

Investment Management in the Insurance Company - A Creator of Value

Zurich, 27 August 2015

Hansjörg Germann

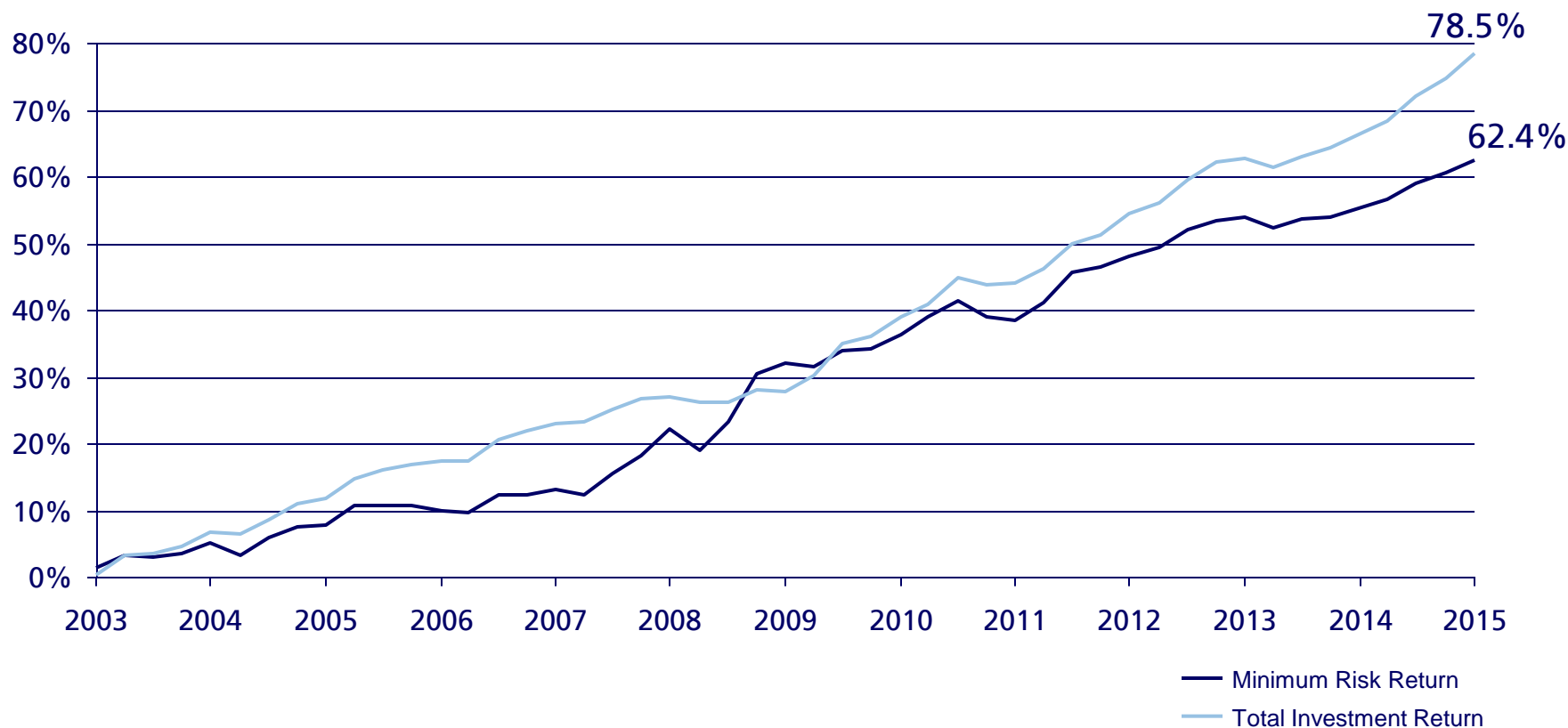
Head of Strategy Development

Investment Management



Our ALM-focused investment strategy results in consistent and sustainable excess returns relative to liabilities

Investment return relative to liabilities, Q1 2003 – Q4 2014, accounting view



Investment Management creates significant value

- **Investment management is a key function**
- We aim to maximize economic value
- Investments are managed relative to liabilities
- Investments are managed through a disciplined process
- Our sources of return and risks are balanced
- A systematic approach is the basis of our success
- We focus on the value drivers that matter most
- Our organization is built around our clearly defined value chain

We are the center of competence for investments for the Group

IM's Role For Zurich

Be Zurich's Center of Competence for Investments

- IM is responsible for managing investments **only for Zurich's insurance businesses**
- IM creates value by understanding best what investment **competences** are required for an insurance investment manager
- IM creates value by understanding best how these competences are **acquired, managed and applied**
- IM creates value **only where it has the right competence** within Zurich
- IM **measures** how much value its competences create and manages change and innovation to continuously improve value creation for Zurich

We seek to create financial and non financial value through Responsible Investing

Objectives

Create Value for society and...

...address ESG issues...

...in an integrated approach...

...without sacrificing return

Responsible Investment at Zurich

Through Responsible Investing, Zurich seeks to create not only financial, but also non-financial, value.

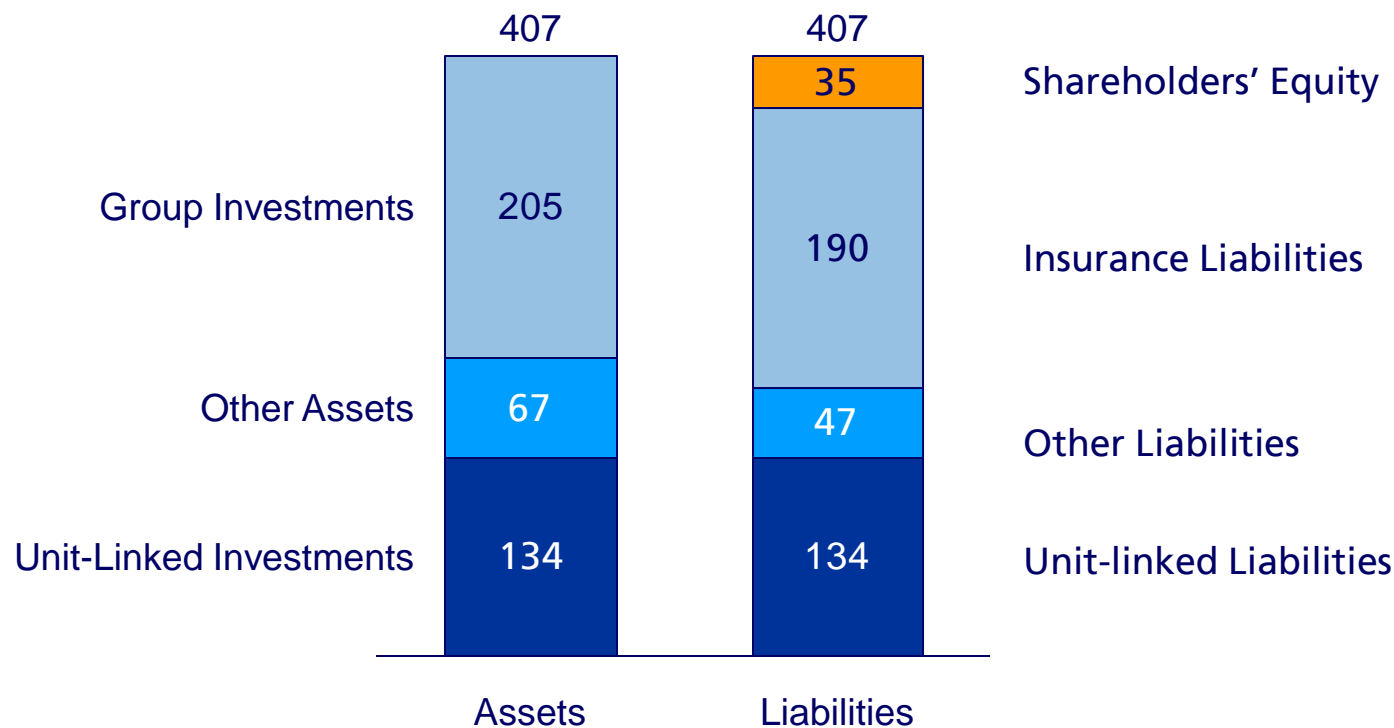
Non-financial value is generated through achieving a positive impact on the society and the environment, and the promotion of governance practices consistent with high standards of integrity.

Long-term financial value is created through proactively integrating Environment, Social and Governance (ESG) issues into the investment process.

Responsible Investing does not sacrifice financial return – it is not philanthropy.

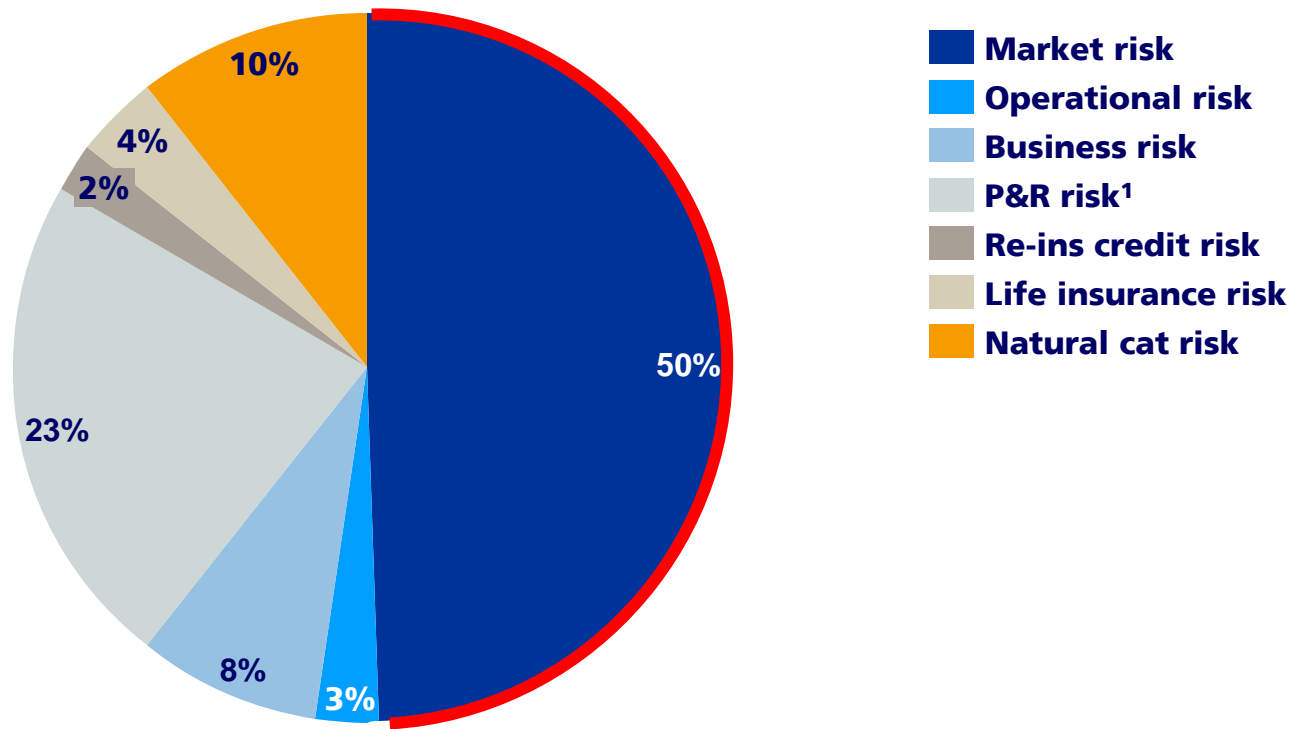
Investments dominate the asset side of our balance sheet

Overview of Zurich's Balance Sheets, as of December 31, 2014
USD bn



Investment risk contributes 50% to our Risk Based Capital

Risk Based Capital (RBC), Q4 2014
Total RBC is USD 34.5bn



¹Premium & reserving risk

Source: Zurich Capital Management – Q4 2014

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IM aims to maximize economic value for our policyholders and shareholders

Investment Management - Mission and Ambition

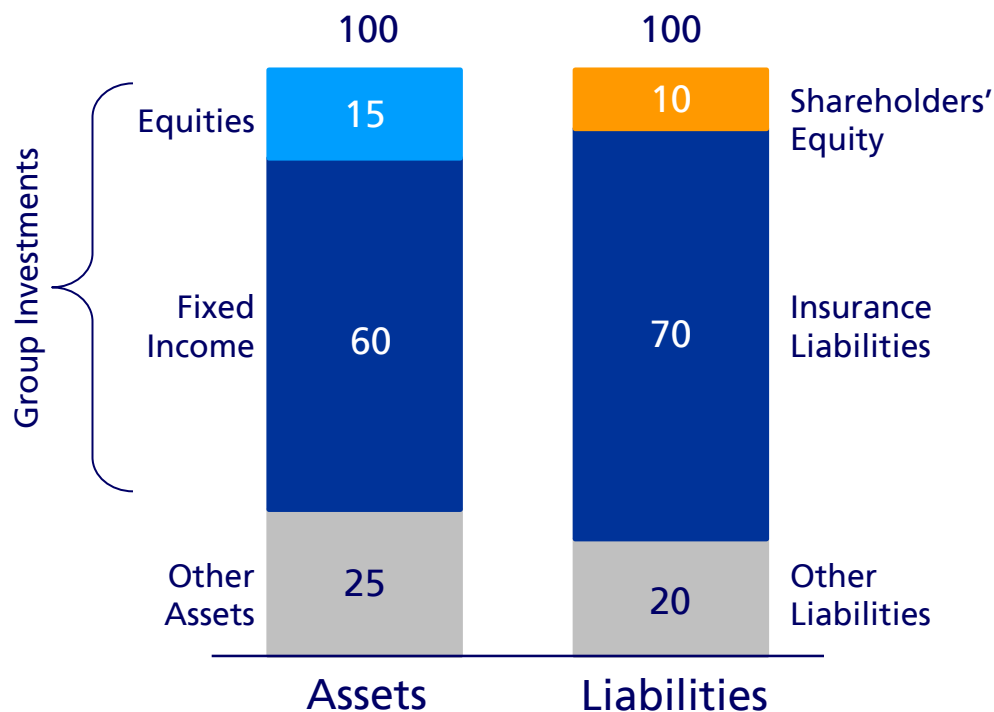


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Why we manage investments relative to liabilities

Balance sheet¹ of an insurance company

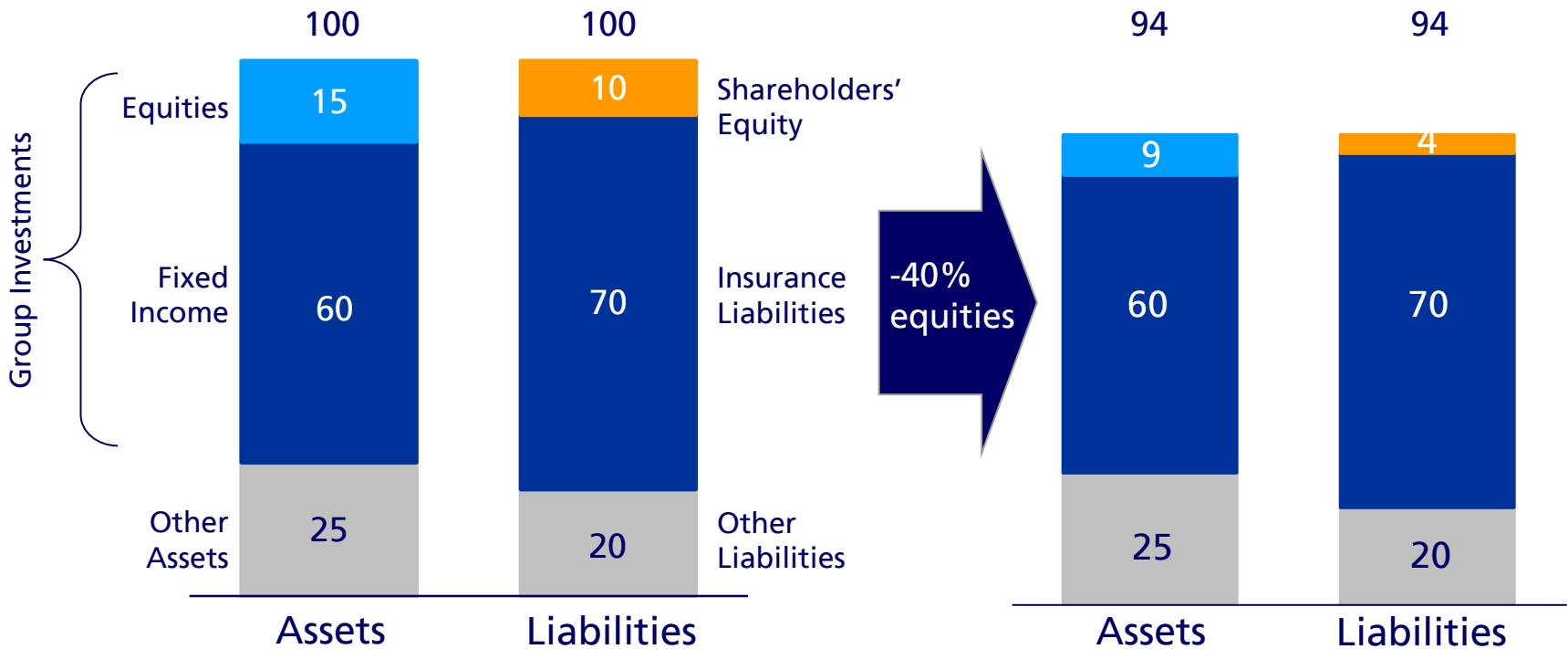


- Asset Allocation: 20% Equities of Group Investments or 15% of total assets
- Interest Rate Mismatch Modified Duration:
 - Fixed Income: 5 years
 - Insurance Liabilities: 7 years

Negative equity markets can have a significant impact on shareholders' equity

Balance sheet¹ of an insurance company

Balance sheet¹ after a 40% decrease in equity markets



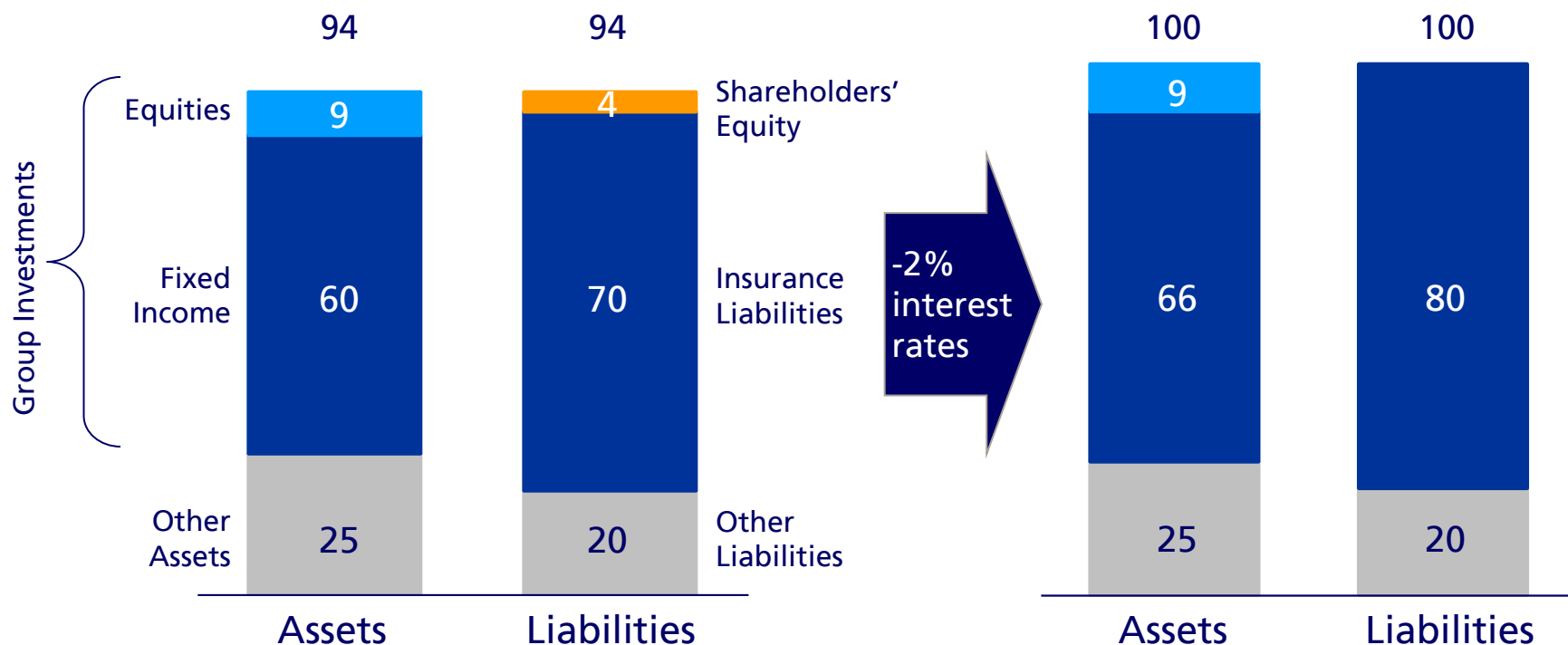
¹ Balance sheet on an economic basis, excluding Unit-Linked business

² Interest Rate Mismatch Modified Duration: Fixed Income of 5 years; Insurance Liabilities of 7 years

In addition falling interest rates lead to a further deterioration of economic capital

Balance sheet¹ after a 40% decrease in equity markets

Balance sheet¹ after a 2% interest rates fall



1 Balance sheet on an economic basis, excluding Unit-Linked business

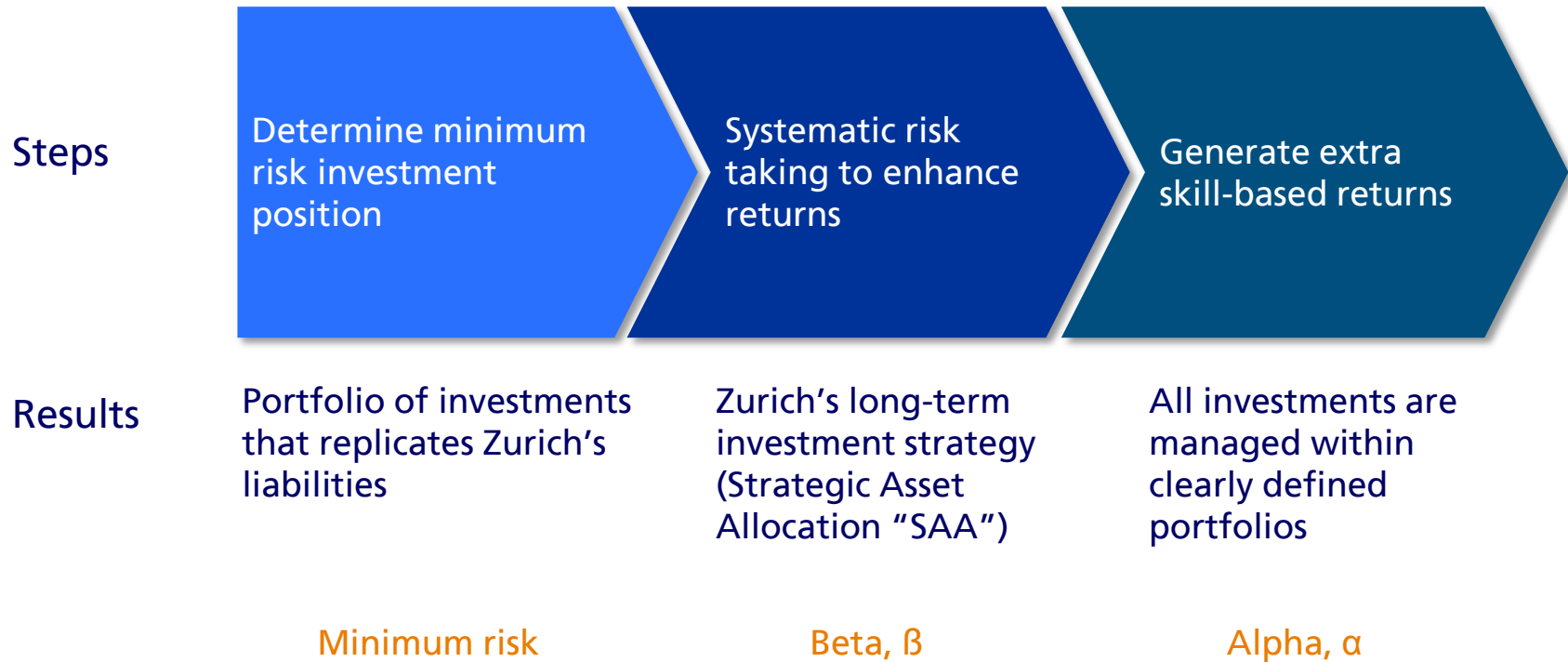
2 Interest Rate Mismatch Modified Duration: Fixed Income of 5 years; Insurance Liabilities of 7 years

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We manage investments relative to liabilities through a disciplined process

Three sources of return using our three step investment process

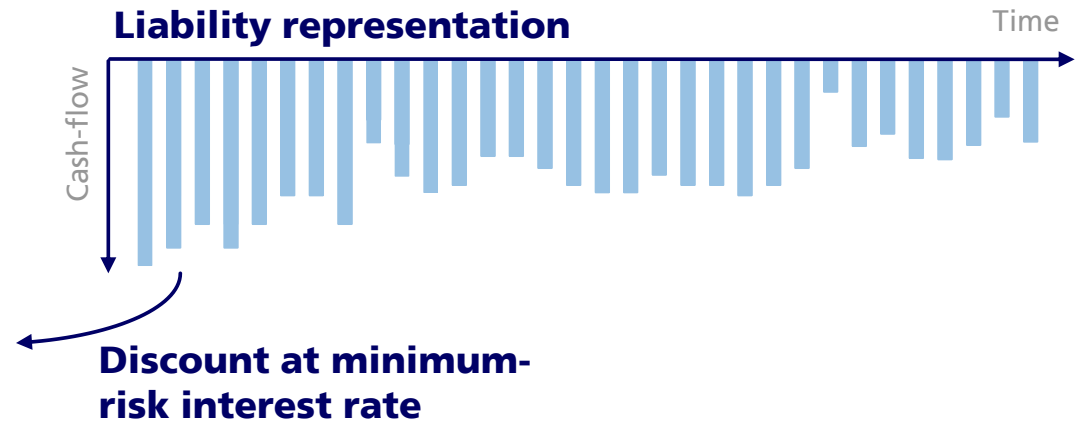
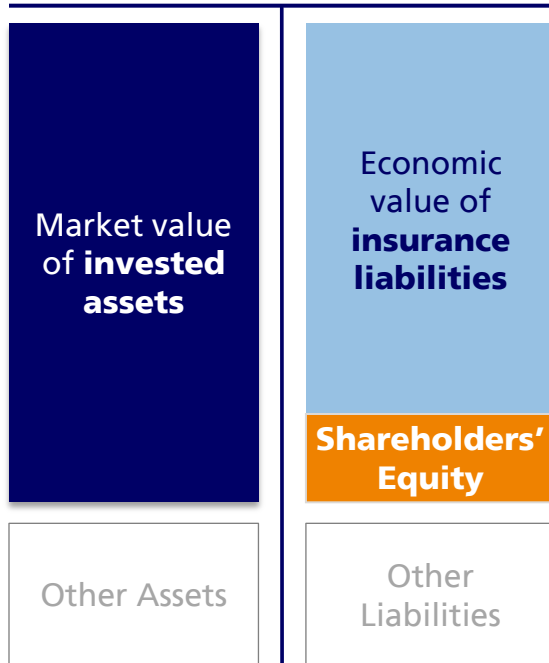


Economic balance sheet is the starting point for investment decisions relative to liabilities



Minimum Risk Position - liability cash-flow representation

Economic balance sheet



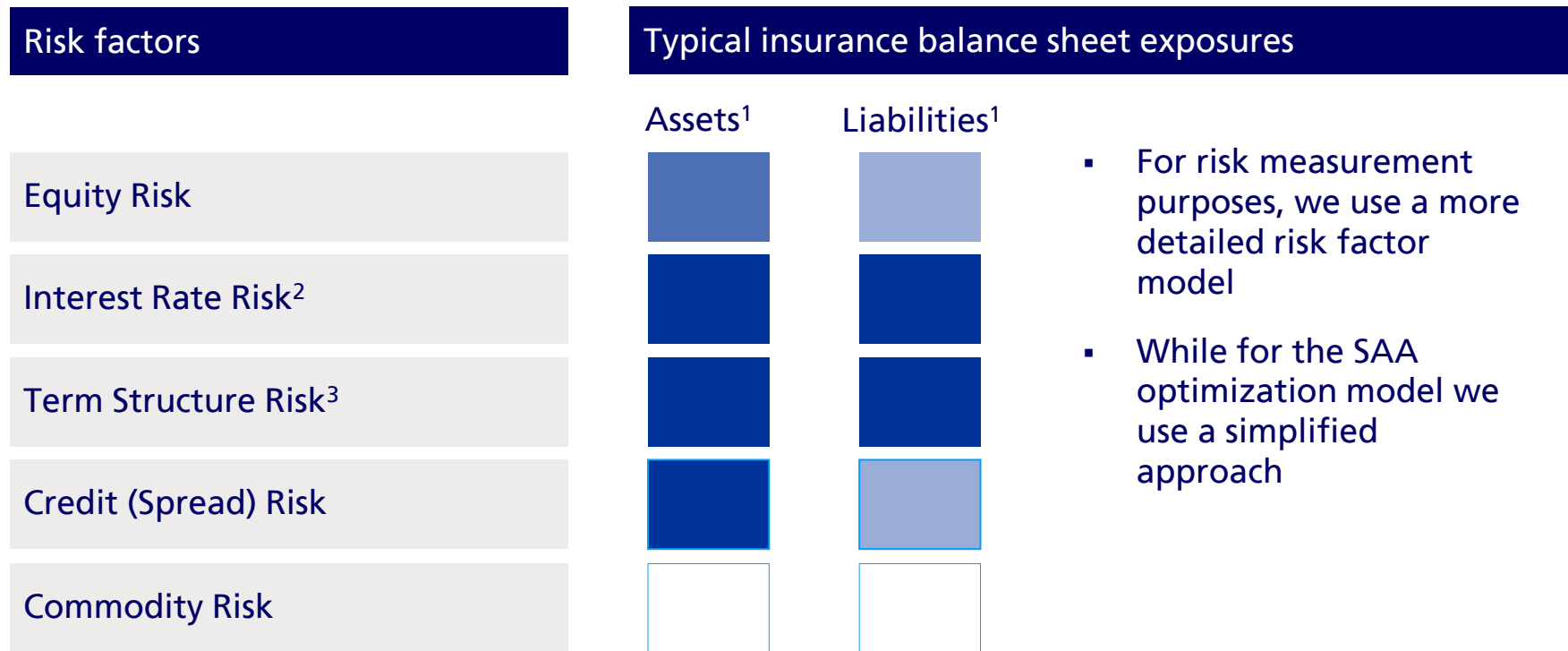
Not financial
Market sensitive

We use a risk factor approach across assets and liabilities



ILLUSTRATIVE

Illustration of the risk factors approach



- For risk measurement purposes, we use a more detailed risk factor model
- While for the SAA optimization model we use a simplified approach









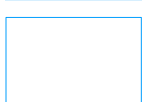
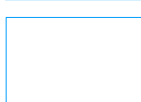
1 Darker shades indicate higher exposures
 2 Short-term: 1 to 5 years – parallel shift of the interest rate curve
 3 Long minus short: 10 to 30 years minus short-term

We aim to mitigate unrewarded risks and take rewarded ones



ILLUSTRATIVE

Illustration of the risk factors approach

Beta risk factors	Typical insurance balance sheet exposures		
	Assets ¹	Liabilities ¹	
Equity Risk			Rewarded
Interest Rate Risk ²			Unrewarded
Term Structure Risk ³			Rewarded ⁴
Credit (Spread) Risk			Rewarded
Commodity Risk			Rewarded

- 1 Darker shades indicate higher exposures
- 2 Short-term: 1 to 5 years – parallel shift of the interest rate curve
- 3 Long minus short: 10 to 30 years minus short-term
- 4 Term structure risk is rewarded, if position is “long” on a net asset-liability basis

Capital and liquidity serve as constraints to the investment strategy optimization

Capital and liquidity as constraints

- Allocated capital enters the risk-return trade-off optimization in the form of a risk budget, expressed as economic capital at risk
- Optimal liquidity risk taking must be derived from ZIG's liability profile, ensuring the availability of funding in a liquidity crisis

SAA optimizes the expected asset return relative to liabilities for a given risk budget



Risk Factor and asset class optimization process



1) Interest Rate (IR), Term Structure (LMS), Credit (CR), Equity (EQ), Commodity (CO)

Risk factors and expected alpha can be 'translated' into asset classes and vice versa



ILLUSTRATIVE

Illustration of risk factors representing asset classes

Risk factors		Translation into selected asset classes ¹					
		Passive Equities	Active Equities	Sovereign Bonds	Corporate Bonds	Real Estate	TAA ²
β	Equity Risk	Dark Blue	Dark Blue	White	White	Light Blue	White
	Interest Rate Risk	White	White	Dark Blue	Dark Blue	Medium Blue	White
	Term Structure Risk	White	White	Dark Blue	Dark Blue	White	White
	Credit (Spread) Risk	White	White	White	Dark Blue	Medium Blue	White
	Commodity Risk	White	White	White	White	White	White
α	Skill-based return	White	Medium Blue	White	Medium Blue	Medium Blue	Medium Blue

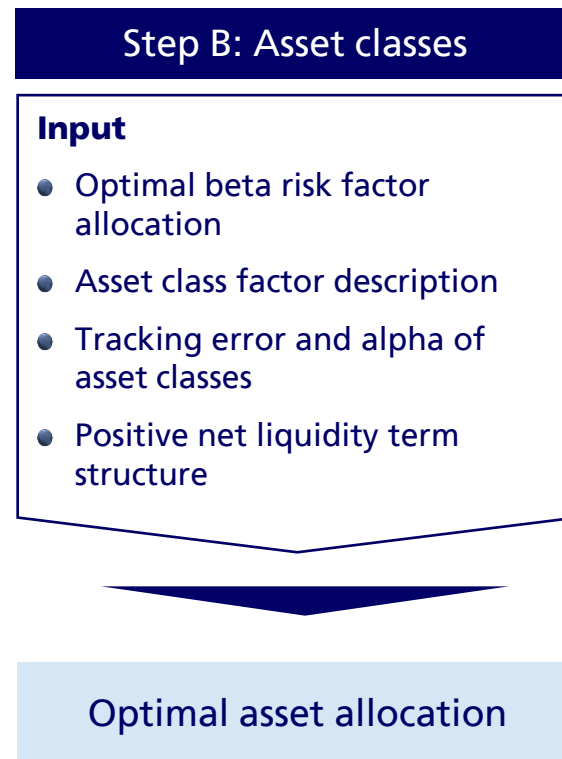
¹ Simplified illustration, not all asset classes have been included

² TAA: Tactical Asset Allocation

In a second step, the information ratio of assets is maximized while preserving the optimal risk factor mix



Risk Factor and asset class optimization process

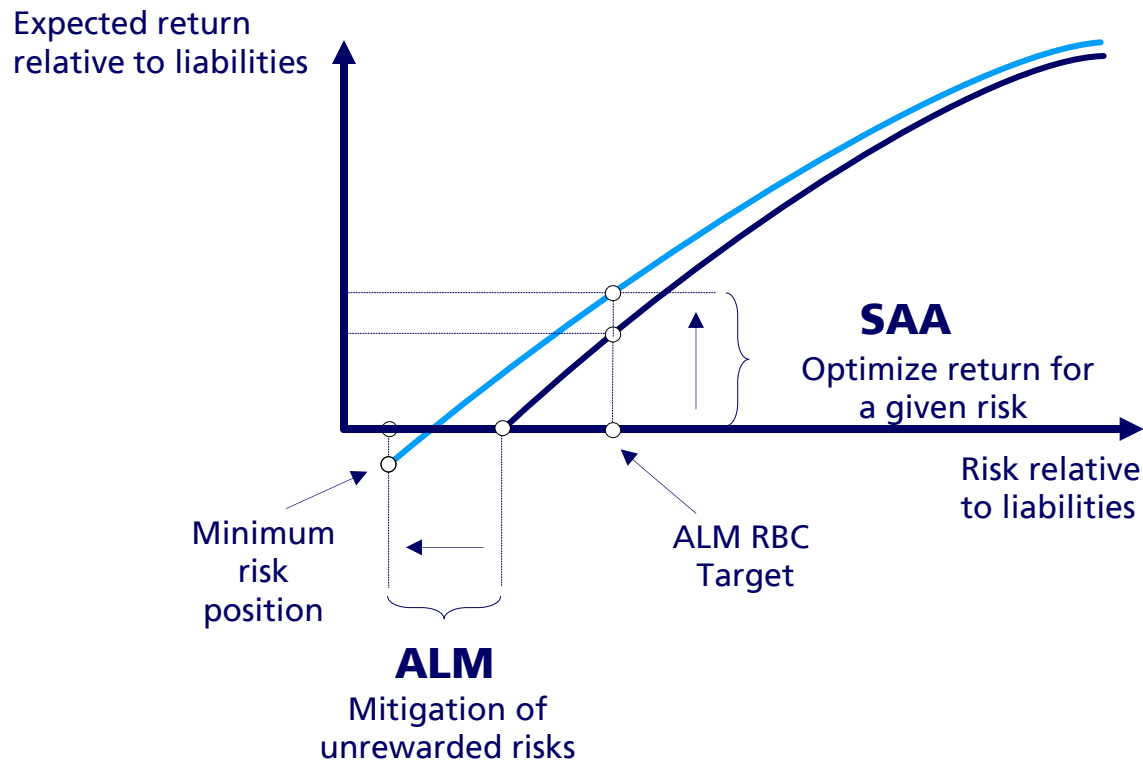


ALM focuses on mitigating unrewarded risks while SAA optimizes the expected return for a given risk budget



ILLUSTRATIVE

ALM and SAA process



Investment Management creates significant value

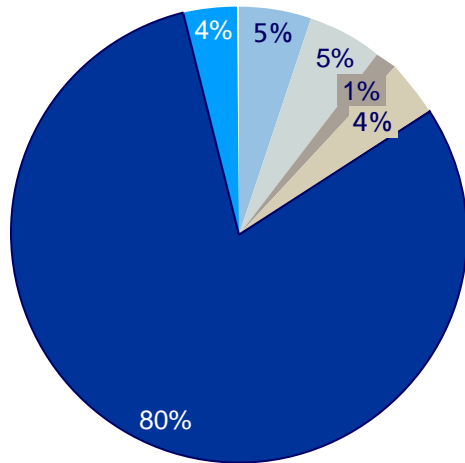
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Zurich's investment portfolio benefits greatly from diversification and is balanced in terms of risk

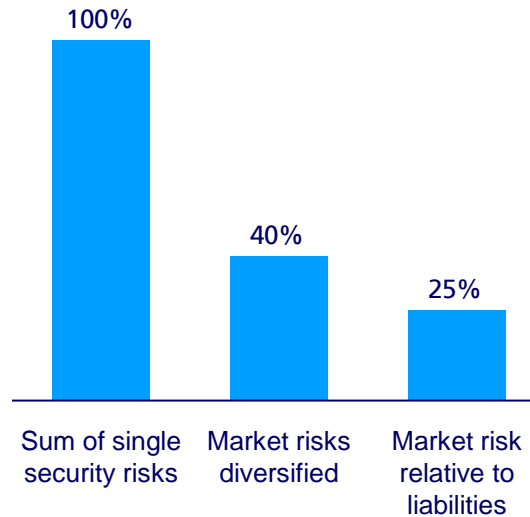
As of December 31, 2014

ASSET ALLOCATION¹

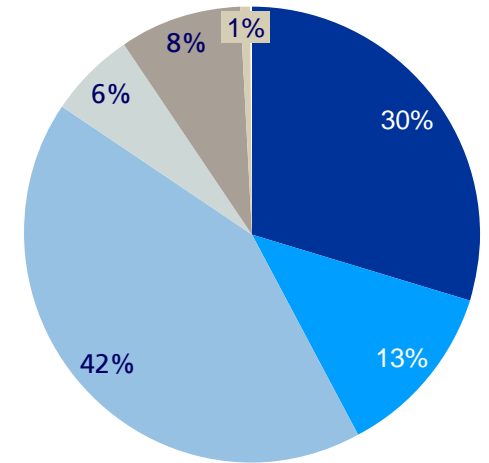
Total Group Investments: USD 205bn



RISK DIVERSIFICATION²



RISK DRIVERS^{2,3}



¹ Economic view.

² Estimated.

³ Risk drivers of Market risk (at Expected Shortfall 99% based on Monte Carlo simulation) show marginal contribution to the total Market risk.

⁴ PE = Private equity, RE = Real estate.

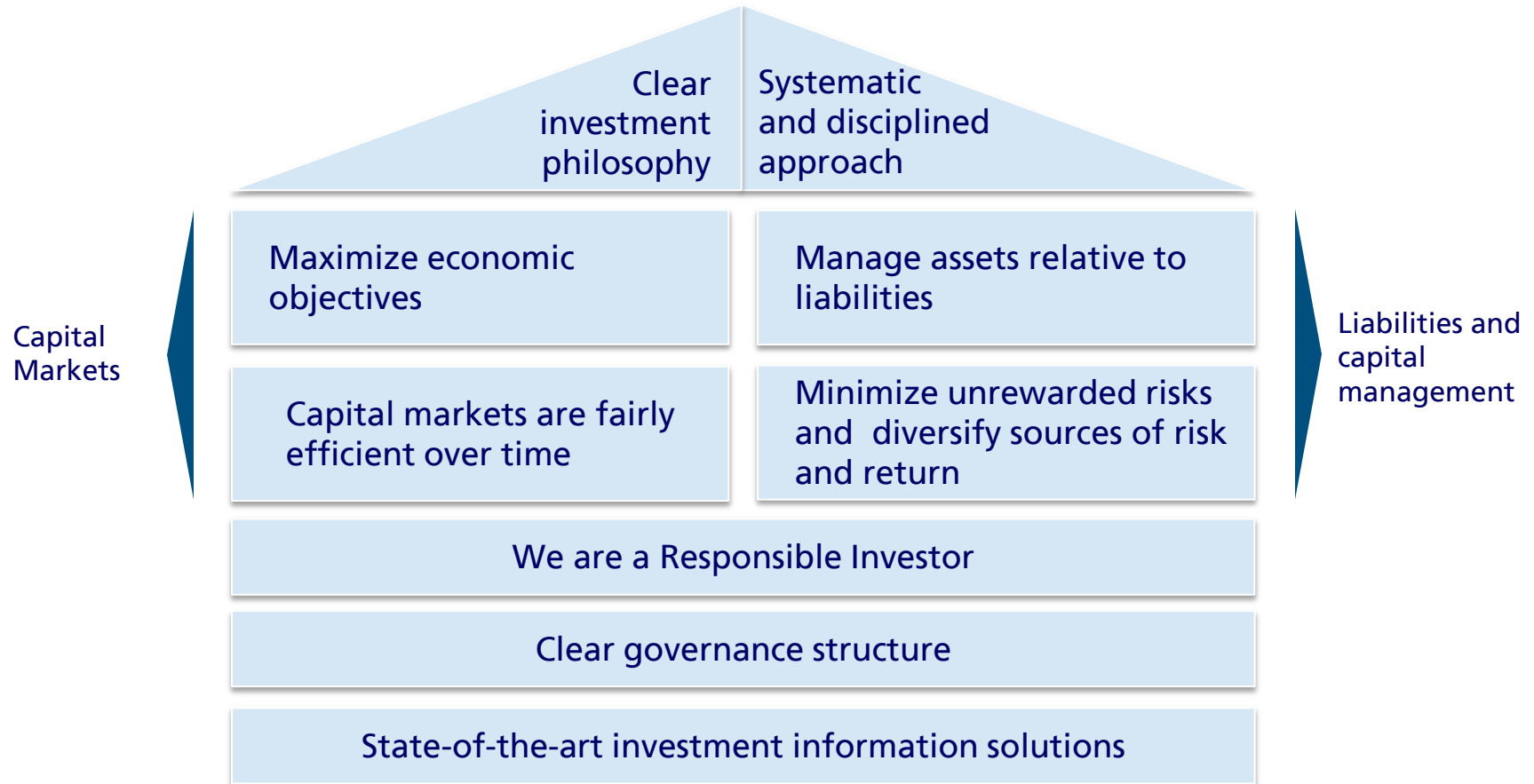
⁵ Credit risk consists of swap spread risk, credit spread risk and credit default risk.

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A clear investment philosophy combined with a systematic and disciplined approach are the basis for success

Investment Management philosophy and approach



We aim to maximize economic objectives

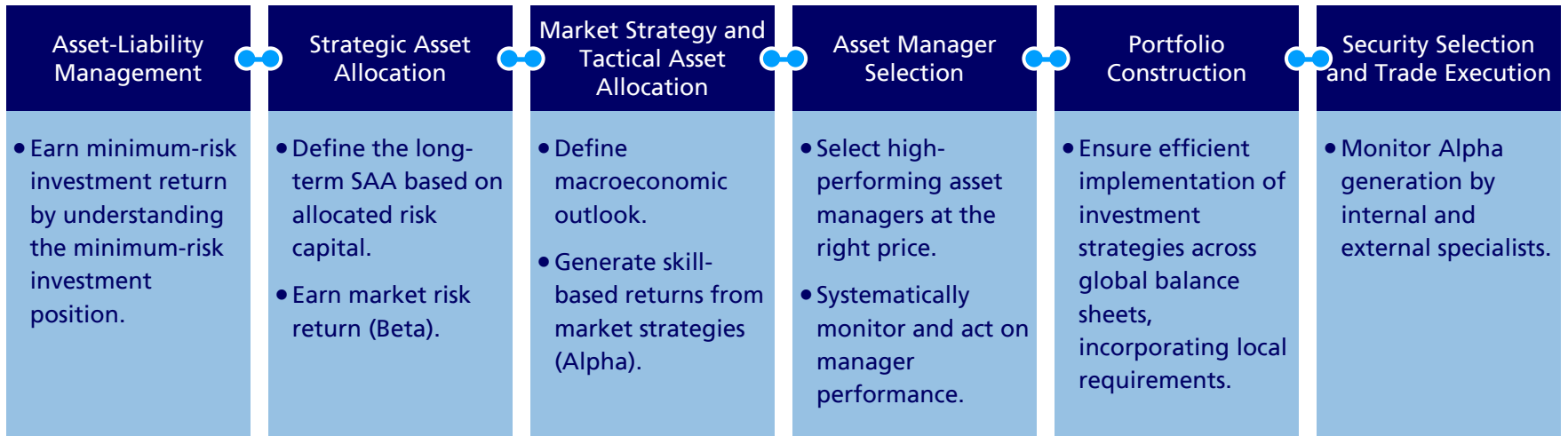
- Create long term value
- Measure investment risk and returns relative to liabilities
- Consider regulatory restrictions and accounting targets
- Minimize short term trading

We believe that capital markets are fairly efficient over time

- We have the efficient markets principle as a reference point
- We have realistic expectations of returns
- Have a realistic view of our skills and those of our asset managers
- Only take risks that are expected to provide excess returns relative to liabilities
- Strive to identify inefficiencies when they do occur and rationally act on them

IM achieves transparency of and focus on core capabilities through a clearly defined value chain

Value Chain and Core Competences



Value Enablers

- Asset Manager Oversight and performance reporting
- Information solutions platform
- HR and talent management
- Planning and Reporting of results
- Governance and communication

We employ state-of-the-art investment information solutions that are critical to IM's success

Investment Information Solutions capabilities

Data availability

- Daily information on our investment exposures globally
- Detailed access to all individual positions for all investments
- Ability to aggregate bottom up our investment exposure

Analysis

- Key to manage investments centrally in a global organization
- Ensure that risk are controlled, monitored and properly understood
- Weekly risk reporting and RBC estimation available in ALMR

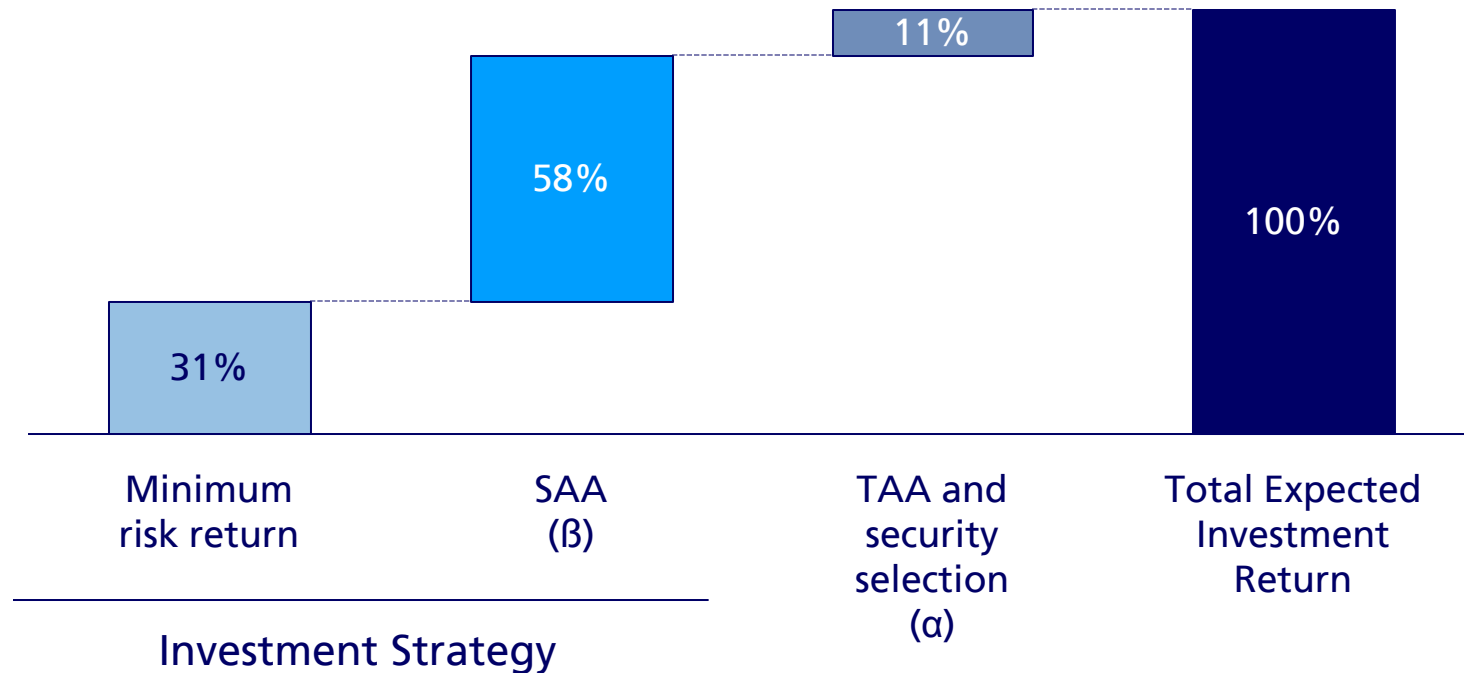
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Investment strategy determines 90% of the investment return



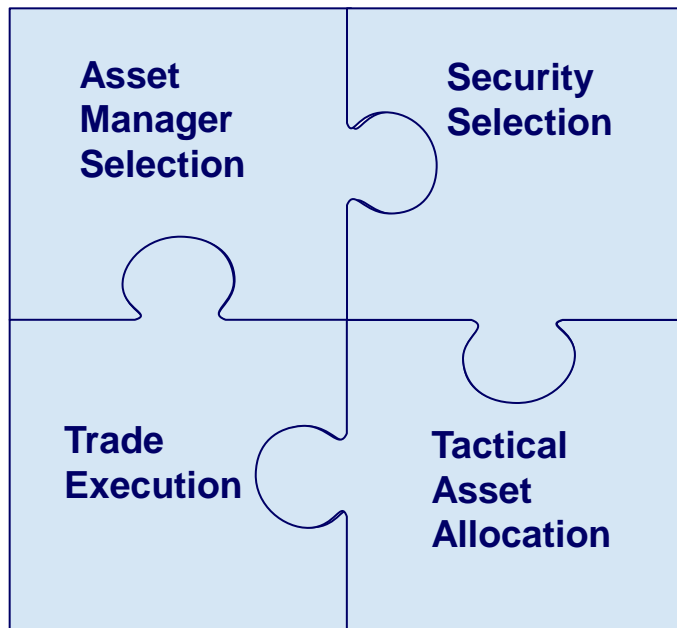
Sources of expected total investment return
As of December 31, 2014 – model estimate



Skill-based returns are important to enhance Zurich's investment result



Skill based return - four sources of skill based returns (alpha)

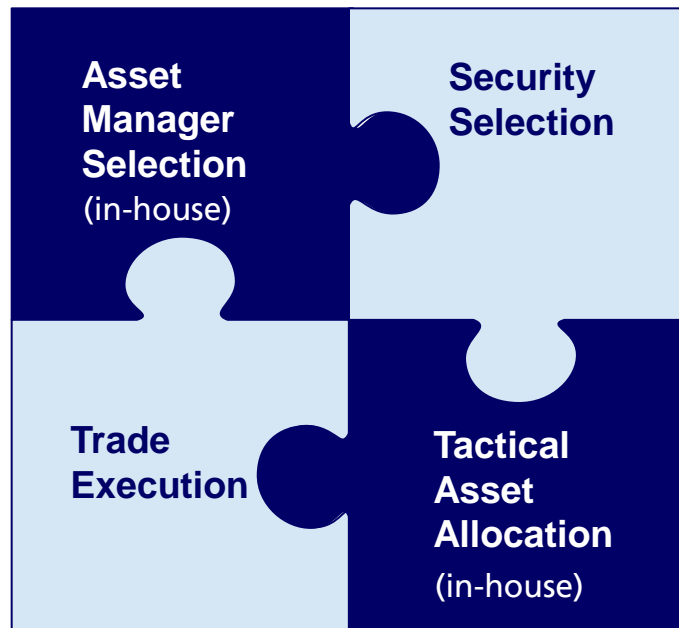


- IM only targets skill-based returns selectively
- Make or buy decisions are made within each area

We insource asset manager selection and tactical asset allocation



Skill based return - sources of skill based returns (alpha)

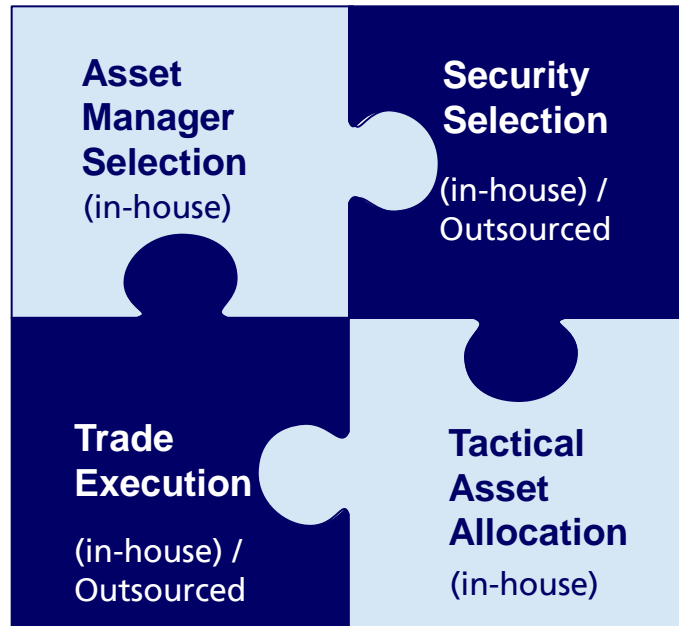


- Develop in-house capabilities where for skilled-based that create a competitive advantage:
 - Selection and evaluation of our best in class external asset managers
 - Tactical asset allocation to explore and exploit temporary market opportunities

We mainly outsource security selection and trade execution



Skill based return - sources of skill based returns (alpha)



- Security selection requires significant research, it is costly, and largely impacted by untransparent transaction costs
- IM carefully analyzes manager and security selection skills likely to contribute to extra returns

IM achieves focus, flexibility and speed through a clearly defined 'make or buy' strategy

Make or Buy Strategy

- Outsource the majority of our mandates
- Either to large scale or to very specialized asset managers
- Only in some cases we retain in-house management:
 - Investment units that have shown an excellent track-record both in terms of performance and cost efficiency
 - Markets where independent large scale asset managers do not operate

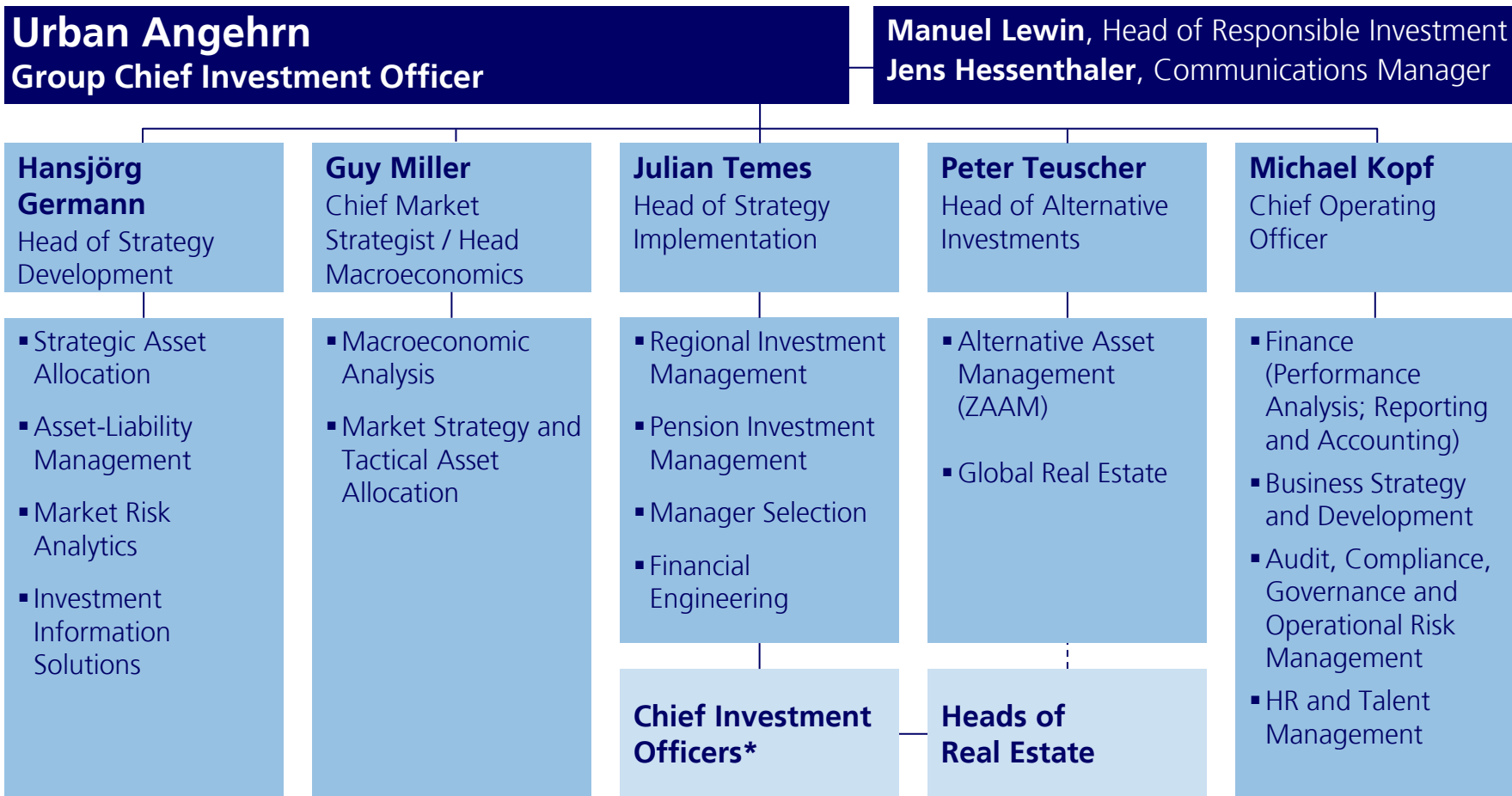
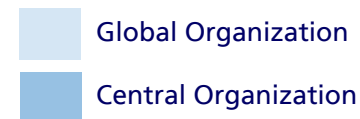


<u>As of Dec 31, 2014</u>	<u>Insourced</u>	<u>Outsourced</u>
Fixed Income (excluding Mortgages)	28%	72%
Mortgage Loans	97%	3%
Cash & short term investments	89%	11%
Equities	17%	83%
Real Estate	99%	1%
Hedge Funds	100%	0%
Private Equity	100%	0%
Overall	37%	63%

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Our structure is aligned to our strategy



* in certain business units: Head of Investments / Chief Financial Officer

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THANK YOU

Hansjörg Germann

Managing Director

Head of Strategy Development

Investment Management, Zurich Insurance Group

Hansjörg Germann is Head of Strategy Development, responsible for all aspects of the strategic asset allocation for the Group's investment portfolio since January 2012. Hansjörg joined Zurich in March 2003 as Regional Investment Manager for Continental Europe and at the same time served as interim CIO for Germany from mid 2003 to mid 2004. He became Chief Investment Officer Switzerland in January 2005 and took on the position as Regional Investment Manager for Asia Pacific and Middle East based in Hong Kong in August 2009.

From 1996 to 2003 Hansjörg held various investment management positions at Winterthur Insurance Group and Credit Suisse Group. He was a member of the Board of Directors at New China Asset Management Ltd in Beijing from 2010 to 2013. He is a member of the board of the Swiss Chinese Chamber of Commerce since 2015.

Hansjörg holds a master's degree from the Swiss Federal Institute of Technology (ETH) in Zurich with majors in Control Engineering and Business Administration. He is a CFA Charterholder since 2001 and speaks German, English, Italian, French, and Mandarin Chinese.