Irish Life

Life | Pensions | **Investments**

May 2022 in review
Summit Investment Funds

Helping people build better futures

Summit Investment Funds plc is authorised in Ireland and regulated by the Central Bank of Ireland

MARKET REVIEW

May was a volatile month and equities fell to new lows for the year; the S&P 500 fell more than 20% from its all-time high in early January. Markets, however, rallied in the last week of May to end only slightly down for the month. Early weakness was due to the continued aggressive inflation-fighting rhetoric from central banks and further rises in bond yields in response to persistently high inflation. Increasing concerns over the growth outlook and rising fears over the possibility of recession also contributed to the initial falls. The late month respite was due to some investors perceptions that US inflation and, therefore, the Federal Reserve's (Fed) aggressive policy guidance, may have peaked. The reopening of the Chinese economy also helped ease growth fears.

MARKET ROUND-UP

Equities

The MSCI AC World equity index fell -0.2% (-1.3% in euros). The UK outperformed, rising 1.3% (0.2% in euros) and continued to benefit from its high weight in energy and commodity stocks. Japan rose 0.9% (0.1% in euros) as, in contrast to most other global central banks, the Bank of Japan has committed to maintain a loose monetary policy stance. The Pacific Basin fell -1.1% (-1.9% in euros) as concerns over Chinese growth weighed on the region. European equities underperformed, falling -0.6% (-0.8% in euros); the European Central Bank (ECB) has become increasingly focused on tackling inflation, guiding to an earlier and faster pace of interest rate rises, while economic data was generally soft.

Bonds

The Eurozone >5-year bond index fell -2.7% as yields rose on higher-than-expected inflation and more aggressive policy guidance from the European Central Bank (ECB); the bank suggested that the deposit rate will be raised to zero by September. The German 10-year yield rose to its highest level since 2014, ending the month up 18 basis points (bps) at 1.12%. Investment grade corporate bonds fell -1.3% while yields rose 27bps to 2.39%. High yield corporate bonds fell -1.3% as yields rose 5bps to 6.25%.

Both emerging market (EM) local and hard currency debt returns were slightly positive during the month, benefiting from a better performance from US bonds in May. Investors began to speculate that US inflation was close to peaking and that the Federal Reserve (Fed) was close to its peak level of aggression in terms of planned interest rate rises to tackle inflation. EM local debt rose 0.3%, with strong EM foreign exchange (FX) rates supporting local markets as yields remained largely unchanged at 6.7%.

Currencies and commodities

The euro rose 1.8% against the dollar to 1.0731 as the ECB became more hawkish, guiding to a 50bps increase in the deposit rate by September. Speculation that the Fed could be close to its peak level of hawkishness, combined with investors being relatively long the dollar, also contributed to the move. Commodities rose 5.1% (3.5% in euros), bringing their year-to-date return to 47.0% (56.1% in euros). Crude oil was up 9.5% as the EU announced an embargo on Russian oil imports. Meanwhile, hopes for a US/Iran nuclear deal, which would release Iranian oil onto the global market, began to fade. European gas fell -7.4% as importers set up facilities to pay in roubles, which maintained the flow of gas to the majority of European countries. Food prices rose due to dislocations caused by the war in Ukraine, poor growing conditions and a wheat export ban announced in India, which caused wheat prices to rise 11.8%. Gold fell -2.7% as US real yields moved back into positive territory with inflation expectations easing.

MARKET SNAPSHOT

Market returns (EUR)

Equity Markets (EUR)	MTD Return (%)	YTD Return (%)	2021 Return (%)
MSCI Ireland	-0.9	-17.9	17.1
MSCI United Kingdom	0.2	5.9	27.5
MSCI Europe ex UK	-0.8	-9.6	25.4
MSCI North America	-1.7	-8.1	36.6
MSCI Japan	0.1	-7.9	9.8
MSCI EM (Emerging Markets)	-1.1	-6.2	5.2
MSCI AC World	-1.3	-7.3	28.1
10-Year Yields	**Yield Last Month (%)**	**2021 Yield (%)**	**2020 Yield (%)**
US	2.84	1.51	0.91
Germany	1.12	-0.18	-0.57
UK	2.10	0.97	0.20
Japan	0.24	0.07	0.02
Ireland	1.70	0.24	-0.30
Italy	3.12	1.17	0.54
Greece	3.58	1.34	0.63
Portugal	2.26	0.47	0.03
Spain	2.23	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	0.85	0.84	0.90
U.S. Dollar per British Pounds	1.26	1.35	1.37
Commodities (USD)	**MTD Return (%)**	**YTD Return (%)**	**2021 Return (%)**
Oil (WTI)	9.5	52.5	55.0
Gold (Oz)	-2.7	0.9	-3.4
S&P Goldman Sachs Commodity Index	5.1	47.0	40.4

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

MARKET OUTLOOK

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

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

While equity markets have fallen over the year-to-date and, as a result, absolute valuation levels have declined, more realistic earnings forecasts, price-to-earnings (P/E) multiples are close to their long-term average.

Global growth forecasts for 2022 have been revised down to 3.1% but remain above trend growth of 2.7%. Looking into 2023, some further slowdown is expected, particularly when taking account of the war in Ukraine, lockdowns in China and a squeeze on household purchasing power because of persistently above-trend inflation.

In recent years, equities have consistently remained attractive on a relative valuation basis against bonds, given the historically low level of bond yields. With the recent sharp rise in bond yields, this relative valuation support for equities has been removed and equities are now beginning to look close to fair value against bonds.

Given the removal of the undervaluation of equities against bonds, the potential for higher bond yields in an environment of high inflation, and tighter monetary policy and subsequent risks to economic growth looking into 2023, equities appear fair value at current levels with limited upside. If anything, the balance of risks is probably skewed to the downside in an environment of heightened uncertainty and volatility.

While our outlook for equity markets suggests limited upside in the short term, the outlook remains positive over the medium to long term with upside of approximately 5% per year expected on a 5 to 10-year view.

Outlook dependent on economic and earnings growth. Uncertainty is evident, following Russia's invasion of Ukraine. Monetary policy support is being removed at a faster pace than expected.

The global economy contracted by -3.6% during 2020 due to Covid-19, with an estimated rebound of 5.9% in 2021. Growth of 3.1% expected in 2022 after recent downgrades due to the Russia/Ukraine crisis & Covid-19 outbreaks in China.

The Russia/Ukraine conflict, Covid-19, monetary policy tightening, fiscal stimulus, inflation developments, energy prices, and supply chain issues will all be key for growth.

In absolute terms, equity valuations have fallen below long term averages. But, when more realistic earnings growth assumptions are used, valuations are near the long term average of 16.0x. Equities relative undervaluation against bonds has been removed with the recent rise in yields.

Following downgrades to growth forecasts, expected downward revisions to earnings and the recent rise in bond yields, equity markets appear close to fair value with limited upside. Risks appear skewed to the downside.

Volatility is likely to remain a feature due to uncertainty over impact of the Russia/Ukraine crisis, risks around inflation concerns, tighter monetary policy, slower growth, Covid-19 variants and other geopolitical risks.

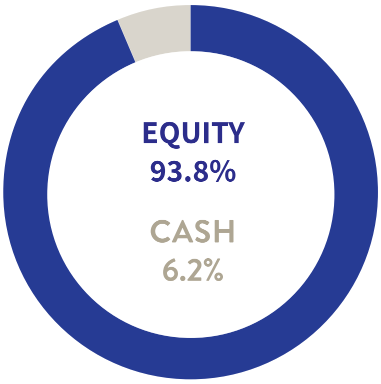
SUMMIT GROWTH FUND

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 May

The Summit Growth Fund returned -0.34% in May. From a sector perspective, Energy & Materials, Infrastructure and Technology were the best performers. The Consumer Discretionary, Consumer Staples and Financials sectors lagged over the month. The stocks contributing most to the fund's return during the month were DXC Technology, O-I Glass and Electronic Arts. The stocks that detracted most from the fund's return were Costco Wholesale Corp, Johnson Controls and DCC Plc.

Asset allocation

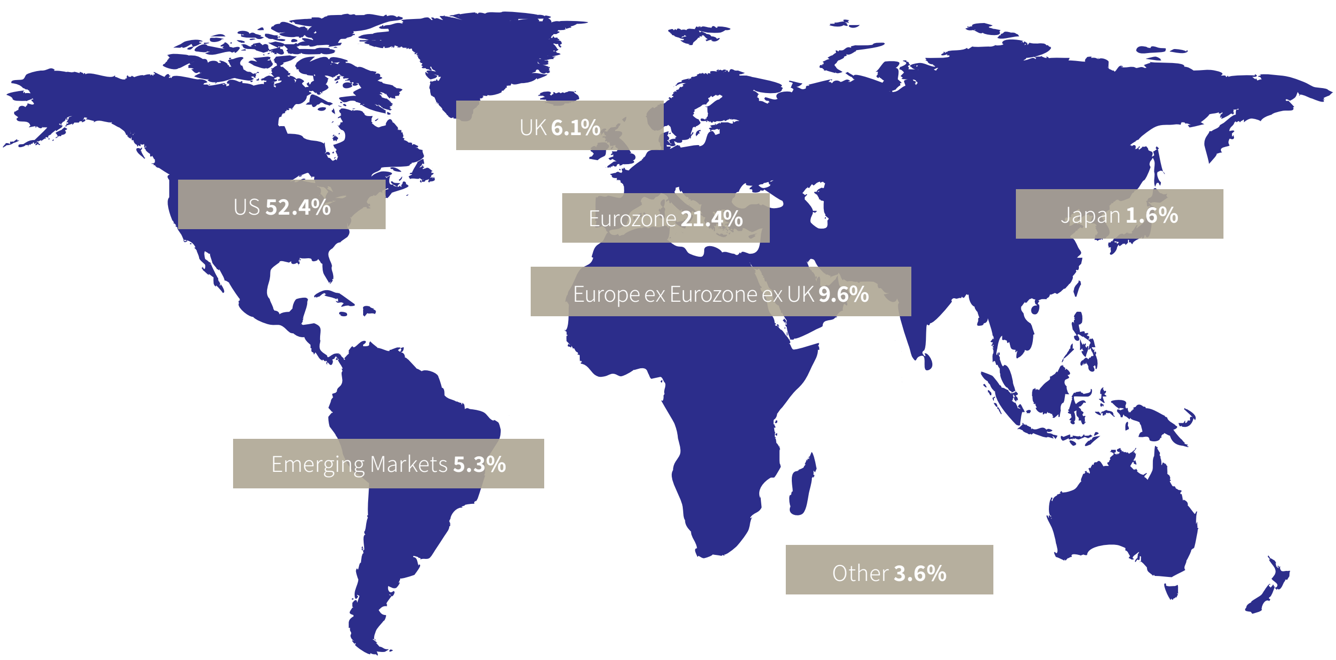


Top Ten Share Holdings

Stock name	% of fund
Microsoft	4.4
Berkshire Hathaway	3.7
Alphabet	3.0
McDonald's	3.0
Oracle	2.6
Samsung Electronics	2.6
Johnson & Johnson	2.5
Costco Wholesale	2.5
DCC	2.2
Booking	2.2

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

Share regional distribution



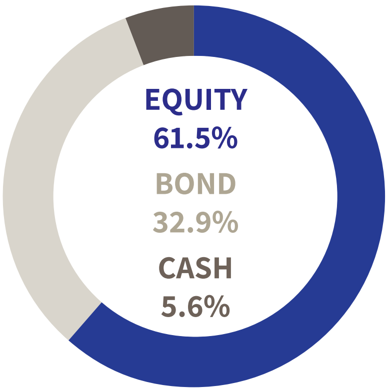
SUMMIT BALANCED FUND

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 May

The Summit Balanced Fund returned -0.63%, net of fund management fee, in May. From a sector perspective, Energy, Utilities and Healthcare were the best performing sectors. The Communication Services, Technology and Consumer Discretionary sectors lagged over the month.

Asset allocation

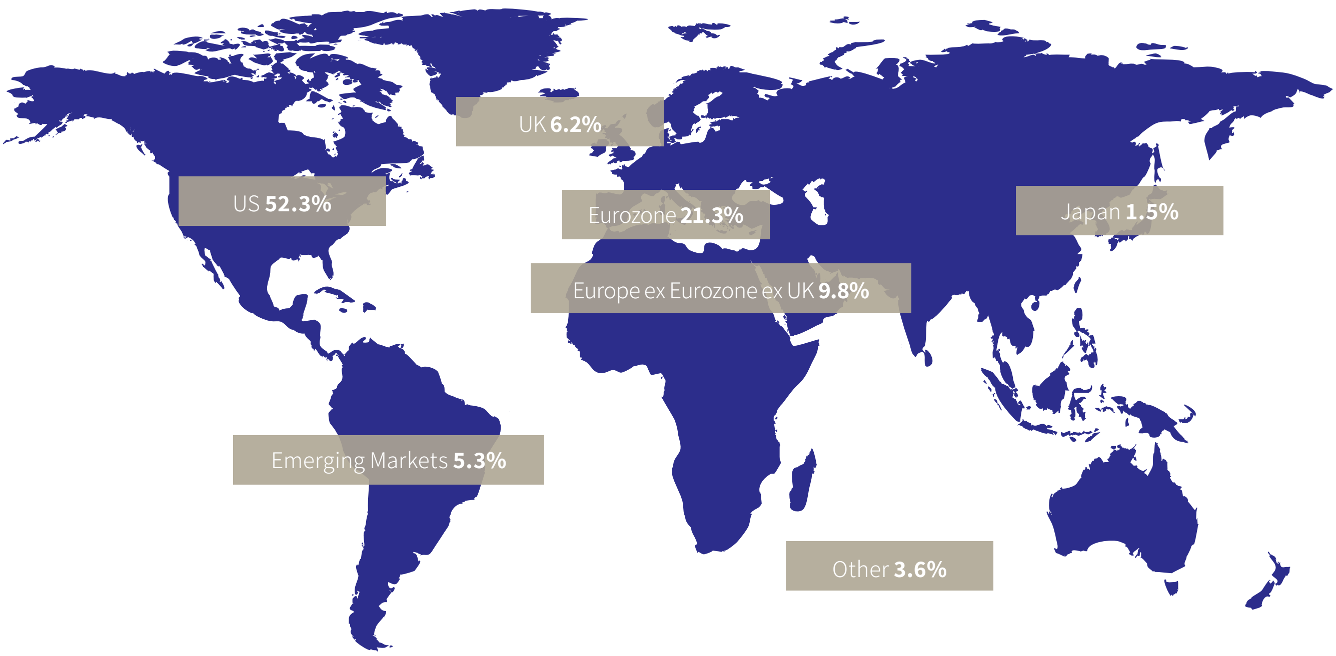


Top Ten Share Holdings

Stock name	% of fund
Microsoft	4.6
Berkshire Hathaway	3.5
Alphabet	2.9
McDonald's	2.9
Johnson & Johnson	2.5
Oracle	2.5
Samsung Electronics	2.5
Costco Wholesale	2.4
Booking	2.1
DCC	2.1

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

Share regional distribution



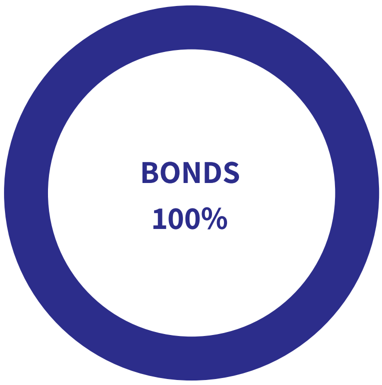
SUMMIT STABLE FUND

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

Fund update for May

The Summit Stable Fund returned -0.36%, net of fund management fee, in May. Due to rising inflation, the market increased its assumption for the number of ECB interest rate hikes during 2022, bringing the year-end cash rate assumed to 0.6%. This led to negative returns for most bond funds during the month, which underperformed due to rising yields. The fund return is quoted net of tax, the considerations of which are complex.

Asset allocation



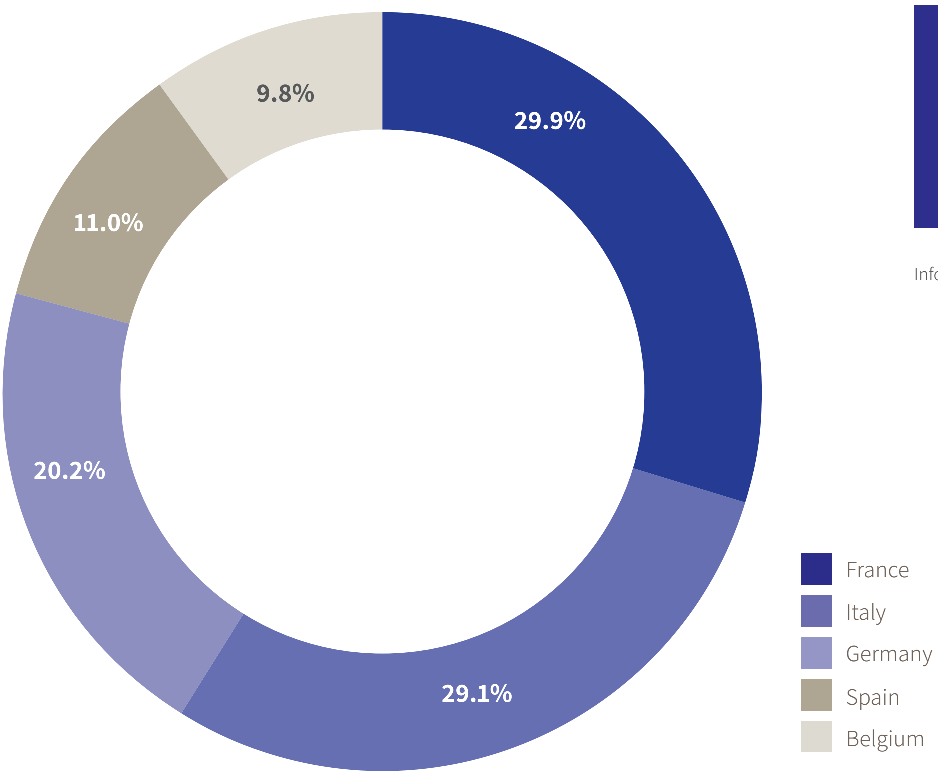
Bond portfolio credit quality

Rating / percentage of fund

Rating	Percentage of fund
AAA	20.2%
AA2	29.9%
AA3	9.8%
A3	11.0%
BBB2	29.1%

Information is correct at 31 May 2022

Bond country distribution



SUMMIT FUND PERFORMANCE

At 31 May 2022

Fund returns after fund management fee	Stable	Balanced	Growtth
1 Month	-0.36%	-0.63%	-0.34%
QTD	-1.00%	-2.04%	-1.39%
3 Month	-1.44%	-1.74%	0.14%
YTD	-1.97%	-4.70%	-3.49%
1 Year	-2.93%	1.53%	6.35%
2 Years pa	-1.87%	6.72%	12.86%
3 Years pa	-1.51%	3.81%	7.03%
5 Years pa	-1.40%	3.01%	5.23%
10 years pa	-0.62%	5.10%	8.12%

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