

Monthly Investment Review


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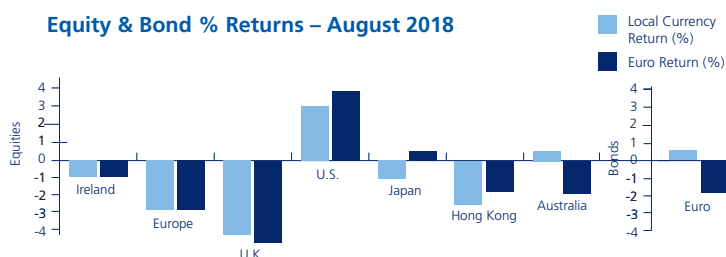

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The US stock market juggernaut is racing ahead, outshining all other regions, so far unaffected by potential escalation of the trade dispute with China or tighter monetary policy. This outperformance has been fuelled by stellar corporate earnings growth. The S&P500 index has gained 8.5% so far this year in local currency terms (more in euro terms) and reached an all-time high during August. The more technology-heavy Nasdaq index is up more than 17% since the beginning of the year and has broken through to new record highs several times this year already. Similarly, the Russell 2000 index, comprised of smaller capitalized companies and thus representing a more broad-based reflection of the domestic US economy, has set several new records in the last few months. Economic conditions are currently strong and growth is expected to remain above trend, while, absent the trade tensions, financial markets are broadly in good shape with further upside potential for equities. Nevertheless, the global landscape has become more fragile as shifting sands have become more evident. From increasing populism and mounting trade tensions to tightening US monetary policy, risks have risen. Eurozone government bonds continue to offer little long-term value.

Equity Markets

- World equities (in euro terms) rose by 1.5% in August and have given a total return of 7.5% during the first eight months of 2018, with almost all of the gains driven by the US which represents 55% of the global equity market. International returns for eurozone investors have been enhanced during 2018 by some euro currency weakness. Local currency returns in August for the major markets ranged from plus 3.0% in the US to minus 4.1% in the UK. Year-to-date, the best performing markets have been the US (+8.5%) and Australia (+4.2%); the worst being the various Chinese markets, including Hong Kong (-6.8%), on the back of the trade tensions.
- Regarding sectors in the US, there was no clear distinction between economically-sensitive cyclical areas and defensive areas over the month with the exception of technology stocks which continued to power ahead. Year-to-date, however, cyclical stocks have by and large outperformed led by technology (+20.0%) and consumer discretionary (+18.3%), whilst telecoms (-7.3%) and consumer staples (-6.1%) are at the bottom of the league table. These large divergences give active managers, like Zurich, the opportunity to outperform.

Equity & Bond % Returns – August 2018



This graph shows the performance of the major equity markets over the month of August. 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, September 2018.

Bonds & Interest Rates

- The Over Five Year Euro Government Bond Index fell by 0.7% in August, as the Italian crisis re-emerged, giving a return for the first eight months of the year of 0.0%. Spreads between the yield on the German and the battered Italian bond market are now at the widest level since July 2013. Year-to-date, most eurozone bond markets are in positive territory with the major exception of Italy (-7.9%).
- The German ten-year bond yield fell during August, moving from 0.44% to 0.33%. The yield began the year at 0.43%. Equivalent US rates moved from 2.96% to 2.86% having begun the year at 2.41%.
- It is now almost certain that the Federal Reserve will increase short rates to 2.25% at its meeting on 26th September, the eighth rise since the cycle turned. There is also a 50% chance of a ninth rise in December with potentially more to come in 2019. Eurozone rates are likely to remain at current ultra-low levels for at least 12 months. The Bank of England increased UK rates on 2nd August from 0.50% to 0.75%, the second move since its cycle turned in November 2017. Rates are not expected to increase again until Q2 2019.

Commodities & Currencies

- Commodity prices in general were little changed in August, although, once again, there were sharp contrasts between energy and non-energy prices. The overall commodity index is up 3.2% in dollar terms year-to-date.
- The oil price rose again during the month and is now up over 15% so far this year. The price has been particularly strong for the last eleven months on the back of strengthening demand and geo-political concerns. The gold price fell almost 2% during the month finishing at \$1,202 per troy ounce. Copper fell by 6.4% during August and is down almost 20% year-to-date, following a stellar 2017.
- The euro currency was slightly weaker against the US dollar during the month with the EUR/USD rate moving from 1.17 to 1.16. It began the year at 1.20.

Activity

Equity positions are towards the upper end of ranges in all of the multi-asset portfolios. Despite some increased levels of risk, Zurich remains constructive on equities in general. The fund managers may cut back equities holdings for tactical reasons over the coming weeks, dependent on prevailing market conditions. With regards to geographic positions, the main bias is towards US and Asian equities. Japan and Ireland are close to neutral whilst underweight positions are held in Europe and the UK. Sector positions were broadly maintained during the month. The funds are positively biased towards technology, materials and healthcare (equipment) stocks and negatively biased towards utilities and telecoms. 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		✓	
	Soft Commodities	✓		

		Annualised						
	Year to Date	1 Year	3 Years	5 Years	10 Years	15 Years	20 years	Fund Size (Euros)
Prisma Multi-Asset Funds*								
Prisma 2	0.0%	0.8%	0.7%	N/S	N/S	N/S	N/S	189,900,954
Prisma 3	1.0%	3.3%	2.6%	N/S	N/S	N/S	N/S	827,262,118
Prisma 4	2.7%	7.9%	6.0%	N/S	N/S	N/S	N/S	995,068,067
Prisma 5	3.7%	10.7%	8.3%	N/S	N/S	N/S	N/S	416,243,426
Prisma 6	6.1%	13.2%	10.1%	N/S	N/S	N/S	N/S	40,483,411
Managed Funds								
Cautiously Managed	2.6%	5.9%	4.5%	8.0%	7.0%	N/S	N/S	459,851,588
Sector Average	0.0%	2.5%	3.0%	4.3%	3.7%	3.7%	3.6%	
Balanced	4.9%	9.4%	7.1%	10.1%	7.8%	7.6%	6.2%	1,737,775,980
Sector Average	1.2%	5.5%	4.3%	7.3%	5.4%	5.1%	4.4%	
Performance	6.3%	12.1%	8.6%	11.3%	8.3%	8.0%	6.3%	1,408,512,445
Dynamic	6.9%	13.4%	9.3%	11.9%	8.6%	8.4%	6.4%	1,633,075,237
FinEx Sector Average	2.4%	8.1%	5.9%	8.1%	6.0%	5.4%	4.7%	
Protected Funds								
Protected 70	3.8%	8.0%	4.0%	6.6%	N/S	N/S	N/S	20,636,925
Protected 80	1.9%	4.2%	1.7%	3.9%	N/S	N/S	N/S	35,352,815
Protected 90	-1.3%	-1.4%	-1.4%	0.2%	N/S	N/S	N/S	10,260,820
Cash								
Secure	0.0%	0.0%	0.0%	0.0%	0.3%	1.1%	1.7%	230,272,574
Cash Fund	-0.6%	-0.9%	-0.8%	-0.6%	-0.3%	N/S	N/S	621,702,991
FinEx Sector Average	-0.4%	-0.6%	-0.3%	-0.1%	0.4%	1.0%	1.6%	
Bond								
Global Corporate Bond (JP Morgan)	-3.0%	-2.7%	1.3%	2.5%	N/S	N/S	N/S	10,135,389
Global Government Bond (JP Morgan)	-1.2%	-1.8%	0.3%	1.9%	N/S	N/S	N/S	1,011,975
Indexed Eurozone Government Bond (BlackRock)**	-0.6%	-0.7%	1.3%	3.5%	N/S	N/S	N/S	6,237,627
Active Fixed Income	-0.5%	-0.6%	1.7%	5.1%	5.8%	5.3%	5.7%	161,361,985
Inflation-Linked Bond	-1.1%	0.0%	1.4%	1.5%	N/S	N/S	N/S	7,595,767
Long Bond	0.1%	0.0%	2.4%	6.9%	6.7%	6.0%	N/S	52,936,971
FinEx Sector Average	-0.9%	-0.2%	1.6%	3.7%	4.1%	3.9%	4.3%	
Absolute Return/Diversified Assets Funds								
Global Targeted Returns Fund (Invesco)	-1.9%	-3.5%	0.2%	N/S	N/S	N/S	N/S	88,941,485
Dynamic Diversified Growth (BlackRock)	0.8%	2.8%	1.9%	2.5%	N/S	N/S	N/S	15,388,676
Active Asset Allocation	3.3%	8.8%	6.2%	7.8%	N/S	N/S	N/S	359,885,115
Commodity Funds								
Gold	-4.9%	-7.6%	0.0%	-1.3%	N/S	N/S	N/S	123,599,374
Indexed Global Energy and Metals	1.3%	6.3%	0.8%	-5.6%	-7.6%	N/S	N/S	13,238,465
Equity Funds (Global)								
5 Star 5	5.9%	14.8%	9.3%	11.5%	7.0%	7.7%	N/S	216,319,596
International Equity	6.7%	14.1%	10.4%	12.8%	9.4%	8.6%	7.4%	1,798,201,466
Global Select (Threadneedle)	8.3%	18.5%	13.3%	14.3%	10.2%	9.4%	N/S	6,691,189
Indexed Global Equity (BlackRock)**	7.1%	15.9%	11.1%	12.4%	N/S	N/S	N/S	101,823,797
FinEx Sector Average	5.0%	12.4%	8.1%	10.2%	7.7%	6.6%	4.9%	
Equity Funds (European)								
5 Star 5 Europe	-0.2%	5.7%	7.8%	12.1%	8.0%	N/S	N/S	117,301,427
European Select (Threadneedle)	4.6%	8.1%	7.6%	10.1%	10.7%	9.8%	N/S	10,819,062
FinEx Sector Average	1.8%	6.4%	5.3%	8.6%	6.5%	7.3%	6.0%	

Source: Financial Express as at 1/09/2018

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.

** 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.

Equity Funds (Euro)								
Eurozone Equity	0.7%	5.2%	7.3%	10.0%	7.4%	9.3%	N/S	89,675,989
Indexed Eurozone Equity (BlackRock)**	0.1%	4.3%	7.4%	8.8%	N/S	N/S	N/S	8,022,732
Sector Average	-0.2%	4.3%	5.4%	8.1%	5.2%	5.8%	4.3%	
Equity Funds (Irish)								
Irish Equity	-0.7%	4.8%	5.3%	12.8%	7.4%	N/S	N/S	16,743,631
FinEx Sector Average	-2.4%	2.4%	2.4%	10.0%	5.4%	4.0%	3.8%	
Equity Fund (American)								
5 Star 5 Americas	13.8%	21.8%	12.3%	16.1%	10.9%	N/S	N/S	68,390,872
American Select (Threadneedle)	15.0%	22.1%	15.6%	16.5%	13.2%	9.5%	N/S	11,930,816
FinEx Sector Average	10.3%	18.4%	12.0%	14.8%	11.7%	8.0%	5.6%	
Equity Funds (Far East Asia)								
5 Star 5 Asia Pacific	1.9%	9.1%	15.3%	10.9%	6.5%	N/S	N/S	82,243,468
Asia Pacific Equity	2.0%	9.4%	14.1%	9.8%	N/S	N/S	N/S	10,604,157
FinEx Sector Average	-0.4%	5.7%	9.0%	7.3%	6.9%	7.6%	8.8%	
Equity Funds (High Yield)								
Dividend Growth	1.1%	7.0%	8.1%	10.7%	9.0%	N/S	N/S	222,710,524
FinEx Sector Average	5.0%	12.4%	8.1%	10.2%	7.7%	6.6%	4.9%	
Equity Funds (Emerging Market)								
Emerging Markets Opportunities (JP Morgan)	-5.7%	0.1%	13.2%	N/S	N/S	N/S	N/S	6,863,636
FinEx Sector Average	-5.0%	0.7%	7.7%	7.4%	4.1%	8.5%	N/S	
Equity Funds (Specialist)								
Indexed Top Tech 100	23.6%	30.7%	20.4%	23.5%	18.2%	11.9%	N/S	62,028,765
FinEx Sector Average	2.2%	6.3%	3.6%	4.8%	2.3%	3.5%	3.1%	
Property Funds								
Fund of REITs	-0.2%	9.3%	4.0%	N/S	N/S	N/S	N/S	21,197,465
Indexed European (Ex-UK) Property	5.7%	11.3%	9.7%	13.3%	8.9%	N/S	N/S	78,688,803
Australasia Property Fund	2.0%	4.2%	7.8%	8.2%	7.2%	N/S	N/S	54,949,532
FinEx Sector Average	2.7%	6.2%	4.9%	7.7%	0.4%	2.6%	5.2%	
Funds Closed to New Business								
Indexed Eurozone Property	6.7%	13.3%	10.7%	13.8%	7.4%	N/S	N/S	21,024,292
Indexed India Equity	0.9%	7.3%	7.2%	14.9%	5.8%	N/S	N/S	10,663,496
Income Opportunity (JP Morgan)	-0.3%	-0.4%	1.3%	0.7%	N/S	N/S	N/S	6,536,003
Diversified Assets	3.0%	7.1%	5.1%	5.8%	4.4%	N/S	N/S	12,030,246
Earth Resources	4.0%	13.9%	1.0%	-4.0%	-5.2%	N/S	N/S	4,623,330
Green Resources	4.9%	18.1%	6.6%	5.1%	-4.9%	N/S	N/S	3,926,579
Small Cap Europe (Pictet)	-0.1%	6.6%	8.6%	N/S	N/S	N/S	N/S	2,228,940

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