

Generation Life Tax Effective Australian Share Fund

Fact Sheet | 31 July 2019

Performance as at 31 July 2019 ¹	1 Month (%)	Since Inception ³ (%)
Fund return (before tax)	3.01	9.09
Fund return (after tax)	3.05	9.24
Fund return (after tax, assuming withdrawal)	2.26	8.30
Benchmark return (before tax) ²	2.94	9.29

Fund facts	
Asset class	Australian shares
Inception date	20 May 2019
Investment menu code	UF 35
APIR code	ALL3779AU
Investment management cost (ICR) ⁴	0.65%p.a.
Buy/sell spread	0.25% / 0.25%
Suggested minimum investment period	5 Years
Risk level	6 - High

Investment objective

This Fund aims to provide long-term tax effective total returns, with diversification across a broad range of Australian companies and industries.

Investment approach

The Fund uses a quantitative rules-based approach to generate return through an investment style known as factor investing. The approach encompasses the use of active investment trading strategies to take advantage of dividend payments, franking credits and other tax effective payments, while also looking to manage tax positions as part of the investment trading process.

Notes

1. Past performance is not an indicator of future performance.
2. S&P/ASX 200 Accumulation Index.
3. Non-Annualised Since Inception Return
4. The Indirect Cost Ratio (ICR) includes the investment manager's fees, estimated performance fee (if applicable), estimated expense recoveries and other indirect costs as a percentage of total average assets of the investment option as at 20 May 2019, but excludes indirect transactions and operation costs (see latest copy of the PDS).

Performance commentary

For the one-month period ending 31st July 2019 the estimated after-fee and after-tax performance of the fund was +3.05% for the month. This result includes the impact of franking credits received and the impact of trading over the period.

Market commentary

The best performing sectors for the month were Consumer Staples (+9.8%), Healthcare (+5.9%), Consumer Discretionary (+5.0%) and Information Technology (+4.4%), which outperformed the broader market, while the worst performing sectors for the month were Materials (+1.0%), Energy (+1.7%), Financials (+1.7%) and Utilities (+1.9%), which underperformed the broader market. All sectors of the market delivered positive returns for the month of July.

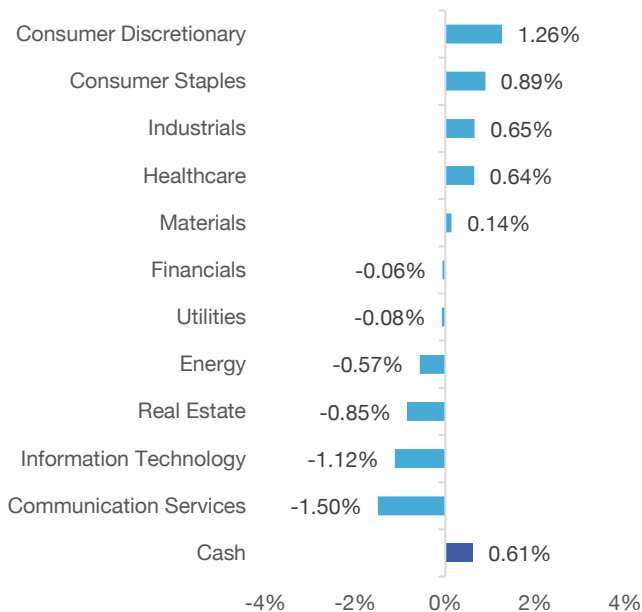
Following on from a strong second quarter, the Australian equity market, as represented by the ASX 200, surged higher still over the month (+2.94%) buoyed by a second interest rate cut (from 1.25% to 1.00%) from the reserve Bank of Australia (RBA). Uncertainty remains over global macro-economic growth prompting commodities such as oil and related energy stocks to underperform. The Financials sector continues to lag, weighed down by the wealth advice compensation costs emanating from the Hayne Royal Commission. The interest rate cuts lifted sentiment in consumer related names (both in the Consumer Staples and Consumer Discretionary sectors).

The 30 June reporting season commences in August where investors will focus on forward looking statements and guidance to better understand the corporate trading environment and profit growth prospects in light of valuations being at elevated levels (especially in the Information Technology and Healthcare sectors).

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Sector selection



Sector weighting

Overweight exposures to the Consumer Staples and Consumer Discretionary sectors added value during the month, contributing +0.09% and +0.02% respectively to active return. By contrast, underweight exposures in the Information Technology and Real Estate sectors subtracted value, detracting -0.03% and -0.02% respectively from active return.

The fund remains underweight in Communications Services and Information Technology sectors. Last month it was noted that the stock selection metrics indicate that most stocks in the Information Technology sector are overly expensive, have poor quality financials and growth that may be unsustainable in the medium term. Valuation is also a key concern within the Communication Services sector and the fund retains a holding in only one (1) stock: Telstra Corporation Ltd (ASX: TLS). TLS is the dominant stock in the sector (ASX 200 Index weight of 2.61% as at 31 July 2019) with all others being much smaller (e.g. REA Group Ltd is the second largest stock with an ASX 200 Index weight of 0.26%).

A returns-based attribution indicates that the sector positioning of the fund contributed +0.08% to active return, while stock selection within the sectors contributed +0.05% to active return.

Stock selection

Stock selection was best in the Consumer Discretionary and Financials sectors, contributing +0.28% and +0.23% respectively to active return. Stock selection detracted most value in the Materials and Energy sectors, detracting -0.20% and -0.14% respectively from active return.

On a relative basis, overweight positions in Magellan Financial Group Ltd (ASX: MFG) and JB Hi Fi Ltd (ASX: JBH) added the most value, contributing +0.20% and +0.17% respectively to active return.

MFG's share price hit a record high of \$61.88 at month's end and is up around 150% over the past 12 months. Analysts believe that the business is on track to deliver strong profit growth in FY2019, with potential for more double-digit growth in FY2020, assuming it can maintain the investment outperformance necessary to deliver a similar level of performance fees. MFG had a total return of +21.3% for the month and an overweight position in the stock contributed +0.20% to active return. MFG remains attractive based on quality and short horizon metrics.

JBH remains attractive on valuation grounds where negative sentiment towards discretionary spending and the potential for Amazon to disrupt local retailers has caused the share price to lag the assessment of the fundamentals for the company. The stock also offers an attractive grossed up dividend yield of 6.5% pa. JBH experienced a total return of +16.4% for the month and an overweight position in the stock contributed +0.17% to active return.

On a relative basis, an overweight position in Iluka Resources Ltd (ASX: ILU) and an underweight position (i.e. not held by the fund) in Treasury Wine Estates Ltd (ASX: TWE) detracted -0.16% and -0.10% respectively from active return.

ILU had a total return of -10.7% for the month following the release of its first half update in mid-July. Although ILU's production improved in the second quarter, its half year production was down significantly compared to the prior corresponding period. Despite this setback, ILU still remains attractive on growth and short horizon metrics.

Tax awareness

While the managers can never predict investor flows, they can be responsive to them and incorporate any changes to the desired fund positioning when these events occur. This approach enables the fund to reduce positions in stocks that have either outperformed or are no longer as attractive on metrics without the need to trigger a sale (which can have tax implications). All trading in the portfolio in July was done on days when the portfolio received new investor capital.

Another element of tax awareness is the continuous monitoring of the fund's tax parcels. This can identify opportunities to time a reduction in fund position to realise an income loss which can be used to offset other gains/income.

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Largest contributors

Company	Fund Avg Weight (%)	Benchmark Avg Weight ² (%)	Contribution* (%)
Magellan Financial Group Ltd	1.69	0.45	0.20
JB Hi-Fi Ltd	1.53	0.18	0.17
Fortescue Metals Group	0.00	0.84	0.09
Super Retail Group Ltd	1.03	0.07	0.07
AMP Ltd	0.00	0.32	0.07
Wesfarmers Ltd	3.72	2.41	0.06
Metcash Ltd	0.55	0.14	0.05
CIMIC Group Ltd	0.00	0.23	0.05
Evolution Mining Ltd	0.86	0.39	0.05
The A2 Milk Company Ltd	0.89	0.63	0.04

Top 10 holdings

Company	Fund (%)	Benchmark ² (%)	Active (%)
Commonwealth Bank of Australia	8.66	8.00	0.66
BHP Group Ltd	6.25	6.63	-0.37
CSL Ltd	5.98	5.74	0.24
Westpac Banking Corporation Ltd	5.21	5.43	-0.23
ANZ Banking Group Ltd	4.34	4.46	-0.12
National Australia Bank Ltd	3.84	4.30	-0.46
Wesfarmers Ltd	3.79	2.45	1.34
Woolworths Group Ltd	3.50	2.58	0.92
Rio Tinto Ltd	2.96	2.03	0.93
Transurban Group	2.86	2.24	0.62

Largest detractors

Company	Fund Avg Weight (%)	Benchmark Avg Weight ² (%)	Contribution* (%)
Iluka Resources Ltd	1.04	0.25	-0.16
Treasury Wine Estates Ltd	0.00	0.65	-0.10
Seven Group Holdings Ltd	1.37	0.12	-0.07
Rio Tinto Ltd	2.89	2.14	-0.07
Origin Energy Ltd	0.00	0.74	-0.04
Northern Star Resources Ltd	0.00	0.44	-0.04
Sandfire Resources NL	0.88	0.06	-0.03
Beach Energy Ltd	0.35	0.19	-0.03
Santos Ltd	1.85	0.69	-0.03
ResMed Inc	0.00	0.39	-0.03

*Active One Month Return for period Ending 31st July 2019 (Source: Redpoint)

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Position changes

As at 31 July 2019 the fund holds 58 companies in the ASX 200 Index. The largest changes in fund active positioning was a decrease in the underweight position in National Australia Bank Ltd (increasing attractiveness on short horizon metrics) and moving to be overweight in CSL Ltd (quality and growth) and Tassal Group Ltd (valuation and quality), while increasing the overweight position in Woodside Petroleum Ltd (growth). Active positions were reduced in Beach Energy Ltd (quality), ANZ Banking Group Ltd (quality and growth), Aurizon Holdings Ltd (valuation) and Metcash Ltd (decreasing attractiveness on short horizon metrics).

Overall the fund has reduced its overweight exposure in the Consumer Discretionary and Consumer Staples sectors, while moving from underweight to overweight in the Healthcare sector. The largest underweights remain in the Communication Services and Information Technology sectors, while the underweight position in the Real Estate sector has been reduced.

In keeping with the tax aware approach, the fund has been rebalanced mostly on days where investors have been adding capital to the fund. This has assisted the fund in reducing exposure to some stocks without incurring capital gains of selling down individual positions.

The fund remains more defensively positioned with our risk factor exposures highlighting an overweight towards less volatile stocks and those with stronger profitability and less leverage. We would expect this type of positioning to add value if market volatility were to increase and share prices to come under pressure.

About the investment manager



Redpoint is a boutique Australian investment manager that specialises in listed asset classes including Australian equities, international equities, global infrastructure and global property. Redpoint has brought together a significant group of seasoned investment specialists with complementary skills with a shared vision of delivering risk efficient and cost-effective investment solutions to their clients. The Redpoint team have been managing systematic Australian and global equity strategies for over 20 years. Redpoint currently manages over \$10 billion for institutional and retail clients across a number of strategies.

About Generation Life

As the pioneer of Australia's first truly flexible investment bond, we have been at the forefront of providing innovative investment solutions for over 15 years. Today we are a leading specialist of tax effective investment solutions – we have over \$1.5 billion invested with us to date. We are a regulated life insurance company and our parent company is listed on the Australian Stock Exchange. Our investment solutions are built on simplicity, innovation and value.

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