Irish Life

Life | Pensions | **Investments**

December 2021 in review

Summit Mutual Funds

Helping people build better futures

MARKET REVIEW

Global equities recovered from the drawdown experienced late in the third quarter to end the year near record highs. Equities were supported by an improvement in the economic backdrop and a strong earnings reporting season for global corporates, which resulted in further upgrades to earnings estimates. Concerns eased around possible contagion from the Chinese property market, which further contributed to the rebound. Markets remained volatile, however, with fears relating to the highly contagious Covid-19 variant, Omicron, contributing to a minor correction in late November; these fears eased through December. More hawkish central banks gave rise to some uncertainty as policy accommodation began to be reduced in response to continued high inflation readings. However, signs that global supply constraints may be fading and a belief that inflation pressures are close to a peak helped limit the negative impact from tighter monetary policy stances. Political uncertainties relating to President Biden's failed infrastructure proposals in the US and rising Russian/Ukrainian tensions also caused some anxiety for investors.

MARKET ROUND-UP

Equities

Over the quarter, the MSCI AC World equity benchmark rose 7.1% (8.8% in €) as the overriding positive economic and earnings backdrop, combined with a belief that the worst of the Covid-19 pandemic might have passed, contributed to gains in equity markets. The US rose 10.1% (12.2% in €) as a strong quarter three earnings season and a rebound in growth to a 7% annualised rate offset a more hawkish Fed. Europe gained 7.0% (7.8% in €) as growth remained strong, despite the renewed rise in Covid case numbers, while it was perceived as a beneficiary of an improving global growth backdrop and a potential easing of supply bottlenecks. Japan fell -0.9% (-2.1% in €) as the economy contracted over the third quarter due to Covid-related restrictions. Meanwhile, emerging markets were down -0.8% (+0.6% in €) and were negatively impacted by a stronger US dollar and tighter US monetary policy.

Bonds

Global bond yields showed little change over the quarter but were volatile. Yields fell on growth concerns related to Omicron before rising into the year-end on tightening central bank policy and easing concerns around the new Covid variant. US 10-year yields rose 2 basis points (bps) from 1.49% to 1.51% as the Fed commenced tapering its asset purchase programme while guiding to three rate hikes for 2022. UK 10-year yields fell 5bps to 0.97% despite the Bank of England's first rate hike in more than three years, with consumer price inflation hitting 5.1% y/y. Japanese 10-year yields were unchanged at 0.07%.

The ICE BofA Merrill Lynch Eurozone > 5-year sovereign bond benchmark fell -0.5% over the quarter with the German 10-year yield rising 2bps to -0.18%. Yields were volatile, initially falling as the ECB pushed back against market expectations of a rate rise in 2022 and on the back of renewed growth concerns related to the emergence of Omicron. Yields rose into year-end as the ECB announced a larger-than-expected reduction in asset purchases from March onwards when the Pandemic Emergency Purchase Programme (PEPP) ends. Easing concerns around the potential economic impact of Omicron also pushed yields higher into year-end. Peripheral spreads widened as investors discounted reduced levels of ECB asset purchases in 2022 while doubts over whether Mario Draghi will remain as Italian Prime Minister added to pressure on Italian bonds. At the end of December, Italian 10-year spreads against Germany were 135bps, while Spanish spreads were 75bps.

European investment grade (IG) corporate bonds fell -0.7%, with global high yield credit up 0.4%. Higher sovereign bond yields pulled yields in IG bonds up to 0.62%. Spreads in IG bonds widened to 98bps on growth concerns and lower ECB asset purchases in 2022, while high yield spreads were marginally higher at 280bps.

Currencies and commodities

The euro fell to 1.1370 against the US dollar as the Fed announced asset purchases will end in March while guiding to three interest rate hikes over 2022. Commodities rose 1.5% (3.4% in €) but were volatile through the quarter. Having drifted higher through October and most of November, commodities fell sharply in late November on renewed growth and demand concerns related to the emergence of the Omicron variant. Commodities recovered through December as Omicron related concerns began to fade and the growth outlook for 2022 remained robust. Oil was similarly volatile and was also impacted by the coordinated release of strategic oil reserves by several countries to contain the rise in prices. West Texas Intermediate oil rose 0.2% over the quarter. European gas prices were extremely volatile, impacted by supply/demand imbalance, low storage levels, the failure to approve the Nord Stream 2 gas pipeline and rising Russian/Ukrainian tensions. During the quarter, European gas prices fell -21.5%, having risen over 115% at their peak. At the same time, gold rose 4.0%, benefitting from lower US real yields and rising uncertainty.

MARKET SNAPSHOT

Market returns (EUR)

Equity Markets (EUR)	QTD Return (%)	YTD Return (%)	2020 Return (%)
MSCI Ireland	2.54	17.09	5.97
MSCI United Kingdom	7.65	27.53	-17.83
MSCI Europe ex UK	7.77	25.36	2.43
MSCI North America	12.06	36.61	10.64
MSCI Japan	-2.10	9.79	5.42
MSCI EM (Emerging Markets)	0.65	5.20	8.89
MSCI AC World	8.81	28.08	7.18
10-Year Yields	**Yield Last Month (%)**	**2020 Yield (%)**	**2019 Yield (%)**
US	1.51	0.91	1.92
Germany	-0.18	-0.57	-0.19
UK	0.97	0.20	0.82
Japan	0.07	0.02	-0.02
Ireland	0.24	-0.30	0.11
Italy	1.17	0.54	1.41
Greece	1.34	0.63	1.43
Portugal	0.47	0.03	0.43
Spain	0.57	0.05	0.46
FX Rates	**Current**	**2020 Rates**	**2019 Rates**
U.S. Dollar per Euro	1.14	1.22	1.12
British Pounds per Euro	0.84	0.90	0.85
U.S. Dollar per British Pounds	1.35	1.37	1.33
Commodities (USD)	**QTD Return (%)**	**YTD Return (%)**	**2020 Return (%)**
Oil (WTI)	0.24	55.01	-20.54
Gold (Oz)	4.03	-3.44	24.40
S&P Goldman Sachs Commodity Index	1.51	40.35	-23.72

Source: ILIM, Bloomberg. Data is accurate as at 1 January 2022.
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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, which include central bank policy, growth, inflation (both expected and realised) and the evolution of the Covid-19 pandemic.

We believe we are still in the early to mid-stage of the current economic cycle, a period which 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% over 2021, global economic growth is expected to slow next year with growth of 4.3%. This, however, remains well above trend growth of 2.7% and exceeds levels experienced in the last cycle, post the Global Financial Crisis.

While equities appear expensive in absolute terms, trading on a 12-month forward P/E multiple of 18.0x, given the forecasted earnings growth in the coming years, the 12-month forward P/E multiple falls nearer to its long-term average of 16.0x. In a low bond yield environment, equities can trade at higher-than-average valuation multiples, and we believe an 18x P/E is justified, which is consistent with at least high single-digit upside in equity markets. Even as monetary stimulus is being reduced, financial conditions remain extremely loose. This is highlighted by real yields, which remain close to historic lows – levels which are consistent with further gains in equities.

Longer term potential risks to the equity outlook include unexpected 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 the emergence of a vaccine-resistant strain of Covid-19. The probability of these occurring is viewed as being low. The persistence of higher inflation is seen as the greatest risk to markets; however, we expect inflation to ease back to lower levels in 2022 and, while it will probably settle at levels higher than pre-Covid-19, we do not expect it to be high enough to warrant more aggressive tightening of policy by central banks.

While our outlook for equity markets is positive, elevated absolute valuations and the array of short-term risks mean volatility will likely remain a feature in markets in the near term.

Outlook dependent on economic and earnings growth. 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 5.8% in 2021 and growth of 4.3% expected in 2022.

Covid-19, monetary/fiscal stimulus, inflation developments, supply chain issues will be key for growth.

Equity valuations appear expensive on an absolute basis but remain attractive in relative terms.

High single to double digit upside possible over 12 months due to economic and earnings recovery and supportive policies.

Volatility likely to remain a feature due to risks around inflation concerns, reduced policy accommodation, slower growth and Covid variants.

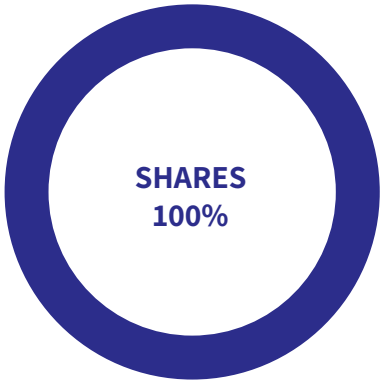
SUMMIT GLOBAL LEADERS FUND

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 December

The Summit Global Leaders Fund rose 1.81% net of AMC/fees in December. Leading contributors were Abbvie and Accenture. Abbvie performed well following positive data for its blockbuster drug Rinvoq. Accenture delivered strong quarterly earnings and raised its full year outlook. Adobe and Salesforce were laggards over the month; the former saw a slowdown in digital media revenue growth, while the latter disappointed the market with its margin guidance.

Asset allocation

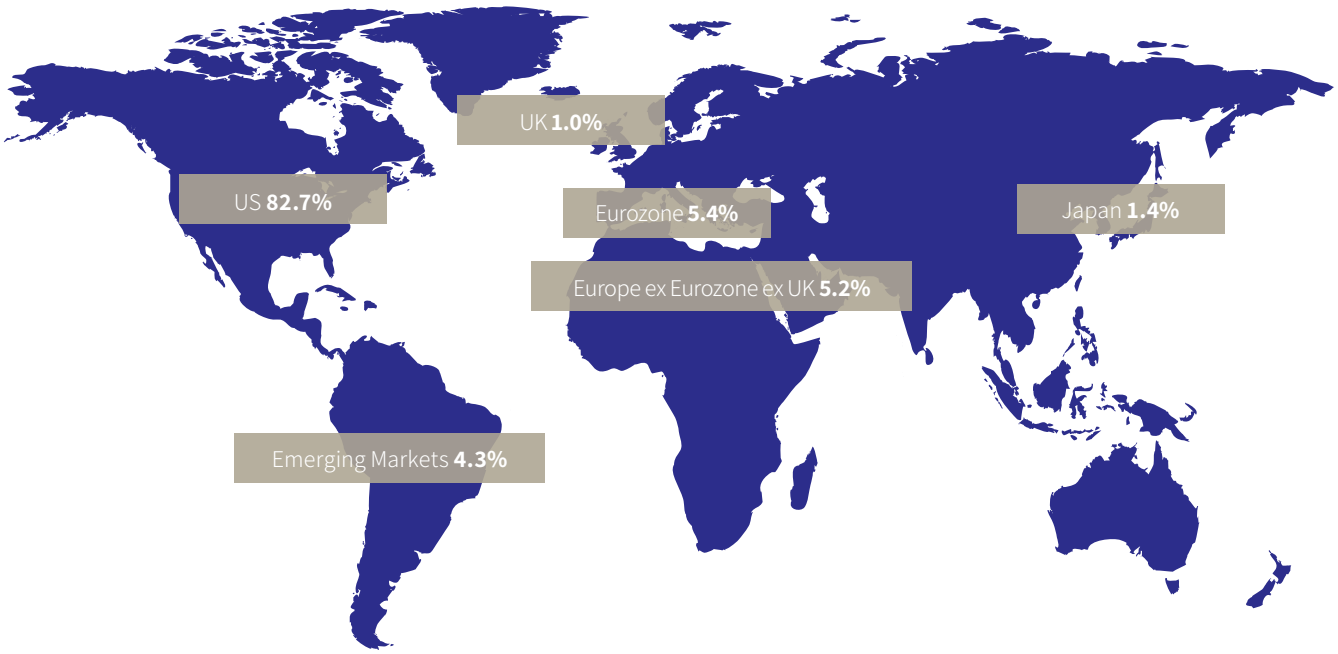


Top Ten Share Holdings

Stock name	% of fund
Apple	9.0
Microsoft	8.8
Alphabet	8.0
Amazon.com	7.3
Tesla	4.4
Meta Platforms	4.3
Nvidia	4.0
JP Morgan Chase & Co	2.7
Johnson & Johnson	2.5
Taiwan Semiconductor Manufacturing	2.3

Source: ILIM, Factset. Data is accurate as at 31 December 2021.

Share regional distribution



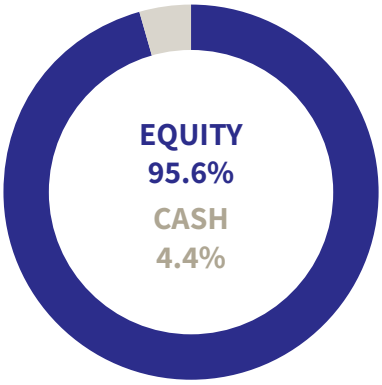
SUMMIT GROWTH FUND

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 4.51% net of AMC/fees in December. From a sector perspective, healthcare, industrials, and infrastructure were the best performing sectors. At the same time, the Technology and Consumer Discretionary sectors lagged. The stocks contributing most to the fund's return over the month were Booking Holdings, Samsung Electronics and McDonalds. The stocks that detracted most from the fund return were Oracle, Nike and Medtronic.

Asset allocation

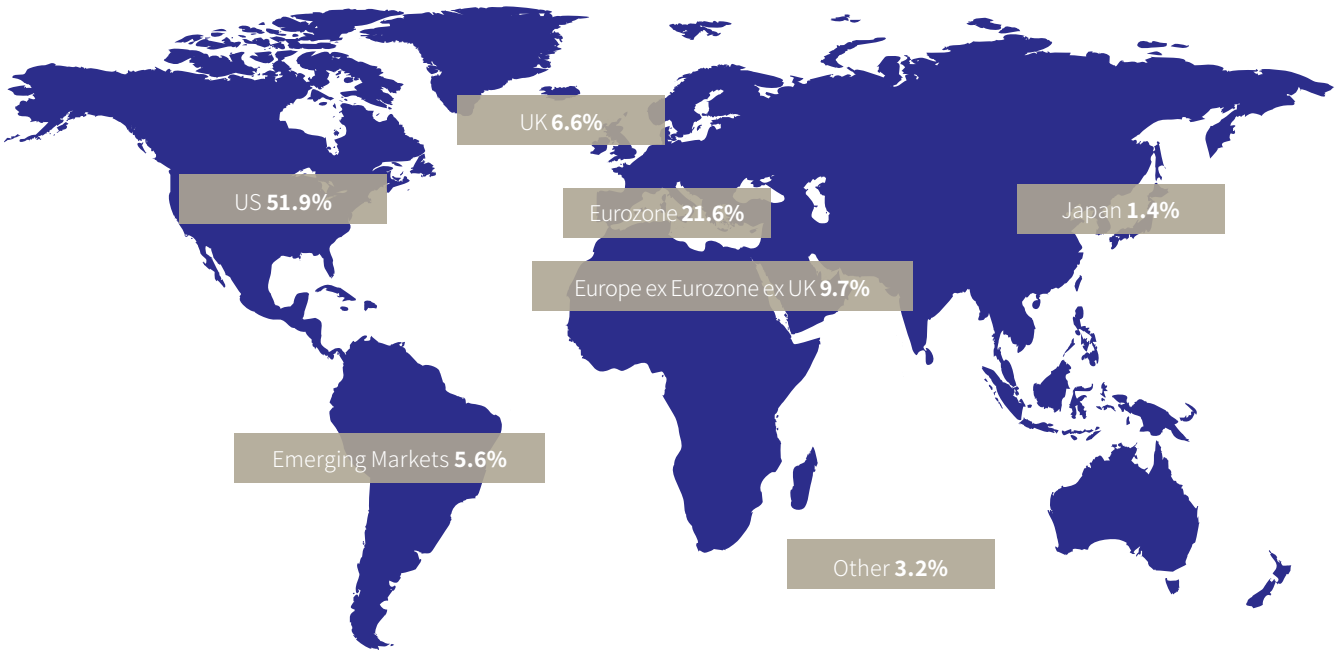


Top Ten Share Holdings

Stock name	% of fund
Microsoft	4.8
Alphabet	3.5
Berkshire Hathaway	3.0
Johnson Controls International	2.9
McDonald's	2.9
Costco Wholesale	2.8
Samsung Electronics	2.7
Oracle	2.7
Nike	2.5
DCC	2.3

Source: ILIM, Factset. Data is accurate as at 31 December 2021.

Share regional distribution



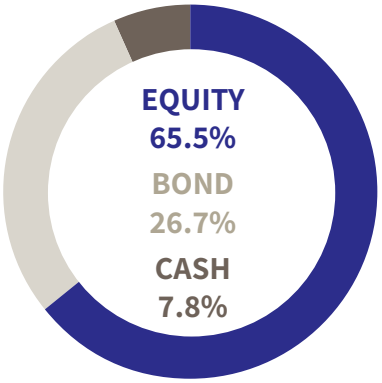
SUMMIT BALANCED FUND

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 December

The Summit Balanced Fund returned 2.51% net of AMC/fees in December. From a sector perspective, Healthcare, Industrials and Infrastructure were the best performing sectors. At the same time, the Technology and Consumer Discretionary sectors lagged. Global equities finished the year near record highs, despite the December surge in Omicron-driven Covid-19 cases and hawkish pivots from major central banks. Equities rallied on signs that the variant is not as severe as originally feared, while booster vaccines have been shown to provide high levels of protection, thus limiting the potential negative impact on growth. Bond markets were weaker on tighter central bank monetary policy stances and easing concerns around Omicron.

Asset allocation

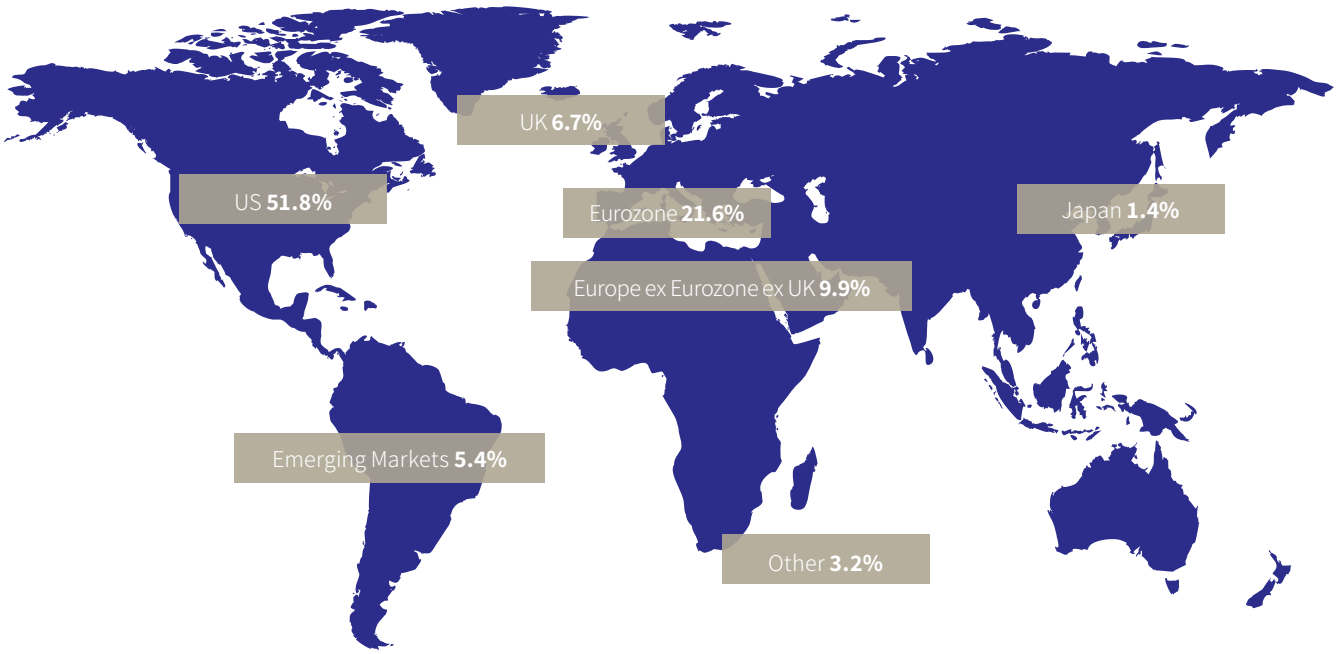


Top Ten Share Holdings

Stock name	% of fund
Microsoft	4.9
Alphabet	3.2
Berkshire Hathaway	2.8
Oracle	2.7
Costco Wholesale	2.7
Johnson Controls International	2.7
McDonald's	2.6
Samsung Electronics	2.5
Nike	2.4
Keysight Technologies	2.3

Source: ILIM, Factset. Data is accurate as at 31 December 2021.

Share regional distribution



SUMMIT FUND PERFORMANCE

At 31 December 2021

Fund returns after fund management fee	Balanced	Growth	Global Leaders
1 Month	2.51%	4.51%	1.81%
QTD	6.25%	9.89%	12.23%
3 Month	6.25%	9.89%	12.23%
YTD	16.87%	29.31%	32.37%
1 Year	16.87%	29.31%	32.37%
2 Years pa	6.81%	10.96%	21.35%
3 Years pa	9.01%	13.76%	24.76%
5 Years pa	5.33%	8.21%	15.53%
10 years pa	7.85%	10.87%	14.39%

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

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Irish Life