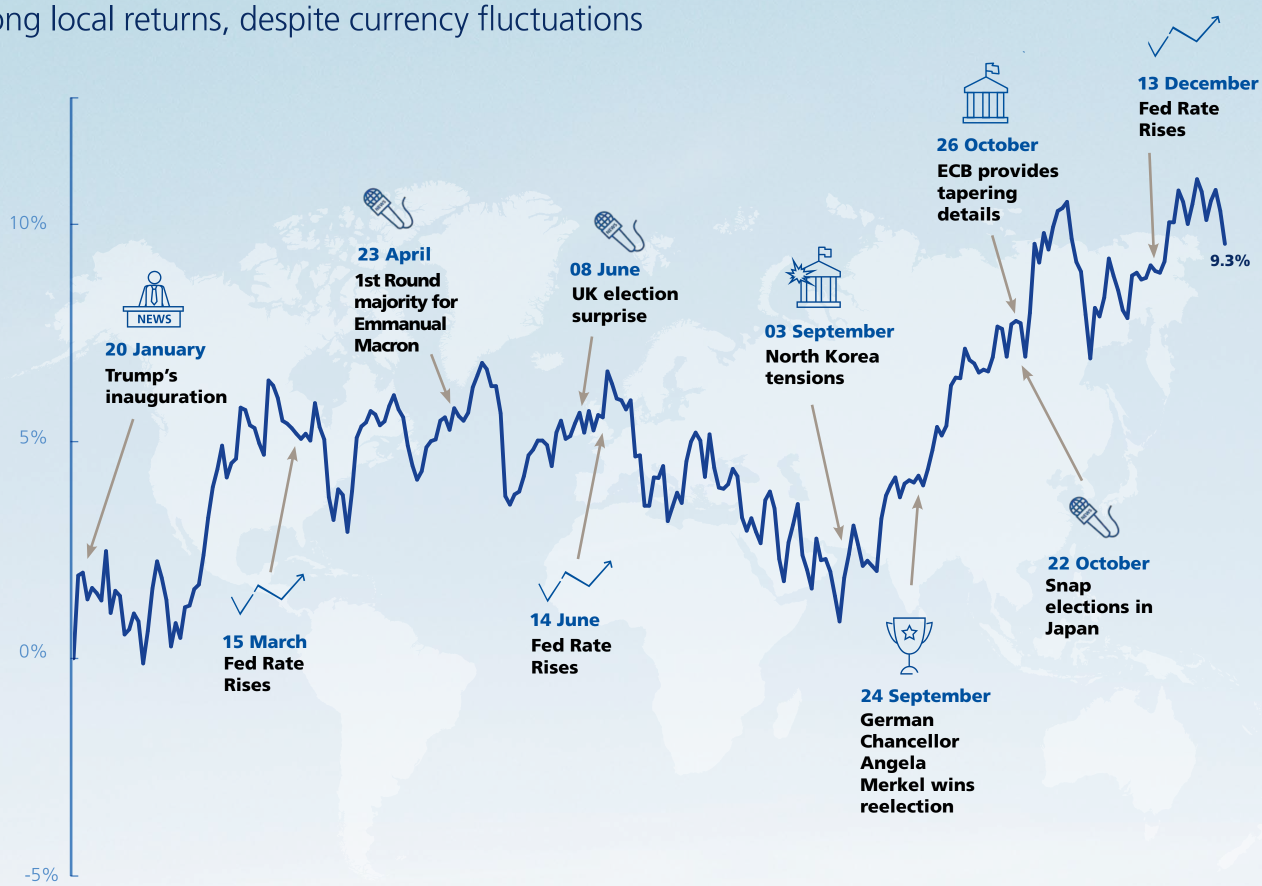
Zurich Investments

Positive outlook, but mindful of risks

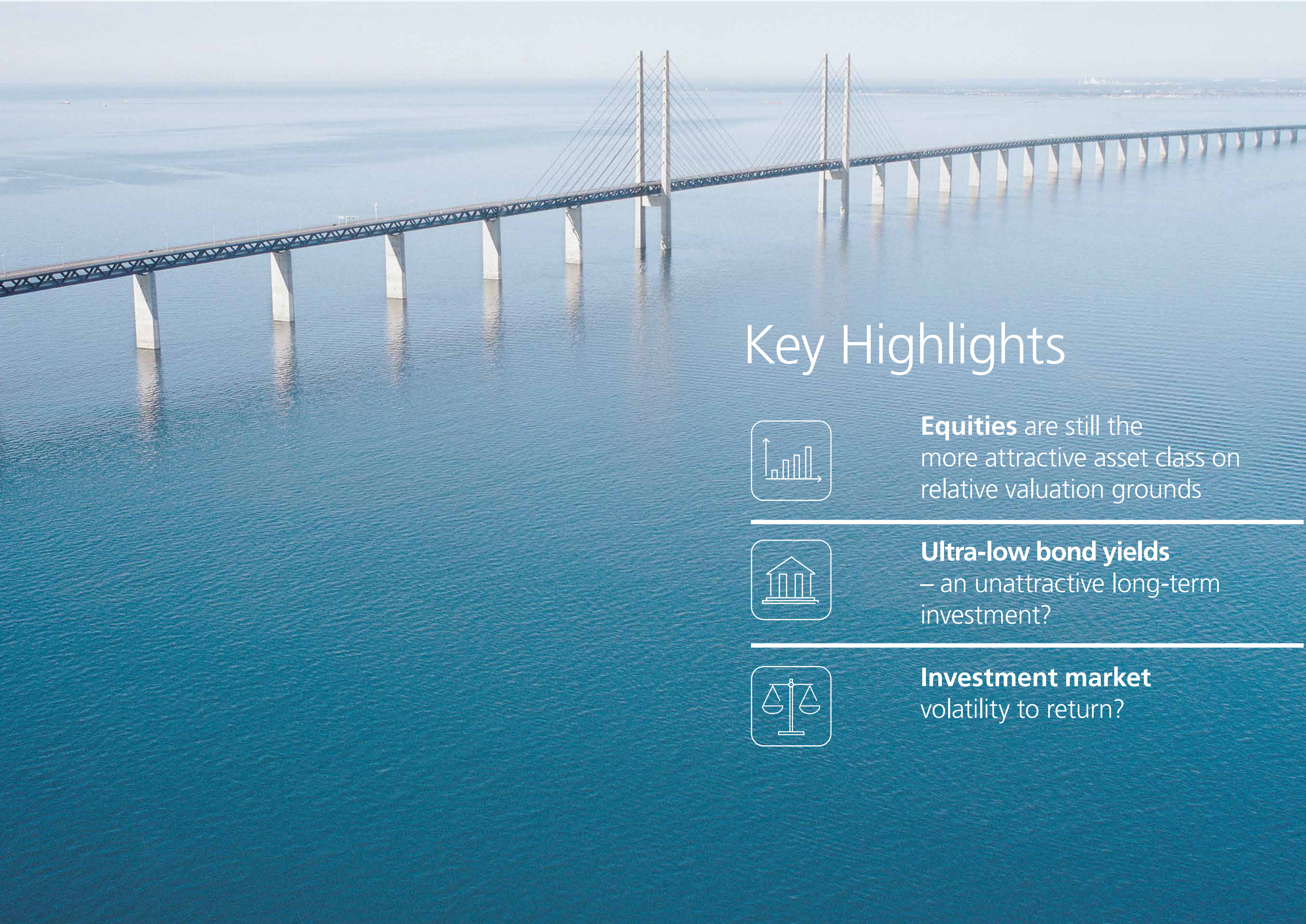
Investment Outlook 2018

World Review of 2017

Strong local returns, despite currency fluctuations



Source: Zurich Life International Equity Fund



Key Highlights

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

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

Investment market volatility to return?

Relative value still favours equities, as economic growth strengthens

Dear Investor,

We have just experienced another strong year in equity markets - global equity markets in euro terms have gained 9% - and in some segments of the market such as technology it has been an exceptionally strong year. Our broad view is that while equities are expensive relative to their own history there are more gains in this secular equity bull market. But as we've signalled for some time investors need to be prepared for the type of volatility that is more typical of this stage of the cycle, even if that has been pretty much absent in the past year. For now our bias remains to add to risk during any periods of market nervousness.

There is a level of anxiety in the equity market that is not normal at this stage of a prolonged and very substantial equity advance. The phrase ' the most unloved equity bull market in history' is still being heard. In the same vein more than one commentator has described equity market bullishness as 'a mile wide and an inch deep' i.e. that positive sentiment is pervasive but shallow. Short term investor sentiment seems to evaporate as a result of even the smallest market drop. And yet we have had very few market drops this year. In the past 12 months there have been less than 10 days in which global markets for a euro investor have fallen more than 1%, and none of those were greater than 2%.

Many commentators have been puzzled by this apparent stability but no cycle is the same - history rhymes rather than repeats - and our preferred approach is to look at the overall evidence rather than be transfixed by one factor. We have participated in a clear strong upward trend in equity prices and we want continue to do so. But balancing this is another key part of our job, which is to be aware of the level of risk in the markets. Equity valuations are clearly stretched on their own terms even if they look cheap compared to historically expensive sovereign bond markets. Risks rise as valuations go higher - as has happened in the last number of years - so we are left with an expensive market with higher risks. However, that is standard at this stage of the cycle; it's something to be conscious of rather than feared; managed rather than avoided.

At some stage markets will peak and have a cyclical or even a more prolonged correction. There are a myriad of factors to keep people out of the markets but oddly enough it's the same list that has been presented for the past number of years. We're very conscious of the secular backdrop of high debt levels, the still continuing healing post the great financial crisis, and the distortions to free market prices caused by central bank interventions in money, credit and bond markets - even if these have been necessary in many cases. Yet none of these are reasons to shy away from markets. Rather they are the specific and possibly peculiar characteristics of this cycle. Allied to the standard geo-political concerns and a lively debate about active and passive management we have plenty of fuel for debates among market participants and reasons to adopt a negative or positive market bias.

Our aim is to understand and to navigate through these debates, to actively manage both active asset allocations and security selection and to successfully participate in markets. That way we hope to continue to add value for advisors and customers.

David Warren
Chief Investment Officer

Positive outlook, but mindful of risks

Markets saw a positive 2017 which was led by improving economic data, good corporate earnings growth and the potential for expansionary economic policy by the US administration. The current equity bull market, which began in March 2009, is now the second longest and strongest in history. However, from a eurozone investor perspective, gains in international markets were significantly eroded during 2017 by a strengthening euro currency.

Synchronised growth is increasingly evident across the globe and growth expectations continue to be revised upwards. Economic indicators are encouraging in the medium term and growth prospects for the global economy are improving.

Monetary policy still remains accommodative globally, and credit conditions continue to improve.

In Europe the economic data has consistently improved and political risk have also diminished.

The US is experiencing one of the longest economic expansions in its history.

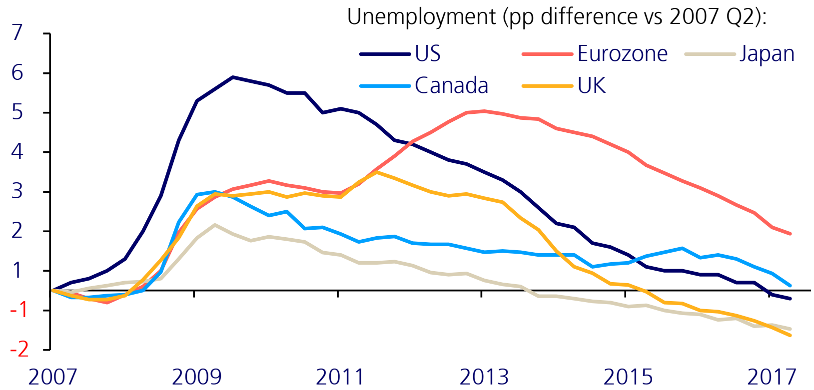
Equities are above long term average valuations, but not excessively as earnings have kept pace with price increases. They remain attractive versus historically low bond yields.

Despite numerous political events throughout 2017, markets are now more focused on structural and fundamental factors that could drive growth in economies across the globe.

Market action suggests the end of a multi-decade period of declining long term interest rates but we do not anticipate that equities will be undermined by a modest rise in these rates. Opportunities will periodically emerge in currencies that have recently been weak.

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

A decade after the crisis, many labour markets are tight



Source: Bloomberg

Equity Market Review

Global GDP forecasts have continued to recover posting 3.6% in 2017 with a further 3.7% expected in 2018. This is a positive back drop for equity markets, with Europe and Asia showing more positive economic data, especially versus expectations at the beginning of 2017.

Earnings growth has been strong with good momentum in both sales growth and earnings per share; particularly in the first half of 2017 where results came in well ahead of analysts' expectations. The outlook for 2018 earnings growth is also positive. So while equity valuations are not particularly cheap the strength we are seeing in company earnings is supportive of equity markets. Business and consumer confidence continues to improve and that also supports improving economic conditions.

Diminished European political risk is now evident in the market. Several elections in 2017 saw pro market results which led to equities rallying strongly. The Catalonian pro-independence parties won a majority in the recent regional election. It remains to be seen how the regional coalition government will be formed and how their relationship with the Federal government will evolve. The Italian general election will be held in early March 2018 and there will be no clear winner according to the current electoral polls, this will potentially create volatility. The US equity market has also benefitted from the progress of tax reform and the prospect of further fiscal stimulus under the US administration.

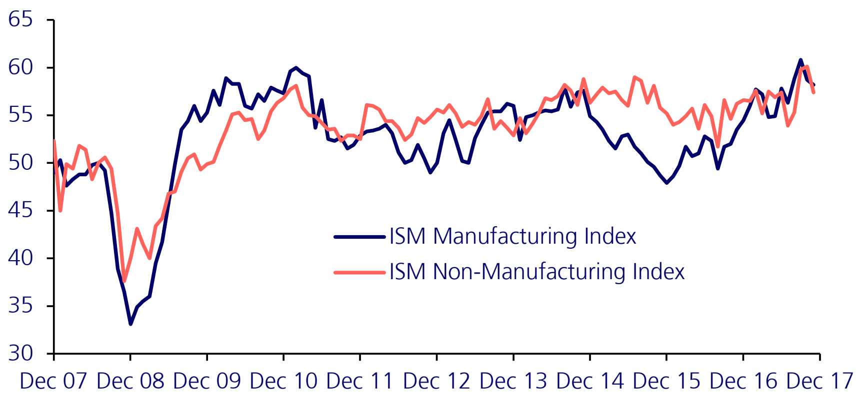
Zurich has remained positive on equities since the middle of 2016 with the equity content of our multi-asset funds at the high end of their equity ranges. A preference for the US and Asia over Europe was held at the start of 2017, in early March that was switched to a regional preference of Europe and Asia. Equities remain the favourite asset class from a relative valuation perspective.

Equities Outlook

Equities remain the most attractive asset class from a relative valuation perspective, with projected global earnings growth of 12% for 2018.

- On an absolute basis equity markets are more fully valued, and are above historical averages.
- A boost to earnings – in line with an 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 still see equity markets having further upside despite the broad gains in global markets over the past number of years. Earnings have been positive and supportive of the market, and could continue to be in the future.
- 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 an accelerated rise in bond yields or inflation.
- The cyclical backdrop in the eurozone is improving and some structural risks have been alleviated. However, fears of a crisis could re-emerge. Asia and Japan should offer interesting opportunities into 2018.
- The dividend yield on pan-European equities at 3.3% offers an income uplift compared to existing government yields, whilst the US dividend yield at 1.8% is not as supportive.

Business sentiment reaches the highest level in more than a decade



Source: Bloomberg

Fixed Income Review

Bond yields are still very low, particularly in Europe. The ECB has continued its dovish tone, emphasising that inflation remains low and wage inflation subdued. 2018 should see the peak expansion of combined Central Bank balance sheets, as the transition from Quantitative Easing (QE) to Quantitative Tightening begins in earnest.

Eurozone interest rates have not changed since they were moved downwards in March 2016. In the US, the Federal Reserve hiked 3 times in 2017. Fed Chair Janet Yellen will be replaced by Jerome Powell in February 2018, with commentators seeing this as a continuation of the current policy strategy.

Zurich remains cautious on bonds as yields remain towards their lows and fixed income valuations do not look attractive at these levels.

Fixed Income Outlook

- ECB policy rates should remain low for an extended period of time due to low inflation. Although the perception of deflationary risks has diminished, a sustained pickup in inflation remains elusive.
- Valuations are not supportive of most European fixed income as a long-term investment.
- The price action of global bond markets is consistent with the end of a multi-decade period of falling long term interest rates. Although price action could be choppy, we feel that the risk / reward backdrop is now skewed towards the prospect of higher yields.
- 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. Low levels of inflation are a key focus for market participants and central banks alike. It's safe to say that the path of inflation expectations during 2018 will be a key driver for financial assets. Credit markets have performed strongly and benefitted from strong investor inflows. A key test will arise when the market needs to digest sizeable credit outflows, if and when sentiment changes.
- The flattening of the US yield curve (the difference between 2 year and 10 year US yields) has become a focus for markets. We do not feel that it is yet a cause for investor concern.

Preview of 2018

World Economic Forum
(23-26 January)
JAN

Fed Chair Janet Yellens' Term ends
(3 February)
FEB

Presidential Elections Russia
(18 March)
MAR

Bank of Japan Governor Term Expires
(8 April)
APR

General Elections Italy
(20 May)
MAY

G7 Meeting Quebec
(8–9 June)
JUNE

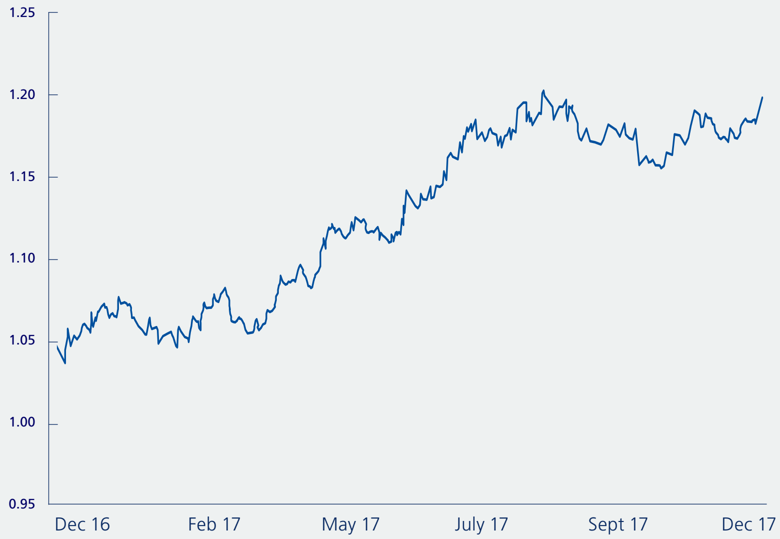
Currencies

The US Dollar weakened materially (~14%) versus the Euro in 2017. A significant repatriation of foreign earnings by US companies due to tax changes could reverse this move in 2018. The cost of hedging US Dollar into Euro is increasing as the US hikes interest rates.

Sterling remains relatively weak versus the Euro. This may be a good time to get long term exposure to UK assets.

We struggle to see the value in Bitcoin as an investment. The main rationale for buying Bitcoin is to sell it to someone else in the near future.

Euro strenghtens significantly against the dollar



Source: Bloomberg

Commodities

Copper was a stand-out performer in commodity markets during 2017. Labour strikes in Chile during the first quarter of the year limited supply. Global growth has become more wide-spread and robust fuelling demand which helps economically sensitive commodities such as copper. New supply in 2018 is likely to be limited leaving the supply/demand balance more positive for copper than other industrial metals.

Gold price action was muted during 2017. Two reasons for strength in gold are often cited - inflation fears and as an alternative to financial market turmoil. Neither of those scenarios developed during the year. In fact some commentators see the likes of Bitcoin challenging gold as an alternative asset. We still think gold has a place in a diversified portfolio as a hedge against financial unrest, wheras Bitcoin doesn't.

Oil prices were supported by a few factors in 2017 - Hurricane Harvey in the US, unexpected high profile arrests in Saudi Arabian corruption probes, and stronger compliance on OPEC led production cuts. As with copper, an upswing in global activity has helped fuel demand but, fears of large additional supply as oil prices rose did not materialise as expected. For 2018 major price appreciation for oil is likely to be limited.

General Elections Mexico
(7–8 July)
JULY

Jackson Hole Symposium
(Late August)
AUG

Central Bank Meetings
(During September)
SEPT

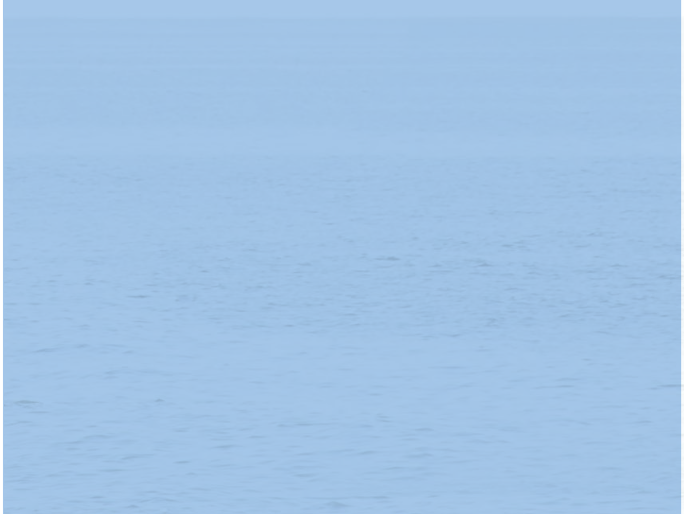
Annual Meeting IMF & World Bank
(13–14 Oct)
OCT

US Mid Term Elections
(6 November)
NOV

G20 Summit Buenos Aires
(30 Nov -1 Dec)
DEC

Upside risks to outlook

- Global growth is synchronized and accelerating, building on the momentum from 2017.
- The Eurozone enjoys a robust upswing in cyclical growth.
- Monetary policies remain accommodative globally.
- Interest rate increases in the US are interpreted as a vote of confidence in the economy and a welcome return to normality.
- Continuing technological progress helps global productivity and output.

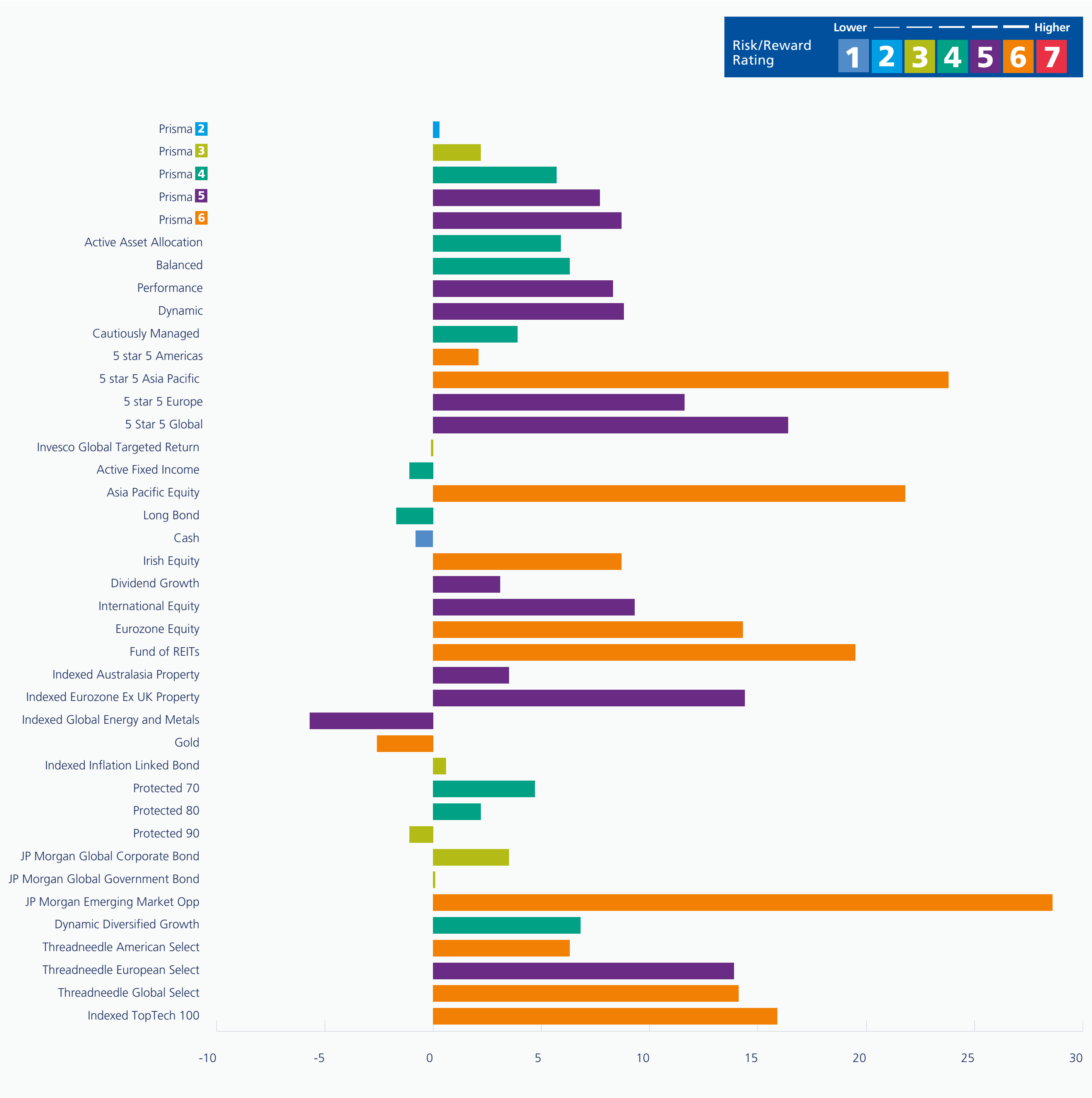


Downside risks to outlook

- Monetary policy tightens more than anticipated in the US; how will markets react?
- ECB policy action, including an end of the QE programme, could weigh on markets.
- Upcoming elections in Italy, and potentially in Germany, the UK and Ireland, pose some political risks for Europe for 2018. Structural risks also remain; most evident in the ongoing Brexit negotiations.
- US – China relations deteriorate, where geopolitical and further protectionist rhetoric could weigh on markets.

2017 Performance

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 30/09/17.

Source: Zurich Life as at 31/12/17.

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 since 2007

The Benefits of Diversification

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Prisma 2	0.3	1.6	1	3.3							
Prisma 3	2.2	4.1	2.6	7.1							
Prisma 4	5.7	8.5	4.9	14.2							
Prisma 5	7.7	11.3	6.2	16							
Prisma 6	8.7	9.8	7.9	7.4							
Active Asset Allocation	5.9	8.1	4.9	14.6	3.9	10.5	-1.8				
Balanced	6.3	6.7	10	15.3	16.1	13.1	-2	11.1	22.3	-30.4	0.8
Performance	8.3	6.9	10.9	16.1	17.2	12.6	-2.4	11.4	25.8	-35.2	-0.2
Dynamic	8.8	7.4	11.8	15.8	19	13.1	-3.4	12.9	28.1	-37.8	0.3
Cautiously Managed	3.9	5.1	6.3	18.6	6.7	12.3	3.6	5.3	12.7		
5★5 Americas	2.1	14.1	11.8	28.8	24.7	10.2	-0.9	14.7	11.1	-22.9	5.9
5★5 Asia Pacific	23.8	10.4	5.7	9.2	2.6	16.7	-8.5	6.9	47.3	-49.6	20.2
5★5 Europe	16.4	4.8	17.5	8.6	23.6	28.8	-8	6.4	28.7	-43.9	4.6
5★5 Global	11.6	4.5	13.3	13.3	17.6	16.2	-6.4	12.3	18	-35.8	3.2
Invesco Global Targeted Return	-0.1	2.1	1.6								
Active Fixed Income	-1.1	4.7	1	20.3	2.4	12.8	6.5	1	4.2	12.3	0.4
Asia Pacific Equity	21.8	11.4	0.8	10.5	1.6	19.6	-9.8				
Long Bond	-1.7	6.3	1.8	28.2	1.5	14.6	6.3	1.3	3.2	11.6	-2
Cash	-0.8	-0.8	-0.5	-0.3	-0.4	-0.5	0.4	-0.2	0.1	3.5	3.5
Irish Equity	8.7	-0.8	38.5	16	33.7	19.6	5.5	1.1	27.1	-63.8	-21.9
Dividend Growth	3.1	17.3	6	18	20.1	18.9	0	19.1	28	-39.7	-13.7
International Equity	9.3	10	10.7	17.7	20.6	13.5	-3.7	16.9	26	-36.1	3.7
Eurozone Equity	14.3	5	11.7	4.3	25.5	24	-12.9	7.7	32.3	-39.3	11.3
Fund of REITs	19.5	-11.2	27.4								
Indexed Australasia Property	3.5	11	2.4	26.1	-10.3	34.5	-14.9	28.2	68.1	-58.3	
Indexed Eurozone Ex UK Property	14.4	3.9	16.6	20.6	3.8	24.5	-13.2	20.9	36.5	-35.8	
Indexed Global Energy and Metals	-5.7	21.5	-20.2	-12.4	-5.3	-2.9	0.5	16.4	18	-48.9	19.5
Gold	-2.6	12.3	-2.3	12.8	-31.4	3.4	14	35.4			
Indexed Inflation Linked Bond	0.6	3.4	0.1	4.6	-4.4	10.3	-1.8				
Protected 70	4.7	1.4	6.4	10.4	13.1	7.5	-6.5				
Protected 80	2.2	-0.3	4.2	7.1	9.3	4.4	-5.6				
Protected 90	-1.1	-2	1.3	2.6	2.7	0.8	-3.9				
JP Morgan Global Corporate Bond	3.5	3.2	-0.7	7.2	-0.2						
JP Morgan Global Government Bond	0.1	1.3	0.6	8.1	-0.8						
JP Morgan Emerging Market Opp	28.6	17.1	-11.5	12.5							
Dynamic Diversified Growth	6.8	-2.5	-1.7	5.1	5.9	6.4					
Threadneedle American Select	6.3	17.5	9.9	21.3	24.5	15	5.3	20.6	31.7	-37.4	6.6
Threadneedle European Select	13.9	0.1	13.9	12.9	15.7	26.4	-1.1	26.1	29.9	-41.4	3
Threadneedle Global Select	14.1	9	12.1	17.1	20	13.8	-5.5	22	27.3	-38	5.8
Indexed TopTech 100	15.9	9.8	21.4	34.7	29.9	15.5	6.2	27.6	49.1	-39.2	6.9

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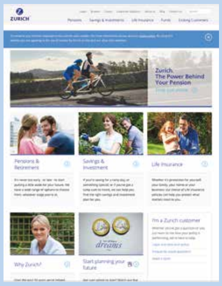
Webinars, Pre-Sales Reports, Portoflio Builders, Podcasts and much more. All designed to help you stay up to date and to keep your clients informed.

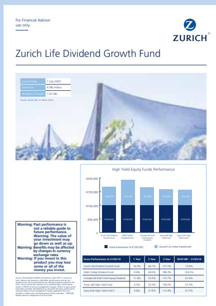


Reports

Showcasing the latest **investment thinking, fund updates and performance information** from Zurich Investments.

Analysis

Providing information on **individual funds, market performance, and investment sales ideas.**



Live

With the Zurich Invesment front office based here in Ireland, and with a dedicated Investment Sales Team, we are able to provide **support for client presentations, investment seminars, and in-house investment workshops** directly with our fund managers.

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