

Zurich Investments

Emerging Markets Equity Fund

Fund Focus - October 2018

Fund commentary

The MSCI Emerging Markets Index fell sharply in October, largely reflecting the decline in global equities more broadly. All 11 sectors posted negative returns, with health care, communication services and information technology (IT) experiencing the largest declines. Brazil and Qatar were the only two countries to post a positive return whereas the remaining countries, including Mexico, Korea, Colombia, Taiwan, China/Hong Kong and South Africa, declined.

The Fund declined in October, though less so than the Index. Since July, the Fund has performed relatively well as higher dividend paying stocks have seen a return to favour over that period. This has also been reflected in the relatively strong returns over the last 12 months.

By country, Brazil, Korea and China/Hong Kong were the leading contributors to relative performance due to strong share selection within all three countries, as well as an overweight position within Brazil and an underweight position within Korea. By sector, communication services, materials and IT performed well compared with the benchmark due to strong share selection within all three sectors as well as an underweight position within IT. The top-contributing holdings in the fund were Petroleo Brasileiro S.A. (Brazil), Banco Bradesco S.A. (Brazil) and B3 SA - Brasil, Bolsa, Balcao (Brazil).

Detractors by country included India, Qatar and the Philippines due to weaker share selection within India and lack of exposure to Qatar and the Philippines relative to the benchmark. Detractors for the month included industrials, energy and consumer staples due to poor share selection within all three sectors and an overweight position within industrials. Taiwan Semiconductor Manufacturing Company, Limited (Taiwan); Samsung Electronics Company, Limited (Korea); and PICC Property & Casualty Company Limited (China/Hong Kong) were the leading detractors.

Conditions in emerging markets remain volatile due to continuing trade uncertainties, a strong US dollar and election cycles. Concern over China's world bargaining position has led the investment team to take profits in certain shares as trade tensions further escalate. Some themes the investment team sees going forward include state owned-enterprise (SOE) and financial reform in China, rising internet penetration and e-commerce, environmental protection and better-than-expected consumer spending despite uncertainty.

Dividends help buffer against the increasing volatility in the global markets and dividend payouts, although low in emerging markets, have been steadily rising due to disciplined capital expenditures, an improvement in business sentiment, changes in government policy, shareholder demand and improvements in fundamentals.

Top 10 holdings as at 31 October 2018

Stock	%
Taiwan Semiconductor Manufacturing Co., Ltd.	4.0
Samsung Electronics Co Ltd	3.9
China Construction Bank Corporation	2.9
Industrial and Commercial Bank of China	2.3
China Mobile Limited	1.8
B3 SA - Brasil, Bolsa, Balcao	1.7
Bank of China Limited	1.6
Oil company LUKOIL PJSC ADR	1.5
Vale S.A.	1.5
Banco Bradesco S.A.	1.4

10 largest geographic allocations as at 31 October 2018

Country	Allocation %
China & Hong Kong	33.1
South Korea	13.0
Taiwan	12.7
Brazil	6.8
India	6.4
Mexico	3.6
South Africa	3.4
Malaysia	3.4
Thailand	3.1
Indonesia	3.0

Income distributions for the year

Date	cents per unit
30 June 2018	5.9941
30 June 2017	6.0812

Fund performance after fees¹

As at 31 October 2018	1 month	3 months	1 year	3 years	5 years	Since inception
	%	%	%	%pa	%pa	%pa
Growth	-5.1	-3.0	-6.8	-0.6	n/a	3.0
Distribution	0.0	0.0	4.9	4.9	n/a	4.0
Total	-5.1	-3.0	-1.9	4.3	n/a	7.0
Benchmark	-6.8	-7.3	-5.4	6.8	n/a	6.9

Investment objective

The investment team expects to generate 2-3% of excess return relative to the MSCI Emerging Markets Index in \$A (net dividends reinvested) over a full market cycle of 3-5 years.

Investment strategy

This Fund is suitable for investors seeking long term capital growth from shares listed in global emerging markets.

Investment philosophy

The investment team looks for companies with a sustainable high dividend yield backed by strong company financials and fundamentals, including above-average sales and earnings growth, overall financial strength, competitive advantages, and capable management. The team may sell a holding when it no longer has some or all of these traits. The investment strategy includes both a top-down strategy, which takes account of overall economic and market trends in each country, and a bottom-up strategy, which employs fundamental research for security selection. In order to take advantage of the wide range of possible opportunities in a variety of markets at different stages of economic development, a portfolio is constructed with the potential for maximum portfolio dividend yield while maintaining a controlled level of risk.

Strategic investment partner

Zurich Investments forms strategic investment partnerships with exclusive managers to provide investors with access to quality investment professionals recognised as being the best in their area of expertise.

The strategic investment partner for the Fund is Wells Capital Management, Inc. Wells Capital Management (WellsCap) is a leading global investment management firm. WellsCap's diverse and autonomous teams provide a broad range of investment solutions across multiple asset classes, investment styles within three main categories: equity, fixed income, multi-asset class solutions.

Fund details

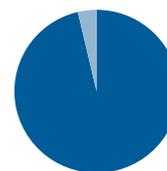
APIR	ZUR0614AU
ARSN	168 908 281
Minimum suggested timeframe	7 years
Inception date	25 Jun 2014
Funds Under Management	\$26.01m
Minimum initial investment	\$5,000
Minimum additional investment	\$1,000
Entry fee	Nil
Exit fee	Nil
Buy/sell spread	Nil
Total Estimated Management Cost	1.61%
Distribution frequency	Annually
Distribution reinvestment plan	Yes
Distribution dates	June

Strategic asset allocation

Asset class	Range %	Benchmark %
Global shares	80-100	100
Cash	0-20	0

Actual asset allocation as at 31 October 2018

Asset class	%
Global Shares	96.3
Cash	3.7
Total	100



¹ Performance returns quoted are compound rates of return calculated on exit prices and assume reinvestment of distributions. Returns are calculated net of all ongoing fees and any taxes payable by the fund. Total return includes both growth and distribution returns. Growth return is the change in exit price over the relevant period. The benchmark return shown is a gross return. Please note that figures shown are rounded to one decimal place, therefore some rounding errors may occur.

Past performance is not a reliable indicator of future performance.

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More information

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