generation life

Generation Life Tax Effective Equity Income Fund

Wholesale Class A

In partnership with Martin Currie Australia
(a Franklin Templeton specialist investment manager)[1]

Outthinking today.

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About the Fund

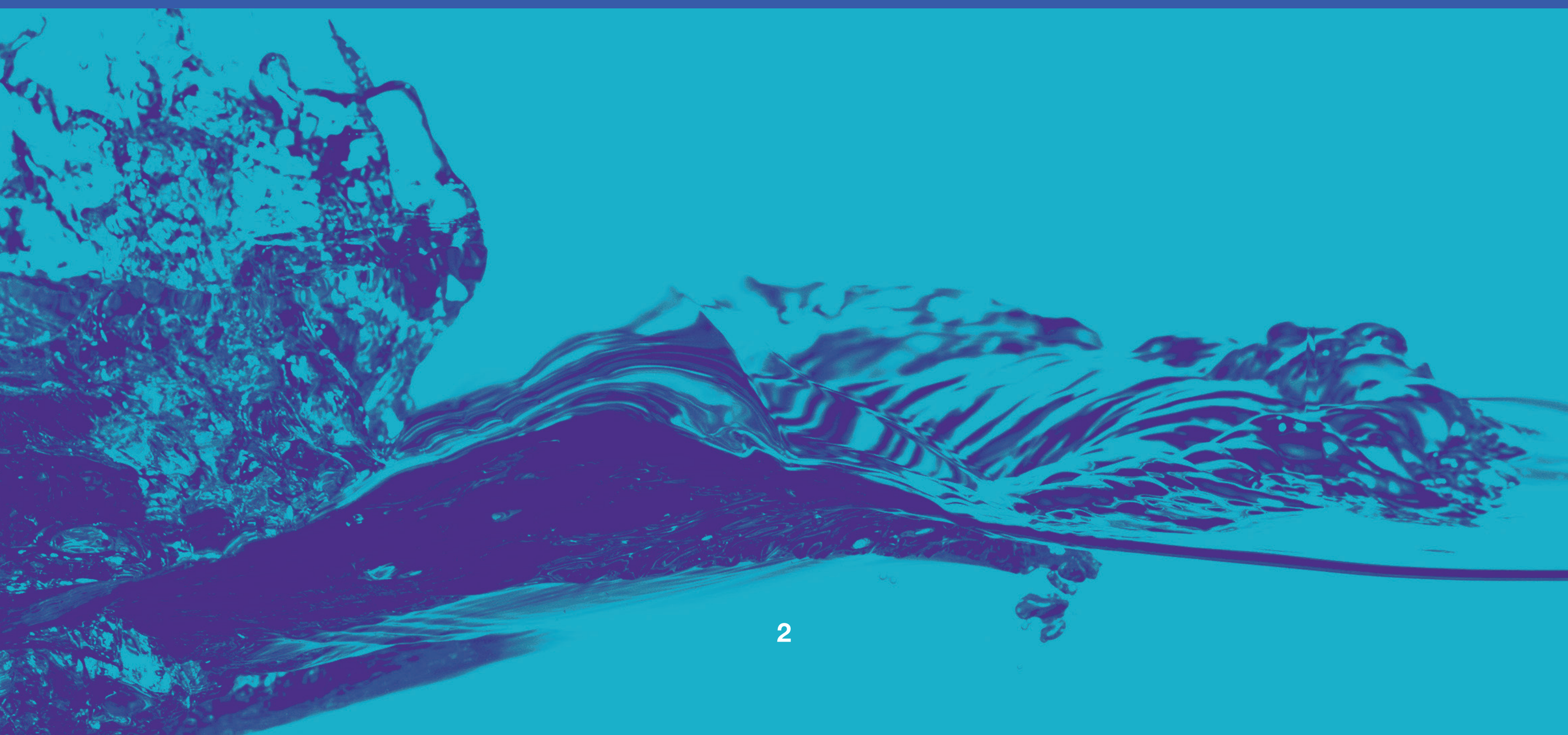
The Generation Life Tax Effective Equity Income Fund combines the experience and track record of investment manager Martin Currie Australia and Generation Life to deliver a unique proposition to investors seeking highly tax effective Australian equity-based income.

The Fund's investment strategy's primary objective is to generate a growing income earnings profile by investing in a diversified portfolio of high-quality companies. The Fund aims to generate a pre-tax income yield above the S&P/ASX 200 Franking Credit Adjusted Index and to grow this income above the rate of 'inflation' while targeting lower volatility than the S&P/ASX 200 Index.

The Fund is suited to investors that require a regular payment amount that broadly corresponds to the dividend yield of the S&P/ASX200.

Key benefits

- Regular (quarterly) tax effective income stream
- Estimated long-term average tax paid less than 10%[2]
- Active high yielding Australian share portfolio
- Daily liquidity
- Minimal ongoing tax reporting
- Access to Martin Currie Australia's investment expertise
- Wealth transfer and estate planning options



Who is the Fund suitable for?

High income earners

Investors on higher marginal tax rates or investors looking to manage their marginal tax rate position.

To fund regular expenses

Used to fund regular expenses such as school fees.

Pre-retirement - transitioning to retirement

Where access to superannuation is not available and a tax effective regular income stream is required.

An alternative income source

Looking for a regular payment stream with exposure to a diversified portfolio of listed Australian shares.

In retirement

An additional source of regular cashflow with no limits on how much can be contributed.

Those needing certainty with distributing wealth and estate planning

Provide for future generations tax free and with certainty and peace of mind.

Tax effective regular income streams

Investors can elect to receive regular quarterly payments. The payment amount will typically correspond to dividends and other income derived by the Fund (excluding any realised capital gains or losses) and after allowing for fees, expenses and Fund level tax. You also have the option of electing not to receive a regular payment amount (the value will be retained within your investment).

If you choose to receive a quarterly payment, a portion of the payment you receive will be treated as a tax free capital component with the balance treated as tax assessable income taxed at your marginal tax rate (in the first 10 years). This is unlike a unit trust invested in equities, where quarterly income distribution proceeds are generally fully tax assessable.

The tax assessable component of the investment bond regular payment will also receive an automatically calculated tax offset (currently equal to 30% of the tax assessable amount) which can be used to reduce your annual tax liability in the financial year that the regular payment was made. After 10 years, the Fund's regular payments will normally be received tax free in your hands.

Key information

Target size and allocation	Subscription target of $100 million.
Expected effective tax rate	Fund's estimated long-term average tax paid less than 10%.[2]
Regular payments	Elect to receive regular quarterly payments reflective of the after-tax yield of the underlying investment portfolio.
Minimum initial investment	$250,000. Wholesale only.
Additional investments	Ad-hoc investment – $5,000. Regular Savings Plan – $500 per month.
Liquidity	Daily liquidity. Minimum $5,000 withdrawals.
Management fee	0.90% p.a. of the gross asset value of Wholesale Class A units.[3]

Key dates

Offer open	15 December 2020
Close date	31 March 2021
Expected issue date	7 April 2021

How to apply

You can make an application for an investment under the Offer by completing the online application form at **www.genlife.com.au/EIFWA/apply**. Application monies will be accepted by BPAY® only.

A completed application form and cleared funds must be received by 12.00pm (Melbourne time), 31 March 2021.

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What are investment bonds?

Investment bonds are a tax effective investment solution providing flexibility, control and access to funds at any time.

Investment bonds are an investment-based product where funds are invested by a life company. The investment returns are taxable at the life company's corporate tax rate (currently 30%). While the corporate tax rate of an investment bond is 30%, the effective tax rate can be less. The use of imputation credits, other credits and tax management strategies can be used to reduce the effective tax rate of an investment bond.

Investment bonds are managed similar to a managed fund where investor funds are pooled together and invested in underlying assets such as shares, property, fixed interest and cash.

If the investment bond is realised after holding the investment for at least 10 years, there is no personal tax payable in the hands of the investor on payment proceeds received. If some or all of the investment is realised within 10 years, then a portion of the realised amount may be taxable. A tax offset equal to 30% of the taxable amount can be applied to reduce the overall tax payable amount. This ensures you are not double-taxed.

Access to capital

Unlike superannuation, investment bonds do not lock up your money for the long term. You can access your funds whenever you like. Similar to unit trusts, an investment bond's liquidity (and therefore access to your funds) is based on the nature of the underlying investments. For example, an investment bond with exposure to cash, fixed interest securities, equities and listed property will typically provide for daily access to funds.

Ownership transfer

Ownership can generally be transferred to a third party without incurring additional fees, stamp duty, personal income tax or capital gains tax.

Tax management

As a large institutional taxpayer, a Generation Life investment bond provides tax management opportunities that are not normally available to personal investors and superannuation funds.

An investment bond has the benefit of being able to offset realised capital losses against income earnings. Typically, within a diversified portfolio of assets there will be times where capital losses occur. Ordinarily (as a personal investor or superannuation fund), the carried forward tax benefits attached to these losses can only be realised against future realised capital gains – not against 'ordinary' taxable income.

Investment bonds, however, are able to utilise the tax benefits of the capital losses by offsetting them against 'ordinary' taxable income. Ordinarily, this results in a reduced level of tax assessable income during the period of the capital loss. Investment bonds generally do not need to wait to crystalise a capital gain in order to utilise the tax benefit attached to the capital loss.

The overall benefit of this is a reduced level of assessable (taxable) income at the investment bond level. A reduced level of assessable income means that there is less tax to be paid by the investment bond and therefore more retained to be invested by the fund. The compounding effect of this can significantly improve returns over time.

10 year rule

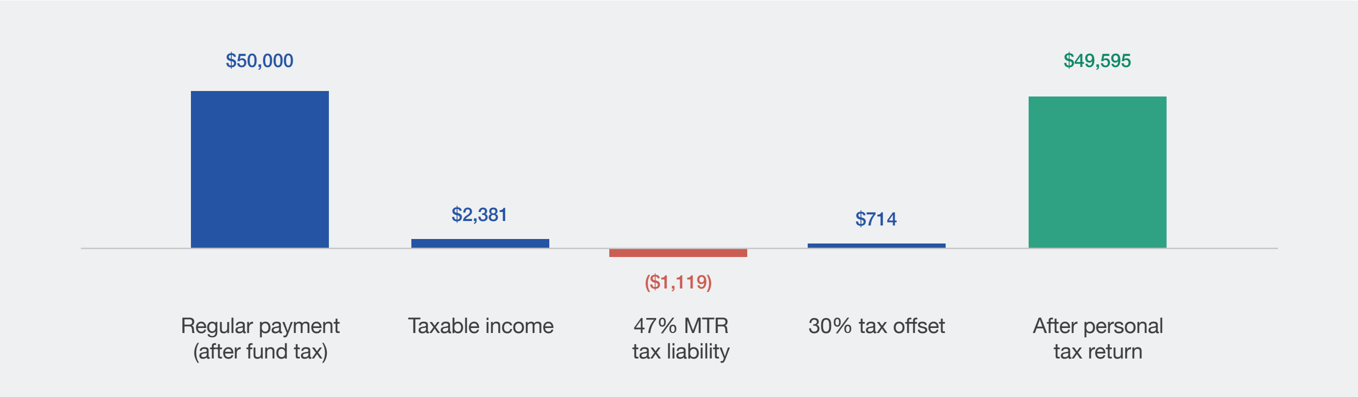
The '10 year rule' is not a minimum investment period – you can invest for a shorter or longer period. From the tenth year of holding the investment bond, subject to not 'restarting' this period, your investment is entirely tax paid. That is, all investment earnings are available without additional personal tax payable.

You can contribute up to 125% of your previous year's contributions without restarting the '10 year rule'. This allows for significant increases in contributed amounts.

Tax benefits

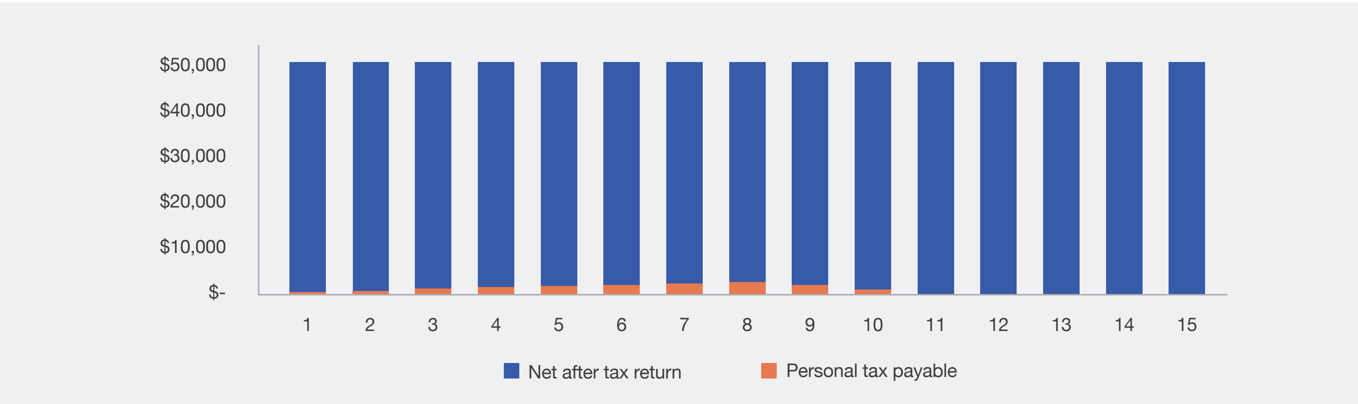
Tax benefits for investment bonds are maximised where the investment is held for at least 10 years. However, significant tax benefits can be achieved within the 10 year period, even where regular payments are received. For example, a regular payment of $50,000 (after fund level tax) produces an after personal tax return of $49,595 for an investor on a marginal tax rate of 47% (including Medicare levy).

Example: Year 1 personal tax profile



This low level of personal tax is achieved through the investment bond's unique tax structure where proceeds from the investment bond are treated as part capital and part income. Importantly, after 10 years proceeds are treated as capital and not taxable at the investor level, with the only tax incurred being within the fund itself.

Example: Long term personal tax profile



The assessable amount is based on the earnings and when the proceeds are received. Any proceeds received after 10 years are not taxable in the investor's hands.

When received	Assessable amount
After 10 years	None
In year 10	1/3rd
In year 9	2/3rds
Less than 9 years	All

The assessable amount of proceeds received is calculated based on the following formula.

$$\frac{\text{Payment proceeds amount (A)}}{\text{Value of investment at time of payment (B)}} \times \left[\left[\text{Value of investment at time of payment (B)} - \text{Previous proceeds and withdrawals received (C)} \right] - \left[\text{Total gross invested amount (D)} + \text{Previous tax assessable amounts (E)} \right] \right]$$

Example: Personal tax on proceeds of a quarterly payment

David invested an initial amount of $1,000,000 with no further contributions and elected to receive quarterly payments. The value of the investment immediately prior to his first quarterly payment of $50,000 was $1,050,000. No previous quarterly payments or one-off withdrawals had been made. David is on a marginal tax rate of 47% (including the 2% Medicare levy).

The tax assessable amount would be calculated as follows:

Assessable amount	= A / B * [(B+C) – (D+E)] * 100%
	= ($50,000 / $1,050,000) * [($1,000,000 + 0) – ($1,000,000 + 0)] * 100%
	= $2,381
Gross tax payable	= $1,119 ($2,381 x 47%)
Tax offset	= $714 ($2,381 x 30%)
Tax paid by investor	= $405

Tax reporting

There is no tax file number required to be provided or cost bases to be tracked. Tax reporting is also simple, you only need to include an assessable amount in your tax return if you have received proceeds from your investment within the 10 year period.

Making additional contributions

You can make additional contributions to your investment at any time. Additional contributions can be made as a once off contribution or through a Regular Savings Plan arrangement.

There are no limits on the amount you can invest in the first investment year. Each subsequent investment year you can make additional contributions of up to 125% of the previous year's total contributions without re-setting the start date of the 10-year rule period (for tax purposes).

If contributions in your second and subsequent investment years exceed 125% of the previous investment year's contributions, then the start date of the 10-year period resets to the start of the investment year that the excess contributions were made. Re-setting the 10-year period start date will mean that the full tax benefits (i.e. full tax paid status after the original 10 years) of your investment will be delayed.

Example of the 125% rule

Jenny started her investment on 7 April 2021 (this is the initial start date) by investing $1,000,000 and does not make any further contributions for the rest of her first investment year.

On 31 April 2022 Jenny contributes an additional $1,500,000 which is 150% of her previous investment year's total contributions.

Because the contribution was greater than 125% of the previous investment year's contributions, her investment start date (for tax purposes) is reset to 7 April 2022.

Estate planning

An investment bond can be a useful estate planning tool. As a form of life insurance, beneficiaries can be nominated to directly receive the proceeds of the investment on death of the owner in which case the money does not go through the estate and can be paid out quickly. In addition, the proceeds (including accumulated earnings) are not taxable in the hands of the beneficiaries, even if the investment bond is less than 10 years old. Unlike superannuation, there are no restrictions on who can receive the proceeds tax-free and are not limited to 'dependants'.

Generation Life investment bonds provide the added flexibility to transfer ownership automatically without going through the estate on the death of the owner. There is no tax paid either by the current owner or recipient of the investment bond.

Creditor protection

If you own an investment bond as an individual, you may receive protection from creditors in the case of bankruptcy (provided your intention was not to defeat creditors). This protection applies to the investment bond itself as well as any proceeds from the investment bond received on or after the date of bankruptcy.

Governance

Generation Life is a registered life insurance company under the Life Insurance Act 1995 ('Life Act'). The Company's operations and the operations of the investment bonds are governed by the Company's Product Rules, the Life Act, and the Corporations Act 2001, and the Income Tax Assessment Act 1936, Income Tax Assessment Act 1997 and Income Tax Rates Act 1986.

generation life

Outthinking today.

Contact details

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About Generation Life

As the pioneer of Australia's first truly flexible investment bond, we have been at the forefront of providing innovative tax effective solutions since 2004. Today we are a leading specialist provider of investment solutions - with over $1.8 billion invested with us to date.

1. Martin Currie Australia is a division of Legg Mason Asset Management Australia Limited (Legg Mason Australia). Legg Mason Australia is part of Franklin Resources Inc.
2. Represents the estimated average level of tax to be paid by the Fund on its annual earnings based on the Fund's stated investment strategy, investment profile, current tax legislation and assumes the historical investment and transacting profile will continue. The estimated level of tax paid is assumed over a long-term and through a full market cycle. The actual level of tax incurred by the Fund may vary and will be dependent on the Fund's actual level of earnings and investment and transacting profile. Past performance is not indicative of future performance.
3. Refer to the Information Memorandum for further details of fees and costs.

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