Generation Life Tax Effective Growth Fund

Fact Sheet | 31 December 2024

Performance as at 31 December 2024[1]	1 Month (%)	3 Month (%)	6 Month (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	Since Inception (% p.a.)
Fund net return (after fees & tax) [2]	-0.74	2.52	4.71	10.72	3.05	3.91	4.17
Benchmark return (before tax)[3]	-0.40	3.10	7.80	14.80	-	-	17.30[4]
Gross strategy return (before fees & tax)	-0.50	3.50	6.90	14.90	-	-	16.60[4]
Gross strategy return (before fees & after tax)	-0.45	3.65	7.20	15.50	-	-	17.20[4]

Fund facts	
Sector	Diversified - growth
Tax aware level	Tax Optimised
Inception date	10 September 2004
Fund code	UF10
Generation Life APIR code	ALL0014AU
Investment management cost[5]	0.76% p.a.
Buy/sell spread	0.18%/0.18%
Suggested minimum investment period	5 Years
Risk level	6 - High

Recent investment management history

Investment option name changed from Russell Investments Balanced Fund to Generation Life Tax Effective Growth Fund effective 29 September 2023.

Investment manager changed from Russell Investments to Fidelity International on 29 September 2023.

Notes

1. Past performance is not an indicator of future performance.
2. The administration fee is deducted directly from the investment option before unit prices are declared.
3. Composite Index: 25.0% S&P/ASX 300 Index in AUD, 22.5% MSCI World ex Australia Index (Net) in AUD, 13.5% MSCI World ex Australia Index (Net) Hedged to AUD, 5.0% MSCI World ex Australia Small Cap Index (Net) in AUD, 4.0% MSCI Emerging Markets Index (Net) in AUD, 9.0% Bloomberg AusBond Composite 0+Yr Index in AUD, 21.0% Bloomberg Barclays Global Aggregate Index Hedged to AUD
4. Strategy inception is 29 September 2023
5. Investment management costs include investment manager's fees, estimated investment expense recoveries and other indirect investment costs as a percentage of the total average assets of the investment option based on latest available information, but excludes indirect transaction and operational costs.

Investment objective

Aims to outperform the weighted average return of a composite index before tax and fees over rolling 5-year periods. As a secondary objective, aim to outperform the benchmark with a preference towards unrealized capital growth.

Investment approach

The fund aims to provide long-term capital growth by investing in a range of global asset classes. In actively managing the portfolio, the manager will tactically allocate investments across asset classes and geographic areas (including emerging markets) based on their potential to generate capital growth or reduce overall risk. The fund may use derivatives for efficient portfolio management and investment purposes. The manager will seek to manage the portfolio in a tax-aware manner. The fund typically aims to invest in a diversified portfolio mix with exposure to growth assets of around 70% and defensive assets of around 30%. The manager has the flexibility to allocate outside of the typical asset sector allocation guidelines where required (for example, during periods of market stress).

Market commentary

In December, the spotlight fell on the Federal reserve which decided to lower policy rates by 25 bps with a forecast of only two more rate cuts in 2025. The tone from the Fed was more hawkish which resulted in the second steepest day of decline in 2024 for the S&P (-2.9%). The European market was also dragged lower. The MSCI World ended the month down 2.7% and Bloomberg Global Aggregate fell 2.1% in December.

The macro picture remained soft in Europe with PMI recording 30 consecutive months of contraction in manufacturing. Political uncertainties are still lingering, with the newly appointed Prime Minister in France tasked with passing deficit reducing budget. Germany also needs more spending to kick start the economy. The ECB lowered interest rates by 25bps in December with more to come in 2025.

Elsewhere, most markets were impacted by softer currencies, political factors and concerns around tariffs. South Korean Won fell to a 16-year low, and JPY also retreated sharply as the Bank of Japan hesitated in hiking rates in December. Relatively, the CNY had a shallower decline over the month, with announcements were made for a more proactive fiscal policy and 'moderately loose' monetary policy.

In Australia, the RBA cash rate remained unchanged at 4.35%. The policy statement was more dovish, noting the board gaining confidence that inflation is sustainably moving towards target. Q3 GDP was also soft at 0.3% q-o-q, well below consensus estimates. Private investment was also weak, which fell 0.6%.

Portfolio commentary

For the month ending 31 December 2024 the after tax and pre–Gen Life administration fee return was -0.45%. There were 22 building blocks in a tax payable position and 1 in a tax receivable as of 30 November. The fund has generated 0.60% in tax alpha for the FYTD.

Asset class insights include

Shares vs Fixed Income: risk on with a tilt to US equities

We are turning cautious on risk with expectations for higher volatility. Our allocation to Australia government bonds also continues to increase. In the near term, the US economy continues to print solid jobs data and below expectation inflation prints. Earnings are going to do the heavy lifting, but more uncertainties with the PE expectation part given hefty valuations and continued volatilities in bond yields. The long end of the yield curve is aggressively repriced, duration is getting more attractive in multiple regions.

Australian shares vs Global Shares

Relative signals for AU vs World have turned roughly balanced with the economic surprise index holding up better in AU. Commodities terms of trade however has come off highs and remained sluggish. Economic surprises have trended downwards. Our underweight position in AUD relative to benchmark has been maintained by reducing hedging.

Within global equities, regional allocations

US exceptionalism remains intact as the US continues to enjoy strong fundamentals, driven by resilient US consumer driving growth, strong balance sheets, higher margins and prospects of tax cuts/deregulation. We are, however, mindful of the very demanding valuations at a time when tariff uncertainty remains high and fiscal support could be waning. Current preference is to go down the market cap spectrum and areas that are more domestic focused.

With Europe facing structural headwinds ranging from industrial weakness, to lack of fiscal headroom and weak leadership, we see limited improvements from a macro perspective and US trade policy could become an additional headache. We expect the ECB to be forced to cut rates more promptly, which could ease financial conditions and lead to a pickup in demand for loans. Regardless of this, we expect a fragile recovery. As the valuation gap continues to grow vs the US and sentiment/positioning at extreme levels, we envision a scenario where European equities enjoying a short-term relief rally. We are gravitating towards such a scenario but looking to pivot in February with Germain elections as a key catalyst for repricing.

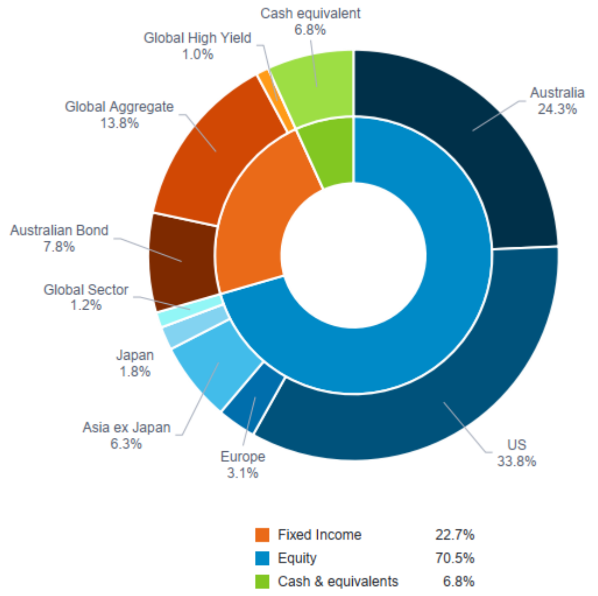
China's policy looks to stay especially with tariff uncertainties in the horizon. We have continued to observe position higher frequency data in China such as PMI new orders and stabilization of housing prices in major cities, leading us to maintain a bullish view with domestic A shares as the focus on allocation, being the segment that is less susceptible to global liquidity shocks.

Within fixed income, duration vs. credit

The increased bond market volatility has led to high yields across most DM markets. We will remain of the view that Australian government bonds offer good value especially compared to the US given higher inflation uncertainty related to tariffs and immigration policy in the US. Inflation data in Australia continues to move in a favourable direction, supporting increased likelihood of an RBA cut in 2025.

Near term, through IG spreads are at historically tight ranges, fundamentals do not support and imminent pick up in default risks. We increase our allocation to global aggregate alongside of AU duration, as better risk-reward plays, while outlook for equities become a bit foggy.

Portfolio Positioning



Investor services

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Security Name	Portfolio weight	Unrealised gain+ /loss-
MSCI USA Quality Factor Fund	16.0%	2.34%
Australian Equities Fund	13.7%	0.50%
Sustainable Research Enhanced US Equity	12.1%	2.02%
America Fund	7.0%	0.55%
Australian Future Leaders Fund	6.3%	1.39%
Global Short Duration Income Fund	5.5%	0.17%
Core Composite Bond ETF	4.5%	0.04%
Global Corporate Bonds	4.4%	0.21%
Core S&P ASX 200	4.3%	0.41%
MSCI China – A ETF	4.1%	-0.16%

Investment guidelines

	Range
Cash	0-40%
Global Fixed interest	0-40%
Australian Fixed interest	0-40%
Australian shares	10-60%
International shares ex Aus	10-70%
Other	0-35%

	Range
Equity (Growth assets)	60-80%
Fixed Income and Cash (Defensive assets)	20-40%

About the investment manager

FIL Investment Management (Australia) Limited ('Fidelity') is a member of the group of companies known as Fidelity International. The parent company of Fidelity International, FIL Limited was founded in 1969 as the international arm of Fidelity Investments (founded in Boston, US in 1946). Fidelity International became independent of the US firm in 1980 and now invests AUD$1,275m (as at 30 June 2024) on behalf of more than 2.8 million clients globally. Fidelity International remains a private company – predominantly owned by management and members of the founding family

About Generation Life

As the pioneer of Australia's first truly flexible investment bond, we have been at the forefront of providing innovative tax-effective investment solutions since 2004. As an innovation led business, we constantly strive to enhance our products and processes to optimise after-tax investment performance for our investors. We are a leading specialist provider of tax optimised investment and estate planning solutions – with over $3.6 billion invested with us as of end September 2024.

Generation Life is a regulated life insurance company and our parent company is listed on the Australian Securities Exchange. Our focus is to continue to provide Australians with market leading tax-effective investment solutions that provide a flexible investment alternative to meet both personal and financial goals.

Our investment solutions are designed to help you grow your wealth, meet your day-to-day investment needs and to help you plan for your future needs including the transfer of wealth to the next generation.

Investor services		Adviser services	
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