

Quarterly Board Report

Zurich TDF 2025

Zurich Target Date Funds



Market Commentary

At a Glance

- After a dramatic 2020, we have seen the green shoots of “reflation”, with several significant developments co-existing.
- We’ve witnessed strong returns for equities but weak returns for bonds in the first quarter of 2021.
- Among equities, the corners of the markets that had been hot—in some cases for years—turned cold.
- In the bond market, dormant expectations for inflation began to emerge, leading to losses across interest-rate-sensitive parts of the market.
- Pushing to longer timeframes, a more compelling story emerges as the scope of the bounceback from last year’s brutal market losses become clear.

Important Perspective

What a difference a quarter of a year makes. After a dramatic 2020, we have seen the green shoots of “reflation”, with several significant developments co-existing. The major market influences are a) inflation expectations are higher with central banks, for now, willing to let prices rise, b) economic growth forecasts increasing following solid vaccine progress, c) company reporting broadly exceeding expectations, d) geopolitical tensions and systemic risks softening, and e) investors conditioned by strong returns through good news and bad.

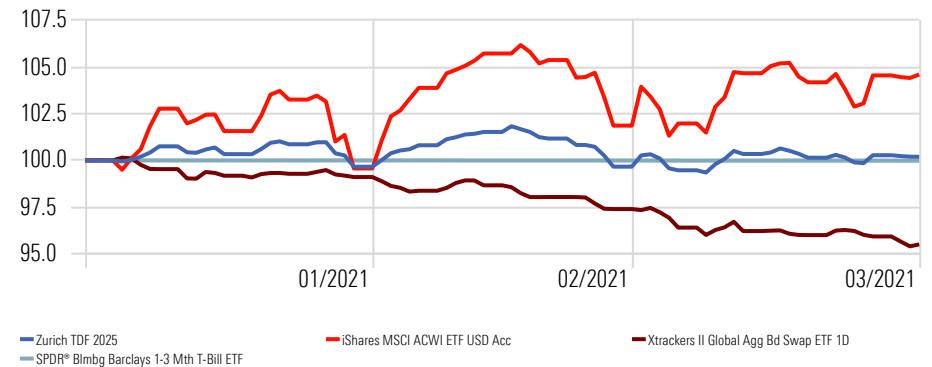
This culminated in strong returns for equities but weak returns for bonds in the first quarter. Among equities, the corners of the markets that had been hot—in some cases for years—turned cold. In fact, we saw a remarkable change with value stocks at the top of the leaderboard, buoyed by energy and financial companies, and technology stocks landed in the unusual position of worst performers. Smaller companies more likely to have their fortunes tied to the strength of the economy were among the best performers. Dividend-payers, which struggled in 2020, also saw a first-quarter recovery.

In the bond market, dormant expectations for inflation began to emerge, leading to losses across interest-rate-sensitive sectors of the market even as central banks committed to easy-money policies. The first-quarter bond sell-off hit government bonds the hardest, followed by safer core and corporate bonds. Only high-yield bonds managed to end the quarter just in positive territory.

In the background, the yield curve (which looks at the effective interest rate for governments over different time periods) steepened severely from three months ago on expectations for stronger economic growth. For example, the 10-year yield in the U.S. has risen by 1.04 points since last year, reaching pre-pandemic levels near the end of the first quarter. But it wasn’t just U.S. Treasuries that were hit hard—U.K. government bonds also saw a 7.2% decline and government bonds lost 6.2% globally.

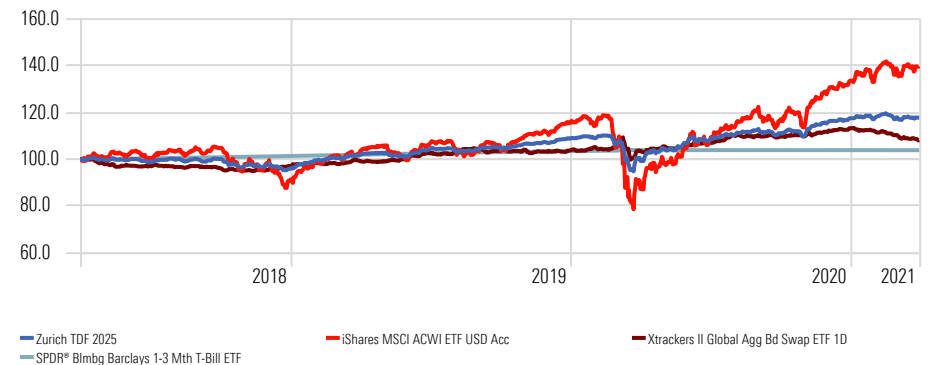
Market Performance (%): Quarter

Time Period: 01/01/2021 to 31/03/2021



Market Performance (%): 3 Year

Time Period: 01/04/2018 to 31/03/2021



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.

Portfolio & Performance Review

Portfolio & Attribution Commentary

Performance versus Expectations

The portfolio gained 0.2% in the first quarter as most asset prices continued to perform well from Q4 2020. Market sentiment was fueled by continued positive news on Covid-19 vaccines and a large US stimulus. Areas of the market which were hit the hardest during the pandemic continued to rally with strong performance.

This broadly benefited the portfolio with exposure to the UK and US stocks during the quarter while bond exposure saw weak performance as a result of rising inflation expectations and growing optimism of an economic recovery.

Turning to the underlying investments, fund selection was negative with GAM Multibond Local Emerging Bond underperforming its benchmark. On the positive side, PIMCO GIS Global Investment Grade Credit outperformed its benchmark after a negative period for the asset class.

ATTRIBUTION COMMENTARY

Top Contributors:

iShares US Index & Vanguard US 500 Stock Index – The US equity market continued to perform strongly in Q1 2021 and outperformed global equity markets with continued vaccine progress and a large economic stimulus. The large allocation to US equities through the two funds was a significant contributor to the absolute performance of the fund.

iShares UK Index – Following a strong Q4 2020, the UK continued to perform strongly in Q1 2021 on the back of a successful vaccine roll out program.

Vanguard European Stock – European equities lagged UK and US equity market but still provided a strong and positive return during Q1 2021, leading to a positive contribution to the portfolio.

Top Detractors:

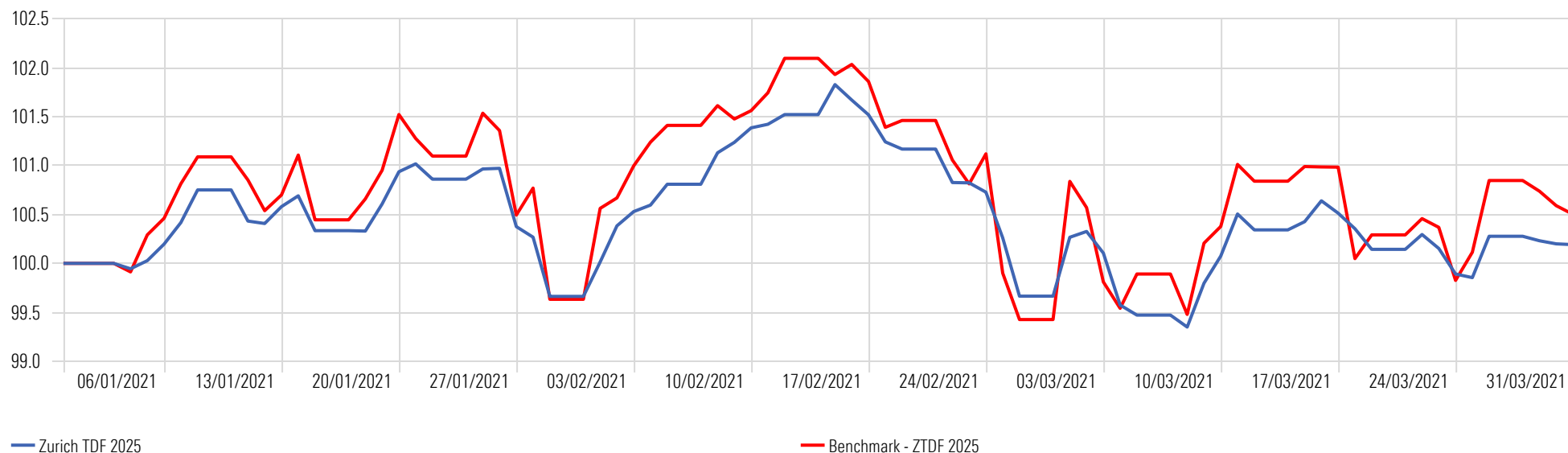
Vanguard US Govt Bd Idx – The US 10-year yield continued to rally and climbed above 1.70% during the quarter, with growing optimism over an economic recovery and increasing inflation. This led to a negative return for the Vanguard US government bond fund during the quarter.

PIMCO GIS Global Investment Grade Credit Fund – The bond sell off hit safe corporate bonds as well as treasuries and this led to a negative contribution from this fund.

State Street Global Treasury Bond Index Fund – As mentioned above, growing inflation expectations and optimism regarding an economic recovery led to government yields rising which caused negative returns for this fund over the quarter.

Investment Growth (%)

Time Period: 01/01/2021 to 31/03/2021



Trailing Returns (%)

Data Point: Return

	Since Inception (03/07/2017)	3 Years	Quarter	YTD	01/04/2020 - 31/03/2021	01/04/2019 - 31/03/2020	01/04/2018 - 31/03/2019	01/04/2017 - 31/03/2018	01/04/2016 - 31/03/2017
Zurich TDF 2025	24.20	17.75	0.19	0.19	17.01	-1.00	1.65		
Benchmark - ZTDF 2025	29.50	22.88	0.50	0.50	19.48	-0.34	3.20	8.55	6.14

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Portfolio Positioning & Outlook

RECENT CHANGES

The portfolio was changed late March 2021.

We've exited the position in Amundi Japan, which was currency-hedged in favor of Vanguard Japan (unhedged) and a marginal increase in iShares Emerging Markets. This result in a small increase in the portfolio's exposure to the Japanese Yen. This currency is reasonably attractive and tends to offer good diversification when markets correct.

We have also taken advantage of the significant bounce back in yields to slightly increase the duration of the portfolio by adding to State Street Global Treasuries and Vanguard US Government bond. This is funded from cash and the Pimco Low Duration Real Return fund as inflation-linked bonds outperformed recently as the market repriced inflation expectations.

POSITIONING UPDATE AND OUTLOOK

With effective vaccines being rolled out around the world it would be tempting to predict an end to the global pandemic in 2021. However, while some nations appear to be turning a corner in their battle against the disease, others are plunging into new restrictions as cases yet again run away. That been said, with financial markets now predicting an uptick in inflation and stock indexes reaching new record highs, it would seem as though investors are starting to look past the pandemic.

The potential for an economic recovery characterized by higher inflation poses an existential problem for bond investors. As we saw in Q1, bond yields can rise aggressively when inflation concerns creep into investors' thinking. While an economic re-opening would likely see a rise in prices, we believe such pressures would be transitory in nature. It is with this view in mind that we have been cautiously adding to bond duration.

Equity volatility has sunk to its lowest level since February 2020, highlighting increasing complacency among investors. While this makes some market participants more eager to take risks, we stay guided by valuations not by market sentiment. As such, we remain on the lookout for attractively valued assets which can provide investors with a high margin of safety. In this regard, we are satisfied that the shape of the portfolio should deliver good risk-adjusted returns that help investors reach their goals.



The portfolio holds significant exposure to global bonds, with a preference for US bonds. The fixed income allocation is broadly diversified with significant exposure to more defensive assets such as governments

bonds or inflation-linked bonds combined with exposures to both investment grade and high yield corporate debt, and Emerging Markets debt. We also hold significant positions in money market funds given the extremely low level of bonds yields.

Within equity markets, the allocation is balanced across the different regions. We continue to see the US market as being the least attractive from a relative perspective. We favor markets that offer better value and offer interesting diversification benefits, such as Japan, the UK or the Global Healthcare sector.

Zurich TDF 2025 - Holdings

Portfolio Date: 31/03/2021

	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	17.70	 Silver	-4.14	-4.14	-4.33
PIMCO GIS GlnGd Crdt Instl USD Acc	11.70	 Bronze	-2.86	-2.86	10.04
Stt Strt Glbl Trs Bd Idx I USD Acc Hdg	9.70		-2.69	-2.69	-1.32
iShares US Index (IE) Instl Acc USD	7.20		6.79	6.79	56.36
PIMCO GIS Glb Lw Dur RI Rt Ins USD Acc	6.20		0.87	0.87	8.75
ILF USD Liquidity 4	5.70		0.00	0.00	0.07
Vanguard European Stock Idx USD Acc	5.10	 Gold	4.10	4.10	45.30
Vanguard U.S. 500 Stk Idx \$ Acc	5.00	 Gold	6.05	6.05	55.48
iShares UK Index (IE) Instl Acc GBP	4.80		4.58	4.58	33.49
Vanguard Global S/T Bd Idx USD H Acc	4.80		-0.36	-0.36	2.25
iShares EmergMkts Idx (IE) Instl Acc USD	4.40		2.47	2.47	58.07
Vanguard Jpn Stk Idx \$ Acc	4.10		1.53	1.53	39.52
Fundsmith Equity I Acc	3.50	 Gold	1.86	1.86	44.29
BSF Fixed Income Strategies A2 USD H	2.10	 Bronze	-0.06	-0.06	9.70
AXAWF Global High Yield Bds I Cap USD	2.00	 Silver	0.97	0.97	20.76
BGF World Healthscience A2	2.00	Neutral	0.44	0.44	28.90
GAM Multibond Local Emerging Bond USD C	2.00	Neutral	-8.79	-8.79	12.51
iShares Em Mkts Govt Bd Idx (LU) A2 USD	2.00	 Bronze	-4.68	-4.68	12.50

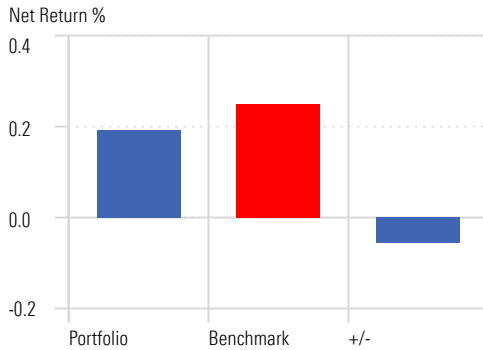
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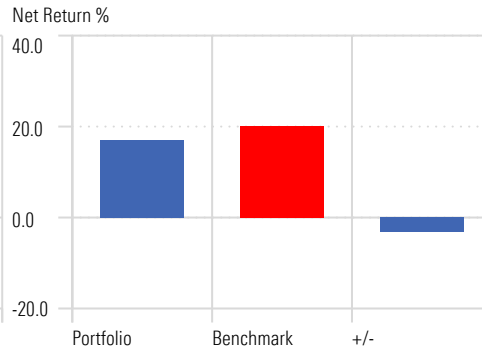
Total Portfolio Returns (%): Quarter

Time Period: 01/01/2021 to 31/03/2021



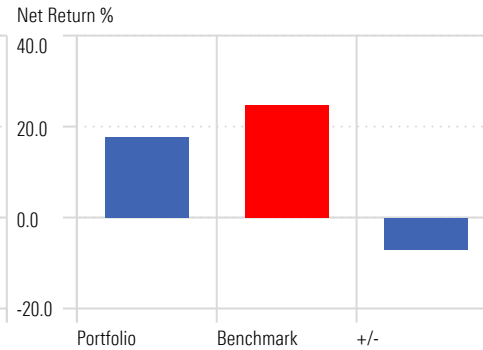
Total Portfolio Returns (%): 1 Year

Time Period: 01/04/2020 to 31/03/2021



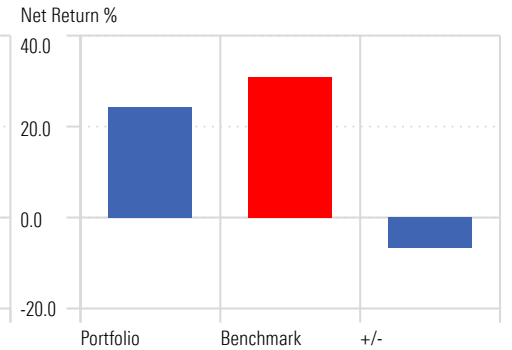
Total Portfolio Returns (%): 3 Year

Time Period: 01/04/2018 to 31/03/2021

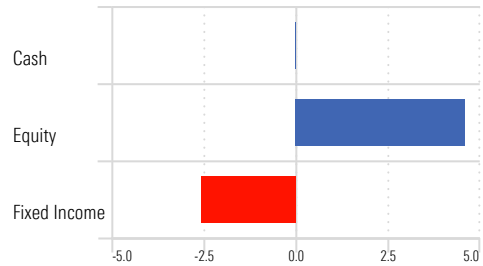


Total Portfolio Returns (%): Since Inception

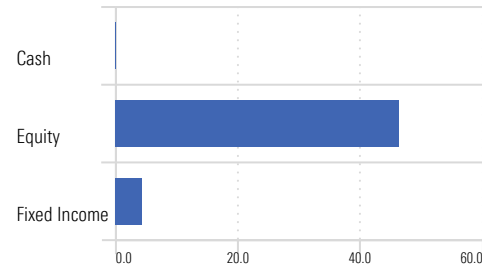
Time Period: 03/07/2017 to 31/03/2021



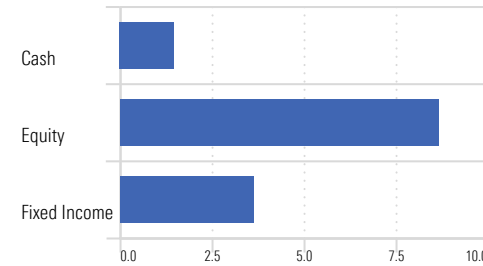
Asset Class Returns (%): Quarter



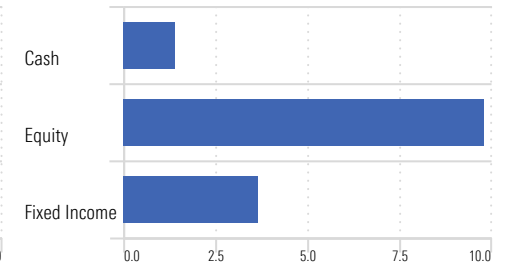
Asset Class Returns (%): 1 Year



Asset Class Returns (%): 3 Year



Asset Class Returns (%): Since Inception



Asset Class Attribution (%): Quarter

	Portfolio Weights	Benchmark Weights	Portfolio Return	Benchmark Return	Portfolio Contribution	Active Return
Cash	8.02	6.02	0.00	-0.02	0.00	0.00
Equity	36.09	37.41	4.61	4.58	1.63	-0.06
Fixed Income	55.89	56.57	-2.56	-2.51	-1.44	-0.01

Asset Class Attribution (%): 1 Year

	Portfolio Weights	Benchmark Weights	Portfolio Return	Benchmark Return	Portfolio Contribution	Active Return
Cash	11.67	5.77	0.07	-0.05	0.01	-1.51
Equity	35.67	38.27	46.20	54.79	14.99	-3.28
Fixed Income	52.65	55.96	4.24	1.31	2.01	2.42

Asset Class Attribution (%): 3 Year

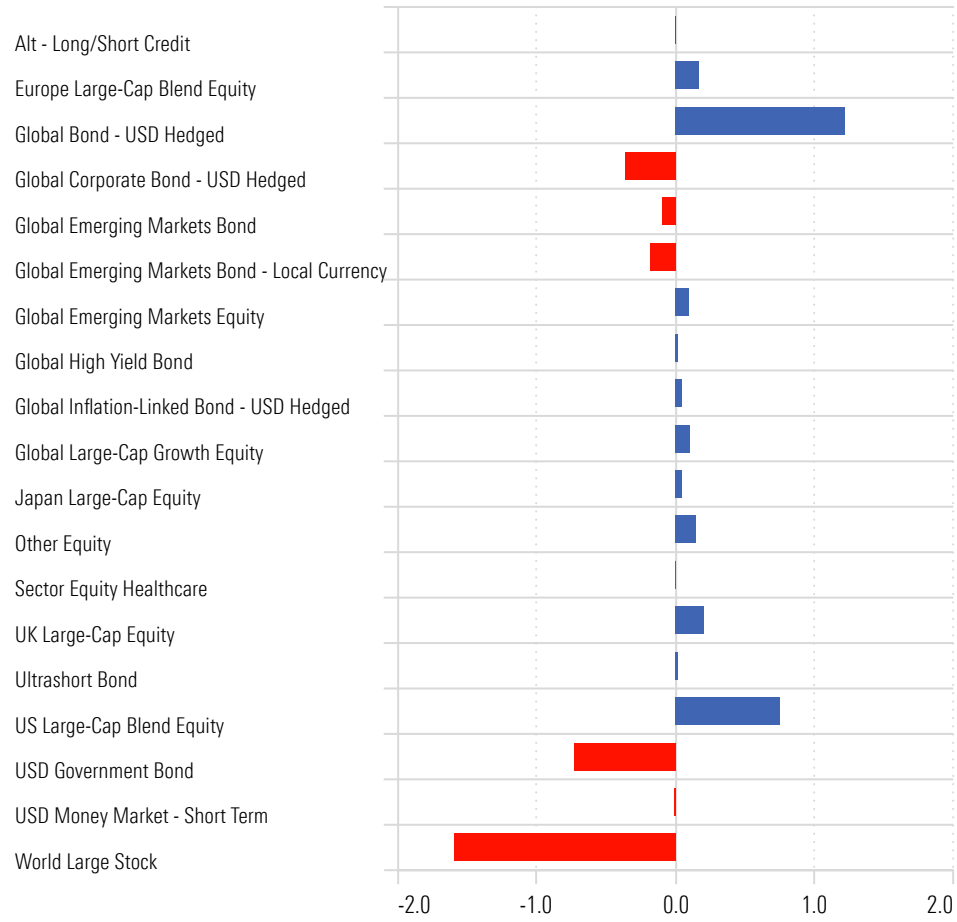
	Portfolio Weights	Benchmark Weights	Portfolio Return	Benchmark Return	Portfolio Contribution	Active Return
Cash	14.30	6.68	4.48	3.85	0.69	-1.31
Equity	35.57	38.97	28.29	41.09	11.59	-4.47
Fixed Income	50.13	54.35	11.30	11.00	5.46	0.37

Asset Class Attribution (%): Since Inception

	Portfolio Weights	Benchmark Weights	Portfolio Return	Benchmark Return	Portfolio Contribution	Active Return
Cash	14.51	7.22	5.36	4.64	0.87	-1.68
Equity	36.20	39.76	41.85	55.91	16.27	-4.90
Fixed Income	49.29	53.01	14.38	13.03	7.06	0.98

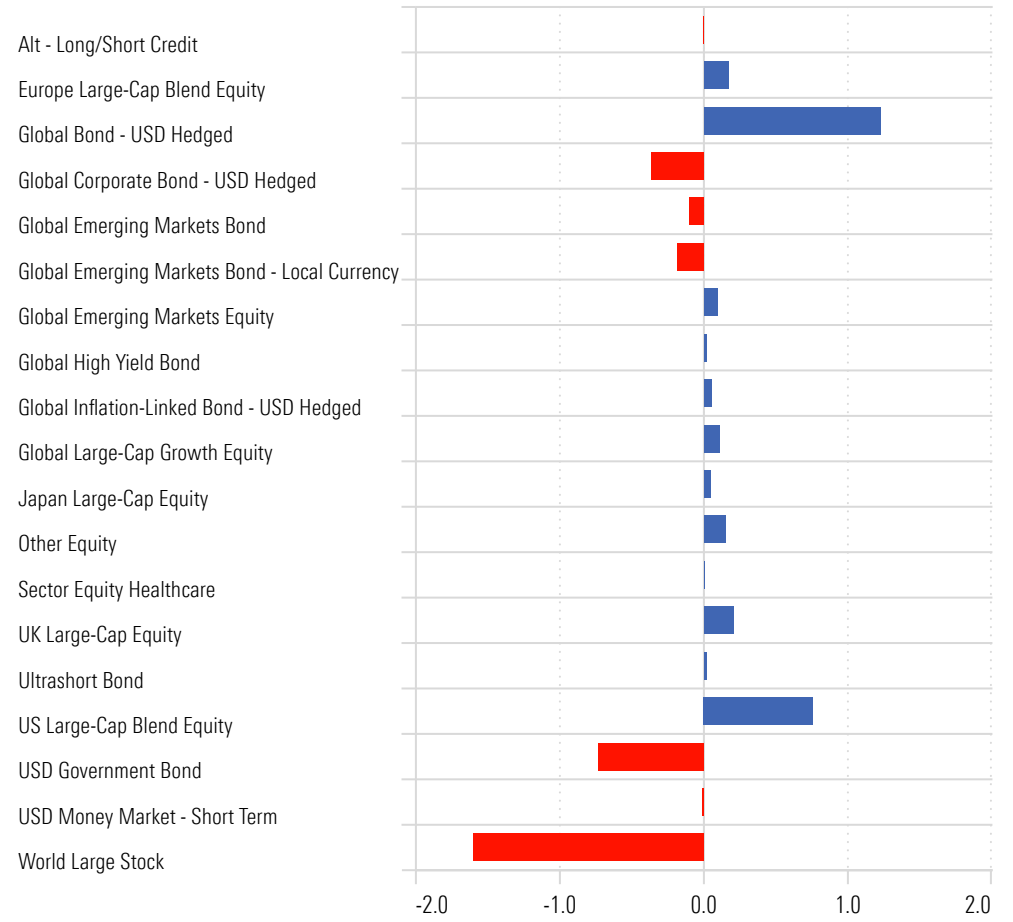
Allocation Effect: (%) : Quarter

Time Period: 01/01/2021 to 31/03/2021



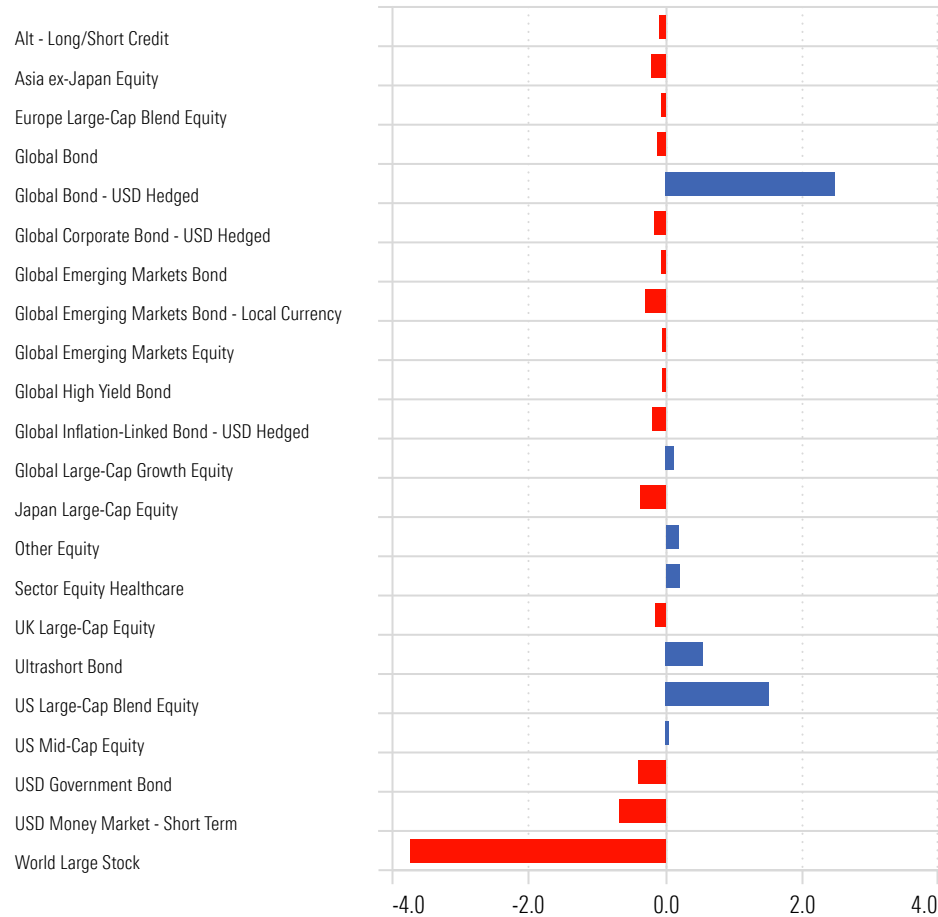
Allocation Effect: (%) : 1 Year

Time Period: 01/01/2021 to 31/03/2021



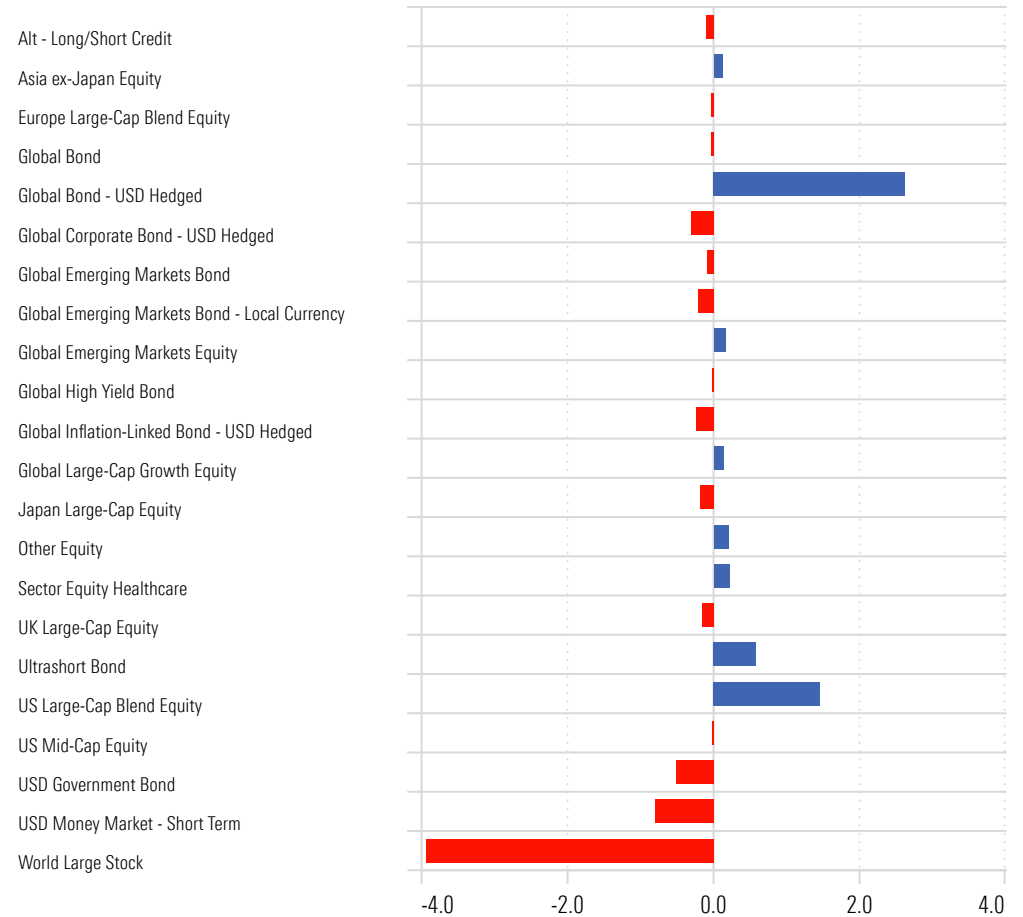
Allocation Effect: (%) : 3 Year

Time Period: 01/04/2018 to 31/03/2021



Allocation Effect: (%) : Since Inception

Time Period: 03/07/2017 to 31/03/2021



Zurich TDF 2025

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