Irish Life

Life | Pensions | **Investments**

June 2022 in review
Summit Mutual Funds

Helping people build better futures

MARKET REVIEW

June was another soft month for markets as persistent inflation, central bank tightening and higher sovereign bond yields led them lower. A new high in inflation readings forced centrals banks to become more aggressive in terms of interest rate expectations, which saw bond yields move to multi-year highs. Equities were negatively impacted by the rise in yields, which undermined the relative attractiveness of the asset class, while expectations for significantly higher interest rates posed risks to the global growth outlook. The ongoing fallout from the Russia/Ukraine conflict, the rising-interest rate environment and signs of slowing economic momentum all contributed to growing risks and speculation over a possible recession in 2023.

MARKET ROUND-UP

Equities

The MSCI AC World equity index fell -7.4% (-6.1% in euros) over the month of June. The UK outperformed, falling -5.2% (-6.4% in euros), continuing to benefit from its high weight in energy and commodity stocks. Japan also outperformed, falling -2.7% (-5.6% in euros) as the Bank of Japan maintained an accommodative policy stance and the yen weakened, which was supportive of exporters. The Pacific Basin fell -5.6% (-6.0% in euros) as concerns over China's 'zero tolerance' Covid policy weighed on the region. European equities continued their recent underperformance, falling -8.5% (-8.1% in euros), as the European Central Bank (ECB) guided towards interest rate rises and the ending of asset purchases, while growth concerns persisted.

Bonds

The Eurozone >5-year bond index fell -2.6% as yields rose on higher-than-expected inflation and the ECB's announcement of a major pivot in policy, guiding towards interest rate rises beginning in July. The German 10 year yield rose to its highest level since 2014, at 1.93%, before settling back to 1.34% at month-end as markets became increasing concerned that excessive monetary policy tightening will induce a recession in 2023. The ECB committed to introduce tools to support the bonds of countries such as Spain and Italy, as their yields were advancing ahead of Germany's. Investment grade corporate bonds fell -3.5% while yields rose to 3.11%. High yield corporate bonds fell -6.7% as yields rose to 7.94%. Both emerging market (EM) local and hard currency debt returns were negative on the month, as further upside in US inflation led global yields higher.

Currencies and commodities

The euro fell -2.3% against the US dollar to 1.0483, as the dollar benefited from its safe-haven status in the 'risk off' environment and due to the aggressive pace of US interest rate rises. Increasing concerns around the European growth outlook and its vulnerability to the Russia/Ukraine crisis also impacted the euro.

Commodities fell -7.6% (-5.4% in euro terms) bringing their year-to-date return to 35.8% (47.7% in euros). Crude oil was down -7.8% in June, as demand-side risks from slowing global growth and potential recession risks were in focus. European gas rose 64.1% as Russian gas supplies via the Nord Stream 1 pipeline were reduced by almost 50% in late June; Russia appears set on imposing economic hardship on Europe given its support of Ukraine. Gold fell -2.0%, despite the risk off environment, with the higher US dollar and higher US real yields acting as a drag.

MARKET SNAPSHOT

Market returns (EUR)

Equity Markets (EUR)	QTD Return (%)	YTD Return (%)	2021 Return (%)
MSCI Ireland	-14.3	-29.9	17.1
MSCI United Kingdom	-4.7	-0.8	27.5
MSCI Europe ex UK	-9.9	-16.9	25.4
MSCI North America	-11.4	-13.7	36.6
MSCI Japan	-9.1	-13.1	9.8
MSCI EM (Emerging Markets)	-5.6	-10.2	5.2
MSCI AC World	-10.1	-12.9	28.1
10-Year Yields	**Yield Last Month (%)**	**2021 Yield (%)**	**2020 Yield (%)**
US	3.01	1.51	0.91
Germany	1.34	-0.18	-0.57
UK	2.23	0.97	0.20
Japan	0.23	0.07	0.02
Ireland	1.98	0.24	-0.30
Italy	3.26	1.17	0.54
Greece	3.62	1.34	0.63
Portugal	2.42	0.47	0.03
Spain	2.42	0.57	0.05
FX Rates	**End last month**	**2021 Rates**	**2020 Rates**
U.S. Dollar per Euro	1.05	1.14	1.22
British Pounds per Euro	0.86	0.84	0.90
U.S. Dollar per British Pounds	1.22	1.35	1.37
Commodities (USD)	**QTD Return (%)**	**YTD Return (%)**	**2021 Return (%)**
Oil (WTI)	5.5	40.6	55.0
Gold (Oz)	-6.9	-1.1	-3.4
S&P Goldman Sachs Commodity Index	2.0	35.8	40.4

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

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

Post the falls, equities now look attractive on an absolute valuation basis, trading on a 12-month forward price-to-earnings multiple of 13.9x 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. In addition, earnings are at risk of being downgraded due to margin pressures from input and labour costs.

For equities to begin to recover from their recent falls, investors need to believe we are at the peak of policy tightening and 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 that has been 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 an upside of approximately 5% per year 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 2.9% 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, 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.

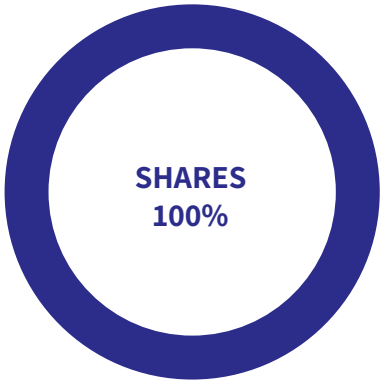
SUMMIT GLOBAL LEADERS FUND

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 June

The Summit Global Leaders Fund returned -6.1%, net of fund management fee, over June. Concerns around inflation, rising interest rates and an economic downturn continued to weigh on sentiment. Abbvie was up 3.9% in local currency (lc) as management expressed confidence in the long-term growth outlook, beyond the patent expiration of key drug Humira, with some interesting assets in the pipeline. Salesforce climbed +3.0% (lc) over the period after it reported quarterly results which were better than feared with relatively positive commentary on market conditions. NVIDIA (-18.8% lc) was the biggest decliner in the month on demand growth concerns. Paypal fell -18.0% (lc) as macroeconomic headwinds and a challenging ecommerce environment hit the stock. In addition, Apple augmented its Apple Pay offering with the launch of a 'Buy Now Pay Later' instalment service in the US.

Asset allocation

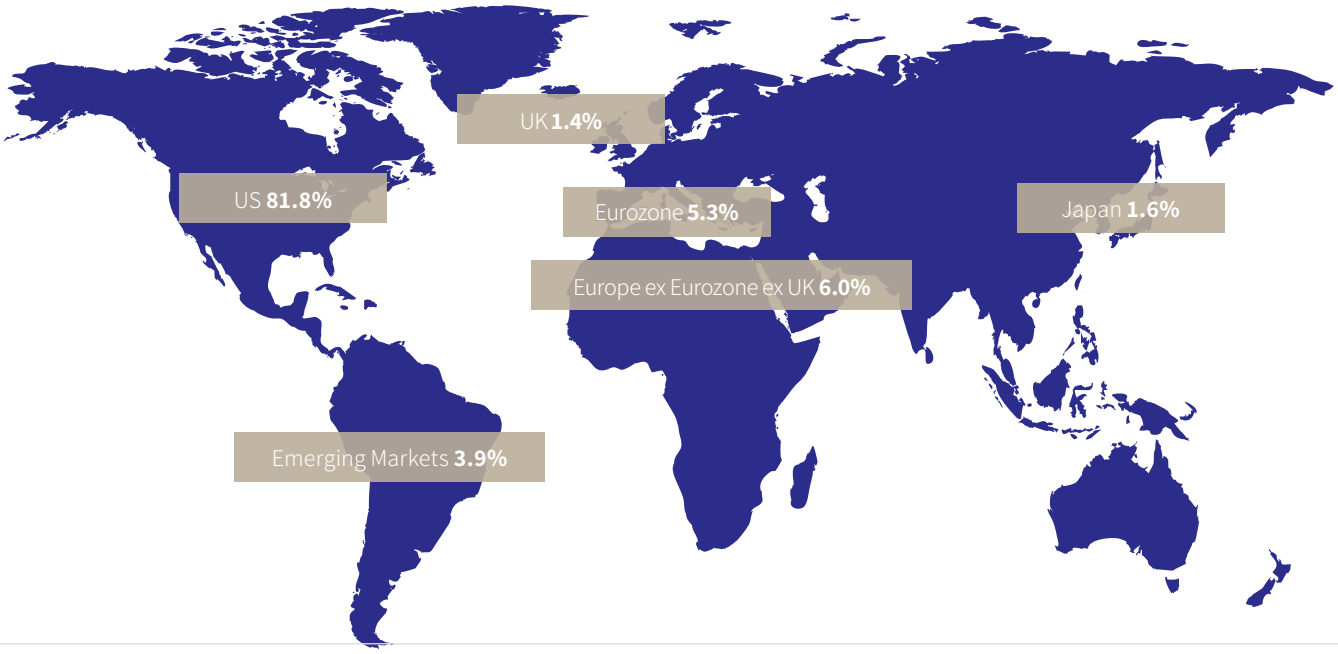


Top Ten Share Holdings

Stock name	% of fund
Microsoft	8.4
Alphabet	8.1
Apple	7.9
Amazon.com	6.7
Tesla	4.0
Johnson & Johnson	3.5
Nvidia	2.8
Meta Platforms	2.8
Procter & Gamble	2.7
Exxon Mobil	2.6

Source: ILIM, Factset. Data is accurate as at 30 June 2022

Share regional distribution



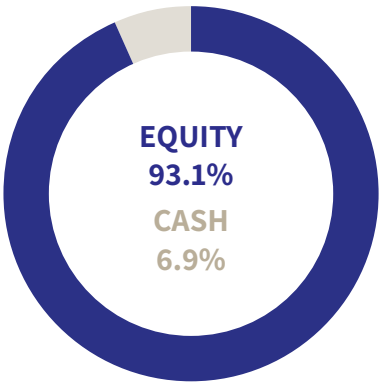
SUMMIT GROWTH FUND

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 May

The Summit Growth Fund returned -5.5%, net of fund management fee, over June. From a sector perspective, Healthcare, Consumer Staples and Consumer Discretionary were the best performing sectors. The Energy and Materials, Industrials and Technology sectors lagged over the month. The stocks contributing most to the fund's return during the month were Costco Wholesale, United Healthcare Group and Melrose Industries. The stocks that detracted most were Booking Holdings, Samsung Electronics and Berkshire Hathaway.

Asset allocation

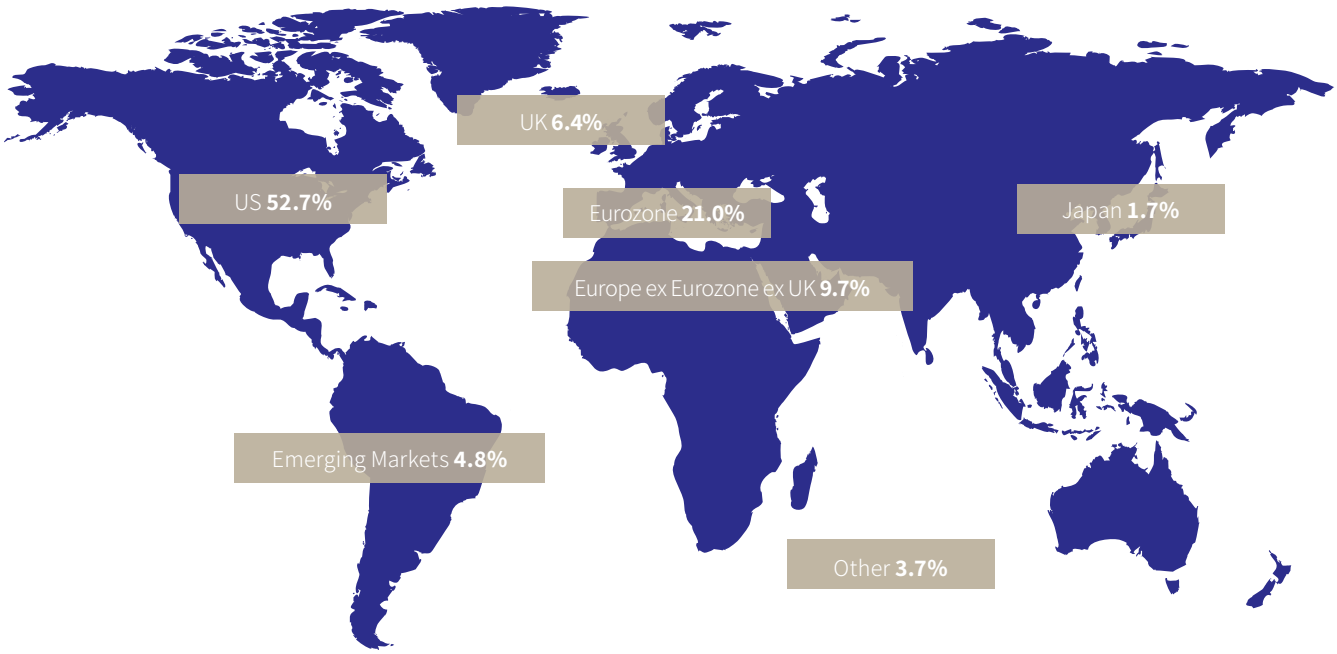


Top Ten Share Holdings

Stock name	% of fund
Microsoft	4.5
Berkshire Hathaway	3.4
McDonald's	3.1
Alphabet	3.1
Costco Wholesale	2.8
Johnson & Johnson	2.7
Oracle	2.7
Samsung Electronics	2.2
DCC	2.1
SEI Investments	1.9

Source: ILIM, Factset. Data is accurate as at 30 June 2022

Share regional distribution



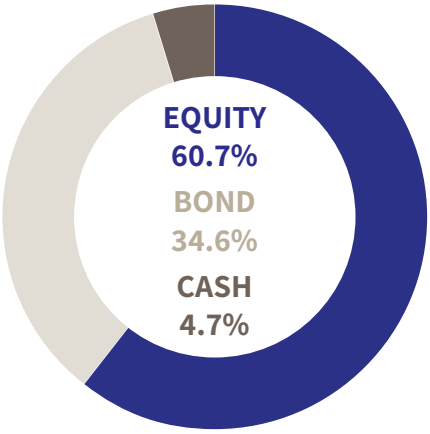
SUMMIT BALANCED FUND

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 June

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

Asset allocation

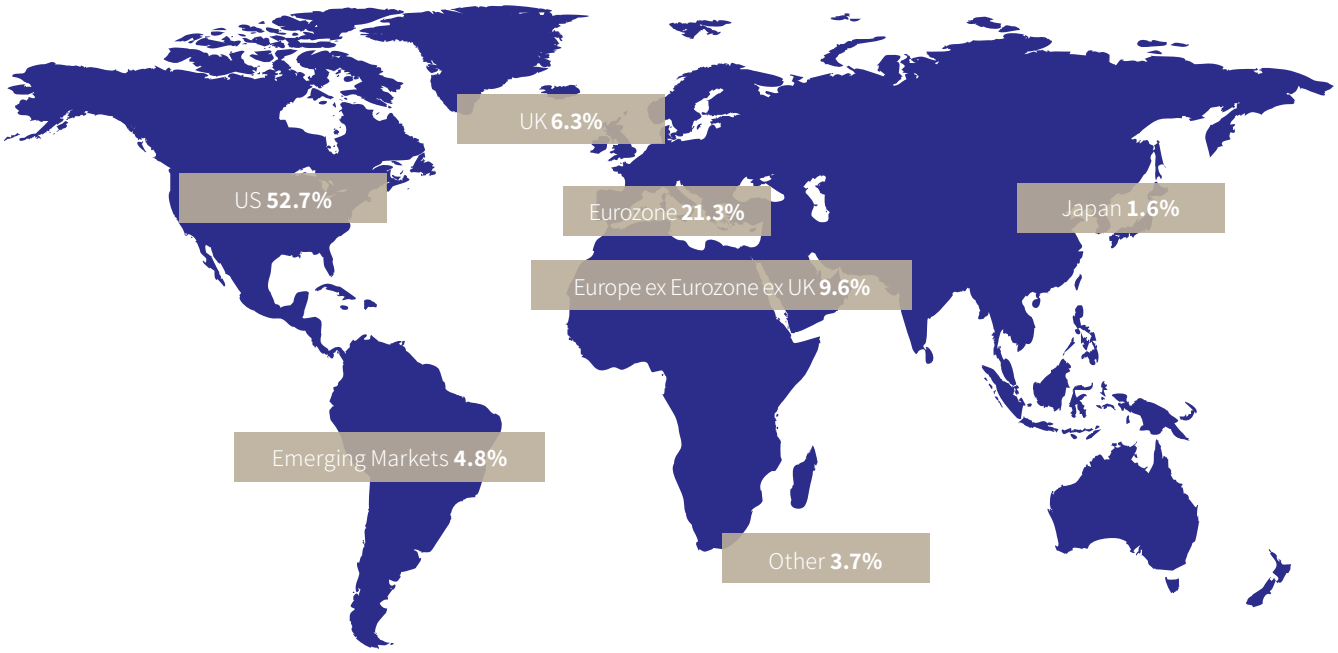


Top Ten Share Holdings

Stock name	% of fund
Microsoft	4.4
Berkshire Hathaway	3.4
McDonald's	3.2
Alphabet	3.1
Costco Wholesale	2.8
Oracle	2.7
Johnson & Johnson	2.6
Samsung Electronics	2.2
DCC	2.1
SEI Investments	2.0

Source: ILIM, Factset. Data is accurate as at 30 June 2022

Share regional distribution



SUMMIT FUND PERFORMANCE

At 30 June 2022

Fund returns after fund management fee	Balanced	Growth	Global Leaders
1 Month	-4.38%	-5.47%	-6.09%
QTD	-7.10%	-7.24%	-13.96%
3 Month	-7.10%	-7.24%	-13.96%
YTD	-10.60%	-9.96%	-17.34%
1 Year	-4.34%	0.17%	-4.93%
2 Years pa	5.80%	13.47%	10.00%
3 Years pa	1.88%	5.60%	10.85%
5 Years pa	2.81%	5.51%	10.97%
10 years pa	6.06%	9.10%	11.28%

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.

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The author cannot make a personal recommendation for any person and you should seek personal investment advice as to the suitability of any investment decision or strategy to your own needs and circumstances. Any comments on specific stocks are intended as an objective, independent view in relation to that stock generally, and not in relation to its suitability to any specific person.

ILIM may manage investment funds which may have holdings in stocks commented on in this document. Past performance may not be a reliable guide to future performance. Investments may go down as well as up. Funds may be affected by changes in currency exchange rates. Irish Life Investment Managers Limited is regulated by the Central Bank of Ireland.

Figures referenced herein have been sourced from ILIM and Bloomberg. Forecast figures have been prepared by ILIM based on reasonable assumptions, internal data and data sourced from Bloomberg.