

Generation Life Tax Effective Australian Share Fund

Rating issued on 29 Jun 2023 | APIR: ALL3779AU

Investment objective

To outperform the S&P/ASX 200 Accumulation Index (before fees and after taxes) by 2% p.a. over rolling three to five-year periods, with an expected Tracking Error of 1.5% p.a.

Manager	Invesco Australia
Distributor	Generation Life
Sector	Australian Shares \ Large Companies
Investment Style	Neutral
RI Classification	Integrated
Absolute Risk	High
Relative Risk	Active - Benchmark Aware
Investment Timeframe	7+ Years
Benchmark	S&P/ASX 300 (Accum)
Min Investment Amount	\$500
Redemption Frequency	Daily
Income Distribution	-
Fund Size (31 May 2023)	\$50.91M
Management Cost	0.54% p.a. Incl. GST
Performance Fee	N/A
Buy / Sell Spread	0.25 % / 0.25 %
Inception Date	20 May 2019

Fund facts

- Expected to hold approximately 115 positions
- Estimated to pay tax at a rate between 9% and 11% over the long term
- Portfolio turnover is expected to average between 30% p.a. and 50% p.a. over a market cycle

Viewpoint

The Fund, managed by Invesco's Quantitative Strategies (IQS) Group, offers investors a quantitative and tax-efficient Australian equities exposure. The Fund is an investment option within the Generation Life Investment Bond, an investment bond with a tax-paid investment structure. Zenith has a favourable view of the depth and experience of IQS's portfolio management team and, as such, our conviction in the Fund has strengthened following the appointment of IQS to manage the mandate.

Invesco Limited is one of the world's largest independent investment management companies and is publicly traded on the New York Stock Exchange (NYSE: IVZ).

IQS's Melbourne-based Australian equities team of five is responsible for the Fund. The team comprises four senior portfolio managers and a portfolio manager, with an average industry experience of over 25 years. Zenith has high regard for the experience and capabilities of the investment team.

The team draws upon the insights of IQS's global platform, which includes over 45 dedicated quantitative resources. Zenith holds a favourable view of IQS's global platform and considers it highly resourced.

The Fund is managed in a tax-aware manner, with the objective of optimising for after-tax returns rather than focusing solely on pre-tax returns.

IQS's investment philosophy is based on the belief that markets are inefficient and can be exploited via factor premiums. IQS seeks to systematically and efficiently capture the momentum, quality and value factors. IQS customise the factor weights and signals used for each regional market, with the Australian equities team driving the research efforts specific to the Australian market. Zenith believes IQS's use of proprietary factor signals leads to differentiated insights.

IQS's portfolio construction is performed via an optimisation process that combines the output of the security selection process with risk considerations, constraints, trading costs and tax implications. Zenith believes IQS's portfolio construction approach appropriately combines the output of the security selection process with a strong consideration of tax implications.

Although the strategy has a limited track record, we draw confidence from IQS' track record managing its Australian Core Equity Strategy, which has outperformed its benchmark since its inception in June 2008.

Zenith notes that Invesco was appointed as investment manager of the Fund in November 2022, with the track record prior to this date attributable to another investment manager that employed a relatively similar investment approach.



Fund analysis

Fund characteristics

Constraint	Value
Number of Stocks	70 to 120 (Typically 115)
Active Stock Weight (%)	-2% to 2%
Active Sector Weight (%)	-3% to 3%
Tracking Error (% p.a.)	1.5% p.a. (Expected)
Cash (%)	Max: 5%

Investment objective and philosophy

To outperform the S&P/ASX 200 Accumulation Index (before fees and after taxes) by 2% p.a. over rolling three to five-year periods, with an expected Tracking Error of 1.5% p.a.

The Fund was designed for the investment bond tax regime. Specifically, a 30% tax on income with all realised capital gains/losses assessed as income. As such, IQS aims to maintain a tax-efficient portfolio that should improve an investor's outcome (after fees and tax) by up to 2.4% p.a. relative to an index fund. The Fund is estimated to pay tax between 9% and 11% over the long term.

In September 2022, Generation Life terminated the Fund's investment management agreement with Redpoint Investment Management. In November 2022, Generation Life announced the appointment of IQS to manage the mandate.

IQS's investment philosophy is based on the belief that markets are inefficient and can be exploited via factor premiums. IQS seeks to systematically and efficiently capture the following three factors:

- Momentum
- Quality
- Value

IQS believes the continued persistence of these factors is due to various reasons including a reward for bearing risk, investor behavioural biases and market structure. Zenith believes the use of proprietary factor signals leads to differentiated insights.

Although the strategy has a limited track record, we draw confidence from IQS' track record managing its Australian Core Equity Strategy, which has outperformed its benchmark since its inception in June 2008.

Portfolio applications

The Fund is an investment option within the Generation Life Investment Bond (GIB), an investment bond with a tax-paid investment structure. Avoiding investing through a commingled unit trust allows the Fund to avoid buying into embedded tax liabilities relating to income received by the trust between distributions, and the realised and unrealised gain liabilities of other investors in the trust. With respect to the applications of GIBs, investors should refer to Zenith's GIB Product Assessment report. Furthermore, Zenith recommends seeking personal advice from a relevant adviser (financial, tax or legal).

The Fund has been designed to be managed in a tax-aware manner, with the objective of optimising for after-tax returns rather than focusing solely on pre-tax returns.

In general, compared to most other asset classes, equities offer investors the opportunity for higher capital growth over the longer term with some income. However, this higher growth is also often associated with higher volatility. Therefore, it is recommended that investors adopt a longer time frame when investing in equities.

Investors should also be cognisant of the fact that the Australian equity market only represents approximately 2% of global equity markets (in terms of market capitalisation). Zenith recommends that investors diversify their investments across asset classes, both domestically and globally.

Zenith is comfortable for the Fund to be held as a stand-alone exposure to the Australian equities sector, given IQS's style-neutral approach and its expected Tracking Error. However, we believe it is more appropriate to blend the Fund with other Australian equity funds to mitigate manager risk. The Fund could be blended with style-neutral, value and/or growth-orientated Australian equities products to achieve a more diversified exposure.

The Fund's portfolio turnover is expected to average between 30% p.a. and 50% p.a. over a market cycle, which Zenith considers to be low. As part of the investment bond tax regime, income and realized capital gains are assessed at a maximum tax rate of 30%.

Fund responsible investment attributes

Key Information	Description
Zenith RI classification*	Integrated
Has Responsible Investment Policy	Yes
Negative screens**	Full/Partial
Armaments	Partial
Other Measures	Controversial weapons (Full)
PRI Status	
PRI Signatory	Yes

*Zenith RI Classification scale:

- Traditional
- Aware
- Integrated
- Thematic
- Impact

**Data has been supplied by third parties. While such information is believed to be accurate, we do not accept responsibility for any inaccuracy in such data.



Absolute performance

Performance as at 31 May 2023

Monthly performance history (% , net of fees)

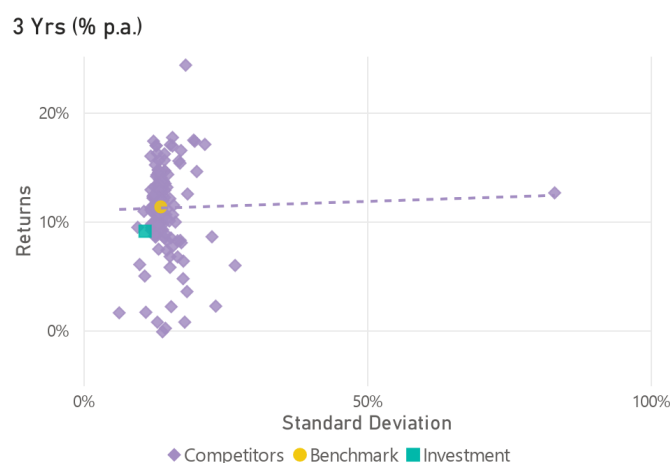
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM YTD*
2023	4.71%	-2.11%	-0.23%	1.33%	-2.59%								0.94%	2.58%
2022	-5.16%	2.00%	5.82%	-0.33%	-2.45%	-6.83%	4.28%	1.38%	-4.38%	5.08%	5.02%	-2.89%	0.45%	-1.76%
2021	-0.26%	1.23%	2.69%	2.67%	1.99%	1.95%	0.88%	1.46%	-2.48%	-0.28%	-0.56%	3.00%	12.84%	17.55%
2020	3.83%	-6.19%	-17.30%	8.63%	3.51%	2.23%	0.73%	2.15%	-2.88%	1.27%	7.71%	1.86%	2.80%	1.74%
2019						2.98%	2.26%	-1.83%	1.30%	-0.44%	2.46%	-1.59%	5.12%	7.04%

*S&P/ASX 300 (Accum)

Growth of \$10,000



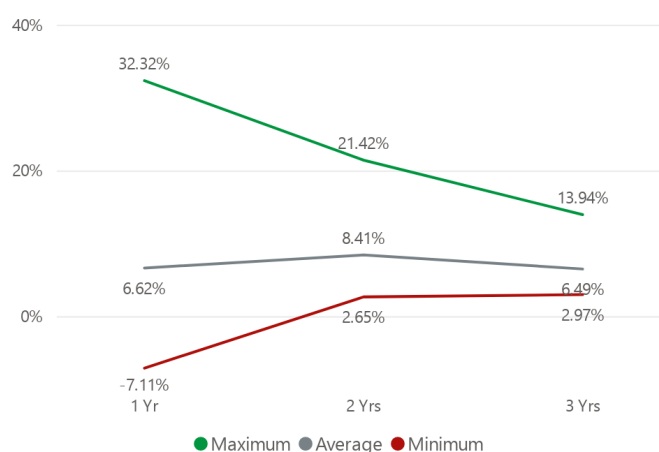
Risk / return



Monthly histogram

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Minimum and maximum returns (% p.a.)





Absolute performance analysis

Instrument	1 Yr	3 Yrs	Inception
Investment	1.87%	9.10%	5.45%
Income	0.00%	0.00%	0.00%
Growth	1.87%	9.10%	5.45%
Benchmark	2.36%	11.33%	6.57%
Median	2.33%	11.31%	6.30%
Cash	2.64%	0.91%	0.92%

Ranking within sector (p.a.)

Ranking within Sector	1 Yr	3 Yrs	Inception
Fund Ranking	101 / 161	126 / 152	119 / 152
Quartile	3rd	4th	4th

Absolute risk

Instrument	1 Yr	3 Yrs	Inception
Standard Deviation (% p.a.)			
Investment	13.41%	10.87%	14.40%
Benchmark	17.32%	13.64%	17.58%
Median	16.11%	12.82%	16.87%
Downside Deviation (% p.a.)			
Investment	9.24%	6.66%	10.92%
Benchmark	11.99%	8.38%	13.36%
Median	11.27%	7.77%	12.89%

Absolute risk/return ratios

Instrument	1 Yr	3 Yrs	Inception
Sharpe Ratio (p.a.)			
Investment	-0.06	0.75	0.31
Benchmark	-0.02	0.76	0.32
Median	-0.02	0.81	0.32
Sortino Ratio (p.a.)			
Investment	-0.08	1.23	0.41
Benchmark	-0.02	1.24	0.42
Median	-0.03	1.34	0.42

IQS benchmarks the Fund against the S&P/ASX 200 Accumulation Index; however, for consistency purposes, Zenith benchmarks all funds categorised within the Australian Shares universe against the S&P/ASX 300 Accumulation Index. Over the long term, Zenith expects any difference in performance between these indices to be minimal.

Zenith notes the returns data is not treated equitably from a taxation perspective. Fund returns are post-tax under the investment bond structure while benchmark and peer group returns are calculated on a pre-tax basis.

Investors should note that prior to November 2022, the Fund was managed by Redpoint Investment Management. Therefore, performance prior to this date should not be considered when assessing the performance of the investment manager.

All commentary below is as at 31 May 2023.

IQS seeks to outperform the S&P/ASX 200 Accumulation Index (before fees and after taxes) by 2% p.a. over rolling three to five-year periods, with an expected Tracking Error of 1.5% p.a.

Given the Fund's recent change in investment manager, there is currently insufficient performance history to conduct any meaningful analysis. However, Zenith draws comfort from IQS's management of a similar strategy from June 2008, which has outperformed its benchmark since its inception.



Relative performance

Excess returns

Statistic	1 Yr	3 Yrs	Inception
Excess Return	-0.49%	-2.23%	-1.13%
Monthly Excess (All Mkts)	50.00%	38.89%	37.50%
Monthly Excess (Up Mkts)	16.67%	20.83%	16.13%
Monthly Excess (Down Mkts)	83.33%	75.00%	76.47%

Capture ratios (% p.a.)

Statistic	1 Yr	3 Yrs	Inception
Downside Capture	79.41%	82.09%	81.78%
Upside Capture	78.73%	81.29%	81.66%

Tracking error (% p.a.)

Instrument	1 Yr	3 Yrs	Inception
Investment	4.13%	3.22%	3.58%
Median	1.54%	1.45%	1.42%

Information ratio

Instrument	1 Yr	3 Yrs	Inception
Investment	-0.12	-0.69	-0.31
Median	-0.02	-0.02	-0.19

Beta statistics

Statistic	1 Yr	3 Yrs	Inception
Beta	0.77	0.79	0.81
R-Squared	0.99	0.98	0.99
Correlation	1.00	0.99	0.99

Zenith notes the returns data is not treated equitably from a taxation perspective. Fund returns are post-tax under the investment bond structure while benchmark and peer group returns are calculated on a pre-tax basis.

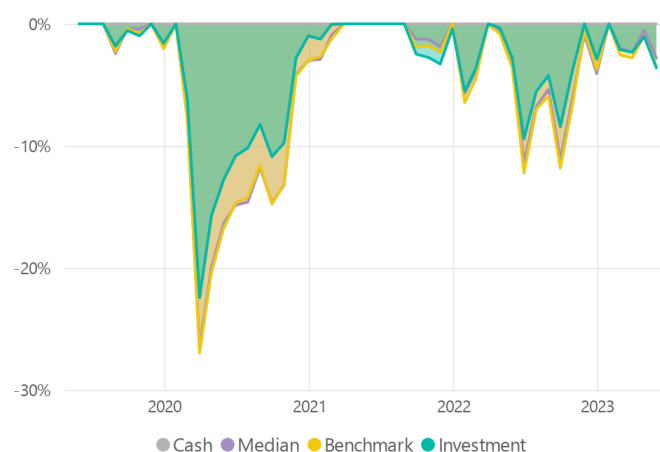
All commentary below is as at 31 May 2023.

Zenith seeks to identify strategies that can outperform in over 50% of months in all market conditions, as we believe this represents consistency of manager skill. In addition, we view a strategy's ability to produce stronger upside capture ratios relative to downside capture ratios as an attractive feature.

Given the Fund's recent change in investment manager, there is currently insufficient performance history to conduct any meaningful analysis. However, Zenith expects the Fund to demonstrate a market sensitivity (beta) similar to an after-tax benchmark.

Drawdown analysis (since inception)

Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing from the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.



All commentary below is as at 31 May 2023.

Given the Fund's recent change in investment manager, there is currently insufficient performance history to conduct any meaningful analysis.

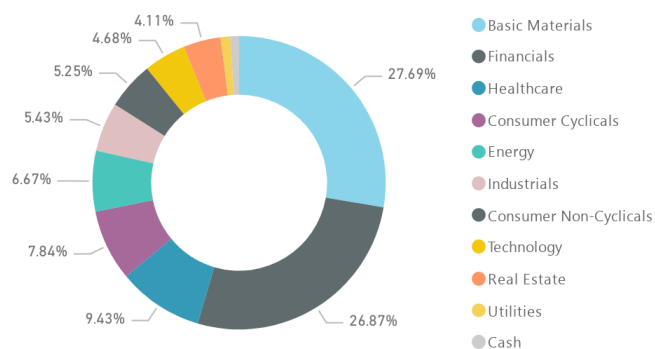


Product Exposures

Holdings as at 31 Mar 2023

Stock	Weight	Country	Sector
BHP Billiton (AX:BHP)	11.60%	Australia	Basic Materials
Commonwealth Bank of Australia (AX:CBA)	8.00%	Australia	Financials
CSL (AX:CSL)	6.55%	Australia	Healthcare
Westpac Banking Corporation (AX:WBC)	4.07%	Australia	Financials
Woodside Energy Group Ltd (AX:WDS)	3.14%	Australia	Energy
National Australia Bank (AX:NAB)	3.12%	Australia	Financials
Australia and New Zealand Banking Group (AX:ANZ)	2.71%	Australia	Financials
Telstra Corporation (AX:TLS)	2.51%	Australia	Technology
Woolworths Group Limited (AX:WOW)	2.47%	Australia	Consumer Non-Cyclicals
Rio Tinto (AX:RIO)	2.39%	Australia	Basic Materials

Equity sector exposure



Equity country exposure





Fund commentary

Fund risks

Zenith has identified the following key risks of the Fund. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks.

Investment model risk: Quantitative investment approaches typically perform better in 'normal' market environments, where mean reversion and momentum factors tend to produce stronger results. The historical nature of some quantitative inputs results in an inability to react quickly to changing markets. Whilst IQS continually explores, researches and tests new predictive factors to enhance the investment process, investors should be aware that there could be periods in which the process experiences difficulties and consequently the Fund underperforms.

Track record risk: Although the strategy has a limited track record, we draw confidence from IQS' track record managing its Australian Core Equity Strategy, which has outperformed its benchmark since its inception in June 2008.

Team focus risk: In addition to this Fund, the investment team is responsible for a number of additional IQS strategies. While Zenith acknowledges that there are some common responsibilities across the strategies, we believe that the team's other commitments have the potential to draw their focus away from this Fund.

Key person risk: Given the quantitative nature of the investment process, Zenith believes there is less reliance on particular individuals to drive investment outcomes. As such, we consider key person risk to be relatively limited at IQS.

Capacity risk: Excessive levels of funds under management (FUM) can inhibit a manager's ability to execute trades efficiently and therefore limit outperformance potential. IQS has indicated a capacity level for the strategy of \$A 5 billion.

As at 31 May 2023, IQS managed approximately \$A 335 million in the strategy. At current levels of FUM, Zenith does not believe capacity is an issue for the Fund.

Derivatives risk: The Fund can use various derivatives including options and futures. These investment securities can be volatile, speculative, illiquid and leveraged.

Security/asset selection

The Fund's investment universe comprises all constituents of the All Ordinaries Index.

IQS's stock selection model involves an industry-relative assessment of companies based on the following factor groups:

- **Value:** cheaper stocks have higher expected returns than expensive stocks (20% weight)
- **Momentum:** stronger performing stocks will continue to outperform while poor-performing stocks will continue to underperform. Momentum comprises the following sub-factors
 - *Earnings momentum* (30% weight)
 - *Price momentum* (25% weight)
- **Quality:** high-quality stocks outperform low-quality stocks (25% weight)

IQS customise the factor weights and signals used for each regional market, with the Australian portfolio management team driving the research efforts specific to the Australian market. Zenith views this customisation positively, as it provides robustness to the approach and ensures model efficacy.

An amalgamated score is derived, with each company ranked on its relative attractiveness. A risk forecast is also applied, which utilises the same fundamental factor groups.

Zenith believes IQS's investment approach is logical and implemented in a consistent and robust manner. In addition, Zenith notes that there is a high degree of overlap between the factors targeted by IQS and the Fund's previous investment manager, Redpoint Investment Management. As such, Zenith expects the Fund to produce a relatively similar risk and return profile.

Responsible investment approach

Invesco has an established Responsible Investment Policy, last updated in 2020, that guides its investment decisions.

Whilst the Fund does not have any environmental, social or governance (ESG) exclusions, IQS takes an active approach to ESG issues, incorporating ESG-based factors as an input into its stock selection process. Zenith believes that this analysis of a company's operations is crucial on a forward basis, given that a company's performance with regards to ESG considerations is increasingly being reflected in its share price. Overall, Zenith is comfortable with IQS's approach to ESG.

Zenith has assigned the Fund a responsible investment classification of Integrated.

Portfolio construction

IQS's portfolio construction process is performed via an optimisation process that combines the output of the security selection process with risk considerations, constraints, trading costs and tax implications.

Consistent with the Fund's benchmark-aware objective, IQS's optimiser constructs a relatively style-neutral portfolio with an expected Tracking Error between 1.5% p.a. and 2% p.a. As a result, it is anticipated that the Fund will exhibit similar performance sensitivity to that of an after-tax benchmark (beta of 1).

The Fund is expected to hold approximately 115 positions with active weights within +/- 2% of the benchmark. Stocks with the highest ranks are typically held at the largest active weights. Additionally, sector exposures are expected to be broadly in line with the benchmark with +/- 3% active weights allowed. Prior to IQS's appointment in November 2022, the Fund held between 50 and 80 positions and was limited to a maximum +/- 5% active sector weight. Zenith does not expect these changes to have a material impact on the Fund.



Although IQS's investment process is systematic, the portfolio managers retain the option to override the model where they deem appropriate. The investment team may deviate from its systematic buy/sell discipline if there is reason to believe that the data used is erroneous or is yet to reflect all relevant information. Examples include profit warnings, legal issues, regulatory investigations or other exogenous risks. Zenith believes IQS's strength is in its quantitative capabilities and, as such, we would prefer there to be minimal interference to the model and its output. However, we acknowledge that portfolio manager interference is used only selectively as a risk mitigation function rather than a return-seeking tool.

Whilst the Fund has the flexibility to hold up to 5% cash, it is expected to be fully invested. Cash positions are managed throughout the month via the use of ASX SPI futures. Zenith has a favourable view of IQS's approach to cash management.

Given the Fund is managed within an investment bond structure, IQS considers the tax implications of all trades prior to execution. Specifically, IQS consider:

- *Tax parcel management:* consider the tax implications of selling specific tax parcels
- *Divided and franking credit awareness:* 45-day rule required to capture franking credits
- *Using inflows and outflows to rebalance*
- *Participation in buybacks*

Zenith notes that IQS' focus on momentum produces a naturally tax-efficient trading pattern, as the process of selling stocks that have fallen and purchasing stocks that have risen accelerates the realisation of tax losses and defers gains. The process also preserves available franking credits on dividends received.

The Fund's portfolio turnover is expected to average between 30% p.a. and 50% p.a. over a market cycle, which Zenith considers to be low.

Overall, Zenith believes IQS's portfolio construction approach appropriately combines the output of the security selection process with strong consideration of tax implications.

Risk management

Due to the quantitative nature of the investment process, risk management is incorporated into both the security selection and portfolio construction phases.

In the security selection phase, risk management is embedded in the return and risk forecasts of stocks. A risk forecast is determined for each stock in the universe via a proprietary Australian equity risk model that is derived from the same factors used for return forecasting.

In the portfolio construction phase, IQS utilises its proprietary Global Portfolio Management System, which enables constraints to be set for portfolio optimisation. Constraints are applied at rebalancing.

Portfolio implementation is automated via Charles River, which generates the trade lists by account and automates post-trade allocations.

Overall, Zenith considers IQS's approach to risk management appropriate.

Investment fees

	Fund	Sector Average
Total Fees and Costs (RG 97)	0.54 % p.a.	0.77 % p.a.
Management Fees and Costs	0.54 % p.a.	0.67 % p.a.
Transaction Costs	0.00 % p.a.	0.04 % p.a.
Performance fees	N/A	0.08 %
Performance fees description	N/A	
Management Cost	0.54 % p.a.	0.70 % p.a.
Buy / Sell spread	0.25 % / 0.25 %	0.19 % / 0.19 %

All fees and costs are inclusive of GST unless indicated otherwise. The Performance Fee shown is the performance fee disclosed in the PDS. It is calculated by taking the average performance fees charged over the last five financial years (or less if the investment or performance fee mechanism has not been in place for five financial years).

The sector average management cost is based on the average management cost of all flagship Australian Large Cap products surveyed by Zenith.

Prior to November 2022, the Fund charged a management cost of 0.65% p.a., with no associated performance fee. Zenith has a favourable view of the fee reduction.

Overall, Zenith believes the Fund's fee structure is fair, relative to peers, given its stated objectives. However, there is insufficient performance data at this stage to conduct meaningful analysis on whether the fees paid are justified.

(The fees mentioned above are reflective of the flagship version only, fees may differ when the product is accessed through an alternate investment vehicle such as a platform.)



About the fund manager

Investment personnel

Name	Title	Industry Experience (yrs)	Tenure (yrs)	Location
Andre Roberts	Senior Portfolio Manager	29	5	Melbourne, Australia
Neil Lahy	Senior Portfolio Manager	33	5	Melbourne, Australia
Nicole Schnuderl	Senior Portfolio Manager	19	19	Melbourne, Australia
Ritchard Longmire	Senior Portfolio Manager	23	5	Melbourne, Australia
Richard Tsai	Portfolio Manager	22	5	Melbourne, Australia

Organisation

Invesco Limited (Invesco) is one of the world's largest independent investment management companies and is publicly traded on the New York Stock Exchange (NYSE: IVZ). Invesco provides investment capabilities across all the major asset classes including Australian and global shares, fixed interest, real estate, private credit, and alternatives/multi-asset. As at 31 May 2023, Invesco had approximately \$US 1.5 trillion in funds under management (FUM) and employed approximately 8,400 staff across 26 countries.

The strategy is managed by Invesco's Quantitative Strategies (IQS) Group. As at 31 May 2023, IQS managed approximately \$A 362 million within active Australian equities.

The mandate's structure differs from that of other investment options held on the Generation Life investment bond investment menu. As opposed to being invested via an underlying managed fund, IQS has been appointed to directly manage the mandate under an Investment Management Agreement. Under this structure, IQS is in a position to optimise and enhance the after-tax outcomes of the mandate.

As at 31 May 2023, IQS managed approximately \$A 335 million in the strategy, of which approximately \$A 51 million was in the Fund.

Personnel

Responsibility for IQS's 50-member Global Management team rests with Bernhard Langer, who leads all business, strategic and investment decisions. The team is divided into:

- Research
- Portfolio Management
- Global Portfolio Analytics

Located across Frankfurt, New York, Boston, Melbourne and Tokyo, IQS specialise in quantitatively driven equity solutions, including a range of passive, enhanced, active, low volatility, balanced and long/short strategies across global and domestic equity markets.

IQS's Melbourne-based Australian equities team of five is responsible for the Fund. The team comprises four senior portfolio managers and a portfolio manager, with an average industry experience of over 25 years. Zenith has high regard for the experience and capabilities of the investment team.

The team draws upon the insights of IQS's global platform, which includes over 45 dedicated quantitative resources. Zenith holds

a favourable view of IQS's global platform and believes that it is well resourced.

The portfolio management team is responsible for managing systematic Australian equity portfolios across long-only and long/short segments, ensuring that portfolios are optimised and trades are conducted in a sensible manner. The team also provides feedback to the broader research team to drive and refine their research process.

IQS's Research Coordination Committee determines the research agenda for the group. Once a research project is completed, it is critiqued and either approved or rejected by the broader team. The research team constantly test the effectiveness of factors, adjusting the models where necessary. Zenith considers the research effort to be sound and accretive to the process, although we would prefer to see greater Australian-focused research over time.

Invesco has a 24-hour trading desk that is staffed by an over 60-member trading team, with the Australian trading desk led by Greg Bevis.

Zenith believes the Fund is well-managed by a highly experienced investment team. In addition, we draw comfort from the ability to leverage IQS's broader global platform.



About the sector

Sector characteristics

The Zenith 'Australian Shares – Large Companies' sector consists of long-only strategies investing in the Australian equities asset class. The sector incorporates both benchmark aware and benchmark unaware strategies that focus predominantly on stocks with large market capitalisations. Additionally, the sector is one of the most competitive in the investment landscape, based on the number of managers and strategies available to investors. Despite the competitiveness of the sector, Zenith expects rated long-only products to outperform the passive index over the long term.

Zenith benchmarks all funds in this sector against the S&P/ASX 300 Accumulation Index. However, many managers in this sector benchmark themselves against the S&P/ASX 200 Accumulation Index. Both indices are market-capitalisation weighted, resulting in companies with the largest market capitalisations receiving the highest weightings within the index. Over the longer term, Zenith believes there will be minimal difference between the return profiles of these indices.

The Australian equities asset class, as represented by the S&P/ASX 300 Index, is highly concentrated and narrow. Zenith considers a company to be a large-cap company if it falls within the S&P/ASX 50 Index, with stocks falling within the S&P/ASX 51 to 100 considered mid-cap companies. Furthermore, Zenith considers stocks that fall within the S&P/ASX 101 to 300 to be small-cap companies.

As at 31 March 2023, the Financials and Materials sectors combined represented a significant portion of the S&P/ASX 300 Accumulation Index, with the Financials sector accounting for approximately 27% and Materials approximately 26%. In addition, the top 10 stocks represented approximately 46% of the Index and the top 20 stocks represented approximately 61%.

Sector risks

Funds within the 'Australian Shares – Large Companies' sector are exposed to the following broad risks:

Market and economic risk: A sustained downturn across the Australian equity market is a risk to the absolute performance of funds in the sector. Additionally, changes in economic, social, technological or political conditions, as well as market sentiment, could also lead to negative fund performance. This risk can be significantly reduced by investors adhering to a fund's prescribed investment timeframe.

Specific security risk: This is the risk associated with an individual security. The price of common shares in a company may be affected by unexpected changes in company operations such as changes in management or the loss of a significant customer.

Liquidity risk: This is the risk that a security or asset cannot be traded promptly, due to insufficient trading volumes in the Australian equity market. When trading volumes are low, buyers/sellers can significantly impact the price of a security when entering or exiting a position.

Style bias risk: Australian equity managers employ different investment styles such as Growth, Value or Neutral (a combination of Value and Growth). Each style is conducive to certain market conditions. This risk can be significantly reduced by investors adhering to a fund's prescribed investment timeframe.

Capacity risk: High levels of funds under management (FUM) can present additional challenges to an Australian equity manager. High FUM has the potential to restrict a manager's ability to trade efficiently and/or be forced to disclose substantial shareholdings to the market (most common in smaller companies).

Regulatory Risk: All investments carry the risk of being affected by changes to government policies, regulations and laws. Security prices in which funds may have exposure are also subject to certain risks arising from government intervention in the Australian equity market. Such regulation or intervention could adversely affect fund performance.



Administration and operations

Responsible Entity	Generation Life
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Zenith rating

Report certification

Date of issue: 29 Jun 2023

Role	Analyst	Title
Analyst	Jock Allen	Senior Investment Analyst
Sector Lead	Quan Nguyen	Head of Equities
Authoriser	Bronwen Moncrieff	Head of Research

Association & relationship

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Rating history

As At	Rating
29 Jun 2023	Recommended
14 Dec 2022	Recommended
20 Sep 2022	Under Review
30 Jun 2022	Approved
24 Jun 2021	Approved
18 Jun 2020	Approved
26 Nov 2019	Not Rated - Screened Out

Last 5 years only displayed. Longer histories available on request.

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