

How much of your  
investment returns  
are consumed  
by tax?



Generation Life Tax Effective  
Australian Share Fund



## Investment returns go up when taxes go down. It's that simple.



Tax awareness is critical when maximising an investment's return. But many investors are swayed by headline performance figures and overlook this fundamental component of strategy.

Tax is often the biggest cost for investors but they feel very limited by the strategies available to reduce it.

Over time, it becomes increasingly apparent that an investment's tax cost makes a profoundly significant difference to the end returns the investor will enjoy. This is particularly true in Australia where rules for imputation credits and capital gains apply.



## Generation Life has been helping Australians with tax effective investment solutions for over 16 years. Are you considering the impact of tax on your investment? We are and we're doing something about it.

Superannuation has been the obvious choice to maximise after tax outcomes. But did you know there are strategies outside super that deliver the same or better after tax returns, without the lock up periods? Our latest share strategy delivers superior after tax returns to Australian investors. This new fund can improve your clients' take home return by an average of 2.4% p.a. over the long term, with an expected long-term effective tax rate of as low as 9%-11%\* which has been independently verified. On a \$100,000 investment this equates to an additional \$67,300 over 10 years.

### In a nutshell, we're offering a:

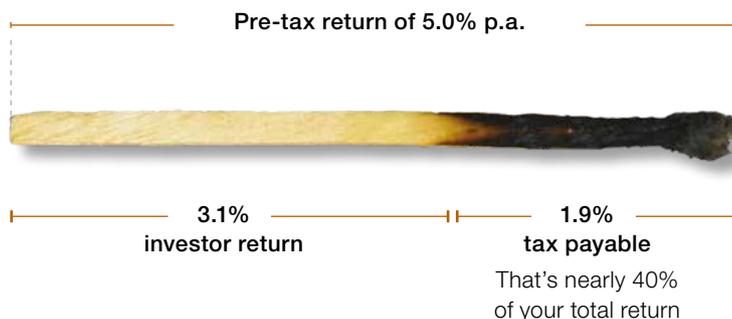
📈 long only, Australian shares 'index plus' strategy that is designed to provide long-term capital growth.

👛 tax-aware trading and implementation approach that delivers superior after tax outcomes by reducing transaction and taxation costs.

📊 transparent, rules-based portfolio that is actively managed by Redpoint Investment Management. Their strategy focuses on delivering lower volatility with a risk profile that matches the Australian share market index.

## The impact of tax on investment returns

This graphic shows how investing directly, or through a managed fund, can cost investors almost 40% of their gross return in taxes!\*\*



\* Expected long-term effective tax rate paid by the fund is in the range of 9-11%. The actual effective tax rate may vary and future performance and effective tax rates are not guaranteed.

\*\* Illustrative annualised return profile for a portfolio of Australian shares, invested over a 20 year period, with indicative tax paid on the assumption of a 47% marginal tax rate (including levies) and assumed reinvestment of dividends and/or distributions. This includes the effect of any imputation credits and realised gains discount rules applicable over the period but does not include the impact of fees. This does not represent any actual or forecast returns.

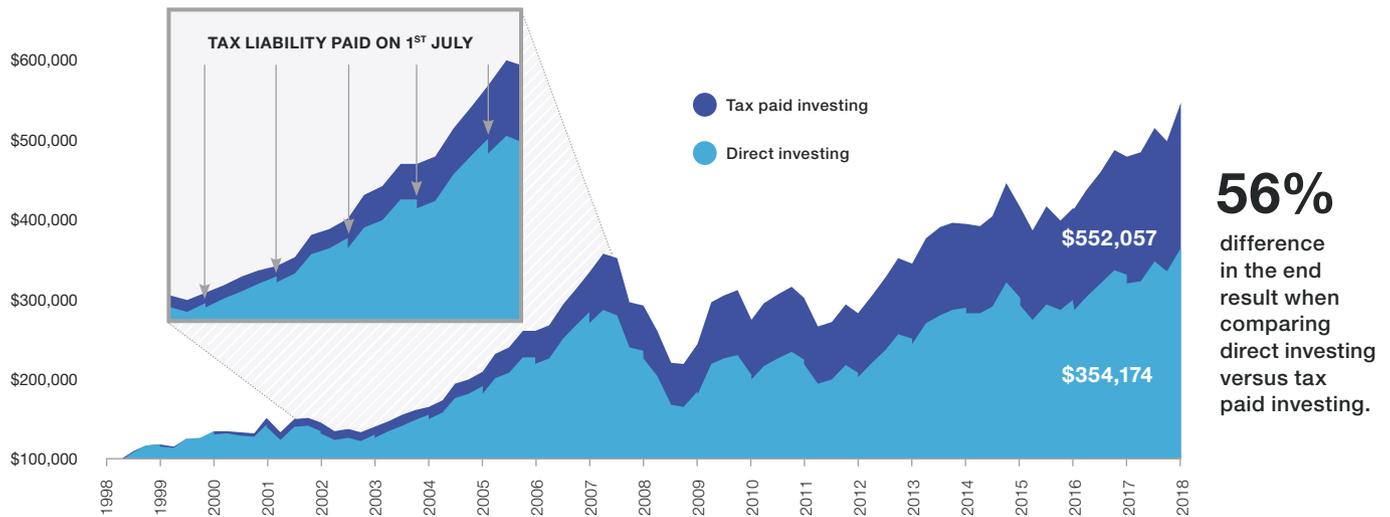
## Enhancing long-term returns after tax

The chart below is a simulation that covers a 20 year period prior to the launch of the Generation Life Tax Effective Australian Share Fund. Taking the example of an individual investor on a 47% marginal tax rate (including levies) it compares the back-tested after tax performance of the fund's strategy with what one could anticipate from an Australian share index fund over the same period. As you can see, our expected long-term average tax rate of 10% has a dramatic and positive effect on the return of the investment.

**Graph Assumptions:** Based on back-tested strategy for a 20 year period to 30 June 2018 on an after fees basis and assumes index investment management cost of 0.29% p.a. and Generation Life Tax Effective Australian Share Fund investment management cost of 0.65% p.a. For illustrative purpose only. Compounding returns assuming reinvestment. Past performance not indicative of future performance. Assuming a marginal tax rate of 47% (including levies) when investing directly versus an effective tax rate of 10% through tax paid investing.

### Back-tested performance on a \$100,000 investment

1 July 1998 – 30 June 2018



Back-tested performance is not an indicator of future actual performance. This is a new fund with no actual performance history. Chart and performance returns are provided for illustrative purposes and reflects hypothetical historical performance and assumptions which may or may not be tested and subject to loss. Please see the Performance Disclosures at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

## Managing after tax returns without increasing risk

The key to success lies in managing after tax outcomes without adding additional risk. Typically, a number of opportunities to do this will present themselves along the investment journey. For example, an astute investor might improve an after tax return by delaying the sale of an asset until the following financial year.

Or he might choose to sell one of two identical assets knowing that the tax cost of doing so would be less, but will have no impact on the portfolio's risk profile. Our tax-aware philosophy takes a very similar approach. The Generation Life Tax Effective Australian Share Fund seeks to control tax outcomes through smart trading that does not incur additional levels of risk.

## How is the Fund able to manage its tax so effectively?

### 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.

### Single outcome focus

We do more than maintain a tax-aware investment and trading approach. We also utilise 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 Generation Life Tax

Effective Australian Share 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 we employ to reduce stock turnover (the less frequent trading of stocks).

Firstly, our 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 – the funds remain invested for longer with the benefit of compounding that leads to improved returns.

## How can the fund be used?

The fund invests in Australian shares in a tax aware manner with an 'index plus' approach. This strategy provides low-cost active management and seeks to exceed the S&P/ASX200 Accumulation Index modestly over the long term.

The fund's structure and strategy may be suitable for investors who require a:



tax effective alternative to superannuation, without the lock up periods



low cost and low volatility alternative to actively managed Australian share funds



tax effective alternative to holding Australian shares directly or through a managed fund



way to manage the level of distributable income and tax paid.

Don't let tax sink your returns



Investing directly  
or through a  
managed fund

Taxes can be one of the largest  
drags on investor returns.

30-47% tax



## Tax-aware investing

Imagine a fund that's not weighed down by tax. Returns go up!

**10% effective tax\***

\* Expected long-term effective tax rate paid by the fund is in the range of 9-11%. The actual effective tax rate may vary and future performance and effective tax rates are not guaranteed.

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The Generation Life Tax Effective Australian Share Fund strategy is exclusively accessed through the LifeBuilder and ChildBuilder range of investment bonds.

To find out more visit [genlife.com.au](http://genlife.com.au)

## How will the Fund be managed?

Generation Life has appointed Redpoint Investment Management, a specialist Australian shares investment manager, to be responsible for the fund's tax effective investment strategy. 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 assembled a highly qualified team of seasoned investment specialists whose mission is to deliver risk efficient and cost-effective investment solutions to their clients. The Redpoint team members have managed systematic factor-based, Australian and global equity strategies for over twenty years and have a proven track record in designing and managing tax effective investment strategies. Redpoint currently manages over \$10 billion for their institutional and retail clients.



### **Investment objective**

The Fund aims to provide long-term tax effective total returns through diversification across a broad range of Australian companies and industries.

### **Investment approach**

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 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.

### **Investor suitability**

The fund is suited to medium to long-term investors (minimum 5 year investment timeframe) who are seeking exposure to a portfolio of larger market capitalisation Australian companies that are listed on the Australian Stock Exchange with the potential to achieve long-term capital growth. Given the focus on delivering superior after tax returns and an expected long term effective tax rate of around 10%, the fund is particularly suited to investors looking for an effective after tax investment solution.

### Tax management

Redpoint uses tax efficient strategies to manage the fund's tax position. Portfolio construction and implementation is designed to manage and limit the impact of tax on share trading activities and after tax returns. By implementing a tax aware process to its trading approach, the investment manager is able to take advantage of tax rules that are often overlooked by investment managers. Expected portfolio turnover due to trading by the investment manager is not expected to exceed 25% of the portfolio over a rolling 12 month period.

### Risk management

Portfolio risk management is inherent in the quantitative process used by the investment manager within the defined risk limits. The objective is to track closely the market risk that would ordinarily be associated with investing in a basket of stocks that replicate the index. This is achieved through portfolio constraints imposed on the sector exposures and stock selection.

### Investment guidelines

Cash 0-10%  
Australian shares 90-100%

### Investment management fees and costs

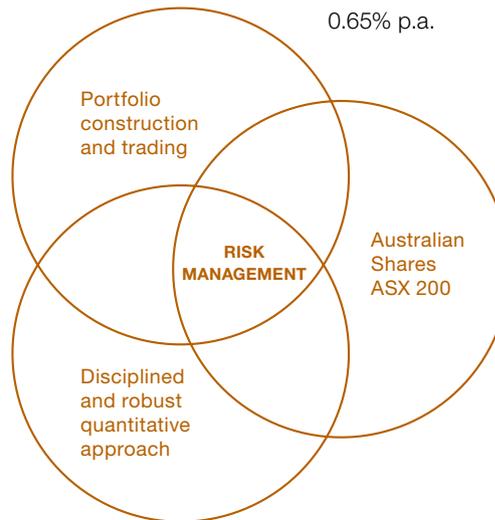
0.65% p.a.

### Manage risk and cost Tax aware

Low stock turnover  
Smart trading based on tax outcomes  
Risk constraints

### Stock selection

Factor Investing approach  
Financial analysis and insight



### Investment universe

Closely replicate the performance of the S&P/ASX200 Accumulation Index



As the pioneer of Australia's first truly flexible investment bond, Generation Life have been at the forefront of providing innovative investment solutions for over 16 years. Today we are a leading specialist of tax effective solutions – we have had 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. We're outthinking today.



## To find out more

Speak with your Financial Adviser

Call us on 1800 806 362

Email enquiry@genlife.com.au

Visit genlife.com.au



[genlife.com.au](http://genlife.com.au)

### Performance disclosure

Illustrative performance returns for the fund do not represent actual performance. The performance information presented in the chart on page 4 represents back-tested performance based on simulated data results from 1 July 1998 to 30 June 2018 using the Generation Life Tax Effective Australian Share Fund strategy and investment approach with annual rebalancing on the first of each financial year and the effect of fees, charges and investment bond taxes. Back-tested performance is hypothetical (it does not reflect actual trading) and is provided for informational purposes only to indicate historical performance had the fund been available over the relevant time period. There are limitations inherent in back-tested results, particularly that returns do not reflect actual trading and may not reflect the impact that material economic and market factors may have had on the fund manager's decision-making had the fund manager actually managed the fund. Back-tested performance also differs from actual performance because it is achieved through the retroactive application of portfolios (in this case, Redpoint's portfolio) designed with the benefit of hindsight. As a result, the portfolio theoretically may be changed from time to time and the effect on performance results and tax rates could be either favourable or unfavourable.

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