

# 2021 Annual Investment Update

Generation Life Limited  
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# Investment market summary

## For the financial year 2021

This investment market commentary relates to the performance of investment markets (not the performance of the investment options) in the last financial year (financial year ended 30 June 2021).

An impressive investment performance for the 2021 financial year was a welcome distraction against a tough social backdrop of COVID-19 cases and intermittent lockdowns in many jurisdictions. Most growth asset classes achieved their highest annual returns since the 1980s in a global economy that became increasingly synchronised over the course of the year. This was underpinned by higher vaccination rates and the re-opening of economies, creating positive momentum in economic growth (measured by GDP) and falling unemployment numbers.

### Economy, interest rates and currencies

Governments and central banks around the world continued to provide extraordinary levels of support to their economies through significant government spending, tax breaks, bond buying programs targeting long term funding rates and low short term interest rates. Coupled with households having built up a high level of savings as a result of COVID-19 and increased consumer confidence it was a perfect backdrop to drive GDP growth, business activity and higher earnings growth during the year.

Three additional key economic factors helped from an Australian perspective in improving economic conditions. Residential property prices rose 13.5% for the year which is the strongest annual increase since 2004 helping household finances and spurring construction activity. The Australian trade surplus grew to a near record high of \$9.7 billion driven by exports (particularly iron ore).

Finally, a strengthening job market saw unemployment levels drop, job vacancies rise to 57% and pricing pressure from employees starting to show. This saw the Australian dollar appreciate significantly during the period, now buying \$0.75USD at the end of the year, having only been worth \$0.57USD at the peak of the pandemic in March 2020.

The RBA reduced the official cash rate from 0.25% to 0.10% in November 2020 leaving rates at a record low in Australia and making for very lean returns in cash accounts and term deposits.

Globally, expectations are that interest rates could finally be at or close to the bottom with forward looking growth in economic activity. There is still some uncertainty about the potential for rising inflation caused by tight supply chains, semiconductor shortages, higher commodity prices and falling unemployment rates.

The above factors have played into interest rate expectations for the future which has driven up longer term yields and had a negative impact on most fixed interest asset prices which were at very tight yields at the start of the period. It was a challenging year for defensive and short term investors.

### Australian shares

We saw a strong year of growth for the Australian share market with the S&P/ASX 200 Index rising 27.8%. This was the highest one-year growth rate on the Australian share market since 2007. Companies continue to benefit from the strong bounce back in global economic conditions and significant deployment of capital from investors into financial assets.

The Australian share market finished the year with the Information technology and Consumer discretionary sectors as standouts — rallying 38.9% and 42.8% respectively. On the other hand, the sector that struggled was utilities which was dragged down by rising bond yields during the year, declining 22.9%.

Australian small companies performed well returning 33.2% as measured by the S&P/ASX Small Ords Index.

## International shares

International shares performed strongly during the year, with the MSCI World Ex Australia Index returning an impressive 35.8% when hedged back into Australian dollars. Economies are rapidly opening up on the back of COVID-19 vaccine rollouts, consumer spending is at decade highs and accelerated structural, thematic and technological trends have led to significant tailwinds for many companies and sectors.

Whilst travel between countries has been constrained as of recent times and approaches to dealing with the pandemic have varied across the globe, the level of synchronicity between market returns of different countries was notable. All major markets saw significant double digit returns with correlations increasing as we progressed through the year. In contrast to recent trends, the Australian dollar strengthened against most currencies which meant that global share strategies that were hedged (35.8%) significantly outperformed those strategies that were exposed to currency movements (27.5%).

International small companies that were exposed to currency movements showed strong performance during the year, with the MSCI World ex-Australia Small Cap Index showing a 40.5% return.

## Fixed interest

After 30 years of falling interest rates could we have finally reached the bottom? The market seemed to think so after target cash rates bottomed out in the first half of the 2021 financial year.

From there the longer end of the yield curve steadily rose in the second half of the year, swayed by strong macroeconomic conditions and some major markets are seeing significant signals that perhaps persistent inflationary conditions may be on the horizon. These rising yields were a tough environment for defensive long term fixed interest performance highlighted by the Bloomberg Barclays Global Treasury Index falling by 1.5%.

This was mirrored in the Australian market with the Bloomberg AusBond Composite 0+ Yr Index also dropping 0.8%.

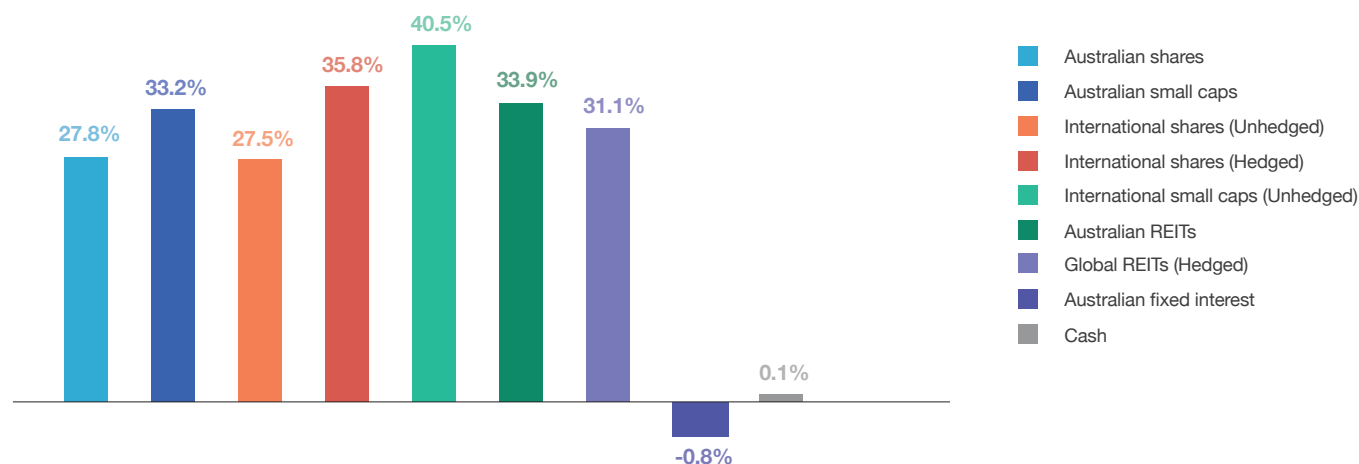
Credit markets fared a little better with stronger company balance sheets, improving market conditions and credit rating improvements offsetting higher long term yield expectations. The Bloomberg Barclays Global Aggregate Credit Index (Hedged) increased by 2.7% which is below trend but at least provided some return for investors looking for yield.

## Property

Property was a major beneficiary of the improving economic conditions and stimulatory central bank policy. Lending rates at historically low levels, default risk greatly reduced, economic activity rising and attractive yields compared to competing asset classes saw a strong bounce back in most sub sectors of the global REIT markets.

Australian and International REIT markets were broadly in line, with the latter seeing a slightly lower return of 31.1% for the FTSE EPRA/NAREIT Developed ex Australia Rental Index (Hedged) vs 33.9% for the S&P/ASX 300 A-REIT Index.

The following graph shows the asset class returns for the 2020-2021 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 58 investment options, covering a range of risk profiles and asset classes, as well as diversified, responsible investing and low cost indexed investment options.

Investors can build their own portfolio by investing in a single asset investment option or by 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.

## Tax Aware investing

Generation Life's investment options provide varying levels of tax-efficiency based on the composition of the underlying investment assets held by the investment option as well as how they are held and managed. Generation Life now provides three levels of Tax Aware investing across our investment menu. The Tax Aware process has been designed to improve investor after-tax returns with no additional investment risk. Our historical modelling has demonstrated improvements in returns of up to 2.9% p.a.<sup>1</sup>

All investment options are managed under the Generation Life Tax Aware management process with the aim of delivering a tax-efficient investment outcome. Please refer to page 6 for the level of Tax Aware management applied to each respective investment option.

## Three levels of Tax Aware investing



### Tax Optimised

The pinnacle of our Tax Aware investing process, designed to maximise performance on an after-tax basis and increase investor returns. The Tax Optimised level generates tax efficiencies by structuring the holding of the investment through direct ownership of the underlying assets (rather than through a pooled investment arrangement). This level of Tax Aware investing is designed to maximise after-tax return outcomes and optimise the full benefits of the investment bond tax structure through the direct acquisition and sale of the underlying investments in a tax-efficient manner.



### Tax Enhanced

An enhanced Tax Aware investment and trading approach that aims to improve after-tax returns. The Tax Enhanced level is designed to carefully manage how the underlying investments are bought and sold within a pooled investment arrangement where investments are held in underlying managed funds.



### Tax Advantage

The foundation of our tax-effective investment approach, essential to maximising investment returns. The Tax Advantage level offers the core benefits of the investment bond's tax structure where ongoing earnings are taxed within the investment bond at a maximum tax rate of 30%. The investment bond's earnings are not included as part of your personal assessable income, irrespective of your marginal tax rate.

<sup>1</sup> The tax optimised performance information presented represents back-tested performance for the period 1 June 2010 to 31 May 2020 based on simulated data using the underlying return of an Australian share fund's investment strategy together with the Generation Life Tax Optimised management approach, an assumed investor turnover of 11% and assuming a consistent turnover of the underlying assets throughout the observed period. Back-tested performance is hypothetical and is provided for informational purposes only to indicate historical performance differences between the Tax Optimised management approaches had they been available over the relevant time period and does not represent actual fund performance and does not factor in administration fees or tax provisions. Back-tested performance also differs due to consistent application of cashflow assumptions rather than actual cashflow movements. As a result, the portfolio trading approach theoretically may vary from time to time and the effect on performance results and tax paid could be either favourable or unfavourable. Past performance or back-tested performance is not guaranteed.



## Responsible investing

Generation Life offers seven responsible investing investment options managed by leading Australian and international fund managers. Each responsible investing investment option has a different focus on the core economic, social and governance (ESG) factors and employs different approaches to investing.

The investment menu also provides a responsible investing managed model portfolio option, where manager selection and asset allocation are undertaken by an independent investment consultant. This innovative approach provides a convenient way of accessing responsible investing strategies managed by multiple investment managers, which is designed to provide further investment diversification benefits.

Generation Life's range of responsible investing investment options has been developed based on an approach of providing a diverse level of exposure to a number of responsible investing strategies. The underlying investment approach for each of the responsible investing options offered varies from asset/strategy specific through to multi-asset/multi-strategy approaches.

Irrespective of the underlying strategies employed, the fundamental criteria of focusing on financial outcomes while considering the impact of the underlying investment on society must be demonstrated by the investment managers as part of our review and monitoring process.

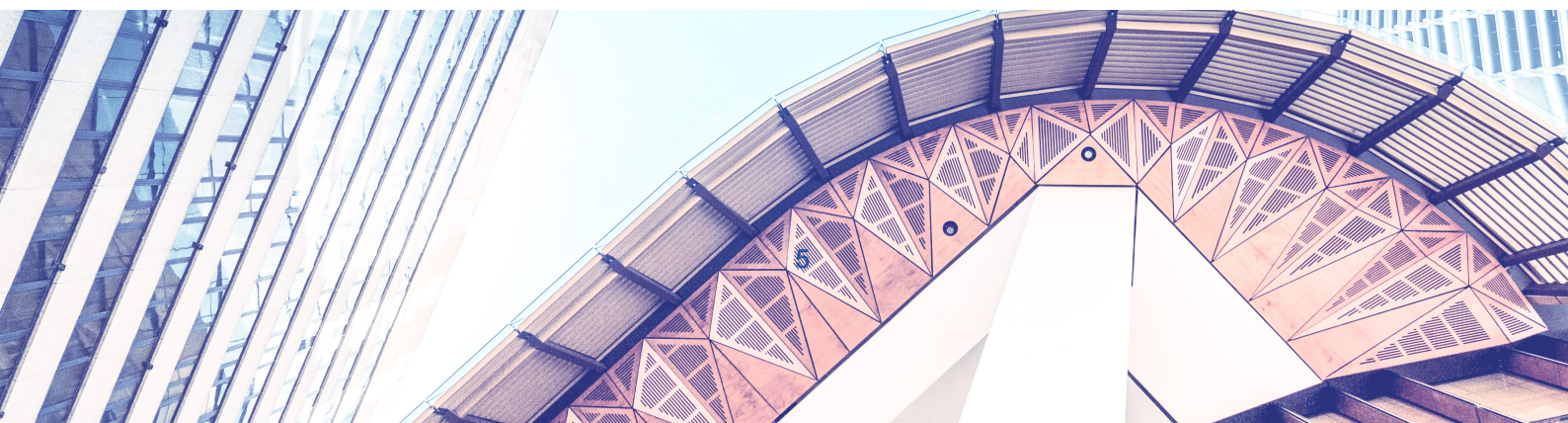
In constructing and monitoring our menu of responsible investing investment options on an ongoing basis, a number of quantitative and qualitative factors are considered by Generation Life's investment team including:

- ESG ratings from external data and research providers;
- the level of integration of responsible investment principles into the investment manager's processes;
- the investment manager's capabilities;
- performance track record (against stated objectives); and
- other research undertaken by the Generation Life team.

## Changes to investment options during the year

Over the year the following changes to the investment option strategies occurred:







































- On 27 October 2020 the Vanguard Conservative Index Fund, Vanguard Balanced Index Fund, Vanguard Growth Index Fund and Vanguard High Growth Index Fund were renamed to Vanguard Conservative Portfolio, Vanguard Balanced Portfolio, Vanguard Growth Portfolio and Vanguard High Growth Portfolio respectively.
- On 27 October 2020 the Generation Life Tax Aware investing process was introduced to the investment options.
- On 1 March 2021 the Schroder Real Return CPI Plus 5% Fund options name was changed to Schroder Real Return Fund. The investment option's return objectives were also updated.
- On 28 April 2021 the following new investment options were added to Generation Life's investment menu: Affirmative Global Bond Fund; Ardea Real Outcome Fund; Dimensional Sustainability World Allocation 70/30 Trust; Dimensional World Equity Portfolio; Evergreen Responsible Growth Model; GMO Systematic Global Macro Trust; Hyperion Global Growth Companies Fund; Stewart Investors Worldwide Sustainability Fund; and Walter Scott Global Equity Fund (Hedged).
- On 28 April 2021 the Mutual 50 Leaders Australian Shares strategy was replaced with the iShares S&P/ASX20 ETF Portfolio, and the Ellerston Market Neutral Fund strategy was replaced with the Firetrail Absolute Return Fund.
- On 28 April 2021 the Dimensional World Allocation 50/50 Trust and Dimensional World Allocation 70/30 Trust were renamed Dimensional World 50/50 Portfolio and Dimensional World 70/30 Portfolio respectively.
- On 23 June 2021 the name of the BlackRock Concentrated Industrial Share Fund was changed to the BlackRock High Conviction Australian Equity Fund.























## 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 2021. 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.

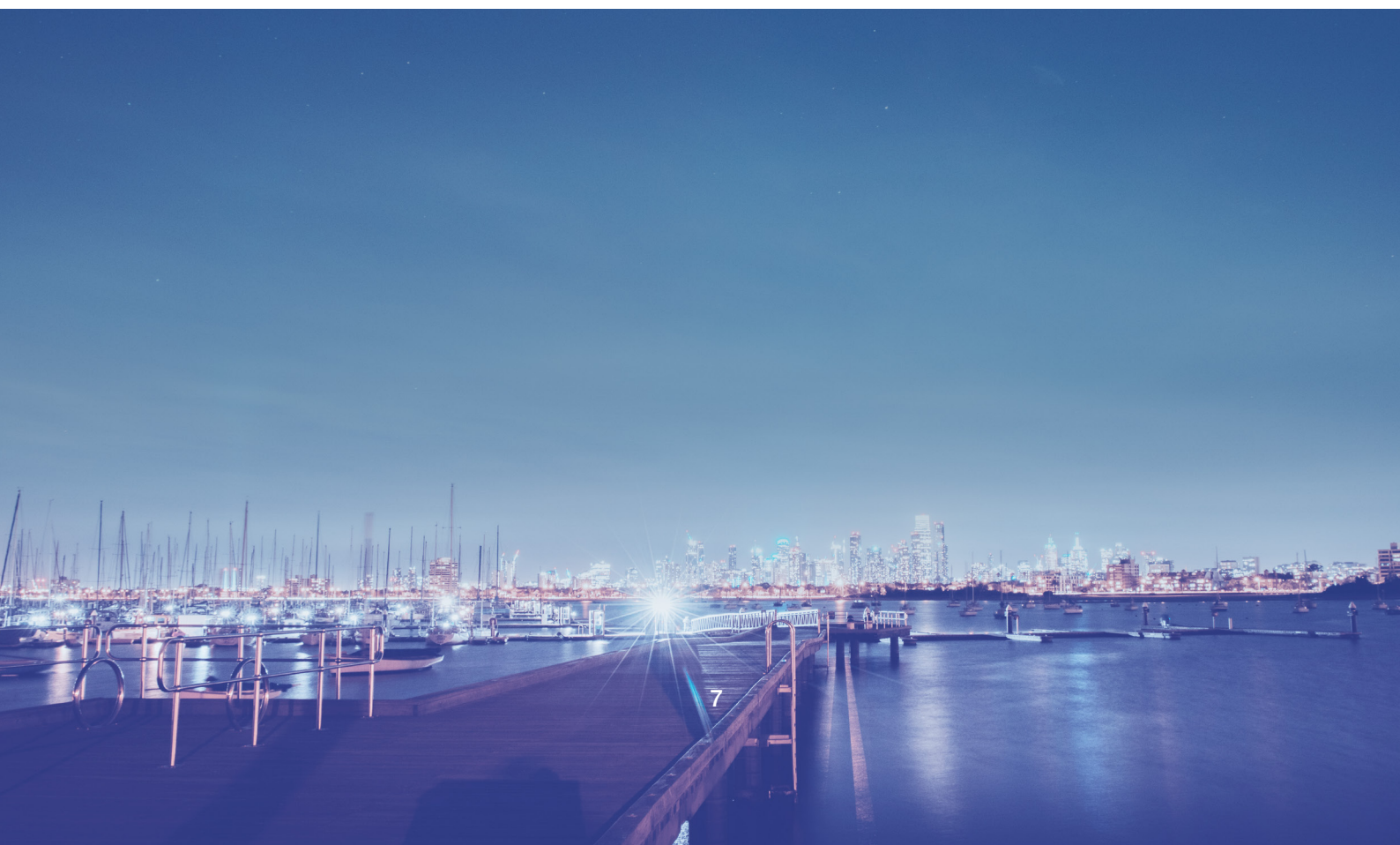
Performance reflects the performance of the investment option. Where the current investment manager has been appointed after the inception of the investment option, the performance in the table will not be reflective of the investment manager's performance prior to their appointment.

Investment option	Fund code	Tax aware level	Returns (after fees and taxes) to 30 June 2021				Inception date	Current investment manager commencement date
			2020-21 financial year	3 years (p.a.)	5 years (p.a.)	Since inception		
Affirmative Global Bond Fund	49	 Tax Enhanced	0.04%	-	-	0.04%	28/04/2021	Since inception
AMP Capital Global Property Securities Fund	5A	 Tax Enhanced	21.41%	4.93%	3.50%	3.40%	1/05/2008	Since inception
Ardea Real Outcome Fund	37	 Tax Advantage	-1.34%	-	-	-1.34%	28/04/2021	Since inception
Benelong Concentrated Australian Equities Fund	38	 Tax Enhanced	29.30%	-	-	16.50%	21/11/2018	Since inception
BlackRock High Conviction Australian Equity Fund	20	 Tax Optimised	27.39%	7.33%	7.29%	5.66%	1/05/2008	9/06/2020
Dimensional Global Small Company Trust	9	 Tax Enhanced	28.91%	6.49%	7.32%	5.47%	12/08/2004	13/06/2017
Dimensional Sustainability World Allocation 70/30 Trust	50	 Tax Enhanced	-2.53%	-	-	-2.53%	28/04/2021	Since inception
Dimensional World 50/50 Portfolio	40	 Tax Optimised	11.72%	-	-	6.54%	21/11/2018	Since inception
Dimensional World 70/30 Portfolio	24	 Tax Optimised	18.69%	6.63%	6.97%	7.09%	31/07/2012	Since inception
Dimensional World Equity Portfolio	28	 Tax Optimised	3.41%	-	-	3.41%	28/04/2021	Since inception
EQT Wholesale Mortgage Income Fund	25	 Tax Advantage	1.41%	1.61%	1.58%	1.91%	9/05/2012	Since inception
Evergreen Responsible Growth Model	27	 Tax Optimised	2.46%	-	-	2.46%	28/04/2021	Since inception
Firetrail Absolute Return Fund	6A	 Tax Enhanced	11.02%	3.04%	-	2.84%	4/12/2017	28/04/2021
Generation Life Tax Effective Australian Share Fund	35	 Tax Optimised	22.89%	-	-	10.30%	20/05/2019	Since inception
Generation Life Term Deposit Fund	14A	 Tax Advantage	-0.09%	0.49%	0.71%	1.65%	21/07/2010	Since inception
GMO Systematic Global Macro Trust	47	 Tax Advantage	2.25%	-	-	2.25%	28/04/2021	Since inception
Hyperion Global Growth Companies Fund	53	 Tax Enhanced	12.96%	-	-	12.96%	28/04/2021	Since inception
Investors Mutual Australian Shares Fund	6	 Tax Enhanced	15.15%	3.37%	4.61%	5.33%	12/08/2004	4/12/2017
Investors Mutual Future Leaders Fund	7	 Tax Enhanced	25.62%	1.87%	2.90%	4.87%	12/08/2004	4/12/2017
iShares Hedged International Equity Index Fund	12	 Tax Enhanced	25.94%	9.31%	9.62%	6.65%	12/08/2004	4/12/2017
iShares S&P/ASX20 ETF Portfolio	14	 Tax Enhanced	12.82%	2.84%	5.46%	5.27%	12/08/2004	28/04/2021
iShares Wholesale Australian Bond Index Fund	12A	 Tax Enhanced	-1.57%	2.01%	1.20%	2.78%	1/05/2008	4/12/2017
iShares Wholesale Australian Equity Index Fund	11	 Tax Enhanced	20.24%	7.02%	8.00%	6.60%	12/08/2004	4/12/2017
iShares Wholesale Australian Listed Property Index Fund	12B	 Tax Enhanced	22.32%	4.63%	3.27%	3.48%	1/05/2008	4/12/2017
iShares Wholesale International Equity Index Fund	11A	 Tax Enhanced	19.29%	9.88%	-	9.28%	2/08/2016	4/12/2017
Kapstream Absolute Return Income Fund	10A	 Tax Enhanced	0.44%	0.44%	-	0.43%	4/12/2017	Since inception
Macquarie Treasury Fund	1	 Tax Advantage	-0.16%	0.36%	0.58%	2.08%	8/09/2004	23/05/2007
Magellan Global Fund	8	 Tax Optimised	6.22%	8.57%	9.38%	4.97%	12/08/2004	26/02/2014
Magellan Infrastructure Fund	5B	 Tax Enhanced	4.77%	2.47%	3.31%	4.55%	5/09/2014	Since inception
Martin Currie Emerging Markets Fund	36	 Tax Enhanced	24.08%	-	-	14.36%	21/11/2018	Since inception
Martin Currie Equity Income Fund	23	 Tax Optimised	20.75%	3.43%	4.42%	5.13%	12/08/2004	9/06/2020
Martin Currie Real Income Fund	5	 Tax Enhanced	11.35%	2.40%	1.98%	3.42%	1/12/2010	21/11/2018
MFS Concentrated Global Equity Trust	8A	 Tax Enhanced	19.72%	-	-	12.97%	21/11/2018	Since inception
MLC Horizon 2 Income Portfolio	32	 Tax Enhanced	5.78%	-	-	2.61%	21/11/2018	Since inception
MLC Horizon 3 Conservative Growth Portfolio	33	 Tax Enhanced	9.72%	-	-	5.01%	21/11/2018	Since inception
MLC Horizon 4 Balanced Portfolio	22	 Tax Enhanced	14.44%	5.19%	5.69%	3.76%	1/05/2008	Since inception
MLC Horizon 6 Share Portfolio	34	 Tax Enhanced	20.10%	-	-	9.52%	21/11/2018	Since inception
Mutual ADI/Bank Securities Fund	14B	 Tax Advantage	1.53%	1.19%	1.44%	1.36%	12/08/2004	Since inception

Returns (after fees and taxes)  
to 30 June 2021

Investment option	Fund code	Tax aware level	2020-21 financial year	3 years (p.a.)	5 years (p.a.)	Since inception	Inception date	Current investment manager commencement date
Pendal Enhanced Credit Fund	3	 Tax Enhanced	0.32%	2.04%	1.64%	2.79%	12/08/2004	17/05/2015
Pendal Sustainable Australian Share Fund	39	 Tax Enhanced	21.89%	-	-	10.17%	21/11/2018	Since inception
Pendal Sustainable Balanced Fund	41	 Tax Enhanced	13.91%	-	-	7.44%	21/11/2018	Since inception
Perpetual Wholesale Australian Share Fund	15	 Tax Optimised	27.89%	7.55%	8.04%	5.23%	7/03/2006	Since inception
Perpetual Wholesale Balanced Growth Fund	19	 Tax Enhanced	14.92%	5.70%	5.37%	3.68%	7/03/2006	Since inception
Perpetual Wholesale Conservative Growth Fund	26	 Tax Enhanced	6.03%	3.36%	-	2.99%	4/12/2017	Since inception
Perpetual Wholesale Ethical SRI Fund	21	 Tax Enhanced	31.33%	7.26%	6.91%	7.36%	1/05/2008	Since inception
Perpetual Wholesale Geared Australian Share Fund	16	 Tax Enhanced	81.15%	9.99%	13.33%	6.37%	29/01/2006	Since inception
Perpetual Wholesale International Share Fund	17	 Tax Enhanced	27.78%	9.16%	10.15%	4.27%	29/01/2006	Since inception
PIMCO Wholesale Australian Bond Fund	2	 Tax Enhanced	-0.48%	1.97%	1.26%	2.85%	12/08/2004	14/12/2012
PIMCO Wholesale Global Bond Fund	4	 Tax Enhanced	1.34%	2.19%	1.71%	1.97%	12/08/2004	29/10/2012
Russell Investments Balanced Fund	10	 Tax Enhanced	14.67%	4.66%	4.55%	4.33%	10/09/2004	20/05/2018
Schroder Absolute Return Income Fund	13	 Tax Enhanced	1.47%	1.47%	1.60%	1.73%	12/08/2004	1/01/2010
Schroder Real Return Fund	10B	 Tax Enhanced	6.17%	1.14%	-	0.98%	4/12/2017	17/12/2019
Stewart Investors Worldwide Sustainability Fund	29	 Tax Enhanced	5.67%	-	-	5.67%	28/04/2021	Since inception
Vanguard Balanced Portfolio	31	 Tax Optimised	9.49%	-	-	7.67%	21/11/2018	Since inception
Vanguard Conservative Portfolio	12C	 Tax Optimised	5.39%	4.07%	-	3.26%	2/08/2016	Since inception
Vanguard Growth Portfolio	12D	 Tax Optimised	14.44%	6.85%	-	6.38%	2/08/2016	Since inception
Vanguard High Growth Portfolio	30	 Tax Optimised	19.12%	-	-	11.56%	21/11/2018	Since inception
Walter Scott Global Equity Fund (Hedged)	52	 Tax Enhanced	4.52%	-	-	4.52%	28/04/2021	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).  
Performance is not annualised for periods less than 12 months.





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