

# 2020 Annual Investment Update

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# Investment market update

## For the year 2019-20

This investment commentary relates to the performance of investment markets (not the performance of the investment options) in the last financial year.

The 2020 financial year will be one that will be remembered by investors for generations. The year was marked by high levels of volatility. The first half was dominated by the US-China trade stand-off and Brexit, both of which resulted in dampening business and consumer confidence. The second half was marked by the COVID-19 pandemic which sent the global economy into a tailspin seeing markets across all regions contract significantly and swiftly.

What followed was one of the fastest recoveries seen over the last 20 years in the June quarter on the back of hopes of a V-shaped economic recovery, as well as a fiscal and monetary stimulus. This recovery saw losses nearly fully recouped in some asset classes. A truly eventful year broken into three distinct and extreme segments.

Contrasts of market gains and falls were stark, with volatility in stock markets seeing historic levels in most growth assets at different points of the year. For greater context, if an investor was able to avoid the five worst days of the US S&P 500 Index, they would be up 51% on the year. If an investor missed the five best up days, they would be down 31% on the year.

### Australian shares

The Australian share market started the financial year with the S&P/ASX 200 Index nearing 6,620 points. The market ended the year at 5,897.9 points with the S&P/ASX200 Accumulation Index down 7.68% – the worst year since the 2011-2012 financial year.

The Australian share market finished the year with the Healthcare and Information Technology sectors the standouts – rallying 26% and 18% respectively. On the other hand, the Financial and Energy sectors were the weakest – declining 25% and 31% respectively.

The subsequent depth of the fallout from the COVID-19 pandemic to the real economy also led to most companies withdrawing or revising their respective earnings guidance. Some companies are also reducing or suspending dividends in line with a subdued future outlook.

### International shares

Global stocks wrapped up their best quarter since 2009 after stumbling in the March quarter when the global economy was brought to a standstill due to the COVID-19 lockdowns, with markets falling in the most severe manner seen since the great depression. Overall, global equity markets staged a strong recovery in the June quarter backed by strong fiscal and monetary stimulus, easing lockdowns, recovering sentiment and optimism surrounding the potential development of a COVID-19 vaccine.

The MSCI World ex Australia Index (hedged) closed the year up 1.30% which, considering the March quarter (where the index fell by 21.08%), highlights what a unique year it has been in financial markets.

### Fixed interest

Defensive and alternative assets still provided some protection and uncorrelated returns in the face of the correction. Examples of this were returns of 4.18% for Australian fixed interest (measured by the Bloomberg AusBond Composite 0+ Yr Index) and 6.23% (measured by the Bloomberg Barclays Global-Aggregate Total Return Index) for global fixed interest assets. Whilst providing relatively stronger returns, they were slightly lower in the context of previous market corrections due to the low yield starting point and liquidity issues experienced in some fixed interest assets.

## Property

Property was not immune to the macro-economic and COVID-19 pandemic related concerns experienced by the broader market. International and Australian property represented by the REIT sector experienced returns of -16.60% (hedged) and -20.71% respectively, driven largely by the economic impact of the COVID-19 pandemic.

## Economy and interest rates

The latest Australian economic growth data showed the economy contracted 0.3% in the March 2020 quarter to be up only 1.4% year-on-year as consumer spending deteriorated and residential construction activity weakened, despite increased government spending.

Underlying inflation at 1.8% continued to remain below the Reserve Bank of Australia’s (RBA) target range of between 2% and 3%. June quarter figures are expected to show the Australian economy contraction accelerated further with economic growth falling around 10% over the first half of the 2020 calendar year. Total hours worked declined by 7% during the period and the unemployment rate rose to 7.4% by the end of the June quarter.

The RBA cut the official cash rate three times during the year – 0.25% in October 2019 and then 0.25% twice in March (including an emergency out of cycle meeting) – to end the financial year at an unprecedented 0.25% as the COVID-19 pandemic continued to stoke economic fears.

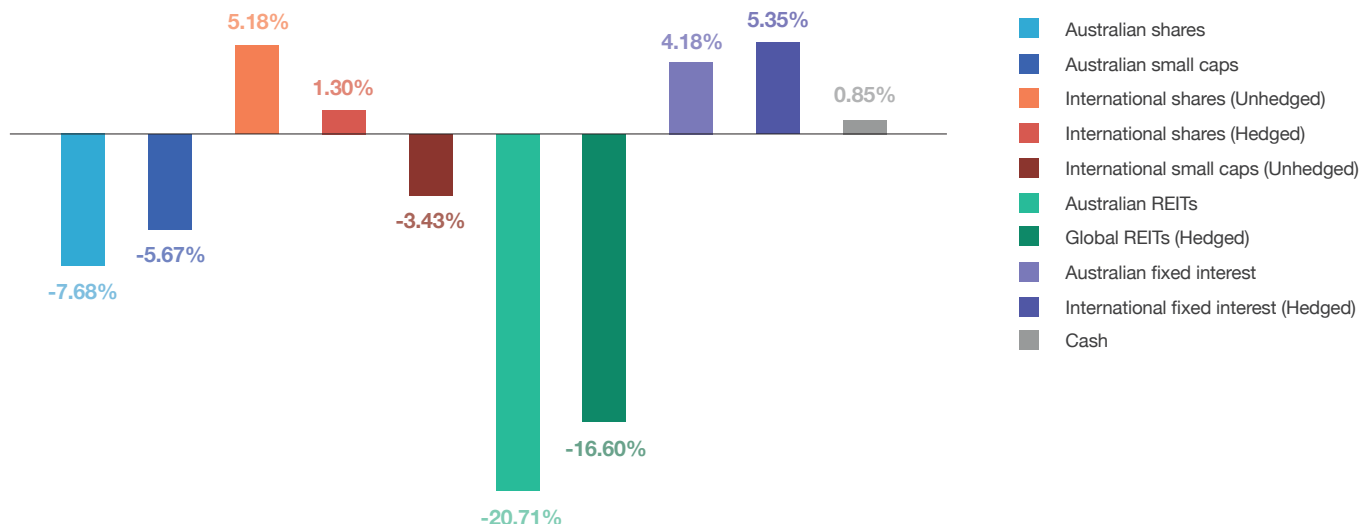
Interest rates are now at an all-time historic low in Australia. Investors in interest rate driven assets have seen lower than average returns in those asset classes that seek to provide capital stability for clients. This has been a consistent theme for these types of conservative investment strategies as interest rates continue to contract and central banks provide large amounts of liquidity to the market.

## Currencies

The Australian dollar hit a low of USD57 cents during the March quarter – its lowest level since 2002, before recovering sharply to finish the year at USD68.5 cents as low interest rates, trade tensions and the recent bushfires all played off against each other along with volatile commodity prices. If invested for the whole period, this benefited the unhedged international investment options with the MSCI World ex Australia (unhedged) outperforming its hedged equivalent (5.18% vs 1.30%).

In a transcendent year, the range of returns between asset classes was also extreme. Australian shares having particular concentration in resources and the banking sector impacted returns (-7.68%) comparative to global shares.

The following graph shows the asset class returns for the 2019 - 2020 financial year:



# Investment options



## Investment strategies

We aim to give you access to a range of leading Australian and international investment managers and provide our investors with the flexibility to change and switch investment options at any time.

Our investment menu currently provides a choice of 49 investment options, covering a range of risk profiles and asset classes, as well as diversified and low cost indexed investment options. Investors can build their own portfolio by investing in a single asset investment option or using one of the diversified investment options to suit their desired risk profile. To ensure that our investment options continue to remain relevant and meet our investors' needs, their stated objectives and requirements, our investment committee consistently monitors and reviews our investment managers.

## Changes to investment options during the year

Over the year the following changes to the underlying investment options' strategies occurred:

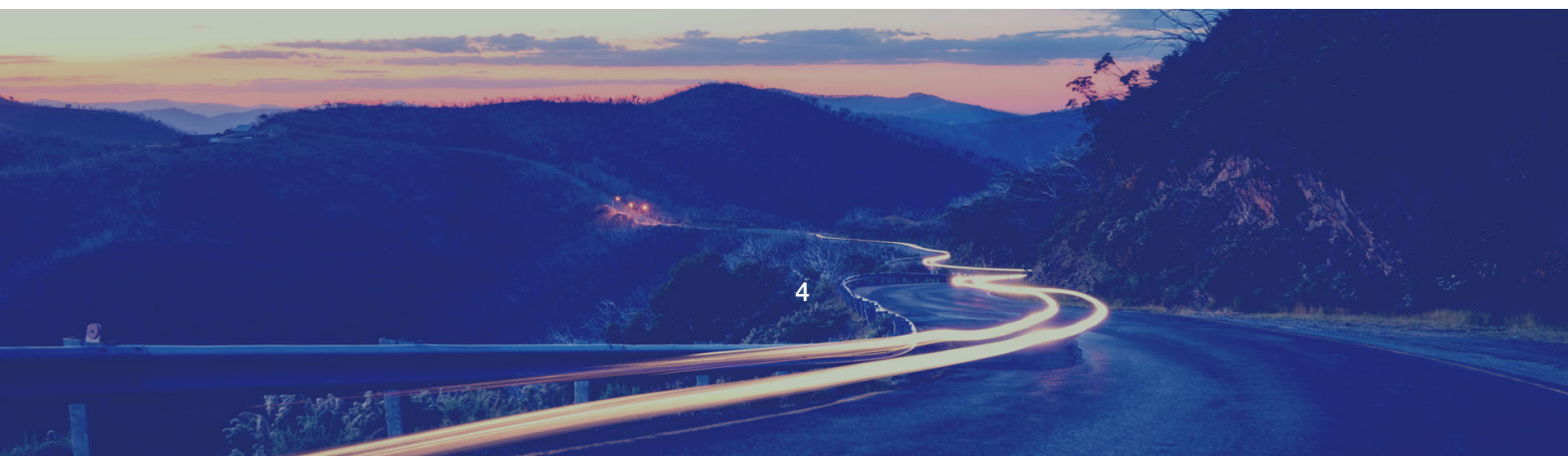
- MLC Wholesale IncomeBuilder™ strategy was replaced with the Legg Mason Martin Currie Equity Income Fund strategy.
- AMP Capital Dynamic Markets Fund strategy was replaced with the Schroder Real Return CPI Plus 5% Fund strategy.

- Perpetual Wholesale Industrial Share Fund strategy was replaced with the BlackRock Concentrated Industrial Share Fund strategy.
- Pental Sustainable Balanced Fund asset allocation ranges were changed to reflect the underlying fund manager's new asset allocation ranges.
- The performance benchmark for the Kapstream Absolute Return Income Fund was changed to the Reserve Bank of Australia official cash rate (before fees and taxes).

## Investment option performance

The following table shows the performance of our investment options over the longer term and the last financial year. Returns shown are after all fees and taxes as at 30 June 2020. The actual returns relating to your investment will be influenced by the timing of payments into and out of the investment, allowing for contributions, taxes, fees, switches between investment options and withdrawals.

Performance reflects the performance of the investment option. Where the current investment manager has been appointed after the inception of the investment option, the performance in the table will not be reflective of the investment manager's performance prior to their appointment.



Investment option	Returns (after fees and taxes) to 30 June 2020					Inception date	Current investment manager commencement date
	Fund code	2019-20 financial year	3 years p.a	5 years p.a	10 years p.a		
AMP Capital Global Property Securities Fund	5A	-10.61%	-0.30%	0.74%	5.21%	01/05/2008	Since inception
Bennelong Concentrated Australian Equities Fund	38	4.97%	-	-	-	21/11/2018	Since inception
BlackRock Concentrated Industrial Share Fund	20	-5.79%	0.35%	1.48%	5.64%	01/05/2008	09/06/2020
Dimensional Global Small Company Trust	9	-5.93%	1.29%	0.87%	7.10%	12/08/2004	13/06/2017
Dimensional World Allocation 50/50 Trust	40	-1.35%	-	-	-	21/11/2018	Since inception
Dimensional World Allocation 70/30 Trust	24	-2.54%	2.97%	3.57%	-	31/07/2012	Since inception
Ellerston Australian Market Neutral Fund	6A	5.31%	-	-	-	04/12/2017	Since inception
EQT Wholesale Mortgage Income Fund	25	1.68%	1.68%	1.63%	-	09/05/2012	Since inception
Generation Life Tax Effective Australian Share Fund	35	-5.48%	-	-	-	20/05/2019	Since inception
Generation Life Term Deposit Fund	14A	0.41%	0.84%	1.00%	-	21/07/2010	Since inception
Investors Mutual Australian Shares Fund	6	-8.99%	0.25%	2.16%	4.34%	12/08/2004	04/12/2017
Investors Mutual Future Leaders Fund	7	-13.94%	-2.00%	0.34%	3.46%	12/08/2004	04/12/2017
iShares Hedged International Equity Index Fund	12	0.31%	3.40%	4.24%	7.63%	12/08/2004	04/12/2017
iShares Wholesale Australian Bond Index Fund	12A	1.93%	2.88%	2.29%	2.85%	01/05/2008	04/12/2017
iShares Wholesale Australian Equity Index Fund	11	-5.73%	3.67%	4.19%	5.37%	12/08/2004	04/12/2017
iShares Wholesale Australian Listed Property Index Fund	12B	-16.70%	0.39%	2.34%	5.51%	01/05/2008	04/12/2017
iShares Wholesale International Equity Index Fund	11A	3.45%	7.10%	-	-	02/08/2016	04/12/2017
Kapstream Absolute Return Income Fund	10A	-0.56%	-	-	-	04/12/2017	Since inception
Legg Mason Martin Currie Emerging Markets Fund	36	2.13%	-	-	-	21/11/2018	Since inception
Legg Mason Martin Currie Real Income Fund	5	-12.94%	1.35%	2.98%	5.33%	01/12/2010	21/11/2018
Legg Mason Martin Currie Equity Income Fund	23	-12.45%	-2.07%	-0.05%	-	12/08/2004	09/06/2020
Macquarie Treasury Fund	1	0.27%	0.71%	0.85%	1.56%	08/09/2004	23/05/2007
Magellan Global Fund	8	5.69%	10.26%	7.79%	8.21%	12/08/2004	26/02/2014
Magellan Infrastructure Fund	5B	-7.80%	2.30%	4.55%	-	05/09/2014	Since inception
MFS Concentrated Global Equity Wholesale Trust	8A	0.80%	-	-	-	21/11/2018	Since inception
MLC Horizon 2 Income Portfolio	32	-2.12%	-	-	-	21/11/2018	Since inception
MLC Horizon 3 Conservative Growth Portfolio	33	-1.61%	-	-	-	21/11/2018	Since inception
MLC Horizon 4 Balanced Portfolio	22	-2.17%	2.41%	2.74%	4.49%	01/05/2008	Since inception
MLC Horizon 6 Share Portfolio	34	-4.18%	-	-	-	21/11/2018	Since inception
Mutual 50 Leaders Australian Shares Fund	14	-8.11%	1.58%	1.66%	4.09%	12/08/2004	Since inception
Mutual ADI/Bank Securities	14B	0.35%	1.14%	1.50%	-	05/09/2014	Since inception
Pendal Enhanced Credit Fund	3	1.59%	2.40%	1.73%	3.90%	12/08/2004	17/05/2015
Pendal Sustainable Australian Share Fund	39	-6.70%	-	-	-	21/11/2018	Since inception
Pendal Sustainable Balanced Fund	41	-2.05%	-	-	-	21/11/2018	Since inception
Perpetual Wholesale Australian Share Fund	15	-7.08%	1.69%	2.11%	5.10%	07/03/2006	Since inception
Perpetual Wholesale Balanced Growth Fund	19	-2.32%	2.29%	2.53%	4.63%	07/03/2006	Since inception
Perpetual Wholesale Conservative Growth Fund	26	-0.43%	-	-	-	04/12/2017	Since inception
Perpetual Wholesale Ethical SRI Fund	21	-5.88%	-0.79%	1.92%	6.66%	01/05/2008	Since inception
Perpetual Wholesale Geared Australian Share Fund	16	-32.55%	-4.90%	-1.79%	6.68%	29/01/2006	Since inception
Perpetual Wholesale International Share Fund	17	-4.79%	3.85%	3.89%	6.42%	29/01/2006	Since inception
PIMCO Wholesale Australian Bond Fund	2	1.06%	2.47%	2.10%	2.81%	12/08/2004	14/12/2012
PIMCO Wholesale Global Bond Fund	4	1.58%	1.97%	2.40%	3.00%	12/08/2004	29/10/2012
Russell Investments Balanced Fund	10	-3.34%	1.57%	2.62%	4.72%	10/09/2004	20/05/2018
Schroder Absolute Return Income Fund	13	0.59%	1.26%	1.36%	2.41%	12/08/2004	01/01/2010
Schroder Real Return CPI Plus 5% Fund	10B	0.92%	-	-	-	04/12/2017	17/12/2019
Vanguard Diversified Balanced Index Fund	31	1.32%	-	-	-	21/11/2018	Since inception
Vanguard Diversified Conservative Index Fund	12C	1.50%	3.37%	-	-	02/08/2016	Since inception
Vanguard Diversified Growth Index Fund	12D	0.03%	4.48%	-	-	02/08/2016	Since inception
Vanguard Diversified High Growth Index Fund	30	-0.81%	-	-	-	21/11/2018	Since inception

Past performance is not indicative of future performance. Performance as measured by exit price movements of the investment options (after fees and taxes).



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