

Generation Life Tax Effective Australian Share Fund

Fact Sheet | 30 November 2019

Performance as at 30 November 2019 ¹	1 Month (%)	3 Month (%)	6 Month (%)	Since Inception ³ (%)
Fund return (before tax)	2.96	4.06	8.34	10.72
Fund return (after tax)	3.03	4.38	9.10	11.51
Fund return (after tax, withdrawal price)	2.46	3.34	6.83	9.87
Benchmark return (before tax) ²	3.28	4.80	9.24	11.84

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 17 December 2019, but excludes indirect transactions and operation costs (see latest copy of the PDS).

Performance commentary

For the one-month period ending 30 November 2019 the estimated after-fee and after-tax performance of the fund was 3.03%. 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 0.69% (versus 0.54% for the S&P/ASX 200 Index) during the month plus associated franking credits estimated at 0.26%.

Market commentary

The Australian equity market, as measured by the ASX 200, improved to 3.28% for the month of November 2019.

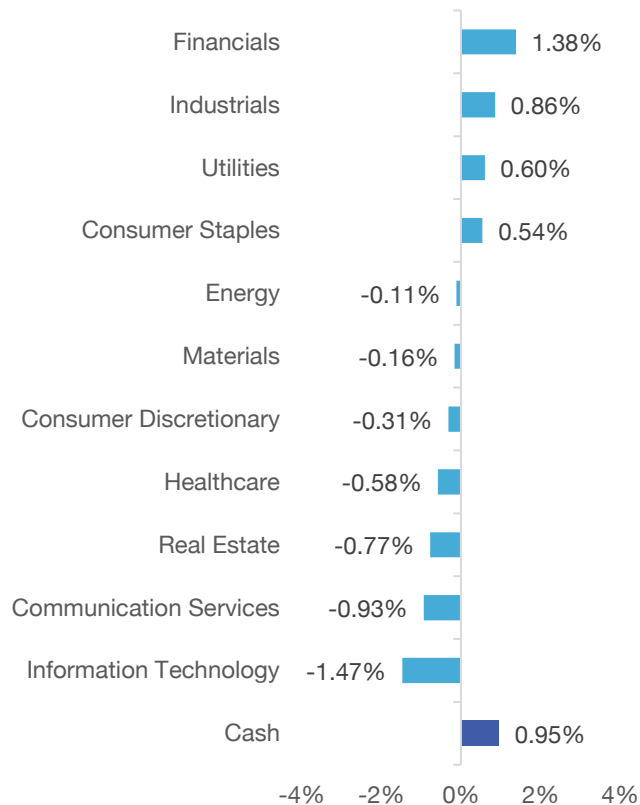
The best performing sectors for the month were Information Technology (+11.0%), Health Care (+8.9%), Consumer Staples (+8.2%), Communication Services (+7.5%), Energy (+7.5%), Consumer Discretionary (+4.9%), Materials (+4.7%) and Industrials (+4.1%), which outperformed the broader market, while the worst performing sectors for the month were Financials (-2.0%), Utilities (-0.6%) and Real Estate (+2.4%), which underperformed the broader market.

The underperformance of the Financials sector was in a large part due to the scandal surrounding Westpac Banking Corporation. AUSTRAC alleged that the bank breached the Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) Act on 23 million occasions. This included a failure to carry out appropriate due diligence on customers who made transactions possibly linked to child exploitation in the Philippines and South East Asia. This resulted in the immediate departure of its CEO and imminent departure of its Chairman.

Generation Life Tax Effective Australian Share Fund

Fact Sheet | 30 November 2019

Sector selection



Sector weighting

An overweight exposure to the Consumer Staples sector and an underweight exposure to the Real Estate sector added the most value during the month, contributing +0.03% and +0.01% respectively to active return (i.e. collectively contributed +0.04% to active return).

By contrast, underweight exposures to the Information Technology, Communication Services and Health Care sectors and overweight exposures to the Financials and Utilities sectors subtracted value, detracting -0.10%, -0.07%, -0.03%, -0.03% and -0.02% respectively from active return (i.e. collectively detracted -0.25% from active return).

Over the month of November stocks in the ASX 200 that were held by the fund detracted -0.23% from 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 -0.27% for the month.

Furthermore, a returns-based attribution indicates that the sector positioning of the fund detracted -0.21% to active return, while stock selection within the sectors detracted -0.06% from active return.

Stock selection

Stock selection was best in the Communication Services, Consumer Staples, Financials and Consumer Discretionary sectors, contributing +0.07%, +0.04%, +0.03% and +0.02% respectively to active return (i.e. collectively contributed +0.16% to active return).

However, this positive outcome was more than offset by stock selection in the Energy, Utilities and Materials sectors, which detracted -0.11%, -0.06% and -0.05% respectively from active return (i.e. collectively detracted -0.22% from active return).

On a relative basis, some of the best performing stocks for the month were overweight positions in Fortescue Metals Group Ltd (Materials), Magellan Financial Group Ltd (Financials), Qantas Airways Ltd (Industrials), The A2 Milk Company Ltd (Consumer Staples), Computershare Ltd (Information Technology) and Ansell Ltd (Health Care) and underweight positions in National Australia Bank Ltd (Financials), Westpac Banking Corporation (Financials), Insurance Australia Group Ltd (Financials, not held) and Saracen Mineral Holdings Ltd (Materials, not held), which collectively contributed +0.58% to active return.

Fortescue Metals Group Ltd (ASX: FMG)

Fortescue Metals Group Ltd (ASX: FMG) continued its upward trend by posting a total return of +9.20% for the month as investors reacted positively to better than expected manufacturing data out of China. The FMG share price is up about +132% so far this calendar year and is among the top performers in the S&P/ASX 200 Index. FMG is attractive according to our Fundamental Value, Sustainable Quality, Price Action, Fundamental Growth and Analyst Events metrics and an overweight position in this stock contributed +0.08% to active return for the month.

National Australia Bank Ltd. (ASX: NAB)

The National Australia Bank Ltd (ASX: NAB) share price came under significant pressure during the month (i.e. posting a total return of -6.81%) after the bank announced a cut to both earnings and dividends. NAB reported a 10.6% decrease in FY 2019 cash earnings (to \$5.1 billion) and a 16% reduction in the final dividend (to 83 cents a share). The customer compensation issue, which emanates from the Banking Royal Commission, appears to be the biggest drag on NAB's bottom line. Unlike its peer Westpac Banking Corporation, NAB has thus far resisted the temptation to initiate a capital raising to shore up its balance sheet. NAB is relatively neutral across most of our stock selection metrics (i.e. positive on Price Action and Short-Term Indicators, but negative on Sustainable Quality and Fundamental Growth) and an underweight position in this stock contributed +0.08% to active return.

By contrast, some of the worst performing stocks for the month were overweight positions in Bank of Queensland Ltd (Financials), APA Group Ltd (Utilities), Aurizon Holdings Ltd (Industrials), Evolution Mining Ltd (Materials), Bendigo & Adelaide Bank Ltd (Financials) and Incitec Pivot Ltd (Materials) and underweight positions in CSL Ltd (Health Care), Xero Ltd (Information Technology, not held), Origin Energy Ltd (Energy, not held) and Amcor Plc (Materials), which collectively detracted -0.67% from active return.

Generation Life Tax Effective Australian Share Fund

Fact Sheet | 30 November 2019

Bank of Queensland Ltd (ASX: BOQ)

Bank of Queensland Ltd (ASX: BOQ) continued its recent poor performance by posting a total return of -10.43% for the month. BOQ's continuing poor performance is due to weak investor sentiment following the release of its full year results (FY 2019) in mid-October, which were short of market expectations, and management guidance that earnings are likely to be lower again for FY 2020, primarily due to higher regulatory and compliance costs (emanating from the Hayne Royal Commission) and increased operating expenses related to technology investments.

BOQ raised \$250 million through an institutional share placement at \$7.78 per share, which completed successfully late in November. The fund did not participate in this placement offer. An overweight position in this stock detracted -0.12% from active return for the month.

APA Group Ltd (ASX: APA)

APA Group Ltd (ASX: APA) had a total return of -5.58% for the month after the Australian government rejected the proposed acquisition of the gas pipeline company by a Hong Kong-based consortium led by CK Infrastructure Holdings (CKI) claiming that the proposed takeover would be contrary to the national interest. An overweight position in this stock detracted -0.09% 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 4.24% versus the S&P/ASX 200 Index of 4.10%. The fund is trading at a forward price-to-earnings (PE) ratio of 16.46 versus the ASX 200 at 17.62 and has a forecast return on equity (ROE) of 15.48% vs the ASX 200 of 15.50%. 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* (%)
Fortescue Metals Group Ltd	2.22	0.89	0.08
Magellan Financial Group Ltd	1.97	0.41	0.08
National Australia Bank Ltd	3.65	4.41	0.08
Qantas Airways Ltd	1.23	0.59	0.07
The A2 Milk Company Ltd	0.88	0.51	0.07
Westpac Banking Corporation	4.66	5.05	0.05
Computershare Ltd	1.03	0.46	0.05
Ansell Ltd	1.29	0.21	0.04
Insurance Australia Group Ltd	0.00	1.01	0.04
Saracen Mineral Holdings Ltd	0.00	0.16	0.03

Largest detractors

Company	Fund Avg Weight (%)	Benchmark Avg Weight ² (%)	Contribution* (%)
Bank of Queensland Ltd	1.05	0.19	-0.12
APA Group Ltd	1.63	0.73	-0.09
Aurizon Holdings Ltd	1.85	0.64	-0.07
CSL Ltd	5.93	6.76	-0.07
Xero Ltd	0.00	0.45	-0.06
Evolution Mining Ltd	1.10	0.34	-0.06
Origin Energy Ltd	0.00	0.81	-0.06
Bendigo & Adelaide Bank Ltd	0.85	0.28	-0.05
Amcor Plc	0.08	0.83	-0.05
Incitec Pivot Ltd	0.80	0.32	-0.05

*Active Return of fund for period 31st October 2019 – 29th November 2019
(Source: Redpoint)

Generation Life Tax Effective Australian Share Fund

Fact Sheet | 30 November 2019

Top 10 holdings

Company	Fund (%)	Benchmark ² (%)	Active (%)
Commonwealth Bank of Australia	7.74	7.79	-0.04
CSL Ltd	5.90	7.02	-1.12
BHP Group Ltd	5.75	6.16	-0.41
ANZ Banking Group Ltd	4.25	3.94	0.32
Westpac Banking Corporation	4.07	4.61	-0.54
Woolworths Group Ltd	3.25	2.86	0.39
National Australia Bank Ltd	3.24	4.09	-0.85
Macquarie Group Ltd	3.09	2.39	0.69
Wesfarmers Ltd	2.93	2.63	0.30
Telstra Corporation Ltd	2.77	2.51	0.26

Position changes

As at 30 November 2019 the Fund holds 63 of the 200 companies in the ASX 200 Index.

During the month the fund established new positions in two (2) companies: Iluka Resources Ltd and Janus Henderson Group Plc, representing 0.86% of portfolio value as at 30 November 2019, and sold completely out of one (1) company: Regis Resources Ltd, representing 0.39% of portfolio value as at 31 October 2019. There was also some minor trading (primarily purchases) due to net positive investor inflows of \$74,000 for the month.

Overall the fund has increased its existing overweight positions in the Consumer Discretionary and Materials sectors, reduced its existing underweight exposures to the Financials and Real Estate sectors, moved from underweight to be at Benchmark weight in the Industrials sector, increased its existing underweight positions in the Energy and Utilities sectors, reduced its existing overweight position in the Health Care sector and moved from overweight to be underweight in the Communication Services sector.

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

Qantas Airways Ltd conducted an off-market buyback in November. The terms of the buyback allowed for shares to be tendered at a 14% discount to the prevailing market price. Such transactions are unattractive on a pre-tax basis due to shares being sold at a discount to the prevailing market price. However, such transactions are often very attractive on an after-tax basis.

The proceeds of the buyback included a large fully franked dividend of \$4.37 per share (plus \$1.87 of tax credits) and an imputed capital loss on sale of \$3.50 per share. On an after-tax basis the portfolio was able to reduce its position in Qantas at an effective after-tax price of \$6.66 versus the prior closing price on market of \$6.47 (or \$6.28 if using an average over the week preceding the buyback). If the portfolio had sold shares on market it would have realised a capital gain of \$0.68 per share (and a tax liability of \$0.20 per share at a 30% tax rate). The difference between \$6.08 (\$6.28 - \$0.20) and \$6.66 equates to being able to reduce the fund's active weight in Qantas via the buyback at almost 10% better value via the buyback than selling on market. Unfortunately, there was a great deal of demand for participation in the buyback and all tendered bids were significantly reduced. Approximately 20% of the fund's position in Qantas was successfully tendered providing an approximate after-tax benefit of 0.05% to the total portfolio.

Investor services

Phone 1800 806 362
Email enquiry@genlife.com.au

Adviser services

Phone 1800 333 657
Email advisers@genlife.com.au

Important notice: Generation Life Limited (Generation Life) AFSL 225408 ABN 68 092 843 902 is the issuer of Investment Bonds (IB). In deciding to acquire an IB or to hold an IB (including switching between Investment Portfolio options), you should obtain the relevant PDS and consider its content. We recommend that you obtain financial, legal and taxation advice before making any investment decision, including switching Investment Portfolios. Generation Life does not guarantee (whether expressly or impliedly) investment returns or the return of capital invested when investing in IB Investment Portfolios. The information in this Adviser Reference Sheet does not take account of your objectives, financial situation or needs. Past performance is not an indicator of future performance. Performance is measured by Investment Portfolio unit price movements (after Tax and Management fees). The above-listed information is correct up to and including 30 November 2019 only.

Generation Life Tax Effective Australian Share Fund

Fact Sheet | 30 November 2019

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.