating inflation, guiding towards monetary policies remaining restrictive for longer. The US Fed signalled that peak interest rates could reach 5% and indicated it does not intend to cut rates in 2023. The ECB suggested significantly higher interest rates will be warranted in coming months and announced it plans to begin reducing its balance sheet from March. The Bank of Japan announced a surprise increase in its target range for the 10-year yield, which contributed to a rise in Japanese and global bond yields.

Asset allocation

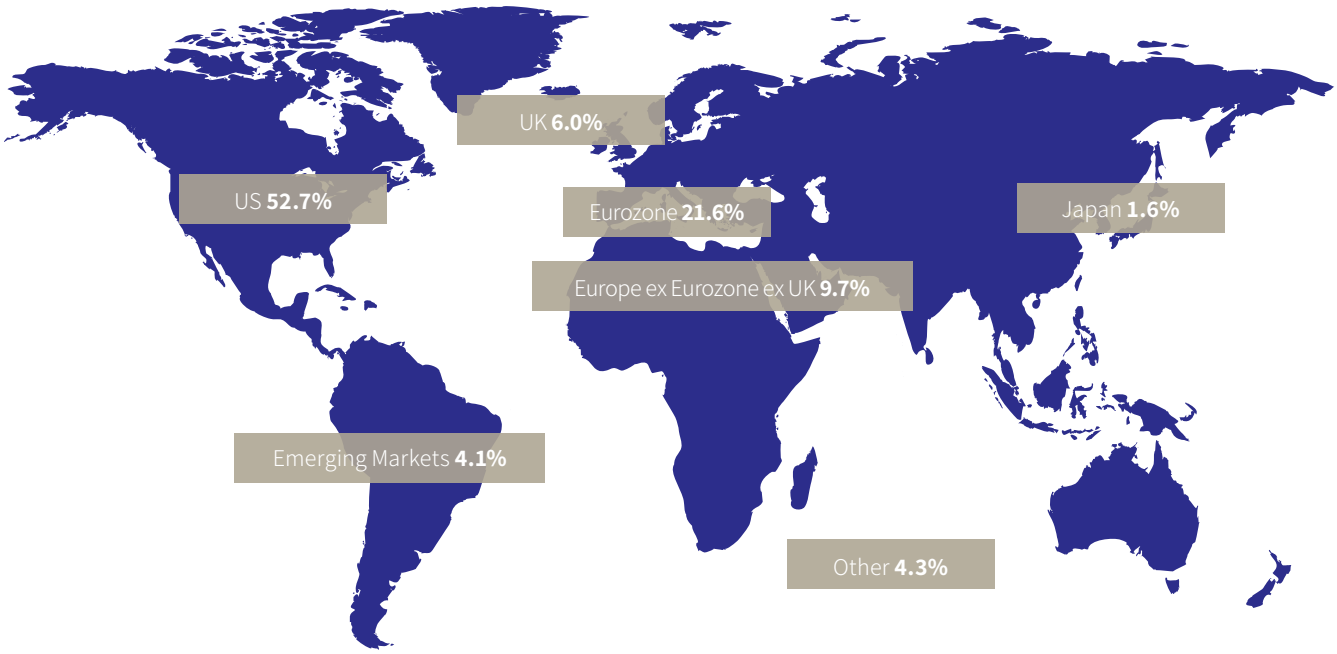


Top Ten Share Holdings

Stock name	% of fund
Microsoft	4.1
Berkshire Hathaway	3.7
Oracle	3.1
McDonald's	2.7
Johnson & Johnson	2.6
Costco Wholesale	2.6
Nike	2.5
Johnson Controls International	2.4
Keysight Technologies	2.3
Alphabet	2.2

Source: ILIM, Factset. Data is accurate as at 31 December 2022.

Share regional distribution



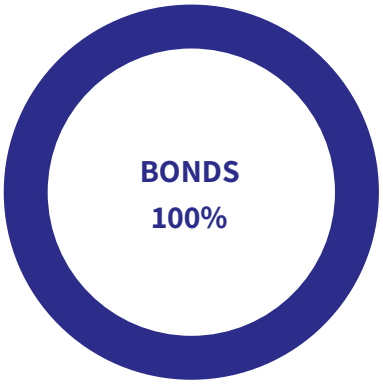
SUMMIT STABLE FUND

The Stable Fund invests in short-term Eurozone government debt and cash.

Fund update for December

The Summit Stable Fund returned -0.84%, net of fund management fee, over the month of December. The ECB again raised the deposit rate in December to a decade high of 2% as inflation remained at extremely elevated levels. Aggressive commentary from some ECB governing council members led to a sell-off in euro bonds, which pushed up 2-year German bond yields by over 0.6% to end the year above 2.7%.

Asset allocation



Bond portfolio credit quality

Rating / percentage of fund

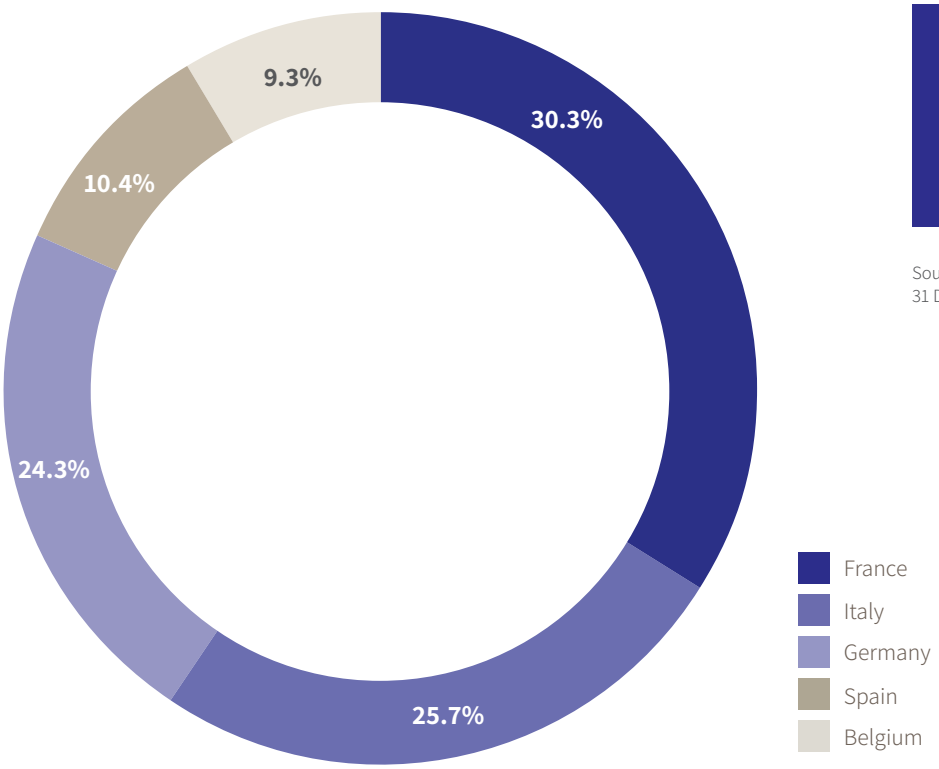
AAA	AA2
24.3%	30.3%

AA3	A3
9.3%	10.4%

BBB2
25.7%

Source: ILIM, Factset. Data is accurate as at 31 December 2022.

Bond country distribution



SUMMIT FUND PERFORMANCE

At 31 December 2022

Fund returns after fund management fee	Stable	Balanced	Growtth
1 Month	-0.84%	-3.68%	-4.04%
QTD	-0.84%	1.44%	3.31%
3 Month	-0.84%	1.44%	3.31%
YTD	-4.30%	-8.84%	-6.34%
1 Year	-4.30%	-8.84%	-6.34%
2 Years pa	-3.13%	1.34%	6.72%
3 Years pa	-2.30%	0.48%	3.26%
5 Years pa	-1.73%	1.68%	3.98%
10 Years pa	-0.99%	4.10%	6.73%

Source: ILIM Performance Team

Warning: If you invest in these funds you may lose some or all of the money you invest.

Warning: These funds may be affected by changes in currency exchange rates.

Warning: The value of your investment may go down as well as up.

Warning: Past performance is not a reliable guide to future performance.

ILIM'S CREDENTIALS

Irish Life Investment Managers (ILIM) is recognised internationally for its expertise, innovation and track record:

European Pensions AWARDS 2019
WINNER
Passive Manager of the Year

GRESB
2022

Irish Pensions AWARDS 2019
WINNER
Investment Manager of the Year

Irish Pensions AWARDS 2020
WINNER
Investment Manager of the Year

European Pensions AWARDS 2018
WINNER
Passive Manager of the Year

KPMG
Irish Independent
PROPERTY INDUSTRY EXCELLENCE AWARDS
2019
PROPERTY INVESTMENT/

Irish Pensions AWARDS 2021
WINNER
Risk Management Provider of the Year

Irish Pensions AWARDS 2022
WINNER
Investment Manager of the Year

Summit Investment Funds plc is managed by Summit Asset Managers Limited. The Investment Manager is Irish Life Investment Managers Limited. Summit Asset Managers Limited and Irish Life Investment Managers Limited are both part of the Great-West Lifeco group of companies, global leaders in financial services.

Irish Life