



Outthinking today.

Investment bonds

Keep more investment returns

The evolution of after-tax returns



Outthinking today.

Discover Generation Life

Pioneer of Australia's first truly flexible investment bond. Over \$2.8b invested with us to date¹. Proud to be innovating the retirement income landscape with an investment-linked lifetime annuity.



1. As at 31 December 2022
2. Plan for Life, Investment Bonds Market Report for period ended 30 September 2022

Key features of investment bonds

Life Insurance and Tax Act

Maximum tax rate of 30%
Tax Optimised generally ranges between 12% - 17%*

No distributions and access to funds at anytime

Tax paid - no personal tax after 10 years - tax advantages within 10 years

125% advantage

Portability and tax-free transfers

No personal capital gains tax on investment switching

No tax file number required

Can be structured as a **non-estate asset**

Creditor protection

*Indicative effective average tax rates for growth orientated strategies and represents the estimated forecast average annual tax as a percentage of earnings for each 12-month period over a forecast period of 15 years for growth orientated strategies. Actual tax amounts payable are not guaranteed and may vary from year to year based on, amongst other things, the earnings of an investment option.

Ethical considerations

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

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

Can your solution protect your clients against family disputes?

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



How are investment bonds taxed

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



Investment tax structures available

| Investment Bond | Individual | Company | Private trust | Superannuation |
|--|---|--|---|--|
| Taxation <ul style="list-style-type: none"> → Max 30% → Average effective long-term tax rate of 12% – 17% at Generation Life for many growth investment options → Tax paid structure | Taxation <ul style="list-style-type: none"> + Personal marginal tax rate | Taxation <ul style="list-style-type: none"> + 30% | Taxation <ul style="list-style-type: none"> + Beneficiary marginal tax rate or 45% | Taxation <ul style="list-style-type: none"> + Accumulation 15% + Drawdown 0% + Death tax to non-SIS dependants + Section 293 |
| Opportunity <ul style="list-style-type: none"> → Tax-free transfers → Creditor protection → Estate planning → Tax paid after 10 years - tax advantages pre 10 years → No limit on contributions → No limits on the number of investment bonds you can own | Limitations <ul style="list-style-type: none"> + Estate asset + Available to creditors + CGT event on transfer + Tax reporting + Carry forward losses | Limitations <ul style="list-style-type: none"> + Tax deferral only + Gross-up of franking + Division 7A + Annual reporting + Willing participants + Estate planning | Limitations <ul style="list-style-type: none"> + Must distribute earnings + Annual reporting + Willing participants + Trustee obligations + Estate planning complex | Limitations <ul style="list-style-type: none"> + \$27.5k p.a. concessional + \$110k p.a. non-concessional + \$1.7M TSB + SIS Legislation + Estate planning + Preservation age |



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

- 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

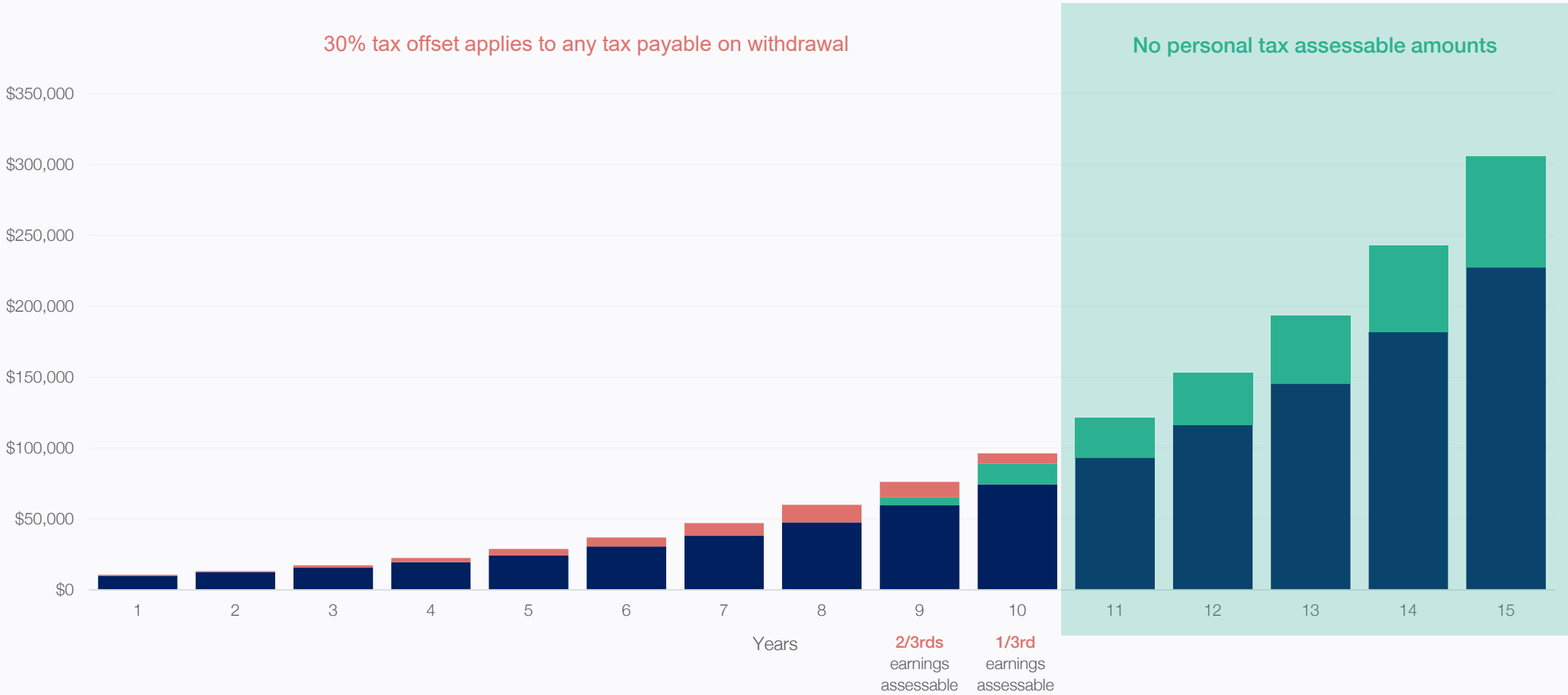
- Relies on CGT discount to reduce assessable gain amount.
- Can't offset capital losses against other income such as dividend income.

Investment bonds

- 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.

Personal tax

10-year advantage period



Investment returns are for illustrative purposes only and do not represent any actual or future performance expectations.

Myths of investment bonds



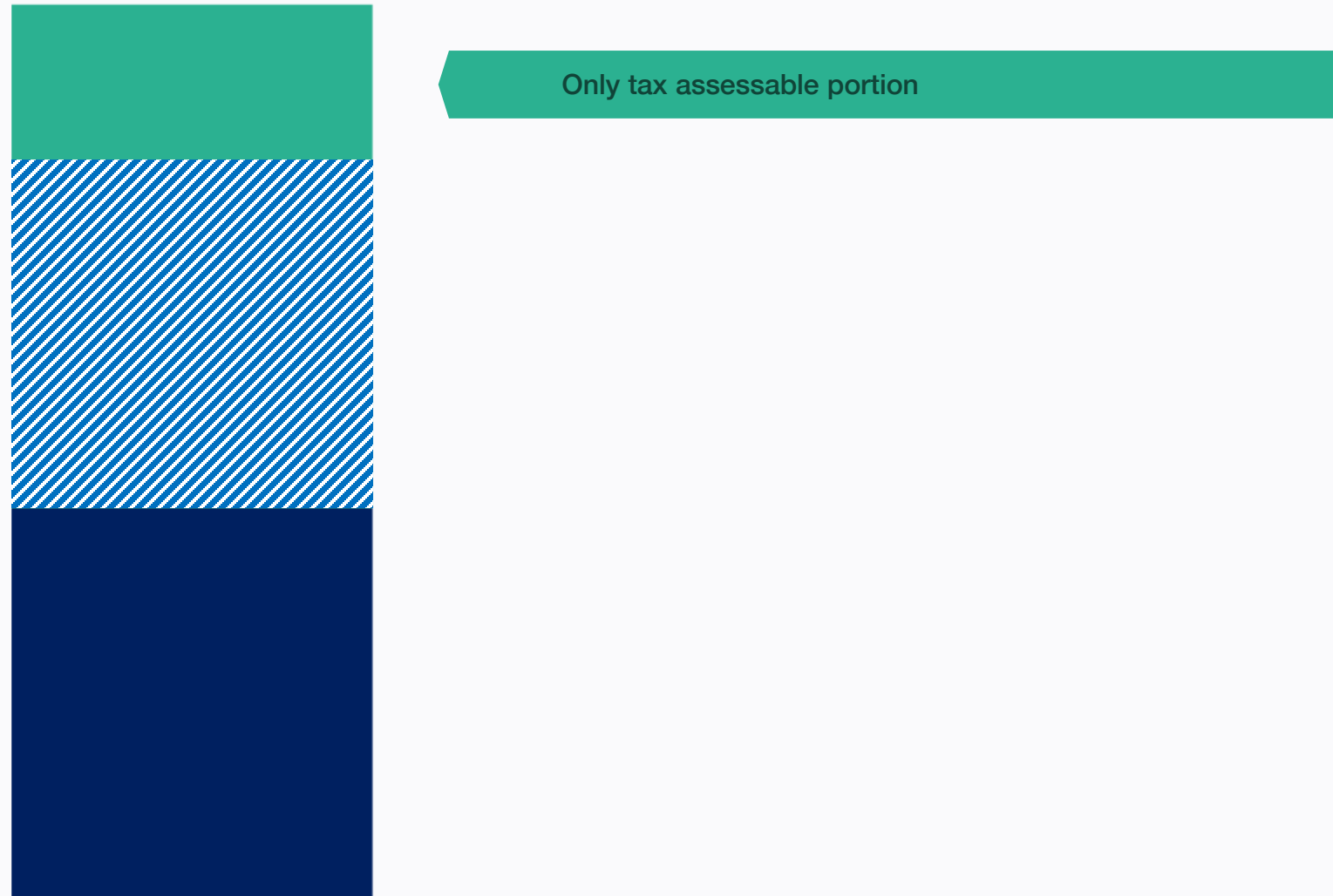
Investment bond can offset realised capital losses against income¹

All tax losses generally can be utilised immediately, rather than waiting for any future income that's generated from a capital gain or otherwise.¹

Don't pay tax on unrealised capital gains – tax provision creates equity¹

1. Capital gains or losses refer to gains or losses realised on the disposal of a fund's investments which are treated as a revenue gain or loss for tax purposes.

No personal tax liability post 10 years



Example of tax provisioning

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



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Example of tax provisioning

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



Our Tax Optimised approach can further
improve after-tax performance

Investment returns are for illustrative purposes only and do not represent any actual or future performance expectations.



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

Four levers to managing tax-effectiveness

Integrated tax considerations

1.

Investment bond structure

Utilise unique tax rules that apply to life companies

Control underlying assets.

2.

Active tax management

Objective is to reduce assessable income

Trade losses that can be used to reduce assessable income.

3.

Managing the character of earnings

Tax elements (tax deferred, tax free)

Eligibility for franking credits.

4.

Delay realising capital gains

Deferring realised gains means deferring tax

Assets invested for longer through deferred tax leakage.

Tax Optimised structure

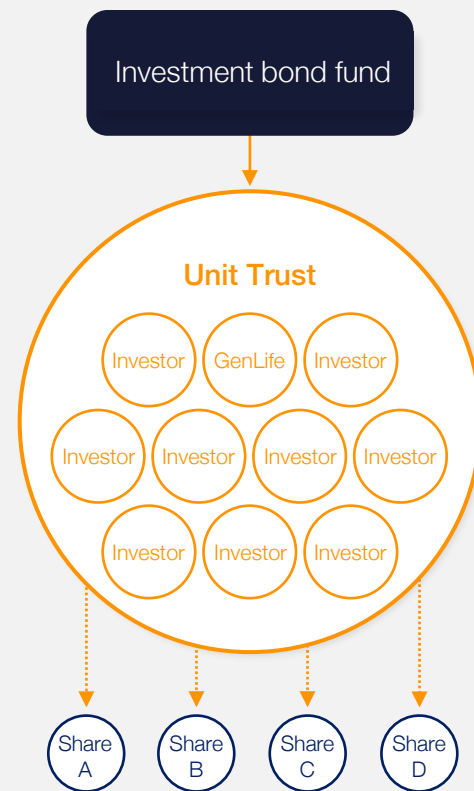
Investment mandates

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

Improved tax efficiency

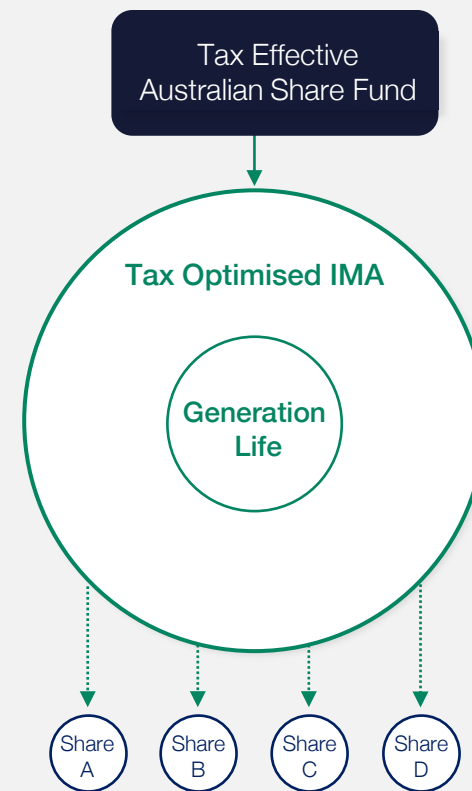
When changing managers or asset classes, don't need to sell all holdings.

Standard investment bond structure (fund of fund)



Issuer invests in unit trust pool along with other investors
(Unit trust managed by external manager)

Direct (mandate) investment structure



Generation Life holds securities directly
(Portfolio managed by external manager)

After tax performance comparison of Vanguard Growth Portfolio

As at 31 December 2022

| | Gross investment return (pre fee and tax) | 47% MTR return | 39% MTR return | Return at company tax rate | Tax Optimised return (pre fees) | Tax Optimised return (post fees)* |
|-----------------------------|--|----------------|----------------|----------------------------|------------------------------------|--------------------------------------|
| 1 Year | -10.35% | -9.04% | -9.46% | -8.33% | -8.13% | -8.50% |
| 3 Years p.a. | 2.54% | 0.62% | 0.73% | 1.01% | 1.77% | 1.36% |
| 5 Years p.a. | 5.00% | 2.75% | 2.97% | 3.10% | 3.66% | 3.25% |
| Since inception p.a. | 5.17% | 3.43% | 3.72% | 3.97% | 4.29% | 3.86% |

*The administration fee is deducted directly from the investment option before unit prices are declared.

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.

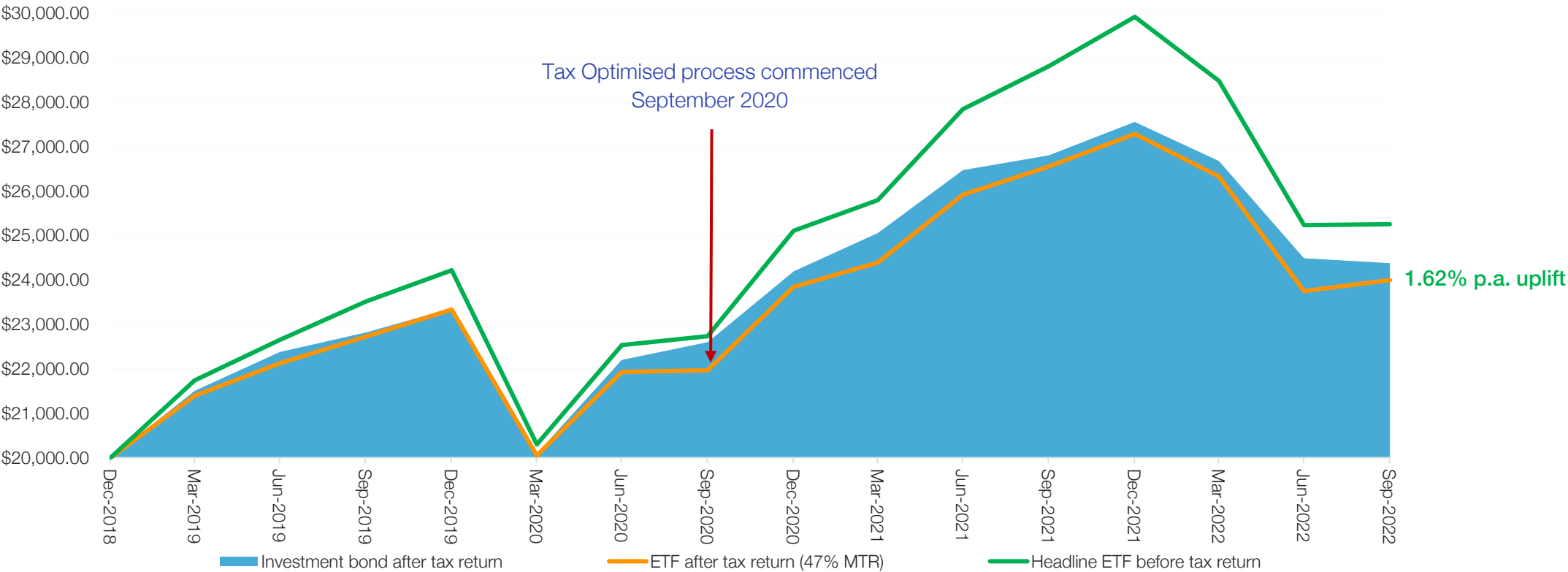
Direct investment return -Distributions reinvested at DRP price. Tax payable amount sold down from the underlying investment as incurred with sell spread applied. Tax calculated based on annual rate derived from estimated tax components supplied by fund manager to investors. Discounted capital gains method applied for periods post 30 September 1999. Capital gains concessions applied to unrealised gain/loss balances when investor is in a position to be able to realise taxable income. Returns may be based on preliminary or estimated data and subject to change.



The power of after-tax returns

Comparing after-tax returns

Investment bond vs Exchange Traded Fund (assuming 47% marginal tax rate including levies)



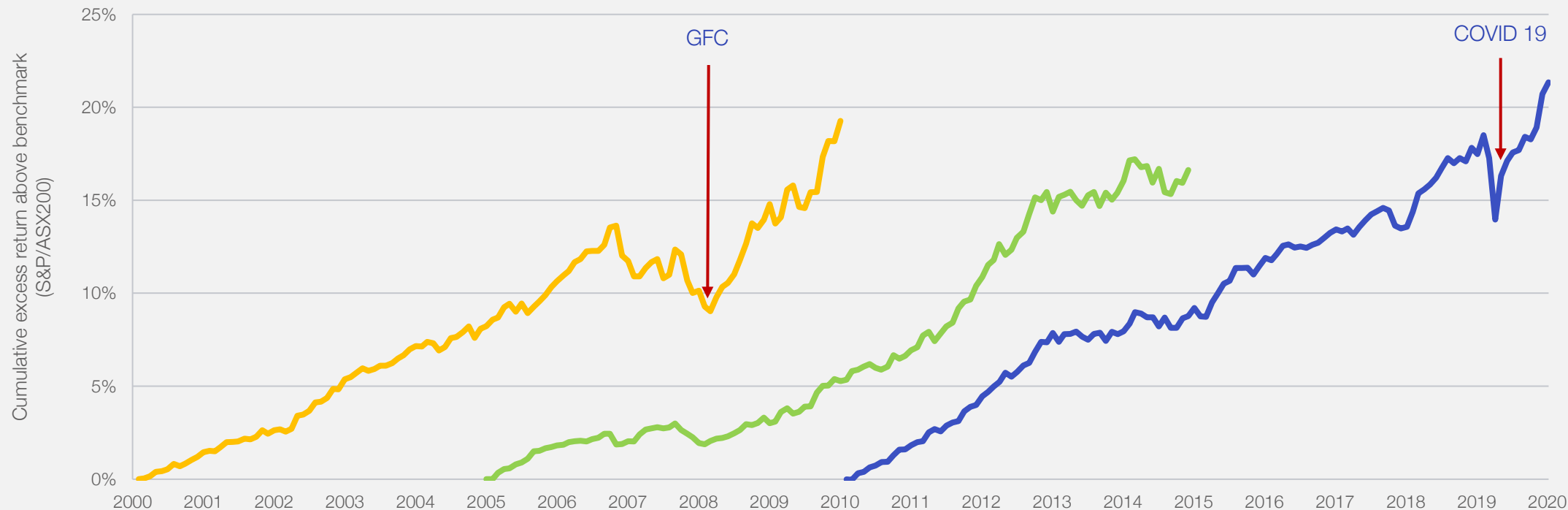
Based on an investment of \$20k in the Vanguard High Growth Model from 31 December 2018 to 30 September 2022 and the Vanguard High Growth Index ETF over the same period. Past performance is not an indication of future performance. Performance is net of fund and fund taxes, management fees and other operating 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

The power of using an active approach to tax management

Using losses to lower taxable income

Ten dividends ex in December 2021 (3 year ASX 300 return of 13.93% p.a. in Dec 21)

ALL, MTS, CHC, DXS, GMG, MGR, SCP, TCL

| | Generation Life Tax Effective Australian Share Fund | Unit Trust equivalent 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% | |
| Overall tax payable/refund | - 0.35% | 0.07% |

Unique investment bond tax structure

Overall tax is -0.35% (tax refund).

Equivalent portfolio not optimising for tax has a 0.07% tax payment.

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

Choosing the right investment manager

Global shares case study

21

Passive manager

Manager A

Low Turnover – Tax Neutral

| | |
|----------|-------|
| Fee | 0.20% |
| Turnover | 10% |
| Spreads | 0.08% |

Pre-tax return 8.40% p.a.

Underperforms index by 0.20% p.a.

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 on pre-tax basis by 1.60% p.a.

After-tax return 6.07% p.a.

Heavy tax impact – poor after-tax return.
Tax unaware approach of fund manager.
High distributable income and realised gains returns
Low unrealised growth.

Tax aware active

Outperformance on pre and post-tax basis

Manager C

Turnover at right time, trading cost and tax credit aware

| | |
|----------|-------|
| Fee | 0.70% |
| Turnover | 30% |
| Spreads | 0.10% |

Pre-tax return 8.80% p.a.

Outperforms index on pre-tax basis by 0.20% p.a.

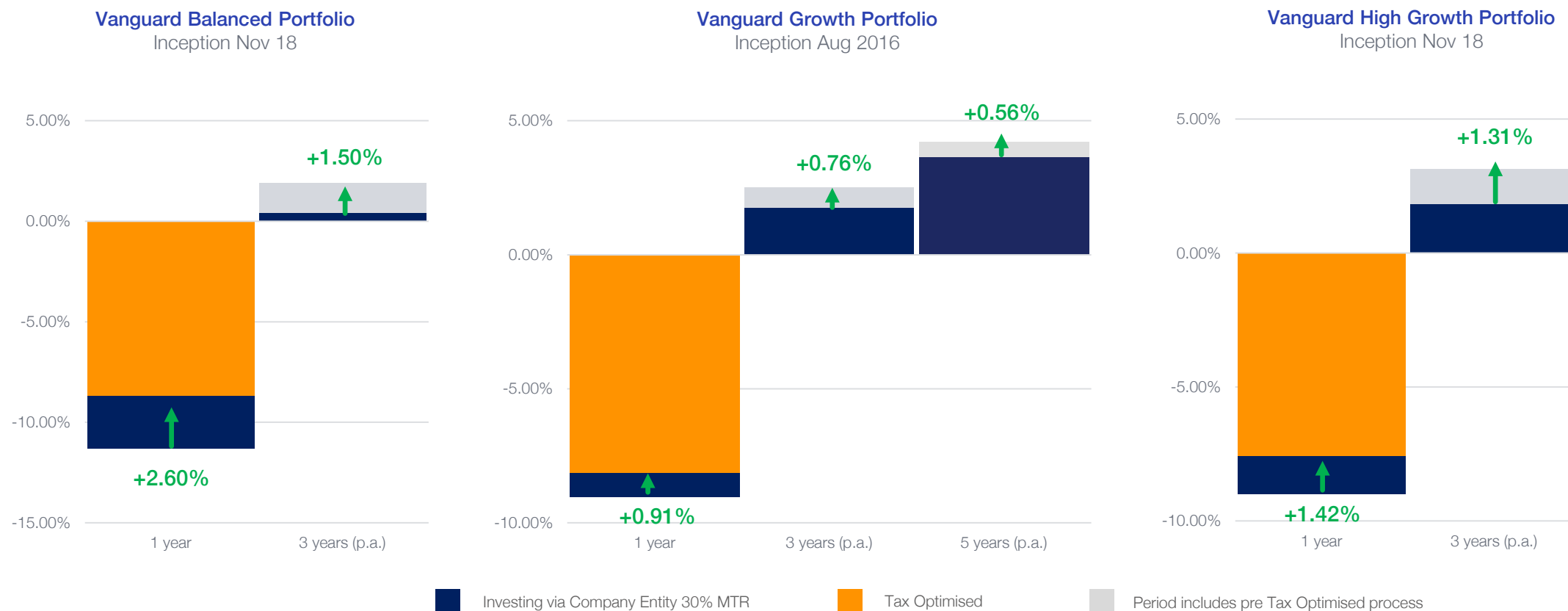
Tax Aware Optimisation 8.35% p.a.

Tax aware manager limits tax leakage and compounds returns for client



Tax Optimised performance alpha

Tax Optimised investing versus a standard 30% tax rate

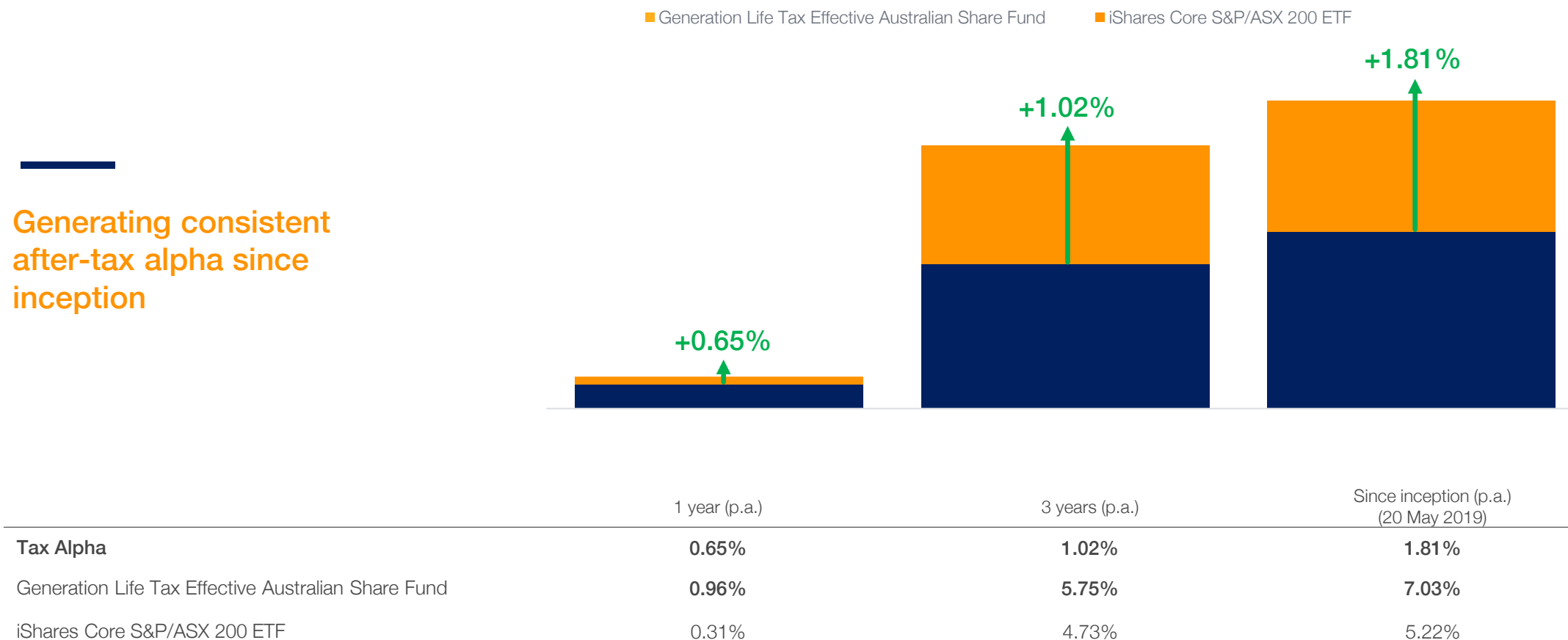


Performance period: 31 December 2022. Past performance is not an indication of future performance. Tax optimised fund returns are net of fund taxes, management fees, performance and other operating expenses (if applicable) and are based on the unit prices for the quoted periods and exclude the effect of any investor specific transactions such as transaction costs, stamp duty and management fee rebates. Direct Investment is conducted on the 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 31 December 2022

23

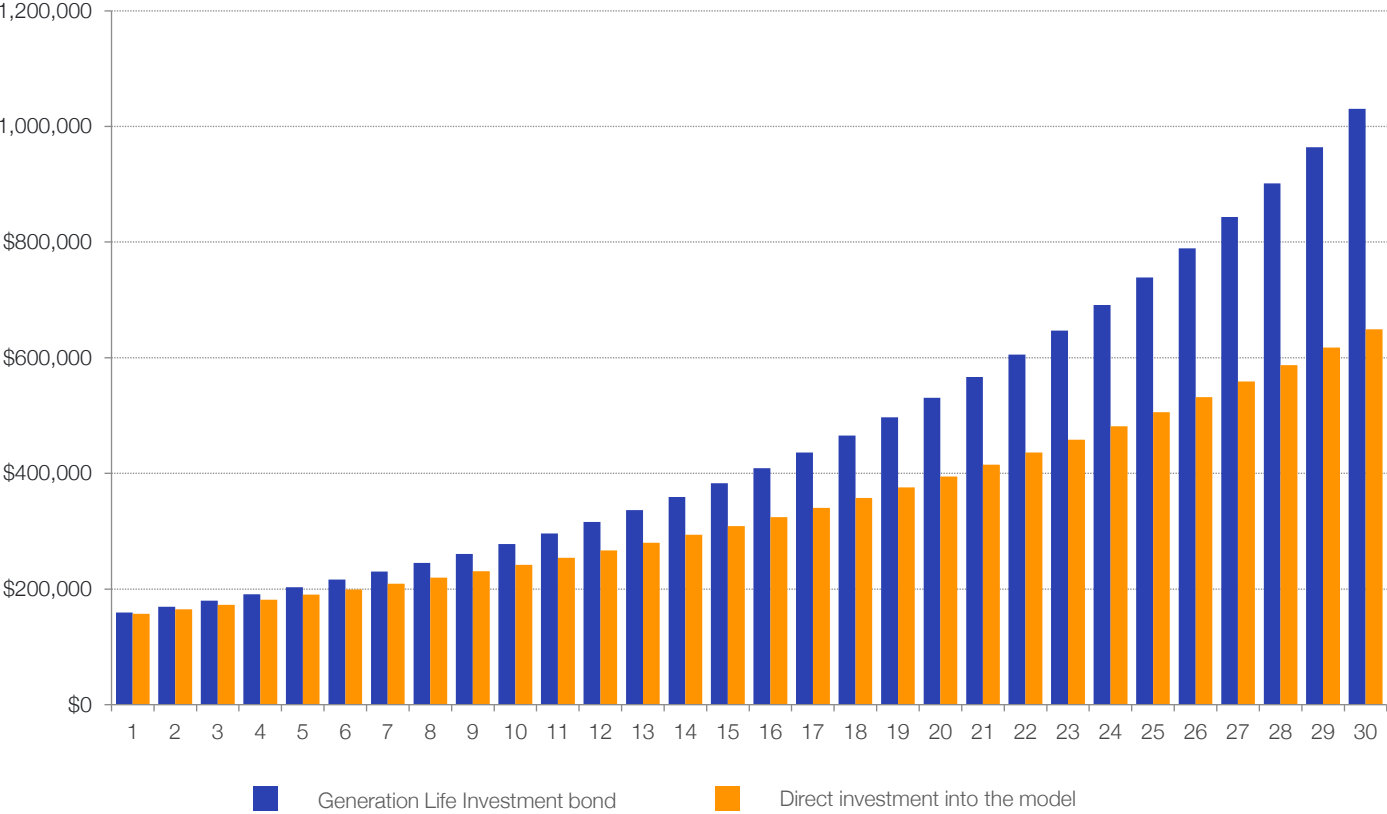


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Morningstar High Growth Model Tax Alpha

Compounding tax savings on average



| | |
|---|-----------|
| Expected 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 |
| Expected long term effective tax rate | 14% -17% |

Based on an investment of \$150,000 in the Morningstar High Growth Model. Average return calculated using tax components and return history of 9.54% p.a. the fund from over 10-years to 30 September 2022. Past performance is not an indication of future performance. Performance is net of fees 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

Investment bonds and Tax Optimised options

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

Generation Life Tax Effective Equity Income Fund

- Standalone product offering (two classes)
- Portfolio performance since inception of 7.95% per annum after-tax and fees
- Tax paid quarterly dividend income payments
- 7.0% after-tax dividend yield compared to 2.9% after tax yield for ASX200 (FY22) at 47% marginal tax rate.

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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