Generation Life Tax Effective Australian Share Fund

Fact Sheet | 31 January 2020

Performance as at 31 January 2020 [1]	1 Month (%)	3 Month (%)	6 Month (%)	Since Inception [3] (%)
Fund return (before tax)	4.96	5.90	4.39	13.91
Fund return (after tax)	4.97	6.00	5.03	14.75
Fund return (after tax, withdrawal price)	**3.83**	**4.69**	**3.66**	**12.26**
Benchmark return (before tax) [2]	4.98	6.08	5.11	14.87

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 31 January 2020 the estimated after-fee and after-tax performance of the fund was 4.97%. This result includes the impact of franking credits received and the impact of trading taxed at a rate of 30%.

Note that there were no dividends paid by stocks in the Benchmark in January.

Market commentary

The Australian equity market, as measured by the Index, bounced back strongly from its negative performance in December (i.e. total return of -2.17%) by posting a total return of +4.98% for the first month of the new year. January saw the Index break several records, including trading above the 7,000 mark for seven (7) consecutive days and reaching a record high of 7,132.

The best performing sectors for the month were Health Care (+12.0%), Information Technology (+11.1%), Consumer Staples (+8.2%), Communication Services (+8.1%) and Real Estate (+6.1%), which outperformed the broader market, while the worst performing sectors for the month were Utilities (+0.6%), Energy (+0.7%), Materials (+1.8%) and Industrials (+1.9%), which underperformed the broader market, as defined by the Index.

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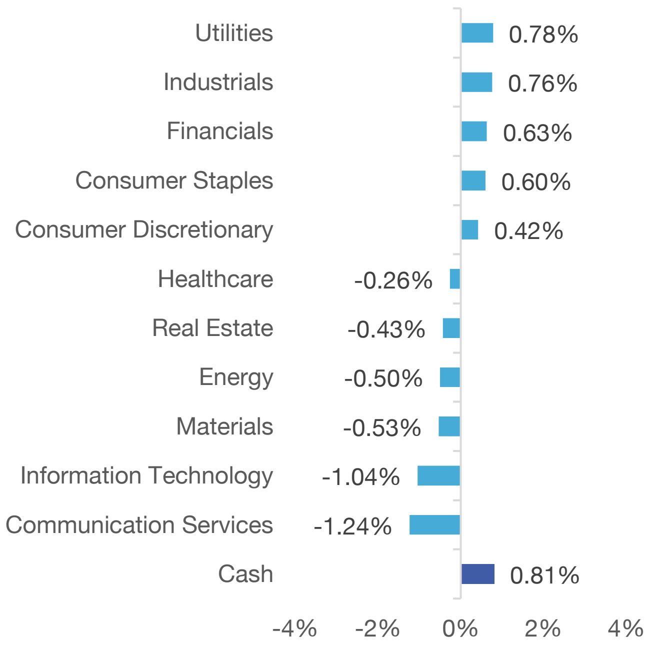
Sector selection



Sector weighting

An overweight exposure to the Consumer Staples sector, which outperformed the broader market, and underweight exposures to the Energy and Materials sectors, which underperformed the broader market, added the most value during the month, contributing +0.02%, +0.02% and +0.01% respectively to active return (i.e. collectively contributed +0.05% to active return).

By contrast, underweight exposures to the Information Technology, Communication Services and Health Care sectors, which outperformed the broader market, and overweight exposures to the Industrials and Utilities sectors, which underperformed the broader market, subtracted value, detracting -0.07%, -0.04%, -0.01%, -0.03% and -0.03% respectively from active return (i.e. collectively detracted -0.17% from active return).

Furthermore, a returns-based attribution indicates that the sector positioning of the Strategy detracted -0.12% from active return, while stock selection within the sectors contributed +0.15% to active return.

Stock selection

Stock selection was best in the Financials, Energy, Real Estate, Consumer Discretionary and Consumer Staples sectors, which contributed +0.32%, +0.22%, +0.08%, +0.04% and +0.03% respectively to active return (i.e. collectively contributed +0.69% to active return).

However, this positive outcome was partly offset by stock selection in the Materials, Industrials, Information Technology, Utilities and Health Care sectors, which detracted -0.24%, -0.16%, -0.06%, -0.04% and -0.04% respectively from active return (i.e. collectively detracted -0.54% from active return).

On a relative basis, some of the best performing stocks for the month were overweight positions in Magellan Financial Group Ltd (Financials), Ansell Ltd (Health Care), Sonic Healthcare Ltd (Health Care), Goodman Group (Real Estate) and Challenger Ltd (Financials) and underweight positions in Insurance Australia Group Ltd (Financials, not held), Origin Energy Ltd (Energy, not held), Treasury Wine Estates Ltd (Consumer Staples), Woodside Petroleum Ltd (Energy) and AMP Ltd (Financials, not held), which collectively contributed +0.64% to active return.

Insurance Australia Group Ltd (ASX: IAG)

Insurance Australia Group Ltd (ASX: IAG), the largest general insurance company in Australia and New Zealand, had a total return of -7.6% in January amid concerns about the financial impact of the Australian bushfire crisis. At the beginning of the month IAG announced that it had finalised its 2020 catastrophe reinsurance program. The company increased its gross reinsurance protection to $10 billion (compared to $9 billion in 2019). Like its competitors, the company has also employed the use of embargoes, in order to minimise any earnings impacts from the bushfire crisis. IAG is unattractive, primarily due to our Fundamental Value metrics, and an underweight position (i.e. not held by the Strategy) in this stock contributed +0.12% to active return for the month.

Magellan Financial Group Ltd (ASX: MFG)

Magellan Financial Group Ltd (ASX: MFG) continued its stellar performance (from calendar 2019) by posting a total return of +18.1% in the month of January. Investors pushed MFG's shares higher after it reported net positive fund inflows of $469 million during the month of December, which was comprised of net retail inflows of $282 million and net institutional inflows of $187 million. This brought its funds under management (FUM) average for the six (6) months ending 31 December 2019 to a total of $92,770 million. This compares to an average of $72,100 million in the prior corresponding period. The report also revealed that its first half performance fees are expected to be approximately $42 million, which will represent a small decline on the $42.7 million it recorded for the FY2019 interim result. The flat performance fees are consistent with mildly negative relative performance for most of its key global equities products.

Although unattractive according to our Fundamental Value measure, MFG is attractive according to our Sustainable Quality, Price Action and, in particular, our Fundamental Growth metrics. An overweight position in this stock contributed +0.12% to active return for the month.

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Detractors

By contrast, some of the worst performing stocks for the month were overweight positions in Downer EDI Ltd (Industrials), Alumina Ltd (Materials), Super Retail Group Ltd (Consumer Discretionary), Rio Tinto Ltd (Materials), AGL Energy Ltd (Utilities) and Newcrest Mining Ltd (Materials) and underweight positions in CSL Ltd (Health Care), Afterpay Ltd (Information Technology, not held), ResMed Inc (Health Care, not held) and ASX Ltd (Financials, not held), which collectively detracted -0.82% from active return.

Downer EDI Ltd (ASX: DOW)

Downer EDI Ltd (ASX: DOW) experienced a total return of -9.3% for the month following the release of a surprise trading update. The company revealed that the underperformance of its Engineering, Construction and Maintenance (EC&M) business means that it will fall short of its FY2020 profit guidance. Following the completion of a small number of loss-making construction contracts, the costs incurred during December and January materially exceeded its estimates. Also weighing on its profits was lower revenue in the construction side of the EC&M business.

In light of this underperformance, DOW plans to reposition its EC&M construction effort to markets and projects where it has a competitive advantage and the opportunity to drive related long-term service-based contracts. DOW remains attractive according to our Sustainable Quality and Price Action metrics and an overweight position in this stock detracted -0.19% from active return for the month.

Alumina Ltd (ASX: AWC)

Alumina Ltd (ASX: AWC) is an Australian resources company that invests in bauxite mining, alumina refining and aluminium smelting operations. AWC posted a total return of -5.2% for the month amid fears of a slowdown in the Chinese economy, primarily as a result of the coronavirus outbreak. AWC is mildly attractive according to our Price Action, Short-Term Indicators, Fundamental Growth and Analyst Events metrics and an overweight position in this stock detracted -0.13% 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 4.02% versus the S&P/ASX 200 Index of 3.97%. The fund is trading at a forward price-to-earnings (PE) ratio of 17.3 versus the ASX 200 at 18.1 and has a forecast return on equity (ROE) of 13.1% vs the ASX 200 of 11.5%. 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* (%)
Insurance Australia Group Ltd	0.00	0.94	0.12
Magellan Financial Group Ltd	1.47	0.50	0.12
Origin Energy Ltd	0.00	0.81	0.07
Ansell Ltd	1.34	0.22	0.06
Sonic Healthcare Ltd	1.85	0.75	0.06
Goodman Group	2.10	1.23	0.05
Treasury Wine Estates Ltd	0.44	0.64	0.05
Challenger Ltd	0.86	0.23	0.04
Woodside Petroleum Ltd	0.90	1.78	0.04
AMP Ltd	0.00	0.34	0.03

Largest detractors

Company	Fund Avg Weight (%)	Benchmark Avg Weight[2] (%)	Contribution* (%)
Downer EDI Ltd	1.57	0.27	-0.19
Alumina Ltd	1.55	0.29	-0.13
Super Retail Group Ltd	0.81	0.07	-0.10
CSL Ltd	6.13	7.22	-0.09
Afterpay Ltd	0.00	0.32	-0.08
Rio Tinto Ltd	2.93	2.05	-0.06
AGL Energy Ltd	1.44	0.72	-0.06
ResMed Inc	0.00	0.49	-0.05
ASX Ltd	0.00	0.86	-0.04
Newcrest Mining Ltd	1.77	1.28	-0.04

*Active Return of fund for period 31st December 2019 – 31st January 2020 (Source: Redpoint)

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Top 10 holdings

Company	Fund (%)	Benchmark[2] (%)	Active (%)
Commonwealth Bank of Australia	7.29	7.99	-0.70
CSL Ltd	6.31	7.52	-1.21
BHP Group Ltd	5.37	6.17	-0.81
ANZ Banking Group Ltd	4.11	3.97	0.14
Westpac Banking Corporation	4.09	4.59	-0.51
Macquarie Group Ltd	3.72	2.44	1.28
Woolworths Group Ltd	3.22	2.92	0.29
Wesfarmers Ltd	3.10	2.73	0.37
National Australia Bank Ltd	2.95	3.97	-1.02
Rio Tinto Ltd	2.75	1.95	0.80

Position changes

As at 31 January 2020 the Fund holds 63 of the 200 companies in the ASX 200 Index.

There were no significant position changes in the fund during the month. However, there was some minor trading (primarily purchases) due to net positive investor inflows for the month. Despite these minor position changes, the turnover for the fund continues to be low.

Overall the fund has increased its existing overweight positions in the Utilities, Consumer Staples and Financials sectors, reduced its existing overweight position in the Industrials sector, increased its existing underweight positions in the Health Care, Materials, Information Technology and Communication Services sectors and reduced its existing underweight positions in the Real Estate and Energy sectors.

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

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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