

Generation Life Tax Effective Australian Share Fund

Fact Sheet | 31 October 2019

Performance as at 31 October 2019 ¹	1 Month (%)	3 Month (%)	Since Inception ³ (%)
Fund return (before tax)	-0.41	-1.43	7.54
Fund return (after tax)	-0.24	-0.92	8.23
Fund return (after tax, withdrawal price)	-0.44	-0.99	7.23
Benchmark return (before tax) ²	-0.35	-0.91	8.29

Fund facts	
Asset class	Australian shares
Inception date	20 May 2019
Investment menu code	UF35
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-annualized 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 31 October 2019 the estimated after-fee and after-tax performance of the fund was -0.41% and -0.24% respectively. This result includes the impact of franking credits received and the impact of trading taxed at a rate of 30%.

The fund is estimated to have earned cash dividends of 0.05% (versus 0.02% for the S&P/ASX 200 Index) during the month plus associated franking credits estimated at 0.003%. October is typically a very low dividend month for the S&P/ASX 200 Index.

Market commentary

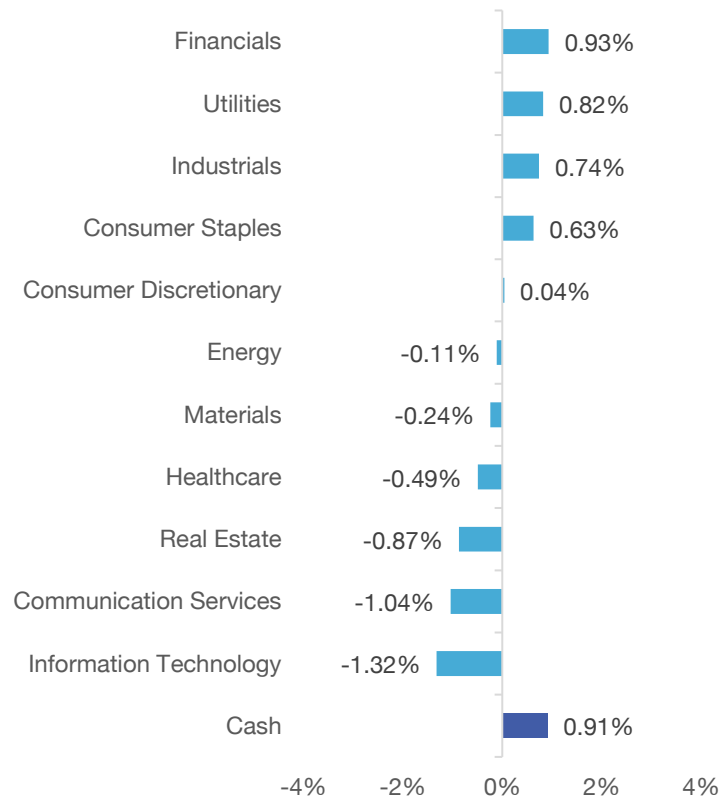
The Australian equity market, as measured by the ASX 200, declined -0.35% for the month of October 2019.

The best performing sectors for the month were Health Care (+7.6%), Industrials (+3.0%), Real Estate (+1.6%), Utilities (+1.4%), Consumer Discretionary (+0.9%) and Energy (+0.5%), which outperformed the broader market, while the worst performing sectors for the month were Information Technology (-3.9%), Financials (-2.8%), Consumer Staples (-2.2%), Materials (-1.9%) and Communication Services (-1.5%), which underperformed the broader market.

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Fact Sheet | 31 October 2019

Sector selection



Sector weighting

Overweight exposures to the Industrials and Consumer Discretionary sectors and underweight exposures to the Information Technology, Utilities and Communication Services sectors added the most value during the month, contributing +0.05%, +0.05%, +0.01%, +0.01% and +0.01% respectively to active return (i.e. collectively contributed +0.13% to active return).

By contrast, underweight exposures to the Health Care and Real Estate sectors and overweight exposures to the Consumer Staples, Materials and Energy sectors subtracted value, detracting -0.04%, -0.02%, -0.02%, -0.01% and -0.01% respectively from active return (i.e. collectively detracted -0.10% from active return).

Over the month of October stocks in the ASX 200 that were held by the fund contributed +0.03% to active return, while stocks in the ASX 200 not held by the fund detracted -0.04% from active return, resulting in an overall active return of -0.01% for the month.

Furthermore, a returns-based attribution indicates that the sector positioning of the fund contributed +0.03% to active return, while stock selection within the sectors detracted -0.04% from active return.

Stock selection

Stock selection was best in the Real Estate, Consumer Discretionary, Consumer Staples, Industrials, Communication Services, Utilities and Information Technology sectors, contributing +0.10%, +0.08%, +0.05%, +0.04%, +0.02%, +0.02% and +0.02% respectively to active return (i.e. collectively contributed +0.33% to active return).

However, this positive outcome was more than offset by stock selection in the Financials, Health Care, Energy and Materials sectors, which detracted -0.19%, -0.07%, -0.06% and -0.04% respectively from active return (i.e. collectively detracted -0.37% from active return).

On a relative basis, some of the best performing stocks for the month were overweight positions in JB Hi-Fi Ltd (Consumer Discretionary), Santos Ltd (Energy), Fortescue Metals Group (Materials), Seven Group Holdings Ltd (Industrials), Brambles Industries Ltd (Industrials) and Downer EDI Ltd (Industrials) and underweight positions (i.e. not held by the fund) in WiseTech Global Ltd (Information Technology), Afterpay Touch Group Ltd (Information Technology), Northern Star Resources Ltd (Materials) and Scentre Group Ltd (Real Estate), which collectively contributed +0.55% to active return.

JB Hi-Fi Ltd (ASX: JBH)

JBH had a total return of +8.9% for the month after the electronic goods retailer posted another strong trading update. It delivered total sales growth of 4.7% for the September quarter. This was a strong result given stagnant economic growth and tough retail conditions. JBH has been one of the fund's largest overweight positions due to its attractive valuation and strong growth characteristics.

Our growth discipline has found JBH attractive due to its strong return on assets (ROA) and return on invested capital (ROIC) together with its ability to maintain and increase its asset turnover. JBH has thus far successfully leveraged its dominant market position into sales growth both in store and online. The market reacted well to JBH's confirmed guidance for full year sales of around \$7.25 billion, with JB Hi-Fi Australia expected to contribute \$4.84 billion and The Good Guys \$2.18 billion. The fund's overweight position in the stock contributed +0.12% to active return for the month.

Afterpay Touch Group Ltd (ASX: APT)

Reversing its recent upward trend, APT experienced a total return of -19.5% for the month. Its shares have come under significant pressure in recent weeks following a bearish research note from stockbroker UBS Securities. Its analysts placed a sell rating and a price target of \$17.25 on APT's shares. The APT share price was \$28.86 at the end of October.

An underweight position (i.e. not held by the fund) in this stock contributed +0.09% to active return for the month. APT has long been unattractive on our growth and quality metrics. Our measures highlight that top line growth is currently not translating into profitability and cash flow in order to cover the ongoing growth in costs associated with the firm's growth.

Generation Life Tax Effective Australian Share Fund

Fact Sheet | 31 October 2019

Magellan Financial Group Ltd (ASX: MFG)

Despite the release of a positive funds under management update for the month of September, MFG experienced a total return of -6.4% for the month. According to the release, MFG had net inflows of \$462 million in September, which included net retail inflows of \$175 million and net institutional inflows of \$287 million. This means it has total funds under management of \$92,072 million, comprising \$24,306 million of retail funds and \$67,766 million of institutional funds. This does not include the \$862 million it recently raised for the Magellan High Conviction Trust, which will be included in MFG's funds under management numbers for October.

Although MFG is unattractive on valuation grounds, it remains attractive according to our quality and growth metrics. MFG continues to deliver excellent cash flow growth, return on assets (ROA) and return on invested capital (ROIC) and the fund retains an overweight position in the stock. Unfortunately, in this instance, this overweight position detracted -0.10% from active return for the month.

Tax awareness

While the manager 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).

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.

The cash dividend yield of the fund is forecast at 4.28% versus the S&P/ASX 200 Index of 4.15%. The fund is trading at a forward price-to-earnings (PE) ratio of 16.1 versus the ASX 200 at 17.3 and has a forecast return on equity (ROE) of 13.5% vs the ASX 200 of 11.6%. These metrics highlight that the fund is trading cheaper than the market and has better quality characteristics as evidenced by a higher ROE relative to the ASX 200 index.

Largest contributors

Company	Fund Avg Weight (%)	Benchmark Avg Weight ² (%)	Contribution* (%)
JB Hi-Fi Ltd	1.58	0.22	0.12
WiseTech Global Ltd	0.00	0.26	0.07
Afterpay Touch Group Ltd	0.00	0.33	0.07
Santos Ltd	1.80	0.77	0.06
Fortescue Metals Group	1.60	0.84	0.05
Seven Group Holdings Ltd	0.74	0.13	0.05
Northern Star Resources Ltd	0.00	0.39	0.04
Brambles Industries Ltd	1.55	1.04	0.04
Scentre Group	0.00	1.18	0.03
Downer EDI Ltd	0.94	0.27	0.03

Largest detractors

Company	Fund Avg Weight (%)	Benchmark Avg Weight ² (%)	Contribution* (%)
Beach Energy Ltd	1.36	0.22	-0.11
Magellan Financial Group Ltd	1.55	0.41	-0.10
Evolution Mining Ltd	0.97	0.37	-0.05
Bendigo & Adelaide Bank Ltd	1.02	0.30	-0.05
CSL Ltd	5.86	6.28	-0.04
Xero Ltd	0.00	0.40	-0.04
Super Retail Group Ltd	0.85	0.07	-0.03
Iluka Resources Ltd	0.00	0.20	-0.03
ResMed Inc	0.00	0.44	-0.03
Seek Ltd	0.00	0.43	-0.03

*Active Return of fund for period 30th September 2019 – 31st October 2019
(Source: Redpoint)

Top 10 holdings

Company	Fund (%)	Benchmark ² (%)	Active (%)
Commonwealth Bank of Australia	7.43	7.79	-0.36
BHP Group Ltd	5.89	5.96	-0.07
CSL Ltd	5.81	6.52	-0.71
Westpac Banking Corporation	5.10	5.45	-0.35
ANZ Banking Group Ltd	4.63	4.36	0.27
National Australia Bank Ltd	3.90	4.64	-0.75
Woolworths Group Ltd	3.33	2.76	0.57
Wesfarmers Ltd	3.00	2.54	0.46
Macquarie Group Ltd	2.85	2.39	0.46
Telstra Corporation Ltd	2.50	2.34	0.17

Generation Life Tax Effective Australian Share Fund

Fact Sheet | 31 October 2019

Position changes

As at 31 October 2019 the Fund holds 62 of the 200 companies in the ASX 200 Index.

During the month the fund established new positions in five (5) companies: Bank of Queensland Ltd, Challenger Ltd, Charter Hall Group, Ramsay Health Care Ltd and Regis Resources Ltd, representing 2.93% of portfolio value as at 31 October 2019, and sold completely out of four (4) companies: Sandfire Resources NL, Service Stream Ltd, Sims Metal Management Ltd and Tassal Group Ltd, representing 1.66% of portfolio value as at 30 September 2019. There was also some minor trading (primarily purchases) due to net positive investor inflows for the month.

Overall the fund has increased its existing underweight positions in the Real Estate and Information Technology sectors, moved from overweight to slightly underweight in the Energy and Materials sectors, decreased underweight exposures to the Communication Services and Health Care sectors, decreased overweight positions in the Industrials, Consumer Discretionary and Consumer Staples sectors and moved from underweight to be overweight in the Utilities and Financials sectors.

At month end the largest overweight positions are in the Financials, Utilities, Health Care and Communication Services sectors and the largest underweight positions are in the Industrials, Materials, Consumer Discretionary, Real Estate and Energy sectors.

The fund reduced its position in Woodside Petroleum Ltd in favour of smaller energy producer Beach Energy Ltd realising some capital losses, while retaining exposure to the sector via a more attractive stock based on our stock selection metrics. The fund also closed a position in Sims Metal Management Ltd after the company provided a weak first half earnings update. Being aware of individual tax parcel positions allows the fund to better manage its after tax outcomes in conjunction with client cash flows and changes to stock selection insights.

During October the fund also tendered its holding in Qantas Airways Ltd into the buyback being offered by the company. While this buyback offers to buy shares at a discount to the prevailing market price the proceeds also include a large fully franked dividend with only a small capital component. Such transactions are unattractive on a pre-tax basis but very attractive after-tax. We will report the outcome of this event in our November investment performance report.

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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