

Investment Management – a creator of value in an insurance company

Zurich Financial Services – March 2009

Second edition



Investment Management

Insurance companies generally recognise the importance of separating the responsibilities for managing their insurance businesses from managing the investments backing their reserves and capital. Due to the scale of investments in an insurance company's balance sheet and the impact of investment results on its profitability, the management of these investments is a key function in an insurance company that can create significant value for the company's policyholders and shareholders. To accomplish this value creation, Investment Management at Zurich uses a systematic and structured investment process focusing on the value drivers that matter most.

Contents

	Page
I. Investment Management in an insurance company	4
II. Zurich's investment philosophy	8
III. Zurich's investment strategy	12
IV. Value creation of Investment Management at Zurich	19

Disclaimer and cautionary statement

Certain statements in this document are forward-looking statements, including, but not limited to, statements that are predicated on or indicate future events, trends, plans or objectives. Forward-looking statements include statements regarding our targeted profit improvement, return on equity targets, expense reductions, pricing conditions, dividend policy and underwriting claims improvements, as well as statements regarding our understanding of general economic, financial and insurance market conditions and expected developments. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results and plans and objectives of Zurich Financial Services or the Zurich Financial Services Group (the "Group") to differ materially from those expressed or implied in the forward looking statements (or from past results). Factors such as (i) general economic conditions and competitive factors, particularly in our key markets; (ii) the risk of the global economic downturn and a downturn in the financial services industries in particular (iii) performance of financial markets; (iv) levels of interest rates and currency exchange rates; (v) frequency, severity and development of insured claims events; (vi) mortality and morbidity experience; (vii) policy renewal and lapse rates; and (viii) changes in laws and regulations and in the policies of regulators may have a direct bearing on the results of operations of Zurich Financial Services and its Group and on whether the targets will be achieved. Zurich Financial Services undertakes no obligation to publicly update or revise any of these forward-looking statements, whether to reflect new information, future events or circumstances or otherwise.

It should be noted that past performance is not a guide to future performance.

Persons requiring advice should consult an independent adviser.

This communication does not constitute an offer or an invitation for the sale or purchase of securities in any jurisdiction.

I. Investment Management in an insurance company

The global financial crisis, which began in 2007, highlighted the importance of having a clear investment policy as well as a structured and disciplined investment process. It also underlined that assets need to be managed in relation to liabilities. The success of this activity has been a major differentiator across the industry.

An insurer aims to pursue investment strategies that focus on creating value for both policyholders and shareholders and avoiding excessive risk taking. In the insurance industry, attaining the balance of risk and return remains the challenge.

No extra return without risk.

Chasing after ever higher yields has its downside: risk. Capital markets will only provide higher expected returns when higher risks are attached. Investors will therefore differ in their ability and willingness to chase returns and bear the resulting risks. When the bear market ensued in 2000, some investors were forced to sell their risky equity investments to mitigate the threat of insolvency, while others with sufficient capital were able to withstand the downturn, held on and benefited when markets recovered two years later.

No extra return without risk is a principle that applies to all investors. The important corollary to this principle is that investors should have sufficient capital to bear the risks they take.

Insurance companies have large investments.

Insurance companies sell protection to their customers who pay premiums, and hold investments to cover future claims or benefits, administrative expenses and profits to shareholders. Regulators require insurance companies to hold sufficient assets as reserves in every insurance business. The reserves must suffice to pay out expected claims and benefits, even in the unplanned case that the insurer stops writing new business. Thus, regulators ensure that insurers do not rely on new premiums to pay for claims and benefits underwritten in the past, thereby preventing the creation of pyramid or ponzi schemes. As insurers continuously underwrite new business, they generally hold significant and relatively stable amounts of investments as reserves on their balance sheet.

Reserves generated by the insurance business are invested until they are paid out. In addition, shareholder capital needs to be held as a buffer to ensure the insurer has adequate funds to pay claims or benefits in scenarios where actual pay outs are larger than what has been reserved. Therefore, the investments on the insurer's balance sheets cover reserves for expected claims and benefits and shareholder capital that acts as an additional buffer to meet adverse surprises in claims and benefits.



Insurance companies generally separate the responsibilities of their insurance businesses from the investment of their reserves and capital (referred to as insurance investment management). The insurance business must ensure profitable underwriting. This means premiums received in advance fully cover future insurance losses, guaranteed minimum benefits (for life insurance), administrative expenses and a profit margin. Furthermore, the insurance business must effectively manage claims, ensuring payments reflect the actual loss to the customer and are within the terms of his policy.

The role of insurance investment management is to manage professionally the funds generated by the insurance business, maximizing risk adjusted returns while meeting regulatory requirements on its assets and other financial constraints. Insurance investment management must ensure that investment returns preserve the solvency, both regulatory and economic, of the insurance company, earn the return commensurate with the use of its capital and enable it to continue to underwrite profitable insurance business.

Insurance investment risk is different from what the typical fund manager would describe as investment risk. The typical fund manager invests on behalf of its clients and is usually focused on maximizing the value of the investments relative to a prescribed market benchmark (eg. S&P 500).

Investment risk for fund managers is both absolute and relative. The absolute risk is the chance the market value of the underlying fund will rise or fall in a particular time period. The relative risk is the chance the fund manager may out- or underperform his benchmark in a particular time period. However, both measures are focused on the asset side of the balance sheet only – little consideration is given to the client's liabilities. It is therefore left to the client (or client's adviser) to select the investments that meet the needs of his 'liabilities'.

Risk in insurance investment management is more akin to the fund manager's risk relative to his market benchmark, only in the case of insurance, the benchmark is its liabilities. When an insurance company determines its investment strategy and investment risk appetite, it cannot ignore the liability side of its balance sheet – the reserves for future claims and benefits and shareholder capital.

I. Investment Management in an insurance company

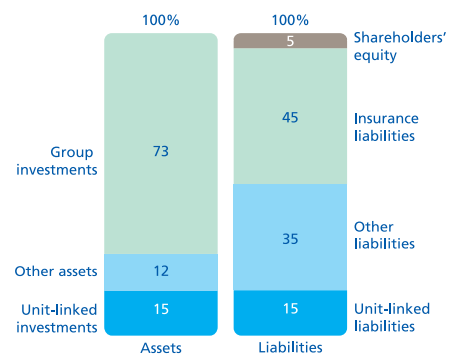
Insurance companies have assets (investments) and liabilities (future claims and benefits) whose values change as capital market conditions change. The challenge for insurance investment management is to manage the potential mismatch in value of its assets and liabilities and to ensure that such a mismatch will not endanger the company as a going concern.

Insurance investment risk, therefore, is when investments become insufficient to pay the liabilities due to adverse changes in capital markets. The analysis and management of these relative movements is called Asset-Liability Management (ALM).

Asset-Liability Management is a key function in insurance investment management. Insurers' balance sheets are dominated by Group investments on the asset side and reserves for future claims and benefits on the liability side (ignoring unit linked investments which have identical offsetting liabilities). Therefore, relative changes in value of Group investments relative to insurance liabilities can have a significant impact on shareholders' equity.

The chart below illustrates the importance of Asset-Liability Management in managing an insurer's investments. This particular example, based on a sample of Continental European insurance companies, shows that if Group investments were to underperform by 10% the value of the insurance liabilities, shareholders' equity would be wiped out. This level of shareholder leverage makes ALM key in insurance investment management.

Chart 1: Simplified balance sheet of a typical European insurance company as of Q2, 2008 (%)



Source: Zurich, Allianz, Axa, Generali 2008 reports



Insurance companies are regulated in every market where they conduct insurance business. Regulators set solvency requirements for every local business that must be met at all times. The objective of solvency requirements is to ensure that insurers hold enough assets to pay out all claims at all times. As a result, insurers must hold assets not just to cover the expected claims but also unexpected, larger claims and be able to absorb adverse results from any asset-liability mismatch. Furthermore, insurance regulators also set requirements regarding the types of investments that qualify for solvency calculations.

When developing their investment strategy, insurers need to be aware of the regulatory framework they operate in. For example, some regulators do not allow certain investments such as commodities and hedge funds to cover reserves. In addition, regulators often disadvantage holding certain asset classes by imposing significant statutory capital requirements to hold them.

Accounting balance sheets

Insurers' balance sheets are reported in line with accounting standards. Accounting standards define how assets and liabilities should be valued, which is often different from the current economic or 'market' value. In particular, liabilities are often shown at their nominal value instead of their current (discounted) economic value. Hence, balance sheets prepared under the relevant accounting standards often do not show the market dependency of liabilities. New regulatory initiatives (eg. Solvency II) will lead to measurement and reporting of liabilities at their economic (or 'market') values in line with the asset values.

II. Zurich's investment philosophy

Investment Management at Zurich has the mission to **achieve superior risk-adjusted investment returns relative to liabilities**.

The mission is focused on maximizing economic value creation for both Zurich's policyholders and shareholders.

Chart 2: Mission of Zurich Investment Management

Mission

Achieve superior risk-adjusted investment returns relative to liabilities.

Ambition

Strive to be the benchmark in insurance investment management.

Build a reputation for service excellence, customer understanding, professionalism, innovation and responsiveness.

Economic value is created if the return on capital required to support the insurance investment risk is greater than the return on capital required by the capital markets.

So far, we have determined that investment management is a key function in an insurance company and that insurance investments have to be analyzed and managed relative to liabilities. We have also established that generating extra returns requires taking additional risks. This leads to the key question:

What investment returns and risks should Zurich target?

To answer this question, Zurich has defined its investment philosophy, which is a **systematic, consistent and tested** approach to investing and relies on a broad base of knowledge from academia and the asset management industry. Having an investment philosophy that is consistently applied to all investment activities is of great value to Zurich.

It provides transparency to Zurich's investment professionals, to internal and external stakeholders and ensures alignment of Zurich's Investment Management function that is spread over 40 locations around the world.

As a result, Zurich possesses a clear basis for the development and implementation of a single and coordinated investment strategy that is believed to be optimal for Zurich's policyholders and shareholders.

Zurich's investment philosophy and the resulting investment strategy can be condensed into two key principles that guide all decisions:

- 1 We aim to maximize economic objectives.
- 2 We believe that capital markets generally do work.



1. We aim to maximize economic objectives

Leading the investment organization of a large insurance company such as Zurich is a highly complex business that involves many stakeholders with many different interests and opinions. Hence, defining a clear hierarchy of targets and priorities is of high importance to guide decision making. Investment Management at Zurich creates shareholder value by maximizing economic objectives. Specifically, this means we:

- strive to create long-term value for Zurich's policyholders and shareholders by developing and implementing one investment strategy that optimizes the investment risk-return profile for these stakeholders
- measure investment risks and returns relative to liabilities on an economic or market value basis
- consider regulatory restrictions and accounting targets as important
- minimize short-term activism and strive for best execution when transacting in the capital markets.

2. We believe that capital markets generally do work

Zurich's investment philosophy is centered on the key belief that capital markets generally do work (ie. are efficient). Market forces exist to eliminate deviations from an equilibrium (or fair value). New public information leads to an adjustment of prices and expectations. In other words, Zurich agrees with the generally accepted view of academia and practitioners that investors cannot consistently earn a higher return without incurring higher risk. Consequently, we, Zurich's Investment Management team:

- have the efficient markets principle as a reference point
- 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
- differentiate and focus on three sources of return
 - Risk-free return.
 - Market return (Beta).
 - Skill-based return (Alpha).
- strive to identify inefficiencies when they do occur and rationally act on them.

There are 'good' risks and 'bad' risks

'Good' risks are those that reward investors with higher expected return (risk premium) for holding them. Investors earn the risk premium for bearing this risk. Examples are the equity risk premium and credit spreads.

'Bad' risks are those for which investors receive no expected compensation from markets. These risks can be diversified away at very little or no cost. Examples are holding only a few shares in an equity portfolio and interest rate risk.

The risk-free return is earned without taking any risk

Capital markets bring together investors, who have funds they temporarily do not need and consumers, companies or governments who need funds to finance consumption or business investment. The risk-free return is the compensation for the time value of money when investors postpone consumption by temporarily lending funds to someone else.

In the insurance context, the risk-free return is the yield on a government bond portfolio that has the same maturity profile as the underlying insurance claims or benefits that need to be paid in the future. For example, the risk-free investment for certain business lines in Zurich's General Insurance business is close to a three-year government bond.

In the long term, certain risk taking provides extra returns (market return, also called 'Beta')

Certain types of investments such as equities, corporate bonds and real estate provide higher expected returns (market return) compared to the risk-free return (ie. government bonds).

Investors can only capture these extra returns if they:

- have a long-term strategy to take the necessary risks;
- understand the risks they incur; and
- can afford the risks they are taking at any time by holding sufficient capital.

Otherwise, they may be forced to sell investments after significant market falls.

Bad investors do exist

Different investors have different investment strategies. However, systematically taking uncompensated risks does not create value. Zurich aims to stay clear of the following strategies:

- Holding a concentrated portfolio – this increases risk but not necessarily return (see 'good' and 'bad' risks on the previous page).
- Frequent trading – trading always increases costs. These costs are certain, while additional returns from higher trading activity are uncertain.
- Focusing only on pre-tax returns – it is important to focus on the tax implications of each investment as some investments are not optimal from a tax perspective.
- Investing in instruments with complex and opaque risk and return characteristics, such as highly leveraged structured credit products.



Some investors can achieve extra, skill-based returns ('Alpha') on top of the market return ('Beta') that their strategic asset allocation would provide. Given that capital markets generally do work (financial market prices generally adjust quickly to new information), skill-based returns are uncommon and unpredictable. Across all investors, they aggregate to zero (before cost). That is, Alpha is a zero sum game: for every investor who earns positive Alpha there is an investor who earns negative Alpha. The more efficient the market and skilful investors are, the more difficult it will be for an investor to earn consistently positive Alpha.

Skill based returns are difficult to predict and empirical scrutiny often does not clearly reveal whether success was due to skill or luck. In addition to these skills being rare and uncommon, they are costly. Therefore, investors have to be realistic about their own skills and those of their asset managers. Only a small proportion of investment returns can be expected to be generated this way.

Alpha – size matters!

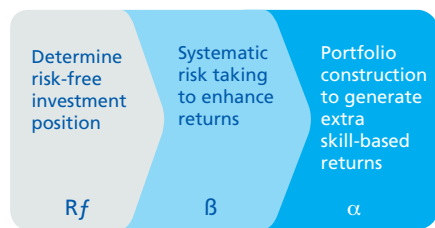
Alpha is the part of an investor's return that cannot be explained by the systematic, or Beta risks he has been taking.

Generating Alpha requires the skill to identify and exploit profitable investment opportunities. Investors continuously search for new opportunities, but they tend to be short lived and limited. Large scale investors face the problem that only large opportunities make a substantial difference to the return of their portfolio. This 'law of diminishing returns' explains why most large institutional investors such as pension funds are more focused on generating returns from Beta. While exceptions exist, many large Alpha-oriented investors have increasing difficulty finding profitable opportunities that make a difference to their portfolios. However, for an insurance company that strives to generate value for its shareholders, an Alpha that is small relative to its total investment portfolio can still be significant relative to its shareholder's equity.

III. Zurich's investment strategy

1. Investment approach
Investment Management develops a consistent investment strategy that is believed to be optimal for Zurich using a three-step investment approach that follows the three sources of return.

Chart 3: Zurich's three-step investment approach

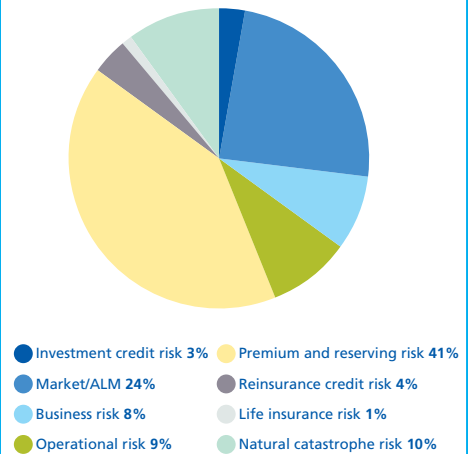


Firstly, Investment Management determines the risk-free investment position. This determines a portfolio of investments that replicates Zurich's liabilities. The risk free portfolio will see the market value of assets and liabilities move in tandem when interest rates shift up and down.

Secondly, Investment Management decides which risks to take to enhance returns given its risk bearing capacity. The magnitude of the total ALM investment and credit risks that can be taken are determined as part of Zurich's capital allocation process. This provides Investment Management with a measure of Zurich's capacity to take ALM investment and credit risks.

Currently, Market/ALM risk and investment credit risk consume 27% of the Group's total risk capital.

Chart 4: Zurich Risk Based Capital by major risk type (as of 31 December 2008)



Source: Zurich Financial Services 2008 results reporting, Analysts and Media Presentation, February 5, 2009

The output of deciding which investment risks to take is Zurich's long-term investment strategy (referred to as Strategic Asset Allocation, 'SAA'). The SAA describes Zurich's allocation of funds to different asset classes such as government bonds, corporate bonds (credit), mortgages, equities, real estate, hedge funds, private equity and cash.

The Strategic Asset Allocation should be the mix of asset classes that promises the highest long-term expected investment return given Zurich's liabilities, regulatory framework and capital allocated to Market/ALM and investment credit risks.



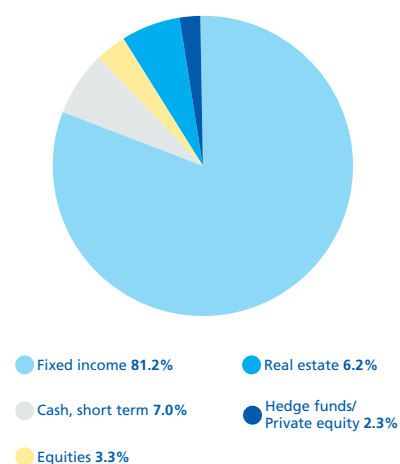
Thirdly, Investment Management defines the portfolios in which the investments should be managed (portfolio construction)

- All of Zurich's investments are held in clearly defined portfolios, which aggregate to the desired asset allocation. Each portfolio has defined investment guidelines, an investment manager and a benchmark to assess the manager's performance.
- Portfolio construction starts with the decision whether a portfolio is better managed passively (tracking a benchmark index) or actively (portfolio manager actively deviates from his benchmark to outperform).

The decision is based on whether active returns are likely to be found in the respective market, the availability of suitable asset managers, their expected value creation and cost.

Zurich's investment portfolio if viewed on its own (ie. without reference to the liabilities) looks defensive and biased towards fixed income.

**Chart 5:
Economic Asset Allocation of Zurich Financial Services as of 31 December 2008 (%) (excludes unit-linked)**



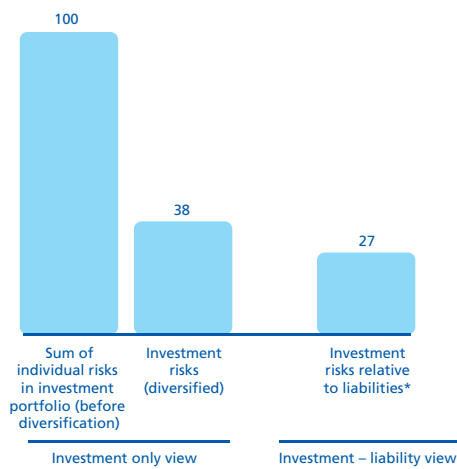
Source: Zurich Financial Services 2008 results reporting, Analysts and Media Presentation, February 5, 2009

The previous chart usually leads to the question:

“Why does Zurich take such low risks in its investment portfolio by investing predominantly in fixed income assets?”

To answer this question, we have to look at the potential impact of movements in financial markets on the economic valuation of the Group's investments and liabilities and the resulting impact on shareholder equity. Firstly, we need to understand the effect diversification has on the overall risk of the investment portfolio and secondly how the risk changes with the inclusion of liabilities.

Chart 6: Impact of diversification – comparison of Zurich's sum of individual undiversified single investment risks to diversified investment risks relative to liabilities as of 31 December 2008 (%)



*Risk defined as 12 month 99.95% VAR in line with Zurich RBC. Excludes unit linked investments.

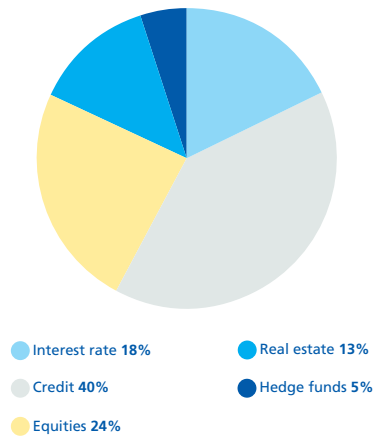
Source: Zurich Financial Services 2008 results reporting, Analysts and Media Presentation, February 5, 2009

Diversification is important. In Zurich's current investment strategy, 62% of investment risks are diversified away through an efficient asset allocation and proper diversification both within asset classes and between each asset class (ie. the risk of holding many different securities across a number of asset classes is 62% below the sum of the individual securities' risks). This diversification is an asset only measure and takes no consideration of the liabilities.

Inclusion of liabilities reveals the true picture of risk. When liabilities are added to the risk calculation in the chart above, the risk to Zurich's shareholder equity is reduced to 27% of the 'sum of undiversified single investment risks' (ie. 11 percentage points below the diversified 'investment only' risk view discussed above). As Chart 6 shows, almost three quarters of Zurich's investment risks are eliminated by optimizing portfolio diversification relative to liabilities (as of December 2008). This analysis underlines the well-diversified nature of Zurich's investment portfolio where assets and liabilities are effectively offsetting each other.

The diversification effect in Zurich's portfolio is even more powerful when risk exposures by type are analyzed. In the 'investment only view', interest rate risk is the dominating risk exposure of Zurich's investments (refer back to chart 5). However, the 'investment only view' neglects half of the balance sheet. When the risk exposure is measured on an investment risks relative to liabilities basis, a large proportion of the interest rate risk is offset. On this basis, the real asset exposure (equity and real estate) as of December 2008 makes up 37% of the total investment risk exposure, despite only making up just under 10% of the asset allocation (see chart 7 below).

Chart 7: Breakdown of Zurich's Investment Risk Exposure of diversified investments relative to liabilities' as of 31 December 2008 (%)



Source: Zurich Financial Services 2008 results reporting, Analysts and Media Presentation, February 5, 2009

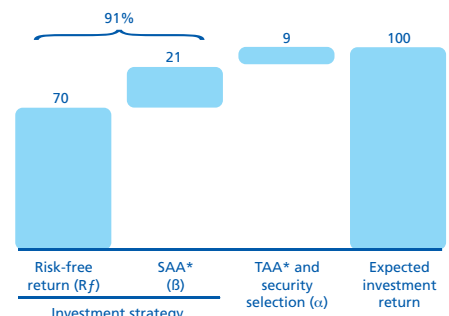
Zurich's investment portfolio is balanced in terms of investment risks taken

and spread over a number of different risk types. Furthermore, Zurich employs its available risk capacity mostly in asset classes that compensate risk taking with long term expected returns (Beta).

Zurich's investment strategy explains 91% of the expected investment return.

The dominant contribution of investment strategy (asset allocation) on expected returns is well known, but has nevertheless the power to surprise even investment professionals again and again.¹

Chart 8: Zurich's sources of expected investment return, (%)



*SAA = strategic asset allocation and TAA = tactical asset allocation

Source: Zurich Investment Management

¹Studies by Brinson et al. (1990) and Blake et al. (1999) attribute between 92% and 99% of investors' return differences to their investment strategy (asset allocation). The remainder is attributed to skill/tactical moves.

Investment Management only targets Alpha where empirical evidence and academia suggest a high likelihood of capturing it. Sources of expected Alpha are clearly defined to ensure costly talent is efficiently used. Investment Management generally achieves skill-based returns in four areas. In each area, a business decision is made whether this skill should be developed in house or bought from external specialists.

Chart 9: Zurich's four main sources of skill-based returns



Source: Zurich Investment Management

Investment Management has built in-house expertise to perform asset manager selection and tactical asset allocation. These two sources of Alpha have high potential value added but require relatively low infrastructure and resource requirements. Also, the cost of providing these functions in-house is lower than that of outsourcing.

The key to success is to have the right people: it is important the people that are performing these tasks are 'experts' in their areas.

In comparison to asset manager selection and tactical asset allocation, security selection and trade execution require significant infrastructure and resources to deliver value and also have significant operational risks. As a result Zurich engages third party asset managers to manage large parts of its investment portfolio.

The following provides a more detailed overview of each of the four primary sources of Alpha:

Asset manager selection

Investment Management always aims to appoint the best manager for each portfolio. It applies a stringent and fact-based manager selection, evaluation and replacement process. Selection criteria includes track record of performance, investment philosophy and process, research and trade execution capabilities, risk management, organization and operations processes and fees.² This skill is a clear differentiator relative to Zurich's major insurance peers, who tend to manage their investments in house rather than outsourcing them to the best investment managers.

Tactical asset allocation

Investment Management develops tactical asset allocation recommendations to explore and exploit temporary market opportunities. This function is managed in-house.

²Refer to next section (Zurich's make or buy strategy) for further details.



Security selection

Investment Management believes security selection can add extra returns to selected portfolios. Security selection requires significant research and it is costly. Therefore we carefully analyze whether security selection is likely to add extra returns to a portfolio. In such cases we pay for active portfolio management. Otherwise, we prefer cost-efficient passive (benchmark-tracking) portfolios.

Trade execution

Trade execution is a skill and Zurich values execution skills strongly. Transaction costs are often not transparent as they include fees paid plus market impact of transactions. Since transaction costs are certain and returns are not, we value asset managers who are patient and aim to keep costs low in our internal asset management operations.

The importance of asset allocation has already been highlighted in this paper. However, in an organization with a global footprint as wide as Zurich's it is almost equally important to implement Group-wide strategies quickly and effectively while taking into consideration local regulatory and financial requirements. Hence, Zurich employs a dedicated team of regional managers, who engage in timely and effective communication with Zurich's local investment offices and local insurance businesses to ensure agreement with and implementation of the investment strategy.

In some cases, skilled investors can achieve extra returns. Skills are rare and costly. Investment Management strongly focuses on selecting asset managers with proven track records.

This is particularly important given the range of asset classes and countries where Zurich invests. Selection criteria are equally stringent for internal and external asset managers, which provides us with a clear competitive edge relative to other insurance companies.

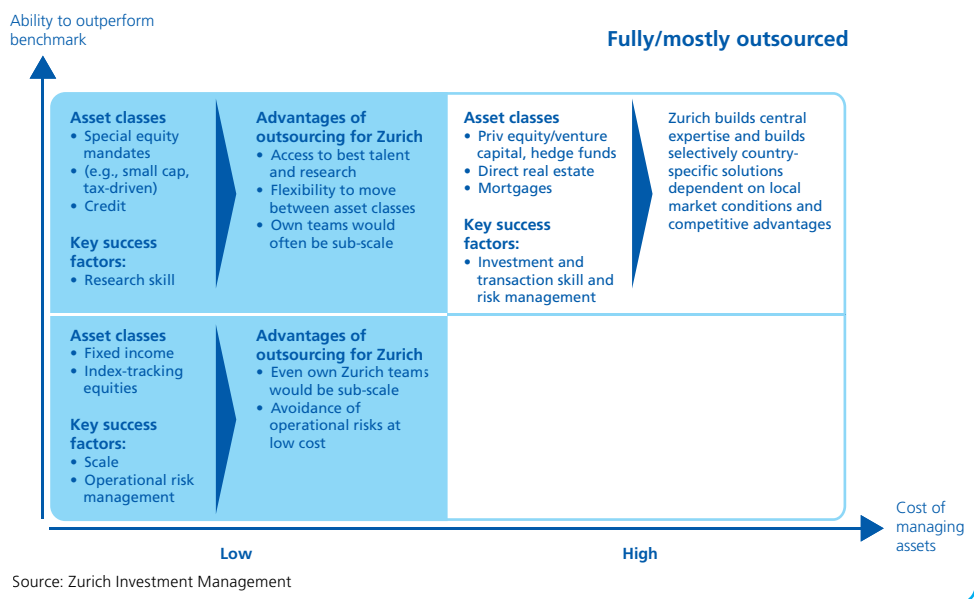
2. Zurich's make or buy strategy

Zurich focuses its central Investment

Management team on three key value levers:

- 1 Asset allocation.
- 2 Investment implementation.
- 3 Manager selection.

Chart 10: Overview of Zurich's make-or-buy strategy by asset class



III. Zurich's investment strategy

Zurich engages outside portfolio managers (security selection and trade execution) for currently around 70% of its investments:

- This gives Zurich access to the world's best asset managers, often specialists in niche areas (eg. specialist equity or private placement mandates).
- For regulatory reasons, investments have to be held locally in Zurich's over 40 businesses. We believe in minimum efficient scale for asset managers and avoid employing sub-scale investment teams.
- Cost of third party portfolio management is highly competitive and sometimes lower than in-house management while operational risks are significantly minimized. In addition trade execution is enhanced through scale of selected asset managers.

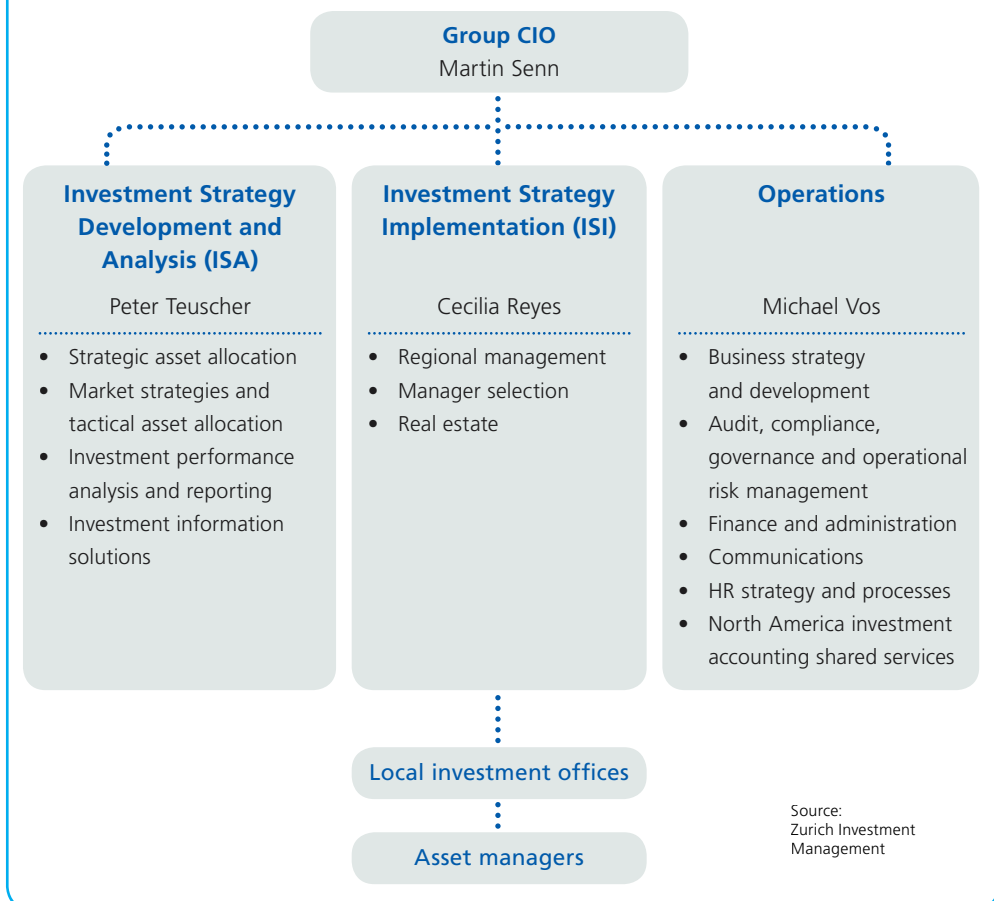
- Employing external asset managers allows an easy exit from underperforming managers.
- Zurich's internal organization focuses on key return levers: Achieving risk-free return and market return (Beta), which generally explains over 90% of investment returns.

3. Organizational structure

The structure of Zurich's Investment Management function is fully aligned with its strategy. Zurich's central Investment Management team has three key functions.

This structure ensures that the Group wide investment strategy is developed in a consistent manner and that the strategy is implemented efficiently, considering local regulation and governance frameworks.

Chart 11: Structure of Zurich's Investment Management function



IV. Value creation of Investment Management at Zurich

The World's financial markets can be risky, but also rewarding for the good investor. Over recent years financial markets have rapidly increased in speed and complexity. The professionalism of market participants appears to increase by the day and interdependencies between different markets and participants have reached unprecedented levels. The recent crisis which began in 2007 has shown the importance of having clear and structured investment policies and strategies in place.

On the backdrop of these developments investors must ensure they follow a clear and proven investment strategy to avoid drifting into random speculation or being lured into promises of even higher yields without understanding the risks. A systematic and consistent approach has proven to be superior to 'headline' making deals and short term activism.

Investment Management at Zurich applies such a clear and consistent strategy focusing its organization on economic value creation for Zurich. To maximize economic value creation for Zurich, Investment Management manages investment risks relative to insurance liabilities and takes into account existing leverage of the investment portfolio versus shareholders' equity.

Investment Management applies a systematic, tested and widely accepted investment philosophy based on the belief that markets generally do work.

Investment Management focuses on generating superior risk-adjusted returns

based on the Group's selected investment risk level. In optimizing returns, Investment Management separately targets three sources of return. The risk free return is the predominant driver of return, followed by the market risk premium (Beta) and skill-based returns (Alpha).

Investment Management focuses its internal effort on the key levers for economic value creation:

- Investment strategy and actively managing the risks associated with the strategy.
- Effective and timely local implementation of the Group investment strategy.
- Systematic selection, evaluation and replacement of internal and external asset managers.

The ambition for Investment Management at Zurich is crystal clear – to strive to be the benchmark in insurance investment management. The challenge for the team in achieving this ambition is to explore and exploit continuously new opportunities and improve its investment and business strategy. Without continuous enhancement through innovation, no strategy can be successful over the long-term to generate economic value to Zurich's policyholders and shareholders.

