

Generation Life Tax Effective Australian Share Fund

Fact Sheet | 28 February 2020

Performance as at 28 February 2020 ¹	1 Month (%)	3 Month (%)	6 Month (%)	Since Inception ³ (%)
Fund return (before tax)	-8.03	-5.40	-1.56	4.75
Fund return (after tax)	-7.91	-5.25	-1.09	5.67
Fund return (after tax, withdrawal price)	-6.19	-4.15	-0.95	5.31
Benchmark return (before tax) ²	-7.69	-5.18	-0.63	6.04

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 28 February 2020 the estimated after-fee and after-tax performance of the fund was -7.91%. 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 0.73% (versus 0.52% for the S&P/ASX 200 Index) during the month plus associated franking credits estimated at 0.24%.

Market commentary

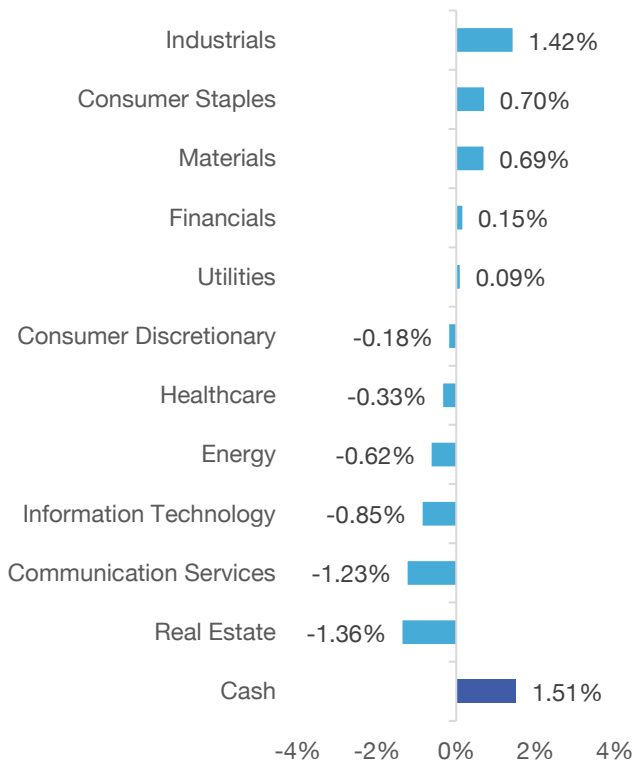
The Australian equity market, as measured by the Benchmark, plunged drastically in the last week of February as the likelihood of a global economic slowdown arising from the coronavirus outbreak appears inevitable.

All sectors of the market experienced negative total returns for the month, with the best performing of these being Utilities (-3.6%), Health Care (-3.7%), Real Estate (-4.6%) and Financials (-4.9%), which outperformed the broader market, while the worst performing sectors for the month were Information Technology (-17.3%), Energy (-17.2%) and Materials (-11.8%), which underperformed the broader market, as defined by the ASX 200 Index.

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Sector selection



Sector weighting

From a sector allocation perspective, underweight exposures to the Information Technology, Energy and Communication Services sectors, which underperformed the broader market, and overweight exposures to the Financials and Utilities sectors, which outperformed the broader market, added the most value during the month, collectively contributing +0.20% to active return. The underweight positions in the Information Technology and Energy sectors had the largest impact, contributing +0.10% and +0.05% respectively to active return.

By contrast, underweight exposures to the Real Estate and Health Care sectors, which outperformed the broader market, and an overweight position in the Industrials sector, which underperformed the broader market, subtracted value, collectively detracting -0.04% from active return. The underweight position in the Real Estate sector had the largest impact, detracting -0.03% from active return.

Furthermore, a returns-based attribution indicates that the sector positioning of the fund contributed +0.16% to active return, while stock selection within the sectors detracted -0.45% from active return.

Stock selection

Stock selection was best in the Information Technology, Financials, Real Estate, Consumer Discretionary and Utilities sectors, which collectively contributed +0.15%, to active return. Stock selection in the Information Technology and Financials sectors had the largest impact, contributing +0.06% and +0.04% to active return.

However, this positive outcome was more than offset by stock selection in the Energy, Industrials, Health Care, Consumer Staples and Materials sectors, which collectively detracted -0.61% from active return. Stock selection in the Energy, Industrials and Health Care sectors had the largest impact, detracting -0.27%, -0.15% and -0.10% from active return.

A majority of the poor stock selection in the Energy sector was due to overweight positions in Beach Energy Ltd and Santos Ltd, which underperformed the broader market, as oil prices were severely impacted by the prospect of a slowdown in the global economy as a result of the coronavirus outbreak.

On a relative basis, some of the best performing stocks for the month were overweight positions in Challenger Ltd (Financials), Goodman Group (Real Estate), QBE Insurance Group Ltd (Financials) and Evolution Mining Ltd (Materials) and underweight positions in Oil Search Ltd (Energy, not held), WiseTech Global Ltd (Information Technology, not held), BHP Billiton Ltd (Materials), Woodside Petroleum Ltd (Energy), Origin Energy Ltd (Energy, not held) and ASX Ltd (Financials, not held), which collectively contributed +0.66% to active return.

Oil Search Ltd (ASX: OSH)

Oil Search Limited (ASX: OSH) had a total return of -24.2% in February following the announcement on 31 January 2020 that negotiations on the P'nyang Gas Agreement were suspended (i.e. parties involved could not agree on appropriate terms) to allow the Papua New Guinea government to concentrate on developments already in the pipeline. Added to this was the release of the company's full-year FY2019 results (ending 31 December 2019) in late February that indicated an 8% drop in net profit after tax (compared with FY2018), which was largely driven by weaker global energy prices. OSH is unattractive according to our Price Action, Short-Term indicators and Analyst Events metrics and an underweight position in this stock contributed +0.08% to active return for the month.

WiseTech Global Ltd (ASX: WTC)

The worst performing stock in the Benchmark in February was logistics solutions company WiseTech Global Ltd (ASX: WTC), which posted a total return of -39.7% for the month. The catalyst for this was the release of its half year results (ending 31 December 2019). Although WTC delivered solid profit growth, it was forced to downgrade its guidance due to the impact of the coronavirus outbreak. The company was previously guiding to a full year EBITDA growth of 34% to 42%. But the coronavirus outbreak means it now expects growth of just 5% to 22% for the full year (ending 30 June 2020). WTC is unattractive according to our Sustainable Quality, Price Action, Short-Term indicators and Fundamental Growth metrics and an underweight position in this stock contributed +0.06% 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 Beach Energy Ltd (Energy), Santos Ltd (Energy), Downer EDI Ltd (Industrials), Magellan Financial Group Ltd (Financials), Coles Group Ltd (Consumer Staples), Bluescope Steel Ltd (Materials), Seven Group Holdings Ltd (Industrials) and Bendigo & Adelaide Bank Ltd (Financials) and underweight positions in CSL Ltd (Health Care) and National Australia Bank Ltd (Financials), which collectively detracted -1.04% from active return.

Beach Energy Ltd (ASX: BPT)

Energy producer Beach Energy Ltd (ASX: BPT) had a total return of -33.9% in February following a sharp decline in oil prices amid concerns of a slowdown in the global economy as a result of the coronavirus outbreak. BPT is attractive according to our Fundamental Value, Sustainable Quality and Short-Term Indicators metrics and an overweight position in this stock detracted -0.28% from active return for the month.

Santos Ltd (ASX: STO)

Despite delivering reasonable results for FY2019 (ending 31 December 2019) Santos Ltd (ASX: STO) had a total return of -20.6% in February following a sharp decline in oil prices amid concerns of a slowdown in the global economy as a result of the coronavirus outbreak. STO is attractive according to our Fundamental Growth metric and an overweight position in this stock detracted -0.17% 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 to be 4.51% versus the S&P/ASX 200 Index of 4.45%. The fund is trading at a forward price-to-earnings (PE) ratio of 15.4 versus the ASX 200 at 16.3. The fund has a forecast return on equity (ROE) of 13.0% versus the ASX 200 of 10.9%. 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* (%)
Oil Search Ltd	0.00	0.45	0.08
Challenger Ltd	1.04	0.26	0.08
Goodman Group	2.26	1.34	0.08
QBE Insurance Group Ltd	2.18	1.04	0.07
WiseTech Global Ltd	0.00	0.19	0.06
BHP Billiton Ltd	5.21	5.98	0.06
Woodside Petroleum Ltd	1.03	1.64	0.06
Origin Energy Ltd	0.00	0.72	0.06
Evolution Mining Ltd	0.66	0.35	0.05
ASX Ltd	0.00	0.86	0.05

Largest detractors

Company	Fund Avg Weight (%)	Benchmark Avg Weight ² (%)	Contribution* (%)
Beach Energy Ltd	0.97	0.19	-0.28
Santos Ltd	1.98	0.75	-0.17
Downer EDI Ltd	1.20	0.22	-0.14
Magellan Financial Group Ltd	1.61	0.54	-0.10
CSL Ltd	6.52	7.82	-0.08
Coles Group Ltd	1.86	0.99	-0.07
Bluescope Steel Ltd	0.84	0.38	-0.06
Seven Group Holdings Ltd	0.60	0.14	-0.05
Bendigo & Adelaide Bank Ltd	1.39	0.26	-0.05
National Australia Bank Ltd	3.02	4.06	-0.05

*Active Return of fund for period 31st January 2020 – 28th February 2020
(Source: Redpoint)

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Top 10 holdings

Company	Fund (%)	Benchmark ² (%)	Active (%)
Commonwealth Bank of Australia	8.32	8.34	-0.02
CSL Ltd	6.61	8.11	-1.50
BHP Group Ltd	4.83	5.73	-0.90
Westpac Banking Corporation	4.01	4.70	-0.69
ANZ Banking Group Ltd	3.95	4.16	-0.22
Macquarie Group Ltd	3.94	2.47	1.47
National Australia Bank Ltd	2.99	4.19	-1.21
Woolworths Group Ltd	2.97	2.95	0.02
Rio Tinto Ltd	2.96	1.88	1.08
Wesfarmers Ltd	2.78	2.67	0.11

Position changes

As at end February 2020 the Fund holds 62 of the 200 companies in the ASX 200 Index.

During the month the fund established new positions in three (3) companies: Northern Star Resources Ltd, Regis Resources Ltd and Smartgroup Corporation Ltd, representing 1.41% of portfolio value as at end February 2020, and sold completely out of four (4) companies: Incitec Pivot Ltd, Janus Henderson Group Plc, Treasury Wine Estates Ltd and Vicinity Centres, representing 1.98% of portfolio value as at 31 January 2020.

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

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