Quarterly Board Report

Zurich TDF 2025

Zurich Target Date Funds

Zurich International Life Limited | Q2 2021

Market Commentary

At a Glance

- Global stock and bond markets posted broad gains in the second quarter, as economies re-open and central banks offer their stance on inflation developments.
- Volatility across equity markets fell to pre-pandemic levels. Renewed demand for oil pushed prices higher and energy stocks topped the sector list. Utilities dragged.
- Bonds partially recovered from a rough first quarter. High-yield bonds continue to outpace government and corporate bonds.

Important Perspective

Stocks were driven by the dynamics of a recovering economy: the reality of higher inflation, a mixed picture on employment, and continued support from central banks. This shift came as the Federal Reserve indicated in June that it may raise rates somewhat sooner than expected, albeit not likely until 2023.

A wide divergence in sector performance during the first quarter narrowed in the second, with all but the utilities sector posting gains. By the end of the second quarter, one of the most dominant trends from late 2020 and the first quarter began to fade: the outperformance of cash-flow producing value stocks over popular growth stocks. Still, with central banks still injecting enormous stimulus, markets weren't spooked. Some factors stayed constant from earlier developments: resurgent economic activity boosting the price of oil, and in turn, energy stocks. In fact, oil prices rose 20% in the quarter and 94% over the past year. In this context, emerging markets showed resilience to a regulatory clampdown in China towards mega-tech companies, with the broad emerging-markets basket matching developed markets for the quarter.

In the bond market, following a rough first three months of 2021, where prices were hit by fears of rising inflation, investors returned in the second quarter. Updates from central banks influenced bond market participants, with a return of investor interest resulting in a reversal of some of their lost ground—with the U.S. faring better than European equivalents.

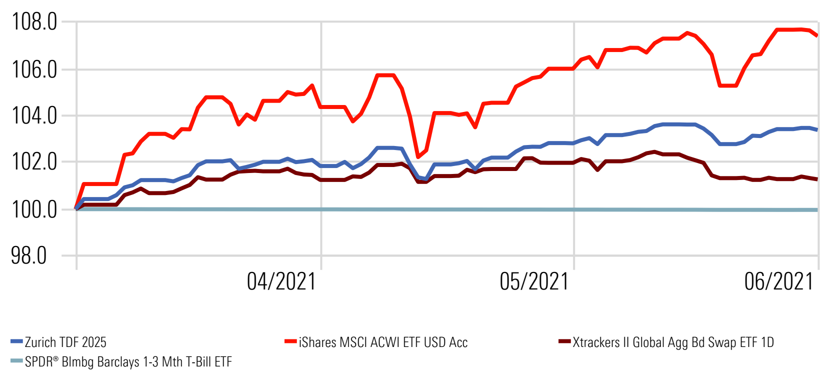
The currency market also saw increased volatility, with the U.S. dollar perking up in June after sharply declining for most of the quarter. To the contrary, the Japanese yen, British pound, Euro and Australian dollar all saw relative strength but weakened as the quarter ended.

Longer-Term Perspective

Over the past 12 months, stocks are meaningfully higher, with some key markets hitting a new record high on the last day of the quarter. To really hammer home the post-pandemic rally, take U.S. stocks for example, which are up 97% from the 2020 low set on March 20, 2020. This is obviously good news for those with a higher risk tolerance that have enjoyed the high returns, but it has also seen the risk appetite and return expectations of many investors rise to worrying levels. Some investor surveys even suggest participants now expect 15%+ returns every year for the next five years, which is extraordinary by historical norms. Like gravity, investors should be reminded that long-term asset prices are inevitably a reflection of the fundamentals beneath it.

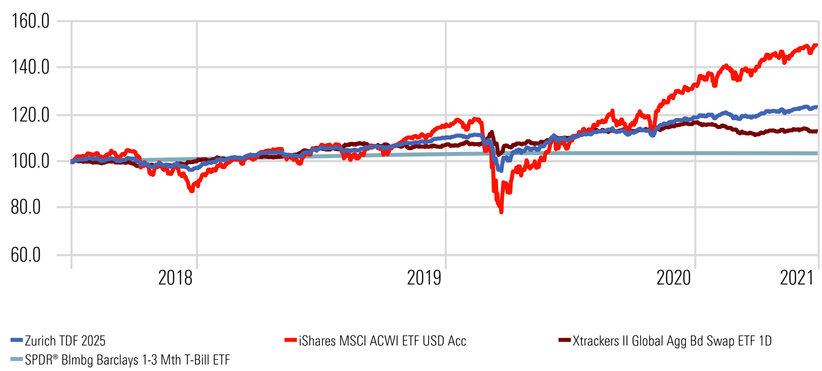
Market Performance (%): Quarter

Time Period: 01/04/2021 to 30/06/2021



Market Performance (%): 3 Year

Time Period: 01/07/2018 to 30/06/2021



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

PORTFOLIO COMMENTARY

Performance versus Expectations

The portfolio gained 3.4% in the second quarter as most asset prices performed well during the period. Markets continued to rise on hopes of economic recovery and continued support from central banks.

This broadly benefited the portfolio with exposure to the UK, US and European stocks during the quarter while bond returns recovered from the previous quarter following fears of rising inflation.

Turning to the underlying investments, fund selection was positive with Fundsmith Equity and PIMCO GIS Global Investment Grade Credit Fund outperforming their benchmarks.

ATTRIBUTION COMMENTARY

Top Contributors:

iShares US Index & Vanguard US 500 Stock Index – The US equity market continued to perform strongly in Q2 2021 and outperformed global equity markets. The large allocation to US equities through the two funds was a significant contributor to the absolute performance of the fund.

Fundsmith Equity – This fund looks to invest in high quality businesses and performed strongly over the quarter.

Vanguard European Stocks – European stocks were the best performing region in the portfolio on the back of continued recovery optimism.

Top Detractors:

Vanguard Japan Index – Japanese equities were the only region that they failed to provide a positive return over the quarter, with the fund returning a slight negative -0.33%.

BSF Fixed Income – The return was a negative -0.28%, however, due to the small weight in the portfolio the total impact was minor.

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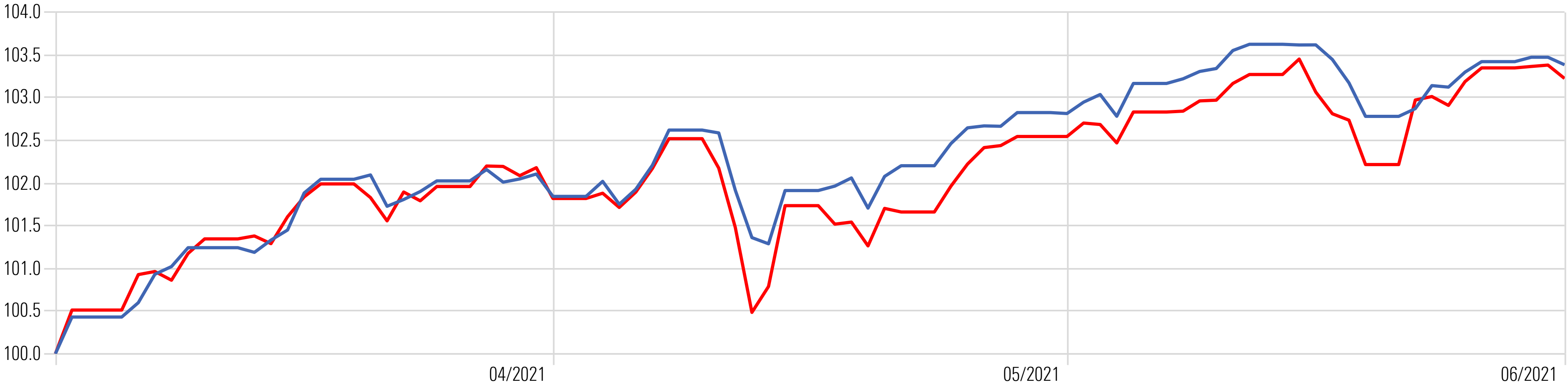
Performance Review

Investment Growth (%)

Time Period: 01/04/2021 to 30/06/2021



Trailing Returns (%)

Data Point: Return

	Since Inception (03/07/2017)	3 Years	Quarter	YTD	01/07/2020 - 30/06/2021	01/07/2019 - 30/06/2020	01/07/2018 - 30/06/2019	01/07/2017 - 30/06/2018	01/07/2016 - 30/06/2017
Zurich TDF 2025	28.40	23.02	3.39	3.58	12.57	3.90	5.17	4.38	
Benchmark - ZTDF 2025	33.67	27.22	3.23	3.74	13.11	5.47	6.63	5.07	7.37

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Portfolio Positioning & Outlook

As countries continued to take steps out of lockdowns and to reopen their economies during Q2, the prospect of higher inflation became a stark reality. This can be seen most vividly in the US, where consumer prices rose by 5% over the 12 months ending May 2021. However, as the quarter progressed, investors became less anxious about rising prices.

The COVID-19 pandemic and the subsequent response from central banks has given market participants a lot to grapple with. With few historical analogues to guide investors, the potential to overreact becomes a real threat. Predictions of runaway inflation might prove to be one such overreaction, but equally we must accept that we do not know what the future will look like. As ever, where we focus our efforts is in carefully analyzing the fundamentals and evaluating what prices we feel are appropriate for different assets.

As equity markets have continued their march higher, we remain cognisant of the importance that valuation can play in driving asset returns. With markets at all-time highs, we know that future returns are likely to be worse than the returns that investors have recently enjoyed. Yet at the same time, stock market volatility has fallen to levels that may indicate investor complacency. These two factors taken together are a sign for modest caution.

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.

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Portfolio Holdings

Zurich TDF 2025 - Holdings

Portfolio Date: 30/06/2021

	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	1.68	-2.53	-3.20
PIMCO GIS GlInGd Crdt Instl USD Acc	11.70	Bronze	2.30	-0.63	4.62
Stt Strt Glbl Trs Bd Idx I USD Acc Hdg	9.70		0.64	-2.07	-1.47
iShares US Index (IE) Instl Acc USD	7.20		8.31	15.66	40.07
PIMCO GIS Glb Lw Dur Rl Rt Ins USD Acc	6.20		1.30	2.18	5.88
ILF USD Liquidity 4	5.70		0.00	0.00	0.00
Vanguard European Stock Idx USD Acc	5.10		7.61	12.02	35.39
Vanguard U.S. 500 Stk Idx $ Acc	5.00	Gold	8.41	14.98	40.06
iShares UK Index (IE) Instl Acc GBP	4.80		5.95	10.80	31.10
Vanguard Global S/T Bd Idx USD H Acc	4.80		0.16	-0.21	0.77
iShares EmergMkts Idx (IE) Instl Acc USD	4.40		5.00	7.60	40.66
Vanguard Jpn Stk Idx $ Acc	4.10		-0.33	1.19	24.62
Fundsmith Equity I Acc	3.50	Gold	12.25	14.34	39.12
BSF Fixed Income Strategies A2 USD H	2.10	Bronze	-0.28	-0.34	3.90
AXAWF Global High Yield Bds I Cap USD	2.00	Silver	1.80	2.79	12.19
BGF World Healthscience A2	2.00	Neutral	8.38	8.86	22.54
GAM Multibond Local Emerging Bond USD C	2.00	Neutral	3.21	-5.86	4.85
iShares Em Mkts Govt Bd Idx (LU) A2 USD	2.00	Bronze	3.94	-0.93	7.09

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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.

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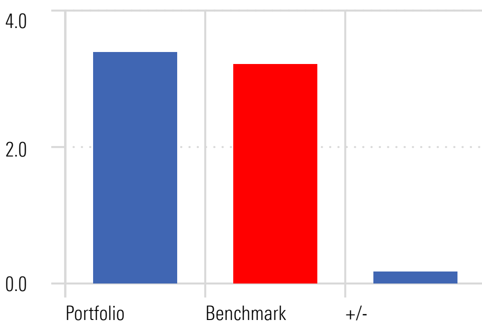
Asset Class Attribution

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.

Total Portfolio Returns (%): Quarter

Time Period: 01/04/2021 to 30/06/2021

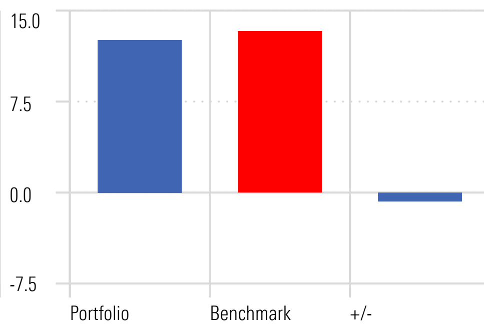
Net Return %



Total Portfolio Returns (%): 1 Year

Time Period: 01/07/2020 to 30/06/2021

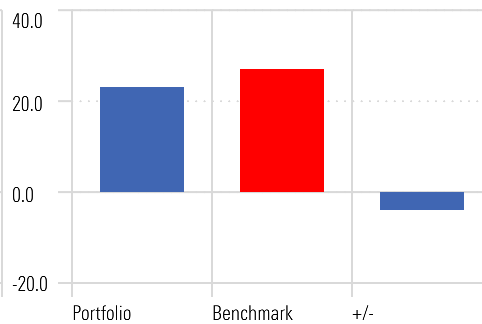
Net Return %



Total Portfolio Returns (%): 3 Year

Time Period: 01/07/2018 to 30/06/2021

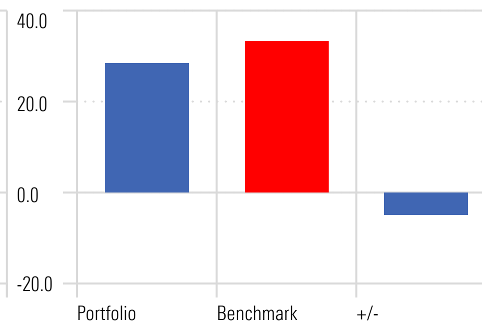
Net Return %



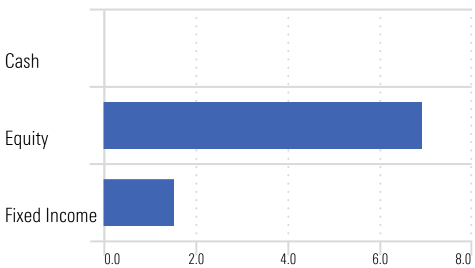
Total Portfolio Returns (%): Since Inception

Time Period: 03/07/2017 to 30/06/2021

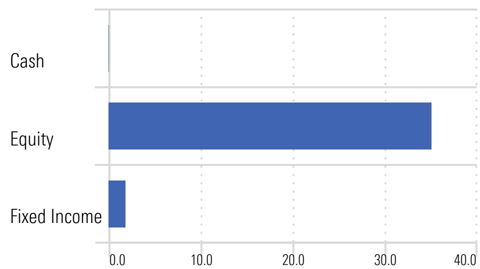
Net Return %



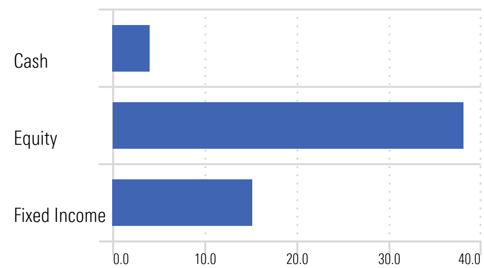
Asset Class Returns (%): Quarter



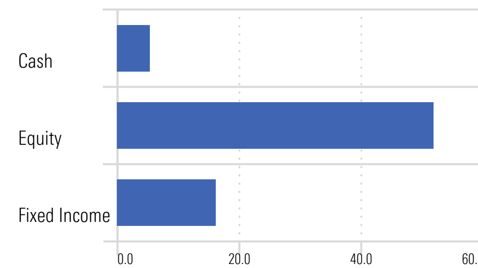
Asset Class Returns (%): 1 Year



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	5.61	5.91	0.00	-0.03	0.00	0.01
Equity	36.73	37.68	6.91	7.34	2.50	-0.19
Fixed Income	57.65	56.40	1.53	0.92	0.89	0.33

Asset Class Attribution (%): 1 Year

	Portfolio Weights	Benchmark Weights	Portfolio Return	Benchmark Return	Portfolio Contribution	Active Return
Cash	9.78	5.94	0.00	-0.06	0.00	-0.67
Equity	35.91	37.71	35.06	39.25	11.62	-1.66
Fixed Income	54.32	56.35	1.84	-0.11	0.96	1.52

Asset Class Attribution (%): 3 Year

	Portfolio Weights	Benchmark Weights	Portfolio Return	Benchmark Return	Portfolio Contribution	Active Return
Cash	13.41	6.38	4.03	3.40	0.63	-1.42
Equity	35.44	38.54	38.07	51.00	14.93	-4.38
Fixed Income	51.15	55.08	15.18	13.10	7.45	1.30

Asset Class Attribution (%): Since Inception

	Portfolio Weights	Benchmark Weights	Portfolio Return	Benchmark Return	Portfolio Contribution	Active Return
Cash	13.95	7.14	5.36	4.60	0.87	-1.72
Equity	36.24	39.63	51.66	67.36	19.37	-5.30
Fixed Income	49.81	53.23	16.13	14.07	8.16	1.43

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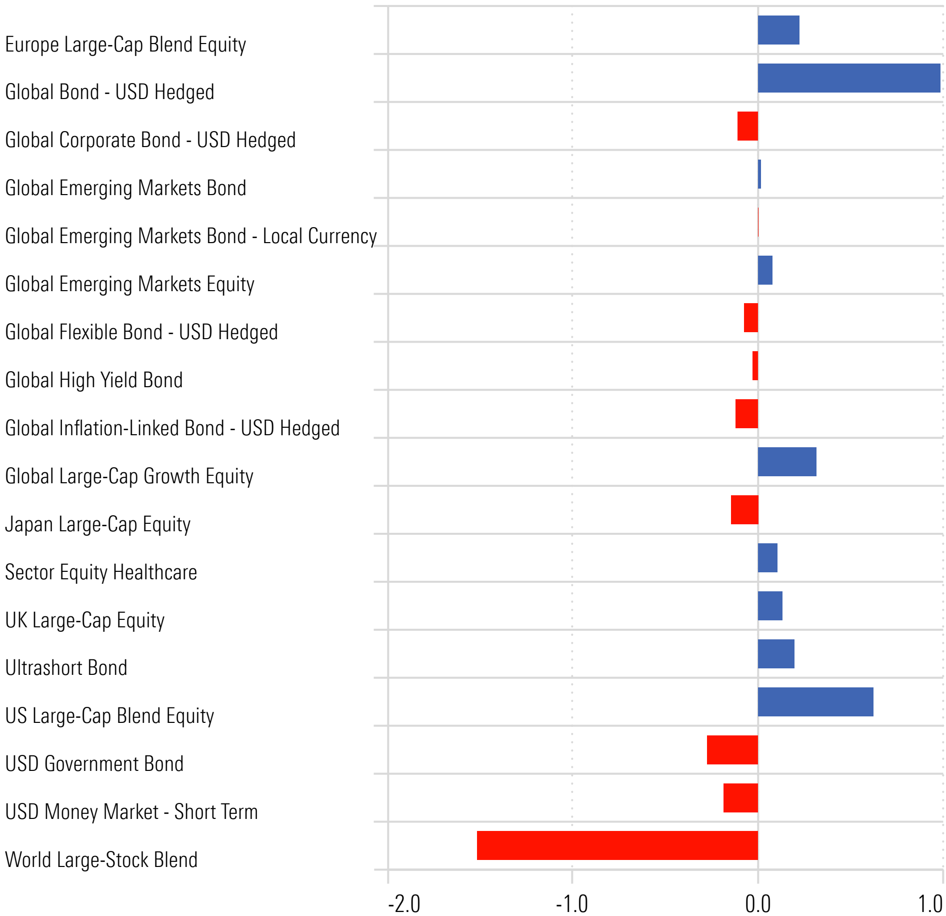
Asset Allocation Attribution

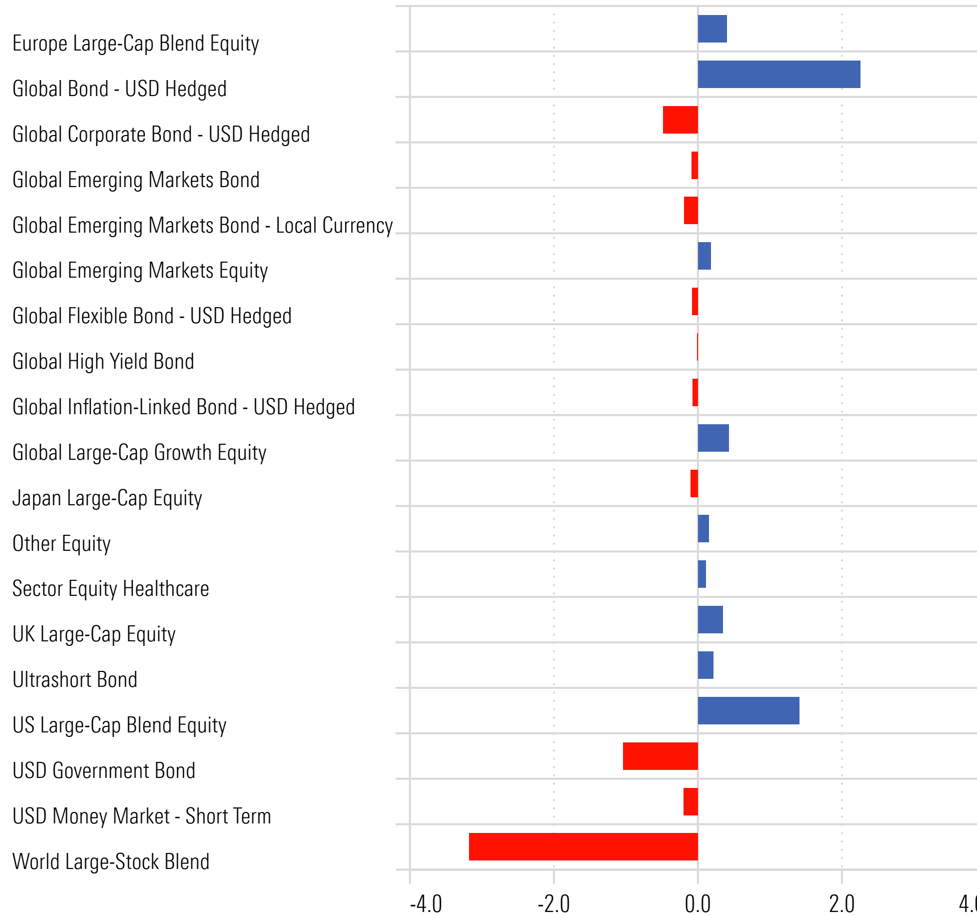
Allocation Effect: (%) : Quarter

Time Period: 01/04/2021 to 30/06/2021



Allocation Effect: (%) : 1 Year

Time Period: 01/01/2021 to 30/06/2021



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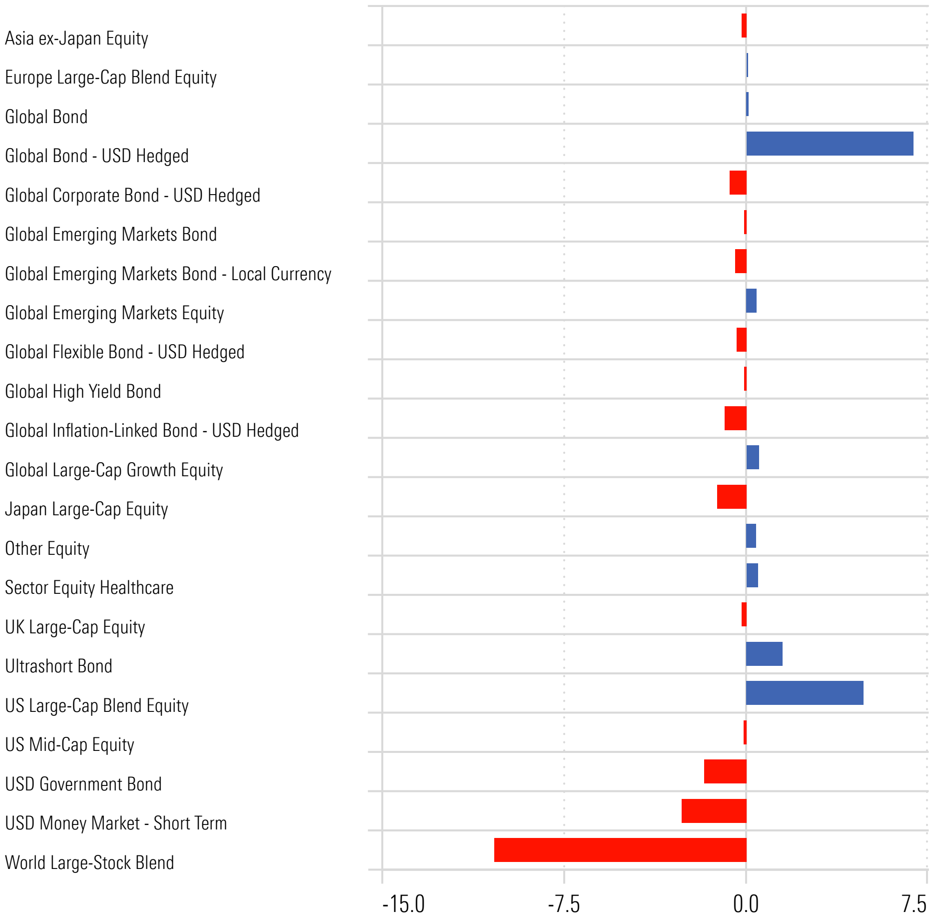
Asset Allocation Attribution

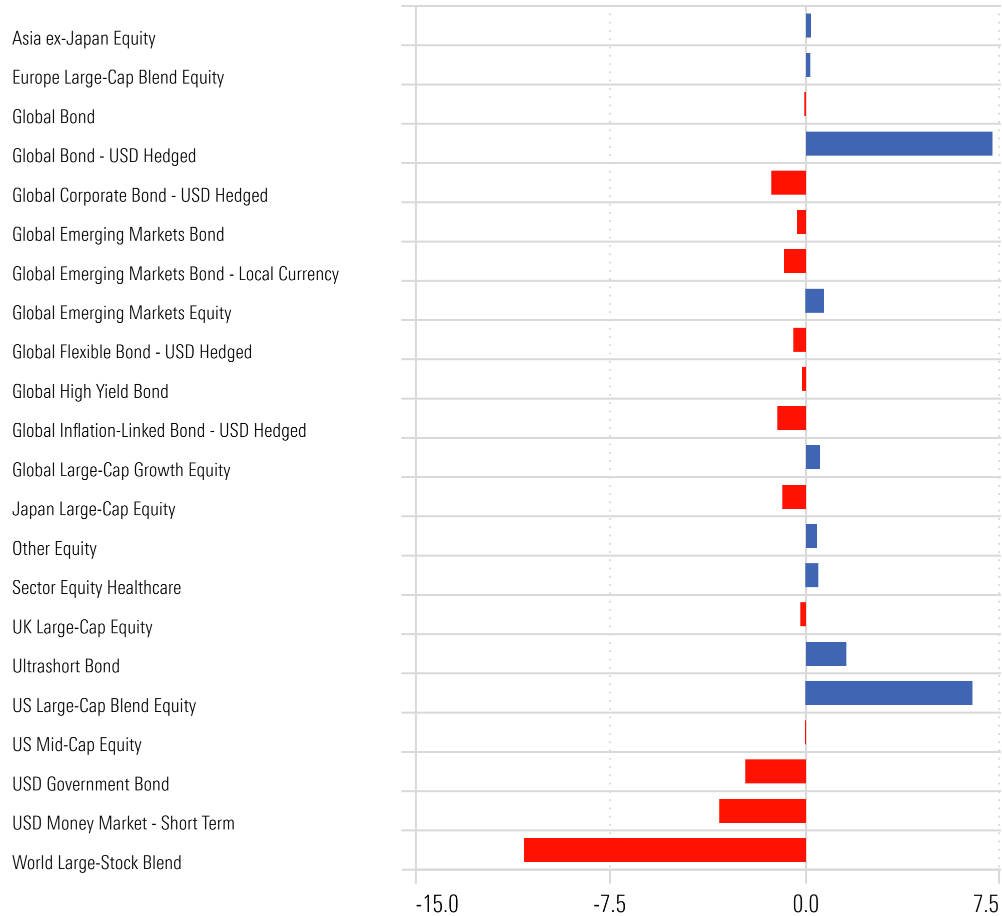
Allocation Effect: (%) : 3 Year

Time Period: 01/07/2018 to 30/06/2021



Allocation Effect: (%) : Since Inception

Time Period: 03/07/2017 to 30/06/2021



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Reference to specific securities is not an indication to buy or sell those securities'

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