**Generation Life**

**Sample Statement of Advice Inserts**

**Tax Effective Australian Share Fund**



March 2020

**Important information**

The product description and sample wording below have been prepared by Generation Life Limited (‘Generation Life’) ABN 68 092 843 902 AFSL 225408 as a guide only to assist you in developing your own Statement of Advice (SoA) when offering Generation Life investment bond products to your clients.

This information may not be considered complete as it does not consider your clients’ personal situation, needs or objectives – it is your responsibility to consider these aspects when formulating the SoA for your clients. Before making an investment decision or tendering of advice based on anything in this document, you need to consider whether any general advice in this document is appropriate to the particular investment needs, objectives and financial situation of the person(s) making the investment and/or receiving the advice.

This document may contain general advice in relation to financial products. Generation Life is not authorised to provide personal advice and accordingly has not considered any individual person’s financial situation, needs or objectives. Generation Life is not responsible for any personal advice you provide, even if it is based on this document.

It is important to note that some product features may not be fully explained, some words or phrases have a specific meaning and rules may apply to the availability of certain features and options. For these reasons, this SoA should be used in conjunction with the terms and conditions set out in the Generation Life Investment Bonds Product Disclosure Statement (PDS).

Should you choose to use all or part of this template to fit with your particular SoA, this is at your discretion. The law applying to SOAs is subject to amendment and reinterpretation at any time. This document is based on information from the PDS.

The document contains references to financial products issued by Generation Life in its capacity as a life insurance company under the Life Insurance Act 1995 and as the issuer of the interests in Generation Life Investment Bonds. This document does not constitute an offer of interests in the Investment Bonds. Such offers will only be made in a copy of the PDS and anyone wishing to acquire interests in the Investment Bonds will need to complete the application form accompanying the PDS.

Generation Life believes that any advice and information in this document is accurate and reliable, but no warranties of accuracy, reliability or completeness are given (except insofar as liability under any statute cannot be excluded). No responsibility for any errors or omissions or any negligence is accepted by Generation Life or any of its directors, employees or agents.

**Instructions**

This document provides an example of wording that can be inserted into an SoA to explain the benefits of the product and why it has been recommended. Fees are not included in this template and should be included in the fee disclosure section of the SoA.

The wording is provided as a guideline and advisers should seek guidance from their own compliance area to ensure all licensee and Australian Securities and Investments Commission requirements have been met.

You should read carefully any text taken from these samples and ensure that the context in which it is used is appropriate for your client’s circumstances.

Individual client information/circumstances should be inserted where <indicated> and advisers should ensure non relevant insertion <indicators> are deleted.

In some sections, there are several options for wording to allow advisers to tailor the advice to the client’s circumstances. Instructions for tailoring are shown in blue text and in [brackets]. Advisers should insert their own details or delete any sections that do not apply to the advice given, as well as delete the instructions. In some cases, advisers may need to modify or provide additional wording to suit the client’s unique circumstances.

The sample extracts are not exhaustive and other circumstances and strategies for the Generation Life Tax Effective Australian Share Fund may not be covered by this document.

The ‘About the Generation Life Tax Effective Australian Share Fund’ section can be inserted whole or in part into relevant sections of a SoA.

# About the Generation Life Tax Effective Australian Share Fund

Historically, fund managers have typically focused on maximising before tax performance – often without regard to the after tax implications. Tax can be one of the biggest costs associated with an investment. This is especially the case when it comes to investing in Australian shares where there are special tax rules that apply including imputation credit rules and realised capital gains rules.

Disregarding or not being aware of the effects of tax can have a significant negative impact on post-tax investment returns.

The Generation Life Tax Effective Australian Share Fund (Fund) investment option has been designed to manage the impact of tax costs on investment returns. The Fund’s investment strategy is tax aware, which means it takes into consideration the tax impacts of portfolio management and stock selection activities. As part of this process, the investment manager considers the most efficient trading strategy to maximise tax efficiencies based on current tax rules.

Importantly, tax management is not the primary focus of the strategy, rather, the investment manager considers the most tax effective means of executing its investment ideas to achieve the best after tax outcome.

The Fund’s objective is to focus on tax aware investing and delivering superior after tax long term returns through smart trading that does not incur additional levels of risk. The combination of a tax aware strategy and the Generation Life investment bonds structure means that the Fund’s estimated long term estimated effective tax rate is around 10%. The actual effective tax rate may vary from year to year and future effective tax rates are not guaranteed.

# Fund manager details

Redpoint Investment Management 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.

# Investment objective

The Fund utilises anAustralian shares ‘index plus’ strategy that is designed to provide long-term capital growth. The 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 utilises a tax-aware trading and implementation approach designed to deliver superior after tax outcomes by reducing transaction and taxation costs.

The Fund uses a structured quantitative, rules-based approach to generate returns through an investment style known as ‘Factor Investing’. This employs a rule-based approach to selecting stocks that exhibit particular characteristics based on solid and objective rationale.

This approach also makes use of active investment trading strategies to maximise dividends, franking credits and other tax effective payments while managing tax positions as part of the investment trading process. The portfolio will be actively managed to outperform the broader Australian share market (before tax) by holding a diversified selection of between 50-65 Australian companies that are listed, or expected to be listed, on the Australian Stock Exchange.

This approach is designed to achieve low trading turnover with the associated reduction of trading costs while managing risk in volatile markets.

# Your needs, goals and objectives

This advice has been prepared specifically to address your stated needs, goals and objectives which are summarised as follows:

[You would like to accumulate wealth over the long term through the establishment of a diversified investment portfolio within a tax advantaged investment environment and with an exposure to Australian shares.]

[You would like to invest available funds in a manner which does not significantly complicate or impact on your personal tax planning and with an exposure to Australian shares.]

<Insert investor need, goals and objectives>

An important part of developing your investment strategy involves determining your attitude to and the level of risk you are prepared to accept to achieve investment returns. Risk and return are closely related.

In general, the higher the degree of risk associated with an investment, the higher the rate of return an investor would expect to receive for taking on that level of risk. This is the risk/return trade-off, and is part of the process in selecting an appropriate asset allocation and specific investments for your portfolio.

We have outlined your agreed risk profile and attitude towards risk below. Please tell us immediately if you feel that this does not accurately describe your attitude to risk and investment.

<Insert investor risk profile details>

Because the various asset classes in your portfolio will grow at different rates and your attitude to risk may change over time, we recommend that we review your portfolio at least annually to ensure the actual asset allocation remains appropriate for your risk profile, goals, and objectives going forward. This may require a re-assessment of your risk profile as your personal circumstances change and a re-balance of your portfolio.

# Recommendation

Having reviewed your investment strategy and taking into consideration your risk profile, we recommend an allocation of <insert percentage allocation> to the Generation Life Tax Effective Australian Share Fund.

# Reasons and benefits

**Tax effective portfolio management -** Every investment decision is carefully considered to ensure the most tax effective trading outcome. Whether it is a stock purchase or a stock sale, the investment manager employs a systematic and measurable approach to secure the most tax efficient trade. The Fund seeks to control tax outcomes through smart trading that does not incur additional levels of risk.

**Low long-term expected effective tax rate** - Given the focus on delivering superior after tax returns, the Fund’s estimated long term effective tax rate is around 10%. The actual effective tax rate may vary from year to year and future effective tax rates are not guaranteed.

**Single outcome focus -** The investment manager also utilises the unique tax benefits of an investment bond structure. In a typical managed fund, the investment manager has to balance the interests of its many different, tax-paying investors. But the Fund’s investment manager needs only to consider the tax position of the Fund as a whole. With no competing interests, it’s much easier to achieve the most tax effective position.

**Lower portfolio turnover -** There are two significant benefits of the strategy employed to reduce stock turnover (the less frequent trading of stocks). Firstly, the Fund incurs lower trading and transaction costs (e.g. brokerage fees). Secondly, with fewer capital gains events there are fewer tax events. Tax is therefore paid less often – funds remain invested for longer with the benefit of compounding that leads to improved returns.

# Potential risks and disadvantages

Investing provides the potential for long-term capital growth, however it can also create volatility which could result in losses. The performance of your investments is not guaranteed and it is important to understand that your expectations for investment return may not be met.

Risk is often defined as the likelihood that an investment will fluctuate in value. Generally, the higher the potential return of an investment, the greater the risk of loss. It is important to understand that all investments involve varying degrees of risk. There are many factors beyond the control of investors that may affect investment returns. The following is a summary of the main risks that can impact your investment.

**Market risk -** Markets are affected by a host of factors, including economic and regulatory conditions, market sentiment, political events, and environmental and technology issues. These could have a negative effect on the returns of all investments in that market. This may affect investments differently at various times.

**Interest rate risk** - Changes in interest rates can have a negative impact, either directly or indirectly, on investment value or returns on all types of assets.

**Liquidity risk** - Liquidity risk is the risk that an investment may not be easily converted into cash with little, or no loss of capital and minimum delay because of either inadequate market depth or disruptions in the marketplace.

**Derivatives** - The Fund may use derivatives directly or indirectly. The use of derivatives (which may be used to reduce risks and buy investments more effectively) may reduce potential losses and may also reduce potential profits.

**Investment manager risk** - This is the risk that the underlying investment manager and Fund may not perform as expected. Generation Life regularly reviews the performance of its investment managers as well as conducts extensive research on investment options that may be made available.

**Legal and regulatory risk** - Changes in domestic and foreign investment and taxation laws may adversely affect your investment.

**Shares risk** - Shares carry the risk of falling in value, of not meeting expected dividends and other income payments or not delivering expected dividend franking credits. Shares carry the risk of individual companies faltering due to increased competition, poor management, internal operational failures or adverse market sentiment. International share investments may also carry currency risk.