Quarterly Board Report

Zurich TDF 2025

Zurich Target Date Funds

Zurich International Life Limited | Q2 2020

Market Commentary

At a Glance

- The second quarter saw strong gains, although this mellowed through June as fears of a second downturn brewed.
- Economic weakness has converted into corporate weakness, although record stimulus has had an offsetting impact.
- Performance differences continued, with "new economy" stocks flourishing while many established businesses struggled. This creates a contrarian opportunity, we believe.

Key Developments

For many, 2020 is certainly living up to its reputation as a year we'd rather forget—both in health and wealth—despite significant signs of financial improvement in the second quarter. Indeed, we have seen two of the more extraordinary periods an investor can face:

- The first quarter saw record falls, with share markets purportedly having their worst first quarter since the great depression in 1933.
- The second quarter saw one of the fastest market recoveries since at least 1983, notwithstanding that this mellowed in June as fears of a second wave of infection grew.

For most investors, the net result was a modestly negative year-to-date performance—but, peculiarly, this is no different than what one might expect in a typical six-monthly period.

Technology and "new economy" stocks continued to outperform as they thrived in the work-from-home environment. This contrasts with some long-established businesses, whose stocks are struggling despite decades of delivering positive cash flows for investors. The performance gap—embodied by growth and value stocks—has stretched to the bounds of extremity, which offers a contrarian opportunity, we believe.

Bond markets have moved strikingly too, with liquidity now moving freely and conditions largely settling. For example, we saw strong performance from riskier bond markets—as might be expected in such a speedy market recovery—with most of the earlier losses overturned. In fact, corporate bond yields are now back towards the record-lows of late 2019, especially among higher-rated issuance, which seemed unfathomable to some just months ago. These represent big rear-view moves that change the forward-looking landscape, with a dim assessment of prospective returns on offer.

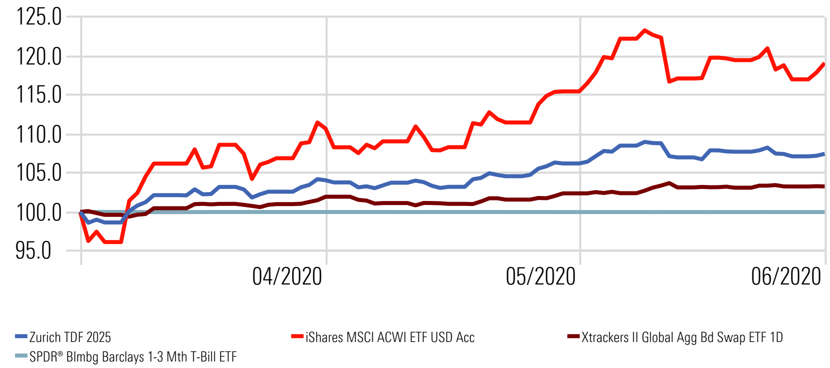
Moreover, as the risk of a so-called second wave of coronavirus infection increases, the validity of the overall market rebound is being questioned. Indeed, we live in a challenging period, arguably with higher uncertainty than any period since World War II. For example, we have clear demand shocks to contend with—including everything from suppressed household spending to a lack of corporate investment. We have supply chain issues too, which would all be exacerbated if we saw another spike in coronavirus cases.

So, what lessons might we learn from this? Perhaps it is best to acknowledge three things; herd behaviour, policy response influence, and the opportunity to buy at low prices. The second quarter rebound highlighted the ever-important balance between return generation and risk management, reiterating why an investor can do well by staying emotionally grounded and smartly diversifying into attractively priced assets.

Where we go from here is the question everyone wants answered, but with rife uncertainty, we encourage investors to focus on what they can control—saving more, reviewing financial goals, and keeping our sights focused on the long term.

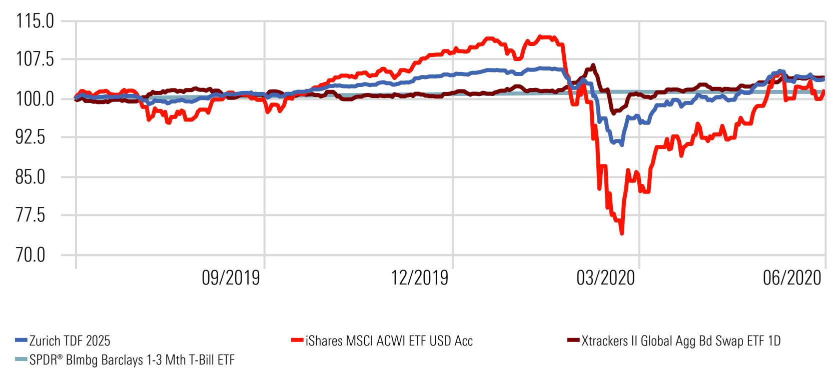
Market Performance (%): Quarter

Time Period: 01/04/2020 to 30/06/2020



Market Performance (%): 1 Year

Time Period: 01/07/2019 to 30/06/2020



Source: Morningstar Direct. The performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate; thus an investor's shares, when sold or redeemed, may be worth more or less than their original cost. The returns shown assume all dividends and capital gains distributions are reinvested and are net of the underlying holdings' fees and expenses. The Zurich TDF products launched on 03/07/2017.

Zurich TDF 2025

Portfolio Review

Recommended Changes (July)

Asset Allocation

Small reduction in risk assets, through the reduction of Emerging Market Debt exposure: The update of the glide path suggests a reduction in risk assets. This is done through the decrease of the Emerging Market debt exposure which has performed strongly in the 2nd quarter and now offers less upside potential relative to equity markets.

Within the equity allocation: The Japan exposure is trimmed in favour of the UK market which has lagged other equity markets in the bounce back from the March lows.

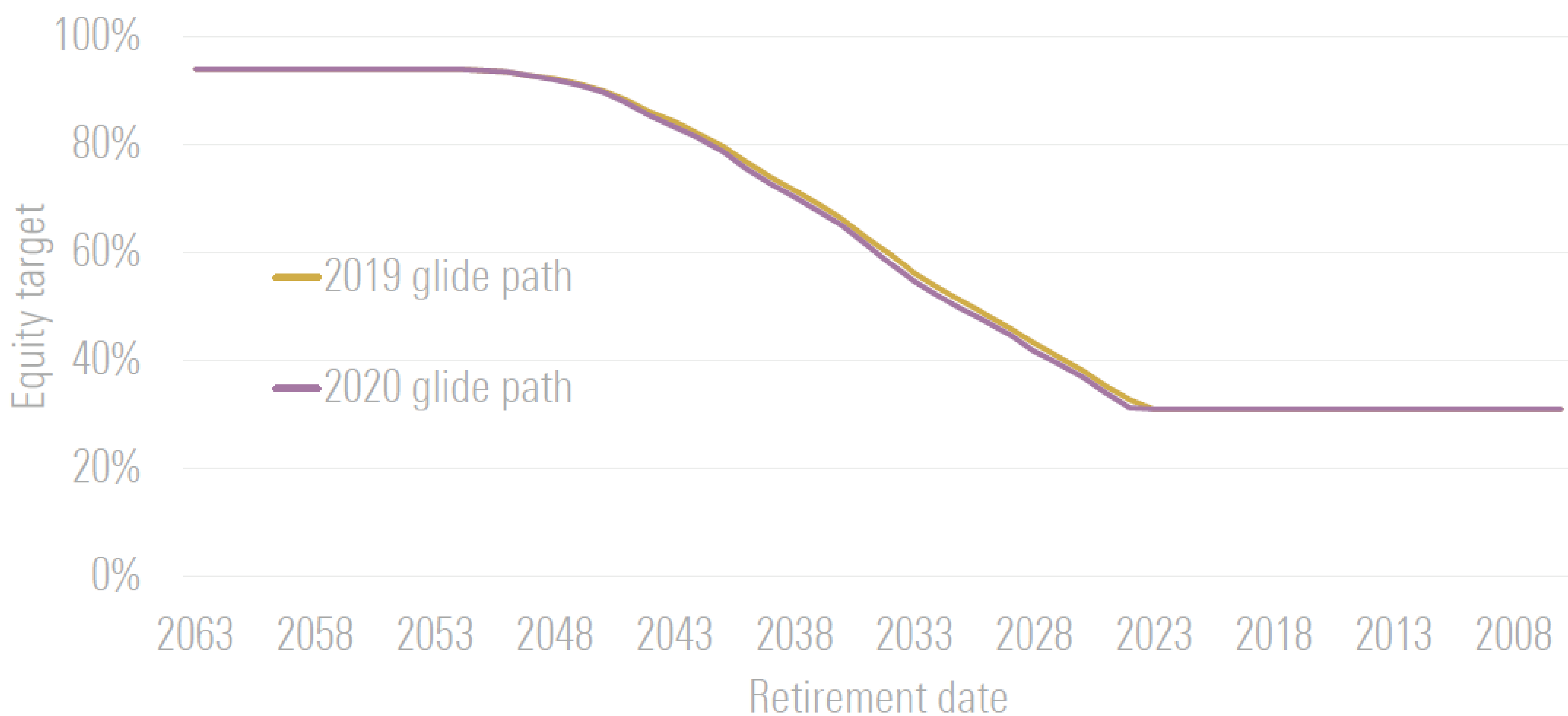
Increase in credit exposure: Credit spreads remain relatively attractive despite significant tightening in the 2nd quarter.

Fund Selection

No change

Glide Path

Equity target	Income	2020	2025	2030	2035	2040	2045	2050	2055	2060	2065
2019 Target	31.00%	31.00%	38.25%	51.00%	66.25%	79.75%	90.00%	93.75%	94.00%	94.00%	94.00%
2020 Target	**31.00%**	**31.00%**	**37.00%**	**49.50%**	**65.00%**	**78.75%**	**89.75%**	**93.75%**	**94.00%**	**94.00%**	**94.00%**
2020 Target vs 2019 target	0.00%	0.00%	-1.25%	-1.50%	-1.25%	-1.00%	-0.25%	0.00%	0.00%	0.00%	0.00%



Performance Review

Zurich TDF 2025

Portfolio Holdings

Zurich TDF 2025 - Holdings

Portfolio Date: 30/06/2020

	Portfolio Weighting %	Morningstar Analyst Rating	3 Mth Rtn to Qtr End (%)	YTD Rtn to Qtr End (%)	1 Yr Rtn to Qtr End (%)
Vanguard U.S. Govt Bd Idx $ Acc	14.20	Silver	0.49	8.48	10.10
ILF USD Liquidity 4	12.80		0.07	0.57	1.81
PIMCO GIS GlInGd Crdt Instl USD Acc	9.20	Silver	7.61	0.62	4.17
iShares US Index (IE) Instl Acc USD	8.50		20.91	-2.71	7.45
Stt Strt Glbl Trs Bd Idx I USD Acc Hdg	7.60		0.79	4.09	5.57
PIMCO GIS Glb Lw Dur Rl Rt Ins USD Acc	7.20		4.05	1.47	2.79
Vanguard U.S. 500 Stk Idx $ Acc	5.20	Gold	20.35	-3.41	6.78
Amundi IS MSCI Japan IHU-C USD	4.30		11.73	-7.39	4.76
iShares UK Index (IE) Instl Acc GBP	4.30		7.89	-23.68	-17.74
iShares EmergMkts Idx (IE) Instl Acc USD	4.20		18.00	-10.21	-3.66
Vanguard European Stock Idx USD Acc	4.20	Gold	15.49	-12.63	-6.48
GAM Multibond Local Emerging Bond USD C	3.00	Neutral	10.75	-6.99	-4.20
Robeco High Yield Bonds IH $	3.00	Gold	10.15	-3.06	1.23
Vanguard Global S/T Bd Idx USD H Acc	3.00		1.64	2.34	3.66
iShares Em Mkts Govt Bd Idx (LU) A2 USD	2.80	Bronze	9.19	-2.97	0.02
BGF World Healthscience A2 USD	2.40	Neutral	14.01	1.26	14.33
BSF Fixed Income Strategies A2 USD H	2.10	Bronze	5.29	0.34	2.80
Man GLG Jpn CoreAlpha Eq I USD	2.00	Silver	5.11	-23.54	-18.48

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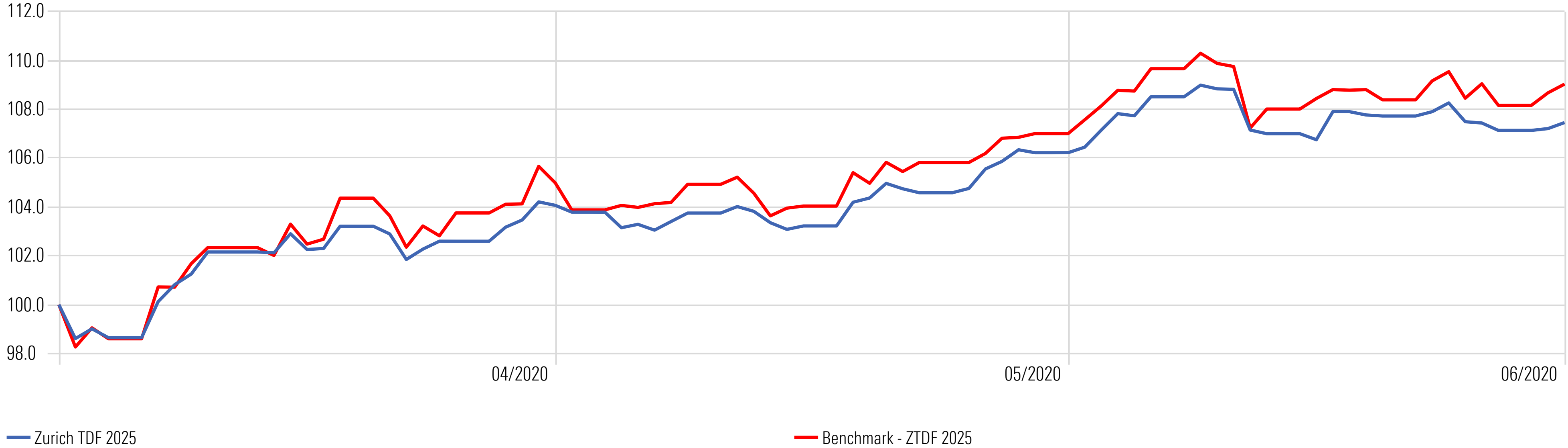
Analyst Ratings are subjective in nature and should not be used as the sole basis for investment decisions. Analyst Ratings are based on Morningstar analysts' current expectations about future events and therefore involve unknown risks and uncertainties that may cause Morningstar's expectations not to occur or to differ significantly from what was expected. Morningstar does not represent its Analyst Ratings to be guarantees nor should they be viewed as an assessment of a fund's or the fund's underlying securities' creditworthiness.

Zurich TDF 2025

Performance Review

Investment Growth (%)

Time Period: 01/04/2020 to 30/06/2020



Trailing Returns (%)

Data Point: Return

	Since Inception (03/07/2017)	3 Years	Quarter	YTD	01/07/2019 - 30/06/2020	01/07/2018 - 30/06/2019	01/07/2017 - 30/06/2018	01/07/2016 - 30/06/2017	01/07/2015 - 30/06/2016
Zurich TDF 2025	14.06	14.06	7.46	-0.61	3.90	5.17	4.38		
Benchmark - ZTDF 2025	18.17	18.17	9.03	0.59	5.47	6.63	5.07	7.37	2.65

Source: Morningstar Direct. The performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate; thus an investor's shares, when sold or redeemed, may be worth more or less than their original cost. The returns shown assume all dividends and capital gains distributions are reinvested and are net of the underlying holdings' fees and expenses. The Zurich TDF products launched on 03/07/2017.

Attribution Results

Portfolio Commentary

Top Contributors:

iShares US Index & Vanguard US 500 Stock Index – equity markets rebounded strongly after the sell-off in the 1st quarter. The US performed even stronger than global equities thanks to its high share in technology stocks. Although an underweight to the benchmark, our large allocation to US equities through these two funds was a significant contributor to the absolute performance of the fund.

iShares EmergMkts Idx – Emerging markets were the second-best performing region after the US in the 2nd quarter. Emerging currencies contributed positively reverting some of their 1st quarter losses vs the US dollar.

Pimco GIS Gbl Invest Grade Credit – credit spreads tightened significantly from their elevated levels at the end of March as the Federal Reserve and other Central Banks provided large support to these markets through their asset purchase programs. This led to a strong performance for the Pimco fund, especially as treasury yields stayed at low levels.

Top Detractors:

All the holdings of the portfolio offered a positive contribution to the performance of the fund.

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Attribution Commentary

- After record falls in the first quarter on the back of the health crisis, the second quarter saw one of the fastest market recoveries since at least 1983. Year-to-date performance remains negative by about 6.3% for global equities in US dollar terms.
- The fund had a very strong performance over the quarter, bringing the year-to-date performance to marginally negative.
- All the fund's holding had positive performance during the quarter, but the overall performance was largely driven by the equity exposure, with significant contributions from the riskier part of fixed income assets as well.
- The addition to equities in the second half of March and the introduction of a High Yield corporate exposure in April allowed for a better capture of the markets' bounce, both from an absolute perspective and relative to the benchmark.
- However, the relative performance of the fund was negatively impacted by the intra-equity allocation, as the rally favoured "new economy" or technology stocks that appear expensive compared to more traditional ones. Within our key convictions, the UK market continued to underperform while the Japan market lagged on the upside after having offered good protection on the downside.
- Our fixed income allocation was a positive, with the allocation to riskier assets such as Emerging Market Debt and Corporate High Yield more than offset our underweight to equities as we had expected.
- Manager selection was a positive in the quarter, led by good performance from Pimco Global Low Duration Real Return and our absolute performance manager BSF Fixed Income who benefited from the improvement in the behaviour of fixed income markets and from the tightening in credit spreads. Man GLG Japan remains a detractor as his strong value bias and large exposure to financials has not paid off yet in an environment favouring growth stocks.

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Asset Class Attribution

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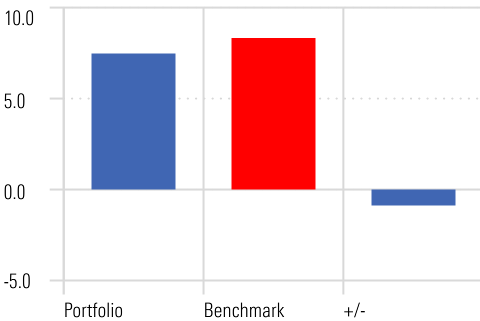
Total Portfolio Returns (%): Quarter

Time Period: 01/04/2020 to 30/06/2020

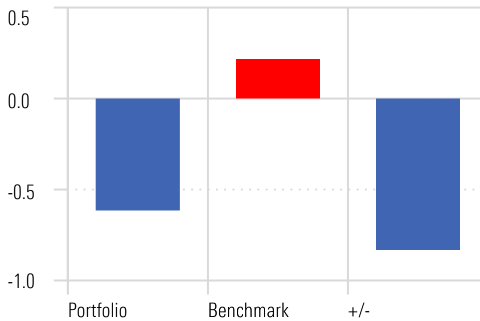
Net Return %



Total Portfolio Returns (%): YTD

Time Period: 01/01/2020 to 30/06/2020

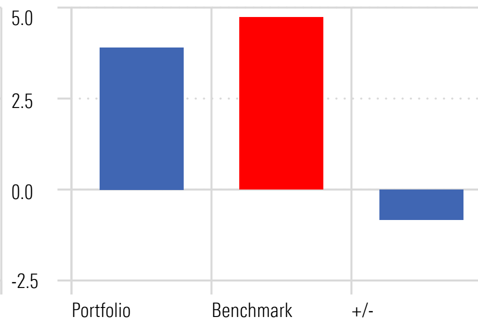
Net Return %



Total Portfolio Returns (%): 1 Year

Time Period: 01/07/2019 to 30/06/2020

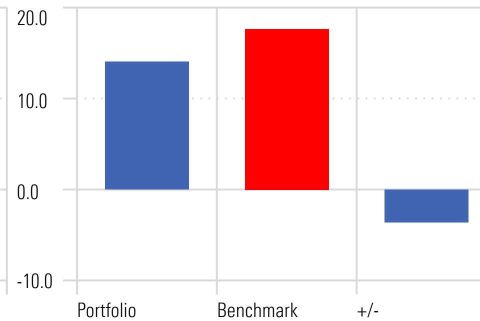
Net Return %



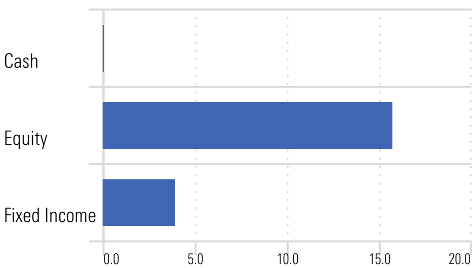
Total Portfolio Returns (%): Since Inception

Time Period: 03/07/2017 to 30/06/2020

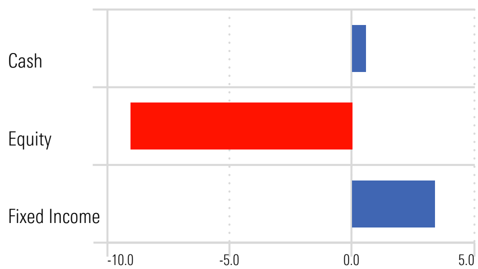
Net Return %



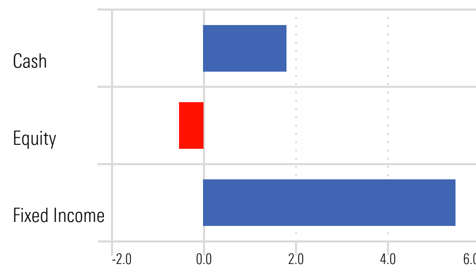
Asset Class Returns (%): Quarter



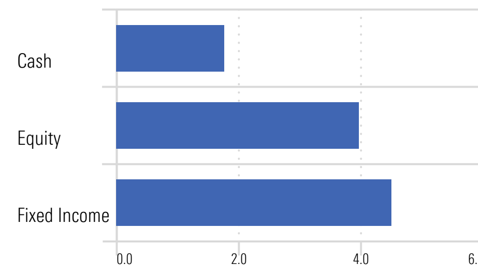
Asset Class Returns (%): YTD



Asset Class Returns (%): 1 Year



Asset Class Returns (%): Since Inception



Asset Class Attribution (%): Quarter

	Portfolio Weights	Benchmark Weights	Portfolio Return	Benchmark Return	Portfolio Contribution	Active Return
Cash	13.23	5.23	0.07	-0.01	0.01	-0.73
Equity	35.80	39.94	15.73	19.32	5.42	-1.61
Fixed Income	50.97	54.83	3.92	2.36	2.03	1.10
Attribution Total	100.00	100.00	7.46	8.70	7.46	-1.25

Asset Class Attribution (%): YTD

	Portfolio Weights	Benchmark Weights	Portfolio Return	Benchmark Return	Portfolio Contribution	Active Return
Cash	14.29	5.41	0.57	0.41	0.08	0.20
Equity	34.95	38.14	-9.03	-6.18	-2.33	-0.87
Fixed Income	50.76	56.45	3.37	3.79	1.63	-0.61
Attribution Total	100.00	100.00	-0.61	0.67	-0.61	-1.28

Asset Class Attribution (%): 1 Year

	Portfolio Weights	Benchmark Weights	Portfolio Return	Benchmark Return	Portfolio Contribution	Active Return
Cash	14.67	5.42	1.81	1.31	0.28	-0.11
Equity	34.92	38.16	-0.53	2.22	0.88	-0.90
Fixed Income	50.41	56.42	5.48	5.84	2.74	-0.44
Attribution Total	100.00	100.00	3.90	5.35	3.90	-1.45

Asset Class Attribution (%): Since Inception

	Portfolio Weights	Benchmark Weights	Portfolio Return	Benchmark Return	Portfolio Contribution	Active Return
Cash	15.34	7.54	1.76	1.54	0.29	-0.28
Equity	36.35	40.27	3.95	6.33	2.00	-1.00
Fixed Income	48.31	52.18	4.48	4.53	2.31	-0.10
Attribution Total	100.00	100.00	4.49	5.74	4.49	-1.38

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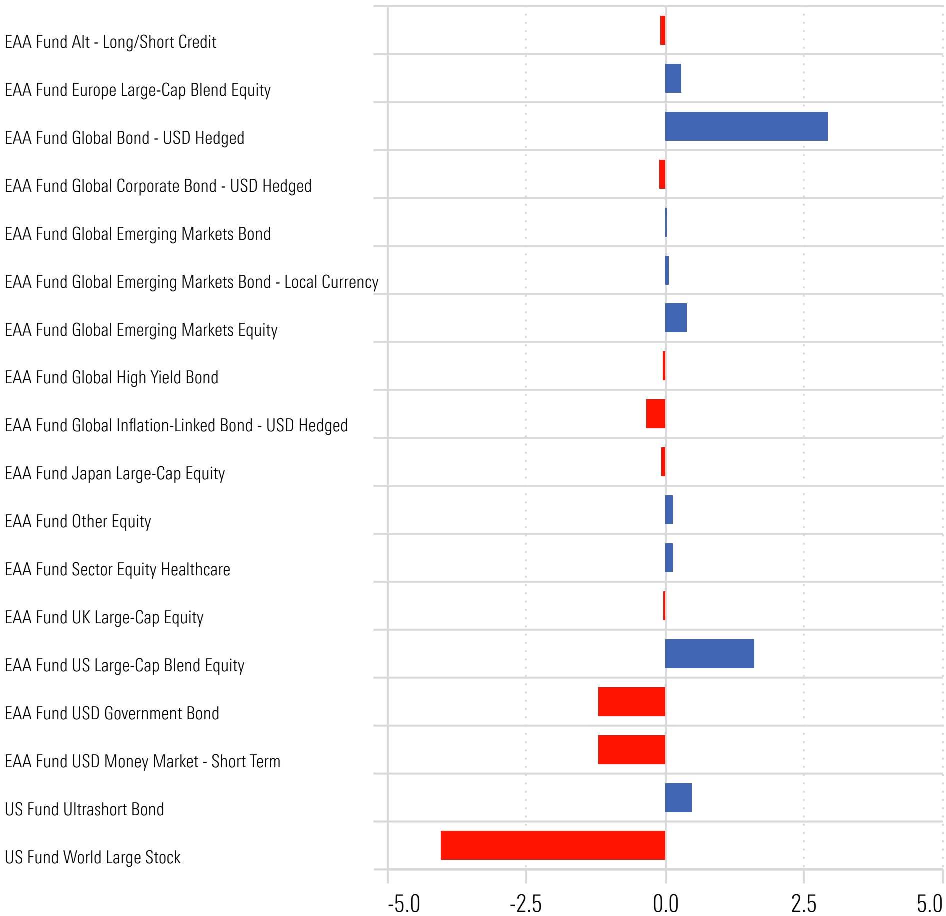
Asset Allocation Attribution

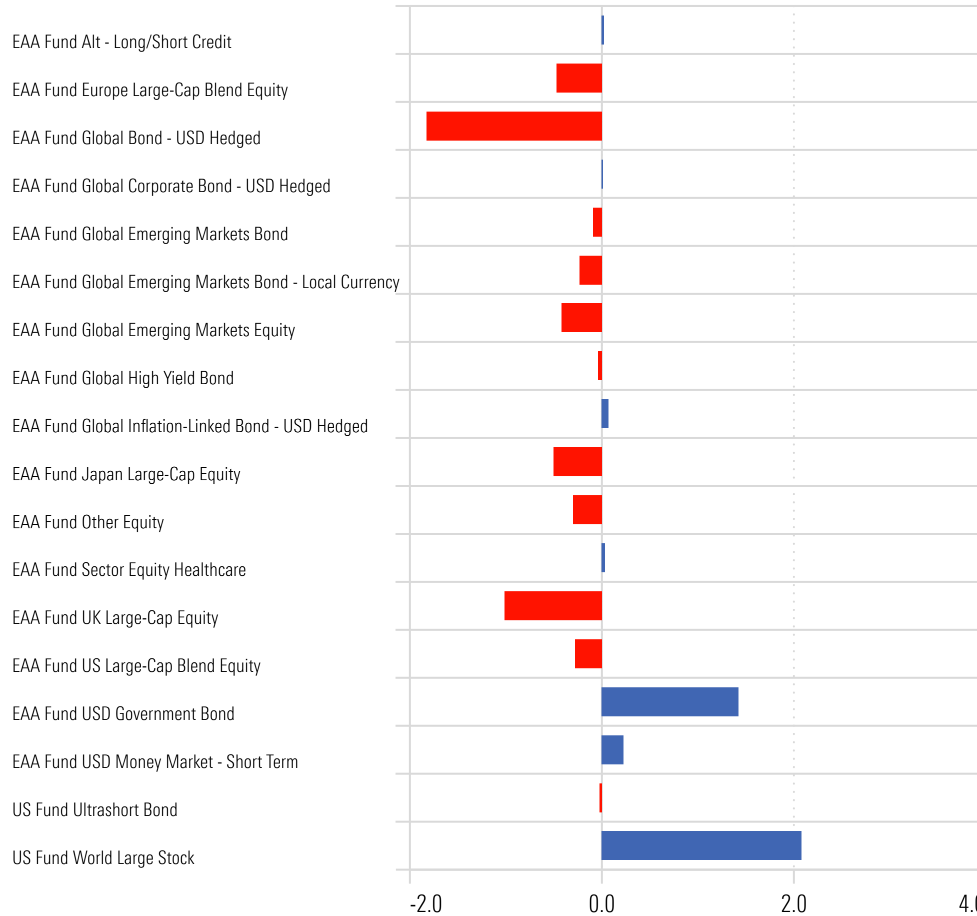
Allocation Effect: (%) : Quarter

Time Period: 01/04/2020 to 30/06/2020



Allocation Effect: (%) : YTD

Time Period: 01/01/2020 to 30/06/2020

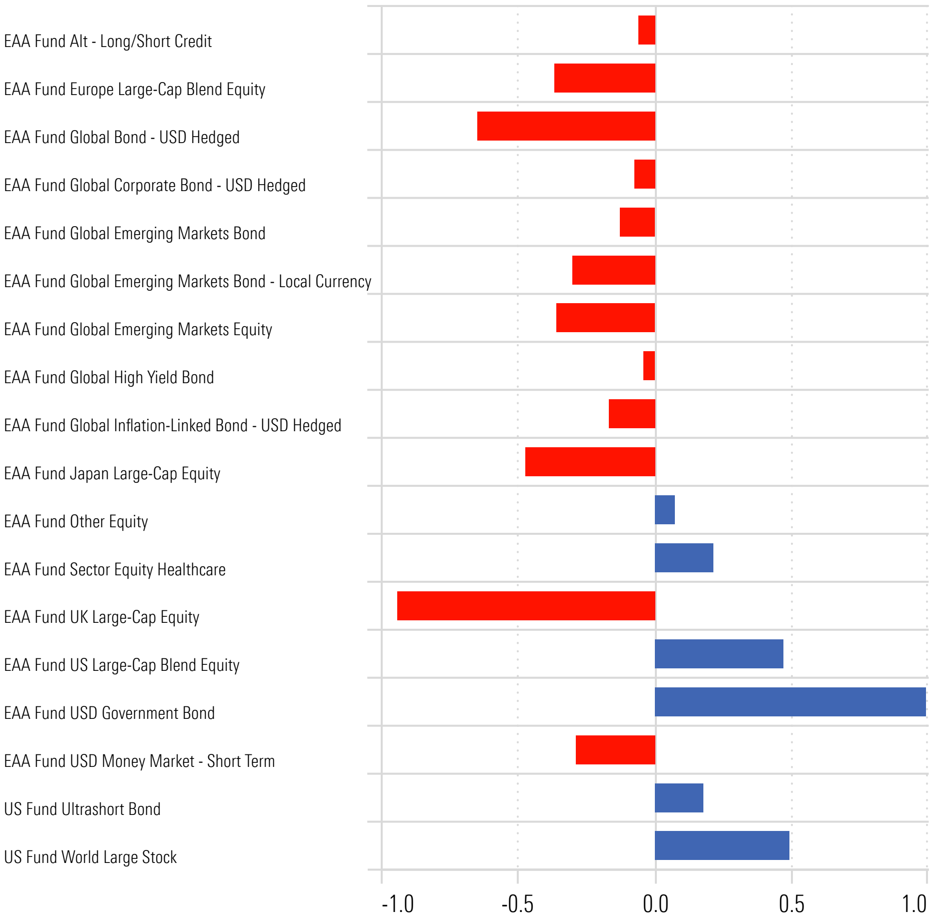


Zurich TDF 2025

Asset Allocation Attribution

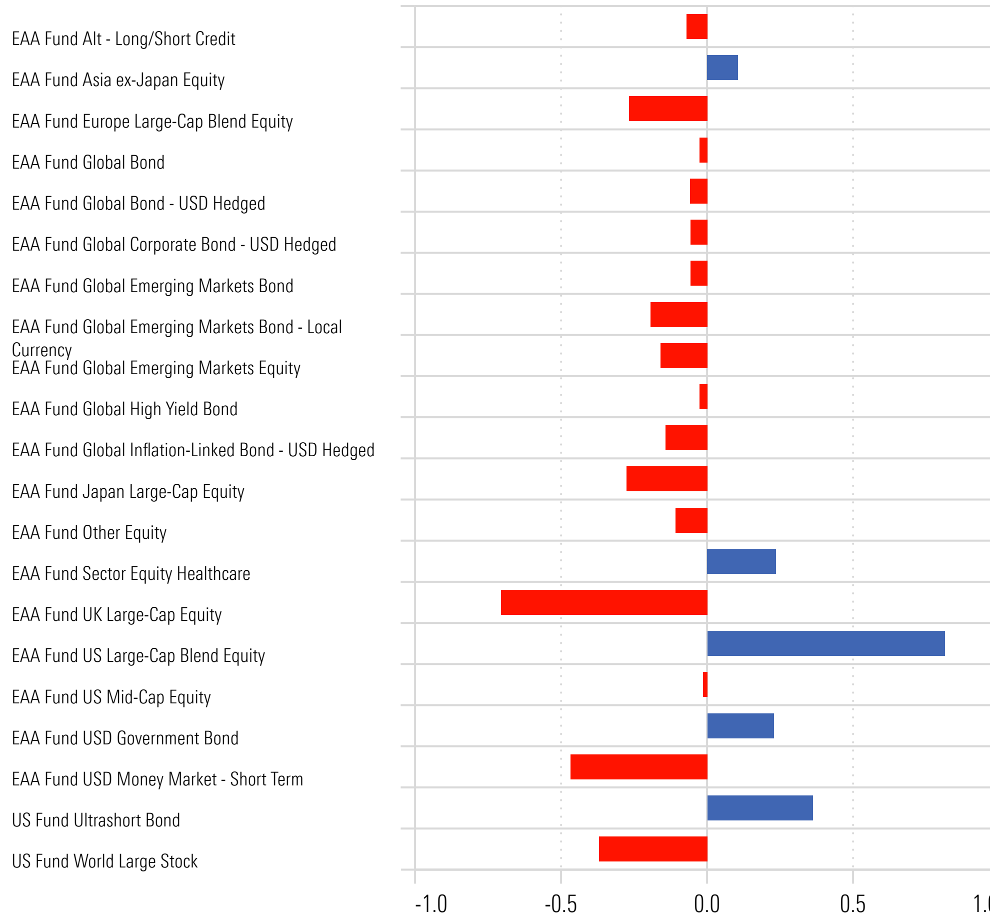
Allocation Effect: (%) : 1 Year

Time Period: 01/07/2019 to 30/06/2020



Allocation Effect: (%) : Since Inception

Time Period: 03/07/2017 to 30/06/2020



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