



Investment bonds

## Keep more investment returns

The evolution of after-tax returns

# Discover Generation Life

Pioneer of Australia's first truly flexible investment bond, with over \$2.8b invested with us to date. Proud to be shaping the retirement income landscape with an investment-linked lifetime annuity.

Specialist provider of **investment bonds and an investment-linked lifetime annuity**

**A new lifetime annuity offering flexibility & choice** with an expansive investment menu, ability to switch and bring forward income

**54% market share of total inflows** into investment bonds<sup>1</sup>  
**17.4 Years** average investment term

**Market leader** in tax aware investing

Flagship investment bond products **Highly recommended** by Zenith and Lonsec<sup>2</sup>

**1st investment bond provider** to offer an expansive investment menu (currently 64 investment options)

**Trusted** APRA regulated and parent company is listed on the ASX

**Human**, fast, professional and personalised service

1. Plan for Life, Investment Bonds Market Report for period ended 30 June 2022  
2. Ratings relate to LifeBuilder and ChildBuilder investment bond products



# Investment Tax Structures

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Investment Bond	Individual	Company	Private trust	Superannuation
<b>Taxation:</b> <ul style="list-style-type: none"> <li>→ Max 30%</li> <li>→ Average 10% – 20% at Generation Life for many investment options</li> <li>→ Tax paid structure</li> </ul>	<b>Taxation:</b> <ul style="list-style-type: none"> <li>+ Personal marginal tax rate</li> </ul>	<b>Taxation:</b> <ul style="list-style-type: none"> <li>+ 30%</li> </ul>	<b>Taxation:</b> <ul style="list-style-type: none"> <li>+ Personal marginal tax rate or 30%</li> </ul>	<b>Taxation:</b> <ul style="list-style-type: none"> <li>+ Accumulation 15%</li> <li>+ Drawdown 0%</li> <li>+ Death tax to non-SIS dependants</li> <li>+ Section 293</li> </ul>
<b>Opportunity:</b> <ul style="list-style-type: none"> <li>→ Tax-free transfers</li> <li>→ Creditor protection</li> <li>→ Estate planning</li> <li>→ Tax paid after 10 years - tax advantages pre 10 years</li> <li>→ No limit on contributions</li> <li>→ No limits on the number of investment bonds you can own</li> </ul>	<b>Limitations:</b> <ul style="list-style-type: none"> <li>+ Estate asset</li> <li>+ Available to creditors</li> </ul>	<b>Limitations:</b> <ul style="list-style-type: none"> <li>+ Tax deferral only</li> <li>+ Gross-up of franking</li> <li>+ Division 7A</li> <li>+ Annual reporting</li> <li>+ Willing participants</li> <li>+ Estate planning</li> </ul>	<b>Limitations:</b> <ul style="list-style-type: none"> <li>+ Must distribute earnings</li> <li>+ Annual reporting</li> <li>+ Willing participants</li> <li>+ Trustee obligations</li> <li>+ Estate planning complex</li> </ul>	<b>Limitations:</b> <ul style="list-style-type: none"> <li>+ \$27.5k p.a. concessional</li> <li>+ \$110k p.a. non-concessional</li> <li>+ \$1.7M TSB</li> <li>+ SIS Legislation</li> <li>+ Estate planning</li> <li>+ Preservation age</li> </ul>



# Tax Aware Investing

Delivering tax alpha

**Improving returns with no additional investment risk**  
by reducing tax costs

**How?** Unique structure, approach to trading, mandate structure, compounding returns

**Good turnover of assets** – ability to offset a capital loss with an income gain

**Not buying into unrealised and realised gains tax positions** – all tax positions factored into unit price



Tax Optimised



Tax Enhanced



Tax Advantage

# Three levers to managing tax-effectiveness

## Integrated tax considerations

1.

### Active Tax Lot Management

Selling securities that are trading at a loss allows harvested losses to offset income and capital gains in other parts of the portfolio or in the future.

2.

### Managing the character of earnings

Paying attention to holding period (long-term vs. short-term capital gains) and type of dividend (qualified vs. non-qualified, eligible for franking) helps to ensure favourable net-of-tax results.

3.

### Delaying gain realisation

Postponing the realisation of gains allows growth to compound for longer. Economically like an interest-free loan to earn wealth through compounding

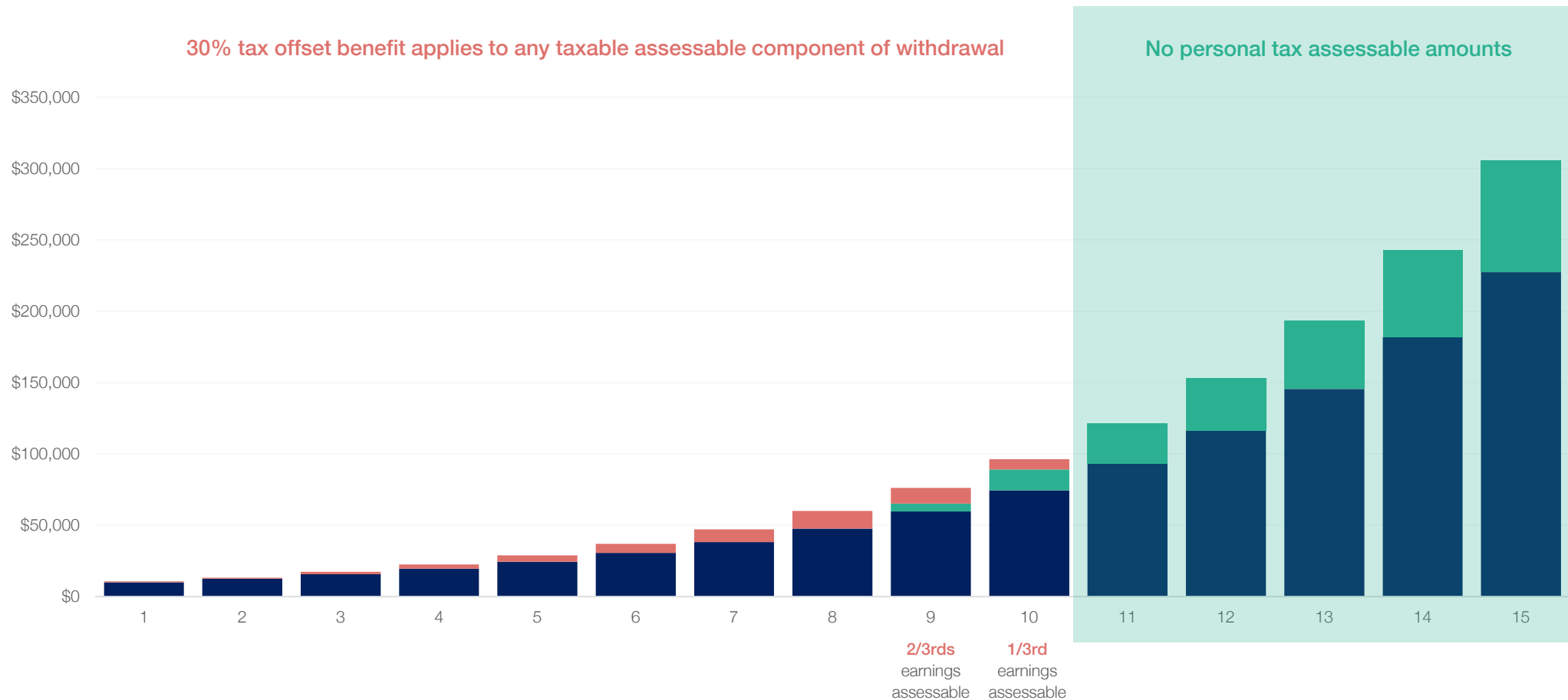
## How are investment bonds taxed

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



## Investment bond tax structure and 10-year advantage period



Assumption: Assuming an initial investment of \$10,000 with a total annual tax investment return of 6.94% p.a. Estimated average fees and costs of 0.65% p.a. over investment term with an effective bond tax rate of 18.56%. Investment returns are for illustrative purposes only and do not represent any actual or future performance expectations.

# Myths of investment bonds



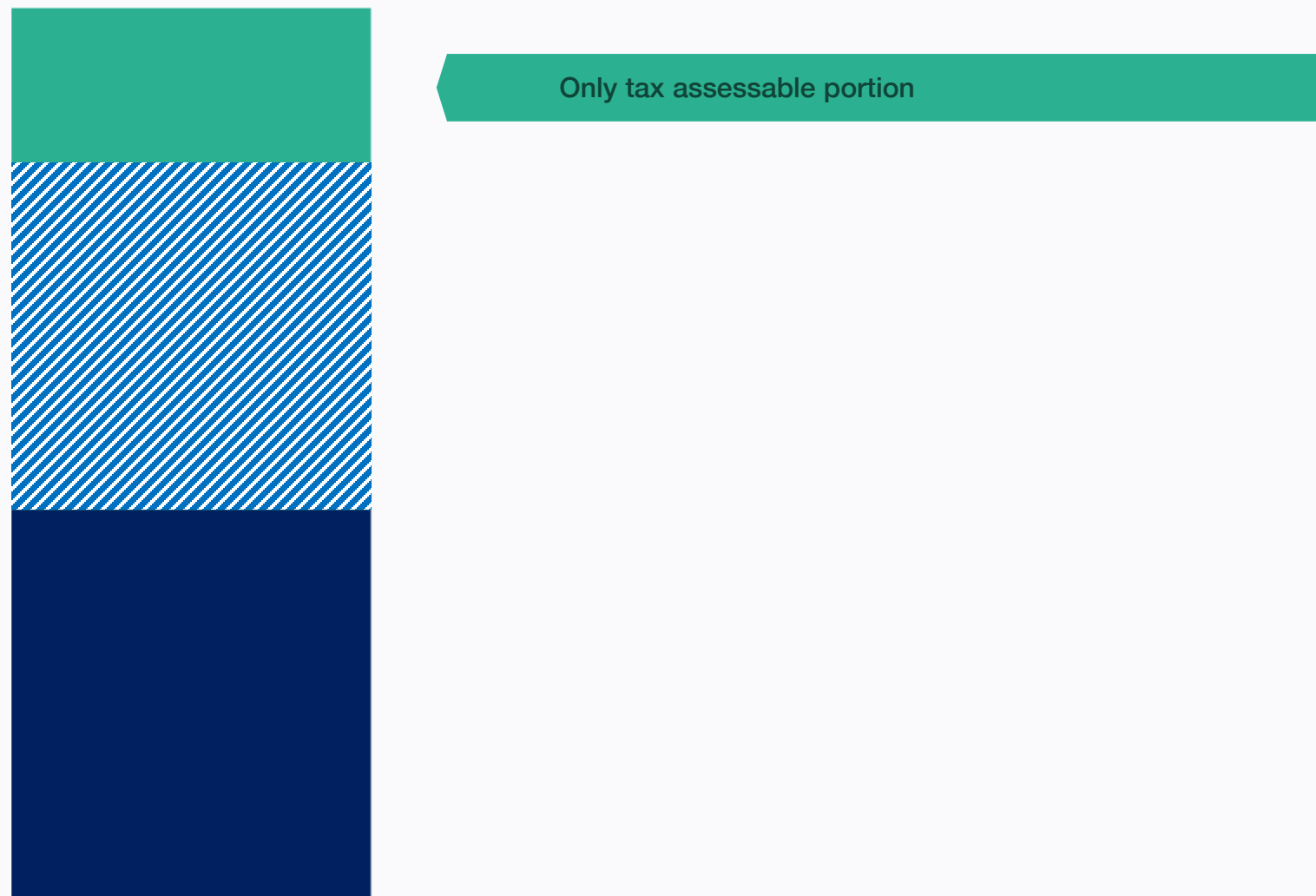
Generation Life is able to offset capital losses against income

Don't buy into embedded tax liability

Don't pay tax on unrealised capital gains



## No personal tax liability



## Example of tax provisioning

Assuming a 10% return for the period 1 July to 30 June  
5% income & 5% capital



## Example of tax provisioning

Assuming a 10% return for the period 1 July to 30 June  
5% income & 5% capital



# Performance comparison

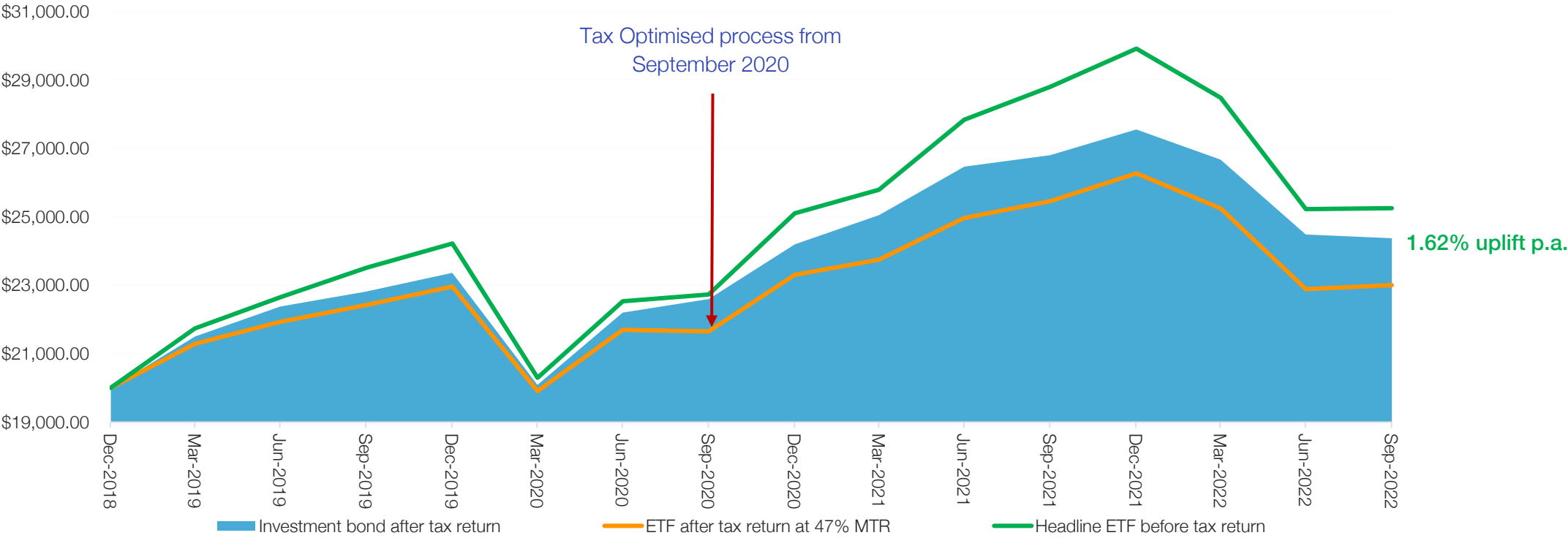
Comparing Direct vs. Generation Life investment bond as at 30 September 2022

	Vanguard Balanced		Vanguard Growth		Vanguard High Growth	
	Direct (before tax & fees)	Investment bond (after-tax & fees)	Direct (before tax & fees)	Investment bond (after-tax & fees)	Direct (before tax & fees)	Investment bond (after-tax & fees)
1 Month	-4.40%	-3.42%	-4.91%	-3.84%	-5.40%	-4.32%
3 Months	-2.08%	-1.77%	-1.60%	-1.40%	-1.08%	-1.06%
6 Months	-9.85%	-8.02%	-10.58%	-8.59%	-11.26%	-9.19%
1 Year	-12.40%	-10.32%	-11.96%	-10.15%	-11.50%	-9.70%

# The power of after-tax returns

## Comparing after-tax returns

Investment bonds and Exchange Traded Fund (assuming 47% marginal tax rate including levies)



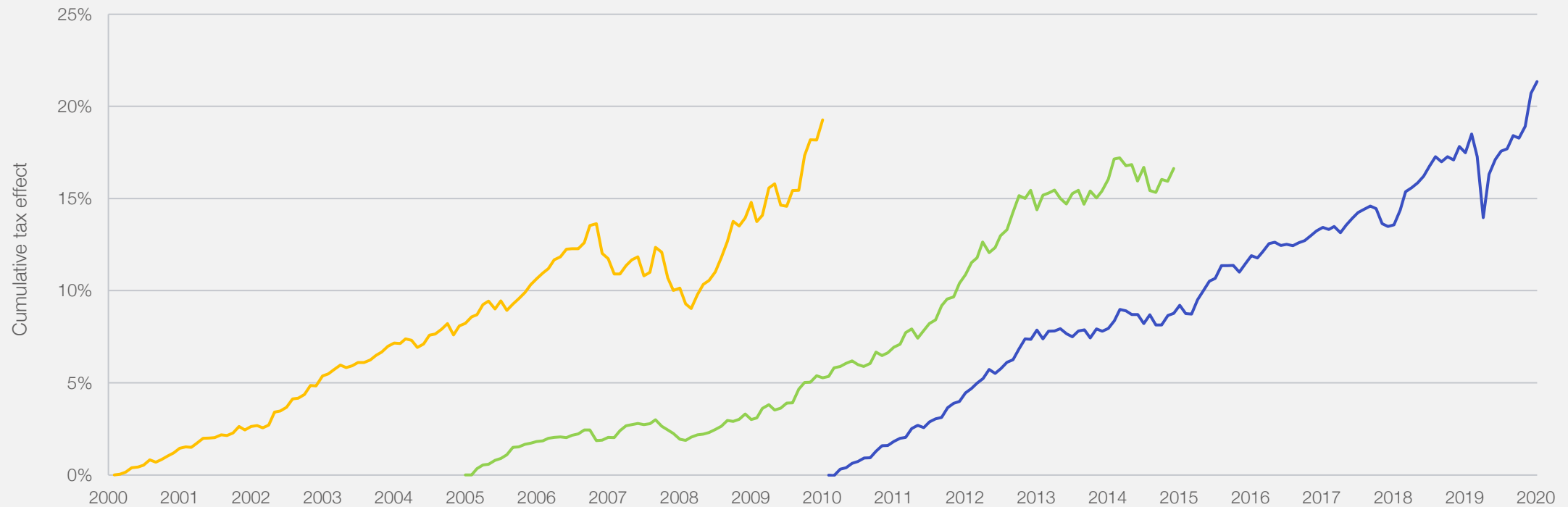
Based on an investment of \$20k in the Vanguard High Growth Model from 31 December 2018 to 01 October 2022 and the Vanguard High Growth Index ETF over the same period. Past performance is not an indication of future performance. Performance is net of fund and fund taxes, management fees and other operating expenses (if applicable) and is based on the unit prices for the quoted periods and exclude the effect of any investor specific costs, person taxes on sale of assets or management fee rebates.



# Integrating tax management

## Tax enhancement adds value in different market conditions

10-year simulations for a variety of start dates



Source: ASX 200 Investment as of 30 September 2022. Simulated results for corporate investor over period 31 Dec 2000 – 31 Dec 2020. Simulated returns are not a guarantee of future performance

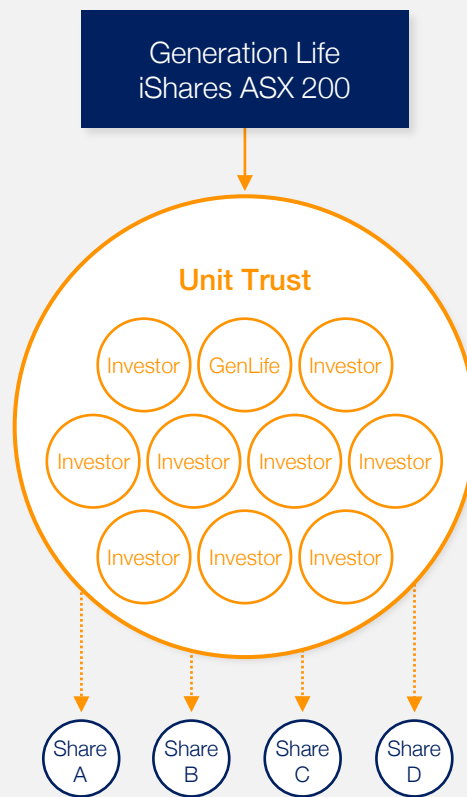
## Tax Optimised structure

Generation Life holds underlying securities directly rather than the investment pool (unit trust) for the strategy

Improved tax efficiency

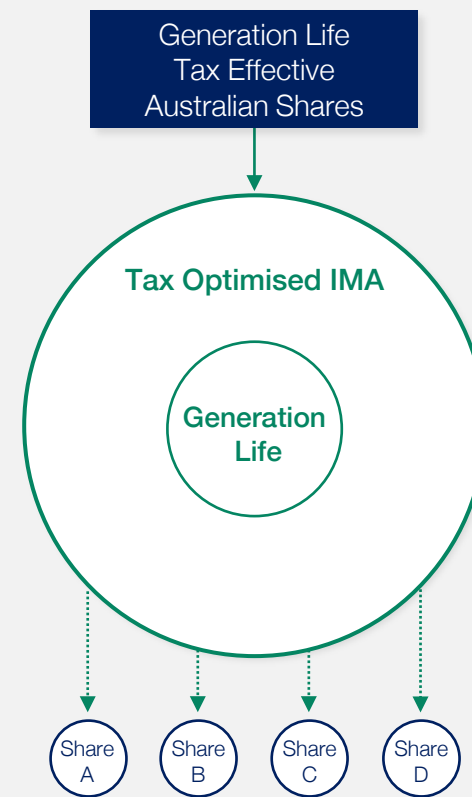
When changing managers or asset classes, don't need to sell all holdings.

### Standard investment bond fund



**Generation Life invests in unit trust pool with other investors**  
(Unit trust managed by iShares)

### Direct investment structure



**Generation Life hold securities directly**  
(Portfolio managed by external manager)

# The power of using an active approach to tax management

## Using losses to lower taxable income

Ten dividends ex in December 2021  
ALL, MTS, CHC, DXS, GMG, MGR, SCP, TCL

	TEAS	Unit Trust at 47% MTR
Cash yield	0.17%	0.17%
Franking credit	0.03%	0.03%
Tax payable on dividends (CHC, DXS, GMG, MGR, SCP, TCL unfranked or partially franked)	0.03%	0.07%
14 losses realised, 3 gains realised	- 0.38%	
<b>Overall tax payable refund</b>	<b>- 0.35%</b>	<b>0.07%</b>

Due to the unique tax structure of investment bonds, **the overall tax payable is a -0.35% (refund)**. Held directly an equivalent share portfolio not optimising for tax **has at least a 0.07% tax payment (payment)**.

**Monitoring both income and gains can uncover opportunities to improve after-tax outcomes.**



# Choosing the right Manager

## Global Shares

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### Passive manager

#### Manager A

Low Turnover – Tax Neutral

Fee	0.20%
Turnover	10%
Spreads	0.08%

**Pre-tax return** 8.40% p.a.

Underperform the index by 0.20%

**After-tax return** 7.10% p.a.

Tax impact is medium due to low turnover, some tax leakage through investor cashflow and credit leakage

### Active manager

Strong headline return

#### Manager B

High turnover, tax credit leakage and capital to income

Fee	0.99%
Turnover	95%
Spreads	0.20%

**Pre-tax return** 10.20% p.a.

Outperforms index by 1.60%

**After-tax return** 6.07% p.a.

Heavy tax impact – poor after-tax return

### Tax aware active

Outperformance on pre and after-tax basis

#### Manager C

Turnover at right time, trading cost and tax credit aware

Fee	0.70%
Turnover	30%
Spreads	0.10%

**Standard Optimisation** 8.80% p.a.

Outperforms index by 0.20%

**Tax Aware Optimisation** 8.35% p.a.

Tax aware manager limits tax leakage and compounds returns for client



## Superior after-tax outcomes

Perpetual Wholesale Australian Share Fund  
headline return for 12 month period

**-3.5%**

### Investing in a unit trust directly

**3.34%**

Tax paid for the year at a 47% MTR

**-6.84%**

After-tax return

### Managed through an investment bond tax structure

**-1.4%**

No distributions tax paid on income

**-2.39%**

After-tax return

**Uplift of 4.45%**

## Example of how distributions are taxed

31-March	Initial investment @ \$1.591257 per unit (62,843 units)	\$100,000
30-Jun	Value of \$1.455553 per unit (decrease of 9.53%)	\$91,471
1-Jul	Distribution of \$0.125846 per unit	\$7,908
1-Jul	Value of investment after distribution payment	\$83,562
1-Jul	Tax assessable amount (after CGT discounts)	\$4,902
1-Jul	Personal tax payable (47% MTR)	-\$2,304
1-Jul	Net distribution proceeds (after-tax) reinvested (4,221 units)	\$ 5,603
1-Jul	Total investment value including reinvestment (67,063 units)	\$ 88,813

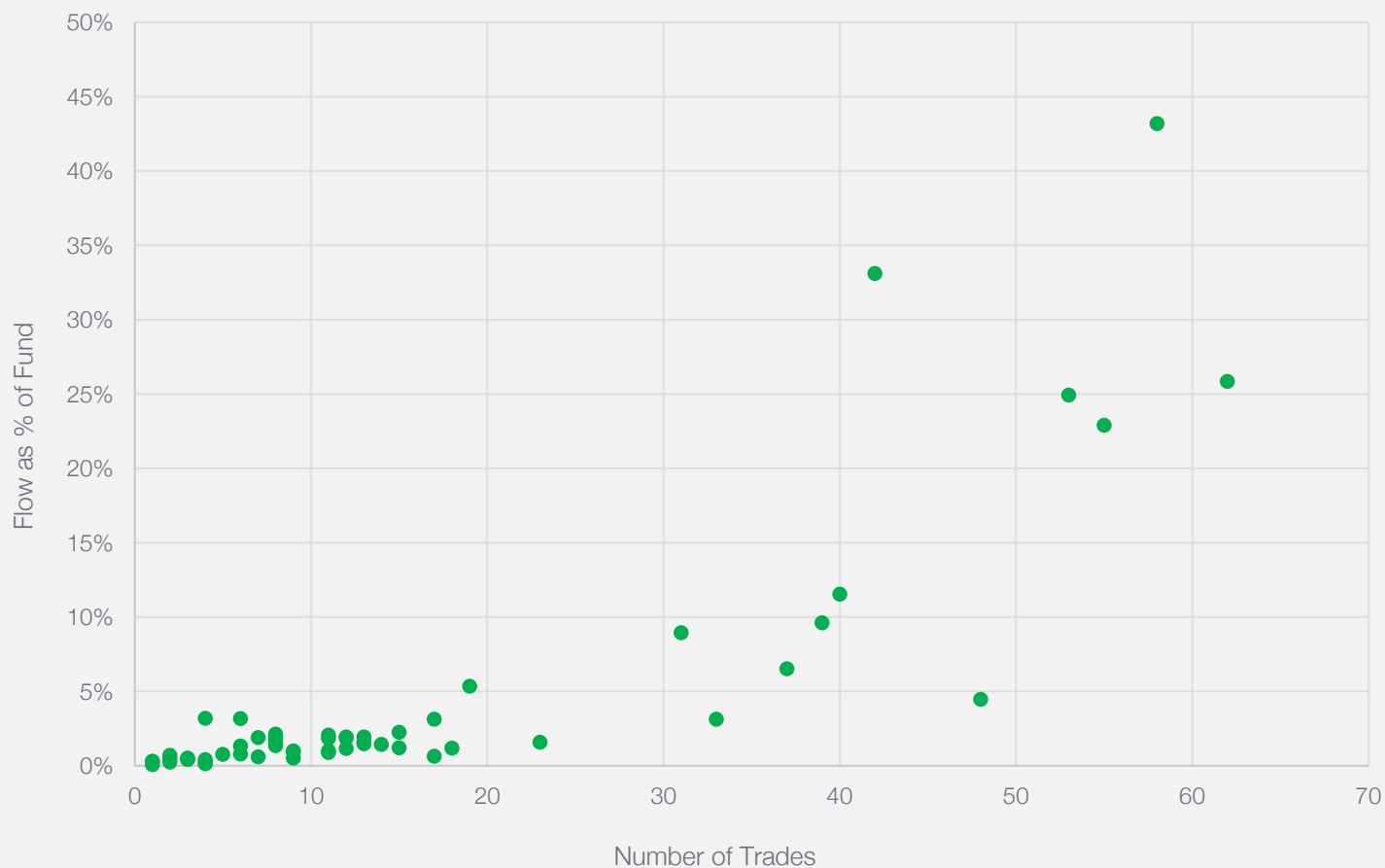
**Investment return for period held -11.19%**

**Quoted fund performance for period -8.30%**

Past performance is not an indication of future performance. Generation Life Performance is net of fund taxes, management fees and other operating expenses (if applicable) and is based on the unit prices for the quoted periods and exclude the effect of any investor specific transactions such as transaction costs, stamp duty and management fee rebates. Direct Investment performance is based on publicly available unit trust prices, distribution details and annual tax components. Individual circumstance have not been taken into account when calculating the direct tax liability applicable to each unique investor.

# Using cashflows to reweight

Number of trades vs investor flow (% of Fund)



## Using fund flows to rebalance

Construct a more tax-effective trade list  
“smart trading”

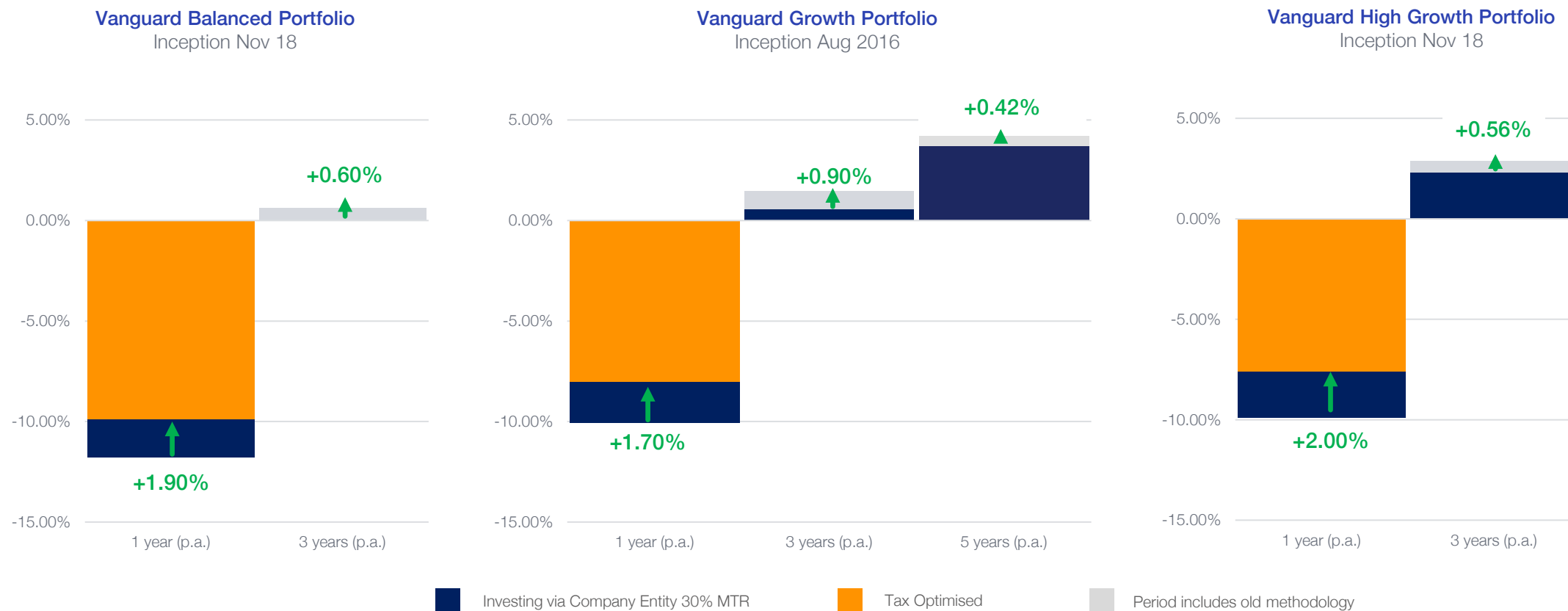
Trade a few stocks to move towards  
strategic asset allocation

Seek better after-tax trade-offs

Lower trading costs

# Tax Optimised performance alpha

## Tax Optimised investing versus a standard 30% tax rate

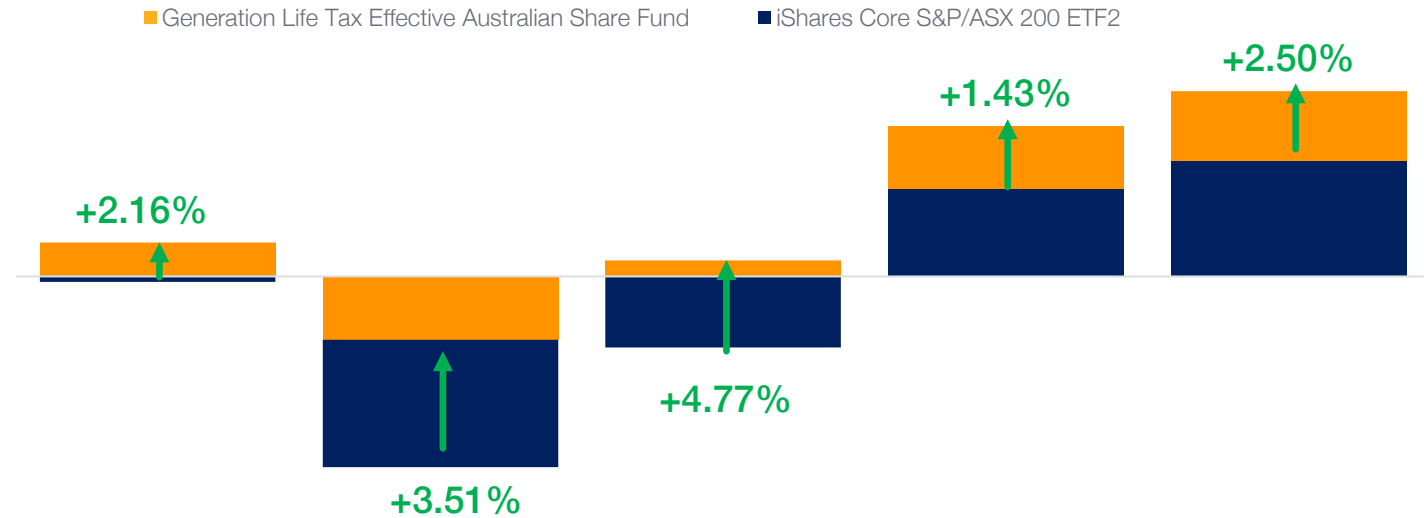


Performance period: 30 June 2022. Past performance is not an indication of future performance. Tax optimised fund returns are net of fund taxes, management fees, performance and other operating expenses (if applicable) and are based on the unit prices for the quoted periods and exclude the effect of any investor specific transactions such as transaction costs, stamp duty and management fee rebates. Direct Investment is conducted on the the unit prices for the quoted period and distributions net of 47% marginal tax rate minus any tax credits and offsets listed in tax component of unit trust. The results produced in this scenario do not take into account the objectives, financial situation or needs of any individual and are not intended for use as financial or investment advice or recommendations. Investment profile, holdings or product characteristics can have differences and it is recommended they are assessed independently for a fully informed decision on product suitability.

# Generation Life Tax Effective Australian Share Fund

Performance versus 30% investor to 30 October 2022

Generating consistent after-tax alpha since inception

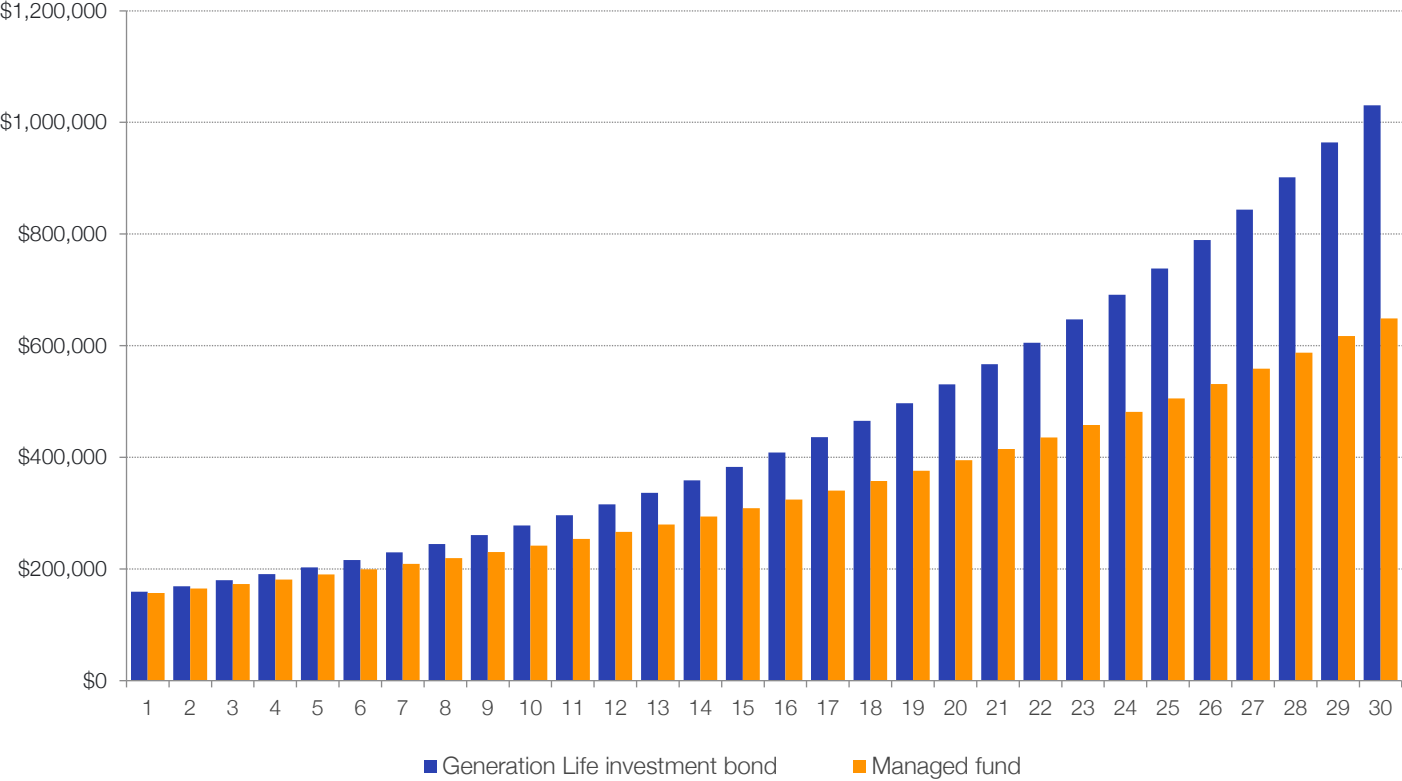


	3 months	6 months	1 year (p.a.)	3 years (p.a.)	Since inception (p.a.) (20 May 2019)
<b>Tax Alpha</b>	<b>2.16%</b>	<b>3.51%</b>	<b>4.77%</b>	<b>1.43%</b>	<b>2.50%</b>
Generation Life Tax Effective Australian Share Fund	1.86%	-3.46%	0.88%	4.83%	6.32%
iShares Core S&P/ASX 200 ETF	-0.30%	-6.97%	-3.89%	3.40%	3.82%

Past performance is not an indication of future performance. Performance is net of fund taxes, management fees and other operating expenses (if applicable) and is based on the unit prices for the quoted periods and exclude the effect of any investor specific transactions such as transaction costs, stamp duty and management fee rebates.

# Morningstar High Growth Tax Alpha

## Compounding tax savings on average since inception return



Improvement in Return	1.6% p.a.
Net earnings – Tax Optimised option	\$880,652
Net earnings – Direct investment at 47% MTR	\$499,076
Additional benefit of investment bond	\$381,575
Investment period	30 years
Effective tax rate	14% -17%
Tax improvement	254% cumulative

Based on an investment of \$150k in the Morningstar High Growth Fund. Average return calculated using tax components and return history of the fund from inception to 30 September 2022. Past performance is not an indication of future performance. Performance is net of fund and fund taxes, management fees and other operating expenses (if applicable) and excludes the effect of any investor specific costs, person taxes on sale of assets or management fee rebates.



# Leading the way in Tax Aware investing

## Generation Life Tax Effective Equity Income Fund

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- + Standalone product offering (three classes)
- + Portfolio performance since inception of 7.95% per annum after-tax and fees
- + Tax paid quarterly dividend income payments
- + 245% increase in after-tax dividend yield vs ASX200 yield (benchmark) for FY22 at 47% marginal tax rate

## Investment bonds and Tax Optimised funds

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- + Expected long term average tax rate of 12%-17% for Tax Optimised strategies
- + Between 0.4% to 2.1% after-tax alpha for 12 months to 30 June 2022
- + 18 tax optimised solutions
- + Additional after-tax return for no change in investment risk
- + Compounding more capital due to better trading and tax awareness
- + Best utilised as an accumulation vehicle or for estate planning.

## Investment-linked lifetime annuity

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- + Innovative lifetime annuity launched March 2022
- + Income guaranteed for life
- + 23 investment options that can be held in any combination and switching enabled
- + LifeBooster mechanism brings forward income in early years of annuity
- + Potential access to some or more social security entitlements
- + Longevity risk 100% reinsured by Hannover Re

# Managing capital gains

Australian shares typically produce a dividend/capital growth split of 4%/4% over the long term. Therefore, ability to manage CGT levels limited to approx. 50% of total return component.

## Personal investor

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- + Relies on CGT discount to reduce assessable gain amount.
- + Can't offset capital losses against other income such as dividend income.
- + Therefore, not able to stay invested and receive the benefits of compounding

## Superannuation fund

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- + Relies on CGT discount to reduce assessable gain amount.
- + Can't offset capital losses against other income such as dividend income.

## Investment bonds

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- + Manage level of capital gain by trading most tax efficient tax parcels to trade. Hard to replicate this efficiency at personal level.
- + Can offset capital losses against other income such as dividend income.



## Ethical considerations

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Are the recommended strategies within the best interests of your clients?

Have you considered every option available to meet your clients' desired outcomes?

Does your solution protect your clients against family disputes?

Have you considered your clients' emotional needs as well as their desired financial outcomes?



# Generation Life

## Highly recommended for over a decade

The only provider in the market to hold a **“Highly Recommended”** rating with both Lonsec and Zenith Investment Partners for our Investment Bonds.

### Awards



### Research ratings



Lifeline



Investment Bonds



Investment Bonds  
LifeBuilder

Note: Zenith rating includes LifeBuilder and ChildBuilder



## Thank you.

## Outthinking today.

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