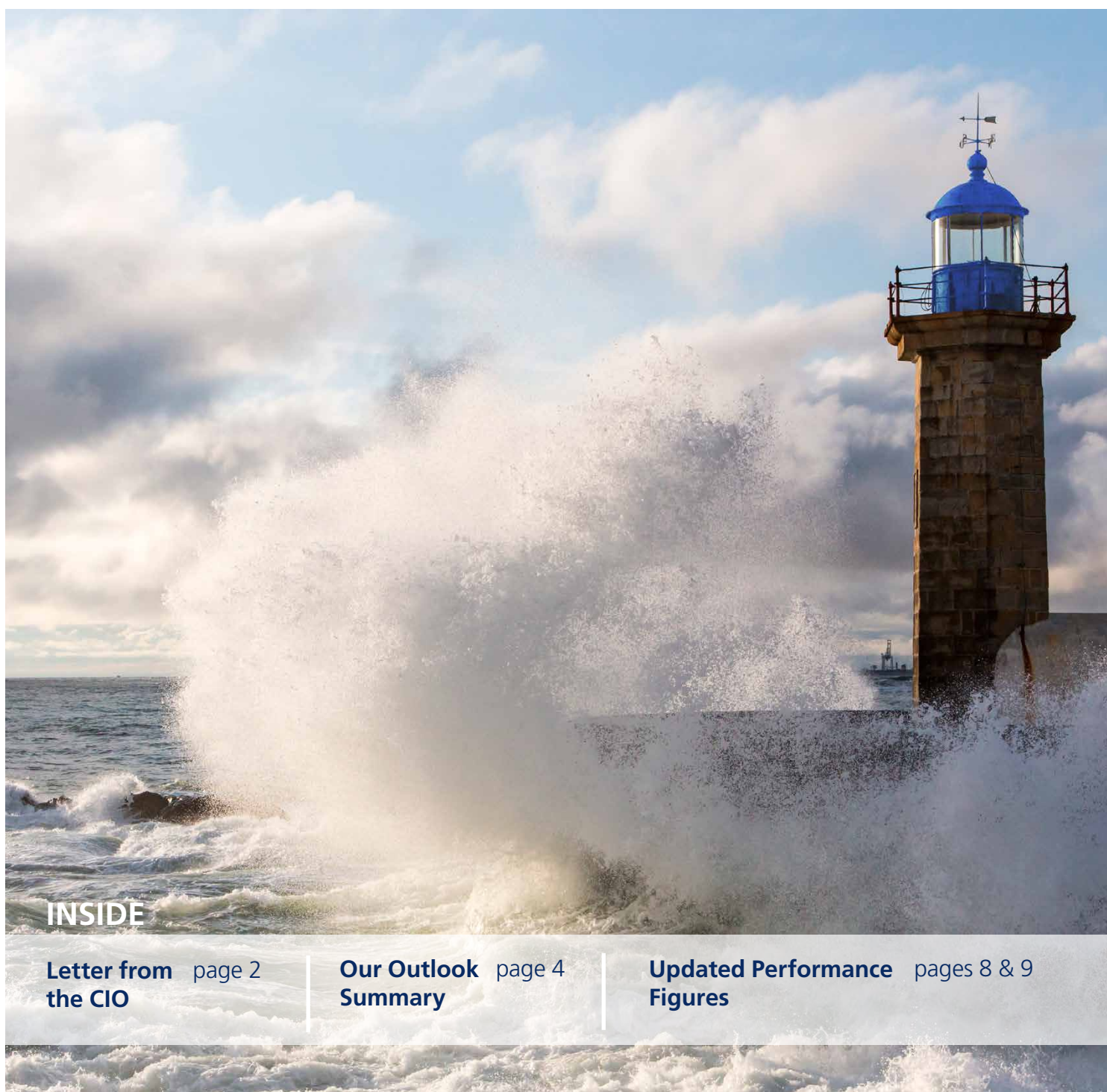


Be prepared for choppy waters

An active and vigilant approach is required



INSIDE

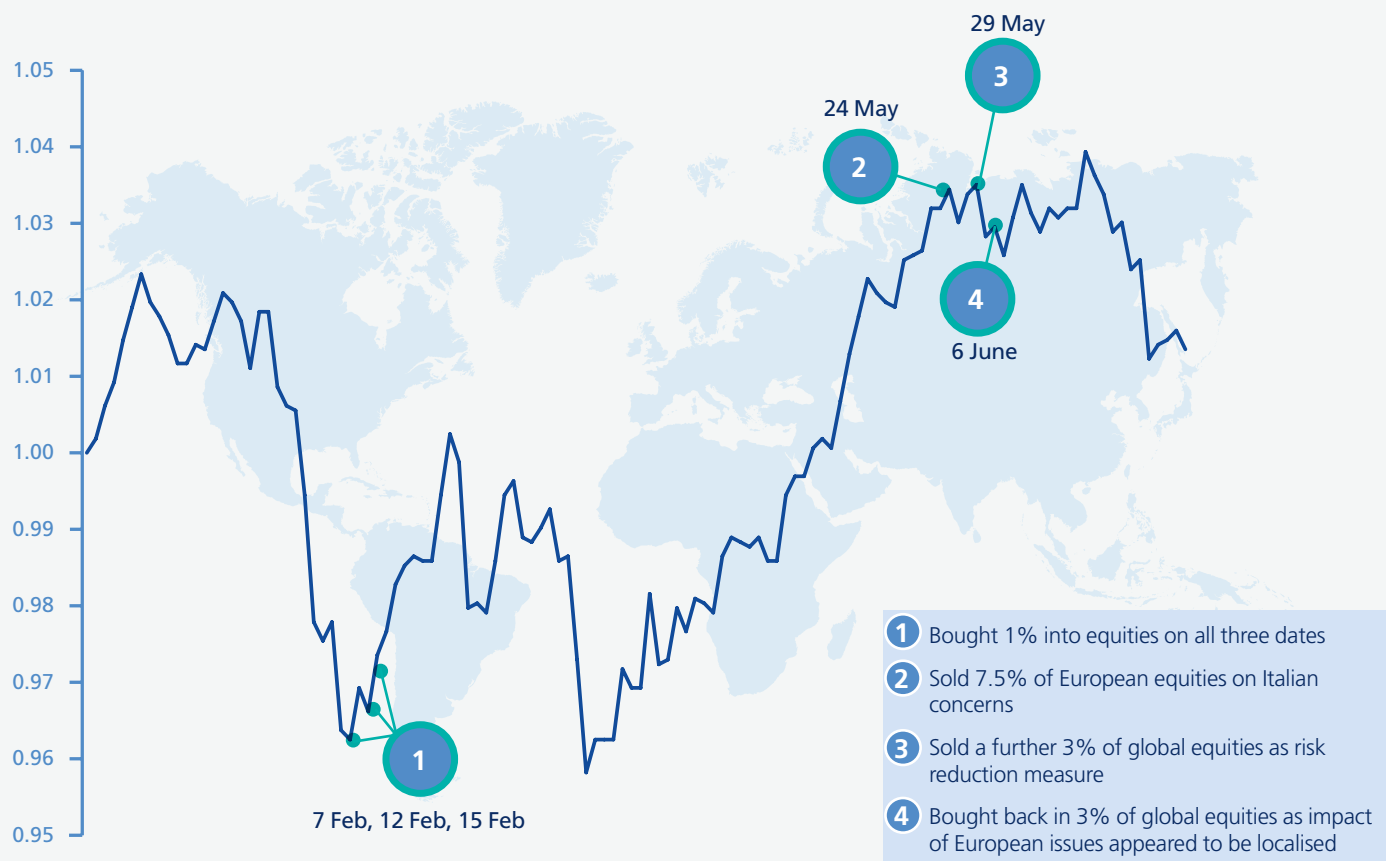
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World Review of 2018

Equities move higher in volatile markets



Source: Zurich Life Active Asset Allocation Fund
01/01/2018 – 01/07/18.

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 has returned

Trade issues add to late cycle market volatility; we remain both active and vigilant



Dear Investor,

The last of these letters looked back at 2017 as a year of solid gains in equity markets and an exceptionally – if not eerily – calm market environment. We concluded in January that while equities were expensive relative to their own history there were likely more gains to come in this secular equity bull market. That remains broadly our view today but we recognise that the risks we referred to for some time have had greater impact this year and market sentiment has taken a knock from trade-war concerns. For now our bias remains to add to risk during any periods of market nervousness but as ever we will adjust and communicate our view if the evidence changes.

It has been an unusual equity bull market in that there has been little evidence of euphoria despite the longevity and scale of the advance. We seemed to have experienced low level anxiety throughout the move and now transitioned to late cycle volatility and a heightened state of nervousness. It's akin to experiencing a mild hangover without having enjoyed the long party. It's at times like these we need to step back and try to distinguish signals from noise in the markets.

For the first half of the year global equities for a euro investor gained 2.75% and just over 1% on a local currency basis. These were modest returns and perhaps disappointing given the broadly positive backdrop at the beginning of the year. Indeed some markets and sectors have experienced much greater volatility and are in negative territory for the period; Chinese equities for example experienced a conventional bear market, falling almost 25% from their January high to current levels. But the backdrop has changed since the start of the year in a number of respects. The US will experience some additional tightening of interest rate policy than previously envisaged, European politics have emerged again as a reminder of Europe's structural challenges and there has been a significant escalation in trade policy differences between the US and other countries, with significant measures being announced by the US administration.

The trade piece is the new factor which has spooked investors. What is true is that markets are not factoring a full scale trade war and that economic growth, company earnings and equity market returns could be materially impacted if that were to arise. That is as close to fact as we get in markets. What is

conjecture is whether this will come to pass. The US has certainly upped the ante significantly and approved some anti-trade measures. Our current belief – as evident in our asset allocation positioning – is that all sides will recognise that in a world of global companies and interconnected supply-chains it is much more difficult than previously to direct measures against other countries that do not also impact your own country – even if we ignored the likelihood of retaliatory measures. Given the structural nature of globalisation and its long term impacts anything that undermines it has to be taken seriously and may indeed be a signal event for markets.

For now we continue to monitor and analyse our current belief, in particular whether feedback from companies to governments has any impact on the rhetoric used and actions taken. Also we need to be careful about 'catastrophising' the situation and focusing only on risks. We should be cognisant of equity market valuations being somewhat lower than at the beginning of the year – equities more attractive in theory – and that the structural equity bull market remains in place and that the broad bias in that situation is to buy corrections.

On the other hand bull markets do not have to end in high valuations and euphoria, governments do not always behave optimally when it comes to trade, and central banks can make policy errors and tighten policy too much, with impacts on credit and equity markets. It's also true that we can have cyclical equity market corrections within medium-term positive structural backdrops.

For now we think that some of the more supportive equity market factors that have been in the background in the past few months may reassert themselves and anxiety may dissipate. We will focus on the balance of evidence including market reaction and look to participate in the next significant move in markets. Finally we will communicate any material change in views in a timely fashion.

A stylized, handwritten signature in black ink, appearing to read 'David Warren'.

David Warren
Chief Investment Officer

The Year So Far

Markets so far this year can be characterised as a standoff between fundamentals, namely economic and earnings data, and geopolitical concerns, focused on the potential for a trade war and European political strife, most acutely felt in Italy.

2018 has most certainly seen the return of volatility to risk assets, particularly in equity markets. The year began with a surge in January before stronger-than-expected US wage growth shook markets at the start of February, as concerns about tighter monetary policy came to the fore.

Tariff posturing also emerged towards the end of the first quarter, with the US implementing initial tariffs on steel and aluminium with the retaliatory measures from trading partners threatening to escalate to a full blown trade war.

The concerns dissipated somewhat in April and following a robust Q1 earnings season from the US, equity investors were rewarded into May as companies posted a near 25% increase in earnings compared with last year. However, heightened US-China tensions returned mid-June and dampened

equity returns towards the half-year mark. This also resulted in bond markets experiencing some reprieve from what had been a move higher in yields.

Within Fixed Income the ECB confirmed in June that it will taper Quantitative Easing, with the conclusion of the programme expected at the end of this year. However it maintains a dovish policy stance, with the first rate hike expected to be after the summer of 2019. German 10-year bund yields have fallen this year, moving from 0.42% to 0.30% in the first half of the year.

US ten-year yields have risen this year, as the Fed continues to carefully tread the path of tighter monetary policy with two interest rate hikes in March and June, with another two increases expected by the market in 2018.

Volatility on the rise



Source Vix Volatility Index, Bloomberg 01/01/17 – 01/01/18 2018

Our Outlook Summary

Economic conditions are robust and growth is expected to remain above trend, while financial markets are in good shape, with upside for equities. But with increasing anti-establishment sentiment and mounting trade tensions risks have clearly risen.

We remain cautious in our outlook for European sovereign debt as the gradual withdrawal of accommodative monetary policy plays out. The current level of eurozone interest rates makes the long-term return prospects unattractive.

However, this position is held against the backdrop of increasing risks and headwinds for the global economy. As we move through the latter stages of the economic cycle a cautious, selective approach is warranted and a divergence in the economic fortunes of various countries is becoming more apparent. Volatility will likely be a feature of the investment cycle for the period ahead.

Whilst an all-out trade war is not the base case scenario it remains a threat and, given the risks it poses, a close monitoring of developments is required. With upcoming US mid-term elections in

November the US administration would appear to be determined to continue on the 'America First' policy path. It is likely that this narrative will be a feature of markets over the medium term.

Tighter monetary policy is beginning to bite in parts of the global economy (e.g certain EM currencies under pressure) and equities may have to digest a move to higher bond yields again during the second half of the year. Nonetheless central banks are not dogmatic in their approach and are prepared to temper the pace of tightening in the event of continued weakness in inflation and wages.

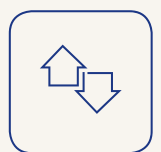
We are currently pro-risk, but continue to emphasize a dynamic approach to asset allocation as volatility re-emerges.

Upside risks to outlook

- Global growth is synchronised and accelerating, building on the momentum from 2017.
- 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.
- A resolution to trade tariff discussions materialises.

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.
- Political risk remains elevated within the Eurozone, most recently with the formation of a new Italian government and the migrant crisis which has disrupted domestic German politics. Structural risks also remain; most evident in the ongoing Italian and Brexit negotiations.
- US – China relations deteriorate, where geopolitical and further protectionist rhetoric could weigh on markets.



Equities Outlook

On a regional basis, US equities are outperforming at the expense of Europe and Asia Pacific. Europe and Asia Pacific are regarded as more cyclical markets and more exposed to global trade. Eurozone stocks are also being penalised for political concerns in a number of countries, namely Italy, which highlights again some of the structural concerns regarding the Eurozone and the EU as a whole.

Price-Earnings multiples for 2018 have come back to their 30-year average on the back of the recent market pullback, and we do not yet see the signs of widespread euphoria that would signal a cyclical or structural end to the equity bull phase. Overall, equities remain the most attractive asset class from a relative valuation perspective, with projected global earnings growth of 16% for 2018.

At some stage a shock to equities could emerge from an unforeseen rise in bond yields or inflation.

As we look into H2 a combination of strong earnings growth, material share buyback and selective M&A may help equities improve their performance.

There are early indications that the upcoming Q2 earnings season in the US will be positive and this could encourage a

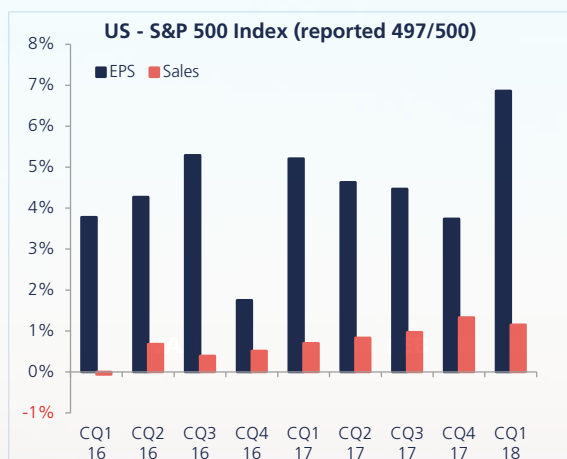
resumption of the equity rally. US stocks may continue to lead the way, Asian equities are attractively valued and could benefit from a reduction in global trade tensions.

The recent tax cuts seen in the US have the potential to provide a further boost to economic growth. However, it remains to be seen whether the policy will extend growth, or merely bring it forward – and actually shorten the economic growth phase of the current cycle. This, coupled with the concerns surrounding a rise in trade protectionism, poses key risks to equities going forward. Sector rotation has been an important theme throughout 2018 so far, and the ability to be selective on both a geographical and sectoral basis represents an opportunity for active managers.

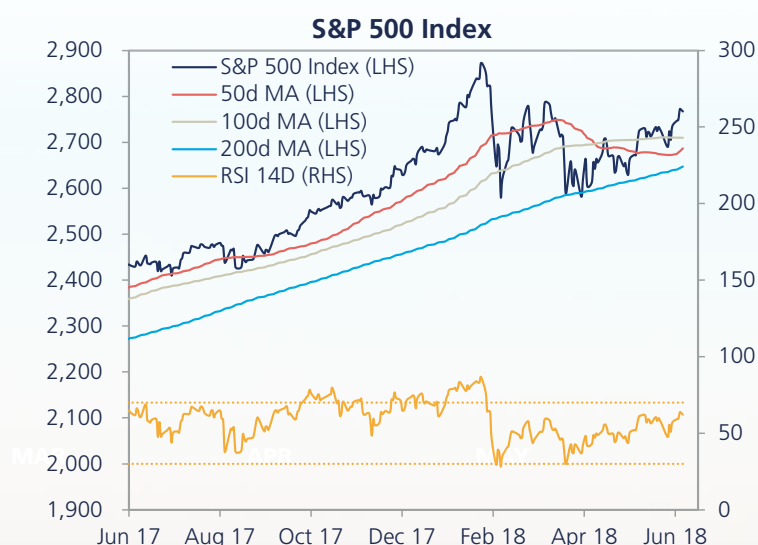
Zurich has remained positive on equities since the middle of 2016 with the equity content of our Multi-Asset funds positioned towards the higher end of their respective ranges. Investor sentiment is currently negative and there is evidence of investor caution as seen by equity outflows in the last number of weeks, especially in the Eurozone and Asia. Historically the above behaviours can indicate pent up demand for risk assets when fundamentals and news flow improve.

Earnings Surprises vs Consensus Estimates (quarterly update, except EU and UK semi-annual update)

Quarterly CQ1 Ending: 2/16/2018 – 5/15/2018, Semi-annual CQ1 Ending: 2/16/2018 – 5/15/2018



Source Bloomberg



Source Bloomberg

Fixed Income Outlook

Bonds have benefited in recent weeks from the prevailing 'risk-off' sentiment. However, economic prospects and the misalignment between bond yields and inflation expectations in recent months suggest that yields could rebound somewhat. This view is aided by the 'hawkish' sentiment prevailing at the most recent Federal Reserve FOMC meeting held in June, and the announcement from the ECB that QE will likely cease in December 2018.

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. Similarly, whilst the 3%-3.05% threshold for the US 10-Year yield is seen as a key psychological indicator, we feel that the pace of bond yield fluctuations is more likely to be a key influence across all asset classes. This was seen in February 2018 as fears of US yields rising spread to equities. Overall equities should be able to accommodate a modest move higher in bond yields.

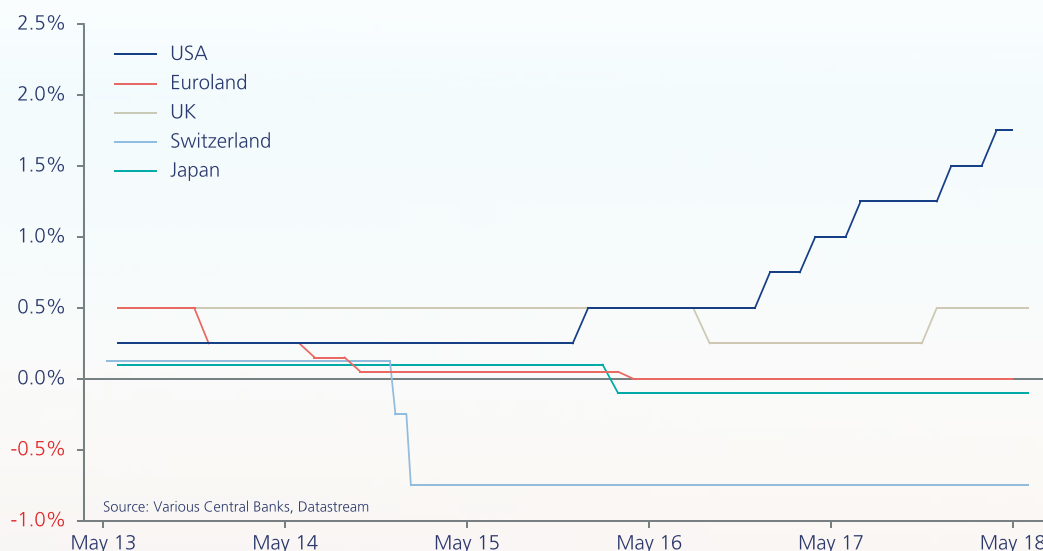
Policy divergence is sharpening, most notably between the world's two main Central Banks, the Federal Reserve and the ECB. The spread between US and German bond yields is close to a record level, with real German yields still at negative levels.

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. We still believe that 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 and influenced by geopolitical events, we feel that the risk / reward backdrop does not warrant large fixed income holdings.

Key Dates



Central Bank Rates - Advanced Economies



Commodities and Currencies

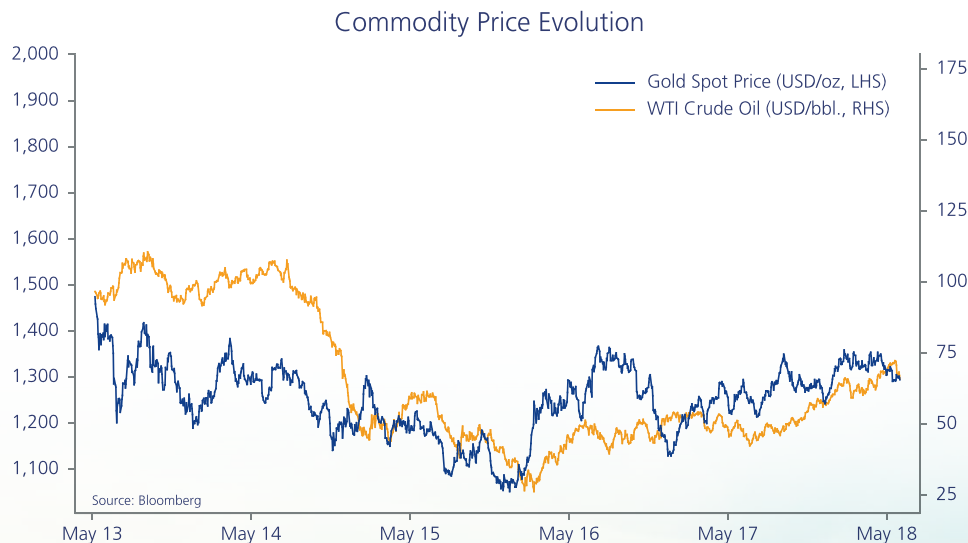
The US dollar has strengthened against the euro in 2018, moving from 1.25 in mid-February to 1.16 at the end of June. This has helped returns for euro investors with holdings in overseas assets. The difference between interest rates in the US and Europe has been a clear driver of dollar strength. However, this US Dollar strength is proving to be a headwind for emerging market economies and is weighing on sentiment in some regions. The cost of hedging US Dollars into Euro is increasing as the US hikes interest rates, but there may be opportunities in this area going forward. Sterling remains relatively weak versus the Euro. This may be a good time to get long term exposure to UK assets.

Oil prices are performing strongly as supply and demand forces combine to raise prices. Reasonably firm global growth has kept the demand for oil robust. On the supply side, infrastructure challenges are curtailing the ability of shale oil drillers to dramatically increase production. In addition

inventories have fallen and the ability to add spare capacity is limited from here. Any Saudi Arabian increases in production are being neutralised by production losses in Iran, Venezuela and Libya.

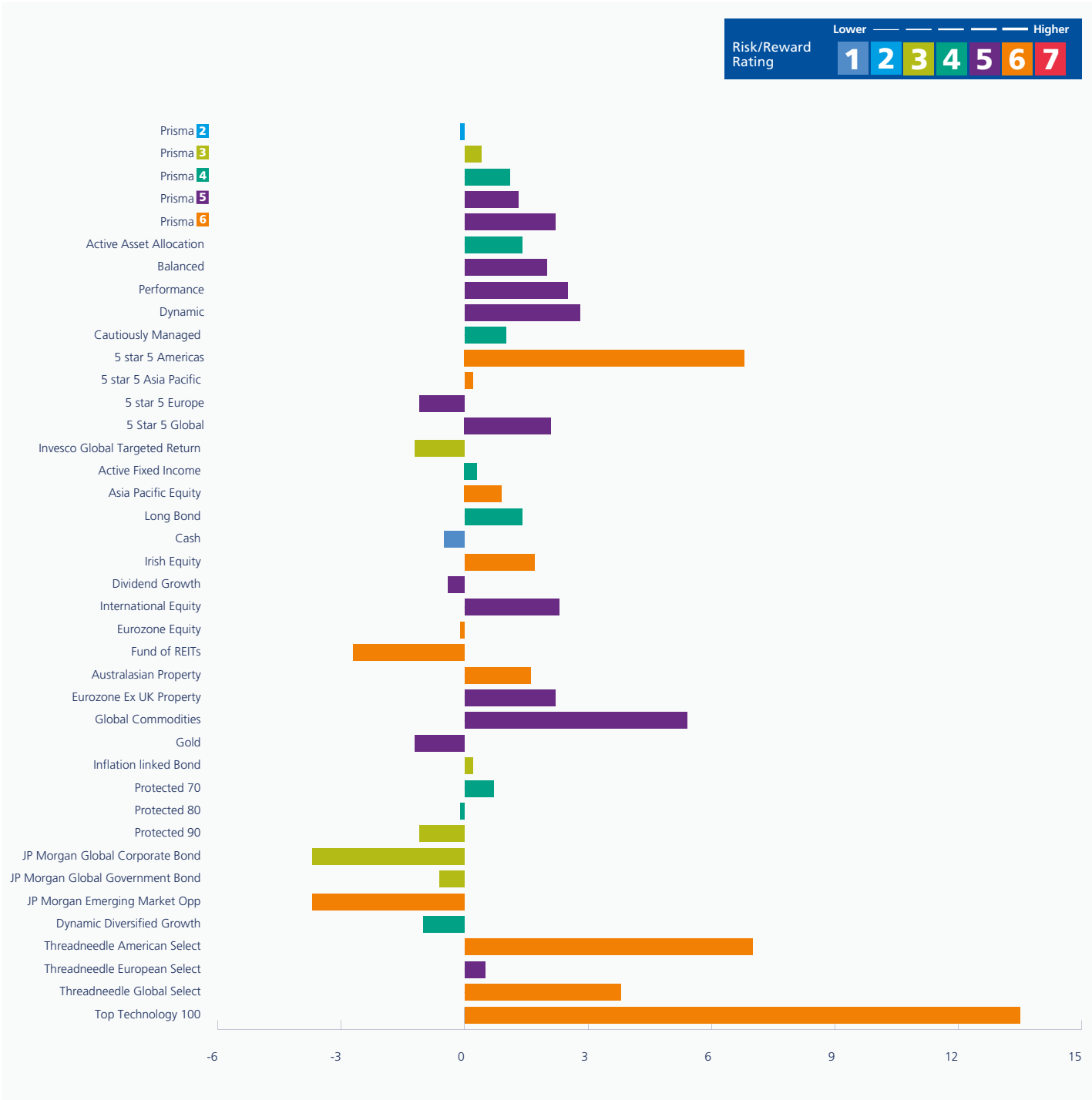
China is the major global end user of copper. As the trade tensions between the US and China have risen, the copper price has come under pressure. Labour disputes in Chile that had threatened copper production have also abated. We think that copper offers decent upside potential given the current level of prices.

Gold offers diversification benefits to investors in increasingly correlated financial markets. Should the trade situation worsen, gold may provide a relative 'safe haven'. Gold price action has been fairly muted year to date as the Fed has hiked rates and the dollar has strengthened. This has been offset by some geopolitical concerns, particularly the trade war rumblings between the US and China.



2018 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 31/03/18.
Source: Zurich Life as at 30/06/18.

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 2008

The Benefits of Diversification



	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Prisma 2	-0.1	0.3	1.6	1	3.3						
Prisma 3	0.4	2.2	4.1	2.6	7.1						
Prisma 4	1.1	5.7	8.5	4.9	14.2						
Prisma 5	1.3	7.7	11.3	6.2	16						
Prisma 6	2.2	8.7	9.8	7.9	7.4						
Active Asset Allocation	1.4	5.9	8.1	4.9	14.6	3.9	10.5	-1.8			
Balanced	2.0	6.3	6.7	10	15.3	16.1	13.1	-2	11.1	22.3	-30.4
Performance	2.5	8.3	6.9	10.9	16.1	17.2	12.6	-2.4	11.4	25.8	-35.2
Dynamic	2.8	8.8	7.4	11.8	15.8	19	13.1	-3.4	12.9	28.1	-37.8
Cautiously Managed	1.0	3.9	5.1	6.3	18.6	6.7	12.3	3.6	5.3	12.7	
5★5 Americas	6.8	2.1	14.1	11.8	28.8	24.7	10.2	-0.9	14.7	11.1	-22.9
5★5 Asia Pacific	0.2	23.8	10.4	5.7	9.2	2.6	16.7	-8.5	6.9	47.3	-49.6
5★5 Europe	-1.1	16.4	4.8	17.5	8.6	23.6	28.8	-8	6.4	28.7	-43.9
5★5 Global	2.1	11.6	4.5	13.3	13.3	17.6	16.2	-6.4	12.3	18	-35.8
Invesco Global Targeted Return	-1.2	-0.1	2.1	1.6							
Active Fixed Income	0.3	-1.1	4.7	1	20.3	2.4	12.8	6.5	1	4.2	12.3
Asia Pacific Equity	0.9	21.8	11.4	0.8	10.5	1.6	19.6	-9.8			
Long Bond	1.4	-1.7	6.3	1.8	28.2	1.5	14.6	6.3	1.3	3.2	11.6
Cash	-0.5	-0.8	-0.8	-0.5	-0.3	-0.4	-0.5	0.4	-0.2	0.1	3.5
Irish Equity	1.7	8.7	-0.8	38.5	16	33.7	19.6	5.5	1.1	27.1	-63.8
Dividend Growth	-0.4	3.1	17.3	6	18	20.1	18.9	0	19.1	28	-39.7
International Equity	2.3	9.3	10	10.7	17.7	20.6	13.5	-3.7	16.9	26	-36.1
Eurozone Equity	-0.1	14.3	5	11.7	4.3	25.5	24	-12.9	7.7	32.3	-39.3
Fund of REITs	-2.7	19.5	-11.2	27.8							
Indexed Australasia Property	1.6	3.5	11	2.4	26.1	-10.3	34.5	-14.9	28.2	68.1	-58.3
Indexed Eurozone Ex UK Property	2.2	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	5.4	-5.7	21.5	-20.2	-12.4	-5.3	-2.9	0.5	16.4	18	-48.9
Gold	-1.2	-2.6	12.3	-2.3	12.8	-31.4	3.4	14	35.4		
Indexed Inflation Linked Bond	0.2	0.6	3.4	0.1	4.6	-4.4	10.3	-1.8			
Protected 70	0.7	4.7	1.4	6.4	10.4	13.1	7.5	-6.5			
Protected 80	-0.1	2.2	-0.3	4.2	7.1	9.3	4.4	-5.6			
Protected 90	-1.1	-1.1	-2	1.3	2.6	2.7	0.8	-3.9			
JP Morgan Global Corporate Bond	-3.7	3.5	3.2	-0.7	7.2	-0.2					
JP Morgan Global Government Bond	-0.6	0.1	1.3	0.6	8.1	-0.8					
JP Morgan Emerging Market Opp	-3.7	28.6	17.1	-11.5	12.5						
Dynamic Diversified Growth	-1	6.8	-2.5	-1.7	5.1	5.9	6.4				
Threadneedle American Select	7	6.3	17.5	9.9	21.3	24.5	15	5.3	20.6	31.7	-37.4
Threadneedle European Select	0.5	13.9	0.1	13.9	12.9	15.7	26.4	-1.1	26.1	29.9	-41.4
Threadneedle Global Select	3.8	14.1	9	12.1	17.1	20	13.8	-5.5	22	27.3	-38
Indexed TopTech 100	13.5	15.9	9.8	21.4	34.7	29.9	15.5	6.2	27.6	49.1	-39.2

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.

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Ireland

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billion under
management



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Performer 2017



Consistent Investment
Performance



Creative Solutions
for Clients



Diverse Range and
Options of Investment
Funds



Best Explanation of Risk
Attached to Products



Quality Communications
and Investment
Marketing Material

*Source: Zurich Life, March 2018
**Source: Brokers Ireland, November 2017

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