generation life

2023 Annual Investment Update

LifeIncome

genlife.com.au

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Outthinking today.

On reflection

Financial year 2023 investment market summary

This investment market commentary relates to the performance of investment markets (not the performance of the investment options) for the financial year ended 30 June 2023.

The year saw a true divergence between economic conditions and financial market performance. Investors were reminded that financial market impacts can precede a worsening economic environment by periods that can span many months, with sharemarkets globally experiencing significant positive returns for the year.

To highlight this, the two investment markets important to Australian investors, the Australian sharemarket, represented by the S&P/ASX 300 index and international sharemarket, represented by the MSCI World Ex Australia Index, returned 14.40% and 22.59% respectively on a pre-tax basis for the 12 months to 30 June 2023.

These positive results contrasted with an economic environment which saw cost of living pressures highlighted by persistently high inflation and rising interest rates. The Reserve Bank of Australia (RBA) raised the official cash rate by 3.75% over the year, finishing at 4.10% by the end of the financial year. This was the fastest and most aggressive rise in interest rates since 1988, driven by the need to curb inflation.

When looking at investment returns, we believe that a disciplined approach to long term investing is extremely important in periods of short-term market uncertainty. It is generally during a transition into a new period of the economic cycle that interesting investment opportunities for the long-term investor can be found.

The economy, interest rates and currencies

As widely anticipated, the RBA raised its official cash rate at almost every monthly meeting during this financial year (except April 2023), taking the official cash rate from 0.85% at the end of the 2022 financial year to 4.10% at the end of the 2023 financial year in order to combat rising inflation. The RBA was front and centre and as the year drew to a close its all-important commentary indicated that inflation in Australia had passed its peak, but at 7% was still too high. The RBA indicated that further monetary tightening may be required as it seeks to bring the inflation rate back to its target range of between 2% to 3%.

With this in mind, the most recent underlying inflation rate, easing to 6.6% in the March 2023 quarter from 6.9% in the December quarter, was a positive development.

Economically in Australia, the second half of the financial year was headlined by persistent but falling inflation caused by sharply increasing higher interest rates. This was against a broader backdrop of strong labour markets, the commencement of strong population growth through migration, capacity constraints across the housing sector and financial support for households to combat cost of living pressures. Globally many of these themes were consistent with severe solvency events at global banks being the only major flare up during the year.

It is becoming clear that some sectors may be heading into downturn, while others are stabilising and rebounding. In this regard, major central banks have singled their intention to remain vigilant and so far, despite an array of headwinds, global growth overall has continued to move forward.

Sharply rising interest rates also impacted valuations of assets in most asset classes. Fixed interest securities, which have their income levels pre-determined, have experienced a second straight mark-to-market fall but now have significantly elevated yields for new issues in the market.

The speed of rate rises in different markets and the weaker economic sentiment in the global economy has also impacted currency rates. The Australian dollar depreciated during the period against many major economies, falling by 8% and 7% against the Euro and Pound respectively, while finishing at $0.66USD at the end of the financial year, having started the year at $0.67USD.

Australian shares

The Australian sharemarket saw a strong annual return with persistent inflation strongly benefiting some sectors while resilient global sharemarket optimism moved the developed markets forward in unison. Whilst lagging globally, the S&P/ASX300 Accumulation Index experienced a strong 14.40% return for the financial year. This was a strong bounce from a weak 2022 financial year which saw the markets contract by 6.78%.

Stocks where inflation was beneficial for profits were again rewarded. Sectors such as Materials and Utilities were able to increase prices in a rising inflation environment and benefited from a weakening Australian dollar which meant that exports to foreign countries were more profitable and desirable for local companies. The exception to this was the Information Technology sector which rose strongly off the back of positive sentiment in the global sector.

The Australian sharemarket finished the year with the Information Technology and Utilities sectors as standouts — increasing 36.7% and 15.1% respectively over the year. On the other hand, the Health Care sector was one of the few to struggle, with company valuations falling, resulting in the sector declining 2.3% for the year.

Australian small companies, which is a cohort that doesn't have meaningful exposure to stronger performing global sectors, rose a respectable 8.42% as measured by the S&P/ASX Small Ordinaries Index.

International shares

During the year to 30 June 2023, we saw resilience of world equity markets. Despite seeing consistent interest rate hikes, a banking liquidity crisis, and a first quarter 2023 U.S. earnings season that was largely disappointing, the market saw an excellent 23.55% return as measured by the S&P 500 Index. The strength in global shares was largely attributable to the U.S. economy exhibiting resilience and some pleasing pause in global inflation data, indicating that many global economies were slowly but definitively making progress in the battle against high inflation. Another strong driver of performance was the optimism around large cap technology stocks and a sudden appetite to invest in the artificial intelligence sector.

The MSCI World Ex Australia Index rose a considerable 16.55% when hedged back into Australian dollars. The top seven largest market cap stocks accounted for much of the global share sector outperformance with stocks such as Microsoft (37%), Apple (40%) and Amazon (27%) which account for over 10% of the index, driving significant price increases.

Over the year, the Australian dollar weakened against most currencies which meant that unhedged global shares (which returned 22.59%) significantly outperformed hedged positions which returned 16.55%.

International small companies lagged their larger peers during the period, with the MSCI World ex Australia Small Cap Index returning 16.83% over the financial year. This highlighted the strength of the mega cap technology stocks which drove much of the positive global sentiment.

Fixed interest & Cash

With global inflation peaking over the last 12 months, we have seen an increase overall in yields for fixed interest assets, driven by both an uplift in coupon rates (which is the level of interest fixed interest issuers are prepared to pay for their debt) and interest rates.

These increases have been beneficial for floating rate securities (where returns are linked to interest rates) with the Bloomberg AusBond Credit FRN 0+ Yr Index and Bloomberg AusBond Inflation Treasury 1+ Yr Index returning 4.03% and 5.75% respectively for the year.

Fixed interest securities, on the other hand, experienced a tougher return environment with rising interest rates impacting returns, resulting in a general write down in values. Locally, the Bloomberg AusBond Composite 0+ Yr Index returned 1.24% for the financial year, while on a global front, the Bloomberg Global Aggregate Index hedged into AUD returned -1.83%.

Global fixed rate credit markets performed stronger than their more defensive fixed interest counterparts due to a lower average maturity and hence lower interest rate sensitivity. The Bloomberg Global Aggregate ex Treasury Index hedged into AUD fell by -0.81%.

Despite high current interest rates, cash relative to inflation levels significantly underperformed with a 12 month return of 2.89% as measured by the Bloomberg AusBond Bank Bill Index. The current official cash rate of 4.10% dictates the starting point for most cash and fixed interest asset classes and for the first time in many years we see higher yields for these sectors on a forward-looking basis.

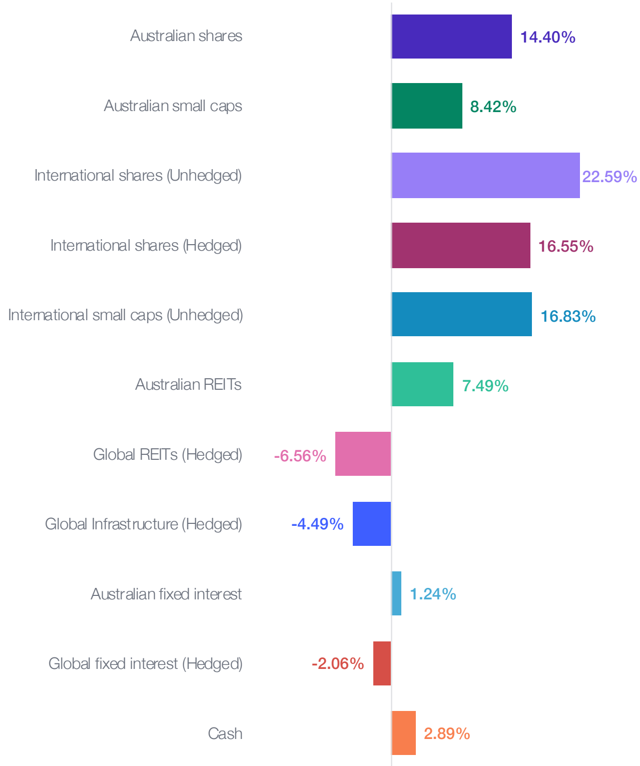
Property

Property saw vastly different performances depending on the subsector of the REITs held. Industrial, retail and diversified REITs performed strongly as inflation increases were passed through to rents received, however other areas such as office and developers struggled as the rising interest rate environment was not matched with increased income, and where concerns for elevated property valuations, high debt levels and demand weighed heavily. The international REIT markets fell heavily by -6.56% (measured by the FTSE EPRA/NAREIT Developed ex Australia Rental Index (Hedged)) while the composition of the highly concentrated Australian REIT market saw a strong return of 7.49% (measured by the S&P/ASX300 A-REIT Index).

The S&P Global Infrastructure Index A$ Hedged Net Total Return weakened after a strong 2022 financial year with a disappointing -4.49% for the 2023 financial year, off the back of weaker demand and higher interest rates.

Asset class market returns

The following graph shows the asset class returns for the 2022 -2023 financial year.



Outlook for the financial year ahead

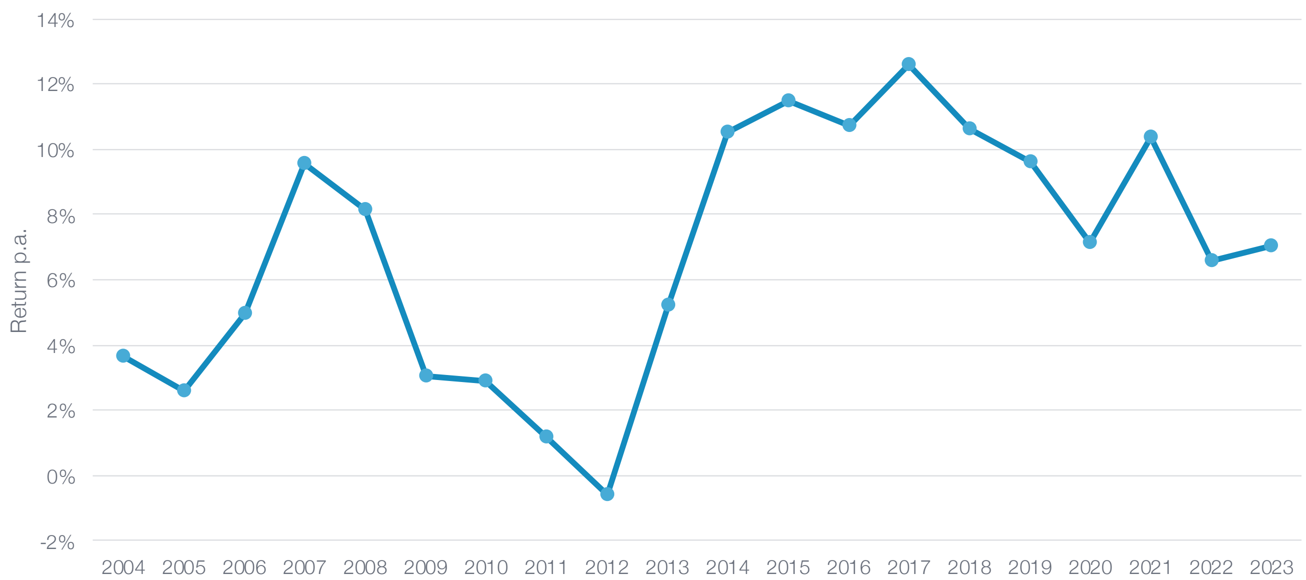
Heading into the new financial year some uncertainty remains about what the ramifications are for the economy and some parts of the financial markets of a motivated RBA aggressively hiking interest rates into a highly indebted Australian consumer household market.

History provides some more comfort for investors in periods of uncertainty like this, particularly when a diversification strategy is adopted. For example, diversified growth funds (with typically 70% exposure to growth style assets and 30% exposure to defensive style assets) returned between -20% to -30% over a 12-month period during the peak of the Global Financial Crisis ('GFC')[1].

For the 23 year period from 2000 to 2023 however, 5-year rolling annual returns for growth funds remained positive for all but one year in 2012 where returns averaged less than -1%.

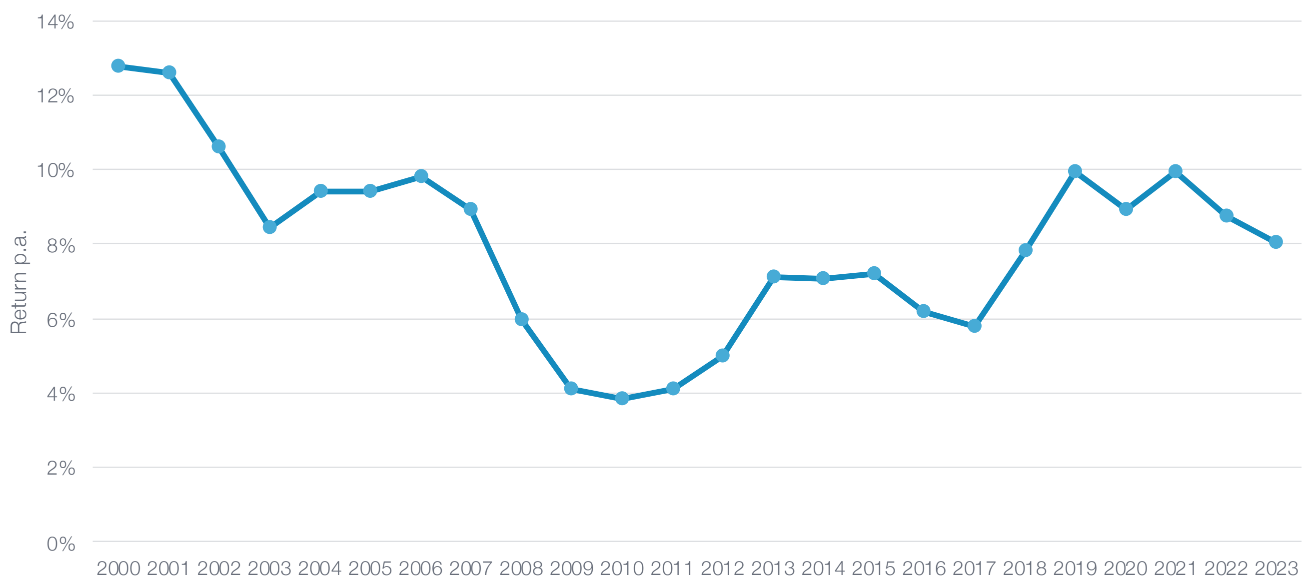
1. Vanguard composite growth index weighting for period 30 June 2000 to 30 June 2023.

Rolling 5 year average from 2000 to 2023



Over ten-year rolling periods we have not seen a negative period since 1990 with a minimum positive return of 3.82% and an average annualised return of 7.98%. This all highlights the importance of time in the market rather than timing the market.

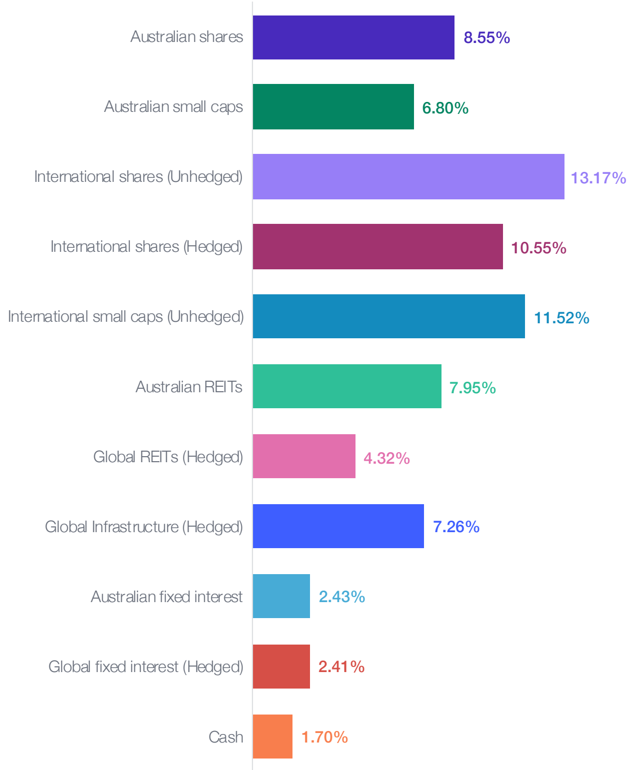
Rolling 10 year average from 2000 to 2023



It is important to consider your investment strategy and longer-term objectives. Short term market fluctuations will occur, and whilst relevant, this volatility should be considered in the context of expected long term returns.

Asset class market returns over 10-year period

The following graph shows the asset class returns for the 10-year period to 30 June 2023.



Even though market returns may fluctuate significantly during the course, rebounds can occur quickly and without advance notice. History shows that withdrawing out of the market in down periods may reduce long-term returns, as over the long-term, markets have been up more often than down.

Investment strategies

With 29 investment options to choose from, from a range of leading Australian and international investment managers, investors have the flexibility to change and switch investment options at almost any time[2]. We recommend that you speak to your financial adviser regarding your portfolio allocation.

Changes to investment options during the year

On 6 June 2023, the following investment options were added to LifeIncome:

- Barrow Hanley Global Share Fund
- Generation Life Lifestyle Portfolio
- Generation Life Protect Portfolio
- Generation Life Cash & Deposits Portfolio
- Investors Mutual Australian Shares Fund
- MCP Wholesale Investments Trust

Investment option performance

The following table shows the performance of our investment options over the longer term and the last financial year.

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.

2. Switches cannot be made between midday on the third last Business Day of the Financial Year and the end of the Financial Year.

Investment option	Fund Code	Description	Inception date	1 month	3 months	6 months	1 year	Since Inception (p.a.)
				Performance as at 30 June 2023				
PIMCO Wholesale Global Bond Fund	1	Gross return	Apr 2022	0.03%	-0.22%	2.08%	-0.88%	-5.34%
		2.5% LifeBooster	Jun 2023	-	-	-	-	-0.38%
		5% LifeBooster	Dec 2022	-0.46%	-1.73%	-0.96%	-	-3.20%
iShares Wholesale Australian Equity Index Fund	2	Gross return	Mar 2022	1.74%	1.07%	4.98%	16.03%	2.48%
		2.5% LifeBooster	Mar 2022	1.43%	0.13%	3.07%	11.93%	-1.25%
		5% LifeBooster	Jun 2022	1.23%	-0.47%	1.86%	9.27%	1.97%
iShares Wholesale International Equity Index Fund	3	Gross return	Mar 2022	3.15%	7.67%	17.31%	22.72%	11.93%
		2.5% LifeBooster	Mar 2022	2.83%	6.69%	15.23%	18.42%	7.93%
		5% LifeBooster	Jun 2022	2.63%	6.06%	13.87%	15.62%	11.94%
iShares Hedged International Equity Index Fund	4	Gross return	Mar 2022	5.62%	7.12%	14.33%	17.76%	-0.03%
		2.5% LifeBooster	Mar 2022	5.31%	6.15%	12.30%	13.62%	-3.69%
		5% LifeBooster	May 2022	5.10%	5.52%	10.97%	10.92%	5.19%
iShares Wholesale Australian Listed Property Index Fund	5	Gross return	Mar 2022	-0.09%	3.09%	3.45%	6.77%	-9.25%
		2.5% LifeBooster	Mar 2022	-0.40%	2.16%	1.57%	2.92%	-12.66%
		5% LifeBooster	Oct 2022	-0.59%	1.55%	0.36%	-	4.91%
iShares Wholesale Australian Bond Index Fund	6	Gross return	Mar 2022	-1.69%	-2.69%	1.82%	1.04%	-2.59%
		2.5% LifeBooster	Mar 2022	-2.00%	-3.59%	-0.04%	-2.66%	-6.18%
		5% LifeBooster	Dec 2022	-2.20%	-4.16%	-1.22%	-	-4.70%
Vanguard Conservative Portfolio	7	Gross return	May 2022	0.49%	0.64%	4.37%	4.60%	0.91%
		2.5% LifeBooster	May 2022	0.17%	-0.30%	2.46%	0.79%	-2.13%
		5% LifeBooster	May 2022	-0.02%	-0.88%	1.25%	-1.60%	-5.10%
Vanguard Balanced Portfolio	8	Gross return	May 2022	1.12%	1.58%	6.22%	7.93%	4.02%
		2.5% LifeBooster	Jun 2022	0.82%	0.64%	4.29%	4.04%	6.09%
		5% LifeBooster	May 2022	0.62%	0.04%	3.06%	1.58%	-1.88%
Vanguard Growth Portfolio	9	Gross return	Mar 2022	1.88%	2.70%	8.14%	11.38%	2.02%
		2.5% LifeBooster	Jun 2022	1.58%	1.76%	6.19%	7.40%	9.65%
		5% LifeBooster	Mar 2022	1.36%	1.13%	4.93%	4.84%	-4.04%
Dimensional World 50/50 Portfolio	10	Gross return	Oct 2022	1.64%	1.67%	5.33%	-	8.57%
		2.5% LifeBooster	Oct 2022	1.33%	0.73%	3.41%	-	4.19%
		5% LifeBooster	Oct 2022	1.14%	0.13%	2.20%	-	3.94%
Dimensional World 70/30 Portfolio	11	Gross return	Mar 2022	2.36%	2.35%	6.89%	10.54%	-0.12%
		2.5% LifeBooster	May 2023	2.05%	-	-	-	1.48%
		5% LifeBooster	Mar 2022	1.85%	0.81%	3.73%	4.06%	-6.06%
Schroder Real Return Fund	12	Gross return	Apr 2022	-0.19%	0.17%	3.54%	5.34%	0.64%
		2.5% LifeBooster	May 2023	-0.49%	-	-	-	-0.79%
		5% LifeBooster	Sep 2022	-0.68%	-1.35%	0.45%	-	-0.46%

Investment option	Fund Code	Description	Inception date	Performance as at 30 June 2023 1 month	3 months	6 months	1 year	Since Inception (p.a.)
Vanguard High Growth Portfolio	13	Gross return	Aug 2022	2.71%	3.92%	9.89%	-	8.48%
		5% LifeBooster	Aug 2022	2.20%	2.34%	6.65%	-	3.12%
Dimensional World 30/70 Portfolio	14	Gross return	Oct 2022	1.00%	1.13%	3.78%	-	5.10%
		2.5% LifeBooster	Apr 2023	0.68%	-	-	-	0.00%
		5% LifeBooster	Oct 2022	0.49%	-0.41%	0.68%	-	0.68%
AB Managed Volatility Equities Fund	16	Gross return	Apr 2022	1.08%	1.22%	5.89%	8.14%	2.34%
		2.5% LifeBooster	Apr 2023	0.77%	-	-	-	-2.26%
		5% LifeBooster	Oct 2022	0.57%	-0.31%	2.73%	-	6.04%
Bennelong Concentrated Australian Equities Fund	17	Gross return	Mar 2022	-0.08%	-2.40%	3.66%	3.62%	-12.14%
		5% LifeBooster	Mar 2022	-0.57%	-3.89%	0.59%	-2.51%	-17.47%
Hyperion Global Growth Companies Fund	18	Gross return	Mar 2022	5.74%	17.31%	52.48%	37.45%	4.69%
		5% LifeBooster	Mar 2022	5.21%	15.57%	48.14%	29.61%	-1.50%
Magellan Infrastructure Fund	20	Gross return	Mar 2022	0.42%	-0.82%	2.33%	-1.28%	-1.88%
		2.5% LifeBooster	Mar 2022	0.12%	-1.73%	0.46%	-4.90%	-5.48%
		5% LifeBooster	May 2022	-0.08%	-2.32%	-0.72%	-7.15%	-8.23%
Ardea Real Outcome Fund	21	Gross return	Apr 2022	0.14%	-0.48%	2.54%	2.52%	3.11%
		2.5% LifeBooster	Jul 2022	-0.16%	-1.39%	0.67%	-	-0.17%
		5% LifeBooster	Sep 2022	-0.35%	-1.97%	-0.52%	-	-1.14%
Pendal Sustainable Balanced Fund	22	Gross return	Apr 2022	0.80%	1.13%	4.89%	7.26%	-1.37%
		2.5% LifeBooster	Jul 2022	0.48%	0.20%	2.97%	-	2.23%
		5% LifeBooster	Nov 2022	0.28%	-0.40%	1.76%	-	-0.30%
Dimensional Global Bond Sustainability Trust	23	Gross return	Apr 2022	-0.55%	-0.69%	1.88%	-1.47%	-6.02%
		5% LifeBooster	Dec 2022	-1.04%	-2.18%	-1.16%	-	-4.19%
Stewart Investors Worldwide Sustainability Fund	24	Gross return	Apr 2022	0.34%	4.72%	13.64%	23.33%	5.39%
		2.5% LifeBooster	Jul 2022	0.04%	3.77%	11.62%		11.85%
		5% LifeBooster	Jan 2023	-0.17%	3.14%			8.52%

Notes

- Past performance is not indicative of future performance.
- Gross return is the performance net of investment management fees and transactional and operational costs, excluding the insurance expense.
- 2.5% LifeBooster and 5% LifeBooster is the gross return less investment management fee, administration fee and insurance expense, discounted by the relevant LifeBooster rate and the Lifetime Income Protection Provision.
- The inception dates of 2.5% and 5% can be different to the gross return inception dates to reflect when client money was first invested into the investment option.
- Returns are not annualised for periods of less than one year.

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