Irish Life

Life | Pensions | **Investments**

August 2022 in review
Summit Mutual Funds

Helping people build better futures

MARKET REVIEW

Despite the July equity rally continuing through the first half of the month, equities and bonds fell in August. Equities initially benefited from speculation over a possible policy pivot by the US Federal Reserve (Fed). A better-than-expected earnings reporting season and signs of a more resilient US economy also supported stocks in the early part of the month. The rally, however, faded, following the July Fed policy meeting minutes and Chair Jerome Powell's comments at the Jackson Hole Economic Symposium. It was suggested that the Fed will continue to aggressively raise interest rates until it is convinced inflation has been tamed and is moving back towards its 2% target. In Europe, the ongoing surge in gas prices and new record highs in inflation led several European Central Bank (ECB) council members to suggest that further tightening of monetary policy is warranted; this caused German 10-year yields to register their largest monthly rise since 1990. The euro weakened further and temporarily fell below parity against the US dollar on expectations of tighter US monetary policy and increasing concerns over the European growth outlook.

MARKET ROUND-UP

Equities

The MSCI AC World equity index fell -2.9% (-2.3% in euros). Emerging market (EM) equities outperformed, rising 1.2% (1.9% in euros) as the Chinese market was supported by increased stimulus from the authorities. Japan also outperformed, rising 1.1% (-1.2% in euros), benefiting from the weaker yen and improving economic data as the economy reopened after recent Covid-19 restrictions. European equities underperformed, falling -4.7% (-5.1% in euros) as concerns increased over the economic outlook given the continued deterioration in economic data and the ongoing surge in gas prices. The US also lagged, falling -3.9% (-2.6% in euros) on the back of more hawkish Fed commentary and increased expectations regarding the level of upcoming rate rises.

Bonds

The Eurozone >5-year bond index fell -7.0% as yields, which move inversely to price, rose with European Central Bank (ECB) commentary suggesting a faster and larger scale of rate rises was necessary to combat high inflation. The monthly rise in the German 10-year yield of 72 basis points (bps) to 1.54% was the largest since 1990. European investment grade corporate bonds fell -4.3% as yields rose 94bps to 3.28%. High yield corporate bonds fell -2.3% as yields rose 60bps to 7.42%. Emerging market (EM) local debt rose 1.1% as strength in EM currencies against the euro offset a modest rise in yields.

Currencies and commodities

The euro fell -1.6% against the dollar to 1.0053 as risks to the Eurozone economy were heightened by a surge in gas prices and ongoing weakness in economic data. More aggressive rhetoric from the Fed and changing expectations regarding US rate hikes also supported the US dollar. Commodities fell -2.7% (-1.3% in euros). Brent oil fell -12.3% on increasing concerns around the global growth backdrop. Improving prospects for a US/Iran nuclear deal, which would allow Iranian oil back on to the global market, also contributed to the fall in oil. European gas rose 21.4%, though it had been up as much as 76%. This was due to Russian supplies to Europe remaining well below normal and Russia announcing that supplies via the Nord Stream 1 pipeline would be stopped for three days due to maintenance, raising fears over future supply levels. Gazprom also announced that it was suspending gas supplies to the French utility, Engie, due to alleged non-payment. Gold fell -2.8% due to the stronger US dollar and higher US real yields.

MARKET SNAPSHOT

Market returns (EUR)

Equity Markets (EUR)	MTD Return (%)	YTD Return (%)	2021 Return (%)
MSCI Ireland	3.3	-20.4	17.1
MSCI United Kingdom	-4.3	0.9	27.5
MSCI Europe ex UK	-5.1	-14.8	25.4
MSCI North America	-2.6	-6.0	36.6
MSCI Japan	-1.2	-6.9	9.8
MSCI EM (Emerging Markets)	1.9	-6.4	5.2
MSCI AC World	-2.3	-6.7	28.1
10-Year Yields	**Yield Last Month (%)**	**2021 Yield (%)**	**2020 Yield (%)**
US	3.19	1.51	0.91
Germany	1.54	-0.18	-0.57
UK	2.80	0.97	0.20
Japan	0.23	0.07	0.02
Ireland	2.19	0.24	-0.30
Italy	3.88	1.17	0.54
Greece	4.11	1.34	0.63
Portugal	2.63	0.47	0.03
Spain	2.74	0.57	0.05
FX Rates	**End last month**	**2021 Rates**	**2020 Rates**
U.S. Dollar per Euro	1.01	1.14	1.22
British Pounds per Euro	0.86	0.84	0.90
U.S. Dollar per British Pounds	1.16	1.35	1.37
Commodities (USD)	**MTD Return (%)**	**YTD Return (%)**	**2021 Return (%)**
Oil (WTI)	-9.2	19.1	55.0
Gold (Oz)	-2.8	-6.2	-3.4
S&P Goldman Sachs Commodity Index	-2.7	32.1	40.4

Source: ILIM, Bloomberg. Data is accurate as at 1 September 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 (both expected and realised) and the evolution of the Russia/Ukraine crisis.

Equities have declined year-to-date (YTD) as central banks have tightened policy, bond yields have risen and growth forecasts have fallen.

After these falls, equities now look attractive on an absolute valuation basis trading on a 12-month forward price-to-earnings (P/E) multiple of 14.4x against a long-term average of 16.0x.

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, would also be supportive.

However, equities continue to face several headwinds. Due to the persistence of high inflation, central banks continue to tighten policy and withdraw policy accommodation, which has been supportive of equity markets in recent years. Given the significant rise in bond yields, equities are no longer cheap on a relative valuation basis and are expensive on some measures versus bonds. Earnings are at risk of being downgraded due to margin pressures from input and labour costs, with risks to top line growth in a slowing growth environment.

For equities to recover from their YTD falls, investors need to believe that we are at the peak of policy tightening and that growth risks are fading. Given the risks around inflation and central banks' policy responses, potential downside in growth and earnings forecasts, the failure to find resolutions to geopolitical issues and the removal of the undervaluation of equities versus bonds in the higher yield environment, we see risks in equities as still being skewed to the downside.

Navigating equity markets is difficult even in a benign environment, but it has become more arduous in the current backdrop, with heightened uncertainty on many issues. As a result, the increased volatility evident this year is likely to continue.

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 annum expected on a 5-10 year view.

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

Global economy contracted in 2020 by -3.6% with a rebound of 6.0% in 2021. Growth of 2.6% is expected in 2022 post recent downgrades. Rising risks of a recession in 2023 given tighter monetary policy, high inflation, falling business and consumer confidence.

Russia/Ukraine, Covid-19, monetary policy tightening, fiscal stimulus, inflation developments, energy prices, energy supplies and supply chain issues 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 closer to the long-term average of 16.0x. Equities' relative undervaluation against bonds has been reduced with the rise in bond yields YTD.

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

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

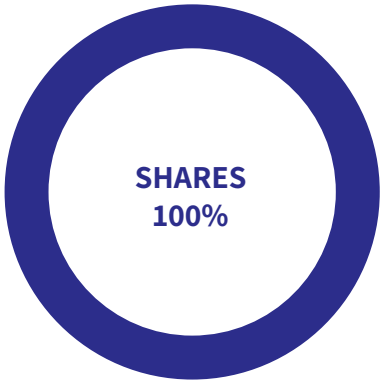
SUMMIT GLOBAL LEADERS FUND

The Summit Global Leaders Fund invests in stocks with large market capitalisations. From July 2014, equity management has been sub-advised to Setanta Asset Management.

Fund update for August

The Summit Global Leaders Fund returned -4.3%, net of fund management fee, over August. Concerns around rising interest rates to counter inflation and macroeconomic uncertainty weighed on sentiment. NVIDIA was the biggest decliner in the period, falling -16.9% in local currency (lc). It reported disappointing quarterly results as weak gaming demand and the requirement for an inventory correction drove a revenue and margin shortfall. Sanofi was off -15.5% (lc) due to lawsuits over the blockbuster heartburn drug Zantac, where there have been allegations of a link to cancer. On a more positive note, Paypal rose +8.0% (lc) over the month. It reported solid quarterly results, appointed a new, well-respected CFO and disclosed that activist investor Elliott had taken a stake in the company. Shell was up 6.1% (lc). The company reported record quarterly profits and a $6bn share buyback at the end of July.

Asset allocation

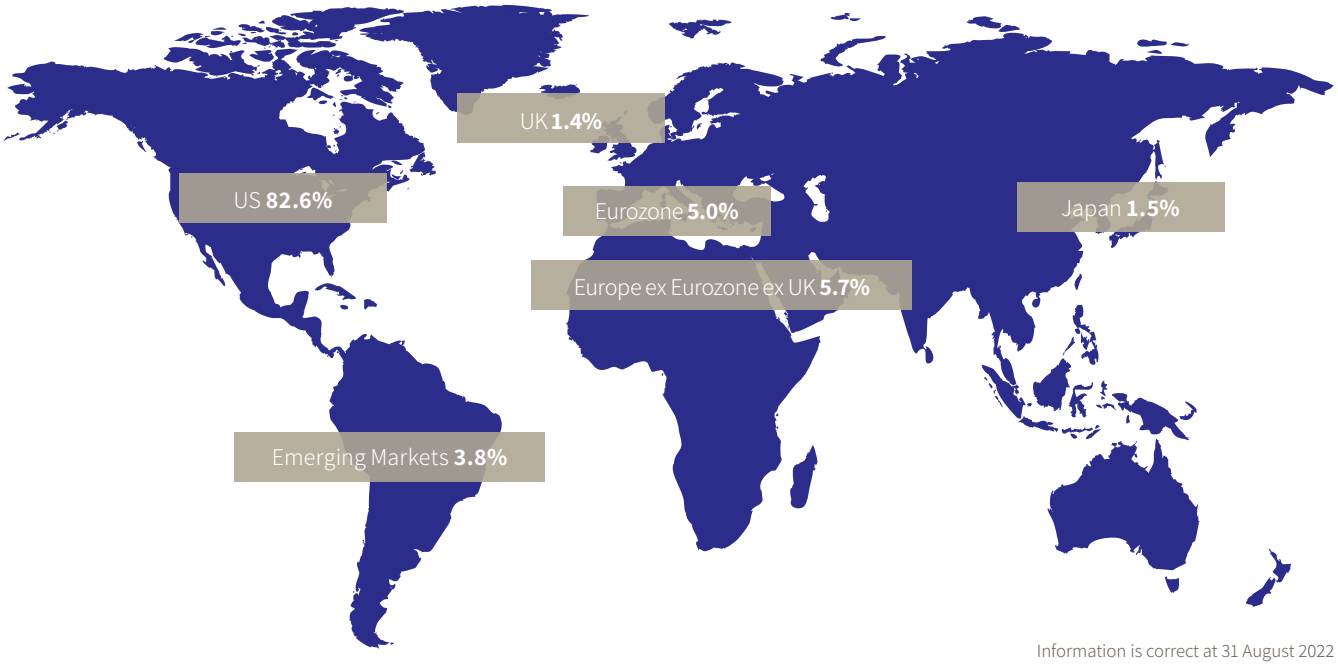


Top Ten Share Holdings

Stock name	% of fund
Apple	8.8
Microsoft	8.3
Alphabet	7.8
Amazon.com	7.7
Tesla	4.8
Johnson & Johnson	3.1
Exxon Mobil	2.9
Meta Platforms	2.7
Nvidia	2.7
JP Morgan Chase	2.5

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

Share regional distribution



Information is correct at 31 August 2022

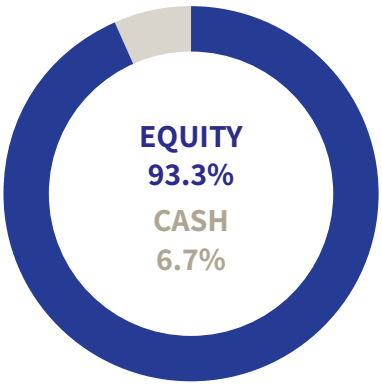
SUMMIT GROWTH FUND

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 August

The Summit Growth Fund returned -3.8%, net of fund management fee, over August. From a sector perspective, Energy & Materials, Financials, and Infrastructure were the best performing sectors. The Healthcare, Industrials and Consumer Staples sectors lagged. The stocks contributing most to the fund's return during the month were Bank Leumi, Constellation Energy and Lancashire Holdings. The stocks that detracted the most were DXC Technology, Melrose Industries and Microsoft.

Asset allocation

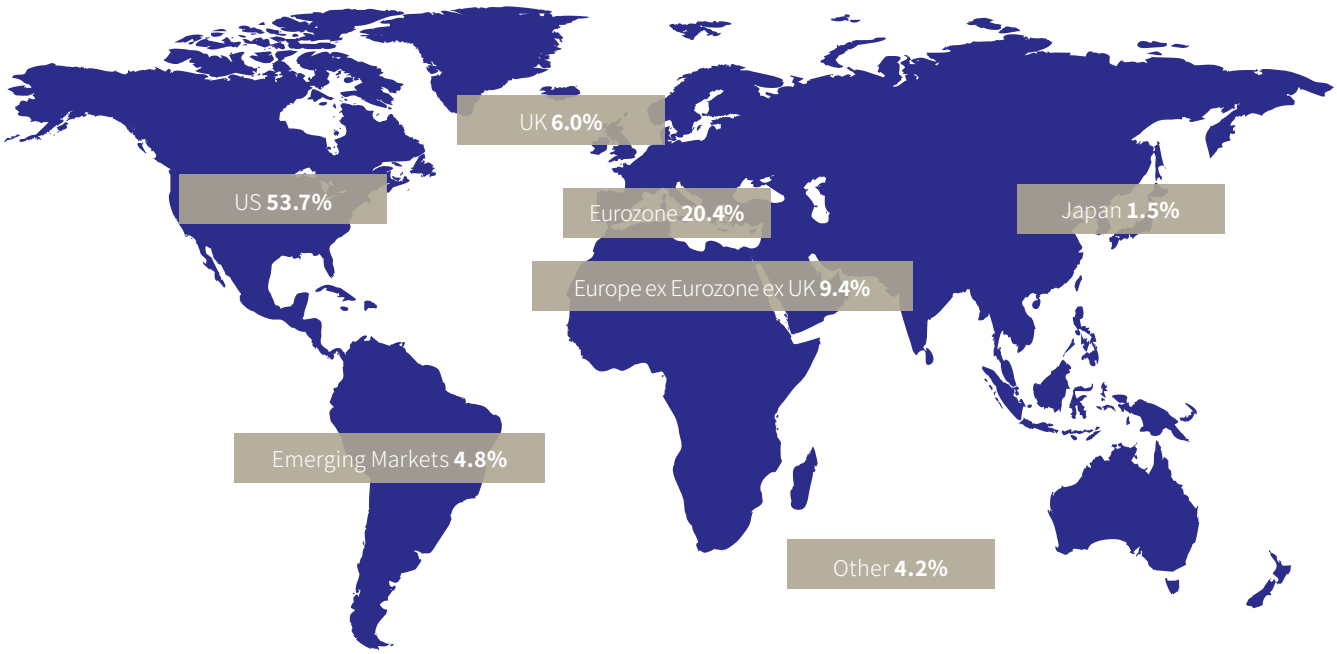


Top Ten Share Holdings

Stock name	% of fund
Microsoft	4.6
Berkshire Hathaway	3.5
McDonald's	3.2
Alphabet	3.1
Costco Wholesale	3.1
Oracle	2.9
Johnson & Johnson	2.5
Samsung Electronics	2.3
Keysight Technologies	2.2
Johnson Controls International	2.1

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

Share regional distribution



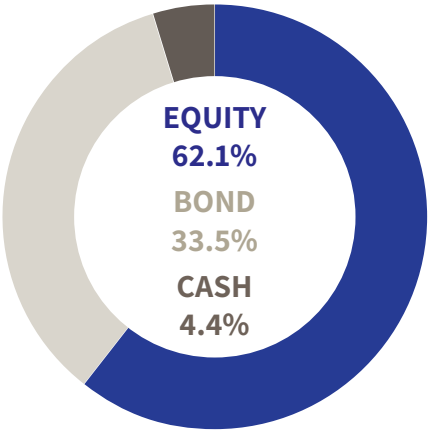
SUMMIT BALANCED FUND

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 August

The Summit Balanced Fund returned -4.4%, net of fund management fee, over August. From a sector perspective, Energy & Materials, Financials, and Infrastructure were the best performing sectors. The Healthcare, Industrials and Consumer Staples sectors lagged.

Asset allocation

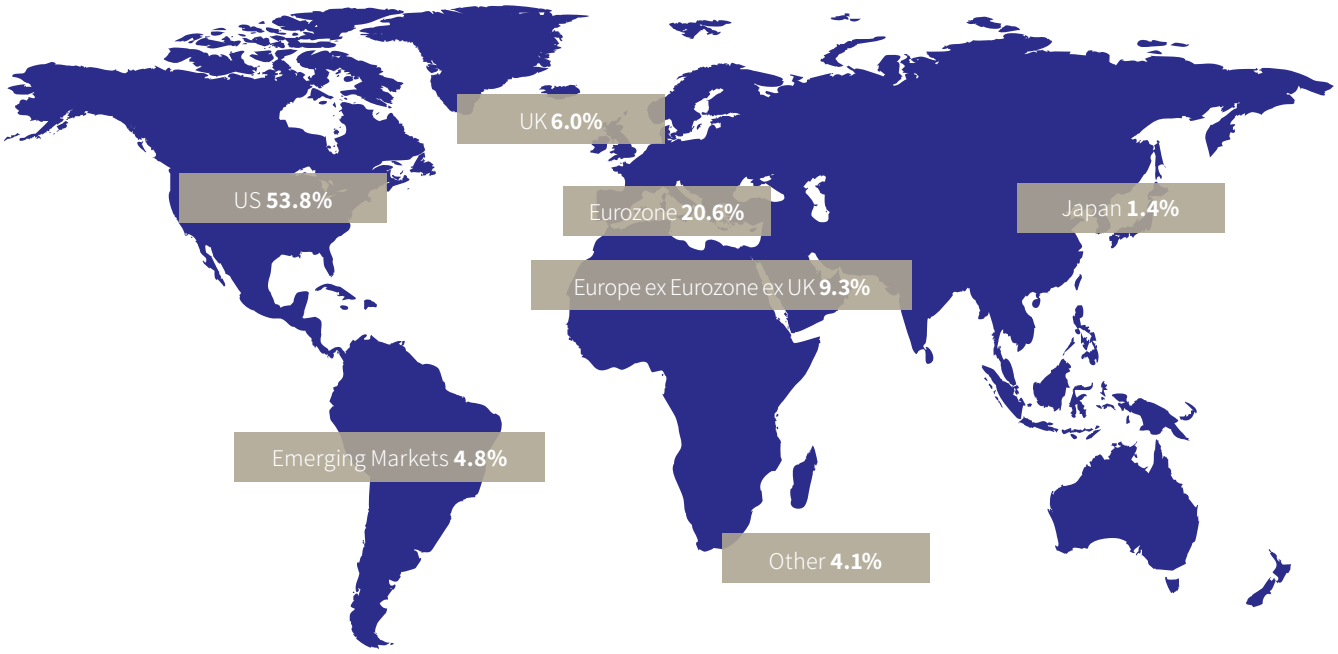


Top Ten Share Holdings

Stock name	% of fund
Microsoft	4.7
Berkshire Hathaway	3.5
McDonald's	3.3
Alphabet	3.0
Costco Wholesale	3.0
Oracle	2.9
Johnson & Johnson	2.4
Samsung Electronics	2.2
Keysight Technologies	2.2
Johnson Controls International	2.1

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

Share regional distribution



SUMMIT FUND PERFORMANCE

At 31 August 2022

Fund returns after fund management fee	Balanced	Growth	Global Leaders
1 Month	-4.44%	-3.81%	-4.25%
QTD	2.04%	3.84%	7.16%
3 Month	-2.42%	-1.85%	0.63%
YTD	-8.77%	-6.51%	-11.43%
1 Year	-5.13%	0.17%	-3.98%
2 Years pa	6.44%	14.72%	9.84%
3 Years pa	2.48%	7.36%	12.67%
5 Years pa	3.54%	6.87%	12.79%
10 years pa	5.85%	9.03%	11.52%

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 Mutual 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