

Actively Navigating Volatile Markets

Investment Outlook 2017



A Message to Investors

Despite economic uncertainties,
relative value still favours equities

Dear Investor,

As we begin another year of active investing, it's worth reflecting on 2016 and the year that was. A sharp equity correction, concerns over China, and even recession fears earlier in the year were displaced by two significant and unforeseen political events later in the year. The Brexit referendum result and the election of Donald Trump as the 45th president of the United States caught most commentators off-guard. Those same commentators were also confounded by how quickly equity markets regained their poise and moved higher shortly after those events.



We've said on several occasions that we are not market forecasters and the tumultuous events seen in 2016 underscore that stance. Being in tune with market trends, having a flexible stance but maintaining conviction is our approach and one we have persisted with for many years now. Historical patterns suggested to us that 2016 could be another year of volatility - which is what happened - allowing us to actively navigate through times of market stress. We believe that volatility presents opportunities for active managers, and the active asset allocation decisions that we made, in particular in the latter part of the year, led to strong returns across the large majority of our funds.

We see two main trends continuing into 2017 - volatility in investment markets and positive returns from equities. We remain focused on our top-down view of the world - where economic and market cycles drive asset allocation preferences - combined with a due regard for price trends and risk control.

We feel that the balance of evidence backs our current market stance: namely heavy equity positions, low fixed income weightings and high exposure to a strong dollar. We are always alive to extremes of sentiment or valuation that might arise and recognise that some of our views are becoming consensus views now. So we expect to get opportunities during the year to reposition our asset allocation or currency exposures, either tactically or for the longer term.

Thank you once again for your support throughout 2016, and indeed over the last 27 years. Looking forward into 2017 we hope to continue to work closely with you to provide positive outcomes for customers and to help them meet their investment objectives.

A stylized, handwritten signature in black ink, appearing to be 'DW'.

David Warren
Chief Investment Officer



Key Highlights



Equities are still the more attractive asset class on relative valuation grounds



Ultra-low bond yields – an unattractive long-term investment?



Investment Markets volatility to continue



Investment Outlook 2017

Since our last investment outlook the political and investment landscape has changed considerably. We think that the Trump election, China stimulus and some modest rise in global inflation can push equity markets in general further along their structural and cyclical uptrend.

Equities are above fair value, but not excessively so, and remain attractive versus ultra-low bond yields.

Long-term eurozone bond yields reached fresh all-time lows towards the end of June 2016. Market action suggests the end of a multi-decade period of declining long term interest rates. Central Bank divergence is also likely to continue.

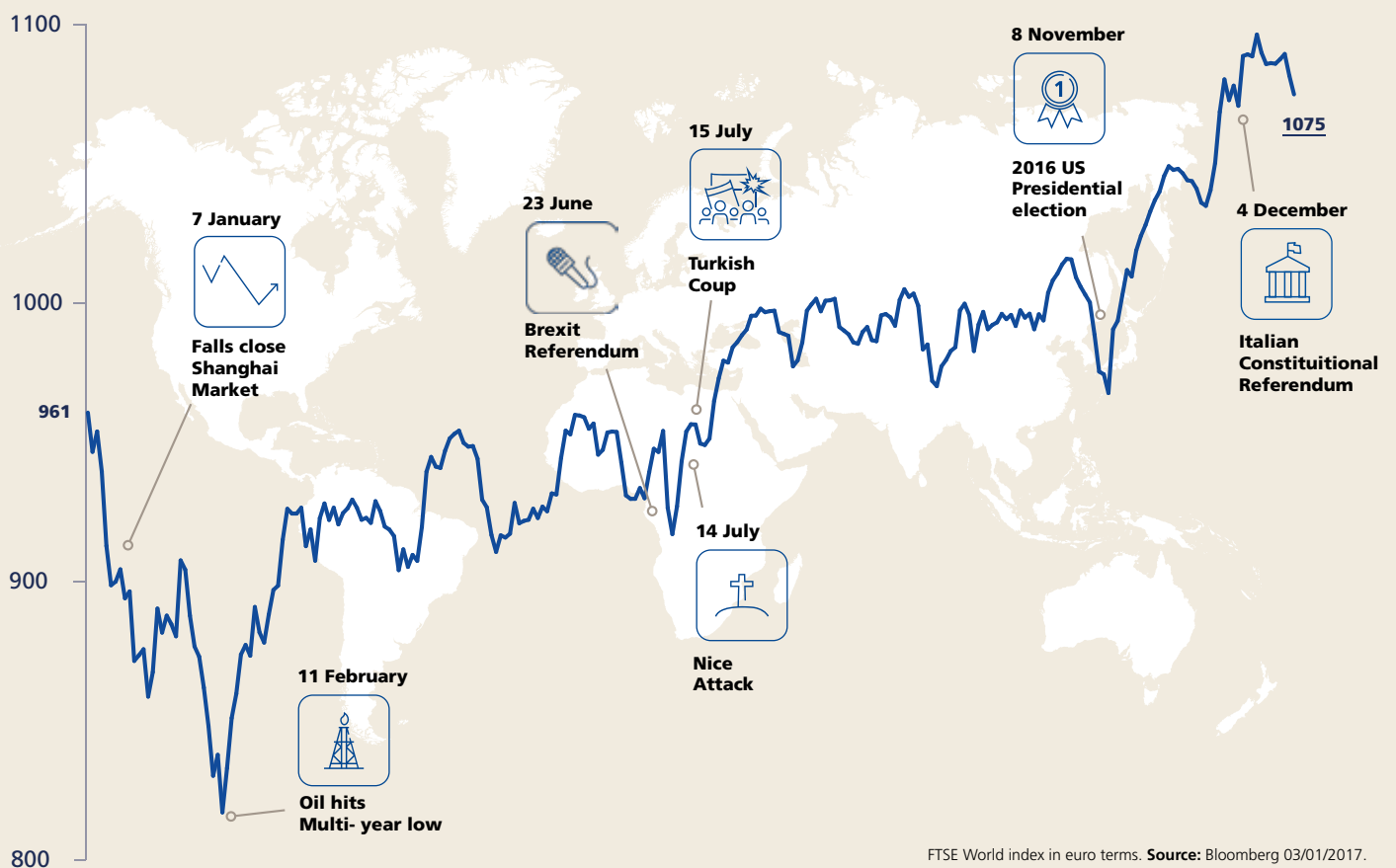
We don't anticipate that equities will be undermined by a modest rise in long term interest rates.

A strong dollar may persist but opportunities will periodically emerge in currencies that are currently weak.

Investors need to prepare for, but not be deterred by, volatility, which will remain a feature of the landscape for the period ahead, as investors adjust to the end of ultra-accommodative monetary policies.

World Review of 2016

Markets withstood geo-political shocks



FTSE World index in euro terms. Source: Bloomberg 03/01/2017.

Global growth expectations have stabilised and improved

Global growth prospects have stabilised and economic indicators are encouraging for the 2017 outlook.

- The US is experiencing one of the longest economic expansions in its history.
- In Europe the move from ongoing austerity into limited fiscal expansion continues.
- Monetary policy remains highly accommodative globally, and credit conditions continue to improve.
- Despite political changes in the US, UK and France, the markets are now focused on structural factors that could drive more dynamism in those economies.
- UK growth may be negatively affected by Brexit.
- Economic growth in the eurozone could be held back by contagion effects following the UK referendum result.

Upside risks to outlook

- Global growth bounces, buoyed by reflationary fiscal policies in US, China.
- Commodity prices continue to rise, allaying deflationary fears.
- Monetary policies remain supportive globally.
- Interest rate increases in the US are interpreted as a vote of confidence in the economy and a welcome return to normality.

Downside risks to outlook

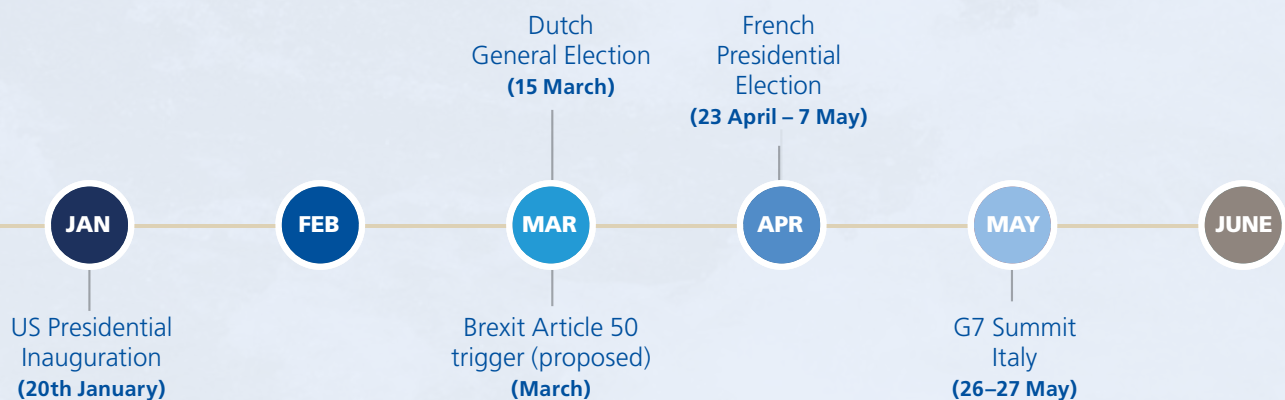
- Economic growth slows in Europe and elsewhere due to concerns that the new US administration may introduce trade protectionism, stalling global growth.
- Monetary policy tightens more than anticipated in the US; how will markets react?
- Upcoming elections in France and Germany pose political risks for Europe next year, while structural risks remain; hard or soft Brexit?
- Further Chinese devaluation of the yuan would be a drag on growth and inflation in the rest of the world.
- Geo-political risks remain with the ISIS conflict and the migration crisis in Europe.

Equities

Equities are still the more attractive asset class on relative valuation grounds

- On an absolute basis equity markets are more fully valued, and are above historical averages.
- A boost to earnings – in line with some modest improvement in global economic activity and perhaps a small lift to inflation from a low base – would be supportive.
- Relative to bonds – which remain on highly elevated valuations – equity markets are favourably valued.
- We see the equity market still with further upside despite the broad gains in global markets over the past number of years.
- Investors remain poorly positioned in terms of asset allocation and we do not yet see the signs of euphoria that would signal a cyclical or structural end to the equity bull phase.
- At some stage a shock to equities could emerge from rising bond yields or inflation.
- Consensus expectations for earnings growth in 2017 remain at 12%.
- The structural backdrop in the Eurozone is not positive and further fears of a crisis may emerge. Asia and Japan should offer interesting opportunities in the year ahead. The US market arguably remains the 'cleanest' structural case for an equity investor but we remain alert to its absolute size in the global markets, the need for diversification, and its fuller valuation.
- The dividend yield on pan-European equities at 3.8% offers an income uplift compared to existing government yields whilst the US dividend yield at 2.1% is not as supportive.

Preview of 2017



Bonds

Ultra-low bond yields – an unattractive long-term investment?

- ECB policy rates should remain low for an extended period of time due to subdued economic growth and low inflation. The perception of deflationary risks has diminished and this could impact on ECB policy action.
- Valuations are not supportive of most European fixed income as a long-term investment.
- Bond market behaviour is consistent with the end of a multi-decade period of falling long term interest rates. This could be followed by a long period of choppy price action, but risks are skewed to the upside now.
- The US central bank is set to raise rates further in 2017 with risks being skewed to more hikes than the market currently expects.
- Inflation, although still at historically low levels, has seen a pick-up due to rising commodity prices and some upside wage pressures in the US. Since investors – and central bankers - have been focused on downside inflation risks for so long, it would not take much change on the upside to produce inflation concerns.

Important Central Bank Meeting Dates



The Federal Reserve

Mar 14-15	June 13-14	Sept 19-20	Dec 12-13
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European Central Bank

Jan 19	Mar 9	Apr 27	Jun 8	July 20	Sept 7	Oct 26	Dec 14
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Bank of Japan

Jan 30-31	Apr 26-27	Jul 19-20	Oct 30-31
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G20 Summit
Hamburg
(7-8 July)

JULY

AUG

SEPT

German
General Election
(Expected late
September)

OCT

Chinese Communist
Party Congress
(November)

NOV

OPEC meeting
(Q4 2017)

DEC

Currencies

Low intensity currency war continues

- As we have said on many occasions no major country has the inflation justification for actively pursuing a stronger currency. The US has been able to shoulder a stronger currency as other economies such as Eurozone, Japan and China have pursued weaker currencies actively, or as intended consequences from other policy measures. There are limits to the US's tolerance of this however.
- Currency weakness has been a deliberate preference for the eurozone but at some stage the valuation of the euro versus the dollar will become attractive enough to warrant hedging of dollar based investments.
- Japan's preference for a weaker currency is offset by its strong external position and the limits of the global 'zero sum game' of currency manipulation.

Commodities

- Donald Trump's election to the White House has increased expectations that the reflation trade will continue as fiscal spending increases.
- The price of oil is likely to be underpinned by a large reduction in capital expenditure by oil companies. The recent OPEC agreement on reducing the supply of oil further helps the oil price.

Calendar Year Performance for 2016

Delivering Positive Returns



Notes: Annual management charges (AMC) apply. The fund performance shown is before the full AMC is applied on your policy. Returns are based on offer/offer performance and do not represent the return achieved by individual policies linked to the fund. ESMA Ratings as at 30/09/16.

Source: Zurich Life as at 31/12/16.

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 product you may lose some or all of the money you invest.

Calendar Year Performance over 10 years

The Benefits of Diversification



	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Pathway 2	1.6	1	3.3								
Pathway 3	4.1	2.6	7.1								
Pathway 4	8.5	4.9	14.2								
Pathway 5	11.3	6.2	16								
Pathway 6	9.8	7.9	7.4								
Active Asset Allocation	8.1	4.9	14.6	3.9	10.5	-1.8					
Balanced	6.7	10	15.3	16.1	13.1	-2	11.1	22.3	-30.4	0.8	14.4
Performance	6.9	10.9	16.1	17.2	12.6	-2.4	11.4	25.8	-35.2	-0.2	16.5
Dynamic	7.4	11.8	15.8	19	13.1	-3.4	12.9	28.1	-37.8	0.3	17.9
Cautiously Managed	5.1	6.3	18.6	6.7	12.3	3.6	5.3	12.7			
5★5 Americas	14.1	11.8	28.8	24.7	10.2	-0.9	14.7	11.1	-22.9	5.9	3.1
5★5 Asia Pacific	10.4	5.7	9.2	2.6	16.7	-8.5	6.9	47.3	-49.6	20.2	20.9
5★5 Europe	4.8	17.5	8.6	23.6	28.8	-8	6.4	28.7	-43.9	4.6	26.3
5★5 Global	4.5	13.3	13.3	17.6	16.2	-6.4	12.3	18	-35.8	3.2	10.9
Invesco Global Targeted Return	2.1	1.6									
Active Fixed Income	4.7	1	20.3	2.4	12.8	6.5	1	4.2	12.3	0.4	-1.6
Asia Pacific Equity	11.4	0.8	10.5	1.6	19.6	-9.8					
Long Bond	6.3	1.8	28.2	1.5	14.6	6.3	1.3	3.2	11.6	-2	-3
Cash	-0.8	-0.5	-0.3	-0.4	-0.5	0.4	-0.2	0.1	3.5	3.5	2.5
Irish Equity	-0.8	38.5	16	33.7	19.6	5.5	1.1	27.1	-63.8	-21.9	36.4
Dividend Growth	17.3	6	18	20.1	18.9	0	19.1	28	-39.7	-13.7	19.6
International Equity	10	10.7	17.7	20.6	13.5	-3.7	16.9	26	-36.1	3.7	10.4
Eurozone Equity	5	11.7	4.3	25.5	24	-12.9	7.7	32.3	-39.3	11.3	24.1
Fund of REITs	-11.2	27.4									
Indexed Australasia Property	11	2.4	26.1	-10.3	34.5	-14.9	28.2	68.1	-58.3		
Indexed Eurozone Ex UK Property	3.9	16.6	20.6	3.8	24.5	-13.2	20.9	36.5	-35.8		
Indexed Global Energy and Metals	21.5	-20.2	-12.4	-5.3	-2.9	0.5	16.4	18	-48.9	19.5	
Gold	12.3	-2.3	12.8	-31.4	3.4	14	35.4				
Indexed Inflation Linked Bond	3.4	0.1	4.6	-4.4	10.3	-1.8					
Protected 70	1.4	6.4	10.4	13.1	7.5	-6.5					
Protected 80	-0.3	4.2	7.1	9.3	4.4	-5.6					
Protected 90	-2	1.3	2.6	2.7	0.8	-3.9					
JP Morgan Global Corporate Bond	3.2	-0.7	7.2	-0.2							
JP Morgan Global Government Bond	1.3	0.6	8.1	-0.8							
JP Morgan Emerging Market Opp	17.1	-11.5	12.5								
Dynamic Diversified Growth	-2.5	-1.7	5.1	5.9	6.4						
Threadneedle American Select	17.5	9.9	21.3	24.5	15	5.3	20.6	31.7	-37.4	6.6	-0.5
Threadneedle European Select	0.1	13.9	12.9	15.7	26.4	-1.1	26.1	29.9	-41.4	3	22.6
Threadneedle Global Select	9	12.1	17.1	20	13.8	-5.5	22	27.3	-38	5.8	8.3
Indexed Top Tech 100	9.8	21.4	34.7	29.9	15.5	6.2	27.6	49.1	-39.2	6.9	-4.2

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An active approach to investing money

At Zurich we aim to deliver long-term consistent investment performance.

We believe that people need people to look after their money so we take a 'hands-on', active approach to selecting the right assets and the right stocks to fit investment portfolios.

Financial markets will always give opportunities to good active managers to deliver better performance so we position ourselves to capture that.

Our investment team, based in Blackrock, Co. Dublin, is responsible for funds under management of approximately €20 billion, of which pension assets amount to €9.5 billion.

*Source: Zurich Life, 30 September 2016.



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