Quarterly Board Report

Zurich TDF 2025

Zurich Target Date Funds

Zurich International Life Limited | Q3 2020

Market Commentary

At a Glance

- The story of 2020 can so far be captured in just six words: Market extremes against a vulnerable economy. The market conditions certainly remain demanding, requiring a steady hand to empower investor success.
- Since the COVID-19 panic, we've witnessed a shaky "risk-on" environment, with global stocks rising (but with continued dispersion) and riskier bond prices increasing.
- The economic backdrop remains vulnerable, with many investors facing a wall of worry. It seems some investors are buoyed by vaccine expectations and a potential 2021 recovery.
- Performance differences continue, with "new economy" stocks still demanding lofty premiums above established businesses. This creates a contrarian opportunity, we believe.

Important Perspective
Imagine waking up as an investor from the 1980s, 1990s or 2000s. How would you make sense of today's dynamics? You would see debt levels at all-time highs, economic output at multi-decade lows, widespread job losses, a global pandemic halting most human interactions… yet global stock prices are at or near record highs. If you are left scratching your head, you're not alone.

A meaningful part of the narrative is attributable to record levels of committed stimulus. Let's not forget that interest rates are sitting down at all-time lows for the foreseeable future (at least, that's what market participants are expecting, with the Federal Reserve hinting that rates will remain low until 2023).

The challenge, of course, is that investors are also required to climb a wall of worry. Here are just a few current investor concerns: U.S. election nerves, Brexit negotiations, the vaccine waiting game, inflation uncertainty, US/China tensions, political division, and the potential for a rise in corporate defaults. Offsetting this, some participants—including professional and retail investors—appear buoyed by vaccine progress and a growing expectation for a 2021 recovery.

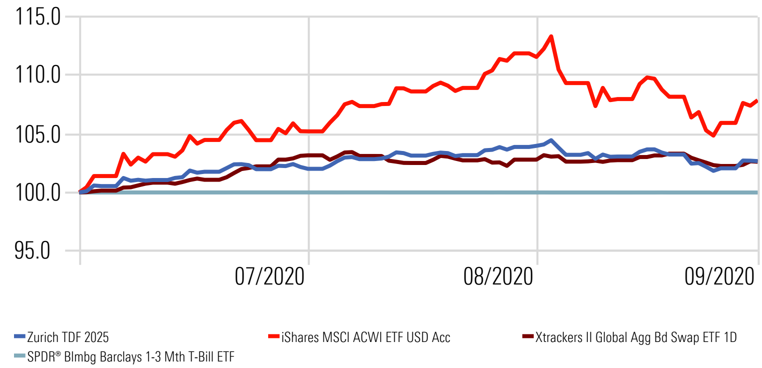
Key Developments
Looking within equities, all is not equal. What we've witnessed lately—and Q3 saw an extension of this—is diversity of outcome, with "new world" growth demanding a curiously high premium while "established" businesses fall off the radar of investors (this is true across developed and emerging markets). Understanding this dispersion has become one of the biggest talking points among investors.

Ultimately, it is unpopular stocks that tend to outperform popular stocks in the long run, as validated in several academic studies. Therefore, while 2020 has so far proven to be an outlier in this sense, it is the contrarian investor that has the upper hand probabilistically. This popularity/unpopularity conundrum should not be understated in these extreme times.

Turning to bond holdings, it has really been about balancing credit risk versus the extra return that you can achieve. This spread between riskier holdings (such as lower-quality corporate bonds) and safer exposure (such as government bonds, which tend to offset equity risk) saw a big spike in early 2020, but has narrowed once again, as corporate bankruptcies have remained low to date. Emerging-markets debt remains an area of interest given the high relative yields on offer.

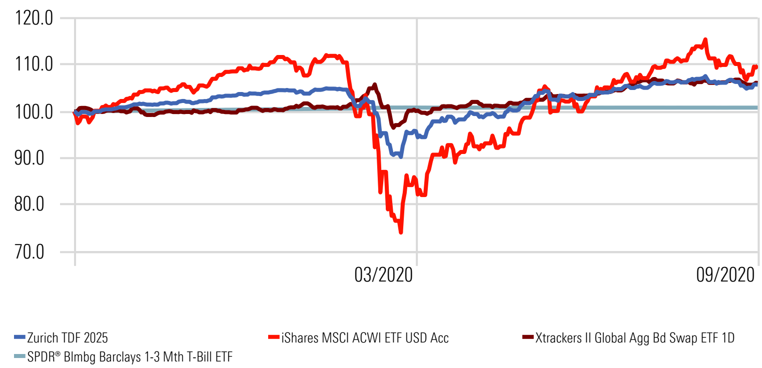
Market Performance (%): Quarter

Time Period: 01/07/2020 to 30/09/2020



Market Performance (%): 1 Year

Time Period: 01/10/2019 to 30/09/2020



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

Portfolio Commentary

Performance versus Expectations

The portfolio gained 2.9% in the third quarter as most asset prices continued to recover from the trough at the end of Q1. However, this recovery is becoming increasingly uneven with some assets, such as UK equities falling in price over the quarter. In general, these price movements are a continuation of trends that have dominated capital markets over the last year and continue to drive the relative returns of this portfolio when compared to peers.

In the context of the large swings in asset prices, both the year-to-date returns of 2.0% and the one-year return of 5.6% appear reassuring and provides us with a reminder of the unpredictability of short-term market moves. It is important to remember that given the cautious nature of the portfolio, this return has been delivered with a very modest risk profile.

Turning to the underlying investments, fund selection was slightly negative, with Man GLG Japan lagging the benchmark, partially offset by BFS Fixed Income contributing positively.

Recent Changes

The last portfolio changes were in September: we replaced Robeco High Yield fund with Axa Global High Yield. The Robeco fund has closed to new subscriptions after record inflows over the last few months. We have strong confidence in the Axa fund's portfolio management team and their solid process.

Positioning Update and Outlook

Despite the ongoing turmoil in markets, the equity exposure of the portfolio remains near the middle of its long-term range. However, we believe that the portfolio is positioned to deliver above average returns relative to peers over the long term by investing in those assets with the most attractive prices relative to a reasonable expectation of their future return. Conversely, we have less exposure to assets that appear expensive relative to their future prospects.

The best examples of the former are UK and emerging market equities. Both of these have lagged over the last few years due to broader geo-political concerns, such as the impact of BREXIT, turmoil within the energy market and US trade policy. While each of these is important, their impact on individual businesses is uncertain and encourages investors to overreact in an effort to reduce that uncertainty. This negativity creates opportunities for those who are prepared to take a longer-term perspective and accept the short-term uncertainty that accompanies low prices. In contrast, assets that appear to provide predictable growth, such as US technology companies are valued very highly by investors who are projecting current certainty and growth rates of these companies far into the future. With such optimism baked into the price of these assets, it is easy for investors to be disappointed leading to a future fall in prices.

However, over the last year, this approach has not delivered superior returns as expensive assets have become more expensive and cheap assets have become relatively cheaper, a trend that has been accelerated by the COVID-19 pandemic. This naturally raises the question of whether this strategy remains the best approach to investing for the long term and if so, what is the best way to position a portfolio to capture those long-term returns?

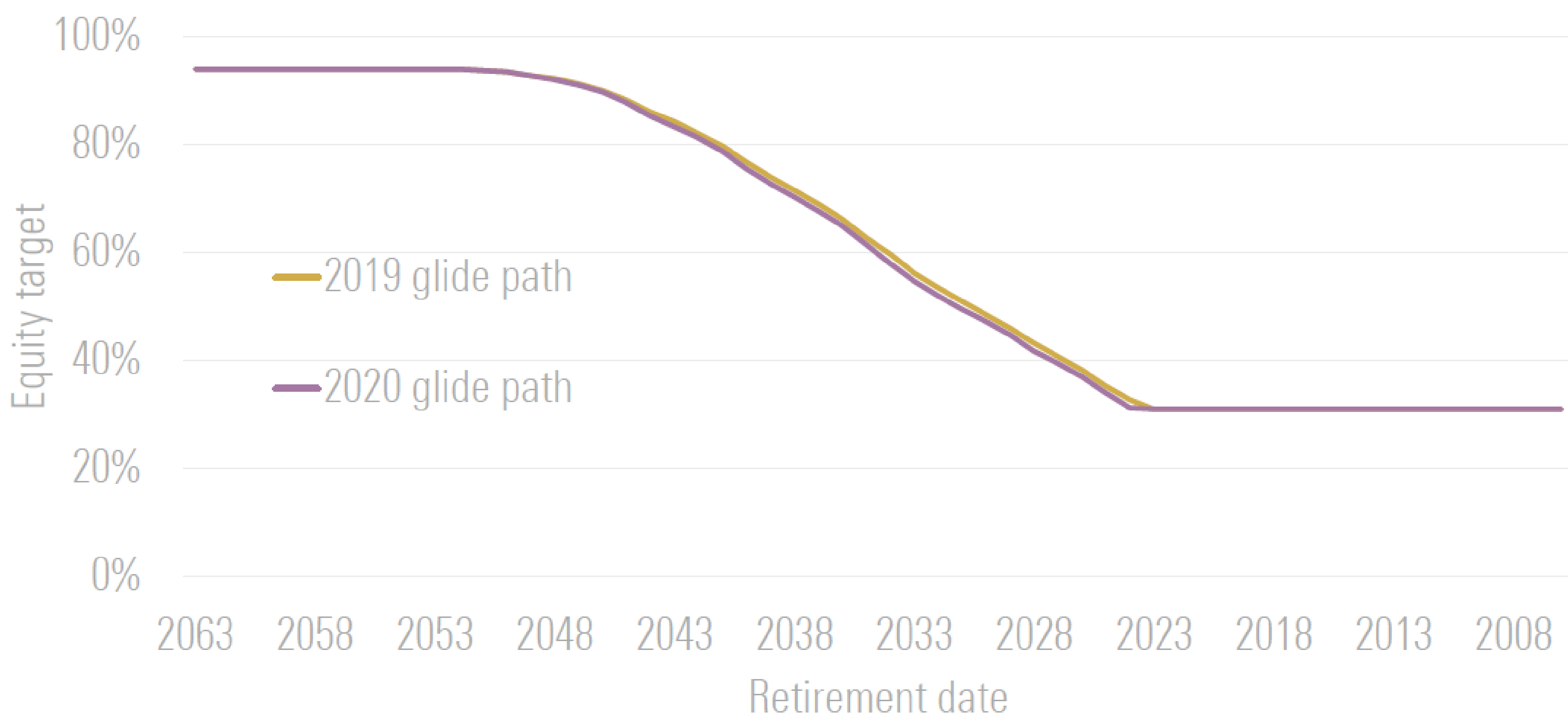
It is fair to say that the headwind has been especially strong over the last year, leading to historic gaps in the valuation of assets. It is during this period that it is most tempting to believe that valuations are no longer important and that we have entered a new era in investment when assets may remain expensive in perpetuity. We have experienced similar periods before most notably the TMT boom in the late 1990s and the credit / housing boom in the early part of this century. In each case, valuations reasserted themselves, but in each case, it took longer than most people expected.

It is for this reason that we have retained exposure to these expensive assets, reducing slowly as the prices become more extreme and ensuring that the portfolio remains well diversified across a large number of assets. Consequently, while the extreme dislocation in valuations has led to some underperformance, it has been limited by our investment approach.

We would therefore expect to more than make up the lost ground as the sentiment of investors change. Such changes are unpredictable but often rapid and hence it is important for the portfolio to be positioned ahead of such as change. A good example of such a change is provided by the recent rise in bond yields and the fall in the US dollar.

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: 30/09/2020

	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	0.11	8.60	7.62
ILF USD Liquidity 4	12.80		0.00	0.57	1.25
PIMCO GIS GlInGd Crdt Instl USD Acc	10.20	Silver	1.98	2.61	3.74
iShares US Index (IE) Instl Acc USD	8.50		8.80	5.85	14.99
Stt Strt Glbl Trs Bd Idx I USD Acc Hdg	7.60		0.40	4.51	3.09
PIMCO GIS Glb Lw Dur Rl Rt Ins USD Acc	7.20		1.81	3.30	4.45
Vanguard U.S. 500 Stk Idx $ Acc	5.20	Gold	8.78	5.06	14.40
iShares UK Index (IE) Instl Acc GBP	4.80		-0.26	-23.88	-15.81
iShares EmergMkts Idx (IE) Instl Acc USD	4.20		9.47	-1.71	10.29
Vanguard European Stock Idx USD Acc	4.20	Gold	4.53	-8.67	-0.58
Amundi IS MSCI Japan IHU-C USD	3.80		4.61	-3.12	5.39
Vanguard Global S/T Bd Idx USD H Acc	3.80		0.53	2.89	3.18
AXAWF Global High Yield Bds I Cap USD	3.00	Bronze	4.05	0.13	2.57
BGF World Healthscience A2 USD	2.40	Neutral	5.68	7.01	20.35
BSF Fixed Income Strategies A2 USD H	2.10	Bronze	2.12	2.47	3.98
GAM Multibond Local Emerging Bond USD C	2.00	Neutral	-0.08	-7.07	-2.76
iShares Em Mkts Govt Bd Idx (LU) A2 USD	2.00	Bronze	2.18	-0.85	0.85
Man GLG Jpn CoreAlpha Eq I USD	2.00	Silver	-0.20	-23.69	-18.06

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.

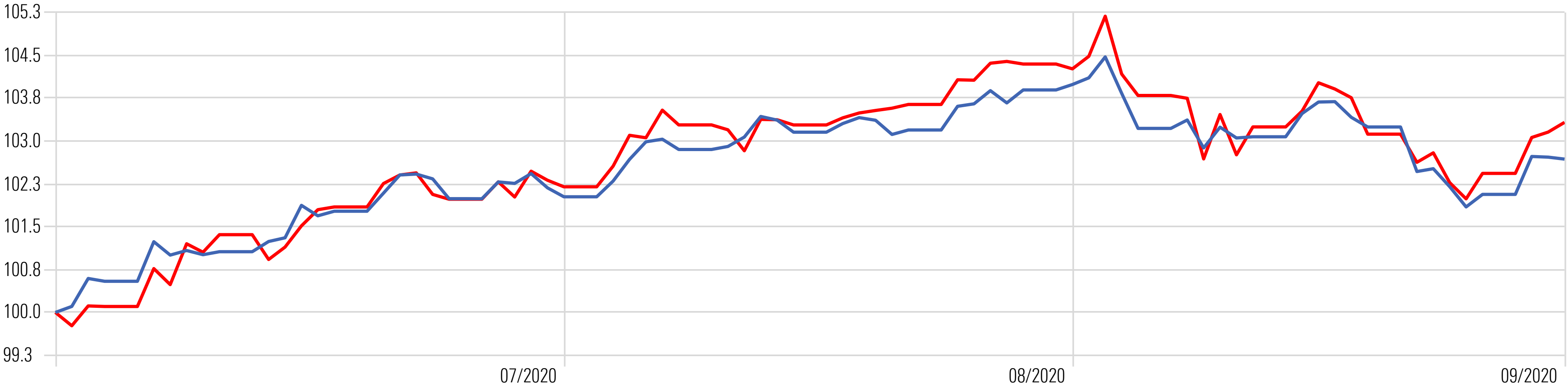
Analyst Ratings are subjective in nature and should not be used as the sole basis for investment decisions. Analyst Ratings are based on Morningstar analysts' current expectations about future events and therefore involve unknown risks and uncertainties that may cause Morningstar's expectations not to 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: 01/07/2020 to 30/09/2020



Trailing Returns (%)

Data Point: Return

	Since Inception (03/07/2017)	3 Years	Quarter	YTD	01/10/2019 - 30/09/2020	01/10/2018 - 30/09/2019	01/10/2017 - 30/09/2018	01/10/2016 - 30/09/2017	01/10/2015 - 30/09/2016
Zurich TDF 2025	17.12	13.98	2.68	2.05	5.71	4.95	2.74		
Benchmark - ZTDF 2025	22.11	19.00	3.33	3.93	7.52	6.40	4.02	7.48	8.58

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Attribution Results

Portfolio Attribution Commentary

Top Contributors:

iShares US Index & Vanguard US 500 Stock Index – equity markets continued to perform strongly in the 3rd quarter although September was a more volatile month, and US stocks were slightly ahead of other regions. 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 best performing region in the 3rd quarter, led by Asia. Taiwan and South Korea were among the best-performing markets thank to their Technology stock exposures, and China and India also recorded very good returns despite geopolitical tensions.

Pimco GIS Gbl Invest Grade Credit – credit spreads continued to tighten benefiting from a less negative view of default risks and markets' very strong appetite for yield, as witnessed by record levels of issuance in recent months. Central banks' guidance remain very accommodative and yield curves remain at extremely low levels relative to history.

Top Detractors:

Man GLG Japan CoreAlpha – the fund continues to suffer from strong headwinds and its deep value style remains deeply out of favour. While reviewing their thesis, the managers keep conviction in their investment process which we see as a positive. We continue to blend this fund with passive funds to keep a balanced exposure to Japan.

iShares UK Index – UK equities posted a slightly negative performance over the past 3-month despite an overall positive picture for risk assets. This was led by its exposure to Energy stocks which significantly underperformed other sectors. Financials also lagged.

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Zurich TDF 2025

Asset Class Attribution

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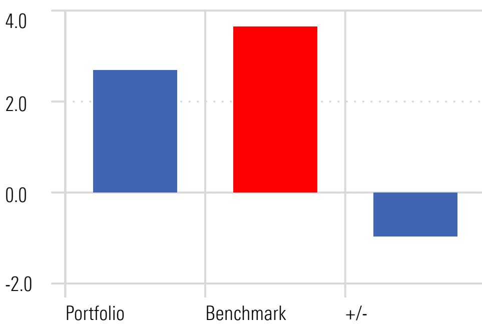
Total Portfolio Returns (%): Quarter

Time Period: 01/07/2020 to 30/09/2020

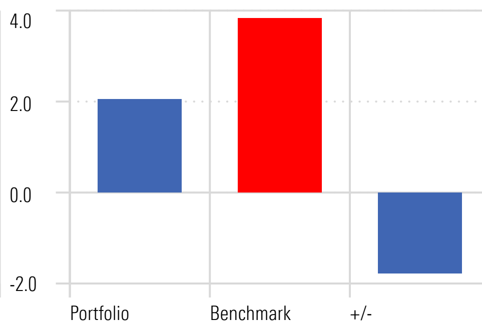
Net Return %



Total Portfolio Returns (%): YTD

Time Period: 01/01/2020 to 30/09/2020

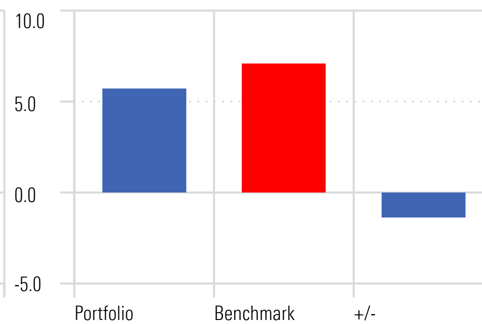
Net Return %



Total Portfolio Returns (%): 1 Year

Time Period: 01/10/2019 to 30/09/2020

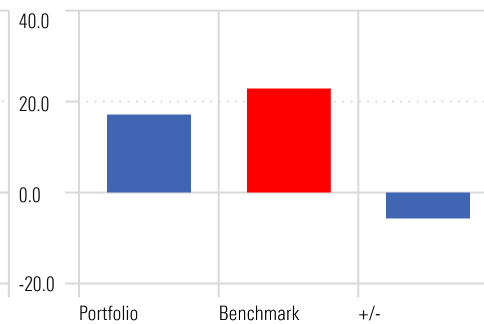
Net Return %



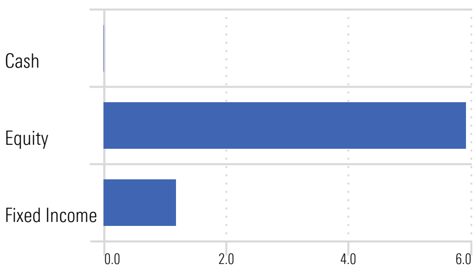
Total Portfolio Returns (%): Since Inception

Time Period: 03/07/2017 to 30/09/2020

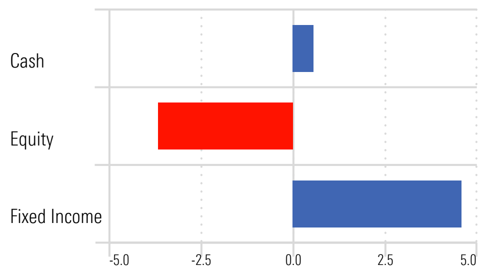
Net Return %



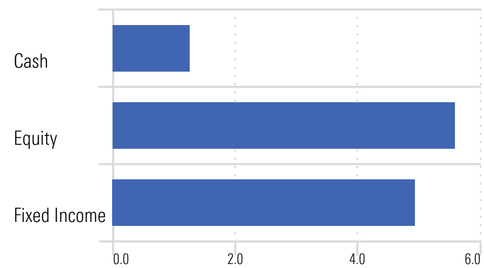
Asset Class Returns (%): Quarter



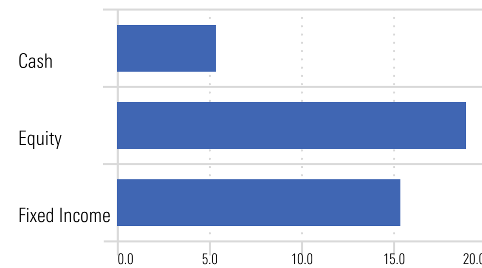
Asset Class Returns (%): YTD



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	12.70	5.88	0.00	0.00	0.00	-0.23
Equity	35.32	38.21	5.91	8.14	2.06	-0.88
Fixed Income	51.30	55.91	1.18	0.68	0.62	0.38
Attribution Total	99.32	100.00	2.68	3.41	2.68	-0.73
Bond	0.68	0.00				

Asset Class Attribution (%): YTD

	Portfolio Weights	Benchmark Weights	Portfolio Return	Benchmark Return	Portfolio Contribution	Active Return
Cash	13.76	5.57	0.57	0.40	0.08	-0.03
Equity	35.07	38.16	-3.66	1.46	-0.28	-1.77
Fixed Income	50.94	56.27	4.58	4.50	2.24	-0.25
Attribution Total	99.77	100.00	2.05	4.10	2.05	-2.05
Bond	0.23	0.00				

Asset Class Attribution (%): 1 Year

	Portfolio Weights	Benchmark Weights	Portfolio Return	Benchmark Return	Portfolio Contribution	Active Return
Cash	14.11	5.53	1.25	0.80	0.19	-0.26
Equity	35.12	38.34	5.57	10.52	3.02	-1.82
Fixed Income	50.60	56.14	4.92	3.93	2.49	0.43
Attribution Total	99.83	100.00	5.70	7.35	5.70	-1.65
Bond	0.17	0.00				

Asset Class Attribution (%): Since Inception

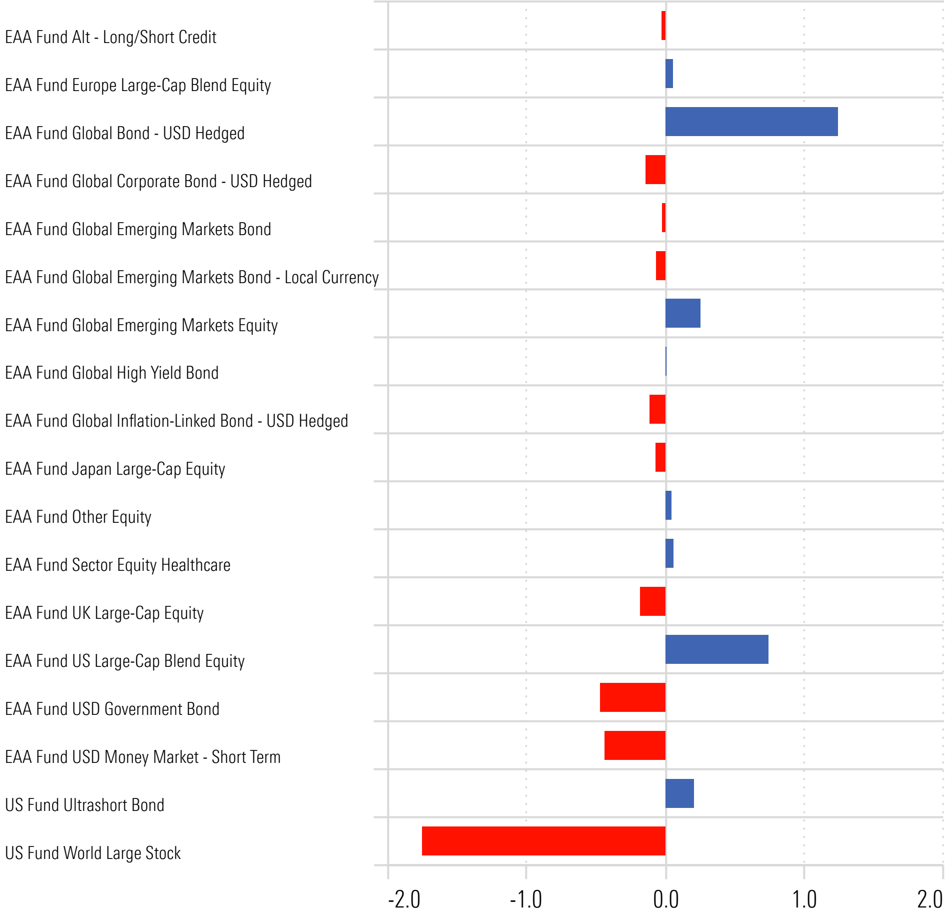
	Portfolio Weights	Benchmark Weights	Portfolio Return	Benchmark Return	Portfolio Contribution	Active Return
Cash	15.14	7.41	5.36	4.67	0.87	-1.13
Equity	36.27	40.11	18.92	29.97	8.47	-4.10
Fixed Income	48.54	52.47	15.37	14.98	7.78	0.13
Attribution Total	99.95	100.00	17.11	22.21	17.11	-5.09
Bond	0.05	0.00				

Zurich TDF 2025

Asset Allocation Attribution

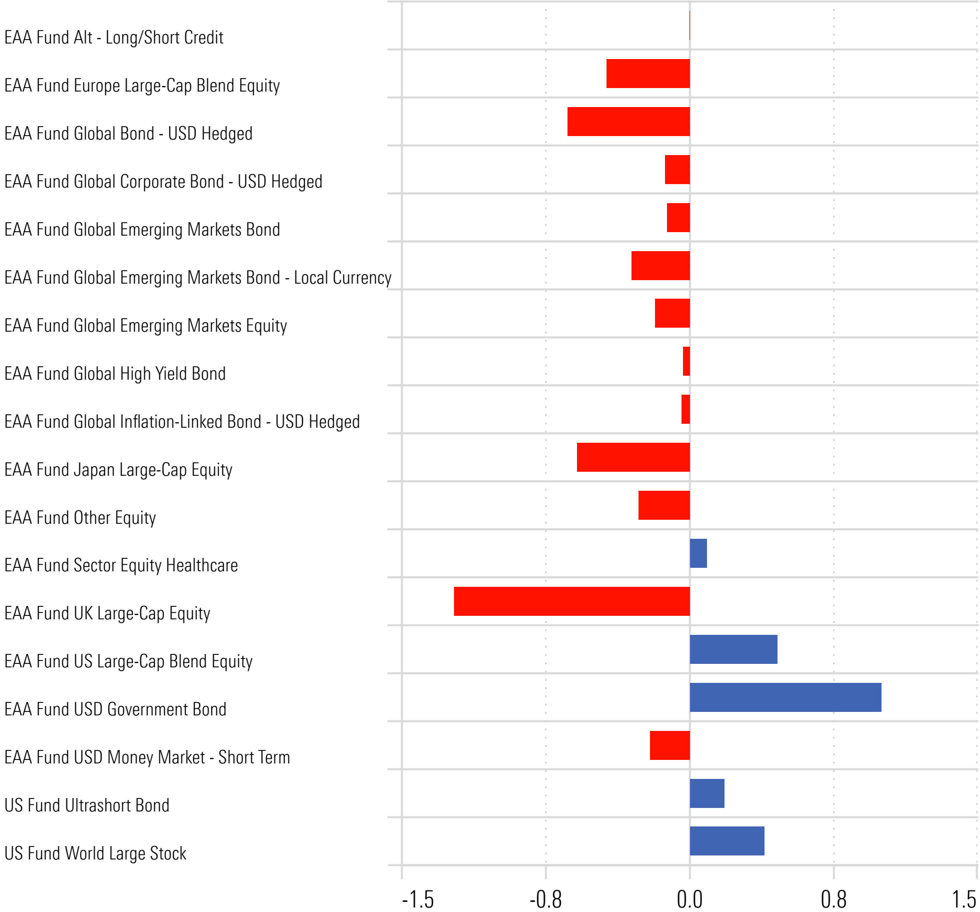
Allocation Effect: (%) : Quarter

Time Period: 01/07/2020 to 30/09/2020



Allocation Effect: (%) : YTD

Time Period: 01/01/2020 to 30/09/2020

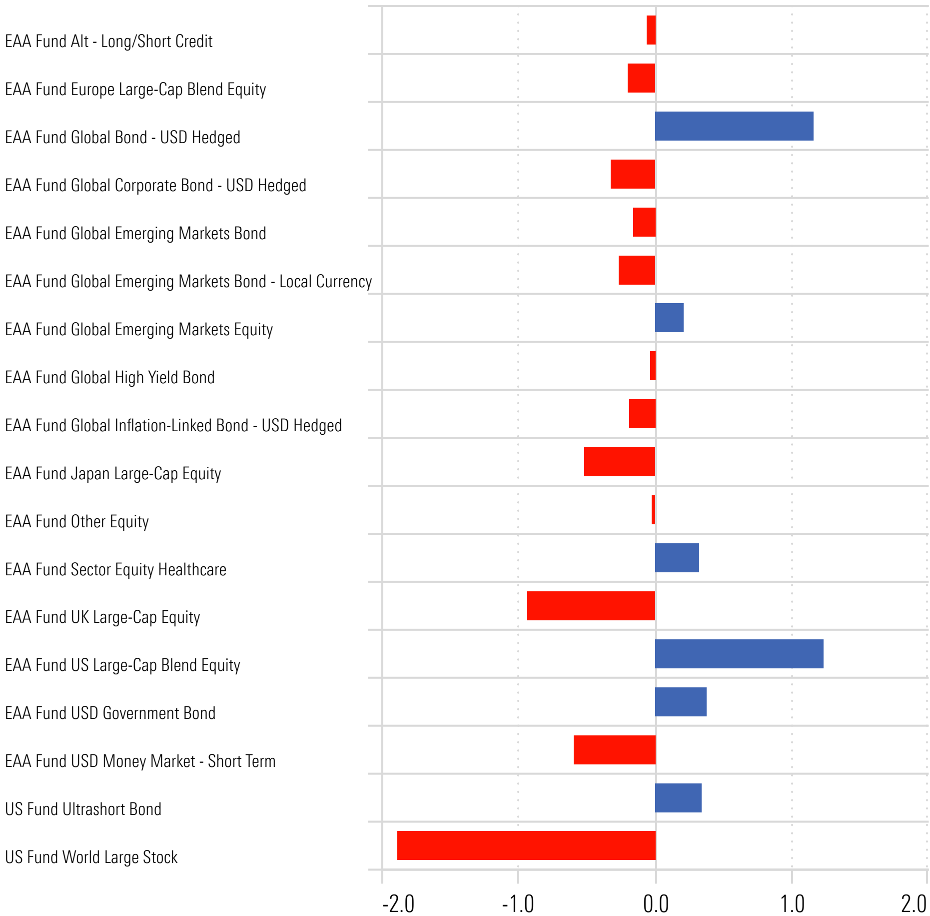


Zurich TDF 2025

Asset Allocation Attribution

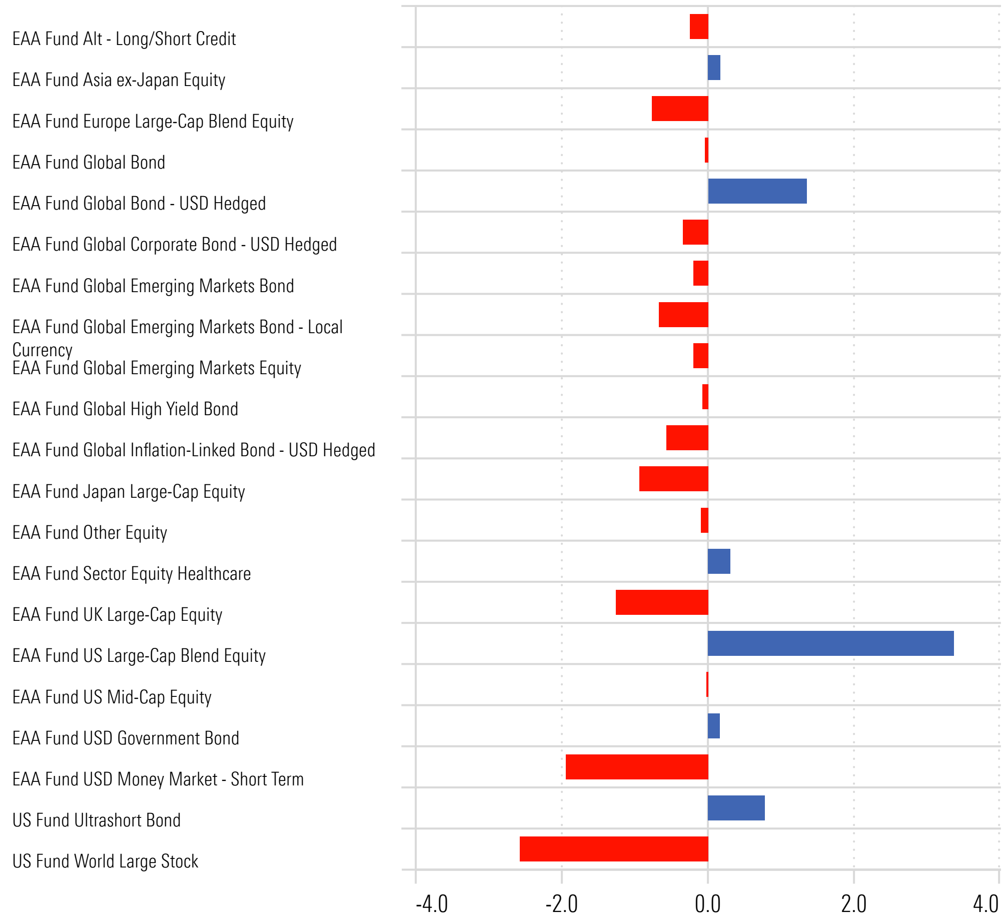
Allocation Effect: (%) : 1 Year

Time Period: 01/10/2019 to 30/09/2020



Allocation Effect: (%) : Since Inception

Time Period: 03/07/2017 to 30/09/2020



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