

# Monthly Investment Review

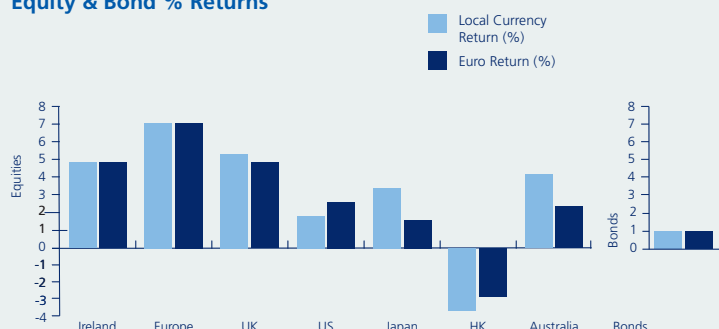
2016 was characterised by a high level of volatility but with strong returns from a number of asset classes, especially equities. Equity markets saw a sharp correction at the beginning of the year, with the world index down 15% on the back of Chinese economic growth concerns and severe oscillation in the oil price. However, the rest of the year saw a strong, if somewhat volatile, upward trajectory with the world index rising by over 31% from its low point in mid-February.

Markets took a number of key events in their stride - Brexit, the US presidential election result, the Italian referendum result and a US interest rate rise. It was a case of all news is good news. Equities remain attractively valued on a relative basis compared to bonds and cash although they have become more expensive on an absolute (P/E ratio) basis. Eurozone government bonds were supported in the first half of the year by monetary policy action, however they offer little long term value and have recently come under some pressure.

## Equity Markets

- Equities (in euro terms) rose strongly again in December as market participants continued to react positively to the US presidential election result and were unperturbed by the US rate rise mid-month. The new US administration is expected to cut corporation tax rates and to introduce an expansionary economic policy, such as increased infrastructure spending. Markets await with interest the US Q4 earnings' results season which begins in the second week of January.
- World equities (in euro terms) rose by 3.0% during December, adding to November's 4.4% move, and have given a total return of 11.9% for the full year. With the exception of Hong Kong, all of the major equity markets were up in local currency terms in December ranging from 1.8% in the US to 7.0% in Europe. For 2016 as a whole, the strongest equity markets in local currency terms were the UK (+14.4%) and US (+9.5%). As regards the UK, significant sterling weakness has resulted in the euro return for the FTSE100 Index falling back to minus 1.0%.
- Following a number of months of sector rotation from 'bond-proxies' into economically sensitive cyclical stocks, there was a partial reversal in December due to profit-taking. In the US in December, bond-proxies such as telecoms, utilities and real estate rose by 8.1%, 4.6% and 3.8% respectively. However, cyclical stocks clearly outperformed defensive areas in the US in 2016 with energy (+23.7%) being the best performing sector; healthcare (-4.4%) the worst.

## Equity & Bond % Returns



This graph shows the performance of the major equity markets over the month of December. The returns are shown in both local and euro currencies. The bond index is the Merrill Lynch over 5 Year Euro Government Bond Index. Source: Bloomberg, January 2017.

## Bonds & Interest Rates

- The Merrill Lynch Euro over Five Year Index rose by 1.0% in December, following hefty falls in October and November, giving a full year return of 4.9%. Eurozone bonds had been supported up to the end of July by economic growth concerns and increased quantitative easing. However, they are now facing an environment of higher US rates and the prospect of a reflationary US economic policy. Italy has been the big under-performer in 2016, rising by just 0.7%.
- The German ten-year bond yield fell over the month from 0.28% to 0.21%. The yield had hit an all-time low of minus 0.19% on 8th July. Equivalent US rates rose again from 2.38% to 2.44% reacting to the mid-December rate rise and the likely change in US economic policy by the incoming administration.
- The markets now expect at least two further US rate rises, of 0.25% each, during 2017. Eurozone rates are likely to remain at current ultra-low levels for at least two years.

## Commodities & Currencies

- Commodity prices overall were up by 1.7% in December and were up by a strong 9.3% for the full year. The oil price was the key driver over the full year rising by close to 50% during an extremely volatile period. The oil price increased by over 10% in December, from \$49 to over \$54 per barrel, reacting further to the first agreed oil output cut by OPEC in eight years.
- The gold price fell again in December, down 1.6% to \$1,152 per troy ounce, reacting to the 'risk-on' backdrop. However, the price was up 8.6% for 2016.
- The euro currency weakened by just under 1% against the US dollar during the month with the EUR/USD rate moving from 1.063 to 1.052.



**Richard Temperley**  
Head of Investment  
Development

## Activity

Equities were maintained at a strongly overweight position during December, at the expense of eurozone government bonds, based on the relative valuation argument. Some profits were taken at the end of November in financials, following a strong upward move, with the proceeds being invested into some defensive areas. These positions were maintained during December. Sectorwise, the funds are: Overweight technology and energy. Underweight consumer staples and utilities. Otherwise broadly balanced.

| Asset Class  |               | Positive | Neutral | Negative |
|--------------|---------------|----------|---------|----------|
| Equities     | North America | ✓        |         |          |
|              | Europe        |          | ✓       |          |
|              | Japan         | ✓        |         |          |
|              | UK            |          |         | ✓        |
|              | Asia-Ex Japan |          | ✓       |          |
| Fixed Income | US            |          | ✓       |          |
|              | UK            |          | ✓       |          |
|              | Eurozone      |          |         | ✓        |
| Currencies   | USD           | ✓        |         |          |
|              | GBP           |          |         | ✓        |
|              | YEN           |          |         | ✓        |
| Alternatives | Oil           | ✓        |         |          |
|              | Gold          | ✓        |         |          |
|              | Copper        | ✓        |         |          |
|              | Property      |          |         | ✓        |

|  | Year to Date | Annualised |             |             |             |             |             |               |
|--|--------------|------------|-------------|-------------|-------------|-------------|-------------|---------------|
|  |              | 1 Year     | 3 Years     | 5 Years     | 10 Years    | 15 Years    | 20 Years    | Fund Size (€) |
| Pathway Multi-Asset Funds                    |              |            |             |             |             |             |             |               |
| Pathway 2                                    | 1.6%         | 1.6%       | 2.0%        | Not Started | Not Started | Not Started | Not Started | 130,790,197   |
| Pathway 3                                    | 4.1%         | 4.1%       | 4.6%        | Not Started | Not Started | Not Started | Not Started | 423,182,118   |
| Pathway 4                                    | 8.5%         | 8.5%       | 9.1%        | Not Started | Not Started | Not Started | Not Started | 449,699,394   |
| Pathway 5                                    | 11.3%        | 11.3%      | 11.1%       | Not Started | Not Started | Not Started | Not Started | 149,021,394   |
| Pathway 6                                    | 9.8%         | 9.8%       | 8.4%        | Not Started | Not Started | Not Started | Not Started | 17,252,251    |
| Managed Funds                                |              |            |             |             |             |             |             |               |
| Cautiously Managed                           | 5.1%         | 5.1%       | 9.8%        | 9.7%        | Not Started | Not Started | Not Started | 379,732,114   |
| FinEx Sector Average                         | 4.2%         | 4.2%       | 4.9%        | 5.2%        | 2.4%        | 3.3%        | 4.3%        |               |
| Balanced                                     | 6.7%         | 6.7%       | 10.6%       | 12.2%       | 5.2%        | 6.2%        | 7.8%        | 1,656,448,256 |
| FinEx Sector Average                         | 5.0%         | 5.0%       | 7.9%        | 9.8%        | 2.7%        | 3.8%        | 6.0%        |               |
| Performance                                  | 6.9%         | 6.9%       | 11.2%       | 12.7%       | 4.9%        | 6.2%        | 7.7%        | 1,544,932,651 |
| Dynamic                                      | 7.4%         | 7.4%       | 11.6%       | 13.4%       | 5.0%        | 6.3%        | 7.7%        |               |
| FinEx Sector Average                         | 6.9%         | 6.9%       | 8.6%        | 10.2%       | 3.0%        | 4.0%        | 5.9%        |               |
| Protected Funds                              |              |            |             |             |             |             |             |               |
| Protected 70                                 | 1.4%         | 1.4%       | 6.0%        | 7.7%        | Not Started | Not Started | Not Started | 13,016,298    |
| Protected 80                                 | -0.3%        | -0.3%      | 3.6%        | 4.9%        | Not Started | Not Started | Not Started | 32,234,699    |
| Protected 90                                 | -2.0%        | -2.0%      | 0.6%        | 1.0%        | Not Started | Not Started | Not Started | 13,778,766    |
| Cash Fund                                    |              |            |             |             |             |             |             |               |
| Secure                                       | 0.0%         | 0.0%       | 0.0%        | 0.0%        | 1.0%        | 1.5%        | 2.4%        | 346,471,176   |
| Cash Fund                                    | -0.8%        | -0.8%      | -0.6%       | -0.5%       | 0.5%        | Not Started | Not Started | 352,775,808   |
| FinEx Sector Average                         | -0.1%        | -0.1%      | 0.2%        | 0.1%        | 1.0%        | 1.3%        | 2.1%        |               |
| Bond Funds                                   |              |            |             |             |             |             |             |               |
| Global Corporate Bond (JP Morgan)*           | 3.2%         | 3.2%       | 3.2%        | Not Started | Not Started | Not Started | Not Started | 5,425,116,277 |
| Global Government Bond (JP Morgan)*          | 1.3%         | 1.3%       | 3.3%        | Not Started | Not Started | Not Started | Not Started | 686,150,972   |
| Indexed Eurozone Government Bond (BlackRock) | 1.9%         | 1.9%       | 5.2%        | 5.6%        | Not Started | Not Started | Not Started | 8,252,256     |
| Active Fixed Income                          | 4.7%         | 4.7%       | 8.4%        | 8.0%        | 6.4%        | 6.3%        | 7.4%        | 185,476,335   |
| Inflation-Linked Bond                        | 3.4%         | 3.4%       | 2.7%        | 2.7%        | Not Started | Not Started | Not Started | 5,438,017     |
| Long Bond                                    | 6.3%         | 6.3%       | 11.5%       | 10.1%       | 7.0%        | Not Started | Not Started | 57,135,745    |
| Global Real Return (PIMCO)*                  | 8.1%         | 8.1%       | 4.6%        | Not Started | Not Started | Not Started | Not Started | 2,600,000,000 |
| Emerging Local Currency Debt (Pictet)*       | 12.7%        | 12.7%      | 4.3%        | Not Started | Not Started | Not Started | Not Started | 4,787,334,986 |
| FinEx Sector Average                         | 4.4%         | 4.4%       | 5.7%        | 5.8%        | 4.1%        | 4.6%        | 5.6%        |               |
| Absolute Return/Diversified Assets Funds     |              |            |             |             |             |             |             |               |
| Global Targeted Returns Fund (Invesco) *     | 2.1%         | 2.1%       | Not Started | Not Started | Not Started | Not Started | Not Started | 5,340,000,000 |
| Income Opportunity (JP Morgan)*              | 6.4%         | 6.4%       | 0.7%        | Not Started | Not Started | Not Started | Not Started | 3,965,598,698 |
| Dynamic Diversified Growth (BlackRock)       | -2.5%        | -2.5%      | 0.3%        | 2.6%        | Not Started | Not Started | Not Started | 15,219,246    |
| Diversified Assets                           | 9.4%         | 9.4%       | 6.9%        | 7.3%        | Not Started | Not Started | Not Started | 14,133,091    |
| Active Asset Allocation                      | 8.1%         | 8.1%       | 9.1%        | 8.3%        | Not Started | Not Started | Not Started | 214,324,487   |
| Commodity Funds                              |              |            |             |             |             |             |             |               |
| Gold   | 12.3%        | 12.3%      | 7.4%        | -2.6%       | Not Started | Not Started | Not Started | 43,161,624    |
| Earth Resources                              | 3.1%         | 3.1%       | -5.6%       | -5.2%       | Not Started | Not Started | Not Started | 5,813,371     |
| Global Commodities                           | 21.5%        | 21.5%      | -5.2%       | -4.8%       | -4.1%       | Not Started | Not Started | 15,852,829    |
| CommoditiesPLUS Strategy (PIMCO)*            | 11.6%        | 11.6%      | -12.4%      | Not Started | Not Started | Not Started | Not Started | 402,800,000   |
| Green Resources                              | -12.2%       | -12.2%     | -3.0%       | 3.3%        | Not Started | Not Started | Not Started | 3,845,398     |
| Equity Funds (Global)                        |              |            |             |             |             |             |             |               |
| 5 Star 5                                     | 4.5%         | 4.5%       | 10.3%       | 12.9%       | 4.2%        | 6.5%        | Not Started | 210,176,867   |
| International Equity                         | 10.0%        | 10.0%      | 12.7%       | 14.4%       | 6.3%        | 5.9%        | 9.8%        | 1,088,750,751 |
| Global Select (Threadneedle)                 | 9.0%         | 9.0%       | 12.7%       | 14.4%       | 6.5%        | 5.7%        | Not Started | 6,584,215     |
| Global Equity (MFS Meridian)*                | 13.1%        | 13.1%      | 12.9%       | Not Started | Not Started | Not Started | Not Started | 5,088,151,577 |
| Indexed Global Equity (BlackRock)            | 13.5%        | 13.5%      | 13.8%       | 14.7%       | Not Started | Not Started | Not Started | 112,388,659   |
| FinEx Sector Average                         | 8.8%         | 8.8%       | 10.2%       | 12.5%       | 4.3%        | 3.9%        | 6.2%        |               |

Source: Financial Express as at 01/01/2017

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)*                | 3.7%         | 3.7%       | 6.0%        | Not Started | Not Started | Not Started | Not Started | 3,034,380,000 |
| 5 Star 5 Europe                               | 4.8%         | 4.8%       | 10.2%       | 16.3%       | 4.6%        | Not Started | Not Started | 103,223,151   |
| European Select (Threadneedle)                | 0.1%         | 0.1%       | 8.8%        | 13.5%       | 6.3%        | 6.9%        | Not Started | 12,397,491    |
| Small Cap Europe (Pictet)*                    | 1.9%         | 1.9%       | 9.1%        | Not Started | Not Started | Not Started | Not Started | 267,904,910   |
| FinEx Sector Average                          | -0.3%        | -0.3%      | 6.5%        | 12.5%       | 3.3%        | 4.6%        | 7.8%        |               |
| <b>Equity Funds (Eurozone)</b>                |              |            |             |             |             |             |             |               |
| Eurozone Equity                               | 5.0%         | 5.0%       | 6.9%        | 13.7%       | 4.8%        | Not Started | Not Started | 70,388,772    |
| Europe ex-UK Index (BlackRock)                | 2.2%         | 2.2%       | 6.5%        | 11.9%       | 2.7%        | Not Started | Not Started | 3,190,836     |
| Indexed Eurozone Equity (BlackRock)           | 8.8%         | 8.8%       | 7.1%        | 11.6%       | Not Started | Not Started | Not Started | 2,565,361     |
| FinEx Sector Average                          | 2.5%         | 2.5%       | 6.2%        | 11.3%       | 1.4%        | 3.1%        | 6.3%        |               |
| <b>Equity Funds (Irish)</b>                   |              |            |             |             |             |             |             |               |
| Irish Equity                                  | -0.8%        | -0.8%      | 16.8%       | 20.6%       | -0.2%       | Not Started | Not Started | 17,756,291    |
| FinEx Sector Average                          | -5.2%        | -5.2%      | 12.6%       | 17.5%       | -2.2%       | 3.0%        | 6.1%        |               |
| <b>Equity Funds (American)</b>                |              |            |             |             |             |             |             |               |
| 5 Star 5 Americas                             | 14.1%        | 14.1%      | 18.0%       | 17.7%       | 8.8%        | Not Started | Not Started | 68,379,420    |
| American Select (Threadneedle)                | 17.5%        | 17.5%      | 16.1%       | 17.5%       | 9.6%        | 5.7%        | Not Started | 12,681,014    |
| FinEx Sector Average                          | 14.7%        | 14.7%      | 15.8%       | 17.2%       | 8.1%        | 4.7%        | 7.0%        |               |
| <b>Equity Fund (UK)</b>                       |              |            |             |             |             |             |             |               |
| UK Growth (M&G)*                              | -5.5%        | -5.5%      | 2.5%        | Not Started | Not Started | Not Started | Not Started | 593,630,000   |
| UK Index (BlackRock)                          | 1.7%         | 1.7%       | 3.9%        | 7.8%        | 2.4%        | Not Started | Not Started | 2,406,204     |
| FinEx Sector Average                          | -1.9%        | -1.9%      | 2.9%        | 8.0%        | 2.1%        | 3.1%        | 4.4%        |               |
| <b>Equity Funds (Far East Asia)</b>           |              |            |             |             |             |             |             |               |
| 5 Star 5 Asia Pacific                         | 10.4%        | 10.4%      | 8.4%        | 8.8%        | 2.9%        | Not Started | Not Started | 69,420,516    |
| Asia Pacific Equity                           | 11.4%        | 11.4%      | 7.5%        | 8.5%        | Not Started | Not Started | Not Started | 7,763,449     |
| FinEx Sector Average                          | 7.7%         | 7.7%       | 5.5%        | 6.7%        | 3.9%        | 6.2%        | 5.4%        |               |
| <b>Equity Funds (Japan)</b>                   |              |            |             |             |             |             |             |               |
| Japan Index (BlackRock)                       | 5.2%         | 5.2%       | 11.2%       | 12.0%       | 2.3%        | Not Started | Not Started | 3,439,143     |
| FinEx Sector Average                          | 5.8%         | 5.8%       | 10.0%       | 11.9%       | 1.4%        | 2.6%        | 2.5%        |               |
| <b>Equity Funds (High Yield)</b>              |              |            |             |             |             |             |             |               |
| Dividend Growth                               | 17.3%        | 17.3%      | 13.6%       | 16.0%       | 5.2%        | Not Started | Not Started | 228,817,439   |
| Global Dividend (M&G)*                        | 23.7%        | 23.7%      | 9.4%        | Not Started | Not Started | Not Started | Not Started | 6,466,190,000 |
| FinEx Sector Average                          | 8.8%         | 8.8%       | 10.2%       | 12.5%       | 4.3%        | 3.9%        | 6.2%        |               |
| <b>Equity Funds (Emerging Market)</b>         |              |            |             |             |             |             |             |               |
| India Equity                                  | 0.5%         | 0.5%       | 11.7%       | 8.9%        | Not Started | Not Started | Not Started | 11,540,392    |
| Emerging Markets Opportunities (JP Morgan)*   | 17.1%        | 17.1%      | 5.3%        | Not Started | Not Started | Not Started | Not Started | 1,979,886,622 |
| FinEx Sector Average                          | 10.9%        | 10.9%      | 5.5%        | 4.6%        | 3.2%        | 5.3%        | Not Started |               |
| <b>Equity Funds (Specialist)</b>              |              |            |             |             |             |             |             |               |
| Top Tech 100                                  | 9.8%         | 9.8%       | 21.5%       | 21.9%       | 13.5%       | 6.5%        | Not Started | 36,232,362    |
| FinEx Sector Average                          | 6.0%         | 6.0%       | 4.3%        | 5.3%        | 1.3%        | 1.0%        | 3.2%        |               |
| <b>Property Funds</b>                         |              |            |             |             |             |             |             |               |
| Fund of REITs                                 | -11.2%       | -11.2%     | Not Started | Not Started | Not Started | Not Started | Not Started | 14,242,843    |
| European (Ex-UK) Property                     | 3.9%         | 3.9%       | 13.5%       | 13.6%       | Not Started | Not Started | Not Started | 42,607,111    |
| Global Property Equities (Henderson Horizon)* | 8.4%         | 8.4%       | 14.8%       | Not Started | Not Started | Not Started | Not Started | 427,370,469   |
| Australasia Property                          | 11.0%        | 11.0%      | 12.7%       | 11.6%       | Not Started | Not Started | Not Started | 30,194,428    |
| FinEx Sector Average                          | 2.9%         | 2.9%       | 8.7%        | 7.0%        | -2.7%       | 2.9%        | 6.7%        |               |
| <b>Funds Closed to New Business</b>           |              |            |             |             |             |             |             |               |
| Eurozone Property                             | 2.3%         | 2.3%       | 13.1%       | 13.8%       | 0.6%        | Not Started | Not Started | 20,858,835    |
| Global Emerging Markets Equity (Aberdeen)*    | 19.5%        | 19.5%      | 7.6%        | Not Started | Not Started | Not Started | Not Started | 5,902,148,424 |

**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.**



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