

Monthly Investment Review



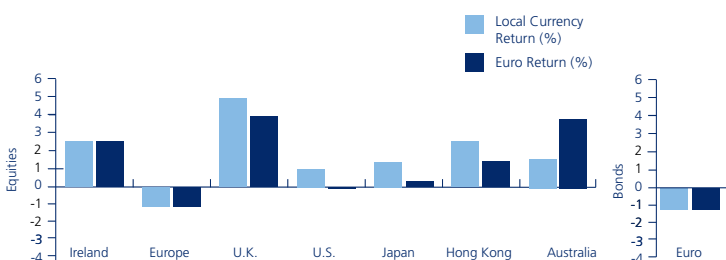
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2017 was a stellar year for equities. Despite lukewarm predictions by many strategists at the beginning of the year on the back of political concerns, equities were supported by good economic growth data, continued strong corporate earnings, low interest rates and subdued inflation. The prospect of US corporate tax cuts also helped. The predominant factor that affected eurozone investors during 2017 was the strength of the euro currency and the break-out on the upside of the euro dollar rate from its long-term trading range (1.05 -1.15). The rate now sits at 1.20. This currency move had the effect of significantly eroding local currency gains in international markets for eurozone investors. The euro's strength during 2017, a rise of c.14% against the US dollar, was due to good eurozone economic data and plans by the ECB to taper 'quantitative easing' in 2018 – from €60bn to €30bn of purchases per month. Market participants continue to assess the pace of interest rate rises in the US – December saw the fifth rate rise (of 0.25%) in the cycle albeit from historically low levels of effectively zero percent. The Federal Reserve has forecast three further rate hikes in 2018 due to the strengthening of the labour market and economic activity. Equities remain reasonably well valued on a relative basis compared to bonds and cash, although they have become more expensive on an absolute (P/E ratio) basis. Greater volatility is expected in 2018. Eurozone government bonds continue to offer little long-term value.

Equity Markets

World equities (in euro terms) rose by 0.9% in December and gave a total return of 9.0% for the year as a whole. Local currency returns, in general, were much stronger for 2017 with the leading markets being Hong Kong (+36.0%), Japan (+19.7%) and the US (+19.4%). After a strong run, European equities saw some profit-taking towards the end of the year and finished up 10.1%. The best performing sectors in the US in 2017 were technology (+36.9%) and basic materials (+21.4%); bond-proxy sectors such as telecoms (-6.0%) underperformed. Although US equities overall showed little volatility in their upward trajectory during 2017, we saw these huge divergences in sector returns within the S&P500 Index – an advantage for good active managers.

Equity & Bond % Returns - January 2018



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 Five Year Euro Government Bond Index. Source: Bloomberg, January 2018.

Bonds & Interest Rates

- The Merrill Lynch over Five Year Euro Government Bond Index fell by 1.2% in December, with Italy underperforming, and was up marginally for the year. Bond prices held up reasonably well in 2017, following sharp declines in H2 2016, helped by muted eurozone inflation and ongoing quantitative easing.
- The German ten-year bond yield rose during December from 0.37% to 0.43%. Equivalent US rates were unchanged at 2.41% having begun the year at 2.44%
- Despite the Federal Reserve's forecast of three rate rises (of 0.25%) in 2018, the markets are currently only expecting one or two. Eurozone rates are likely to remain at current ultra-low levels for at least 12 months. The Bank of England increased rates, at the start of November, for the first time in a decade by 0.25% to 0.5%, reversing emergency action following the Brexit vote. One further rate rise is forecast for 2018.

Commodities & Currencies

- Commodity prices generally tend to rise as economic growth expands. During 2017, a number of commodity prices have shown strong positive returns in US dollar terms including copper, gold and oil. The overall commodity index rose by 2.5% in December but is only up 0.7% for the year, held back by weakness in soft commodities (e.g. sugar, coffee and cocoa) as well as grains.
- Oil had been adversely affected up until the end of August by an increase in shale oil production and disappointment over the scale of OPEC's production cuts. The oil price rebounded sharply in September (+9.4%), October (+6.2%), November (+4.5%) and December (+5.2%) due to stronger demand. The gold price rose by 2.8% during December to \$1,309 per troy ounce and is up by 13.7% for the full year. The copper price rose by 8.7% during December and is up by almost 32% for 2017.
- The euro currency strengthened slightly against the US dollar during the month with the EUR/USD rate moving from 1.19 to 1.20. The rate began the year at 1.05.

Activity

Equity positions were maintained towards the upper end of ranges during December in all of the multi-asset portfolios given the stronger economic outlook and the expectation of continued good corporate earnings; as well as the relative value argument. With regards to geographic positions, there was an increase in the US position at the expense of Europe. The main overweights are in Asia (ex-Japan) and Ireland; Europe is now slightly overweight benchmark. The UK has been underweight for some time. The US was recently increased from underweight to slightly underweight. Sector positions were also broadly maintained during the month. The funds are positively biased towards industrials and healthcare and negatively biased towards real estate and telecoms. Some profits were taken towards the end of the year in technology stocks. Bond positions are towards the bottom of ranges whilst the duration of the remaining bonds is low.

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

	Year to Date	Annualised						Fund Size (€)
		1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	
Prisma Multi-Asset Funds*								
Prisma 2	0.3%	0.3%	1.0%	N/S	N/S	N/S	N/S	171,498,615
Prisma 3	2.2%	2.2%	3.0%	N/S	N/S	N/S	N/S	694,177,458
Prisma 4	5.7%	5.7%	6.4%	N/S	N/S	N/S	N/S	785,586,134
Prisma 5	7.7%	7.7%	8.4%	N/S	N/S	N/S	N/S	302,666,587
Prisma 6	8.7%	8.7%	8.8%	N/S	N/S	N/S	N/S	27,103,397
Managed Funds								
Cautiously Managed	3.9%	3.9%	5.1%	8.0%	N/S	N/S	N/S	433,864,425
FinEx Sector Average	4.0%	4.0%	3.5%	4.4%	2.9%	4.0%	3.9%	
Balanced	6.3%	6.3%	7.7%	10.8%	5.8%	7.9%	6.4%	1,689,505,647
FinEx Sector Average	5.7%	5.7%	5.6%	8.4%	3.6%	5.6%	4.8%	
Performance	8.3%	8.3%	8.7%	11.8%	5.7%	8.2%	6.4%	1,353,644,798
Dynamic	8.8%	8.8%	9.3%	12.5%	5.9%	8.6%	6.4%	1,627,555,385
FinEx Sector Average	6.8%	6.8%	6.9%	9.1%	4.0%	5.8%	5.0%	
Protected Funds								
Protected 70	4.7%	4.7%	4.1%	7.1%	N/S	N/S	N/S	17,194,024
Protected 80	2.2%	2.2%	2.0%	4.5%	N/S	N/S	N/S	34,689,509
Protected 90	-1.1%	-1.1%	-0.7%	0.7%	N/S	N/S	N/S	11,234,654
Cash Fund								
Secure	0.0%	0.0%	0.0%	0.0%	0.6%	1.2%	2.0%	261,319,448
Cash Fund	-0.8%	-0.8%	-0.7%	-0.6%	0.0%	N/S	N/S	486,362,454
FinEx Sector Average	-0.4%	-0.4%	-0.1%	0.0%	0.7%	1.1%	1.8%	
Bond Funds								
Global Corporate Bond (JP Morgan)*	3.5%	3.5%	2.0%	2.5%	N/S	N/S	N/S	7,831,721
Global Government Bond (JP Morgan)*	0.10%	0.10%	0.60%	1.80%	N/S	N/S	N/S	1,179,239
Indexed Eurozone Government Bond (BlackRock)	0.30%	0.30%	1.00%	3.60%	N/S	N/S	N/S	6,105,510
Active Fixed Income	-1.10%	-1.10%	1.50%	5.20%	6.20%	5.40%	6.30%	167,511,766
Inflation-Linked Bond	0.60%	0.60%	1.30%	0.80%	N/S	N/S	N/S	6,914,878
Long Bond	-1.70%	-1.70%	2.10%	6.70%	7.00%	N/S	N/S	52,503,009
FinEx Sector Average	0.70%	0.70%	1.70%	3.70%	4.20%	4.20%	4.80%	
Absolute Return/Diversified Assets Funds								
Global Targeted Returns Fund (Invesco)	-0.1%	-0.1%	1.2%	N/S	N/S	N/S	N/S	97,173,696
Dynamic Diversified Growth (BlackRock)	6.8%	6.8%	0.8%	2.6%	N/S	N/S	N/S	15,772,035
Active Asset Allocation	5.9%	5.9%	6.3%	7.4%	N/S	N/S	N/S	308,001,915
Commodity Funds								
Gold	-2.6%	-2.6%	2.2%	-3.7%	N/S	N/S	N/S	77,261,508
Indexed Global Energy and Metals	-5.7%	-5.7%	-2.9%	-5.4%	-6.3%	N/S	N/S	14,186,185
Equity Funds (Global)								
5 Star 5	11.6%	11.6%	9.8%	12.0%	5.0%	8.7%	N/S	210,652,142
International Equity	9.3%	9.3%	10.0%	13.6%	6.9%	9.0%	7.8%	1,491,618,826
Global Select (Threadneedle)	14.1%	14.1%	11.7%	14.4%	7.3%	9.4%	N/S	6,687,509
Indexed Global Equity (BlackRock)**	6.2%	6.2%	9.9%	13.1%	N/S	N/S	N/S	95,906,116
Sector Average	8.2%	8.2%	8.3%	11.2%	5.2%	6.9%	5.0%	
Equity Funds (European)								
5 Star 5 Europe	16.4%	16.4%	12.8%	14.0%	5.8%	N/S	N/S	120,183,040
European Select (Threadneedle)	13.9%	13.9%	9.1%	11.2%	7.4%	10.1%	N/S	11,089,558
Sector Average	12.6%	12.6%	9.1%	10.8%	4.1%	7.9%	6.5%	

Source: Financial Express as at 01/01/2018

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

Annual management charges (AMC) apply. The fund returns shown are net of the AMC deducted by each provider in their unit prices. This will vary for each provider, and any difference will impact the relative performance of the funds shown. 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.

* The Prisma Multi-Asset Funds were previously known as the Pathway Multi-Asset Funds.

* 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.

** Performance using most recent data available.

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	
Equity Funds (Eurozone)								
Eurozone Equity	14.3%	14.3%	10.3%	11.9%	5.1%	N/S	N/S	88,523,445
Indexed Eurozone Equity (BlackRock)	12.3%	12.3%	9.3%	10.3%	N/S	N/S	N/S	8,721,721
FinEx Sector Average	13.0%	13.0%	8.9%	10.6%	2.5%	6.6%	4.9%	
Equity Funds (Irish)								
Irish Equity	8.7%	8.7%	14.3%	18.3%	3.1%	N/S	N/S	16,955,935
Sector Average	7.6%	7.6%	9.9%	15.1%	1.5%	5.1%	4.3%	
Equity Funds (American)								
5 Star 5 Americas	2.1%	2.1%	9.2%	15.9%	8.4%	N/S	N/S	60,525,846
American Select (Threadneedle)	6.3%	6.3%	11.2%	15.7%	9.6%	9.1%	N/S	11,474,195
Sector Average	6.5%	6.5%	9.7%	15.8%	9.1%	8.0%	5.2%	
Equity Funds (Far East Asia)								
5 Star 5 Asia Pacific	23.8%	23.8%	13.0%	10.1%	3.2%	N/S	N/S	83,011,784
Asia Pacific Equity	21.8%	21.8%	11.0%	8.9%	N/S	N/S	N/S	9,817,268
Sector Average	17.7%	17.7%	7.5%	6.7%	4.2%	9.0%	7.3%	
Equity Funds (High Yield)								
Dividend Growth	3.1%	3.1%	8.7%	12.7%	7.1%	N/S	N/S	231,827,149
FinEx Sector Average	8.2%	8.2%	8.3%	11.2%	5.2%	6.9%	5.0%	
Equity Funds (Emerging Market)								
Emerging Markets Opportunities (JP Morgan)	28.6%	28.6%	10.1%	N/S	N/S	N/S	N/S	5,093,575
Sector Average	20.4%	20.4%	7.6%	5.7%	2.0%	8.7%	N/S	
Equity Funds (Specialist)								
Indexed Top Tech 100	15.9%	15.9%	15.6%	22.0%	14.4%	12.3%	N/S	46,622,094
Sector Average	4.9%	4.9%	3.6%	5.0%	0.8%	4.5%	3.2%	
Property Funds								
Fund of REITs	19.5%	19.5%	10.7%	N/S	N/S	N/S	N/S	20,305,161
Indexed European (Ex-UK) Property	14.4%	14.4%	11.5%	11.6%	7.1%	N/S	N/S	66,219,810
Indexed Australasia Property	3.5%	3.5%	5.6%	5.9%	3.2%	N/S	N/S	47,379,836
Sector Average	5.5%	5.5%	5.8%	7.2%	-1.4%	2.9%	6.1%	
Funds Closed to New Business								
Indexed Eurozone Property	17.2%	17.2%	12.1%	11.6%	5.2%	N/S	N/S	20,999,947
Indexed India Equity	20.4%	20.4%	7.2%	8.8%	0.6%	N/S	N/S	11,481,704
Income Opportunity (JP Morgan)	0.7%	0.7%	1.1%	0.9%	N/S	N/S	N/S	7,248,330 *
Diversified Assets	3.1%	3.1%	4.1%	5.5%	3.7%	N/S	N/S	13,052,133
Earth Resources	-0.2%	-0.2%	-4.1%	-3.4%	-5.6%	N/S	N/S	5,097,853
Green Resources	19.2%	19.2%	2.5%	9.4%	N/S	N/S	N/S	4,024,098
Small Cap Europe (Pictet)	18.5%	18.5%	14.4%	N/S	N/S	N/S	N/S	2,375,192

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GR: 2185 Print Ref: ZURL ISA 76 0118

