



# Monthly Investment Review

Investors have been focussing on the US interest rate cycle and the likely timing of the next rate rise. Upcoming political events in the US and Europe are also being monitored. Despite the economic uncertainty, equities rallied strongly in July but have treaded water in August and September. The influential US market broke out of its long-term trading range on the upside in July and has held onto this position. Equities remain attractively valued on a relative basis compared to bonds and cash. Although bonds have been supported by the tailwind of aggressive ECB monetary policy action, they offer little long-term value.



**Richard Temperley**  
Head of Investment Development

## Zurich Life Fund Allocations & Activity

**Equities & Bonds:** Equities are overweight, bonds underweight.

**Activity:** The equity positions were further increased during September, at the expense of government bonds, based on the relative valuation argument.

### Regionally, the funds are:

- Overweight in the US, Asia-Pacific (ex-Japan) and Ireland.
- Neutral in the UK and Japan.
- Underweight in Europe

### Sectorwise, the funds are:

- Overweight technology, industrials and financials.
- Underweight utilities, telecoms and consumer staples.
- Otherwise broadly balanced.

## Equity Markets

- Equities (in euro terms) fell marginally in September. However, there was significant sector rotation out of 'bond-proxies'. Markets kept a close eye on US economic data as well as comments from members of the Federal Reserve. The upcoming Q3 earnings' results season will be important.
- World equities (in euro terms) fell by 0.3% during September and have given a total return of 3.3% in the first nine months of the year. It should be remembered that the world market had fallen by almost 15% in the first six weeks of the year. There was a mixed bag of returns amongst the major equity markets in local currency terms in September ranging from plus 1.7% in the UK to minus 2.2% in Ireland. Year-to-date, the strongest equity markets in local currency terms have been the UK (+10.5%) and Hong Kong (+6.3%). As regards the UK, significant sterling weakness has resulted in the euro return for the FTSE100 Index falling back to minus 5.9%.
- As mentioned already, there was sector rotation again in September from 'bond-proxies' into cyclical stocks. For example, in the US, real estate fell by 1.8% whilst energy and information technology rose by 3.0% and 2.4% respectively.

## Bonds & Interest Rates

- The Merrill Lynch Euro over Five Year Index rose by 0.2% in September and has given a strong return of 10.0% year-to-date. Eurozone bonds have been supported in 2016 by economic growth concerns and increased quantitative

easing, although they have stalled somewhat in August and September. There was little difference between peripheral and core eurozone markets during the month, albeit core markets have been stronger so far this year with Italy, in particular, underperforming.

- The German ten-year bond yield fell over the month from minus 0.06% to minus 0.12%. The yield hit an all-time low of minus 0.19% on 8th July. Equivalent US rates rose marginally from 1.58% to 1.59%.
- With regard to US interest rates, there is now a 65% chance that the Fed will raise rates again in December 2016. The first rate rise in many years took place last December. Eurozone rates are likely to remain at current ultra-low levels for the foreseeable future.

## Commodities & Currencies

- Commodity prices overall rose by 3.4% in September and are up by 5.8% so far during this volatile year. The oil price was up strongly in September, from \$45 to \$48 per barrel, reacting to the first oil output cut by OPEC in eight years.
- The gold price was up marginally in September to \$1,313 per troy ounce. Gold is now up by just over 25% from its five year low of \$1,049 in mid-December 2015.
- The euro currency was up slightly against the US dollar during the month with the EUR/ USD rate moving from 1.116 to 1.123. Sterling, which had fallen by over 9% against the euro in June on the back of the Brexit referendum result, was weaker again in September as the UK began negotiations on a 'hard Brexit' tack.

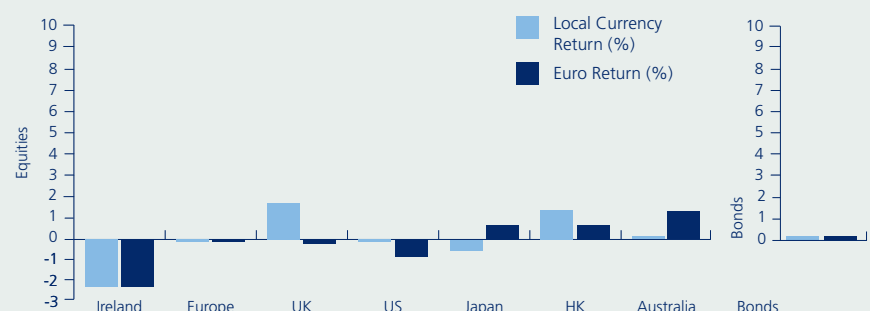
**Warning: Past performance is not a reliable guide to future performance.**

**Warning: The value of your investment may go down as well as up.**

**Warning: Benefits may be affected by changes in currency exchange rates.**

**Warning: If you invest in this fund you may lose some or all of the money you invest.**

## Equity & Bond % Returns



This graph shows the performance of the major equity markets over the month of October. The returns are shown in both local and euro currencies. The bond index is the Merrill Lynch over 5 Year Euro Government Bond Index.

|   | Year to Date | Annualised |         |         |          |          |          | Fund Size (€) |
|---|--------------|------------|---------|---------|----------|----------|----------|---------------|
|   |              | 1 Year     | 3 Years | 5 Years | 10 Years | 15 Years | 20 Years |               |
| <b>Pathway Multi-Asset Funds</b>                |              |            |         |         |          |          |          |               |
| Pathway 2                                       | 0.7%         | 1.2%       | N/S     | N/S     | N/S      | N/S      | N/S      | 123,915,033   |
| Pathway 3                                       | 1.5%         | 2.8%       | N/S     | N/S     | N/S      | N/S      | N/S      | 374,693,085   |
| Pathway 4                                       | 2.8%         | 5.5%       | N/S     | N/S     | N/S      | N/S      | N/S      | 394,895,173   |
| Pathway 5                                       | 3.8%         | 8.4%       | N/S     | N/S     | N/S      | N/S      | N/S      | 124,451,375   |
| Pathway 6                                       | 1.8%         | 9.8%       | N/S     | N/S     | N/S      | N/S      | N/S      | 14,092,531    |
| <b>Managed Funds</b>                            |              |            |         |         |          |          |          |               |
| Cautiously Managed                              | 1.3%         | 4.3%       | 9.5%    | 9.3%    | N/S      | N/S      | N/S      | 356,532,442   |
| FinEx Sector Average                            | 2.7%         | 5.3%       | 4.9%    | 5.4%    | 2.5%     | 3.5%     | 4.3%     |               |
| Balanced  | 1.1%         | 6.3%       | 10.4%   | 12.7%   | 5.3%     | 6.4%     | 7.6%     | 1,578,419,154 |
| FinEx Sector Average                            | 1.4%         | 6.5%       | 7.9%    | 10.3%   | 2.9%     | 4.1%     | 5.9%     |               |
| Performance                                     | 0.1%         | 6.7%       | 10.7%   | 12.9%   | 4.9%     | 6.4%     | 7.4%     | 1,255,565,023 |
| Dynamic   | -0.3%        | 7.1%       | 11.0%   | 13.7%   | 5.0%     | 6.5%     | 7.4%     | 1,480,221,831 |
| FinEx Sector Average                            | 1.7%         | 7.6%       | 8.0%    | 10.5%   | 3.1%     | 4.3%     | 5.7%     |               |
| <b>Protected Funds</b>                          |              |            |         |         |          |          |          |               |
| Protected 70                                    | -3.0%        | 0.9%       | 6.0%    | 7.7%    | N/S      | N/S      | N/S      | 12,549,575    |
| Protected 80                                    | -2.8%        | -0.2%      | 3.8%    | 4.9%    | N/S      | N/S      | N/S      | 34,585,147    |
| Protected 90                                    | -2.4%        | -1.5%      | 0.9%    | 1.2%    | N/S      | N/S      | N/S      | 13,948,122    |
| <b>Cash Fund</b>                                |              |            |         |         |          |          |          |               |
| Secure  | 0.0%         | 0.0%       | 0.0%    | 0.1%    | 1.0%     | 1.5%     | 2.5%     | 372,326,999   |
| Cash Fund                                       | -0.6%        | -0.7%      | -0.5%   | -0.4%   | 0.6%     | N/S      | N/S      | 295,659,610   |
| FinEx Sector Average                            | 0.0%         | 0.0%       | 0.2%    | 0.2%    | 1.1%     | 1.4%     | 2.2%     |               |
| <b>Bond Funds</b>                               |              |            |         |         |          |          |          |               |
| Global Corporate Bond (JP Morgan)*              | 6.1%         | 6.6%       | 4.6%    | N/S     | N/S      | N/S      | N/S      | 4,919,412,312 |
| Global Government Bond (JP Morgan)*             | 5.2%         | 4.9%       | 4.6%    | N/S     | N/S      | N/S      | N/S      | 676,275,274   |
| Indexed Eurozone Government Bond (BlackRock)    | 5.5%         | 5.5%       | 6.8%    | 6.1%    | N/S      | N/S      | N/S      | 8,946,850     |
| Active Fixed Income                             | 8.9%         | 9.3%       | 10.4%   | 8.7%    | 6.7%     | 6.7%     | 7.8%     | 197,896,649   |
| Inflation-Linked Bond                           | 4.5%         | 5.3%       | 2.8%    | 2.5%    | N/S      | N/S      | N/S      | 5,432,069     |
| Long Bond                                       | 13.4%        | 13.3%      | 14.6%   | 11.5%   | 7.5%     | N/S      | N/S      | 67,330,190    |
| Global Real Return (PIMCO)*                     | 11.7%        | 10.2%      | 5.0%    | N/S     | N/S      | N/S      | N/S      | 2,500,000,000 |
| Emerging Local Currency Debt (Pictet)*          | 11.7%        | 14.0%      | 2.7%    | N/S     | N/S      | N/S      | N/S      | 4,968,604,255 |
| FinEx Sector Average                            | 7.1%         | 7.7%       | 6.9%    | 6.4%    | 4.3%     | 5.0%     | 5.9%     |               |
| <b>Absolute Return/Diversified Assets Funds</b> |              |            |         |         |          |          |          |               |
| Global Targeted Returns Fund (Invesco) *        | 1.8%         | 1.8%       | N/S     | N/S     | N/S      | N/S      | N/S      | 4,520,000,000 |
| Income Opportunity (JP Morgan)*                 | 6.0%         | 4.4%       | 0.8%    | N/S     | N/S      | N/S      | N/S      | 4,388,852,447 |
| Dynamic Diversified Growth (BlackRock)          | -1.4%        | -0.3%      | 1.6%    | N/S     | N/S      | N/S      | N/S      | 16,741,803    |
| Diversified Assets                              | 6.1%         | 6.9%       | 6.3%    | 7.9%    | N/S      | N/S      | N/S      | 14,005,185    |
| Active Asset Allocation                         | 2.3%         | 5.1%       | 7.8%    | 8.0%    | N/S      | N/S      | N/S      | 187,463,733   |
| <b>Commodity Funds</b>                          |              |            |         |         |          |          |          |               |
| Gold  | 20.0%        | 17.0%      | 5.4%    | -1.3%   | N/S      | N/S      | N/S      | 48,539,726    |
| Earth Resources                                 | -0.5%        | -2.7%      | -8.4%   | -4.8%   | N/S      | N/S      | N/S      | 5,613,104     |
| Global Commodities                              | 9.2%         | -2.2%      | -8.9%   | -4.8%   | -6.0%    | N/S      | N/S      | 14,391,777    |
| CommoditiesPLUS Strategy (PIMCO)*               | 11.2%        | -1.0%      | -12.7%  | N/S     | N/S      | N/S      | N/S      | 413,000,000   |
| Green Resources                                 | -13.1%       | 0.7%       | -2.9%   | 3.0%    | N/S      | N/S      | N/S      | 3,783,642     |
| <b>Equity Funds (Global)</b>                    |              |            |         |         |          |          |          |               |
| 5 Star 5  | -4.9%        | 3.2%       | 8.9%    | 12.8%   | 3.9%     | 6.9%     | N/S      | 194,721,227   |
| International Equity                            | 1.7%         | 9.8%       | 12.2%   | 14.9%   | 6.1%     | 6.2%     | N/S      | 921,445,818   |
| Global Select (Threadneedle)                    | 3.4%         | 11.6%      | 13.6%   | 16.0%   | 6.6%     | 6.3%     | N/S      | 6,709,726     |
| Global Equity (MFS Meridian)*                   | 5.9%         | 11.5%      | N/S     | N/S     | N/S      | N/S      | N/S      | 4,914,739,741 |
| Indexed Global Equity (BlackRock)               | 2.7%         | 9.9%       | 12.3%   | 15.7%   | N/S      | N/S      | N/S      | 101,037,080   |
| FinEx Sector Average                            | 1.6%         | 9.4%       | 9.0%    | 12.8%   | 4.2%     | 4.2%     | 5.9%     |               |

**Source: Financial Express as at 01/10/2016**

The Financial Express sector averages shown are the average of all funds in each of the Financial Express sectors in the individual pensions category.

**Annual management charges (AMC) apply. The fund returns shown are net of the AMC deducted by Zurich Life in our unit prices. The fund returns are based on an investment in the funds and do not represent the returns achieved by individual policies linked to the funds. These fund returns may be before the full AMC is applied to a policy. The actual returns on policies linked to the specified fund will be lower because of the effects of charges and in some cases a higher management charge.**

\* External fund size: Where external funds have been on the Zurich platform for less than two years, we have used the fund size of the underlying external fund.

N/S = Not Started.

Figures highlighted in blue indicate where the Zurich Life fund has outperformed the sector average.

|   | Year to Date | Annualised |         |         |          |          |          | Fund Size (€) |
|---|--------------|------------|---------|---------|----------|----------|----------|---------------|
|   |              | 1 Year     | 3 Years | 5 Years | 10 Years | 15 Years | 20 Years |               |
| <b>Equity Funds (European)</b>                |              |            |         |         |          |          |          |               |
| Euro Markets Fund (BlackRock)*                | -2.2%        | 2.4%       | N/S     | N/S     | N/S      | N/S      | N/S      | 3,687,390,000 |
| 5 Star 5 Europe                               | -2.5%        | 4.4%       | 10.6%   | 16.1%   | 4.8%     | N/S      | N/S      | 100,398,675   |
| European Select (Threadneedle)                | -1.0%        | 2.5%       | 10.0%   | 15.7%   | 7.2%     | 7.8%     | N/S      | 12,739,434    |
| Small Cap Europe (Pictet)*                    | -0.3%        | 6.1%       | N/S     | N/S     | N/S      | N/S      | N/S      | 258,314,466   |
| FinEx Sector Average                          | -4.4%        | 2.5%       | 6.8%    | 12.8%   | 3.6%     | 5.2%     | 7.7%     |               |
| <b>Equity Funds (Eurozone)</b>                |              |            |         |         |          |          |          |               |
| Eurozone Equity                               | -2.8%        | 3.7%       | 7.0%    | 13.2%   | 4.7%     | N/S      | N/S      | 67,456,364    |
| Europe ex-UK Index (BlackRock)                | -4.0%        | 2.3%       | 6.3%    | 12.0%   | 3.0%     | N/S      | N/S      | 2,997,602     |
| Indexed Eurozone Equity (BlackRock)           | 0.3%         | 4.2%       | 5.8%    | 12.1%   | N/S      | N/S      | N/S      | 2,422,019     |
| FinEx Sector Average                          | -4.0%        | 3.3%       | 5.8%    | 10.8%   | 1.5%     | 3.5%     | 5.9%     |               |
| <b>Equity Funds (Irish)</b>                   |              |            |         |         |          |          |          |               |
| Irish Equity                                  | -8.9%        | 2.2%       | 15.3%   | 21.8%   | 0.4%     | N/S      | N/S      | 16,806,353    |
| FinEx Sector Average                          | -10.3%       | -0.4%      | 12.5%   | 19.1%   | -1.3%    | 3.6%     | 5.9%     |               |
| <b>Equity Funds (American)</b>                |              |            |         |         |          |          |          |               |
| 5 Star 5 Americas                             | 0.0%         | 7.8%       | 16.0%   | 16.9%   | 7.9%     | N/S      | N/S      | 56,691,440    |
| American Select (Threadneedle)                | 3.8%         | 10.1%      | 14.7%   | 17.9%   | 8.6%     | 5.9%     | N/S      | 11,663,208    |
| FinEx Sector Average                          | 3.2%         | 13.7%      | 14.4%   | 17.7%   | 7.3%     | 5.0%     | 6.5%     |               |
| <b>Equity Fund (UK)</b>                       |              |            |         |         |          |          |          |               |
| UK Growth (M&G)*                              | -9.4%        | -8.3%      | N/S     | N/S     | N/S      | N/S      | N/S      | 660,070,000   |
| UK Index (BlackRock)                          | -3.5%        | 0.3%       | 3.9%    | 9.2%    | 2.4%     | N/S      | N/S      | 2,057,969     |
| FinEx Sector Average                          | -6.4%        | -2.0%      | 2.8%    | 9.2%    | 2.3%     | 3.3%     | 4.6%     |               |
| <b>Equity Funds (Far East Asia)</b>           |              |            |         |         |          |          |          |               |
| 5 Star 5 Asia Pacific                         | 9.1%         | 21.2%      | 8.4%    | 10.1%   | 4.2%     | N/S      | N/S      | 69,948,312    |
| Asia Pacific Equity                           | 9.0%         | 18.3%      | 6.8%    | 10.0%   | N/S      | N/S      | N/S      | 6,899,395     |
| FinEx Sector Average                          | 6.4%         | 14.6%      | 4.7%    | 8.2%    | 4.8%     | 7.5%     | 5.3%     |               |
| <b>Equity Funds (Japan)</b>                   |              |            |         |         |          |          |          |               |
| Japan Index (BlackRock)                       | -1.3%        | 10.4%      | 9.0%    | 10.4%   | 1.6%     | N/S      | N/S      | 3,227,139     |
| FinEx Sector Average                          | 0.5%         | 12.6%      | 7.8%    | 10.4%   | 0.9%     | 2.0%     | 1.2%     |               |
| <b>Equity Funds (High Yield)</b>              |              |            |         |         |          |          |          |               |
| Dividend Growth                               | 6.1%         | 12.8%      | 11.7%   | 15.7%   | 4.9%     | N/S      | N/S      | 206,285,252   |
| Global Dividend (M&G)*                        | 11.6%        | 15.1%      | N/S     | N/S     | N/S      | N/S      | N/S      | 5,564,260,000 |
| FinEx Sector Average                          | 1.6%         | 9.4%       | 9.0%    | 12.8%   | 4.2%     | 4.2%     | 5.9%     |               |
| <b>Equity Funds (Emerging Market)</b>         |              |            |         |         |          |          |          |               |
| India Equity                                  | 3.7%         | 4.2%       | 16.0%   | 7.3%    | N/S      | N/S      | N/S      | 12,111,612    |
| Emerging Markets Opportunities (JP Morgan)*   | 14.9%        | 16.6%      | N/S     | N/S     | N/S      | N/S      | N/S      | 1,773,930,412 |
| FinEx Sector Average                          | 10.7%        | 15.4%      | 6.0%    | 5.4%    | 4.6%     | 6.5%     | N/S      |               |
| <b>Equity Funds (Specialist)</b>              |              |            |         |         |          |          |          |               |
| Top Tech 100                                  | 3.1%         | 16.7%      | 22.7%   | 22.7%   | 13.0%    | 8.3%     | N/S      | 32,954,859    |
| FinEx Sector Average                          | 3.5%         | 7.6%       | 4.5%    | 6.0%    | 1.7%     | 2.3%     | 3.2%     |               |
| <b>Property Funds</b>                         |              |            |         |         |          |          |          |               |
| Fund of REITs                                 | -6.1%        | 1.4%       | N/S     | N/S     | N/S      | N/S      | N/S      | 15,294,006    |
| European (Ex-UK) Property                     | 9.4%         | 15.5%      | 16.2%   | 14.3%   | N/S      | N/S      | N/S      | 43,302,999    |
| Global Property Equities (Henderson Horizon)* | 6.8%         | 13.8%      | 13.3%   | N/S     | N/S      | N/S      | N/S      | 467,026,616   |
| Australasia Property                          | 17.2%        | 24.4%      | 11.9%   | 15.1%   | N/S      | N/S      | N/S      | 30,397,949    |
| FinEx Sector Average                          | 1.9%         | 5.1%       | 9.0%    | 6.6%    | -2.3%    | 2.8%     | 6.9%     |               |
| <b>Funds Closed to New Business</b>           |              |            |         |         |          |          |          |               |
| Eurozone Property                             | 8.3%         | 14.2%      | 15.6%   | 14.4%   | 2.4%     | N/S      | N/S      | 22,781,417    |
| Global Emerging Markets Equity (Aberdeen)*    | 18.6%        | 18.6%      | 6.2%    | N/S     | N/S      | N/S      | N/S      | 5,726,720,774 |

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#### Zurich Life Assurance plc

Zurich House, Frascati Road, Blackrock, Co. Dublin, Ireland.

Telephone: 01 283 1301 Fax: 01 283 1578 Website: [www.zurichlife.ie](http://www.zurichlife.ie)

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