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Review prepared by Morningstar Investment Management Europe Ltd
1 Oliver's Yard, 55-71 City Road, London EC1Y 1HQ

Model Portfolios for Zurich Adventurous -
Medium Term

Quarterly Reports for Quarter 2, 2018

MORNINGSTAR[®]

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Introduction to Morningstar Investment Management Europe and the Model Portfolios

Introduction

Morningstar Investment Management Europe Limited has been engaged by Zurich to advise upon the fund selection for a range of Model Portfolios. The Portfolios are available for use by UK authorised Intermediaries and are designed to suit differing risk appetites.

eValue FE is the asset allocation provider and Morningstar Investment Management Europe advises upon the fund selection for the Model Portfolios, drawing from the Morningstar Rated fund universe. The asset allocation is provided to Morningstar Investment Management Europe by Zurich.

While the Model Portfolios are continuously monitored, a formal quarterly review takes place following which updated Portfolios are sent to Zurich. This quarterly report explains the performance of the Models and provides information about the market environment. Any recommendations for fund changes are included and explained in this document.

About Morningstar Investment Management Europe Limited

Morningstar Investment Management Europe Limited provides comprehensive investment advisory and portfolio management services for financial institutions and financial advisers.

Morningstar Investment Management Europe Limited applies the independent qualitative investment research from Morningstar, Inc. analysts to provide asset allocation, investment selection and portfolio construction services to life, pension and fund-of-funds providers.

Our investment research approach has been in place since 1994 and is forward-looking in nature, which leads to a strong emphasis on the qualitative aspects of research. Morningstar Investment Management Europe's aim is to recommend a relatively small number of funds that are of the highest quality and deliver risk and return outcomes that support various investment objectives.

Adventurous Portfolio – Medium Term Q2 2018

Key Facts

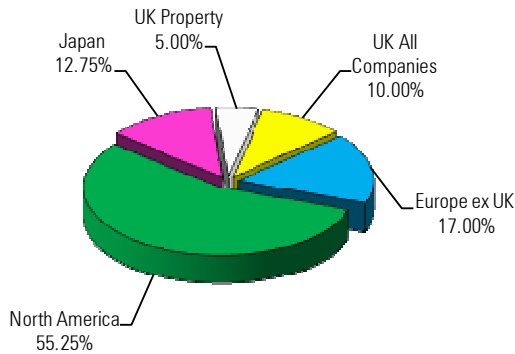
The Zurich Model Portfolios were established in September 2012. Asset allocation is provided by Zurich and sourced from eValue FE. Morningstar Investment Management populates the asset allocation with funds it considers appropriate and attractive as a result of its in-depth, qualitatively-driven research process.

eValue FE describes a potential investor in this Portfolio as follows. "You are prepared to take greater risks with your investment in return for the prospect of the highest longer term investment performance.

You are looking for an investment that has the potential to produce superior longer term returns, which is likely to mean investing fully in worldwide company shares.

You appreciate that over some periods of time there can be significant falls, as well as rises, in the value of your investment and you may get back less than you invest."

Asset Allocation (as at quarter end)



Please note that the asset allocation above reflects the model positioning as it stood throughout the quarter. Please see below for any recommended changes to asset allocation post quarter end.

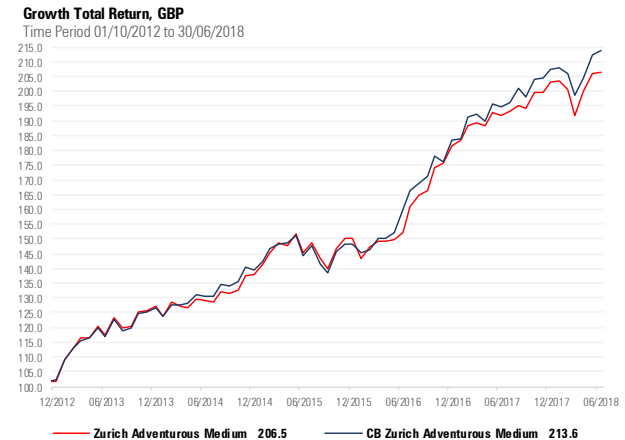
Discrete Returns	01/07/2017 -	01/07/2016 -	01/07/2015 -	01/07/2014 -	01/07/2013 -
	30/06/2018	30/06/2017	30/06/2016	30/06/2015	30/06/2014
	%	%	%	%	%
Zurich Adventurous Medium Term	7.54	26.33	4.42	12.75	9.89
CB Zurich Adventurous Medium Term	9.75	21.68	10.97	10.24	11.85

Performance data is sourced from Morningstar Direct. The performance of the Model Portfolio represents a model only; it is not representative of an actual portfolio or fund. Past performance is not a guide to future returns. Performance is net of fees and expenses based on the cheapest share class available.

Investment Objective

The objective is to deliver a risk and return profile in each of the asset classes that is commensurate with the underlying markets, whilst seeking outperformance over the long-term.

Performance from 30/09/2012 – to quarter end



The performance chart shows the cumulative returns of the Model Portfolio and the Custom Benchmark, assuming a starting value of 100.

MP stands for Model Portfolio and CB stands for Custom Benchmark. The custom benchmark used to measure performance is a composite that reflects eValue FE's asset allocation output. It is amended over time in line with eValue FE's output. At the end of the quarter, it was composed of the following: 5% IPD UK All Property, 10% FTSE All Share, 17% FTSE World Europe ex UK, 55.25% S&P 500 and 12.75% Topix.

Performance shown is net of fees and expenses and based on the cheapest share class available. Past performance is not a guide to future returns.

Performance – Portfolio Constituents to 30/06/2018

The table below shows the performance of the overall Portfolio, on a model basis only, together with the performance of the custom benchmark (CB). It also shows the performances of the underlying funds that currently feature in the Portfolio and relevant indices. The shaded rows show the performances of the constituent parts of the Portfolio.

The Model Portfolio shown below reflects the asset allocation positioning and fund selections as they stood at the end of quarter. Performance shown is net of fees and expenses and based on the cheapest share class available. Past performance is not a guide to future returns.

Fund	Weight (%)	Morningstar		Q2 2018 (%)	YTD (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)	2013 (%)	3 YRS (%)	5 YRS (%)
		Analyst Rating										
Zurich Adventurous Medium Term	100.00			7.69	1.74	11.86	20.85	8.75	8.44	24.86	12.36	11.94
<i>CB Zurich Adventurous Medium Term</i>				7.44	2.96	13.16	23.62	6.48	9.79	24.03	14.01	12.81
UK Property	5.00			2.43	3.46	10.93	-6.04	9.04	14.09	5.09	4.15	6.87
L&G UK Property Feeder	5.00	NR		2.43	3.46	8.82	1.93	10.60	13.47	7.92	6.73	8.72
<i>IPD UK All Property Monthly</i>				2.18	4.53	11.24	2.63	13.89	19.46	11.02	8.37	11.84
UK All Companies	10.00			7.08	-0.55	13.74	5.00	7.85	0.20	24.17	6.19	7.54
LF Woodford Equity Income	3.25	Bronze		3.27	-7.23	0.79	3.19	16.19			1.10	
Investec UK Alpha	4.25	Bronze		10.76	4.42	12.86	8.95	6.52	6.69	37.77	9.03	11.87
Man GLG Undervalued Assets	2.50	Silver		6.72	2.50	30.29	5.26	10.01	3.71		11.74	
<i>FTSE All Share</i>				9.20	1.69	13.10	16.75	0.98	1.18	20.81	9.59	8.84
Europe ex UK	17.00			2.37	-1.47	14.46	14.60	9.41	1.27	26.92	9.63	9.82
BlackRock Continental European Income	7.80	Bronze		2.19	-3.07	17.34	12.81	13.64	4.37	30.84	11.55	11.01
Schroder European	9.20	Silver		2.48	-0.08	19.38	20.94	8.72	0.23		13.66	
<i>FTSE Europe ex UK</i>				3.40	-1.43	17.53	19.69	5.35	0.16	25.18	11.95	10.55
North America	55.25			11.17	4.12	10.08	35.79	6.48	18.92	31.06	17.87	16.12
Dodge & Cox Worldwide US Stock	11.75	Gold		9.44	3.33	7.34	45.87	0.48	18.08	37.09	17.65	15.90
HSBC American Index	13.00	Gold		12.03	4.66	10.54	33.53	5.98	21.48	30.54	18.28	16.09
iShares North American Equity Index	13.00	Gold		12.12	4.62	10.61	34.30	4.22			17.65	
Loomis Sayles US Equity Leaders	10.50	Silver		11.64	5.35	19.93	27.91	15.95	18.37		22.83	19.61
Schroder US Mid Cap	7.00	Silver		10.17	1.78	5.80	42.12	6.76	18.88		15.79	
<i>S&P 500</i>				9.90	5.18	11.29	33.55	7.25	20.76	29.93	18.65	16.61
Japan	12.75			2.42	-2.64	11.73	36.39	19.47	2.78	21.87	15.23	12.64
Man GLG Japan CoreAlpha	9.35	Gold		2.06	-3.43	10.81	32.43	18.21	1.11	32.57	12.01	11.51
Schroder Tokyo	3.40	Gold		3.36	-0.53	13.69	27.31	16.49	4.10		13.19	
<i>Topix</i>				3.09	0.39	15.60	23.41	18.16	2.68	24.67	14.19	11.74

Data is sourced from Morningstar Direct. Please be aware that adjustments to previously reported data can occur. This can be due to factors such as changes to tax treatments, income distributions, pricing or updated information from third parties. Where the funds in the Model Portfolio have converted to clean share classes, the clean share class fund performance has been reflected in the table above and therefore there may be marginal performance discrepancies when comparing to fund performance reported previously. Calendar returns show complete 12-month periods, quarterly returns show complete 3-month periods, all other returns are cumulative.

The performance of the overall Model Portfolio and the performances of the constituent parts of the Model Portfolio (shown in the performance table) represent a model only; they are not representative of an actual portfolio or fund. Past performance is not a guide to future returns. 'CB' stands for Custom Benchmark. The Custom Benchmark is based upon a composite of the indices/sectors shown above to represent the eValue FE asset allocation output. Morningstar Analyst Ratings are subject to change at any time and without warning. Please see www.morningstar.co.uk for the latest Ratings.

Commentary

Market Summary

The investment landscape is offering both opportunities and challenges. The second quarter of 2018 was testament to this, with an undercurrent of risk-off sentiment yet broad market resilience.

A key focal point has been the trade-war rhetoric, with emerging markets being put under significant pressure as capital outflows persisted. This is true both at an asset level and at a currency level, although the fundamental thesis and economic progress is largely unchanged. Related to this development, a meaningful move in currency markets saw a stronger US dollar (especially relative to the euro and sterling), helping bolster returns for non-U.S. investors.

For some time now, investors have had to grapple with the implications of increasing borrowing rates. This theme continued through the second quarter, as most central banks (excluding Japan) have made it clear that they are either unwinding, or planning to unwind, the monetary stimulus that has persisted for the best part of a decade. This has muted returns from **fixed income** markets, especially government bonds with longer duration, whilst inflation-protected bonds continue to be shaped by a rollercoaster of changing inflation expectations. Corporate bonds have also had to deal with a modest rise in bond yields, albeit from a low base, which has hampered performance.

Meanwhile, European investors have also had to come to terms with Italy's precarious political situation and a closing deadline on Brexit. This has dampened risk appetite in the region as investors contemplate the possible repercussions on the European banking system and any contagion risk associated. Related to this, listed **property** markets in the region saw weakness, especially relative to the strong performance from U.S. listed property over the quarter.

Interestingly, despite the dual headwinds of European political vulnerabilities and escalating trade-war fears, broad **equity** markets have managed to deliver reasonably robust outcomes. Strong earnings growth has certainly helped, with U.S. companies in particular continuing to post stellar profit results. Within this, investors have seemingly sought solace in higher-quality investments, sometimes carrying little regard for the price they must pay.

Portfolio Performance

- Based on the Morningstar Direct Portfolio Management module, on a model basis the Zurich Adventurous Medium-Term Portfolio outperformed the custom benchmark over the quarter.
- Since the Portfolio's inception in September 2012, it has underperformed its custom benchmark.

Fund Selection

Top contributors to relative performance at the fund level included:

Investec UK Alpha: Strong stock selection within consumer stocks, with Tesco as the leading contributor to performance.

iShares North American Index: In a reversal from Q1 the fund made up the performance shortfall which occurred as a result of the miss-match of the time of the fund NAV calculation.

Top detractors to relative performance at the fund level included:

LF Woodford Equity Income: Another difficult quarter for the fund, with healthcare names detracting significantly from performance.

Schroder European: Stock selection in the consumer discretionary, IT and industrial sectors detracted from performance.

Market Outlook

Please note Morningstar Investment Management Europe is not mandated to tactically adjust the asset allocation of the Portfolio, so the below views are included for information purposes only.

The clouded and changing sentiment requires careful judgement. Behavioural changes are afoot, although investor complacency still appears to be widespread (global confidence surveys have generally moved from strong optimism to moderate optimism).

Trade war concerns are likely to continue dominating headlines along with any news on the Korean peninsula. Such politically-induced fear is always going to garner the attention of pundits, but it would be brave to extrapolate that into a plausible long-term market outcome.

Perversely, any fear-driven price action could be the springboard for great long-term opportunities to develop. This lays the foundation for long-term investors to add their greatest value. Therefore, whilst we continue to cite lofty valuations across much of the investment landscape, a willingness to be contrarian could be a key trait in applying a disciplined investment approach.

Important Information

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