

Monthly Investment Review


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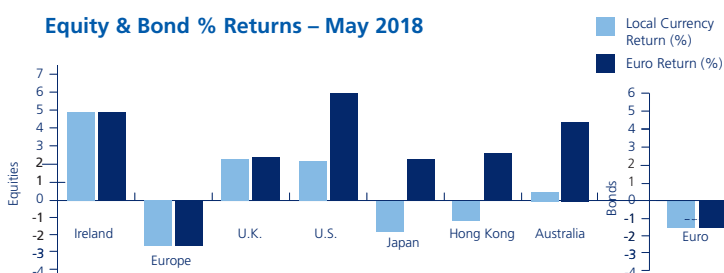

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Equity markets continued on their upward trajectory in May although a good proportion of the gains were on the back of a weaker euro currency, which enhanced the returns from many international markets. There was, however, significant volatility in European markets due to the creation of a generally eurosceptic government in Italy and the risks of contagion within the eurozone. The main supporting factors for equities during the month were strong economic data in the US and a resilient Chinese economy. Investors continue to assess the pace of interest rate rises in the US – there have already been six rate rises (of 0.25%) in the cycle, albeit from historically low levels of effectively zero percent. The Federal Reserve is forecasting two or three further rate hikes in 2018 with the next one almost certain to take place on 13 June. However, the macro-economic fundamentals, such as strong economic and corporate earnings growth as well as relatively benign inflation, continue to support equities. In addition, price/earnings multiples for equities have come back into fair-value range. Despite this, we are likely to experience further volatility at some point during the remainder of 2018. Eurozone government bonds continue to offer little long-term value.

Equity Markets

- World equities (in euro terms) rose by 3.6% in May, helped by a weaker euro currency, and have given a total return of 3.2% during the first five months of 2018. Local currency returns in May for the major markets ranged from plus 4.9% in Ireland to minus 2.5% in Europe. The Irish market rose on the back of strong performances from two heavy-weights; CRH, which announced a share buy-back, and Paddy Power, which was supported by the liberalisation of the US gambling market. Europe was affected by the political upheaval in Italy. The US market broke above its 50-day moving average, a positive development, and finished the month up 2.2%. Year-to-date, the best performing markets in local terms have been Hong Kong (+1.8%), Ireland (+1.5%) and the US (+1.2%); the worst being Japan (-3.9%).
- Regarding sectors in the US, the big story in May was the continued upward move of the technology sector which rose over 7%. This was driven by a strong move (+13%) in the world's largest stock, Apple. Year-to-date, cyclical stocks have by and large outperformed defensive and bond-proxy areas. Technology (+10.6%), consumer discretionary (+7.1%) and energy (+4.7%) have been the top performers, whilst telecoms (-12.8%) and consumer staples (-13.5%) are at the bottom of the league table. These large divergences give active managers, like Zurich, the opportunity to outperform.

Equity & Bond % Returns – May 2018



This graph shows the performance of the major equity markets over the month of May. 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, June 2018.

Bonds & Interest Rates

- The Over Five Year Euro Government Bond Index fell by 1.5% in May, reacting to the Italian crisis, giving a return for the first five months of the year of plus 0.1%. Peripheral eurozone markets, such as Italy (-8.6%) and Spain (-2.4%), were hit hard during May as yields rose sharply. Conversely, core markets performed well with German and Dutch bonds up 2.5% and 2.2% respectively.
- The German ten-year bond yield fell during May, moving from 0.56% to 0.34%. The yield began the year at 0.43%. Equivalent US rates fell back from 2.95% to 2.86% having begun the year at 2.41%.
- Having increased interest rates on 21st March, at the first meeting under new Fed Chairman Jerome Powell, the Federal Reserve has indicated at least two further moves during the remainder of 2018, with 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 rates, at the start of November 2017, 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 currently expected during 2018.

Commodities & Currencies

- Commodity prices were mostly higher in May, led by energy which surged 7.4%. Non-energy prices were flat. Grains rose 0.8%, metals and minerals 0.4% and beverages 1.4%. Precious metals fell 2.1% whilst fertilisers fell 1.1%. The overall commodity index is up 4.6% year-to-date.
- The oil price rose again during the month although it closed well off its four-year high which it hit on 23rd May. The price has been particularly strong for the last eight months on the back of strengthening demand and geo-political concerns. The gold price fell by 1.4% during the month finishing at \$1,300 per troy ounce. Copper rose marginally during May but is down 7.1% in the first five months of the year following a stellar 2017.
- The euro currency weakened again against the US dollar during the month with the EUR/USD rate moving from 1.21 to 1.17. It began the year at 1.20. The euro was weak in May on the back of political uncertainty in Italy.

Activity

Equity positions are well above the middle of ranges in all of the multi-asset portfolios although not as high as at the beginning of the month. The weighting in Europe was cut back significantly, on a tactical basis, due to the political environment in Italy and the risk of contagion in the rest of the eurozone. Zurich, however, remains constructive on equities in general. With regards to geographic positions, the main bias is towards Asia Pacific, US, Japan and Ireland. 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, healthcare 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	-0.1%	0.2%	0.3%	N/S	N/S	N/S	N/S	183,599,101
Prisma 3	0.8%	2.5%	1.6%	N/S	N/S	N/S	N/S	764,078,539
Prisma 4	2.2%	6.2%	3.9%	N/S	N/S	N/S	N/S	897,284,971
Prisma 5	3.0%	8.4%	4.8%	N/S	N/S	N/S	N/S	359,563,109
Prisma 6	3.2%	8.1%	4.2%	N/S	N/S	N/S	N/S	33,204,606
Managed Funds								
Cautiously Managed	1.0%	3.1%	3.0%	7.3%	6.8%	N/S	N/S	447,196,951
Sector Average	-0.3%	1.6%	1.5%	3.7%	3.3%	3.9%	3.6%	
Balanced	2.4%	5.1%	4.3%	9.4%	6.8%	7.9%	5.7%	1,704,684,981
Sector Average	0.3%	3.1%	1.9%	6.7%	4.4%	5.6%	3.9%	
Performance	3.1%	6.7%	5.1%	10.4%	7.0%	8.3%	5.7%	1,381,196,950
Dynamic	3.5%	7.3%	5.5%	11.0%	7.3%	8.8%	5.7%	1,643,608,424
FinEx Sector Average	1.1%	4.3%	2.9%	7.5%	4.9%	5.9%	4.4%	
Protected Funds								
Protected 70	1.4%	3.1%	0.8%	5.8%	N/S	N/S	N/S	20,151,502
Protected 80	0.6%	1.3%	-0.7%	3.4%	N/S	N/S	N/S	35,503,623
Protected 90	-0.9%	-1.9%	-2.4%	0.1%	N/S	N/S	N/S	10,274,151
Cash								
Secure	0.0%	0.0%	0.0%	0.0%	0.4%	1.1%	1.8%	239,897,102
Cash Fund	-0.4%	-0.9%	-0.8%	-0.6%	-0.2%	N/S	N/S	583,489,023
FinEx Sector Average	-0.3%	-0.5%	-0.2%	0.0%	0.5%	1.0%	1.6%	
Bond								
Global Corporate Bond (JP Morgan)	-3.1%	-1.9%	0.9%	1.9%	N/S	N/S	N/S	9,677,712
Global Government Bond (JP Morgan)	-0.8%	-1.1%	0.6%	1.6%	N/S	N/S	N/S	963,352
Indexed Eurozone Government Bond (BlackRock)	0.0%	0.3%	1.5%	3.3%	N/S	N/S	N/S	6,127,205
Active Fixed Income	0.0%	0.0%	1.1%	4.8%	6.2%	5.0%	6.0%	165,110,191
Inflation-Linked Bond	-0.5%	1.8%	0.6%	0.9%	N/S	N/S	N/S	7,265,244
Long Bond	0.8%	1.5%	1.4%	6.5%	7.2%	5.8%	N/S	53,663,087
FinEx Sector Average	-0.9%	-0.1%	0.8%	3.2%	4.2%	3.8%	4.5%	
Absolute Return/Diversified Assets Funds								
Global Targeted Returns Fund (Invesco)	-1.3%	-3.8%	0.1%	N/S	N/S	N/S	N/S	95,737,115
Dynamic Diversified Growth (BlackRock)	0.0%	2.5%	0.2%	2.0%	N/S	N/S	N/S	15,270,138
Active Asset Allocation	2.6%	6.8%	4.0%	7.3%	N/S	N/S	N/S	335,213,217
Commodity Funds								
Gold	3.0%	-1.8%	0.3%	0.0%	N/S	N/S	N/S	123,846,363
Indexed Global Energy and Metals	6.9%	14.1%	-2.7%	-3.4%	-7.4%	N/S	N/S	14,488,477
Equity Funds (Global)								
5 Star 5	3.7%	10.7%	5.6%	10.5%	6.1%	8.3%	N/S	213,976,759
International Equity	3.1%	8.1%	6.1%	11.7%	8.3%	9.2%	6.9%	1,435,596,042
Global Select (Threadneedle)	4.5%	12.4%	7.8%	13.1%	9.0%	10.0%	N/S	6,263,362
Indexed Global Equity (BlackRock)**	3.7%	7.6%	6.4%	12.2%	N/S	N/S	N/S	96,375,619
FinEx Sector Average	2.1%	5.8%	3.7%	9.1%	6.4%	7.3%	4.3%	
Equity Funds (European)								
5 Star 5 Europe	0.1%	4.2%	5.6%	11.9%	7.0%	N/S	N/S	120,134,402
European Select (Threadneedle)	1.8%	2.2%	3.2%	9.5%	9.2%	10.4%	N/S	10,757,780
FinEx Sector Average	1.5%	2.7%	2.3%	8.6%	5.3%	8.1%	5.2%	

Source: Financial Express as at 1/06/2018

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 = N/S.

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

Equity Funds (Euro)								
Eurozone Equity	0.8%	3.1%	4.6%	10.0%	6.2%	10.2%	N/S	92,159,903
Indexed Eurozone Equity (BlackRock)	1.6%	2.1%	4.1%	9.5%	N/S	N/S	N/S	8,177,739
FinEx Sector Average	-0.1%	1.4%	2.6%	8.3%	3.6%	6.5%	3.5%	
Equity Funds (Irish)								
Irish Equity	3.9%	6.0%	8.2%	15.0%	4.8%	N/S	N/S	17,388,585
FinEx Sector Average	1.9%	2.1%	3.8%	11.6%	2.9%	4.8%	3.1%	
Equity Fund (American)								
5 Star 5 Americas	5.9%	10.0%	7.6%	14.0%	9.8%	N/S	N/S	61,166,191
American Select (Threadneedle)	6.4%	9.9%	8.3%	14.9%	12.0%	9.9%	N/S	11,263,271
FinEx Sector Average	4.0%	8.2%	6.6%	13.2%	10.7%	8.5%	4.8%	
Equity Funds (Far East Asia)								
5 Star 5 Asia Pacific	4.3%	14.2%	8.6%	10.1%	5.1%	N/S	N/S	86,161,300
Asia Pacific Equity	4.5%	15.1%	7.3%	9.3%	N/S	N/S	N/S	11,129,238
FinEx Sector Average	2.9%	10.2%	2.9%	6.9%	5.6%	9.5%	7.8%	
Equity Funds (High Yield)								
Dividend Growth	-1.7%	-2.3%	3.3%	9.8%	7.8%	N/S	N/S	220,987,934
FinEx Sector Average	-0.8%	2.0%	3.3%	9.1%	6.2%	7.1%	4.1%	
Equity Funds (Emerging Market)								
Emerging Markets Opportunities (JP Morgan)	-1.0%	14.1%	6.0%	N/S	N/S	N/S	N/S	7,189,442
FinEx Sector Average	-1.0%	6.9%	2.0%	5.7%	3.2%	9.7%	N/S	
Equity Funds (Specialist)								
Indexed Top Tech 100	12.3%	16.3%	13.7%	21.5%	16.7%	12.6%	N/S	53,193,598
FinEx Sector Average	3.2%	5.4%	1.0%	4.9%	1.8%	4.5%	3.2%	
Property Funds								
Fund of REITs	-2.5%	8.1%	2.0%	N/S	N/S	N/S	N/S	20,507,847
Indexed European (Ex-UK) Property	1.4%	6.7%	7.9%	10.7%	7.1%	N/S	N/S	70,879,236
Indexed Australasia Property	4.0%	3.7%	2.3%	6.6%	5.7%	N/S	N/S	52,133,598
FinEx Sector Average	1.1%	4.9%	4.3%	7.0%	-0.5%	2.8%	5.6%	
Funds Closed to New Business								
Indexed Eurozone Property	2.3%	10.5%	8.4%	11.1%	5.4%	N/S	N/S	20,550,891
Indexed India Equity	-5.3%	0.3%	1.1%	7.8%	3.9%	N/S	N/S	10,386,735
Income Opportunity (JP Morgan)	-0.4%	-0.8%	0.7%	0.6%	N/S	N/S	N/S	6,775,854
Diversified Assets	2.9%	6.3%	2.1%	5.4%	3.9%	N/S	N/S	12,238,324
Earth Resources	7.2%	12.6%	-4.8%	-2.8%	-5.4%	N/S	N/S	5,017,062
Green Resources	4.9%	17.9%	-1.1%	4.8%	N/S	N/S	N/S	3,998,932
Small Cap Europe (Pictet)	1.3%	4.8%	6.8%	N/S	N/S	N/S	N/S	2,382,228

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