Irish Life

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February 2022 in review **Summit Investment Funds**

Helping people build better futures

MARKET REVIEW

Over February, global equities fell for a second straight month as markets responded negatively to the news that Russia had launched a full-scale military offensive against Ukraine. The early part of the month was already negative for equities, with central banks dominating news flow; investors increased bets on aggressive interest rate hikes from central banks. The second half of the month saw attention shift to the war in Ukraine, with equity markets selling off. At the same time, commodity prices moved swiftly higher due to Russia's importance as a global commodity producer. Russia's actions in Ukraine sparked a re-evaluation of interest rate hike expectations, with markets pricing in fewer US Federal Reserve (Fed) and European Central Bank (ECB) rate hikes than originally expected. Near term global growth expectations were revised lower as oil prices moved higher and western countries launched hard hitting sanctions against the Russian regime and its supporters.

MARKET ROUND-UP

Equities

The MSCI AC World equity index fell -2.6% (-2.7% in €) as the Russian invasion of Ukraine roiled markets, which had already been reeling from fears of rising interest rates. European equities underperformed and fell -4.3% (-4.1% in €) due to fears that higher oil and gas prices would damage European growth. The UK outperformed, gaining 0.8% (0.6% in €), and benefitted from its relatively large weight in energy and material stocks, which were supported by higher commodity prices. Emerging markets fell -2.4% (-3.2% in €) as risk assets were weighed down by news on the Ukraine crisis; falls intensified after Russia's full-fledged invasion. Russian assets saw the sharpest falls as western sanctions hit markets hard. The US fell -2.9% (-3.1% in €) as growth stocks were hit hard on the back of more inflation focused market pricing of Fed rate hikes, while Russian actions in Ukraine increased risk-off sentiment into month end. Japan fell -1.2% (-1.3% in €) and outperformed global benchmarks.

Bonds

The Eurozone >5-year bond index returned -2.8% in February as bond markets continued their sell-off from 2021. For most of the month, markets were being driven by the outlook for inflation and potential interest rate hikes from the European Central Bank (ECB). Late in the month, the events in Ukraine took centre stage as investors began to discount a growth impact from higher commodity prices; this led to a rally in safe-haven fixed income assets. The German 10-year yield rose 12 basis points (bps), ending the month at 0.14%. Investment grade corporate bonds fell -2.7%. High yield corporate bonds fell -1.4% as yields rose 45bps to 4.92%.

Currencies and commodities

The euro fell to 1.1205 against the US dollar, with the dollar rising due to its safe haven status in times of market stress. Commodities rose +8.8% (+8.6% in €), bringing their year-to-date return to 21.4% (22.9% in €). WTI oil was up +8.6%, bringing its year-to-date increase to 44.6%. Oil prices breached $100/ barrel during the month, reaching their highest level since 2014. European gas prices rose 17.3% to €99/mwh. In addition to oil and gas, the Russia-Ukraine conflict is also impacting fertilisers, metals and grains prices. Russia is a major producer of aluminium, nickel and palladium, all of which rose sharply on supply concerns and uncertainty around the impact of Western sanctions. Gold rose 4.0%, supported by safe-haven demand.

MARKET SNAPSHOT

Market returns (EUR)

Equity Markets (EUR)	MTD Return (%)	YTD Return (%)	2021 Return (%)
MSCI Ireland	-5.1	-10.7	17.1
MSCI United Kingdom	0.6	3.0	27.5
MSCI Europe ex UK	-4.1	-8.7	25.4
MSCI North America	-3.0	-6.9	36.6
MSCI Japan	-1.3	-5.0	9.8
MSCI EM (Emerging Markets)	-3.2	-3.6	5.2
MSCI AC World	-2.7	-6.2	28.1
10-Year Yields	**Yield Last Month (%)**	**2021 Yield (%)**	**2020 Yield (%)**
US	1.83	1.51	0.91
Germany	0.14	-0.18	-0.57
UK	1.41	0.97	0.20
Japan	0.19	0.07	0.02
Ireland	0.75	0.24	-0.30
Italy	1.71	1.17	0.54
Greece	2.53	1.34	0.63
Portugal	1.00	0.47	0.03
Spain	1.12	0.57	0.05
FX Rates	**End last month**	**2021 Rates**	**2020 Rates**
U.S. Dollar per Euro	1.12	1.14	1.22
British Pounds per Euro	0.84	0.84	0.90
U.S. Dollar per British Pounds	1.34	1.35	1.37
Commodities (USD)	**MTD Return (%)**	**YTD Return (%)**	**2021 Return (%)**
Oil (WTI)	8.6	27.3	55.0
Gold (Oz)	5.7	3.8	-3.4
S&P Goldman Sachs Commodity Index	8.8	21.4	40.4

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

MARKET OUTLOOK

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

Over the next twelve months, the outlook for equity markets is dependent on several factors. This includes central bank policy, growth, inflation (both expected and realised) and the evolution of the Russia/Ukraine crisis.

We believe we are still in the early to mid-stage of the current economic cycle, a period that is typically associated with positive equity markets, even though the pace of returns tends to be lower than those experienced in the initial recovery from market lows. Having grown by almost 6% in 2021, the global economy is expected to slow this year, with growth of 4.0% expected. This, however, remains well above trend growth of 2.7% and exceeds levels experienced in the last cycle following the Global Financial Crisis. Sustained higher commodity prices, particularly stemming from the war in Ukraine, or further positive inflation shocks are risks to the current growth outlook.

Equities have recently found a support on an absolute valuation basis and remain extremely attractive on a relative valuation basis with current bond yields suggesting mid double digit upside to get back to fair value versus bonds. On a medium term view, assuming the impact from the Russia/Ukraine crisis on growth is relatively limited, we can see equities generating positive returns over the next twelve months.

Even as monetary stimulus is being reduced, financial conditions remain loose. This is highlighted by real yields, which remain close to historic lows – levels that are consistent with further gains in equities. Historically, equities have, on average, continued to rise in the initial stages of a rate hiking cycle as the economic and earnings backdrop generally remain strong.

Longer term potential risks to the equity outlook include unexpected additional central bank policy tightening due to the persistence of high inflation, significant rises in bond yields, which would diminish the relative valuation case for equities, or a further deterioration in geopolitical conditions.

The persistence of higher inflation is seen as the greatest medium-term risk to markets, with the most imminent short-term risk to markets being a further escalation in the Russia/Ukraine crisis. While our outlook for equity markets is positive in the medium-long term, the array of short-term risks facing markets mean that volatility will likely remain a feature in the near term.

Outlook dependent on economic and earnings growth. Some uncertainty evident post Russia's invasion of Ukraine. Monetary and fiscal policy remain supportive although are reducing

Global economy contracted in 2020 by -3.6% due to Covid 19 with an estimated rebound of 6.0% in 2021 and growth of 4.0% expected in 2022

Russia/Ukraine, Covid-19, monetary/fiscal stimulus, inflation developments, energy prices, supply chain issues will all be key for growth

Equity valuations in absolute terms have fallen close to long term average. Equities remain attractive on a relative valuation basis

High single digit upside possible over 12 months if an additional surge in inflation and a significant slowdown in global growth due to the Russia/ Ukraine crisis is avoided

Volatility likely to remain a feature due to uncertainty over impact of Russia/Ukraine crisis, risks around inflation concerns, reduced policy accommodation, slower growth, Covid variants and other geopolitical risks

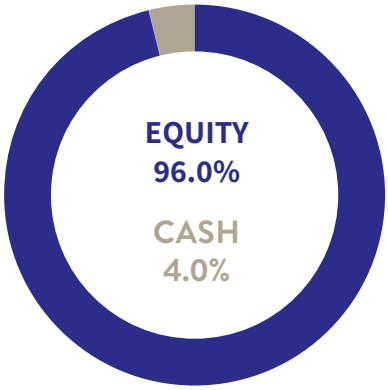
SUMMIT GROWTH FUND

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 February

The Summit Growth Fund returned -1.84% (net of fund management fee) over February. From a sector perspective, Infrastructure and Healthcare were the best performers. Meanwhile, The Consumer Discretionary and Technology sectors lagged. During the month, the stocks contributing most to the fund's return were Playtech, DXC Technology and Sandstorm Gold. The stocks that detracted most were Ericsson, Johnson Controls and Booking Holdings.

Asset allocation

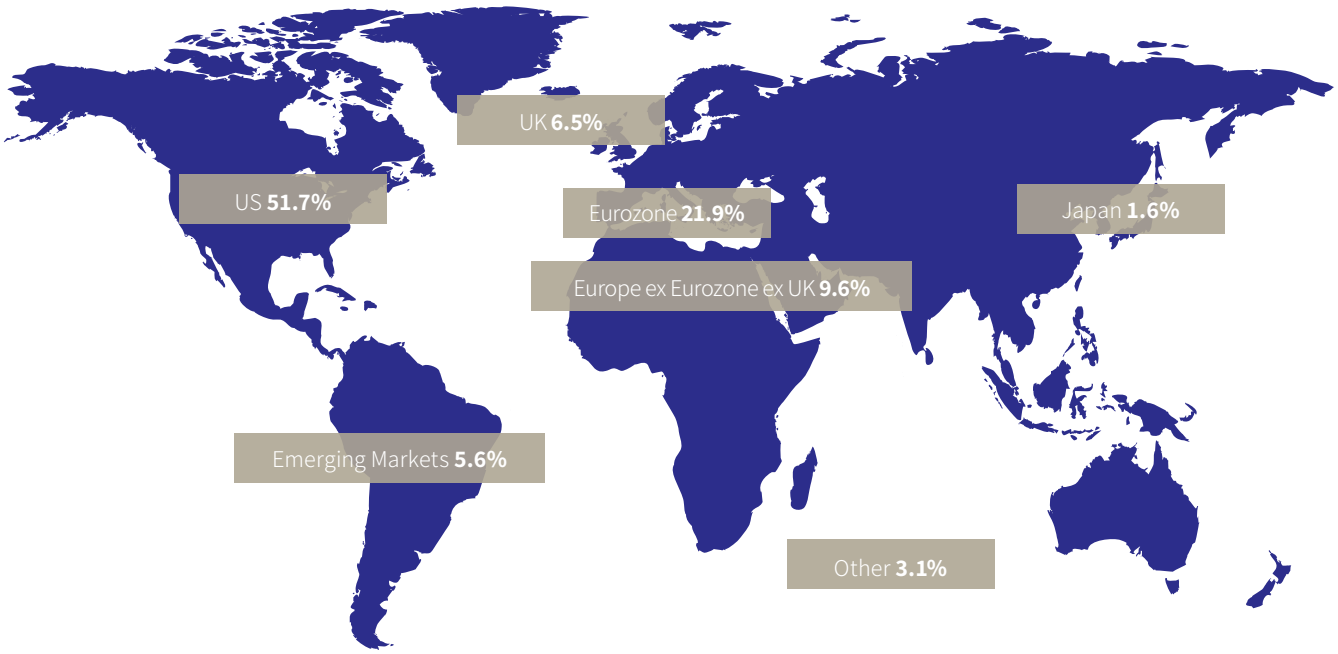


Top Ten Share Holdings

Stock name	% of fund
Microsoft	4.6
Berkshire Hathaway	3.5
Alphabet	3.4
McDonald's	2.8
Samsung Electronics	2.7
Costco Wholesale	2.7
Oracle	2.6
Johnson Controls International	2.5
DCC	2.3
Johnson & Johnson	2.2

Source: ILIM, Factset. Data is accurate as at 28 February 2022.

Share regional distribution



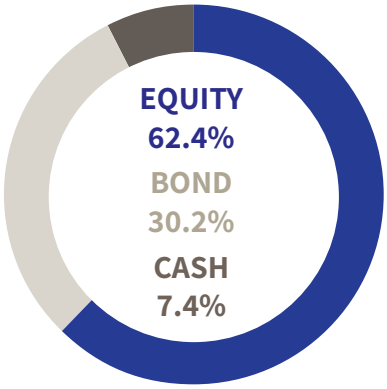
SUMMIT BALANCED FUND

The objective of the Summit Balanced Fund is to avoid volatility to a large degree, 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 February

The Summit Balanced Fund returned -1.51% (net of fund management fee) over February. Bond markets were weaker on more inflation-focused central bank policy stances. From a sector perspective, Infrastructure and Healthcare were the top performers. The Consumer Discretionary and Technology sectors lagged over the month.

Asset allocation



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Oracle	2.6
Costco Wholesale	2.6
Johnson Controls International	2.4
Johnson & Johnson	2.2
DCC	2.2

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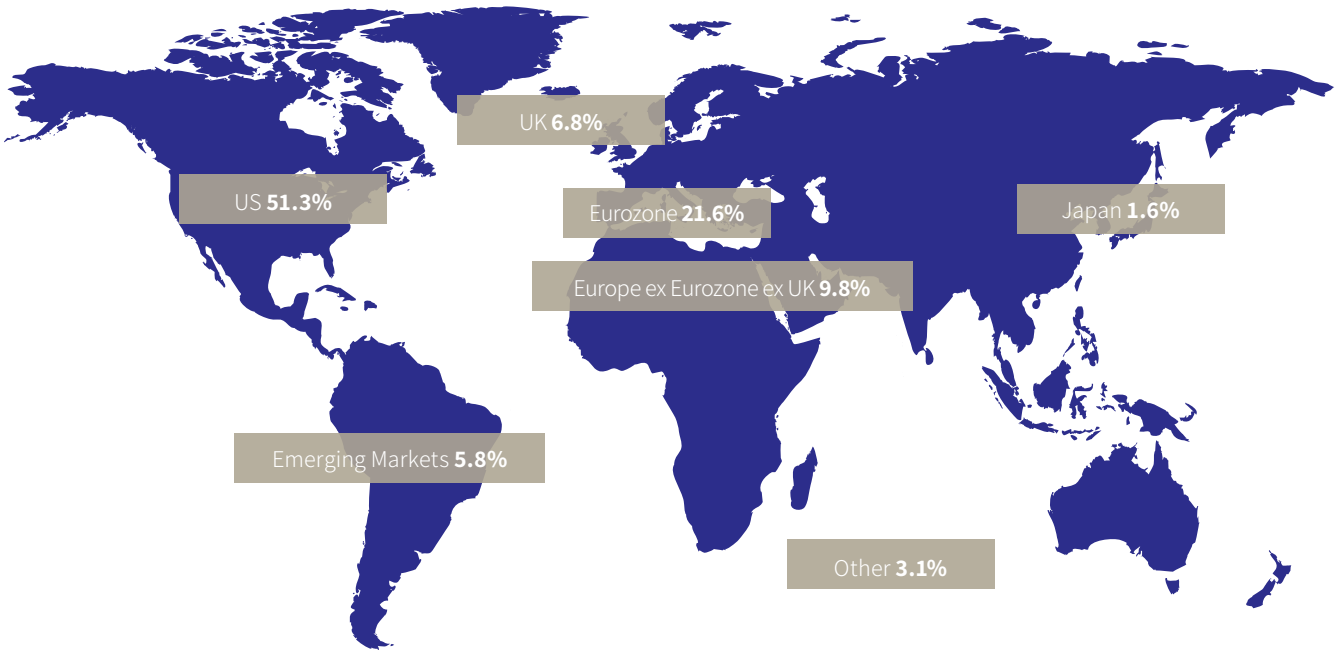
Share regional distribution



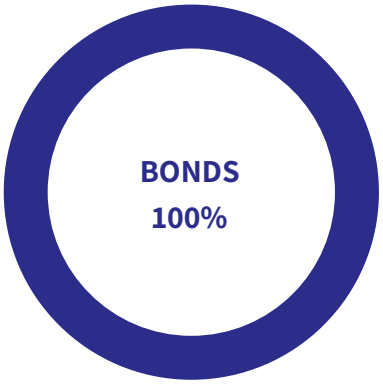
SUMMIT STABLE FUND

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

Fund update for February

The Summit Stable Fund returned -0.36% (net of fund management fee) over February. Further increases in inflation expectations led to short-dated bond yields rising; market participants brought forward the expected date of the first European interest rate hike to the third quarter 2022. This, coupled with the broader negative interest rate environment, led to a negative total return.

Asset allocation



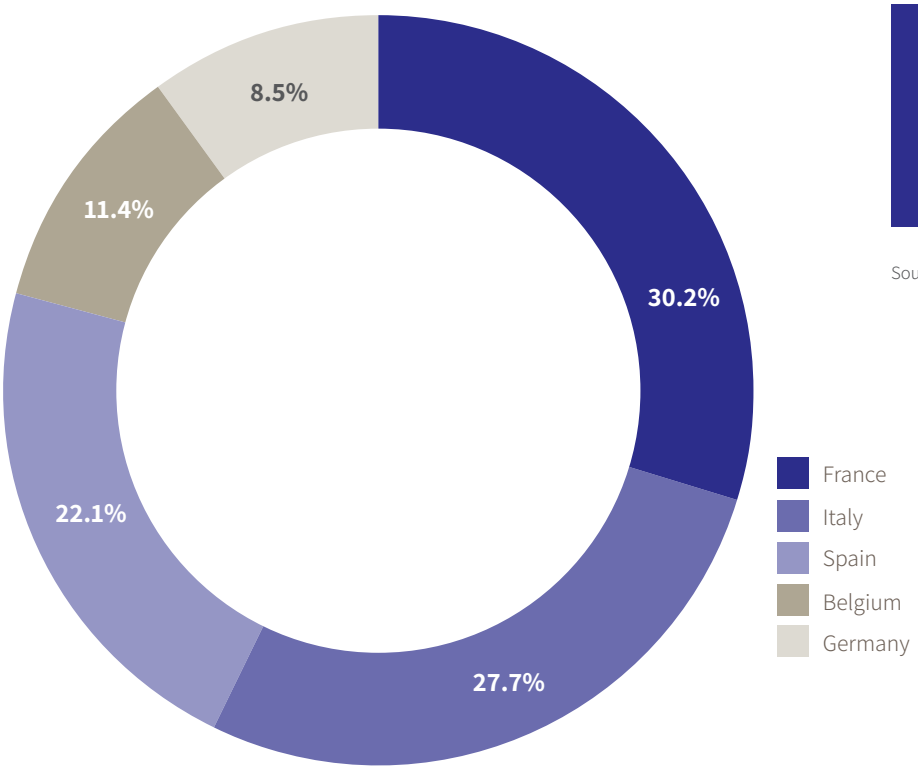
Bond portfolio credit quality

Rating / percentage of fund

AAA	AA2
8.5%	30.2%
AA3	**A3**
11.4%	22.1%
BBB2	
27.8%	

Source: ILIM, Factset. Data is accurate as at 28 February 2022.

Bond country distribution



SUMMIT FUND PERFORMANCE

At 28 February 2022

Fund returns after fund management fee	Stable	Balanced	Growtth
1 Month	-0.36%	-1.51%	-1.84%
QTD	-0.54%	-3.01%	-3.63%
3 Month	-0.89%	-1.21%	-0.37%
YTD	-0.54%	-3.01%	-3.63%
1 Year	-1.86%	8.30%	14.43%
2 Years pa	-1.50%	6.06%	10.53%
3 Years pa	-1.26%	4.11%	6.32%
5 Years pa	-1.17%	3.22%	4.96%
10 years pa	-0.53%	5.43%	7.59%

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) are recognised internationally for their expertise, innovation and track record:

European Pensions AWARDS 2019
WINNER
Passive Manager of the Year

GRESB 2021

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

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.

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