

# Quarterly Board Report

Zurich TDF 2025

Zurich Target Date Funds



# Market Commentary

## At a Glance

- Global stock and bond markets have faltered in recent times, with inflation worries and the China crackdown influencing returns. That said, longer-term returns are still very healthy overall.
- A few bright spots exist, including energy companies and Japanese stocks.
- Emerging markets are among the biggest laggards, with Chinese technology companies falling heavily.
- Looking ahead, the supportive environment is evolving quickly and requires a watchful eye. We are broadly positioned for a continuation of the economic recovery, although we retain a defensive ballast.

## Important Perspective

The global rally in asset prices has faltered in recent times. While some equity markets continue to post modest gains, the total return backdrop has paled in comparison to recent memory, with emerging markets a particular sore point. Thus far, it is more akin to a stumble than a fall, with year-to-date returns still strong and the post-pandemic recovery intact. Several factors are at play, but the two prominent influences are 1) inflation fears, and 2) the China regulatory crackdown.

Inflation fears have been with us for most of 2021 yet continue to be regarded as the biggest tail risk — potentially derailing both equities and bonds. More recently, this has included central bank dialogue around a gradual tapering of its loose monetary conditions. While some see the inflation increase as being driven by a rebound from depressed prices in 2020 (the so called “base rate” effect) and/or temporary supply-chain issues, others point to massive fiscal and monetary stimulus contributing to a structural increase in inflation. The reopening of businesses is another contributor, although this has lost some steam as the delta variant continues to create economic challenges.

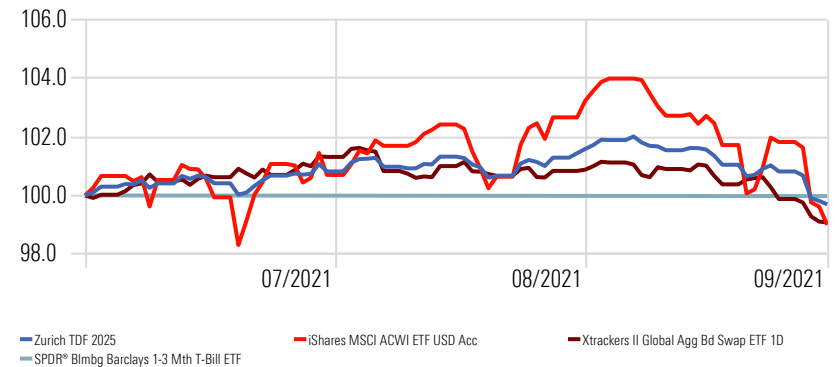
The combination of rising inflation worries and central bank tapering translates into rising bond yields. This was perhaps the most noteworthy financial market move late in the third quarter of 2021, influencing the returns of both stocks and bonds.

For equities, a rise in bond yields typically equates to downward pressure on stock prices — all else being equal — and that’s exactly what we saw in the third quarter. The obvious exception were energy companies, which saw another meaningful boost to returns, supported by higher commodity prices. Japan was another rare bright spot. To the downside, we saw a remarkable shift in Chinese technology companies and the potential bankruptcy of a large real estate developer, Evergrande. This Chinese weakness carried contagion fears, bringing down the entire emerging market basket and practically wiping the gains year-to-date. Small-cap stocks also fell late in the quarter, giving back some of their lead over large-cap stocks in the past year.

For bonds, inflation fears are driving yields higher and have helped inflation-protected bonds outperform. On the other hand, nominal government bonds have failed to offset equity risk recently, generally posting modest negative returns. Longer-dated government bonds are now down meaningfully year-to-date, while emerging market bonds in local currency are also down. Higher-quality corporate bonds are generally doing better and broadly flat, despite a rise in volatility. Currency moves are the final piece of the puzzle, where we have seen recent strength in safe-haven currencies like the U.S. dollar.

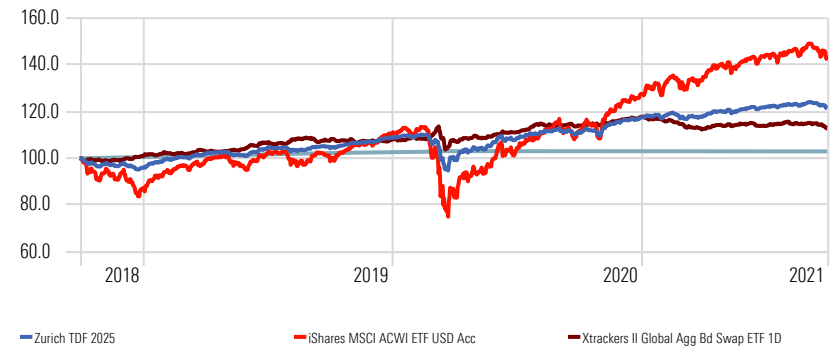
## Market Performance (%): Quarter

Time Period: 01/07/2021 to 30/09/2021



## Market Performance (%): 3 Year

Time Period: 01/10/2018 to 30/09/2021



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 lost -0.30% in the third quarter with fears of increasing inflation and China crackdown influencing markets.

Weak equity markets and inflation fears hurt the portfolio, with some positives from Japanese equities which suffered in Q2 but recovered to offer strong returns this quarter.

Turning to the underlying investments, fund selection was slightly negative with BGF World Healthcare and GAM Multibond Local Emerging Bond underperforming their respective benchmarks.

## ATTRIBUTION COMMENTARY

### *Top Contributors:*

Vanguard Japan Stock Index – Following a weak Q2, Japan was one of the bright spots this quarter with Vanguard Japan posting strong returns of 4.52%.

Pimco GIS Global Low Duration Real Return – With inflation fears continuing this low duration fund managed to provide a positive return of 1.2%.

iShares US Index – The US market has been a strong performer post the COVID-19 sell off, and despite still providing positive returns of 0.46%, it is significantly lower than the previous quarter.

### *Top Detractors:*

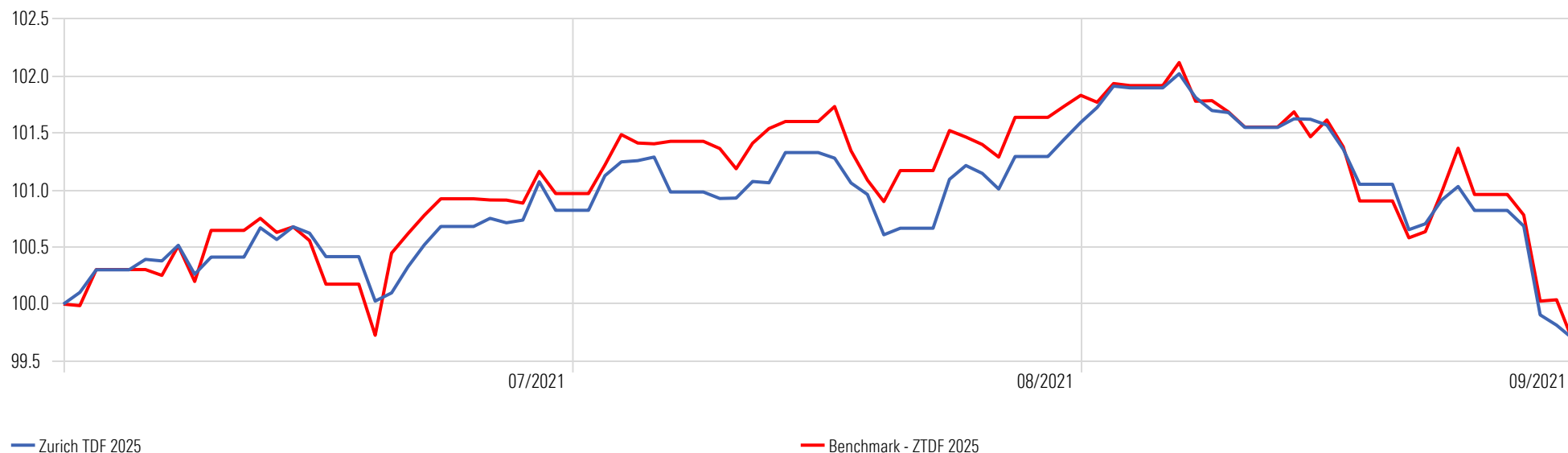
iShares Emerging Markets Index – With fears of increasing regulation in China and the impact this will have on business models, emerging markets suffered during the quarter with negative returns of -8.13%.

GAM Multibond Local Emerging Bond – The return was a negative -3.44%, however, due to the small weight in the portfolio the total impact was minor.

Vanguard European Stock Index – With weak global equity markets, Europe was no exception with negative returns of -1.50%.

**Investment Growth (%)**

Time Period: 01/07/2021 to 30/09/2021



**Trailing Returns (%)**

Data Point: Return

	Since Inception (03/07/2017)	3 Years	Quarter	YTD	01/10/2020 - 30/09/2021	01/10/2019 - 30/09/2020	01/10/2018 - 30/09/2019	01/10/2017 - 30/09/2018	01/10/2016 - 30/09/2017
Zurich TDF 2025	28.01	21.26	-0.30	3.27	9.30	5.71	4.95	2.74	
Benchmark - ZTDF 2025	33.24	24.83	-0.33	3.41	9.12	7.52	6.40	4.02	7.48

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 Positioning & Outlook

## **RECENT CHANGES**

The portfolio was changed early July 2021 as the glide path of this Target Date fund had his annual review. As the fund gets one year close to its target date, the equity allocation target has been reduced by 1.25% and we have adjusted the equity exposure with small reductions to iShares US Index and iShares UK index funds.

We have also reduced the position in the Pimco Low Duration Real Return. The fund has benefitted from the markets' continued reassessment of their inflation expectations and the attractiveness of inflation-linked bonds has now deteriorated relative to nominal bonds. Duration is marginally increased as we are adding to State Street Global Treasuries and Vanguard US Government bond.

## **POSITIONING UPDATE AND OUTLOOK**

As countries continued to take steps out of lockdowns inflation has been a concern and this continued to be the case in Q3. This combined with fears coming from increased regulation and restrictions in China led to weaker returns than we have seen in previous quarters this year.

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.

## Zurich TDF 2025 - Holdings

Portfolio Date: 30/09/2021

	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	18.90	 Silver	0.05	-2.48	-3.25
PIMCO GIS GlnGd Crdt Instl USD Acc	11.70	 Bronze	-0.27	-0.90	2.31
Stt Strt Glbl Trs Bd Idx I USD Acc Hdg	11.20		-0.03	-2.10	-1.90
iShares US Index (IE) Instl Acc USD	7.00		0.40	16.13	29.25
ILF USD Liquidity 4	5.70		0.00	0.00	0.00
Vanguard European Stock Idx USD Acc	5.10		-1.50	10.34	27.59
Vanguard U.S. 500 Stk Idx \$ Acc	5.00	 Gold	0.46	15.50	29.35
Vanguard Global S/T Bd Idx USD H Acc	4.80		0.03	-0.18	0.26
iShares UK Index (IE) Instl Acc GBP	4.50		-0.33	10.44	31.01
iShares EmergMkts Idx (IE) Instl Acc USD	4.40		-8.13	-1.15	18.05
Vanguard Jpn Stk Idx \$ Acc	4.10		4.52	5.77	21.88
PIMCO GIS Glb Lw Dur RI Rt Ins USD Acc	4.00		1.20	3.40	5.24
Fundsmith Equity I Acc	3.50	 Gold	-0.83	13.39	25.00
BSF Fixed Income Strategies A2 USD H	2.10	 Bronze	-0.05	-0.39	1.69
AXAWF Global High Yield Bds I Cap USD	2.00	Neutral	0.59	3.40	8.47
BGF World Healthscience A2	2.00	Neutral	-1.00	7.77	14.79
GAM Multibond Local Emerging Bond USD C	2.00	Neutral	-3.44	-9.10	1.33
iShares Em Mkts Govt Bd Idx (LU) A2 USD	2.00	 Bronze	-0.75	-1.67	4.02

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.

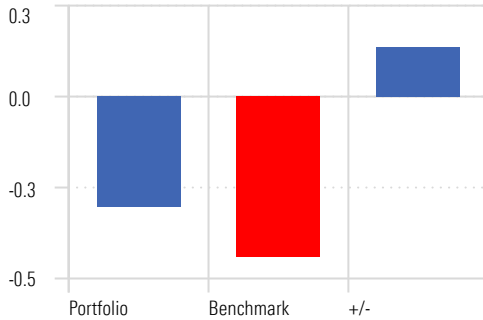
Analyst Ratings are subjective in nature and should not be used as the sole basis for investment decisions. Analyst Ratings are based on Morningstar analysts' current expectations about future events and therefore involve unknown risks and uncertainties that may cause Morningstar's expectations not to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

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**Total Portfolio Returns (%): Quarter**

Time Period: 01/07/2021 to 30/09/2021

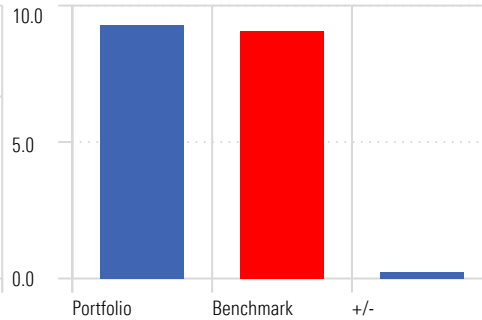
Net Return %



**Total Portfolio Returns (%): 1 Year**

Time Period: 01/10/2020 to 30/09/2021

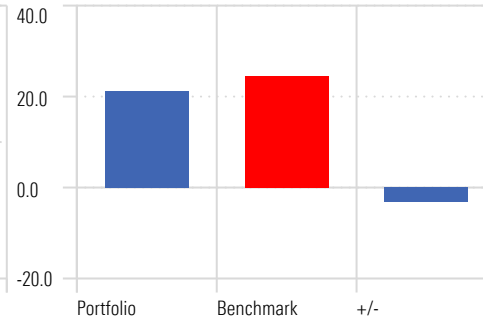
Net Return %



**Total Portfolio Returns (%): 3 Year**

Time Period: 01/10/2018 to 30/09/2021

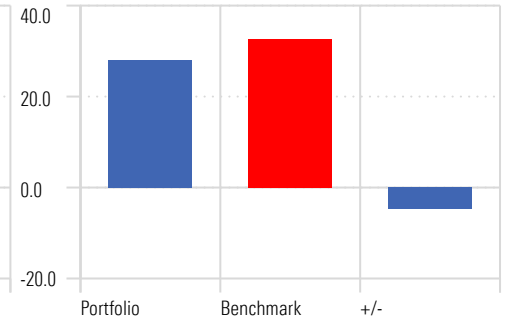
Net Return %



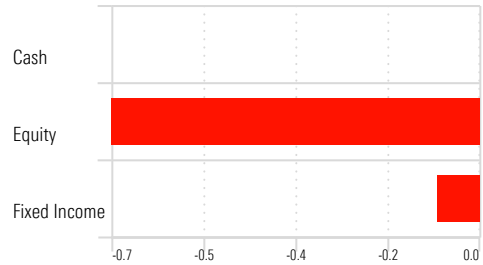
**Total Portfolio Returns (%): Since Inception**

Time Period: 03/07/2017 to 30/09/2021

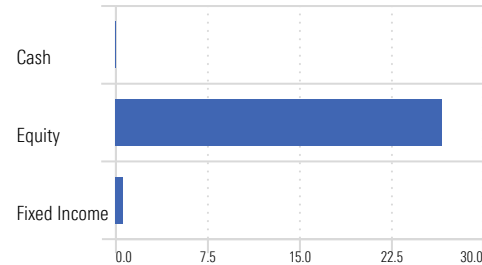
Net Return %



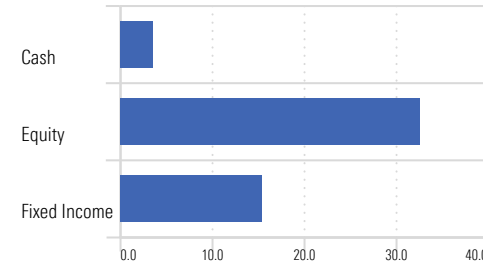
**Asset Class Returns (%): Quarter**



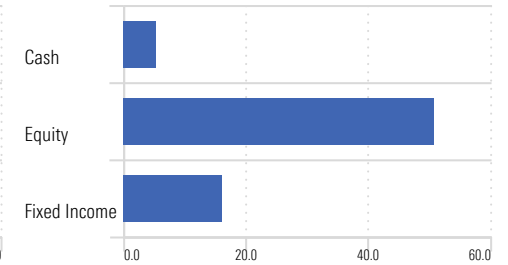
**Asset Class Returns (%): 1 Year**



**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	5.66	5.94	0.00	-0.02	0.00	0.00
Equity	35.67	35.80	-0.72	-1.29	-0.25	0.20
Fixed Income	58.67	58.26	-0.08	0.03	-0.05	-0.07

**Asset Class Attribution (%): 1 Year**

	Portfolio Weights	Benchmark Weights	Portfolio Return	Benchmark Return	Portfolio Contribution	Active Return
Cash	8.00	5.96	0.00	-0.08	0.00	-0.40
Equity	36.00	37.10	26.61	27.10	9.01	-0.46
Fixed Income	56.00	56.94	0.58	-0.75	0.28	1.00

**Asset Class Attribution (%): 3 Year**

	Portfolio Weights	Benchmark Weights	Portfolio Return	Benchmark Return	Portfolio Contribution	Active Return
Cash	12.48	6.05	3.53	2.92	0.54	-1.31
Equity	35.40	38.18	32.60	42.75	13.27	-3.48
Fixed Income	52.12	55.78	15.40	13.58	7.44	1.05

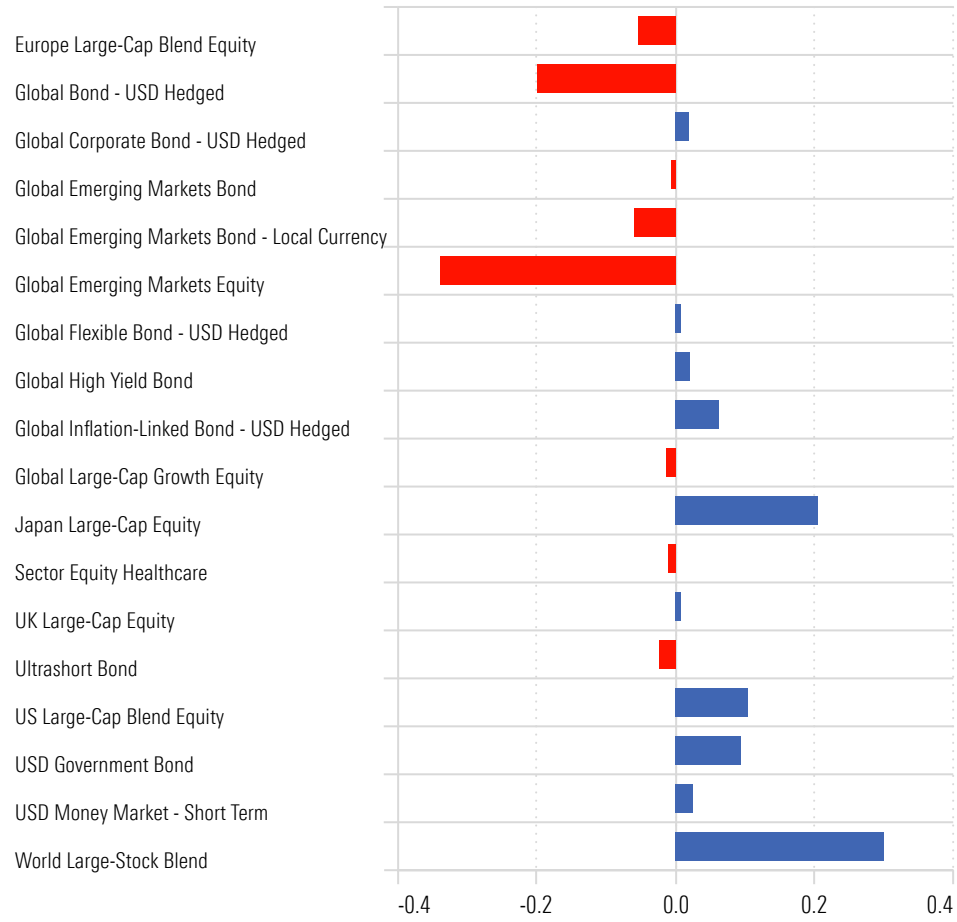
**Asset Class Attribution (%): Since Inception**

	Portfolio Weights	Benchmark Weights	Portfolio Return	Benchmark Return	Portfolio Contribution	Active Return
Cash	13.46	7.07	5.36	4.58	0.87	-1.71
Equity	36.20	39.40	50.56	65.19	19.04	-5.02
Fixed Income	50.34	53.52	16.03	14.11	8.10	1.33



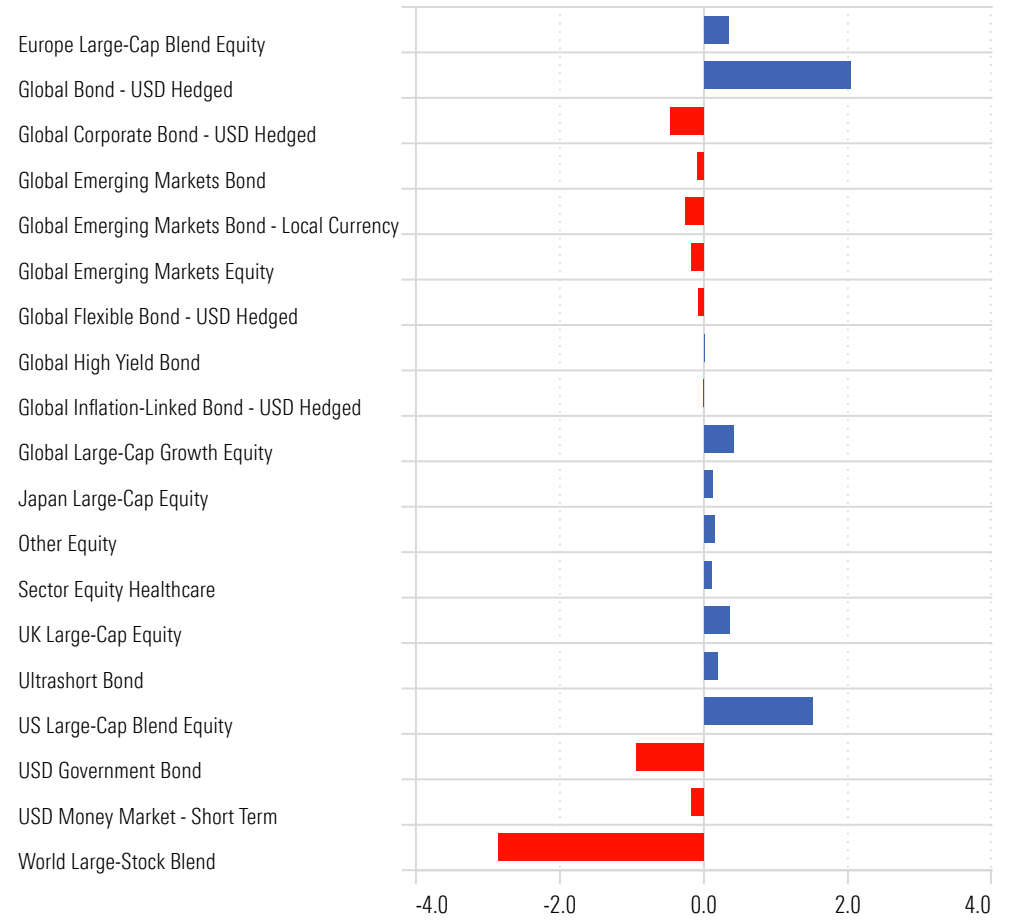
**Allocation Effect: (%) : Quarter**

Time Period: 01/07/2021 to 30/09/2021



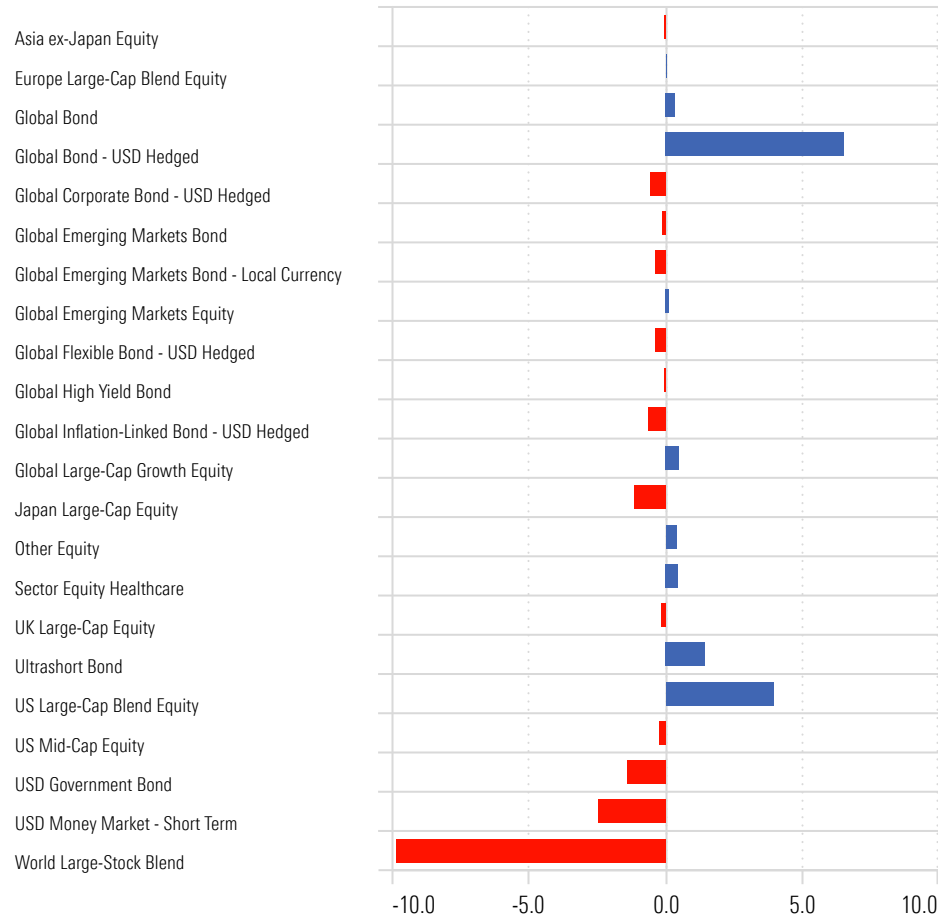
**Allocation Effect: (%) : 1 Year**

Time Period: 01/01/2021 to 30/09/2021



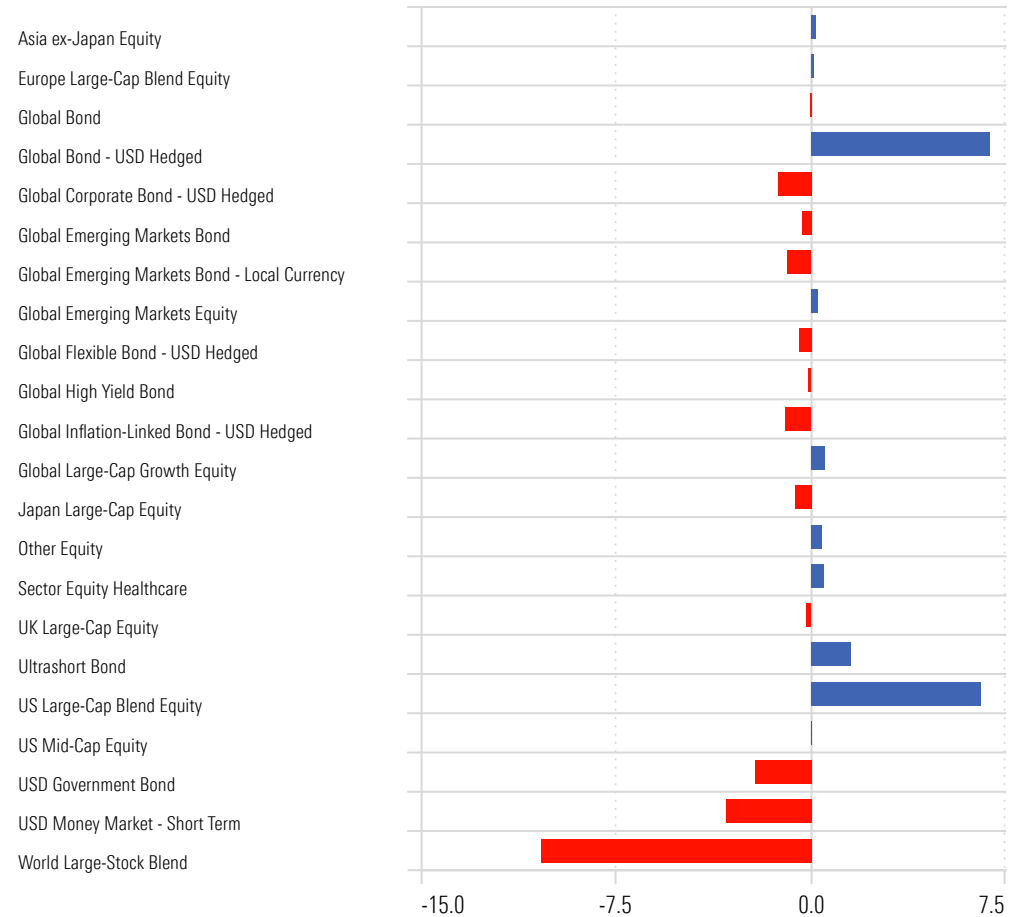
**Allocation Effect: (%) : 3 Year**

Time Period: 01/10/2018 to 30/09/2021



**Allocation Effect: (%) : Since Inception**

Time Period: 03/07/2017 to 30/09/2021



# Zurich TDF 2025

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