



SuperCAPP – providing the ‘perfect’ peace of mind for customers

Prisma, Zurich Life’s fund platform, focuses attention on the building of risk rated portfolios for your clients. SuperCAPP, one of Ireland’s most popular investment funds is also a core component of the lower risk Prisma Portfolios.

We asked David Kavanagh of Zurich Life to explain why investors should continue to consider SuperCAPP as a lower risk option for their investment.



David Kavanagh
ALM Actuary
Zurich Life

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Some of the most fortunate investors recently have been those in Zurich Life’s SuperCAPP Fund. They have enjoyed the security and smooth journey SuperCAPP gives, not to mention a perfect record of never having suffered an investment loss. Many Financial Advisors have chosen SuperCAPP as a safe haven for their clients. So, in this uncertain world of investing, what can be expected from SuperCAPP in the future? Well, given how proud we are of the fund’s multi-decade history of stability, it won’t surprise you to learn the answer is more of the same.

At Zurich Life, we have always emphasised security in the fund’s investment strategy and sustainability in its dividend strategy. But interest rates and returns available on low-risk investments are at historically low levels, so are we going to abandon our tried & tested approach and start taking lots of investment risk or declaring headline-grabbing, new-business-seeking, false-expectations-raising returns? No, our approach has been successful for over 30 years, and we see no reason to change it.

Annual Dividend

In the current climate, investing safely means the sustainable return is low relative to what was available a few years ago. This is because the demand from investors for safe havens has been high, while the supply of such investments has dwindled. The excess of demand over supply has driven sustainable returns down, which you can see in the graph below, with the 10-year yield representing the sustainable return:

As the sustainable return has fallen, we have had to reduce the annual dividend (regular return) to safeguard the security, protection, and stability enjoyed by clients in the fund. If global demand for safe havens drops off, or assets previously regarded as safe havens reclaim that status, we should see an increase in sustainable returns and, therefore, the annual dividend.

Falling yields and annual dividends



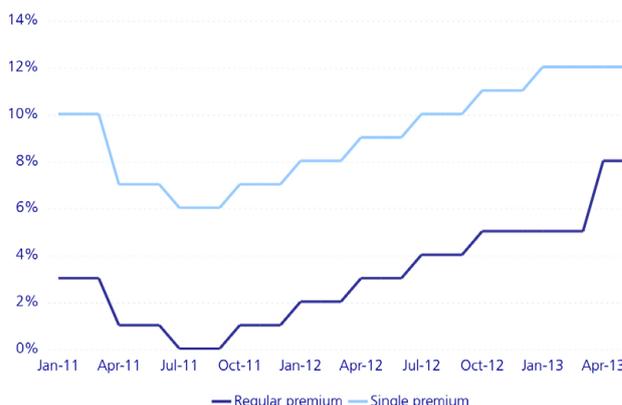


SuperCAPP Fund

Special Dividend

So, given the annual dividend has had to fall recently, does this mean the special dividend (bonus on encashment) has fallen too? No, quite the opposite: special dividends have increased steadily over the past few years, and by more than annual dividends have fallen, so SuperCAPP investors have done well.

Rising special dividends



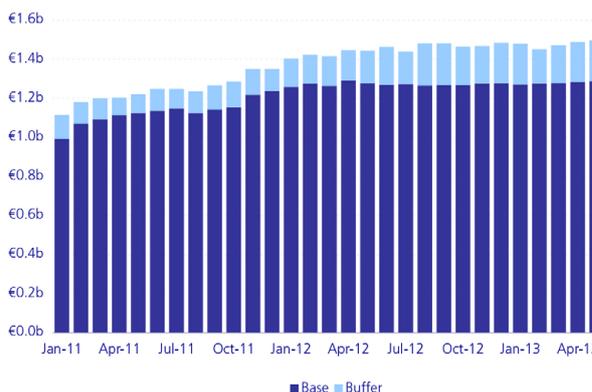
Source: Zurich Life

To learn more about the SuperCAPP Fund or any of the funds on the Prisma Platform, just speak to your local Zurich Life Broker Consultant or visit www.zurichlife.ie

But how can they move in opposite directions? It is because different processes drive them. The annual dividend is forward looking—what will the fund earn in the future. But special dividends are backward looking—what has the fund earned in the past. And the fund has performed very well over the past couple of years, driven mainly by its equity holdings. This has led to the current situation where, for example, regular-premium policies that started 5–10 years ago would be entitled to a special dividend of 8% if they encashed now, while single-premium policies would get 12%. And older policies would receive even higher special dividends.

The outlook for special dividends will depend on how the fund performs, particularly its equities. The higher equity markets go, the higher the special dividends will be. But while they will tend to head in the same direction, the fund’s investment strategy ensures special dividends will not be nearly as volatile as equities.

Healthier, stronger, bigger fund



Source: Zurich Life, May 2013



SuperCAPP Fund

Bond Bubble

But what about all the bonds the fund holds? There is a lot of talk about how the bond bubble is going to burst, so would this not jeopardize the security of the fund? No, and it could even be a positive for SuperCAPP investors. The fund does hold a lot of bonds, and their value would fall if the bubble burst. But, the fund holds a hedge on the bonds, in the form of assets that increase in value if bonds fall. So, if the bubble burst, the bonds and hedge would offset each other, leaving a negligible impact on the fund and the special dividends. And a fall in bonds would mean their yields would rise, so the sustainable return would be higher, and we could then increase the annual dividend. So, far from being a negative for SuperCAPP investors, a bubble burst would probably be of benefit to them.

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Warning: The income you get from this investment may go down as well as up. The value of your investment may go down as well as up. Benefits may be affected by changes in currency exchange rates. Past performance is not a reliable guide to future performance.

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