



# **INVESTMENT AND INSURANCE ROADSHOW**

OCTOBER 2024



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# Australian Bonds – In Focus and Ready to Deliver

October 2024

# Fixed Income – In Focus and Ready To Deliver

Following a yield reset, fixed income's role in portfolios is restored. Starting yields are attractive and with inflation moving toward target bands there's potential for further capital uplift as yields decline.

A clouded growth outlook warrants inclusion of defensive assets amidst:

- i. Tighter Credit Conditions
- ii. A weaker Household Sector
- iii. A loosening job market

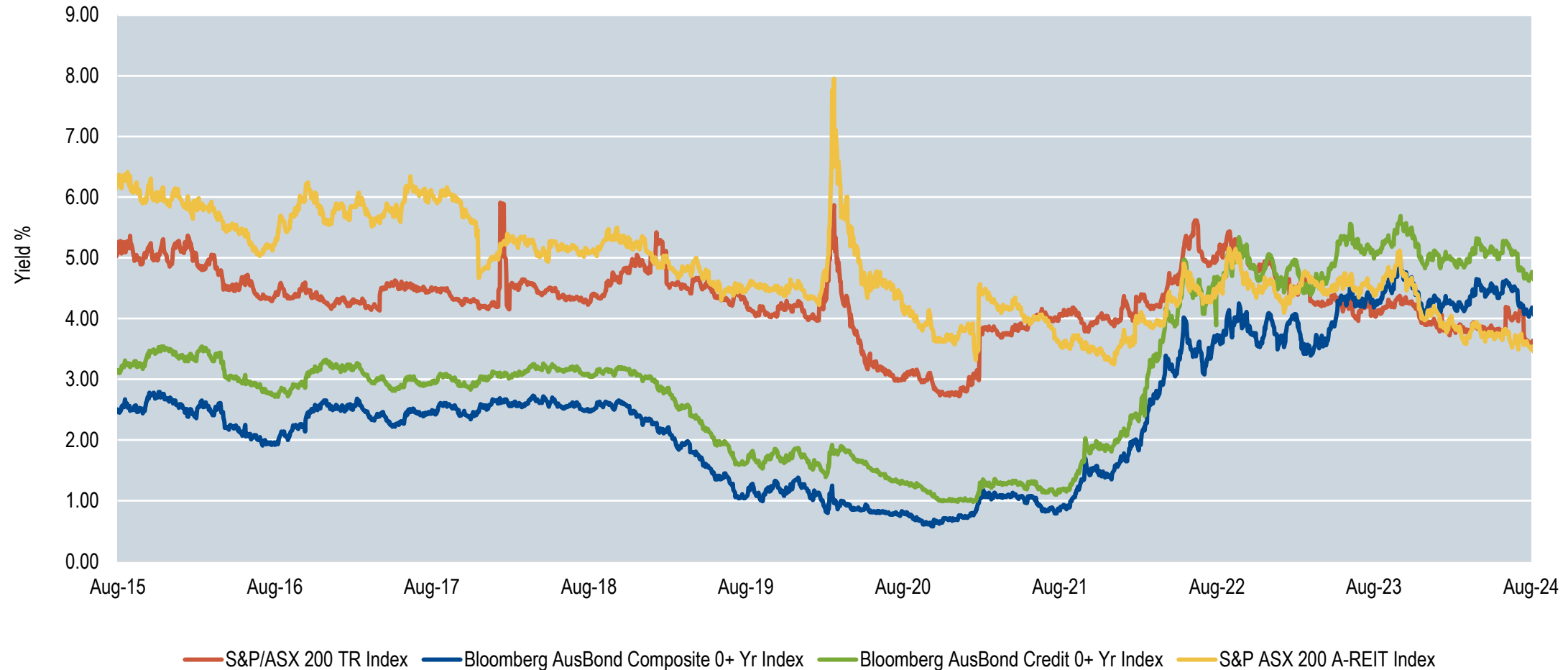
Active management remains critical as investors prepare for the next phase of the cycle.

## Learning Outcomes

- I. Refresh understanding of Fixed Income's role in portfolios
- II. Discuss risk adjusted return prospects of Fixed Income and Credit
- III. Consider a range of portfolio outcomes according to various macroeconomic conditions
- IV. Explore active management opportunities
- V. Appreciate the importance of diversification in investment portfolios

# Attractive Yields

## Fixed income and credit yields on par with growth assets with less risk

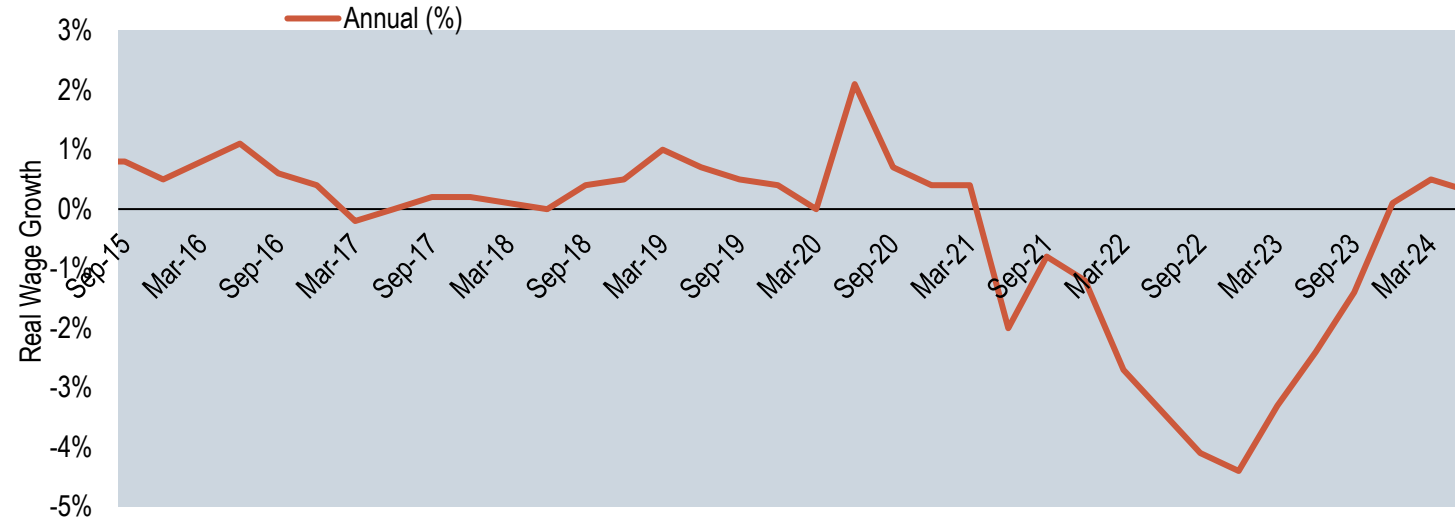


Source: Bloomberg, As at 31 August 2024

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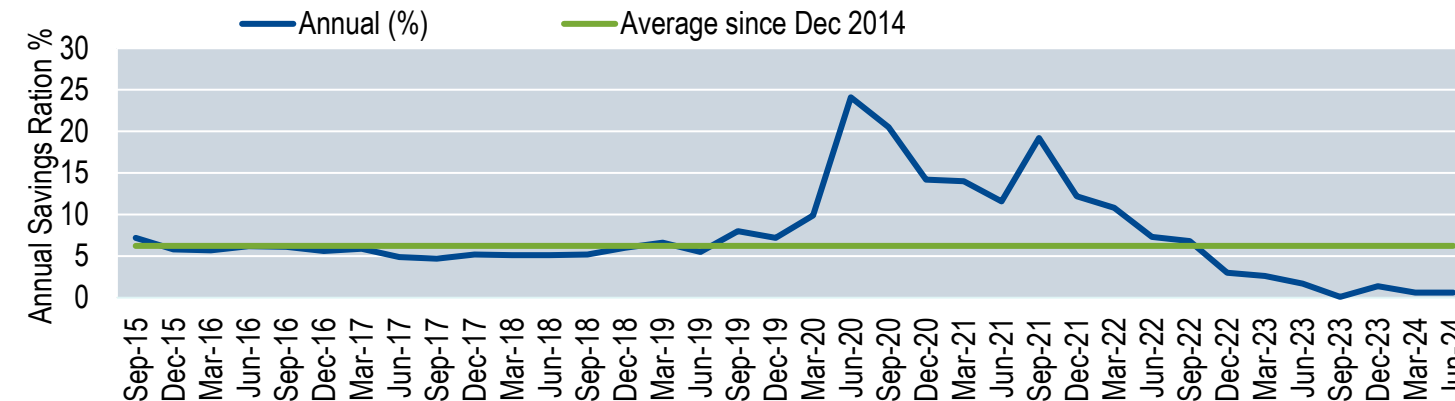
# Australian Households Have Room for Improvement

## Real Wage Growth - Australia



Source: ABS, Bloomberg, Western Asset as at June 30, 2024

## Household Saving Ratio, Seasonally Adjusted



Source: ABS, As at June 2024

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A return to real wage growth provides some optimism about a rebound in aggregate consumer demand.

Flow on impacts of recently implemented personal income tax cuts have the potential to improve household consumption and savings rates simultaneously.

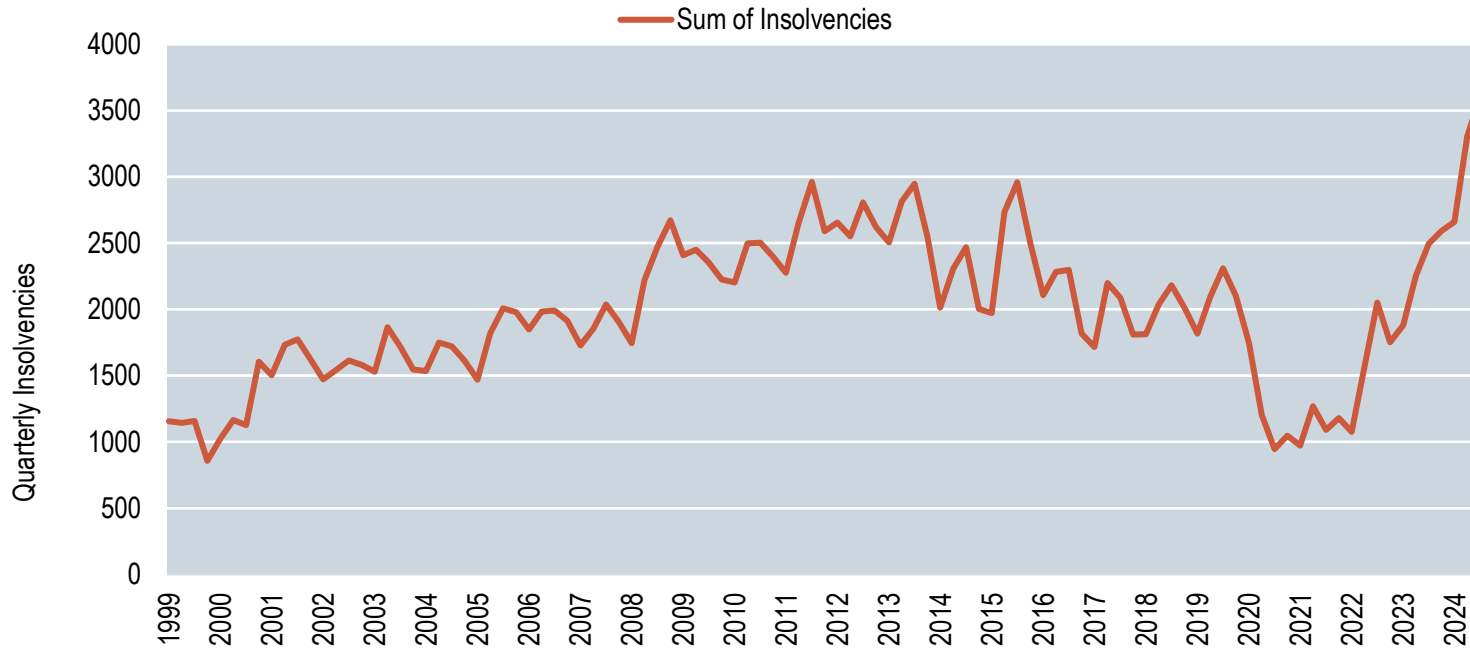
“The central projection is for household consumption growth to pick up in the second half of the year as the headwinds to income growth recede ”

– Reserve Bank of Australia

Statement on Monetary Policy – September 2024

# Tighter Credit Conditions Starting To Bite

## Australia - Quarterly Company Insolvencies



**“We’re seeing now bankruptcies go back to around about the level they were historically as a share of businesses. They are starting to come up.”**

*– Michelle Bullock*

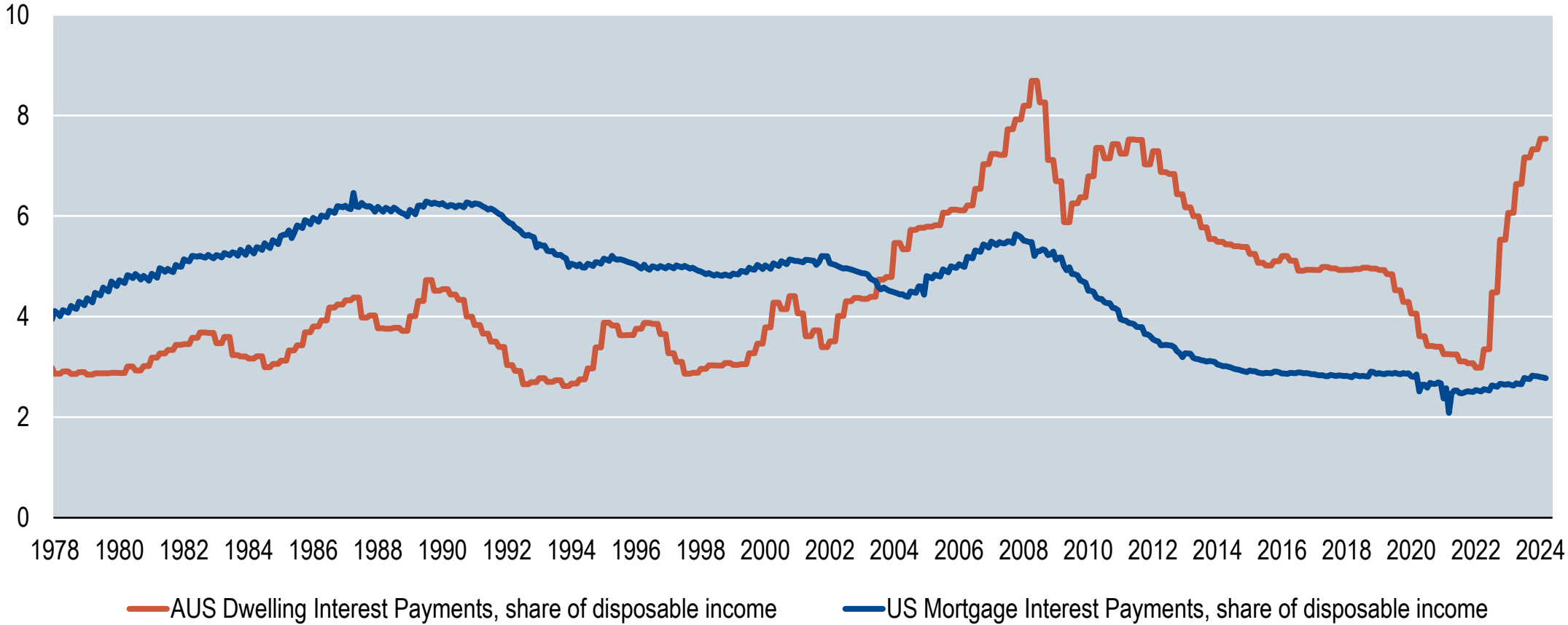
*Monetary Policy Decision Media Conference – May 2024*



# Household Sector – Disposable Income Hit



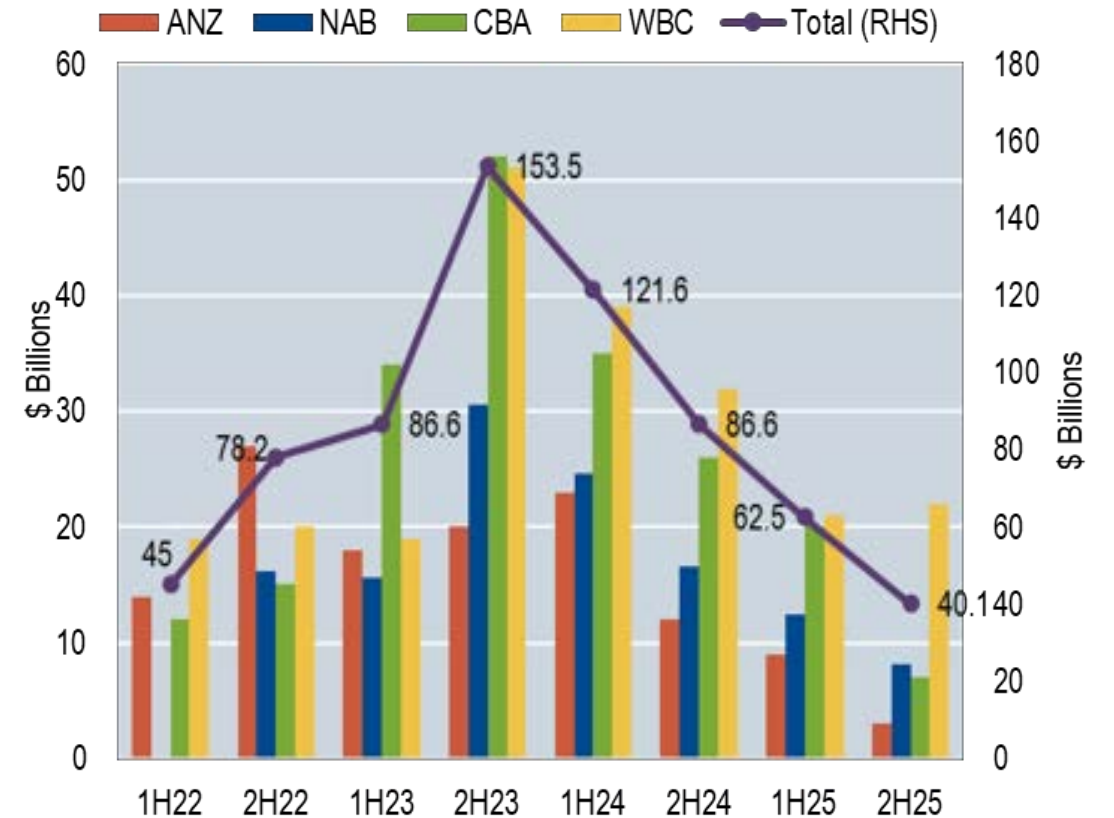
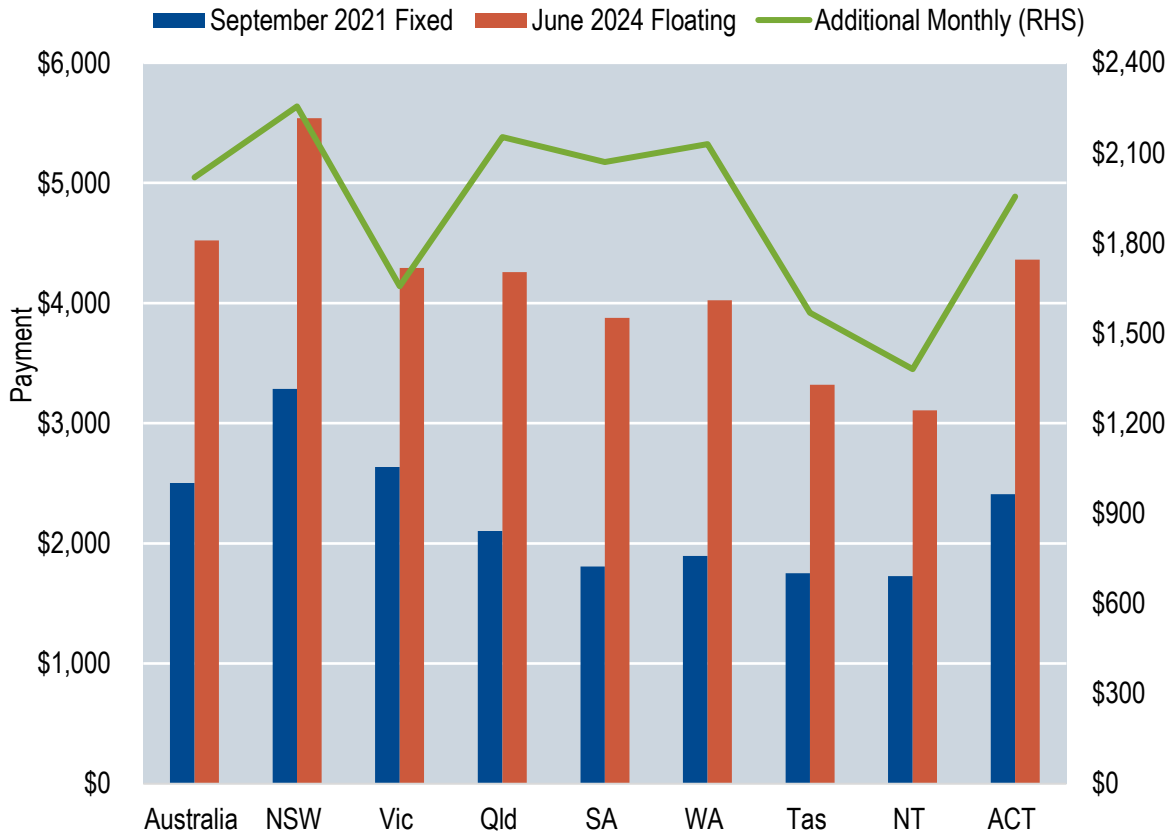
US consumers are protected from higher interest rates, while Australian incomes are weighed down by higher interest costs.



Source: Barrenjoey, ABS, MacroBond  
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# Household Sector – Repayments and Fixed Rate Expiry

## Average Monthly Loan Repayments



Source: ABS, RBA. Based off average owner occupier home loan balances

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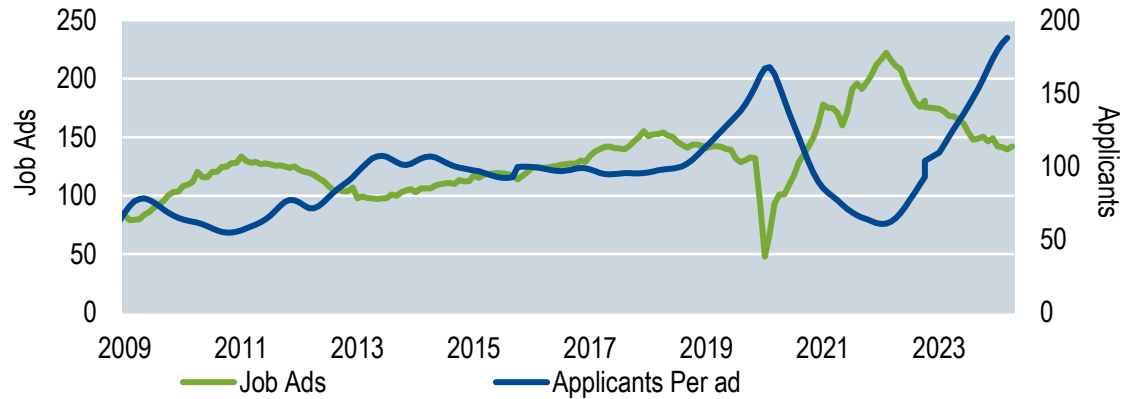
# Quiz Question 1

## True or False?

1. Fixed rate mortgages make the transition mechanism of monetary policy more effective

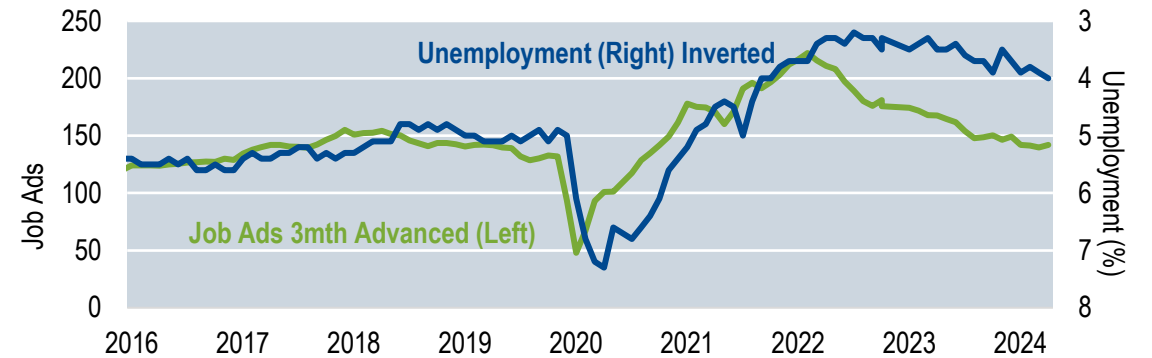
# Australia: Job Market Loosening As Inflation and Growth Wane

## Australian Labour Demand



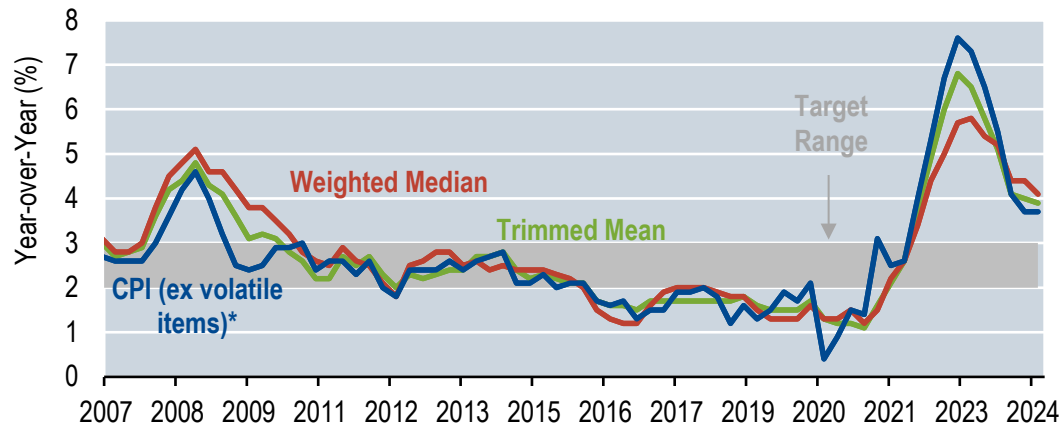
Source: Seek, As at July 2024

## Australian Labour Market



Source: ABS, Seek As at July 2024

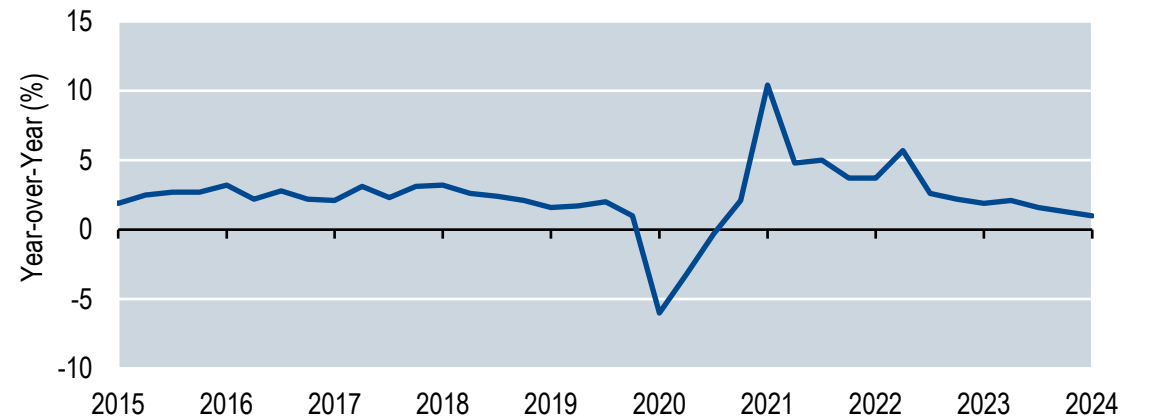
## Underlying Inflation



Source: RBA, Bloomberg. As of 30 Jun 24

\*Excluding volatile items; excluding interest charges prior to the September quarter 1998 and adjusted for the tax changes of 1999-2000.

## Australian GDP Growth YOY

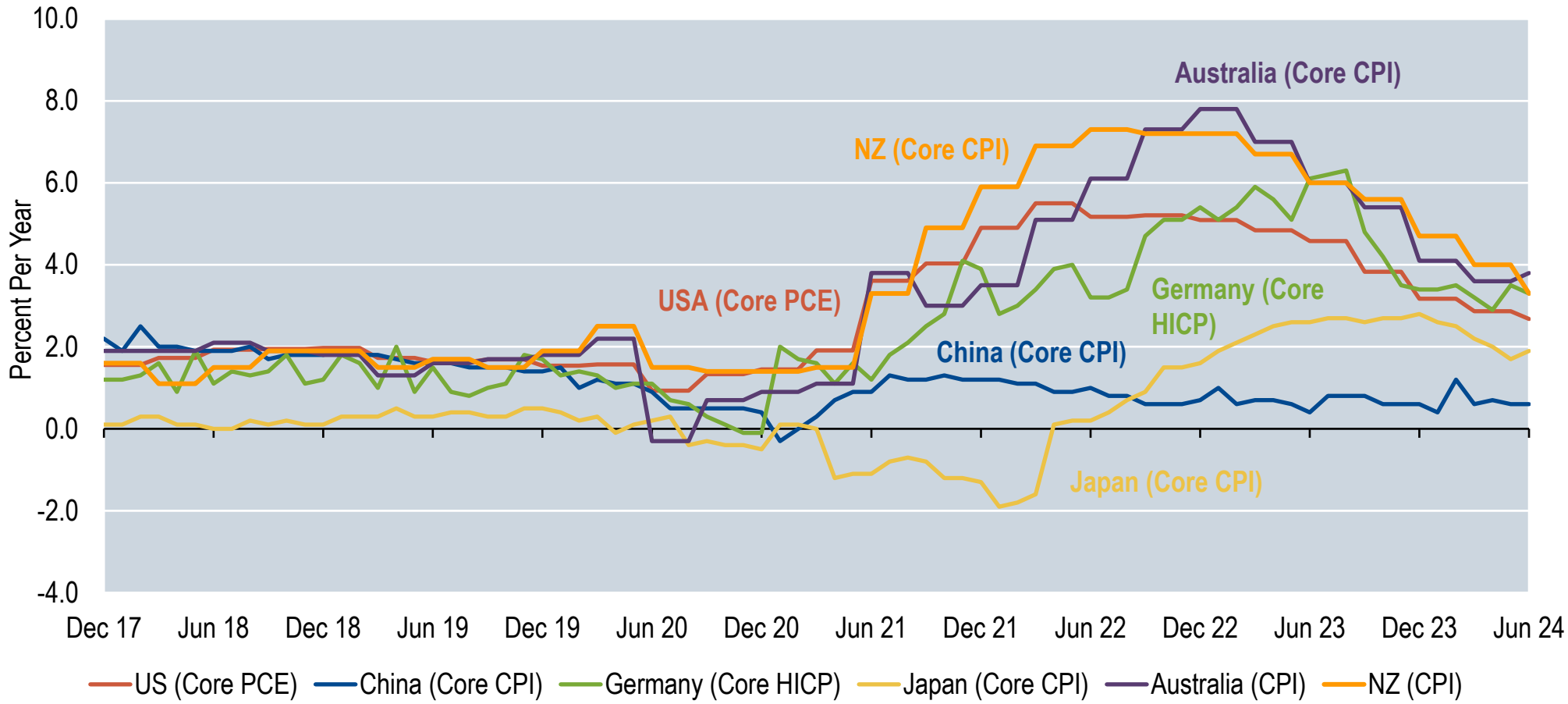


Source: Bloomberg. As of 31 Jun 24.

\*Not seasonally adjusted

# Global Inflation Moderation Well Underway

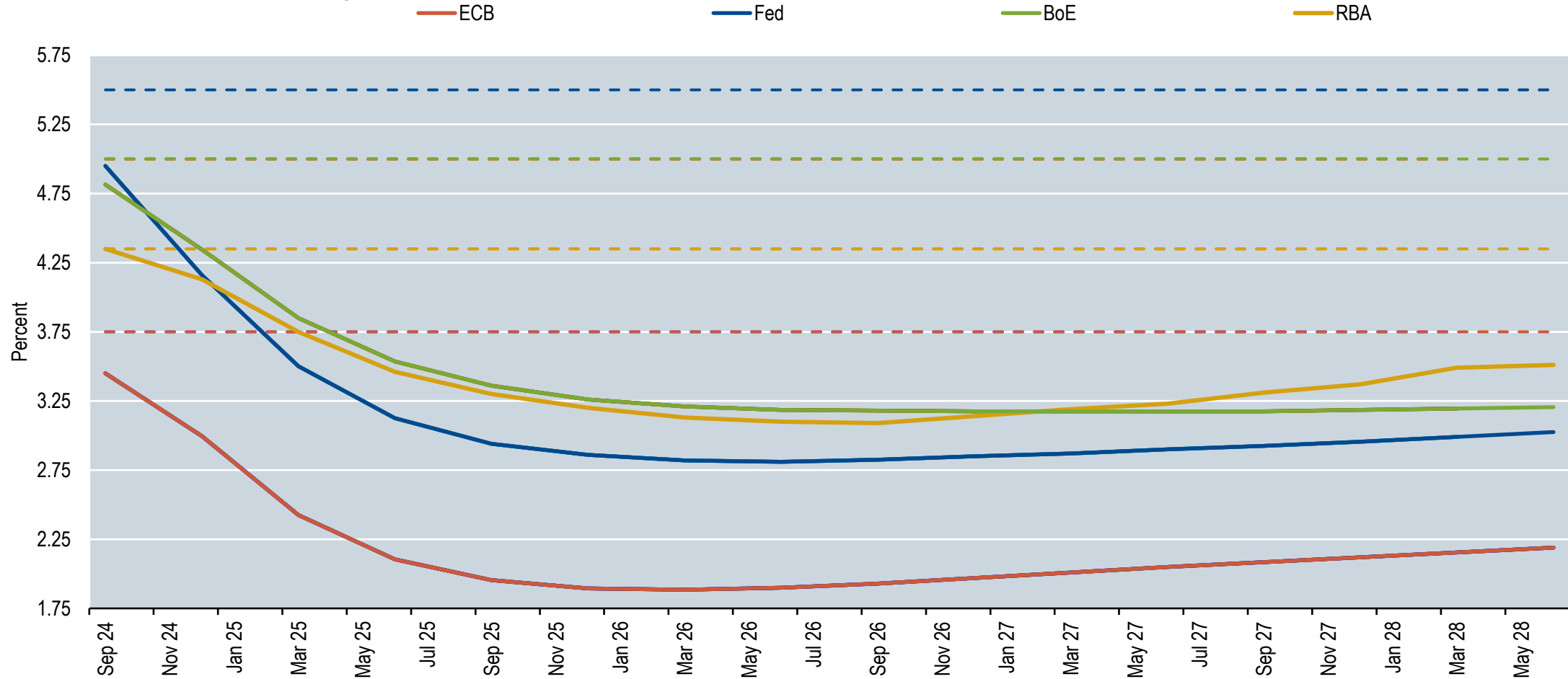
## Core Inflation Rates Moderating



Source: Bloomberg. As of 30 Jun 24  
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# Global Rate Pricing

## Forward Rates Implied by Futures



Source: Bloomberg. As at 5 Sep 24

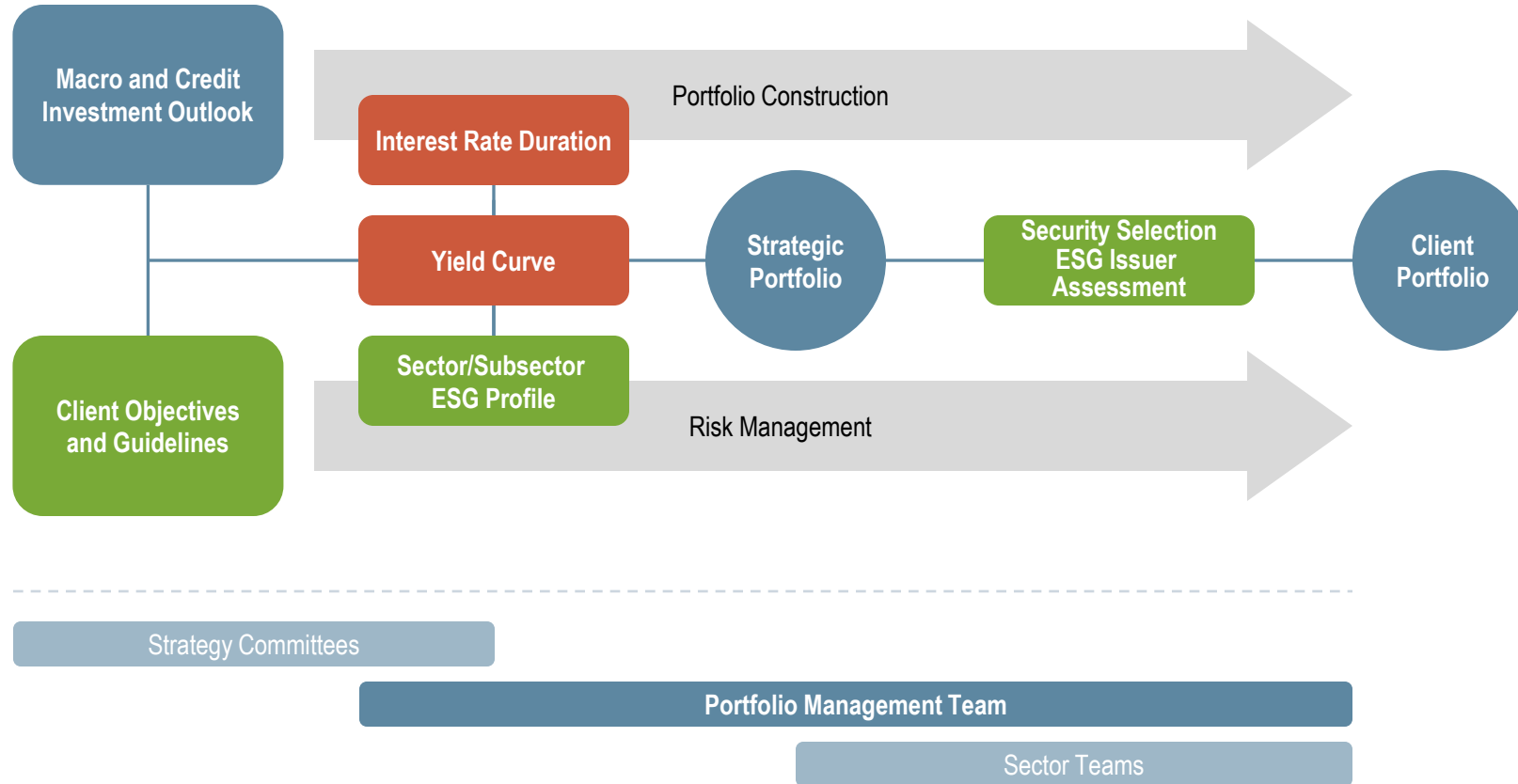
Dotted lines represent current policy rate levels

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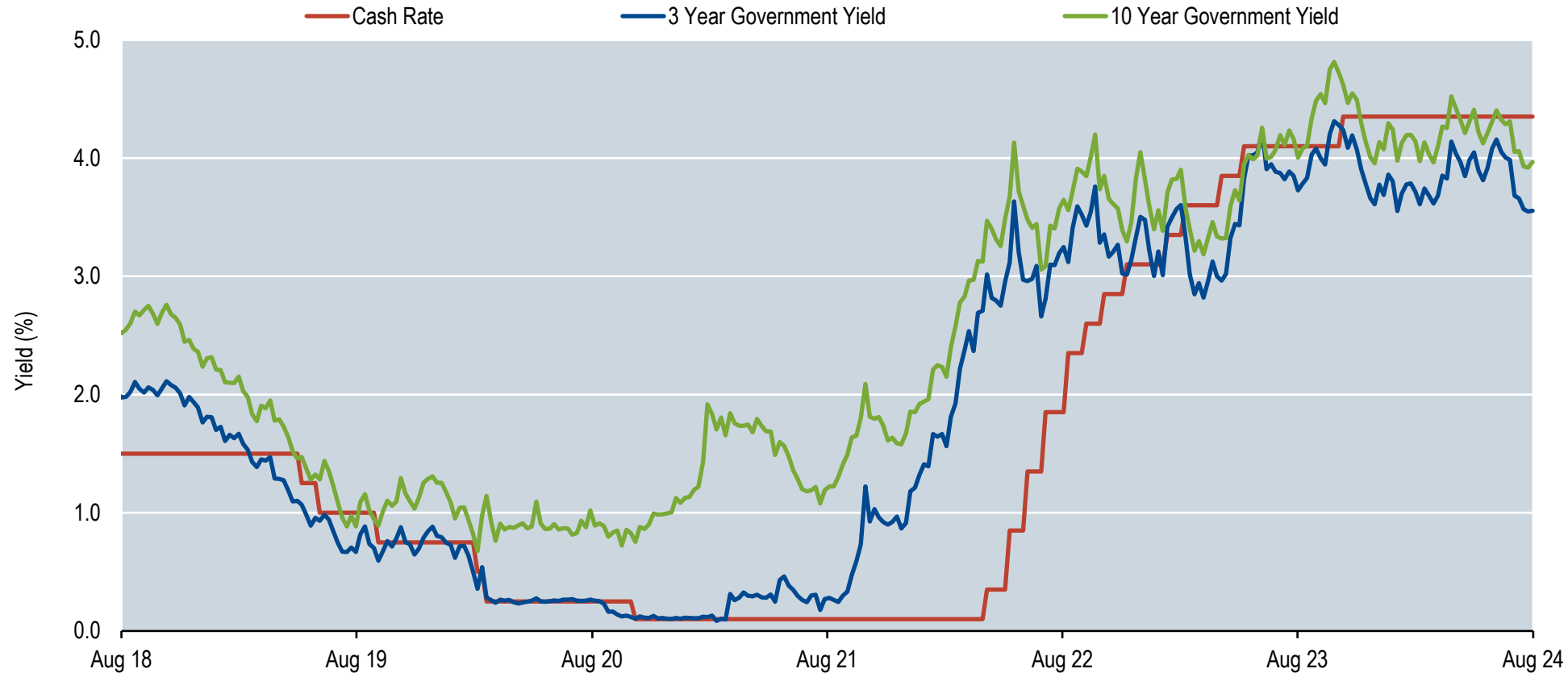
# Investment Process

Our time-tested investment process is designed around our value philosophy and our team-based approach.

Australia Investment Process and Team Interaction



# Australia: Cash Rates and Government Yields



Based on weekly data.

Source: Bloomberg. As at 31 August 24

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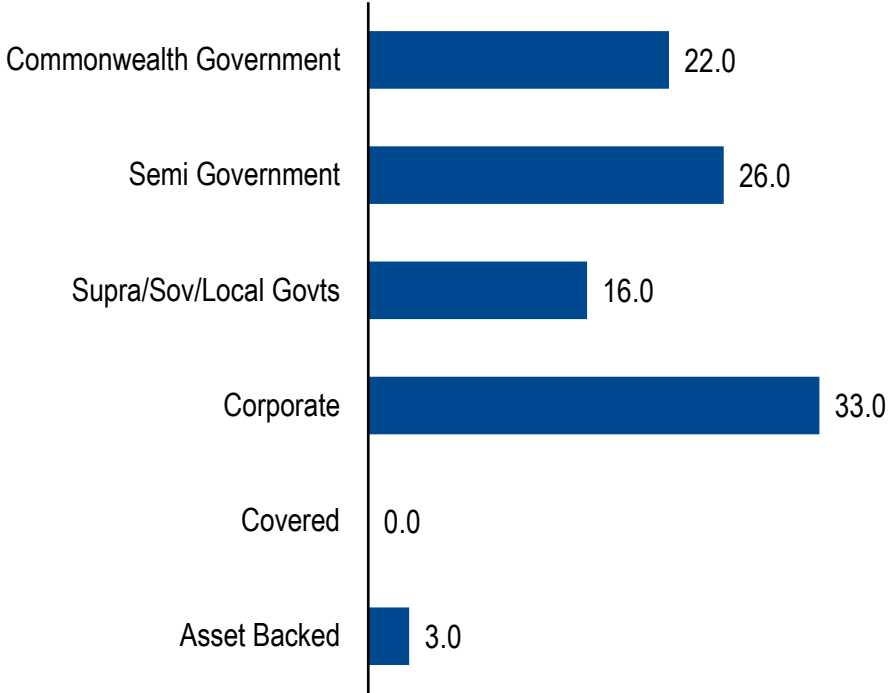
# Benchmark Composition – Pre GFC to Now



Active Managers can appropriately pair defensive allocations with high quality allocations to other sectors without detracting from fixed income’s purpose.

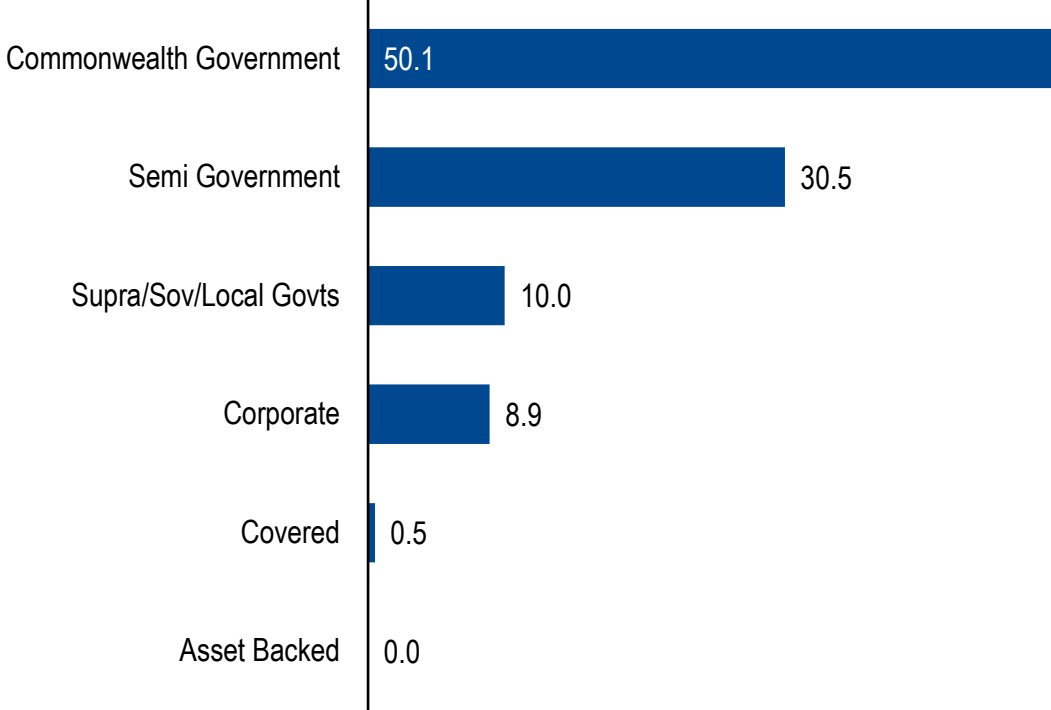
## December 2006

UBS Australian Composite Bond Index (%)



## August 2024

Bloomberg AusBond Composite 0+ Yr Index (%)

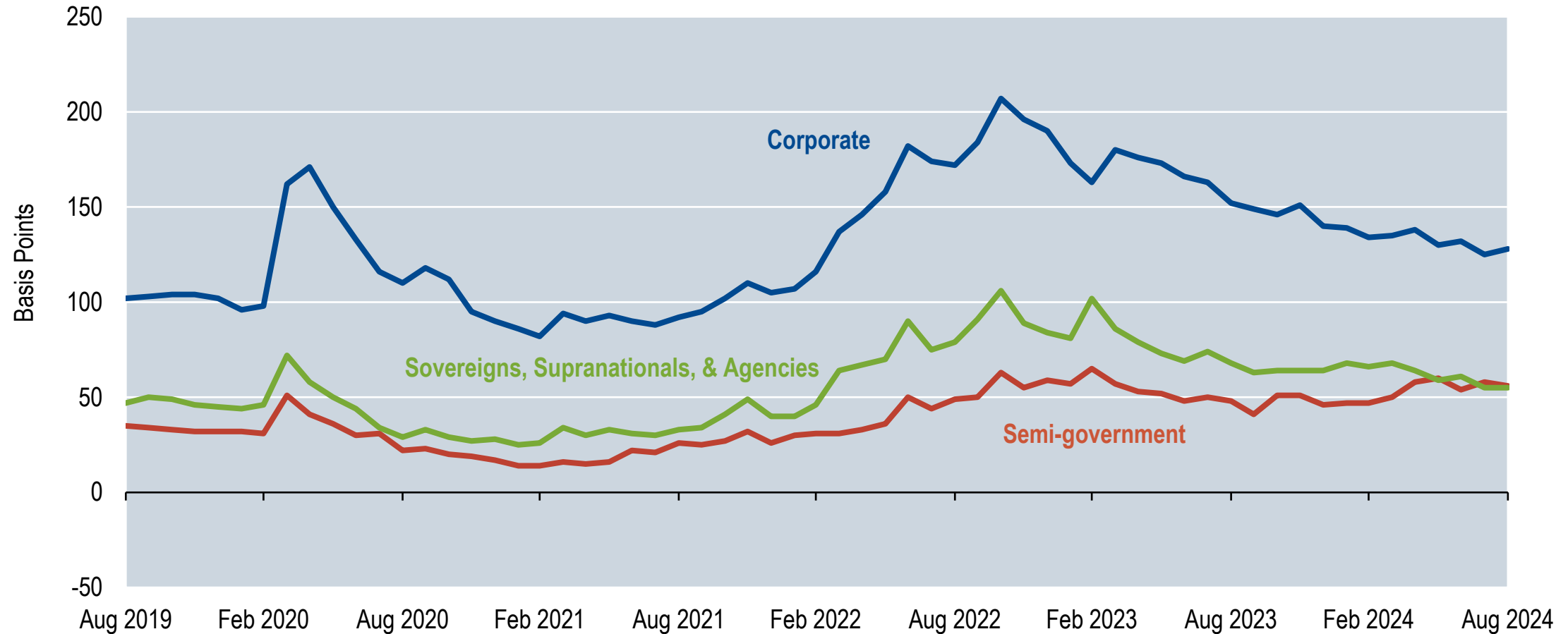


Source: Western Asset  
As at August 31, 2024

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# Australian Bond Spreads

## Australian Bond Spreads

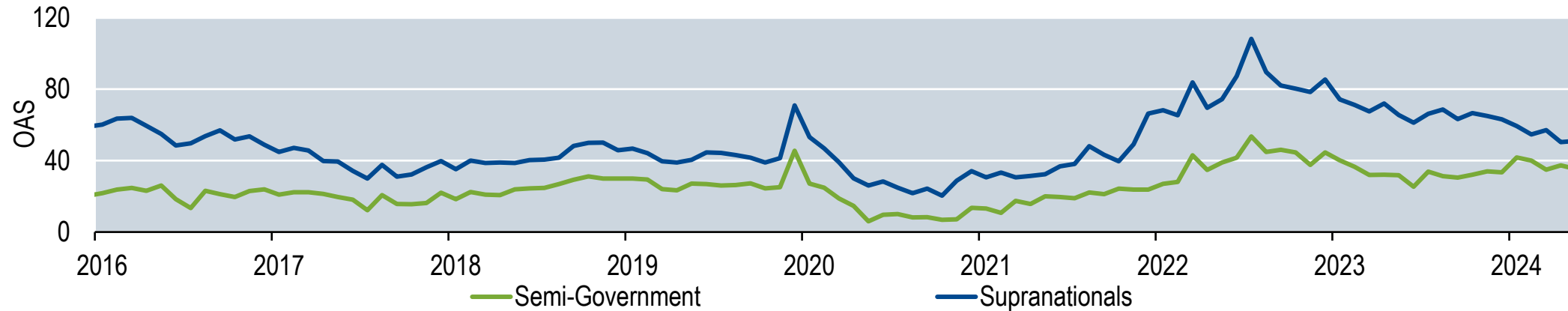


Source: Bloomberg. As at 31 Aug 24

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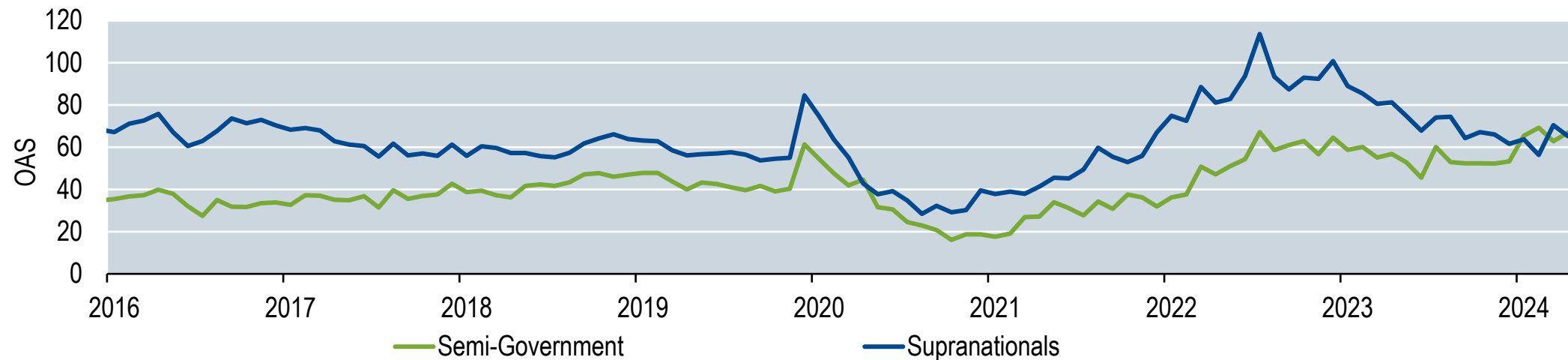
# Australian Bond Spreads

## Australian Semi-Government vs. Supranational Spreads (3-5 yr)



Source: Bloomberg. As at 31 Aug 24

## Australian Semi-Government vs. Supranational Spreads (7-10 yr)



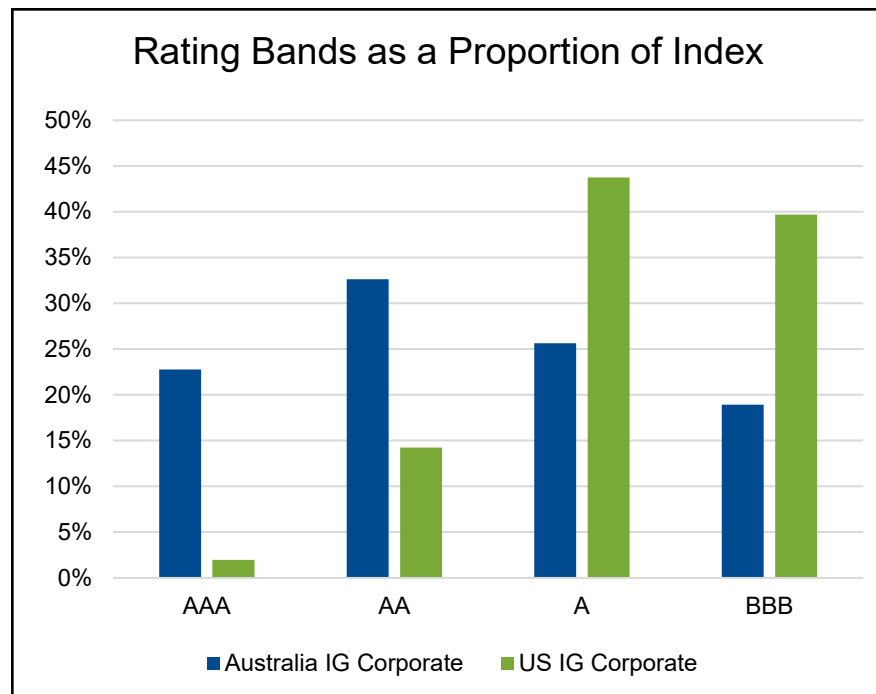
Source: Bloomberg. As at 31 Aug 24

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# Australian Corporate Credit Market

Yield uplift potential is provided by high quality Australian exposure with unique and defensive characteristics.

## Rating Bands as a Proportion of Index



Issuer Category	Issuer	Maturity Date	Rating	Yield
Monopolistic/Duopolistic	Woolworths	May-30	BBB	4.99%
	Telstra	Aug-28	A-	4.42%
	ANU	Nov-25	AA+	4.42%
Utilities/Infrastructure	Melbourne Airport	Nov-31	BBB+	5.19%
	NSW Energy Finance	May-30	BBB	5.03%
Foreign Issuers/Kangaroos	Apple	Jun-26	AA+	4.14%
	McDonalds	Mar-29	BBB+	4.48%
National Champions – Banks	HSBC	Mar-28	AA-	4.38%
	Commonwealth Bank	Aug-28	A+	4.30%

Source: Western Asset, Bloomberg

Rating bands represent composite rating where available and S&P, Moody and Fitch where single rating exists.

As at 30 Sep 24

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# Quiz Question 2

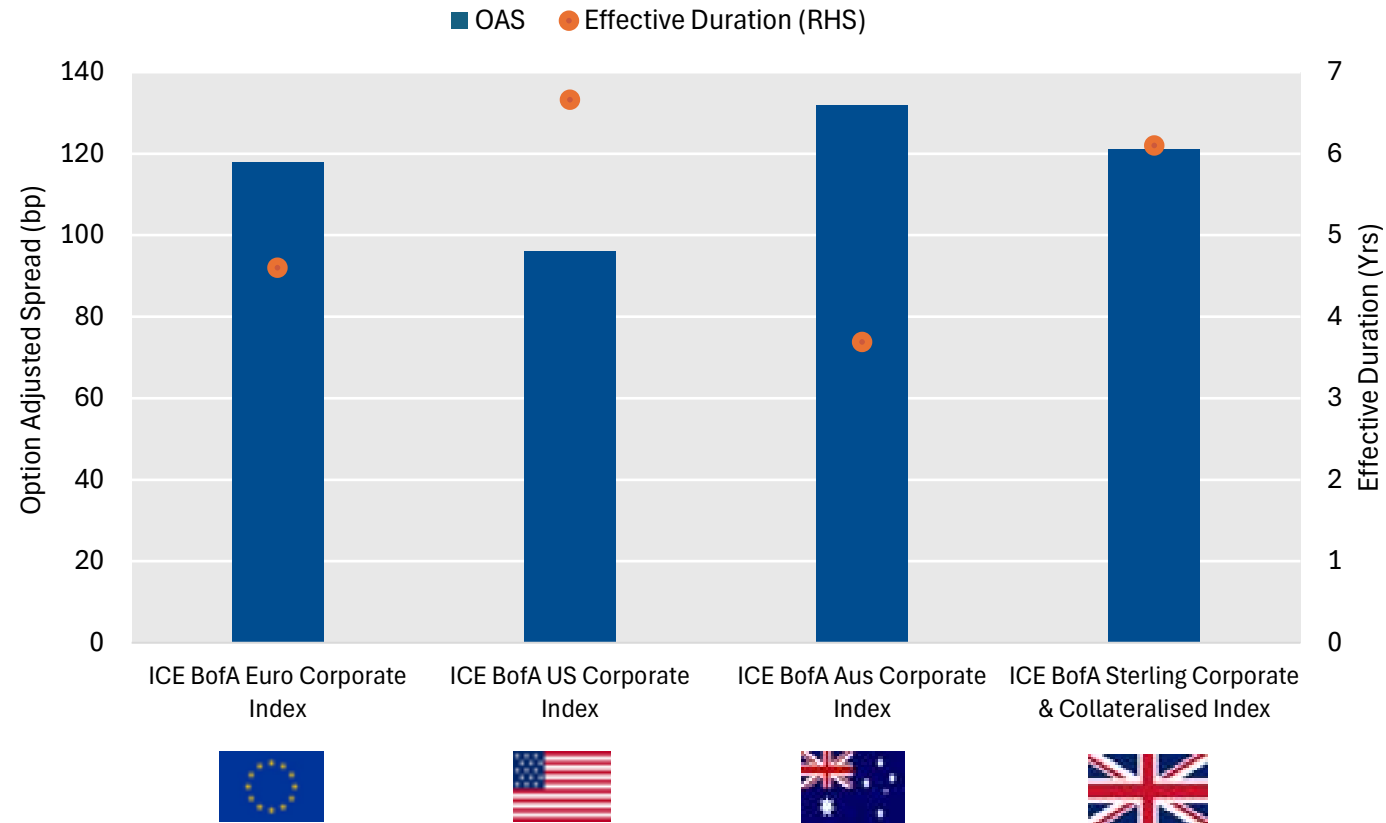
## True or False?

1. Australia's high yield market is well diversified by sector and has excellent liquidity

# Credit Benchmarks

Australia offers wider spreads despite shorter effective duration and higher average quality.

				
Average Rating	A-	A-	A	A-

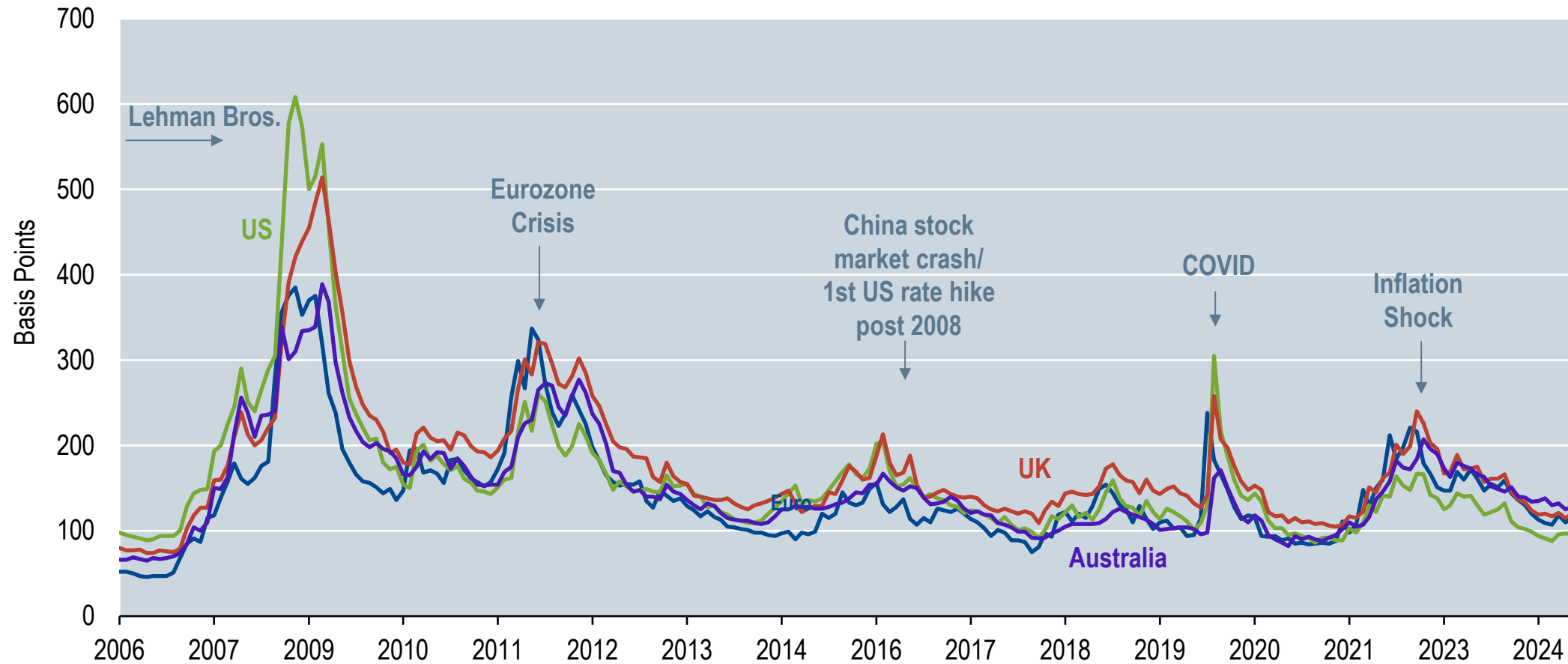


Source: Western Asset, Bloomberg as at June 30, 2024

# Global Corporate Bond Spreads

Australian Corporate Spreads continue to trade wider than the US.

## Corporate Bond Spreads



Source: Bloomberg. As of 31 Aug 24

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# Quiz Question 3

## True or False?

1. Based off the average credit rating and time to maturity, Australian corporates are riskier than offshore?



# Fixed Income – In Focus and Ready To Deliver

## Conclusions

- I. Fixed Income's role in portfolios is restored
- II. Starting yields are attractive and total return prospects are compelling per unit of risk
- III. Australian fixed income offers unique and
- IV. The macroeconomic environment is clouded which warrants defensive assets
- V. Active management and diversification are key to achieving optimal outcomes for your Fixed Income allocation
- VI. Partnering with a skilled manager with the necessary tools and experience managing portfolios across the cycle is crucial

# Connect with us

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ETF PORTFOLIO  
CONSTRUCTION

&

BELL POTTER MARKET  
UPDATE

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Investment Specialist

Grady Wulff:

Market Analyst

# Agenda & Learning Outcomes

- 1) How Bell Financial Group's services can improve business efficiencies, for IFA's using listed investments
- 2) Learn disciplines & strategies to build diversified ETF portfolios
- 3) Learn the factors affecting the economy & the stock market as seen by Bell Potter
- 4) Learn about 4 stocks identified as "Buys" by Bell Potter
- 5) Q&A – where can advisers implement the ideas discussed today, in their businesses

# DESKTOP BROKER

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portfolios on individual  
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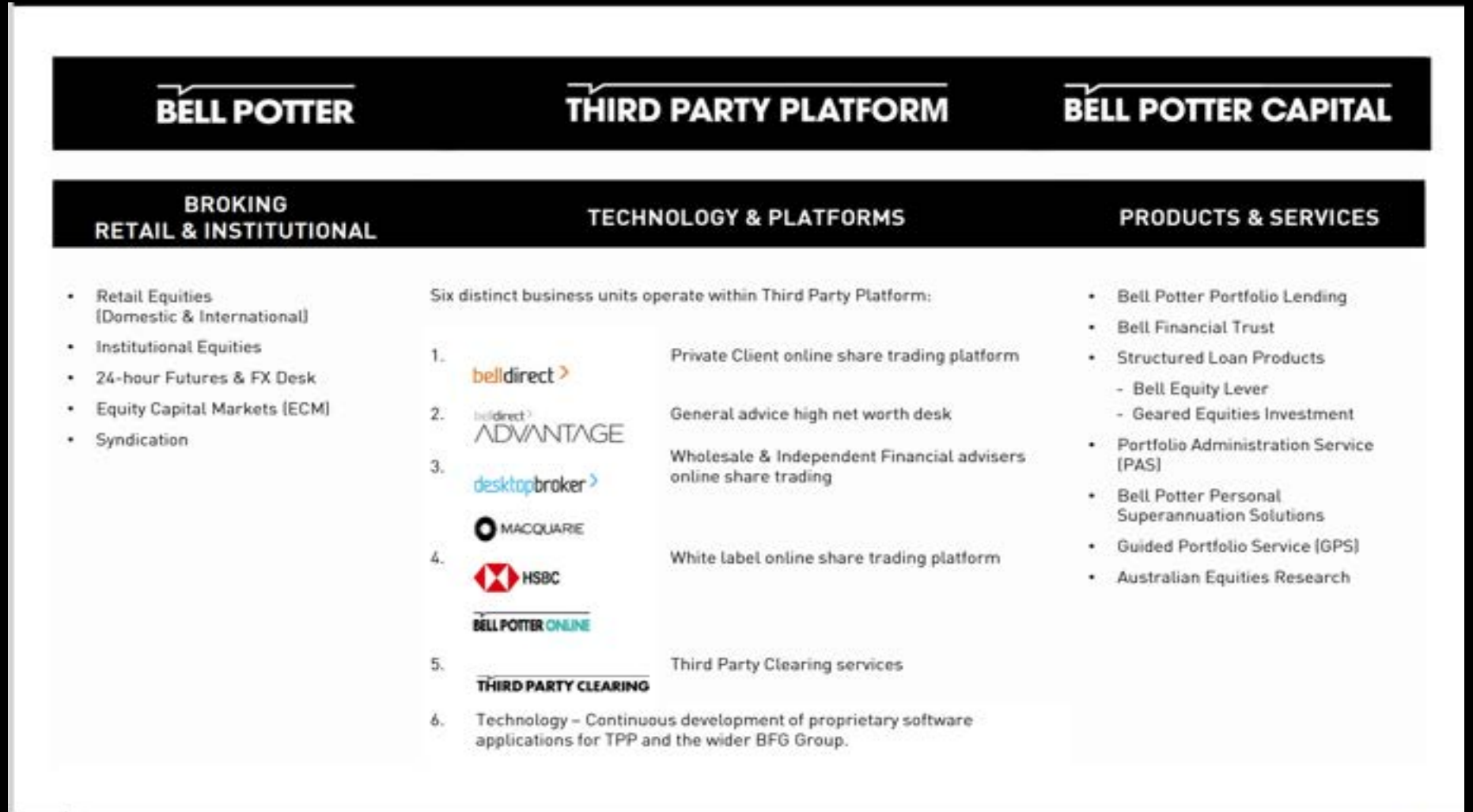


Australian owned and  
backed by Bell Financial  
Group (ASX:BFG)



# BELL FINANCIAL GROUP

- Australian owned and publicly listed (ASX:BFG)
- \$79B AUM & 600,000+ client accounts
- Portfolio Construction service & Access to IPO's
- Direct integration with Bell Potter Capital margin lending products



BELL FINANCIAL GROUP



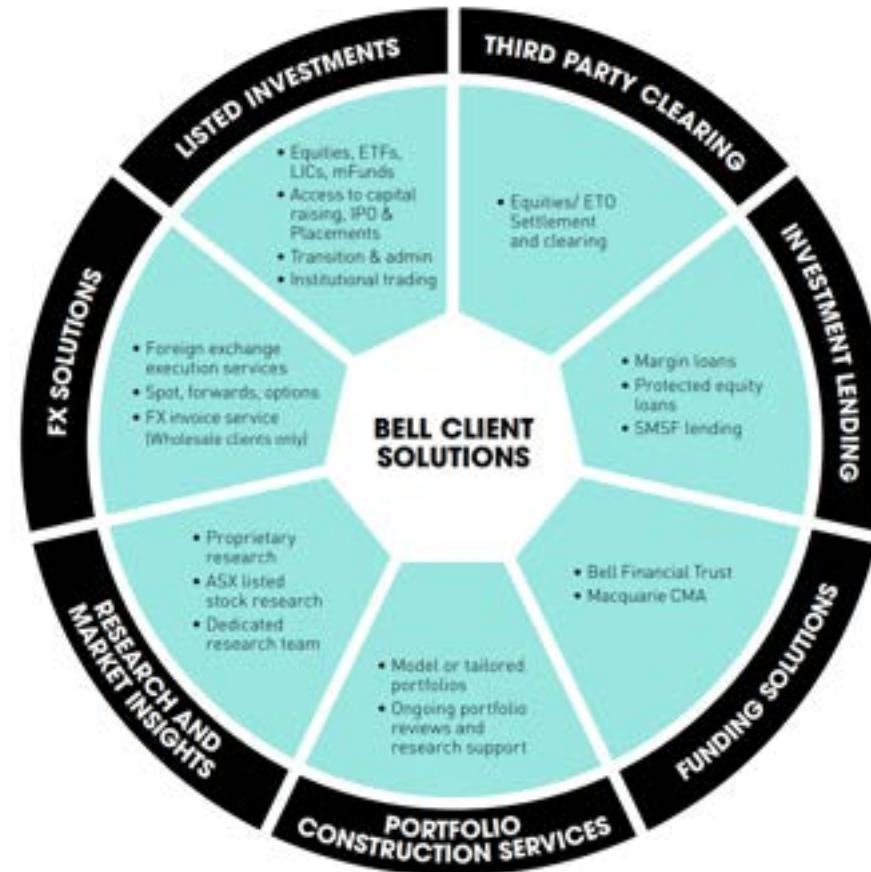
# Breadth of Solutions



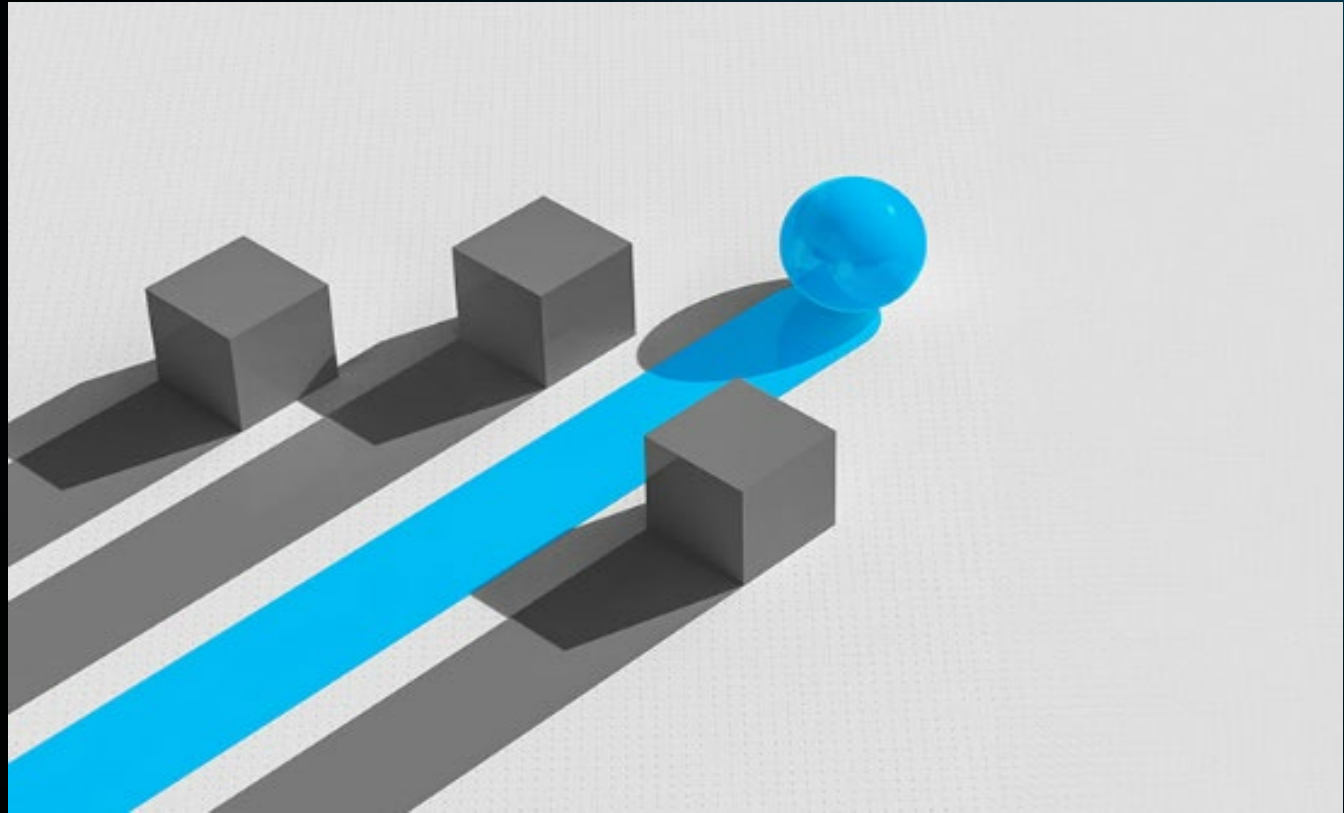
Find the right solution for your clients with Bell Financial Group

## BELL CLIENT SOLUTIONS

Providing direct equity trading, execution, research and lending solutions. Bell Financial Group is Australian owned and listed on the ASX: BFG.



# ETF Portfolio Construction



**Paul Ashworth**  
Investment Specialist  
Bell Potter Online

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Bell Potter Online are a team of investment specialists, that work specifically with financial planners, partnering with them to provide portfolio research and portfolio construction support.

- To complement our long-standing core Australian direct equity portfolio review and construction service, Bell Potter Online have designed a process to assist financial planners with constructing ETF portfolios that should meet external and internal research standards.
- We add value through helping planners find “best of breed” investment vehicles, that are highly liquid, offer competitive fees, tight bid/ask spreads, and have a proven track record.
- We use the licensee's SAA as the baseline for our portfolio design, but we are not asset allocators. Planners have full discretion over the allocation of any investments we might shortlist or select, as long as they stay within their licensee's guidelines.

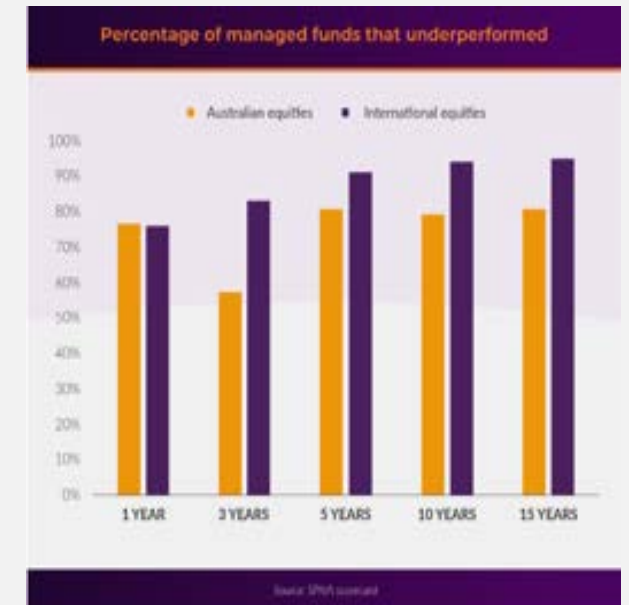
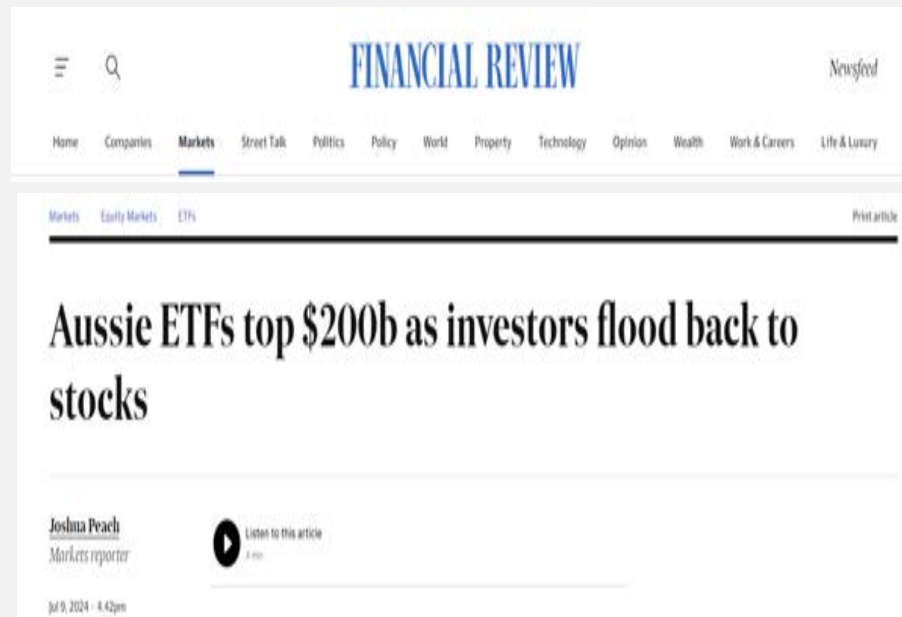
### Question

- How many planners present today, have a robust investment selection process in place, outside of third party sell side research, or internal research support ?

# Portfolio Construction Disciplines



## Why ETFs?



- ETFs can be used very simply, or in far more sophisticated ways now. With the right approach, we believe some, or all, of the investment management function can be taken on by the financial planner - which can result in potential cost savings for clients.
- In the context of the appropriate SAA, we believe well constructed ETF portfolios can deliver positive investment outcomes and take out much of the uncertainty associated with trying to select the right combination of active funds - the most difficult aspect of portfolio construction and management.

# Portfolio Construction Disciplines

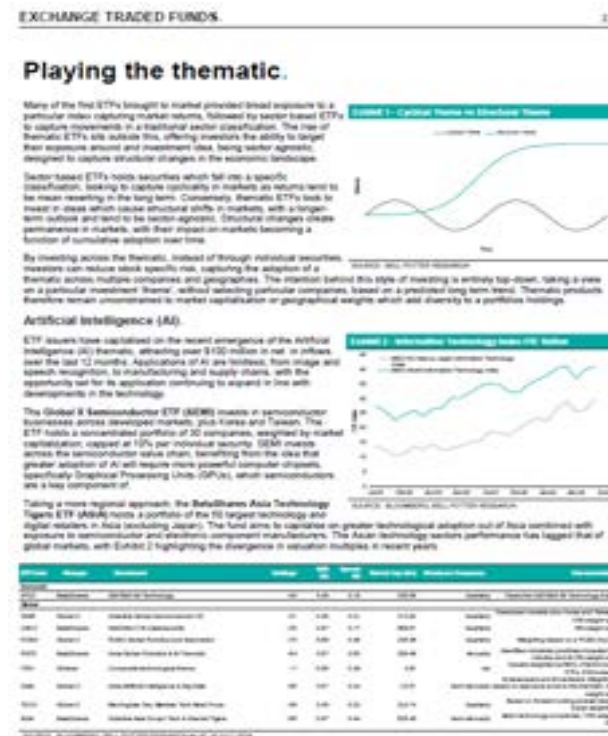


## The ETF landscape



### SAA Portfolio – Where do we start

- Bell Potter Research – key data points across 300+ ETF's
- Monthly research and strategy papers
- Access to independent research, such as Morningstar and Lonsec.



EXCHANGE TRADED FUNDS

### Domestic Equity ETFs (Return).

ETF	Assets Under Management (\$B)	YTD Return (%)	1 Year Return (%)	3 Year Return (%)	5 Year Return (%)	10 Year Return (%)
Vanguard S&P 500	1,200	15.2	12.5	10.8	11.5	10.5
Fidelity Divd Growth	850	18.5	15.0	13.5	14.0	13.0
BlackRock MSCI World	700	12.0	10.0	9.5	10.0	9.5
SPDR S&P 500	650	15.0	12.0	10.5	11.0	10.0
WisdomTree US Quality	550	16.5	13.5	12.0	12.5	11.5
First Trust NASDAQ-100	450	19.0	16.0	14.5	15.0	14.0
ARK Invest ARK Next Gen	350	22.0	18.0	16.0	17.0	16.0
Global X Cybersecurity	250	20.0	17.0	15.0	16.0	15.0
Global X Artificial Intelligence	150	25.0	20.0	18.0	19.0	18.0
Global X Robotics & AI	100	28.0	22.0	20.0	21.0	20.0

Source - Bell Potter Securities

# Portfolio Construction Disciplines



## Why ETFs?



### SAA Portfolio – Where do we start

- The discussion around the adoption of ETF strategies used to be rooted in the “active versus passive” argument.
- This debate still occurs today, but with the proliferation of new thematic/smart beta and active strategies, we can construct more sophisticated portfolios.
- The design and marketing of new ETFs can be very persuasive, and financial planners are not immune to a strong sales pitch.
- Many of the ETFs launched in the last 5-10 years have been designed to meet retail investor demand, but we need to understand their role in a long-term portfolio.
- We still want to be able to filter the good from the not so good, and not all thematic/smart beta or active ETF’s will stand the test of time.
- Through robust investment selection, we accommodate these types of investments in portfolios, take on some active risk, but still maintain low tracking error.

# Portfolio Construction Disciplines



## What ETFs?



Select a SAA  
that is right  
for your client



We took the  
component ETFs from  
the APL



There are ~300 ETFs  
available on the ASX so  
do your research.

### ETF Selection Criteria – five simple steps

1. The five-year rule – does the ETF, the product issuer, and the strategy (not the benchmark) have a full 5 year+ track record ? **Why ?**
2. What is the benchmark and is this benchmark appropriate in a portfolio or SAA context ? **Why ?**
3. Bid/Ask spread (+/- 0.20%) . Are you paying another layer of fees or brokerage just to get in or out.
4. MER – is this appropriate versus similar strategies and does it meet the portfolio budget.
5. Replication Method – does the ETF offer full replication, or optimised? We then evaluate tracking error and portfolio turnover.



# Portfolio Construction Disciplines



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We took the component ETFs from the APL



There are ~300 ETFs available on the ASX so do your research.

### ETF Selection Criteria

1. **The five-year rule**
2. **Benchmark appropriate**
3. **Bid/Ask spread (+/- 0.20%)**
4. **MER**
5. **Method/process**

### ETF Selection Examples

#### ETF – IVV (Core)

1. Yes - 2000
2. Yes – S&P 500
3. Yes - 0.07
4. Yes - 0.04
5. Yes - Full replication

#### ETF – QUAL (Core/Satellite)

1. Yes - 2014
2. Yes - MSCI World ex Australia Index
3. Yes - 0.05
4. Maybe - 0.40
5. Yes - Full replication

Source: Bell Potter Securities, Morningstar and Bloomberg

**\*IMPORTANT NOTE** - The above example investments are illustrative only and do not constitute a recommendation to invest in these securities, or a model portfolio

\*Past performance is not a reliable indicator of future performance

# Portfolio Construction Disciplines



## How we use ETFs



### SAA Portfolio Construction

- We favour a core/satellite approach when it comes to constructing the portfolio and selecting our investments, using high quality mostly passive ETFs, in combination with high conviction factor based, active, or thematic investments.
- We believe this type of approach can produce excess returns, specifically in respect to portfolio income, and potentially reduce volatility of returns.
- The percentage of the portfolio that represents the “core”, versus the “satellite” component can be fluid, but most satellite weights will range from 20% to 40%. Due consideration needs to be given to the components of that satellite exposure, and their contribution to risk and return in the context of the SAA.
- Not all satellite exposure is created equal – many can provide tactical overweight exposures to a thematic, specific sectors or regions, but they don’t necessarily need to be active funds or be a heavily traded component of a portfolio.

### Question

- How many securities can we expect to use in a diversified ETF portfolio?

# Portfolio Construction Disciplines



## How we use ETFs

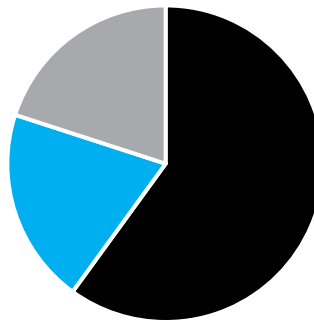


### SAA Portfolio Construction – Australian and International Equities

Our core/satellite approach to portfolio construction, seeks to utilise high quality mostly passive ETFs, in combination with high conviction factor based, active, or thematic ETFs.

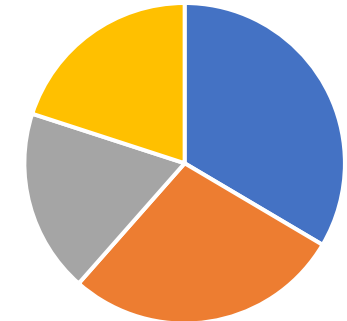
The satellite component of the portfolio is where we want to try and generate alpha and will typically have a factor that provides lower correlation but does not compromise the overall style of the portfolio or create unintended risks. For example, large active exposures to sectors or regions, versus the MSCI ACWI, or SFY versus STW.

AE Allocation Example



■ SFY ■ VHY ■ MVW

IE Allocation Example



■ IVV ■ VEU ■ QUAL ■ ETHI

MER 0.23%

Ave Portfolio Yield 5yr	3.71%
Benchmark Yield 5yr	3.10%

Source: Bell Potter Online and Sharesight

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# Portfolio Construction Disciplines

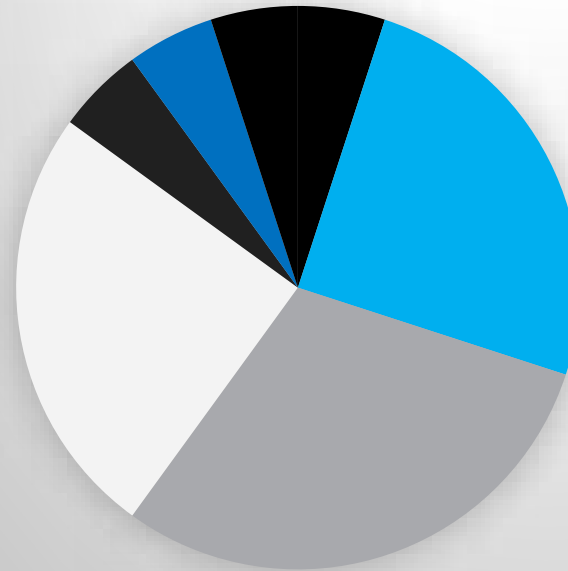


How we use  
ETFs



## SAA Portfolio Construction

Sample 70/30 Portfolio, with Alternatives



- Cash (AAA)
- Fixed Interest (IAF, XARO, VCF)
- Domestic Equities (SFY, VHY, MVW)
- International Equities (IVV, VEU, QUAL, ETHI)
- Property (VAP, DJRE)
- Infrastructure (IFRA)
- Alternatives (GROW)

MER 0.25%	Ave Portfolio Yield 5yr	3.62%
	Benchmark Yield VDGR 5yr	3.10%

Source: Bell Potter Online and Sharesight

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Keynote

Investment  
Insights

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## ASK THE AUDIENCE:

# Which SECTORS ARE YOUR CLIENTS MOST ACTIVELY INVESTED IN?

- 1) Financials
- 2) Consumer
- 3) Mining and Materials
- 4) Healthcare
- 5) Real Estate
- 6) Information Technology



# FACTORS IMPACTING THE MARKETS



## China Recovery

Impacting commodity prices – weaker than expected recovery



## Inflation & Rate Cuts

Inflationary pressures are easing, painting a strong case for rate cuts.



## Green Energy Transition

Continues to underpin market moves with investors looking for new producers to fulfil the supply gap for decades to come.



## FY25 outlook

Corporate earnings for FY24 painted mixed outlook for FY25.



## Mega-cap valuations

Overvaluations causing investor fears of slowing growth. Opportunities sought in small cap space.

# REPORTING SEASON & FY25 OUTLOOK



Beat expectations

30.4%



Met expectations

33.7%



Missed expectations

36%



Outlook for FY25

- Eased earnings growth – single digit not double digit for big names across the board.
- China's economic recovery remains subdued.
- Green energy transition powers on.
- Retailers surprised to the upside.
- Inflationary pressures easing, RBA rate cuts from 2025.

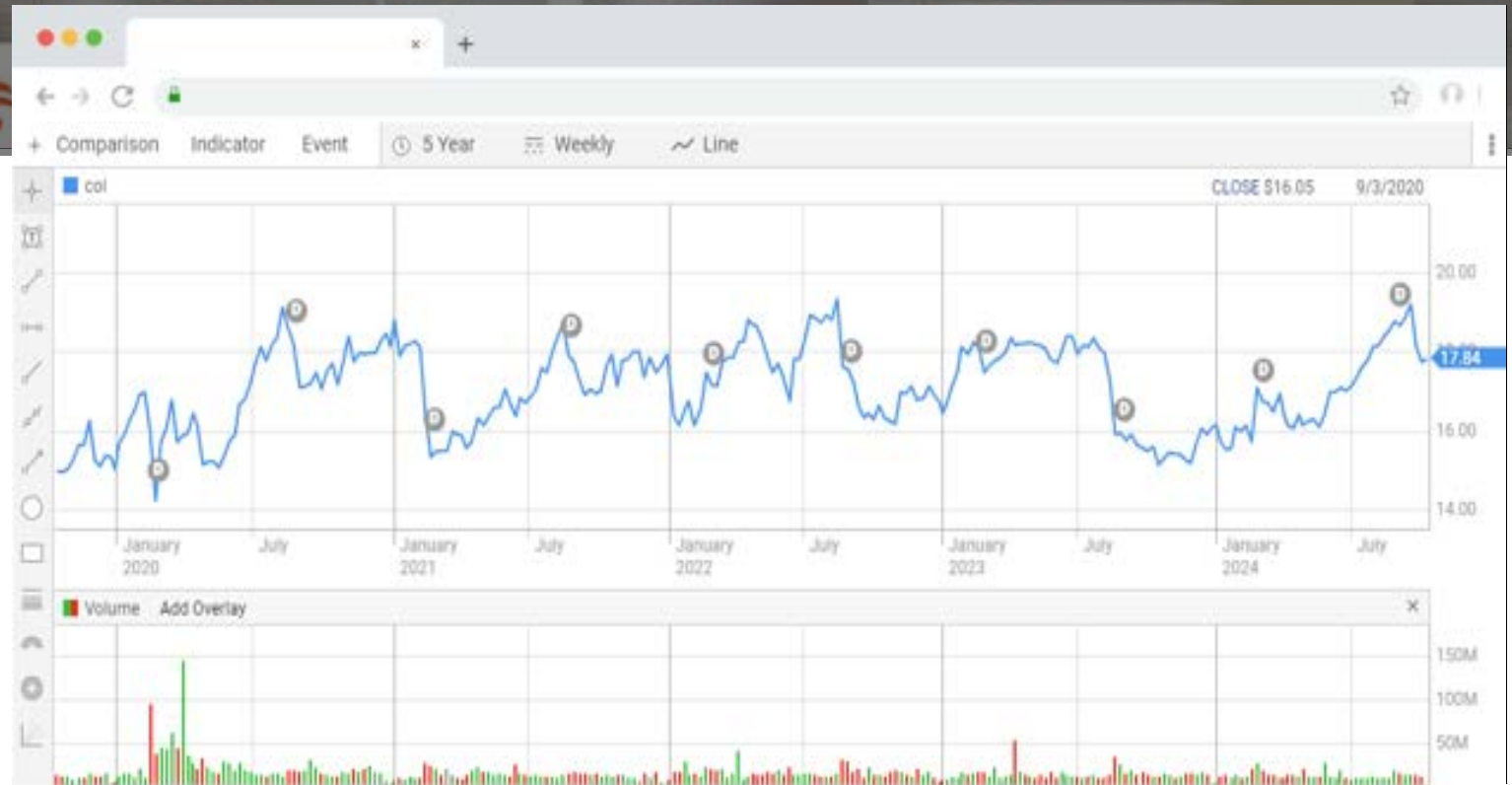
# Stock 1 – Coles Group (ASX:COL)

Coles (COL) was established in Collingwood, VIC in 1914, though COL as we see it today was the result of a demerger from Wesfarmers in 2018. COL through its network of 856 grocery stores and 992 liquor outlets is a leading Australian retailer of fresh food, groceries, household goods and liquor, with a 50% interest in the Flybuys rewards business and an interest in property development.



Market cap – \$23.81bn

- Shares are up 17.82% over the last year and up 16% over the last 5-years.
- 856 grocery stores, 992 liquor outlets, a 50% interest in Flybuys, and a property development arm.
- Since FY20, Coles Group has generated CAGR earnings growth of 3.7% pa while paying out 81% of cumulative profits in dividends, achieving 4.2% pa growth in dividends over that period.
- Business improvement initiatives in place through the Simplify & Save program targeting \$1bn in gains by FY27.
- Capex has peaked, earnings forecast to grow 9.1% pa compound to FY27e, and high levels of cash generation support growing dividends.



# Stock 2

## Rural Funds Group (ASX:RFF)

Rural Funds Group (RFF) is a listed agricultural REIT with a portfolio focused on almond orchards, vineyards, cattle, cotton and macadamias.



Rural  
Funds  
Management

Dividend yield: 5.87% (2023)

- Shares are flat over the last year and down just 1% over the last 5-years.
- Strong list of agricultural tenants including Select Harvests, Treasury Wine Estates & Olam. Operates cattle, almonds, vineyards, macadamias & cropping with 34% of revenue from cattle, and 30% from almonds.
- RFF reported revenue rose 8% in FY24 to \$88.372m, Adjusted funds from operations (AFFO) rose to 11cpu, independent property valuations rose \$97.3m, NPAT \$80.441m, dividend payout increased to \$1.543m.
- Weighted Average Lease Expiry – of 13.5 years.
- RFF expanding into macadamia farm enhances revenue runway.

# GOLD MINERS TO WATCH IN 2024

## STOCK 3 – BUY: REGIS RESOURCES (ASX:RRL)



Regis Resources is an established multi-mine gold producer and the largest ASX-listed gold producer. The Duketon Gold Project (located in the Laverton region 350km north, north-east of Kalgoorlie in WA) is RRL's flagship project and comprises the Duketon North Operations (DNO) and the Duketon South Operations (DSO) which produce a combined ~300kozpa. with all its operating mines located in Western Australia.

- Shares are: up 16.9% over 1 year and but are down 63% over the last 5-years.
- Notably, recent McPhillamys mine write down of \$192m due to not being financially feasible after the Australian Environment minister handed a section 10 declaration on the planned tailings storage facility site for the mine.
- For FY24, Regis reported \$1.263bn revenue, EBITDA of \$421m, and statutory net loss of \$186m.
- Strong outlook for growing operating and free cash flows following the closure of its hedge book in December 2023.

## STOCK 4 – SPEC BUY: SPARTAN RESOURCES (ASX:SPR)



Spartan Resources is focused on delivering high-grade ounces at its flagship Dalgaranga Gold Project as the foundation for a sustainable long-term operating plan that will deliver strong returns for all key stakeholders. The current focus of this strategy is drilling targeting extensions at depth and along strike of the high-grade 1.485Moz Never Never Gold Deposit.

- Shares are: up 376% YTD and up 146% over the last 5-years.
- 2.48 million ounces @ 4.79g/t within 600m of the 2.5 mtpa processing plant that is current in care and maintenance mode.
- Never Never Gold Deposit hosts 1.48Moz @ 8.07g/t gold while Pepper Gold Deposit hosts 0.43Moz @ 7.66g/t gold.
- Net cash: \$93m, \$0 debt
- CBA & Ramelius Resources bought into Spartan indicating value and credibility on the shareholder register.

# What's next?

## Questions on today's session?

Market updates from  
Bell Potter



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Let us connect you with our support teams

- ➔ Transitions team, trading & support teams
- ➔ Key account team
- ➔ Bell Potter Research

An aerial photograph of a rugged, dark volcanic rock coastline. On the left, the ocean is a vibrant turquoise color with white foam from waves crashing against the rocks. On the right, a rectangular swimming pool with a metal frame is built into the rocky terrain. The water in the pool is a clear, light green. Several people are visible swimming in the pool. The overall scene is dramatic and scenic.

# Morning Tea

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## Aged care and improving Centrelink outcomes





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## Key outcomes for today...

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Benefits of qualifying for government entitlements

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Age Pension guide

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Improving residential aged care benefits and Age Pension entitlements using LifeIncome

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Remove or limit income testing for Age Pensions and home care packages using investment bonds

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Improving Centrelink or Department of Veterans' Affairs entitlements using FuneralBond

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Gifting and Centrelink rules and ways to maximise Age Pension entitlements

## Discover Generation Life

Pioneer of Australia's first truly flexible investment bond with \$3.3b in funds under management.<sup>1</sup> Proud to be innovating the retirement income landscape with an investment-linked lifetime annuity.

### Specialist provider

Investment bonds and investment-linked lifetime annuity

### Market leader

#1 provider of investment bond solutions with 49% market share of total inflows into investment bonds<sup>2</sup>

### Innovation focused

Tax aware investing, estate planning and retirement income landscape

### Trusted

APRA regulated and our parent company is listed on the ASX

1. As at 30 June 2024  
2. Plan for Life, Investment Bonds Market Report for period ended 31 March 2024

# The growing demand for advice for your older clients

Did you know...

**Population aged over 65 set to double<sup>1</sup>**

In the next 40 years

**Population aged over 85 set to triple<sup>1</sup>**

In the next 40 years

**64%<sup>1</sup>**

of Australians of pension age receive some Age Pension

**Over 2.5m<sup>2</sup>**

People in Australia are in receipt of Age Pension

**\$72 billion<sup>3</sup>**

Expected Age Pension expenditure by 2025-2026

**3rd highest<sup>4</sup>**

Life expectancy in Australia compared to the world<sup>1</sup>

**31%<sup>5</sup>**

Not in receipt of the Full Pension

**1.8m<sup>2</sup>**

Retirees get no pension at all

1. Intergenerational Report 2023
2. <https://www.abs.gov.au/statistics/people/population/national-state-and-territory-population/jun-2022>
3. [https://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Library/pubs/BriefingBook45p/WelfareCost](https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook45p/WelfareCost)
4. <https://www.abs.gov.au/statistics/people/population/life-expectancy/latest-release>
5. <https://www.aihw.gov.au/reports/australias-welfare/income-support-older-australians>

## Qualifying for government entitlements or benefits

### Assets test

Assets owned by your clients and their spouse such as investment assets, personal assets and interests from trusts or private companies.

### Income test

Under the 'deemed' income test, prescribed deeming rates are applied to the value of a financial asset to determine its 'deemed' income, instead of its 'actual' income.

### Pension payments

Payments made either by Centrelink or the Department of Veterans' Affairs are generally subject to income and assets testing.

Whichever test produces the lower social security payment, is the test that is applied.

### Home care and aged care

Based on an assessment of your clients' ongoing care needs.

For residential aged care an assessment of your clients' capacity to pay is undertaken based on their assets and income, while for home care, only income is assessed.

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## Manage income and means tested fees

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Improving  
pension  
entitlements

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Managing  
home care fees

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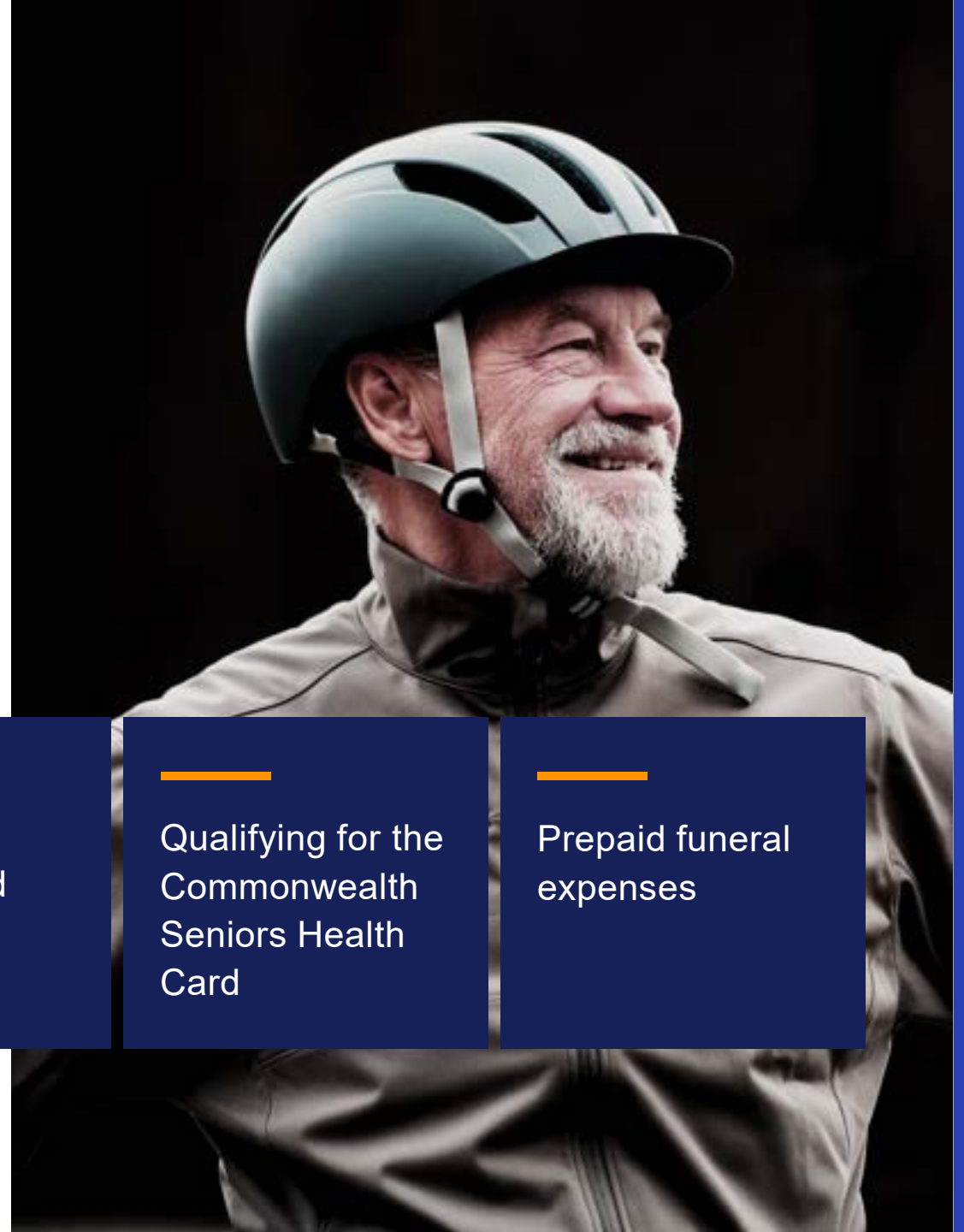
Managing  
means tested  
fees

---

Qualifying for the  
Commonwealth  
Seniors Health  
Card

---

Prepaid funeral  
expenses





## Qualifying for at least \$1 of pension...

### What are the social security benefits?

### Water and Sewage discounts

For example: approximately \$328.90 p.a.

### Local council rates

For example: maximum discount of \$253.20 p.a.

### Vehicle registration

50% reduction on the motor vehicle registration fee component

### Pharmaceutical Benefits Scheme

### Other typical benefits

Such as public transport concessions and bulk billing



## Age Pension guide as at 20 September 2024

### Maximum Age Pension Rates

	Total (per fortnight)	Total (per year) <sup>1</sup>
Single <sup>2</sup>	\$1,144	\$29,754
Couple (Combined)	\$1,725	\$44,855

### Assets test

#### Single - Homeowner



#### Couple (combined) - Homeowner



#### Single - Non-Homeowner



#### Couple (combined) - Non-Homeowner



1. Annual amounts are approximate
2. Applies to each member of a couple separated by illness

# Age Pension guide as at 20 September 2024

## Income test

### Single



### Couple (combined)



## Deemed assets to income

Deemed Assets	Assessable Income	
	Single	Couple (combined)
\$100,000	\$998	\$250
\$200,000	\$3,248	\$2,424
\$300,000	\$5,498	\$4,674
\$400,000	\$7,748	\$6,924
\$500,000	\$9,998	\$9,174
\$600,000	\$12,248	\$11,424
\$700,000	\$14,498	\$13,674
\$800,000	\$16,748	\$15,924
\$900,000	\$18,998	\$18,174
\$1,000,000	Ineligible	\$20,424
\$1,100,000	Ineligible	\$22,674
\$1,200,000	Ineligible	\$24,924
\$1,300,000	Ineligible	Ineligible

Homeowner assets test threshold

Non-homeowner assets test threshold





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## Help your clients maximise their Government benefits and entitlements

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### LifeIncome

- An immediate investment-linked lifetime annuity
- Provide a regular income that is guaranteed for life
- Defined as an ‘asset-tested income stream (lifetime)’ product for social security purposes

---

### FuneralBond

- Exempt (up to certain limits) from the social security assets test and deeming provisions for the income test
- Applies to the Age Pension, Service Pension and other means-tested government entitlements

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### Bonds Custodian Trust

- A unique feature of our LifeBuilder investment bond
- Classified as a designated private trust under the Social Security Act 1991 and Veterans’ Entitlements Act 1986
- Excluded from income deeming requirements



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The 2017 Innovative Income Streams legislation allows investment-linked lifetime annuities to qualify for concessional tax and social security benefits.

Which statement is correct?

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A:

**Asset value:** 60% of the purchase amount. From age 84, only 30% is assessed (for at least 5 years).

**Income:** 60% of the annual income is counted.

---

B:

**Asset value:** 50% of the purchase amount. From age 84, only 40% is assessed (for at least 2 years).

**Income:** 50% of the annual income is counted.

---

C:

**Asset value:** 70% of the purchase amount. From age 84, only 20% is assessed (for at least 7 years).

**Income:** 70% of the annual income is counted.



## LifeIncome

### Investment-linked lifetime annuity

Improving residential aged care benefits and maximising age pension entitlements



## Centrelink treatment of LifeIncome

### Means tested asset value

60% of your investment amount. From age 84, only 30% is assessed (subject to a minimum of 5 years)

### Means tested income

Only 60% of your LifeIncome annual income

LifeIncome is defined as an 'Asset-tested income stream (lifetime)' product for social security purposes. All decisions regarding social security benefits for individuals who purchase LifeIncome will be made by Centrelink or the Department of Veterans' Affairs officers based on social security law and the circumstances of the individual at the time of claim. Based on current social security law, reducing Age Pension by \$3 for every \$1,000 of assets over lower threshold.

### For every \$200,000 invested in LifeIncome

Assessable assets	Reduce by \$80,000
Age Pension uplift*	\$6,240 p.a.
Risk free benefit*	3.12%

\*Assuming eligibility





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## Meet Vivienne and Alan...

Vivienne 73 and Alan 82 years of age, homeowners.

Vivienne and Alan are married, self funded retirees.

Alan has been approved for residential aged care.



## Vivienne and Alan have...

Vivienne's account-based pension (ABP)	\$700,000
Alan's (ABP)	\$500,000
Savings	\$100,000
Car, home and contents	\$5,000

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## Vivienne and Alan's objective...

- They are looking to increase their overall cashflow to supplement Vivienne's lifestyle needs and to help pay Alan's aged care fees.
- They would like to maximise their annual illness separated pension rate and reduce their means tested aged care fee where possible.



## Vivienne and Alan's solution

	Plan A Vivienne's super remains in ABP	Plan B Invest \$300,000 into LifeIncome	Difference
RAD	Use Alan's ABP \$500,000 RAD	Use Alan's ABP \$500,000 RAD	
Basic daily fee	\$23,203	\$23,203	
Means-tested care fee	\$6,055	\$4,852	(\$1,203)
Extra service fee \$20 per day	\$7,300	\$7,300	
Vivienne's living expenses	\$35,000	\$35,000	
Alan's living expenses	\$5,200	\$5,200	
<b>Total expenses</b>	<b>\$76,758</b>	<b>\$75,555</b>	<b>(\$1,203)</b>
Savings account earnings	\$3,500	\$3,500	
LifeIncome	\$0	\$23,982	↑ \$23,982
ABP Income	\$35,000	\$20,000	
Illness Separated Age Pension	\$33,379	\$42,739	↑ \$9,360
<b>Total income</b>	<b>\$71,879</b>	<b>\$90,221</b>	
<b>Cash flow</b>	<b>-\$4,879</b>	<b>\$14,666</b>	<b>↑ \$19,545</b>

A  
\$19,545 improvement  
in cash flow in year 1

Improvement in  
Age Pension of  
\$9,360 in year 1



Assumptions: Age Pension assessed under Illness-Separated Homeowner rates. Social security and residential and home care rates and thresholds are valid at September 2024. No adviser fees have been charged. Savings assumed to earn interest of 3.5%pa. Income from LifeIncome based on LifeBooster 5% for 73-year-old female. Account-based pension is drawn down at the minimum level.



## Vivienne and Alan's outcome

\$19,545

Improvement in cash flow in year 1

\$9,360

Age Pension uplift in year 1

Reduction in Alan's means tested  
care fee

Fortnightly payment  
guaranteed for life





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## Bonds Custodian Trust

### LifeBuilder Investment Bonds

Improving government entitlements and benefits.



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## Investment bonds and Centrelink

Investment bonds used through a Generation Life bare trust structure can remove or limit income testing for age pensions, home care packages and may limit the effects of the means test for residential aged care

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Simple, no cost 'Bare' trust

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Holds only Generation Life Investment Bond

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Meets DSS Designated Private Trust criteria

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Not counted under the 'income test'



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## Meet Adele and Anthony...

Adele and Anthony, both aged 80, are homeowners and access in-home care services.

Adele's care type is Home Care Package level 1, while Anthony's package is Level 3.



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## Adele and Anthony's situation...

Adele and Anthony have \$800,000 in bank deposits.

Anthony currently receives a defined benefit pension of \$44,000 p.a.

The couple have combined home care fees of \$20,830 p.a.

Based on their residential status and current income and assets (including contents valued at \$10,000), they both receive a combined Age Pension of \$18,355 p.a.



---

## Adele and Anthony's objective...

Adele and Anthony are looking to reduce their in-home care fees.

Speaking to their financial adviser, they use their bank deposits to fund the purchase of an investment bond to be held within a designated private trust.



## Adele and Anthony's solution

	Current situation	Invest \$400,000 Bonds Custodian Trust	Invest \$800,000 Bonds Custodian Trust
<b>Pension (combined)</b>			
Deemed asset	\$800,000	\$400,000	\$0
Deemed Income	\$15,924	\$6,924	\$0
Defined benefit pension*	\$44,000	\$44,000	\$44,000
Total Age Pension	\$18,335	\$18,335	\$18,335
<b>Total Inflow</b>	<b>\$62,335</b>	<b>\$62,335</b>	<b>\$62,335</b>
<b>Adele's cost of care (Home Care Level 1)</b>			
Basic daily fee	\$11.72 per day	\$11.72 per day	\$11.72 per day
Income Tested Fee	\$16.30 per day	\$10.12 per day	\$5.36 per day
<b>Annual cost of care</b>	<b>\$10,227</b>	<b>\$7,972</b>	<b>\$6,234</b>
<b>Anthony's cost of care (Home Care Level 3)</b>			
Basic daily fee	\$12.75 per day	\$12.75 per day	\$12.75 per day
Income Tested Fee	\$16.30 per day	\$10.12 per day	\$5.36 per day
<b>Annual cost of care</b>	<b>\$10,603</b>	<b>\$8,348</b>	<b>\$6,610</b>
<b>Combined annual cost of care</b>	<b>\$20,830</b>	<b>\$16,320</b>	<b>\$12,844</b>
<b>Available cashflow to spend</b>	<b>\$41,505</b>	<b>\$46,015</b>	<b>\$49,491</b>

\* Assuming the defined benefit pension is fully assessable for social security purposes.

Assumptions: Social security and residential and home care rates and thresholds are valid at September 2024. No adviser fees have been charged.



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## Adele and Anthony's outcome if they invest \$800,000 into BCT

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\$7,986

Combined cost of care lowered in year 1

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\$49,491

Available cashflow to spend

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Access to funds at anytime

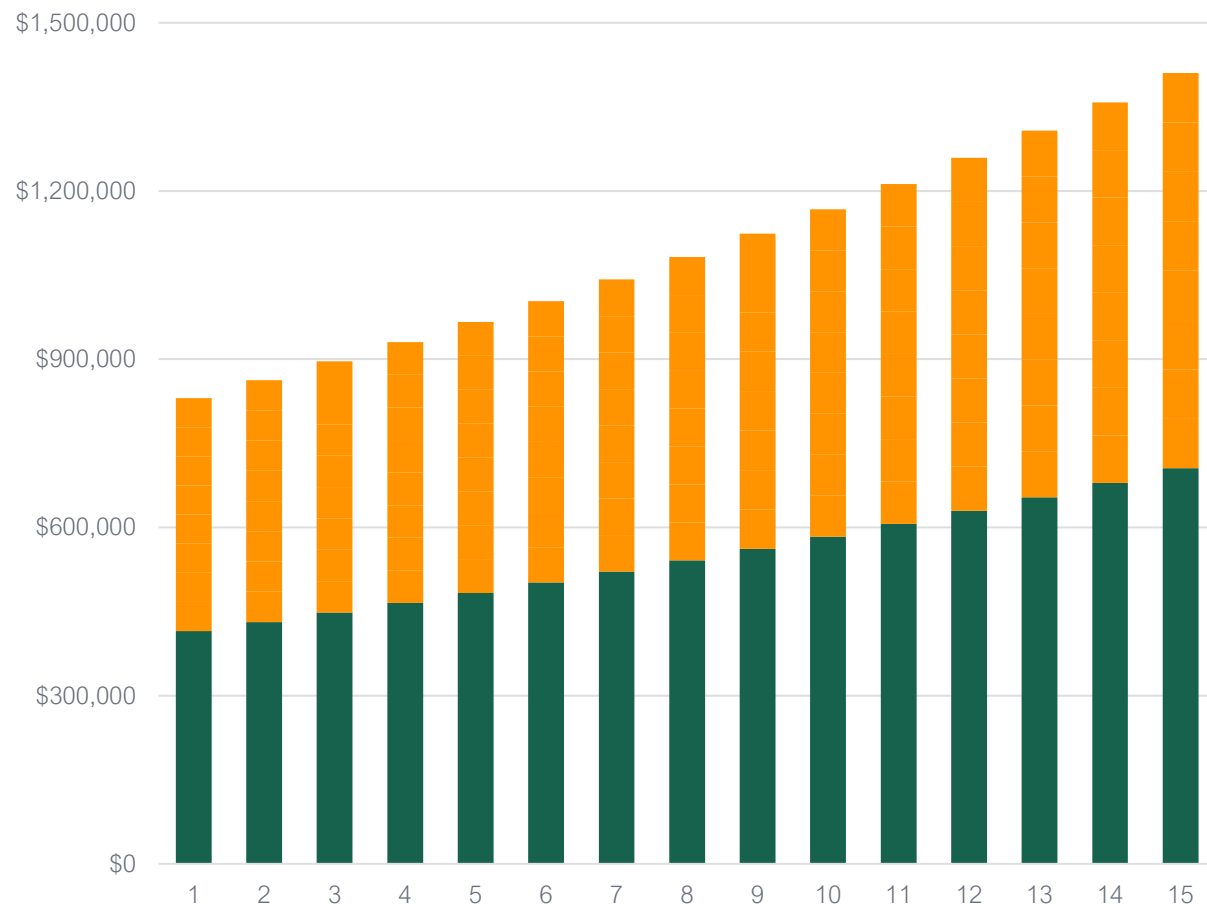
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Additional benefit of leaving a legacy





## If Adele and Anthony decide to...



Establish 8 investment bonds for \$50,000 each for their grandchildren.

Selecting the Future Event Facility to transfer ownership at age 25 with the ability to control access



Establish an investment bond of \$400,000 to potentially pay for residential aged care costs if required

Assumption: Assuming commencing a LifeBuilder with an initial investment of \$400,000 and eight LifeBuilders with an initial investment of \$50,000. Total annual after-tax investment return of 3.86% p.a. with an estimated average fees and costs of 0.63% p.a. over investment term and an effective long-term average investment bond tax rate of 17.61% p.a..

Which of the following is **not** one of the key benefits of using a Bonds Custodian Trust?

A:

Removes the assessment for asset test purposes.

B:

Assessed on actual assessable income rather than deemed income.

C:

It can limit income testing for clients who are impacted by the income test for Age Pension purposes, for clients who are paying an income tested fee for homecare packages or have an income component to the means test for residential aged care.

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## Investment bond estate planning benefits

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### Life insurance contract

A type of life insurance policy which is investment-based governed by the Life Insurance Act

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### Non-estate asset

Investment bond can be structured as a non-estate asset

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### Tax-free proceeds

Proceeds on death are paid tax-free even to non-dependants

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### Automatic transfer

Automatic transfer at specific ages, dates or on death can be selected

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### No tax reporting

No tax reporting if no withdrawal made in the first 10 years

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### Avoids conflict

Avoids potential for conflict and solves complex wills



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## FuneralBond

### Generation Life Investment Bonds

Improving Centrelink or Department of Veterans' Affairs entitlements while providing peace of mind for you and your family.



## FuneralBond and Centrelink

FuneralBond exempt from assets and income test if within allowable limit of \$15,500 per individual

If the allowable limit is exceeded even by only \$1, FuneralBond becomes non-exempt

Able to exceed \$15,500 limit if entered a pre-paid funeral contract & assigns to a funeral director

Earnings inside a FuneralBond do not count toward allowable limits

Exempt Funeral Investment Threshold current as at 1 July 2024.

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## Meet Sophia...

Sophia is 73 years old and single.

She has a son, Paul, who is 50 years old.



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## Sophia's situation

Sophia is a self-funded retiree and currently has...

Account-based pension	\$360,000
Cash at bank	\$350,000
Car and home contents	\$40,000



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## Sophia's concern

She is concerned about her retirement spending.

Her troubled son Paul is bad with money, but Sophia nonetheless wants to leave him an inheritance. She would like to also cover her funeral costs, to not burden Paul when she passes away.

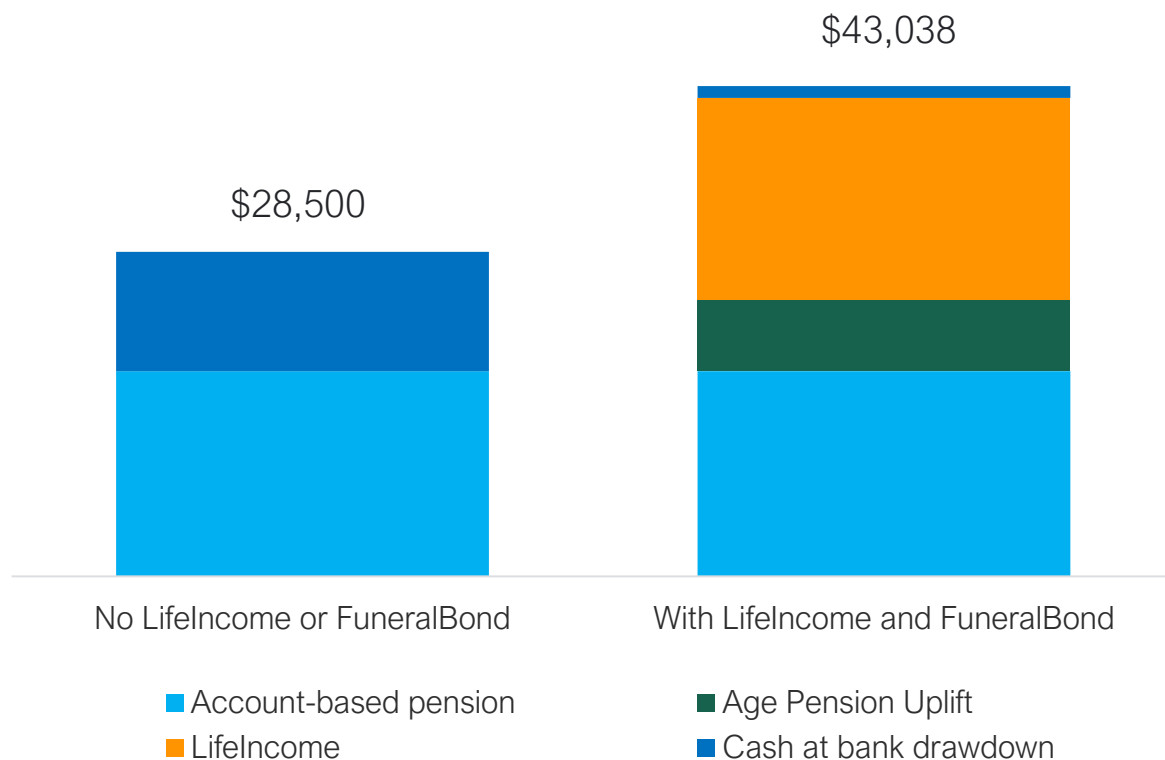
She would like to gain access to the Age Pension and also secure Paul's future while minimising the potential for Paul to misuse a future lump sum inheritance.





## Sophia's solution...

Sophia invests \$300,000 of her non-superannuation money into LifeIncome and \$15,500 into a FuneralBond. She nominates Paul as a reversionary beneficiary providing regular income for both their lives.



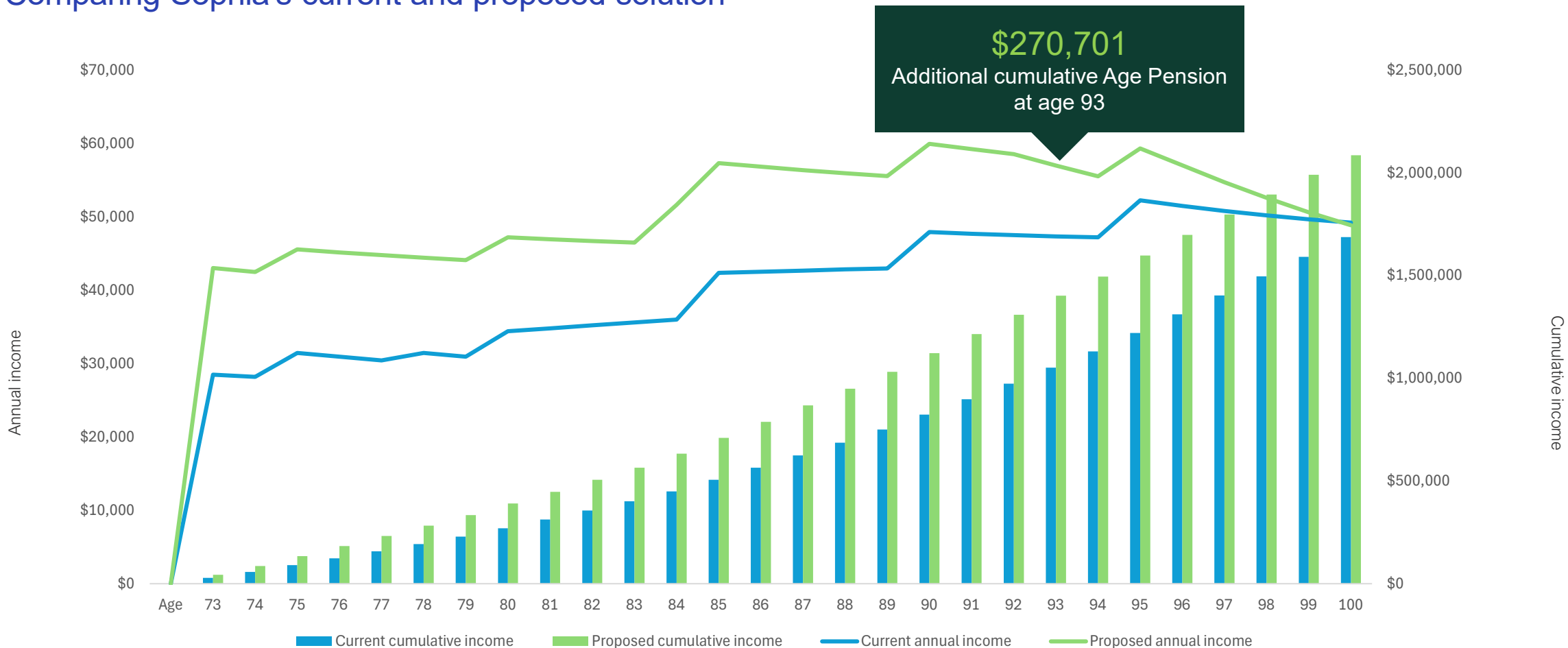
### Sophia's first year income position...

	Without LifeIncome	With LifeIncome
LifeIncome	\$0	\$17,688
Age Pension	\$0	\$6,315
Account-based pension	\$18,000	\$18,000
Cash at bank drawdown	\$10,500	\$1,035
<b>Total</b>	<b>\$28,500</b>	<b>\$43,038</b>

Sophia **receives immediate** access to the Age Pension (brought forward sooner by 5 years). She also receives an **extra \$39,216** of cumulative Age Pension by age 77.

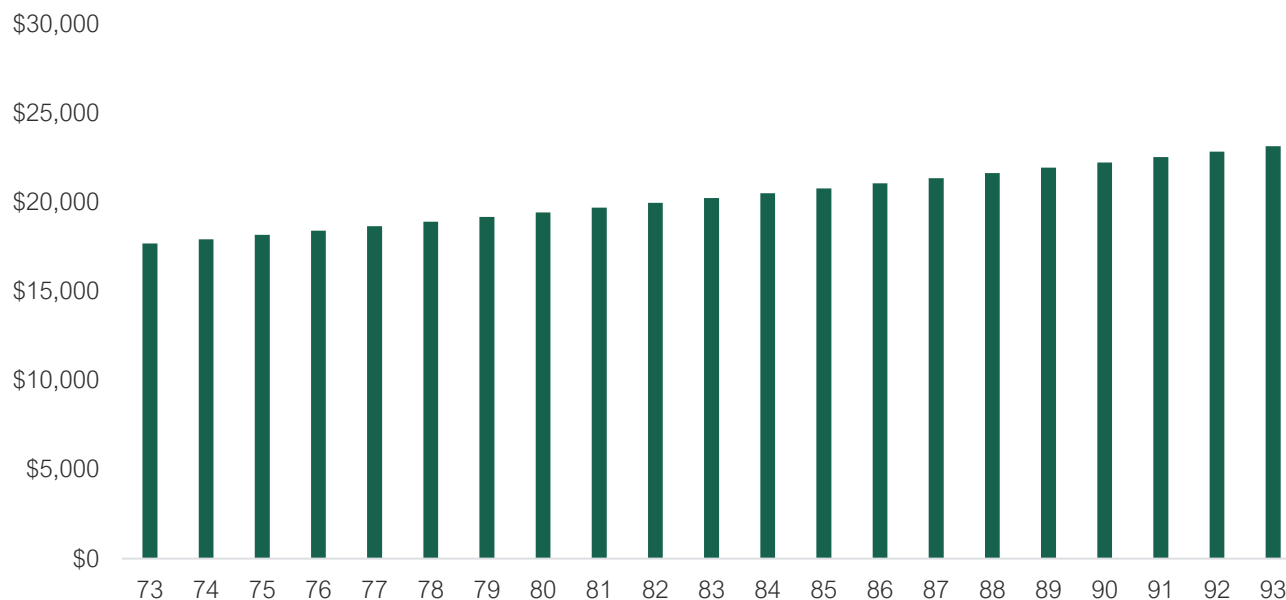
Based on an investment-linked lifetime annuity policy commenced on 1/07/2024 for Sophia by investing \$300,000 into a non-superannuation investment-linked lifetime annuity with a LifeBooster 5% rate. Sophia nominates Paul as the 100% Reversionary Beneficiary. Sophia also purchases a FuneralBond from her non-superannuation assets. There are no fees and costs on the income paid from investment-linked lifetime annuity in the first financial year. The fees and cost of investment-linked lifetime annuity impact the amount of annual income received, after the first financial year. No adviser fees have been charged and social security rates and thresholds are valid at 20/09/2024. Account-based pension assumes drawdown of 5% per annum. Cash at bank assumes 3% drawdown for first year income position.

## Comparing Sophia's current and proposed solution



Based on a policy commenced on 1/07/2024 for Sophia by investing \$300,000 into a non-superannuation investment-linked lifetime annuity with a LifeBooster 5% rate. Sophia nominates Paul as the 100% Reversionary Beneficiary. Sophia also purchases a FuneralBond from her non-superannuation assets. Annual income illustrations are shown in real dollars. Cumulative income is shown in nominal dollars. Estimated fees, expenses and costs of 0.5% p.a. for the account-based pension and 1.22% p.a. for investment-linked lifetime annuity. Fees on investment-linked lifetime annuity are a percentage of the annual income. There are no fees and costs on the income paid from investment-linked lifetime annuity in the first financial year (or part thereof). Assumed investment returns of superannuation assets is 8% p.a., non-superannuation assets at 3% p.a. and inflation of 2.5% p.a. No adviser fees have been charged and social security rates and thresholds are valid at 20/09/2024. Account-based pension assumes minimum drawdown each year. Cash at bank assumes 3% drawdown each year.

## What if Sophia passes away at age 93...



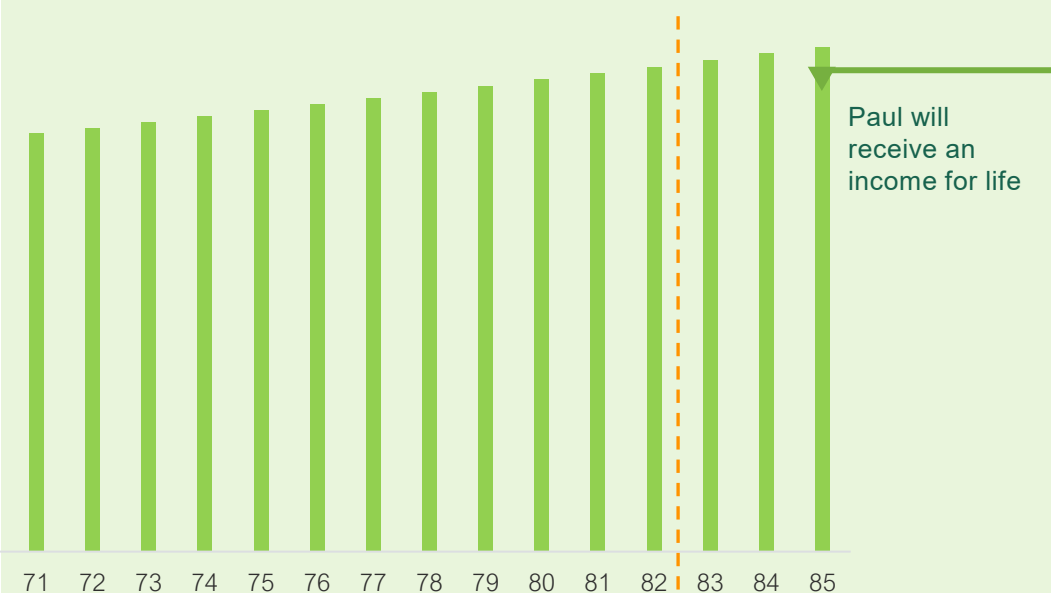
Sophia receives \$426,469 in cumulative income until she passes away at age 93.



Paul, now age 71 himself, will receive \$331,265 until his life expectancy and continue to receive an income for life after that.

He will inherit a further \$217,414 from Sophia's remaining assets.

82.84 years  
Paul's life expectancy



Paul will receive an income for life

Based on a policy commenced on 1/07/2024 for Sophia by investing \$300,000 into a non-superannuation investment-linked lifetime annuity with a LifeBooster 5% rate. Sophia nominates Paul as the 100% Reversionary Beneficiary. Sophia also purchases a FuneralBond from her non-superannuation assets. Annual income illustrations are shown in real dollars. Cumulative income is shown in nominal dollars. Estimated fees, expenses and costs of 0.5% p.a. for the account-based pension and 1.22% p.a. for investment-linked lifetime annuity. Fees on investment-linked lifetime annuity are a percentage of the annual income. There are no fees and costs on the income paid from investment-linked lifetime annuity in the first financial year (or part thereof). Assumed investment returns of superannuation assets is 8% p.a., non-superannuation assets at 3% p.a. and inflation of 2.5% p.a. No adviser fees have been charged and social security rates and thresholds are valid at 20/09/2024. Account-based pension assumes minimum drawdown each year. Cash at bank assumes 3% drawdown each year. Paul's life expectancy is based on his current age at 32.84.



## Sophia's outcome

Additional income of \$14,538 in year 1 and increases her retirement income

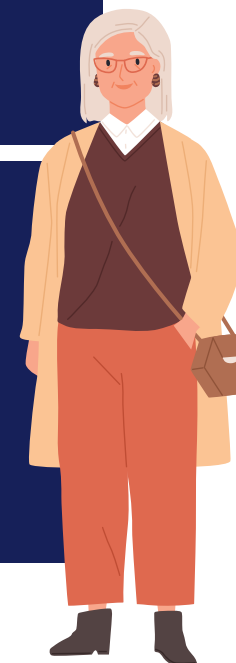
Immediate access to Age Pension and ancillary benefits, whilst also covering her funeral costs

\$39,216 additional Age Pension until age 77, with access brought forward by 5 years

Additional cumulative income of \$399,202 until age 100 for Sophia

Ability to nominate Paul as a reversionary beneficiary, providing him with an income guaranteed for life when Sophia passes away

No tax on earnings and concessional treatment should their income exceed SAPTO and be reportable to the ATO



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What is the allowable limit per individual for a FuneralBond to be exempt from the assets and income test for Centrelink purposes?

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A:

\$25,000

However, unlimited if purchased as a pre-paid funeral arrangement

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B:

\$15,500

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C:

\$15,500

However, unlimited if purchased as a pre-paid funeral arrangement



## Gifting and Centrelink



## Gifting and Centrelink

You can choose to give away any amount and as many gifts as you like

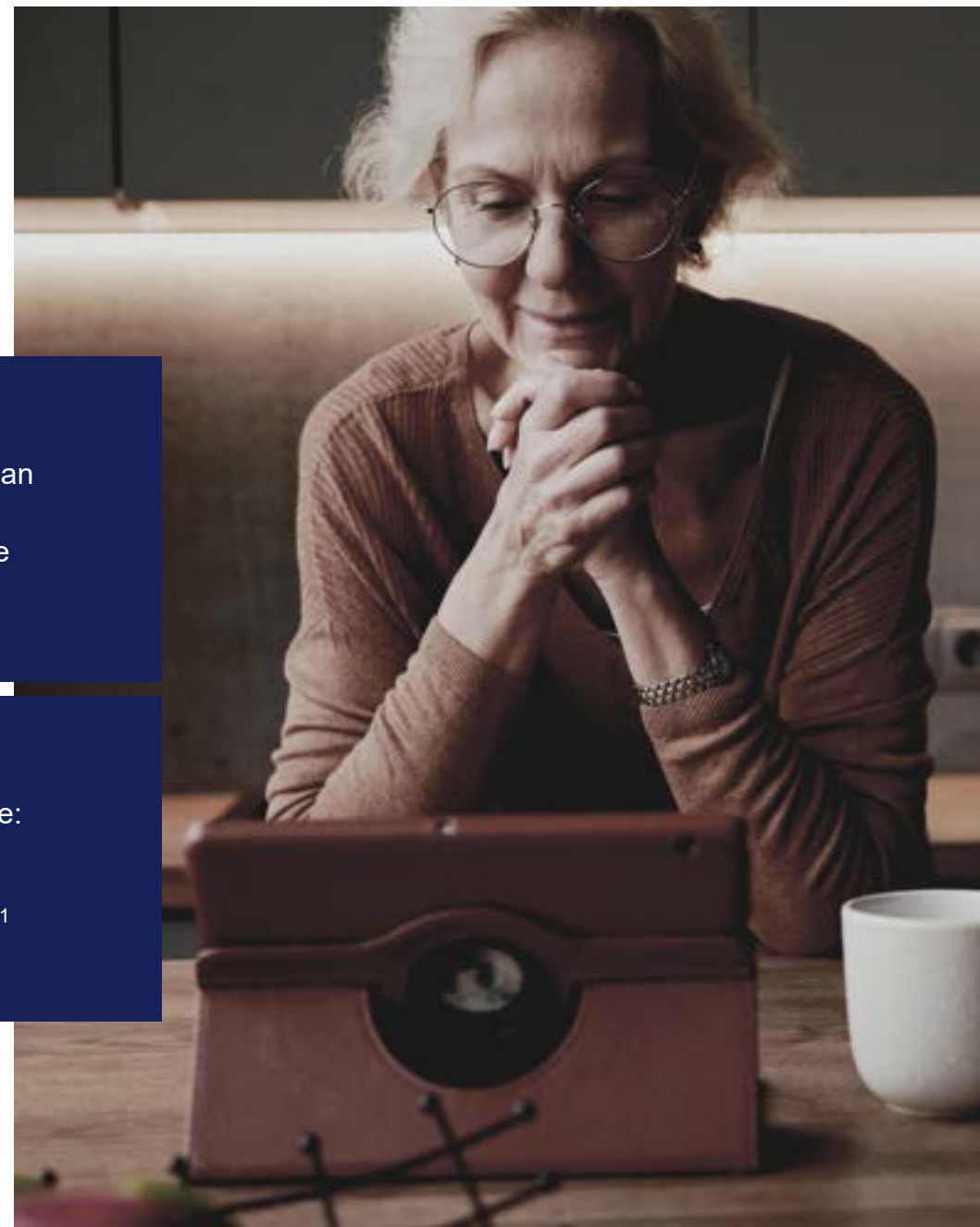
If the total of your gifts is more than the gifting free area, it will still be deemed and assets tested for the next five years

Gifting free areas are the same if you're a single person or a couple

The value of gifting free areas are:

- \$10,000 in one financial year
- \$30,000 over 5 financial years<sup>1</sup>

1. The 5-year period cannot include more than \$10,000 in any single financial year



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## Meet John and Lucy...

John and Lucy are both 70 years old and homeowners.





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## John and Lucy's situation

John and Lucy currently have a combined...

Account-based pension	\$650,000
Non-superannuation assets	\$250,000
Current Age Pension	\$11,315 p.a.





---

## John and Lucy's objective...

John and Lucy would like to leave \$100,000 to each of their 16-year-old twin grandchildren.

They do not want their grandchildren accessing the funds prior to their 21st birthday but want to ensure the family has access to funds in case of an emergency.

They also hope this gift to their grandchildren will improve their Age Pension entitlements.

**John and Lucy speak to their financial adviser...**

## John and Lucy's solution...

Using investment bonds



John and Lucy establish two \$100,000 investment bonds using the Future Event Transfer facility. By doing so...

### Start the 5-year deprivation period

Enact the transfer directly to their grandchildren the day after establishing their investment

### Delaying access

Restrict access until their grandchildren's respective 21st birthdays

### Appoint Co-Signatory

Appoint their daughter (mother of their grandchildren) as the Co-Signatory for emergency access

### Estate Planning certainty

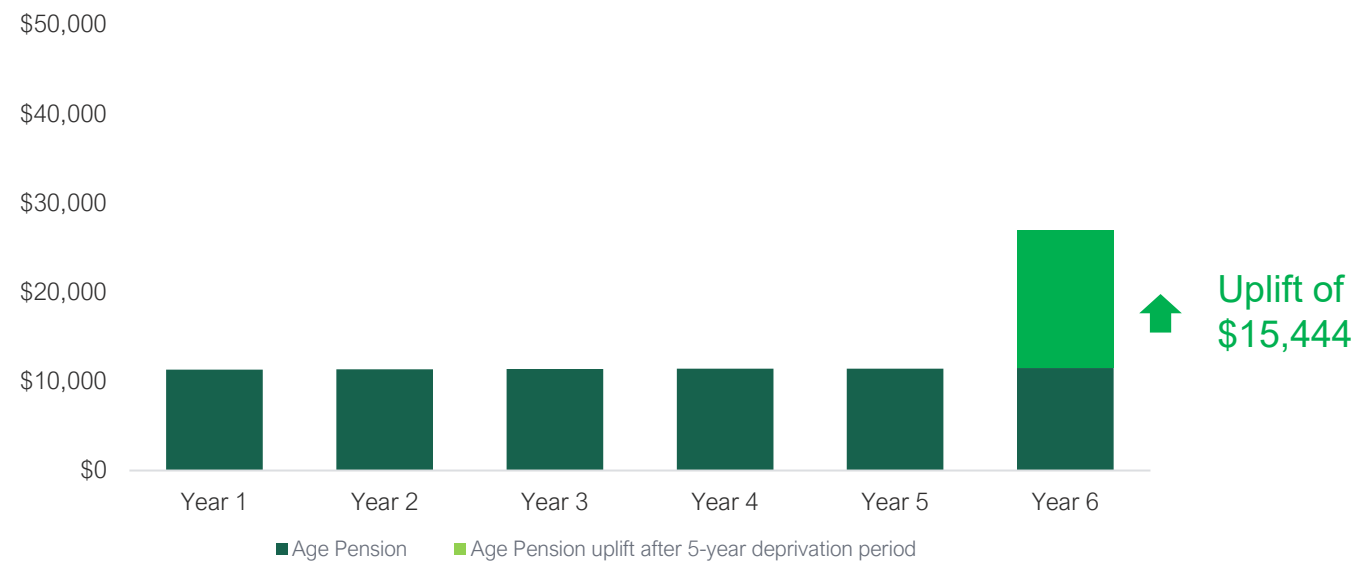
Able address their estate planning wishes, gifting in their lifetime and creating a non-contestable bequest

## John and Lucy's solution...

Using investment bonds



By enacting the transfer of the investment bond directly to their grandchildren in year 1, John and Lucy will be eligible for \$26,915 p.a. of combined Age Pension in year 6.



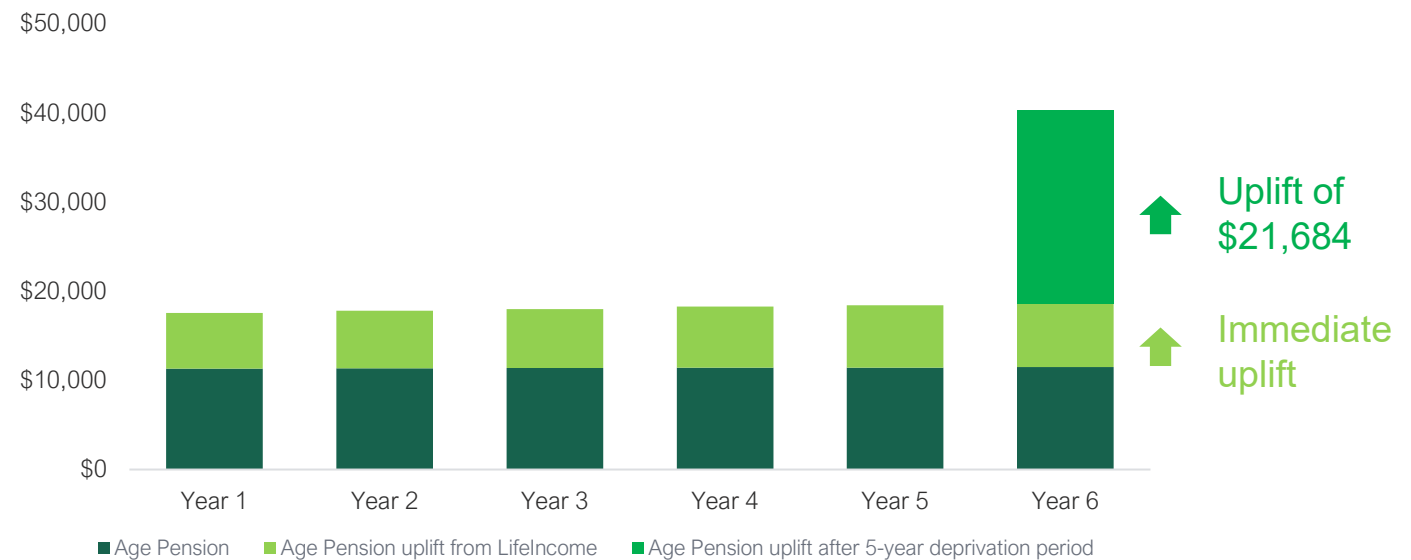
Assumption: Assuming John and Lucy have a combined account-based pension balance of \$650,000 and a combined non-superannuation assets of \$50,000. Combined Age Pension based on Social security rates and thresholds in effect on 20 September 2024.

## Can more be done?

What if John and Lucy complements their investment bonds with a LifeIncome...



John and Lucy allocates \$200,000 to establish a LifeIncome with a starting income of \$14,033. They will also receive an immediate Age Pension uplift of \$6,240 in year 1.



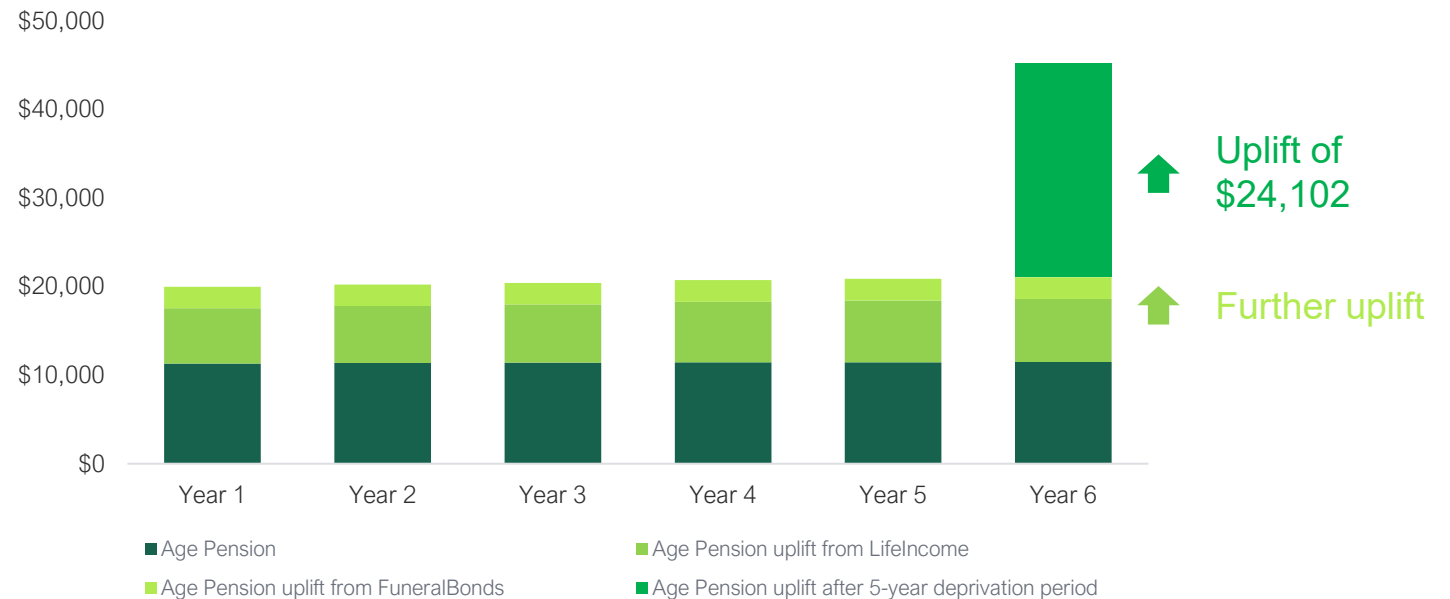
Assumption: Assuming John and Lucy allocate \$200,000 of their combined account-based pension balance of \$650,000 into a 100% Reversionary LifeIncome policy with a LifeBooster 5% rate, with combined non-superannuation assets of \$50,000. Combined Age Pension based on Social security rates and thresholds in effect on 20 September 2024.

## But wait. There's more...

What if John and Lucy adds two funeral bonds...



John and Lucy invests into two \$15,500 FuneralBonds. As the FuneralBonds are income and assets test exempt, they both receive an additional immediate Age Pension uplift of \$2,418 in year 1.



Assumption: Assuming John and Lucy allocate \$200,000 of their combined account-based pension balance of \$650,000 into a 100% Reversionary LifeIncome policy with a LifeBooster 5% rate. This also assumes John and Lucy invest \$31,000 of their combined non-superannuation assets of \$50,000 to establish two FuneralBonds. Combined Age Pension based on Social security rates and thresholds in effect on 20 September 2024.



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## John and Lucy's outcome...

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Transfer their wealth to their grandchildren with certainty

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Increase their Age Pension by \$24,102 in year 6

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Immediate Age Pension uplift of \$8,658 in year 1 by establishing a LifeIncome and two FuneralBonds

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Additional cumulative Age Pension uplift of \$78,975 over 6 years



Generation Life  
Highly recommended for over  
a decade

Awards



Research ratings



LifelIncome



Investment Bonds

Note: Chant West rating includes LifeBuilder and ChildBuilder





## Thank you.

## Outthinking today.

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# Majoring in minor beneficiaries

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Effective insurance solutions for families with children

October 2024

Scott Hoger

National Manager, Education & Partnerships

**TAL**

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# Learning Outcomes

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**At the conclusion of this workshop, attendees should:**

- Possess an understanding of the impact of the legal and taxation rules applicable to minors
- Be aware of the risks associated with direct payments of death benefits to minor children
- Have a working knowledge of the mechanics and consequences of delivering an income stream to surviving children via the superannuation system
- Be capable of explaining capital preservation strategies using testamentary and estate proceeds trusts

# Agenda

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- 1 Legal status of minors
- 2 Taxation of minors
- 3 Risks associated with minor beneficiaries
- 4 Insurance benefits & minors
- 5 Capital preservation strategies

A blurred background image of a business meeting. A man in a dark suit and a woman in a light blue shirt and glasses are seated at a table, looking at documents. A laptop is visible on the left side of the table.

# 1 Legal status of minors

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# Legal status



Minor has no capacity to contract.

Guardian can assist the minor to enter contracts.



Assets of the minor are held on trust by the guardian.

Guardian is the legal owner of the assets.



Guardian is under a fiduciary duty to:

- Maintain the minor
- Provide for the minor's education
- Administer the minor's assets appropriately



Guardian is entitled to reimbursement for reasonable maintenance and education costs of the minor incurred by the guardian



Guardianship terminates when the minor reaches age 18

At that point the minor acquires full title to any assets.

Former minor has full legal capacity at this point

# Guardianship rules

SITUATION	Death of one parent	Death of both parents with a guardianship appointment in their will and acceptance by the nominated guardian	Death of both parents with no guardianship appointment in their will	Death of both parents with no guardianship in their will and no interested persons
OUTCOME	Guardianship rights will typically pass to the surviving parent (subject to any court order). Testator can appoint a guardian under the Will to also care for the child. Typically, however, the courts will favour the child's surviving parent over any appointed guardian over a Will.	The guardian will typically act and be accepted as the guardian. This can reduce any conflict between the family left behind and clarifies the legal position of guardian of the child.	Any interested person can make an application to the court to be appointed as guardian.  This can result in costly and emotionally draining disputes amongst family members over the guardianship appointment.	Child passes into the care of the State.





## Role of the financial/insurance adviser

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Guardianship process and rules are complex involving Commonwealth and State Laws. Legal advice on the application of these rules to client circumstances is therefore essential.

- Alert clients to the need to determine guardianship status of their children on death
- Guardianship should be discussed with the solicitor drafting the Client's will
- Important for divorced or separated clients to confront the question of guardianship on death

**Seek the consent of all persons to act as guardians**



## 2 Taxation of minors

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# Taxation rules

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**Insurance Bonds** are tax paid investments with earnings being taxed within the bond at the corporate rate of 30%. It is possible to use this investment form for the benefit of minor children without attracting additional tax

- Income of minors is taxed at individual rates, unless the income is “Excepted Income”
- Excepted income is taxed at the rate of 47%
- Excepted income measures are designed to stop income splitting arrangements taking advantage of low marginal tax rate of minors
- Minor can earn \$416 per annum without attracting the Excepted Income provisions
- Excepted Income Measures do not apply to the following categories of income:
  - Minor’s salary/wages
  - Income from assets bequeathed to the minor via a will
  - Legal settlements



# Taxation process

---

Identify the beneficial owner of the asset and the source of income

## Income earned by minors

- Minor completes an individual tax return if a tax return is required for any reason
- Minors over the age of twelve can sign a tax return, otherwise the guardian signs the tax return
- Child over the age of 13 can apply for a TFN

## Income inherited by minors

- Guardian completes a trust tax return if the guardian is administering the inherited assets on trust
- If the inherited assets are held via a testamentary trust or an estate proceeds trust, the relevant trustee completes the tax return
- Income is assessed at individual tax rates
- Guardian has a right of recovery from the trust assets for all taxes paid on behalf of the minor

A photograph of three business professionals in a meeting. A man with glasses and a beard is pointing at a laptop screen. A woman is holding a coffee cup and looking at the screen. Another man is partially visible on the right. The image has a dark overlay.

### 3 Risks associated with minor beneficiaries

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# Minor risk trifecta

Ensure that your risk management plan identifies the risk of minor's inheriting and the steps to be taken to mitigate the risk

1

## Guardian

- Person of integrity
- Financial sophistication
- Inappropriate pressure from love interests
- Asset depletion: pressure to fund living expenses from a minor's inheritance

2

## Minor

- Financial responsibility post age 18
- Minor's values
- Psychological conditions or drug dependency

3

## Inappropriate division of the estate

- Assets not fully owned by minors
- Avoid minor entitlements under intestacy rules
- Avoid conflicts of interest involving minors. *Burgess v Burgess* [2018] WASC 279. Administrator purchased a home with the minor's interest and had to reimburse the estate

# Risk matrix for minor beneficiary risk

RISK	DESCRIPTION OF RISK	FINANCIAL EXPOSURE	PORTION TRANSFERRED	PORTION RETAINED	MITIGATION STRATEGY
Guardian Risk					
Minor risk					
Asset risk					

# Discussion 1:

Mr and Mrs A have two minor children and reside in Western Australia. Mr A dies without leaving a will. Mr A is a member of the Theta Superannuation Fund and has not executed a binding death benefit nomination. The benefit from this superannuation fund is \$1 million. Mr A dies intestate, and Mrs A is appointed as administrator of Mr A's estate. The Trustee of the Theta Superannuation Fund pays the death benefit to Mrs A. Identify the correct outcome from the options below:

- a) The Trustee of the Theta Superannuation Fund has acted in breach of its duties under the Superannuation Industry Supervision ("SIS") Rules by not paying the benefit to the two minor children
- b) Mrs. A can retain the benefit. She is the surviving spouse as she is a dependant under the SIS Rules
- c) Mrs. A must pay the benefit into the deceased estate where it will be distributed under the WA intestacy rules
- d) Benefit must be paid to the Public Trustee WA for the benefit of the family



# Discussion 1: Answer

Correct answer: **C**

Mrs. A as administrator of the deceased estate of Mr. A is under a fiduciary duty to give priority to the interests of the deceased estate and not her personal interests. Mrs. A will be required to pay this amount into the deceased estate and distribute the benefit in accordance with the WA intestacy rules. This means that the minor children will receive a share of the benefit. Mrs. A as guardian will be under a fiduciary duty to look after each child's benefit. On reaching age 18, the benefit would be paid to the child.

The split under WA intestacy rules would be:

Mrs. A: \$667,333

Child1: \$166,333

Child2: \$166,333

# Discussion 2:

Mr and Mrs B have two minor children and reside in Western Australia. Mr. B's will provides for Mrs B to be appointed as executor. Mr B's will also contains a clause waiving any conflict of interest/duties issues by providing that Mrs B can receive any benefit as heir or superannuation beneficiary. Mr B is a member of the Theta Superannuation Fund and has executed a binding death benefit nomination in favour of Mrs B. Mr B's death benefit from this superannuation fund is \$1 million. Identify the correct outcome on the death of Mr. B

- a) Mrs B can receive the death benefit
- b) The death benefit must be paid into Mr B's deceased estate for the benefit of the two children
- c) The benefit must be shared between Mrs B and the two minor children
- d) Benefit must be paid to the Public Trustee WA for the benefit of the family

# Discussion 2: Answer

Correct answer: **a**

The death benefit does not form part of the estate.

The flow of the benefit to Mrs. B is assured by the execution of a valid will, a binding death benefit nomination, and a suitable “conflicts of interest/benefits clause” in the will allowing Mrs. B as executor to receive any benefits

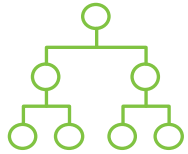
A blurred background image of a business meeting. A man in a dark suit and a woman in a light blue shirt and glasses are seated at a table, looking at documents. A laptop is visible on the left. The overall tone is professional and collaborative.

## 4 Insurance benefits & minors

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# Insurance in superannuation

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Children can be nominated as beneficiaries to receive death benefits ex super



Death benefit proceeds can be paid to a minor child in lump sum or income stream form



Lump sum: tax free  
Income stream: Taxable portion (including insurance proceeds) taxed at the minor's marginal tax rate less 15% rebate

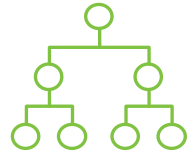


If paid as capital, all proceeds held on trust by the Child's guardian until age 18, child pensions end at age 25 (unless the child is disabled)

Economic dependants of superannuation fund members are concessionally taxed

# Insurance outside superannuation

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Children can be nominated as beneficiaries to receive the claim proceeds



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Claim proceeds can only be paid to the minor child in lump sum form



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Generally, tax free as the minor child is unlikely to have given consideration for the benefit. Underlying motivation: “natural love and affection”



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All proceeds held on trust by the Child’s guardian until age 18

No restriction on minor beneficiaries under the Insurance Contracts Act 1984



5 **Capital preservation strategies**

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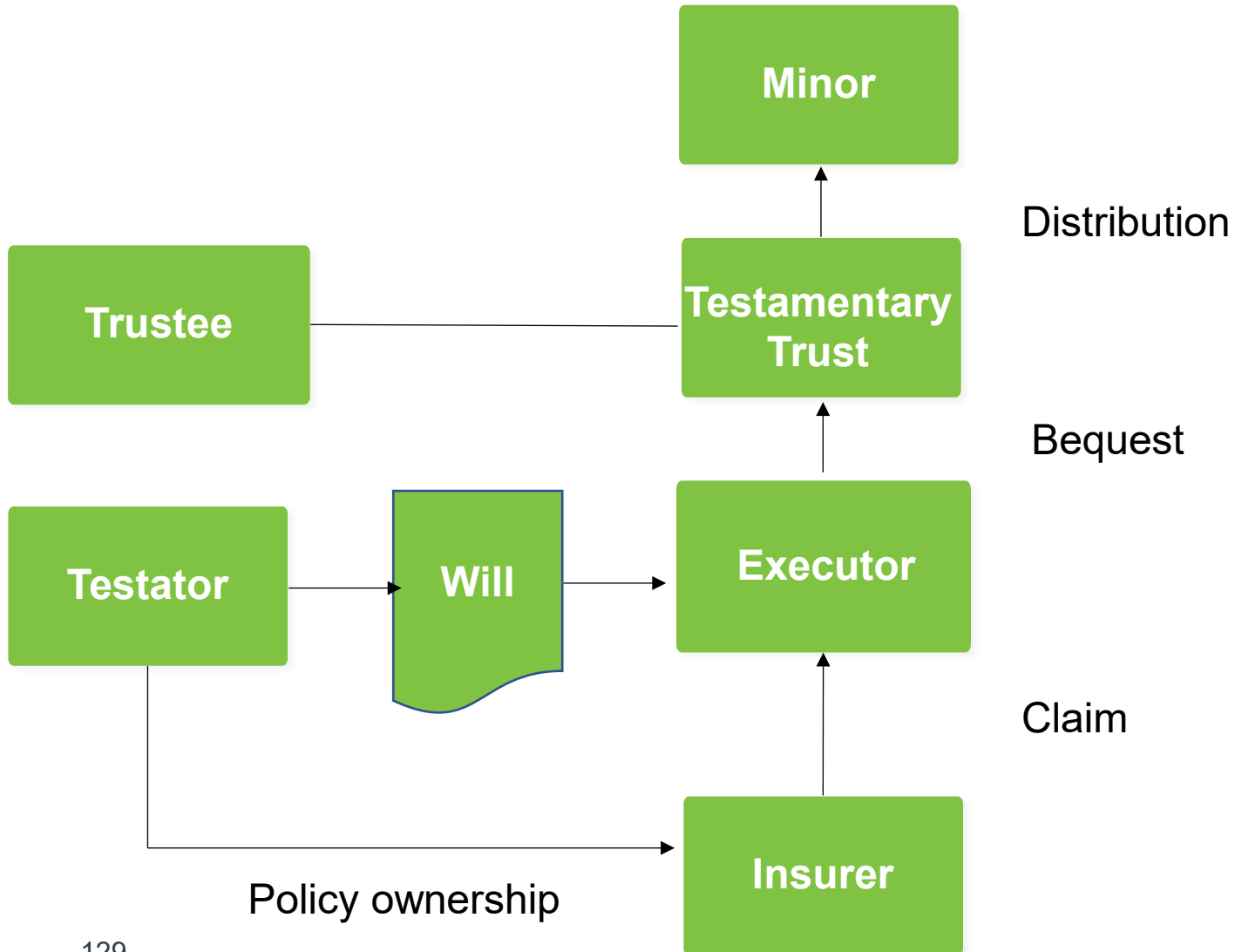
# Capital preservation strategies

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# Testamentary trust



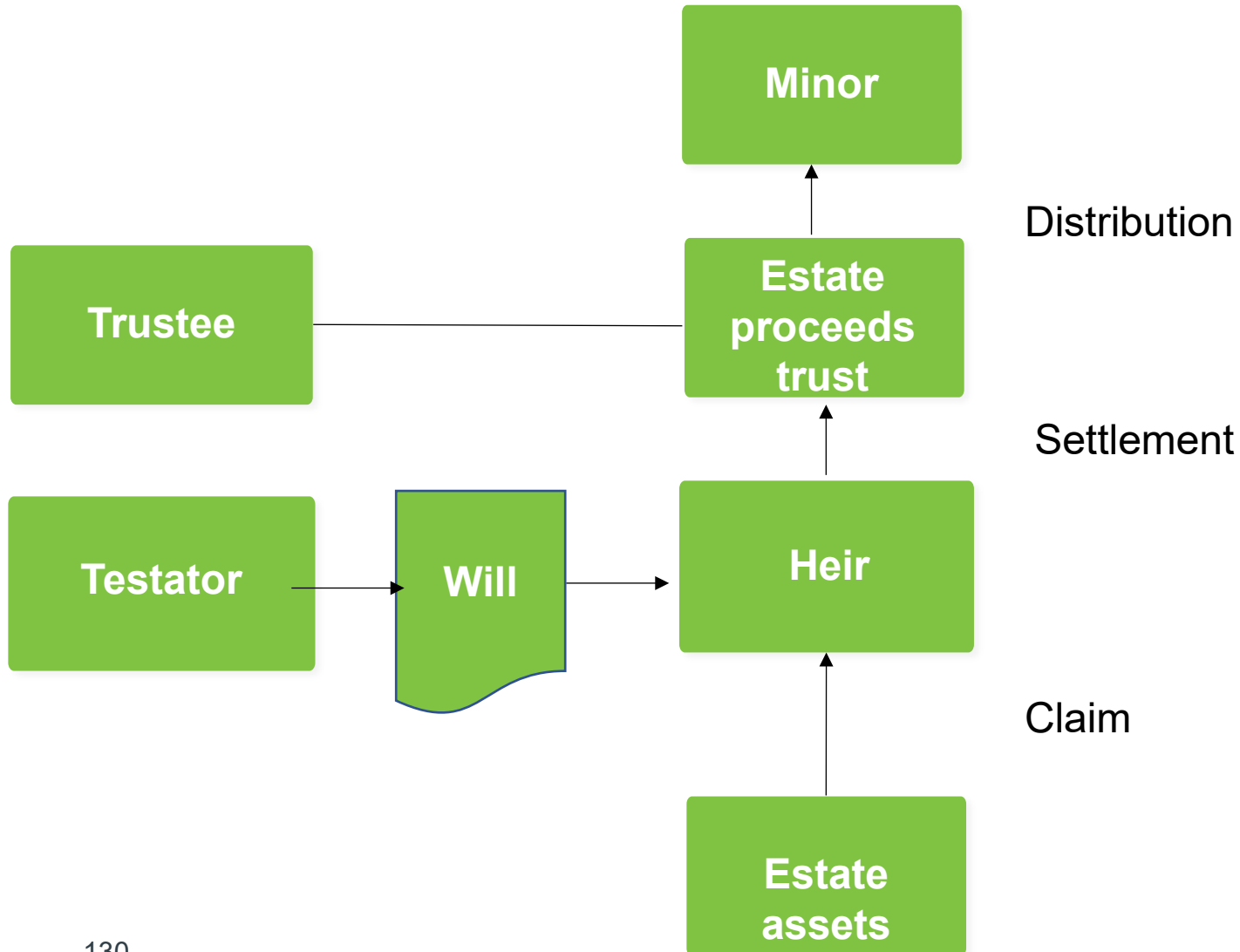
## Advantages

- 1 Testamentary trustee controls capital
- 2 No penal tax rates
- 3 Flexibility: testator chooses the terms
- 4 Testator controls assets until death

## Disadvantages

- 1 Capital passes through the deceased estate
- 2 Superannuation tax concessions not available
- 3 Terms need careful drafting

# Estate proceeds trust



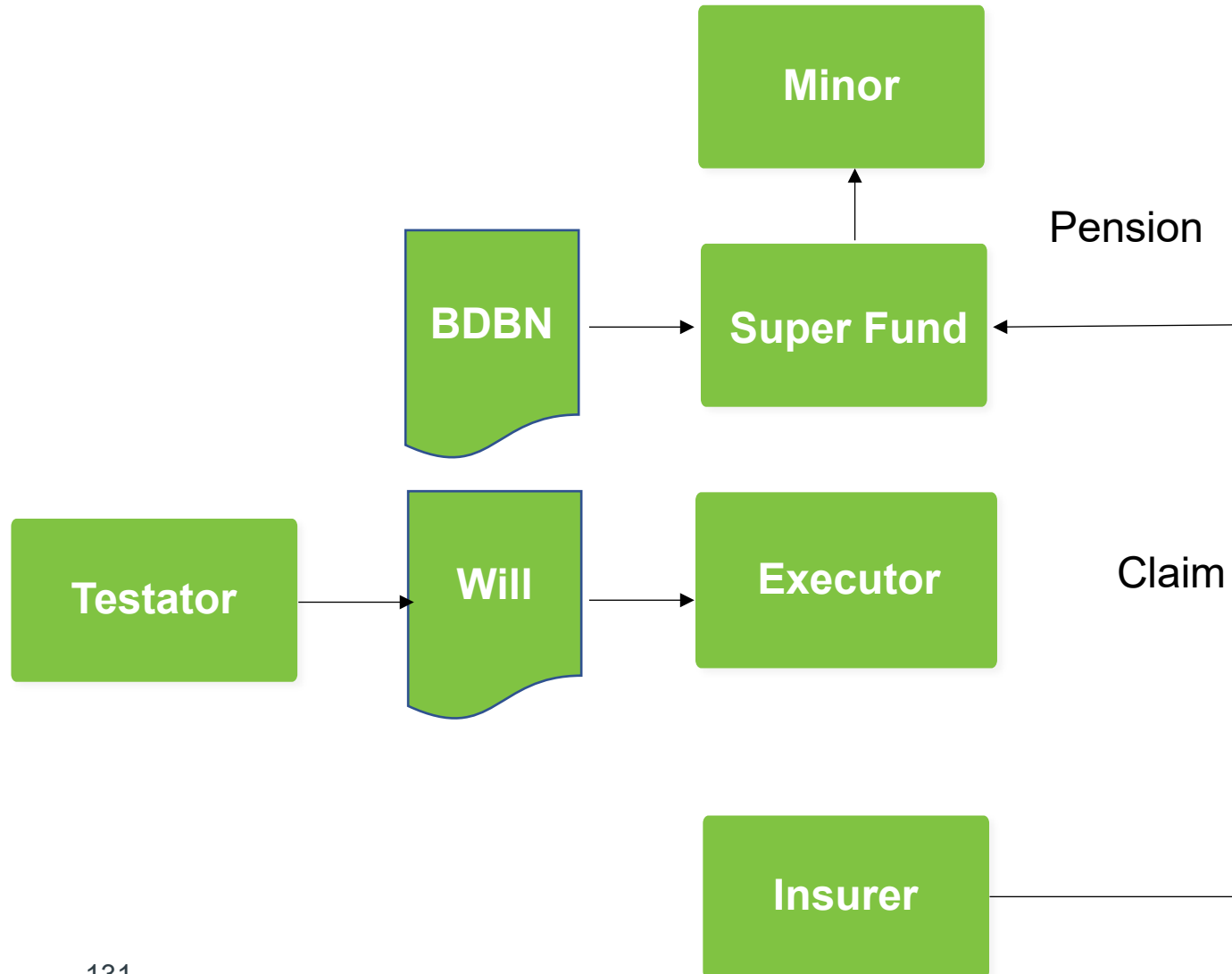
## Advantages

- 1 Can be established post death
- 2 No penal tax rates
- 3 Testator controls assets until death

## Disadvantages

- 1 Minors must have access capital
- 2 Capital limited to intestacy share
- 3 No flexibility as to terms. Must be set up within 3 years of death.

# Pension ex super



## Advantages

- 1 Super Fund Trustee controls capital
- 2 Taxed concessional including 15% Rebate
- 3 Opportunity for separate pensions for each child
- 4 SMSF Structure enables family control of assets via SMSF Trustee

## Disadvantages

- 1 Pension subject to Transfer Balance Cap rules. Can severely restrict pension strategies
- 2 Subject to Minimum Balance Rules (4%)
- 3 Must terminate at age 25

# Transfer balance cap capers

**If a parent dies in accumulation phase, the parent's unused TBC needs to be pro-rated amongst child pension beneficiaries**

## Pro Rating Rules

- Assume an TBC of \$1.9 million
- 2 children benefitting equally. No other beneficiaries  
Each child has a TBC of \$0.95 million
- 2 Children plus a surviving spouse benefitting equally  
Each child has a TBC of \$0.633 million

## Consequences

- Amounts in excess of the child's TBC must be paid as a lump sum
- Excess cannot be retained in accumulation phase



**Pension strategies require estimation of the end balance plus the relevant TBC**

**Complexity of these rules could cause clients and advisers to default to testamentary trusts outside superannuation**

**Amounts paid directly to the minor beneficiary represent a failure of the capital retention strategy**



**Any  
Questions?**

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**Lunch**

# IS AUSTRALIA STILL THE LUCKY COUNTRY?

Alexander Cousley, CFA  
Director, Senior Investment Strategist, Asia Pacific

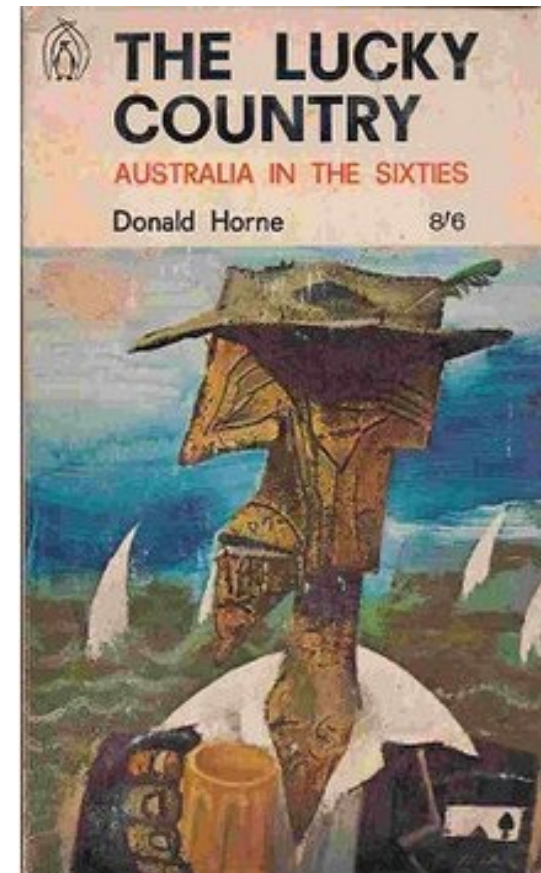
# Learning Outcomes

- **Understand the drivers of the Australian economy**
- **Understand how macro-economic considerations drive portfolio positioning**
- **Understand the importance of a rigorous investment philosophy and framework**
- **Consider the incorporation of geopolitics to financial markets**



# Where did 'lucky country' come from

- **Donald Horne book written in the 1960's**
- Argued that Australia's success was down to:
  - Natural resources
  - Weather
  - History
  - Early dependency on British system
  - Distance from problems elsewhere in the world
  - The political and economic system was second rate
  - The country suffered from a lack of innovation/ambition



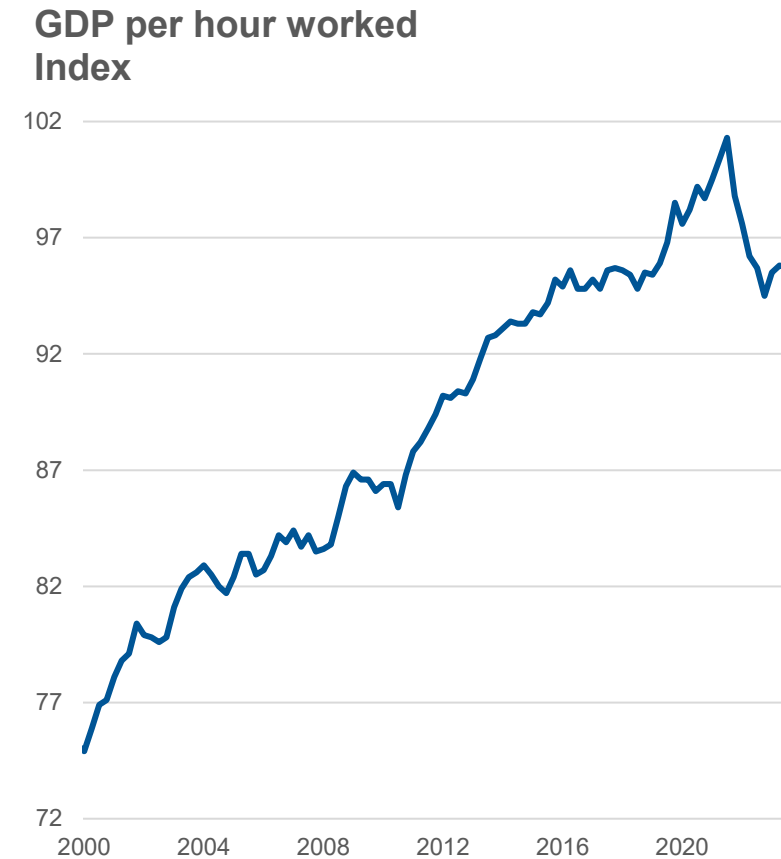
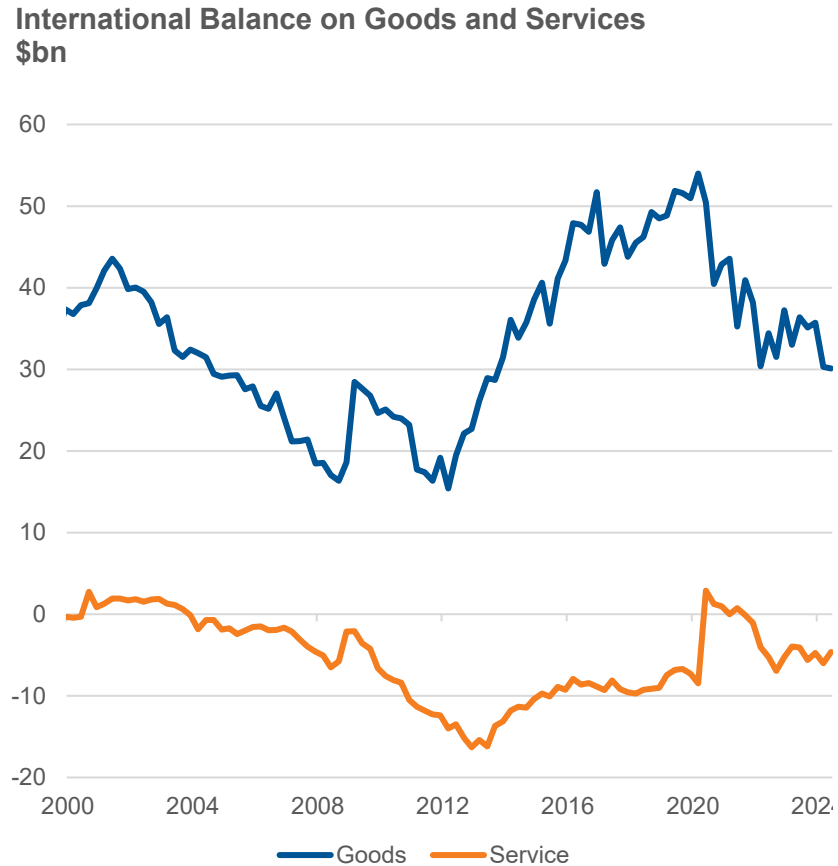
Source: Google Images. Sept 2024

# Will Australia remain the lucky country?



# Bringing that forward to the 2020's

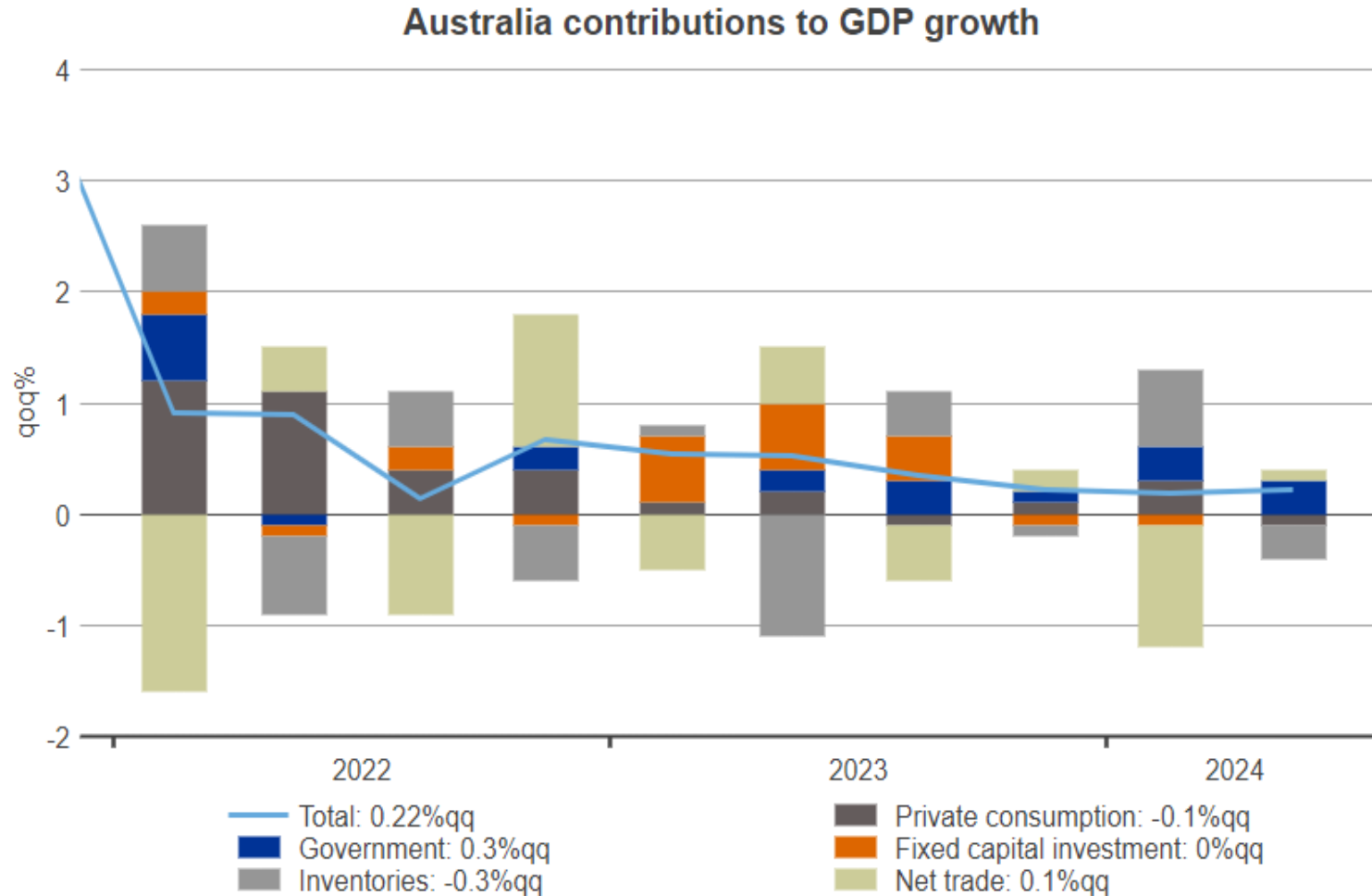
Balance on goods and services has been fading, productivity has been struggling



Source: Australian Bureau of Statistics, Sep 2024

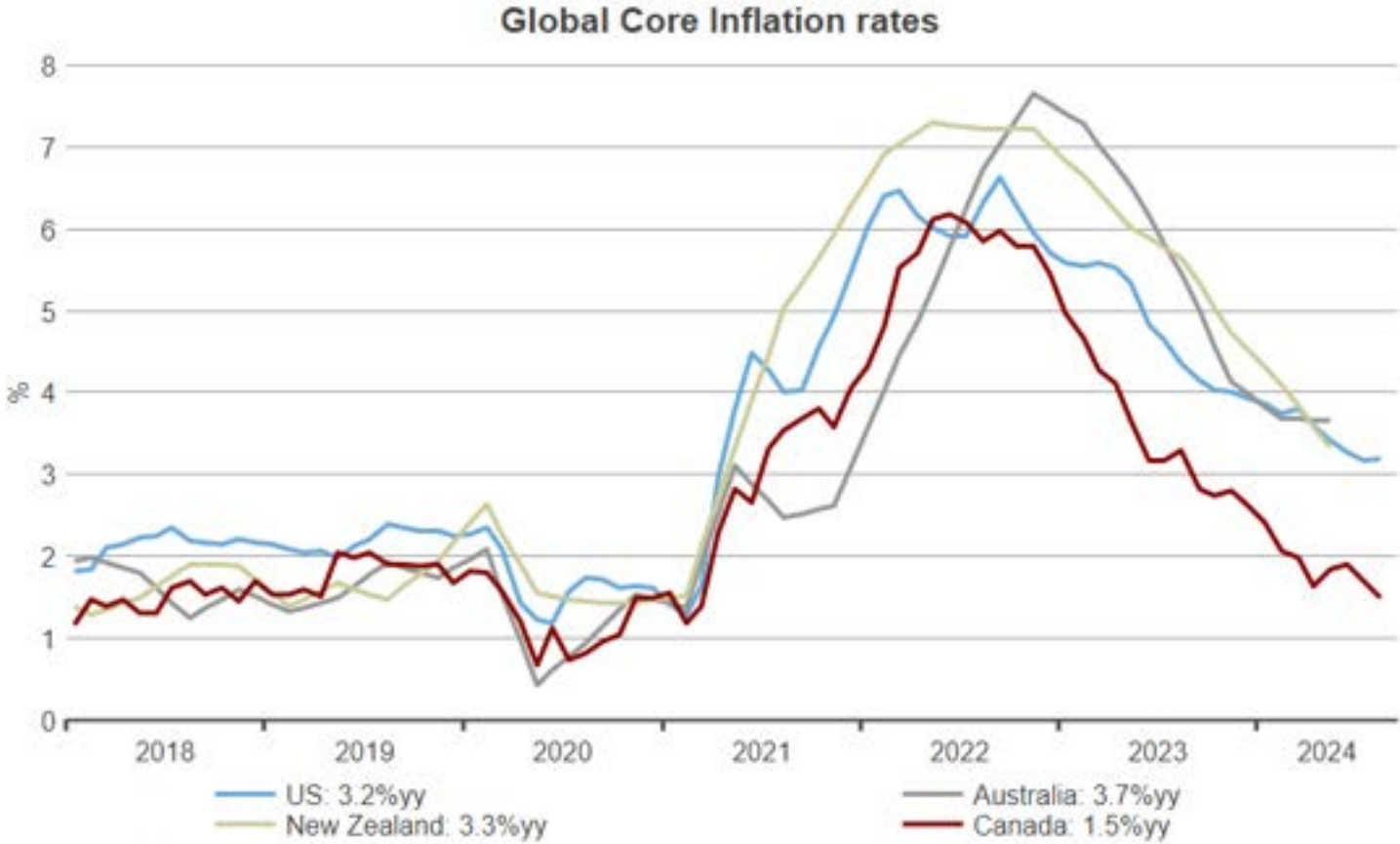
# The economy is quite soft

Government spending and trade were the only growth engines in Q2



# Inflation has not reached the RBA's comfort level

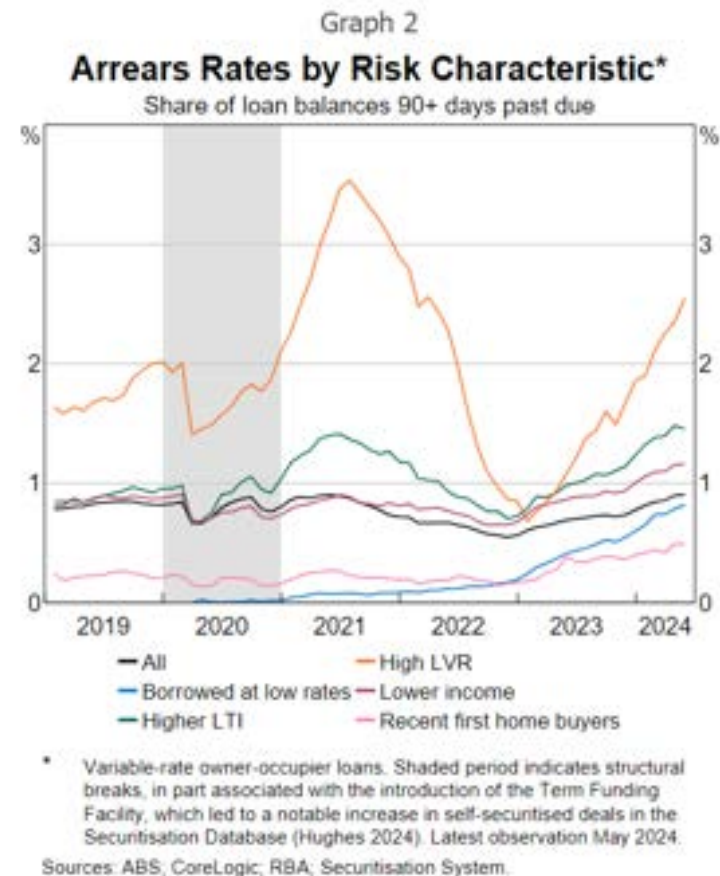
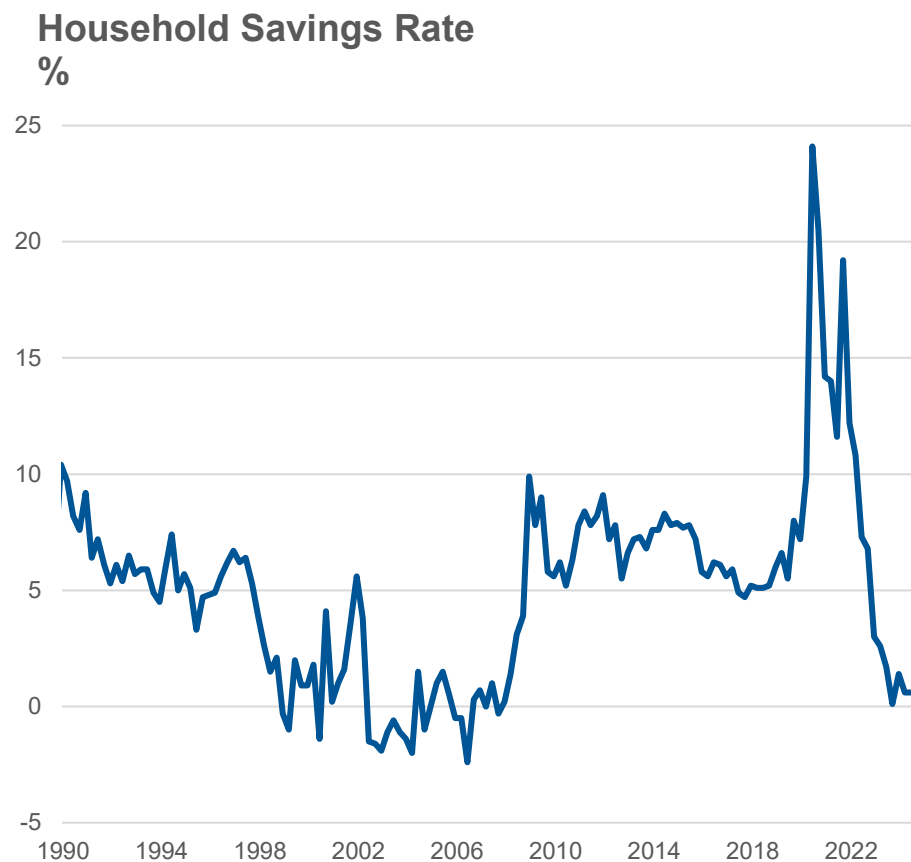
We expect that Q1 next year is when the RBA will begin an easing cycle



Source: LSEG Datastream, Aug 24

# Consumption is weak, but stress appears contained

Savings rate is very depressed, arrears have been rising for higher risk borrowers



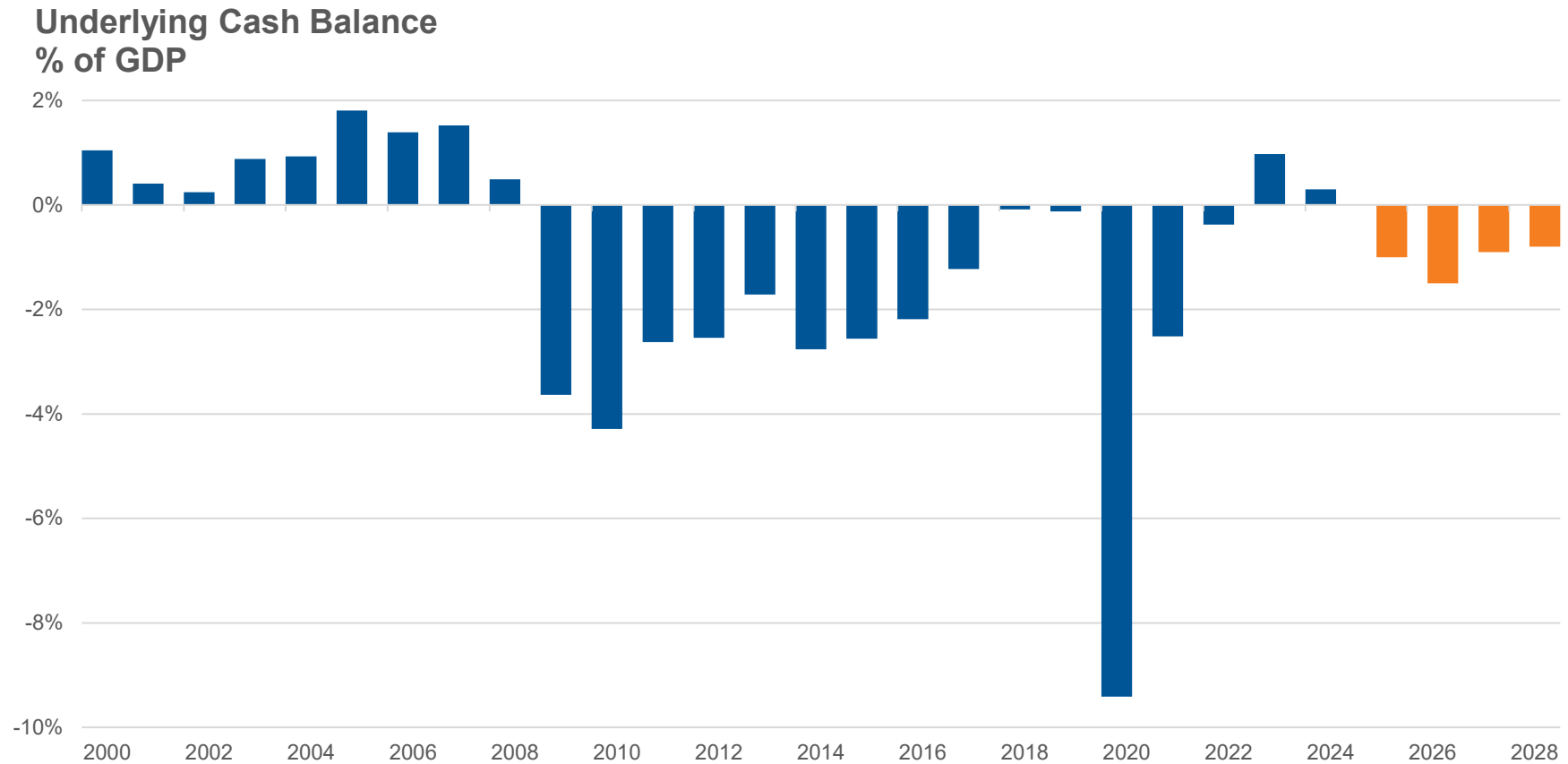
Source: LSEG Datastream, Sep 2024.

# The RBA will first cut rates....

- By the end of the year
- By March 2025
- Later than that
- They are more likely to raise rates from here

# The fiscal impulse is turning positive

FY25 is an estimated 1.4ppt boost



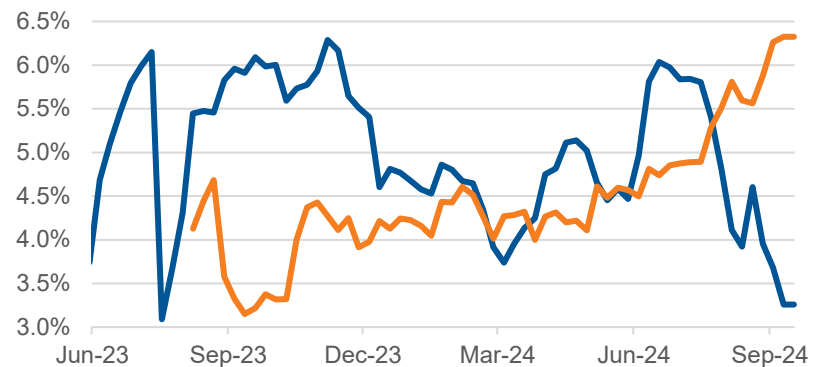
Source: LSEG Datastream, May 2024.



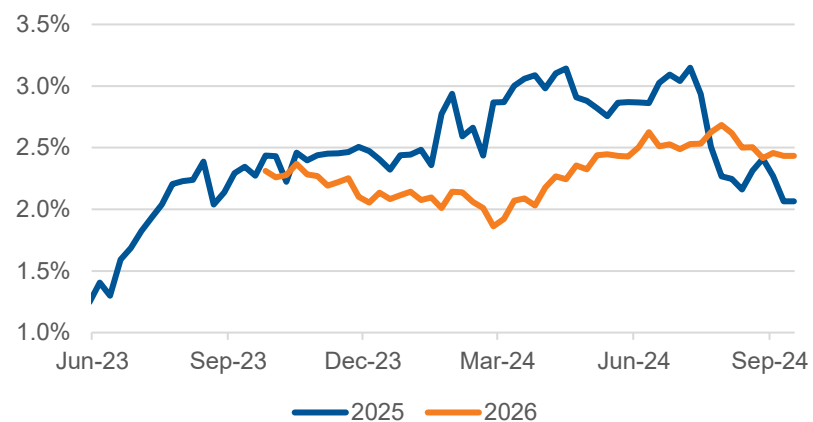
# Australian equities are no longer cheap relative to global

Earnings and revenue expectations are quite muted

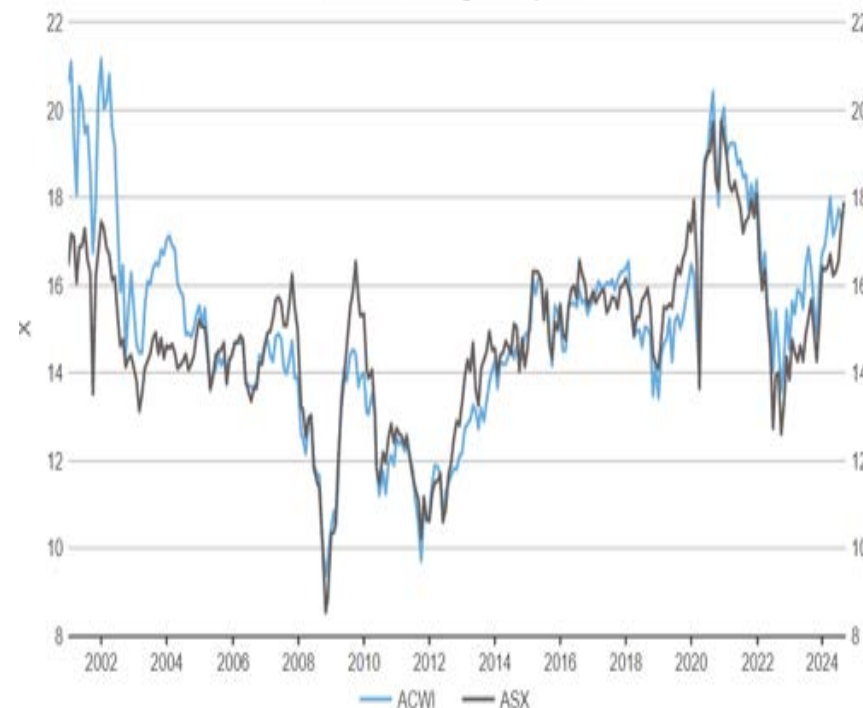
### EPS Expectations



### Revenue Expectations



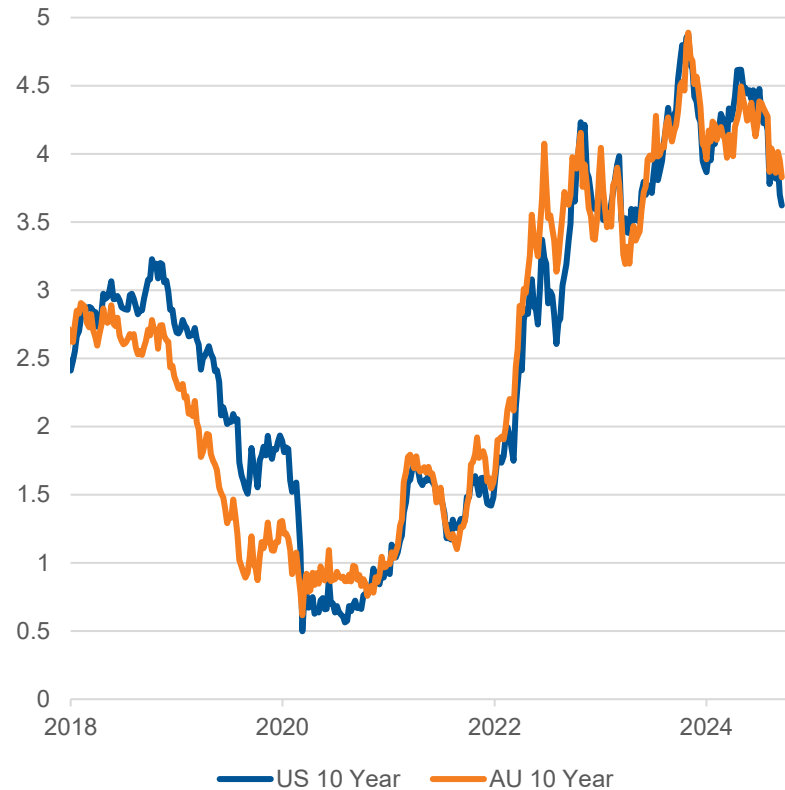
### Forward earnings multiples



Source: LSEG Datastream, 14 Sep 2024.

# Australian government bonds look attractive relative to global

10Y Government Bond Yield



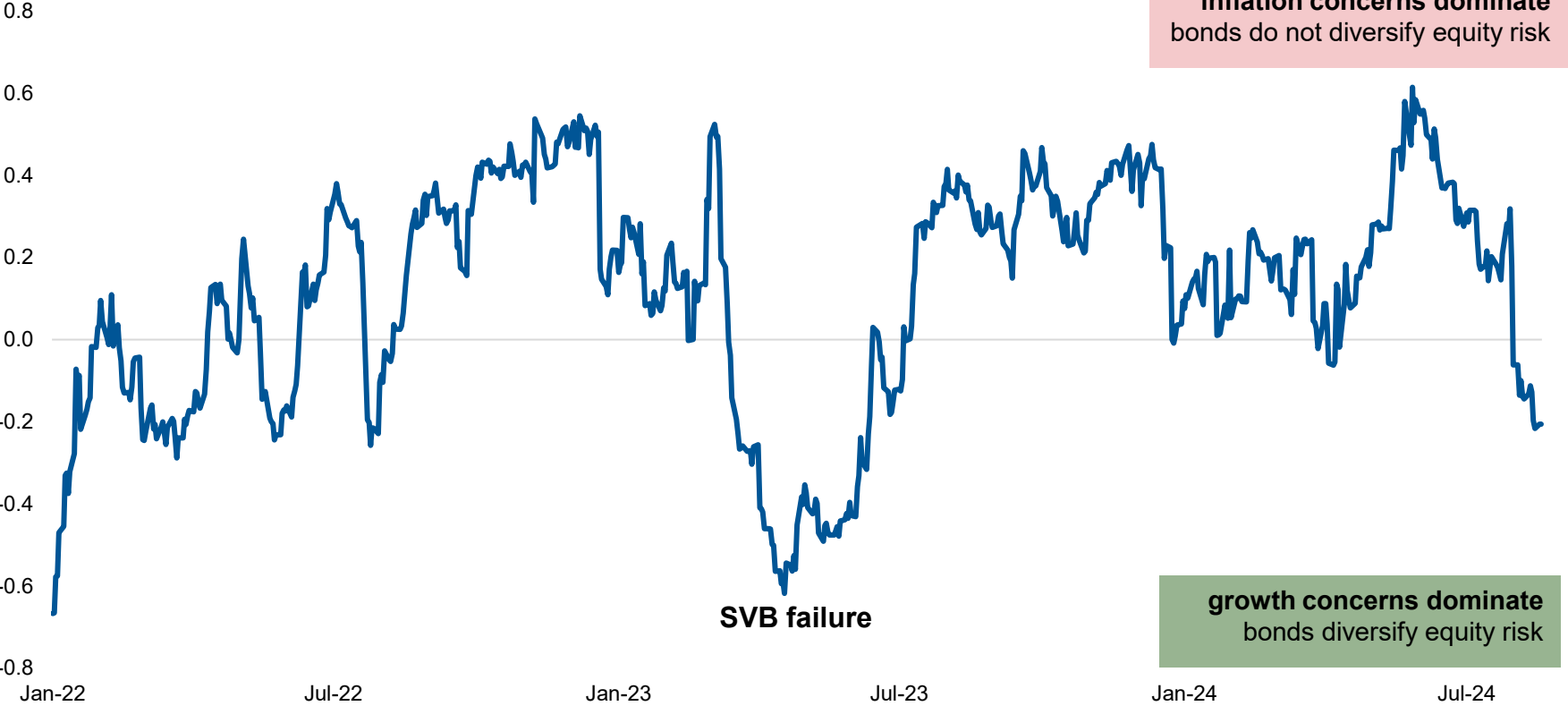
Central Bank	25bp cuts priced by year end	25bp cuts priced by Dec 2025
Federal Reserve	4.7	9.8
Reserve Bank of Australia	0.8	4.3
Reserve Bank of New Zealand	3.4	9.5
Bank of Canada	2.9	8.4

Source: LSEG Datastream, 17 Sep 2024.

# Bonds did their job as a diversifier in early August

As market concerns transitioned from inflation to growth

**Stock-bond correlation, 30day rolling**



Source: LSEG Datastream, Russell Investments. August 20<sup>th</sup>, 2024. SVB denotes the growth scare surrounding the failure of Silicon Valley Bank.

# The big event in November...



The afternoon of the first Tuesday in November is a very exciting day for market watchers, both financial and thoroughbred. Firstly, the RBA board meets at 2:30pm to decide Australia's cash rate – we expect a 25 bp rise, with another 25 bp rise likely to follow in December. More importantly however is the *Race That Stops the Nation* at 3pm, **The Melbourne Cup**.

Russell Investments' investment process combines strategic and tactical views, incorporating quantitative and qualitative inputs. From a tactical perspective, across all asset classes we use a consistent framework that assesses markets and market segments on cycle, valuation, and sentiment (the "CVS" framework). This process combines insights from our Investment Strategy team (cycle scores) with market data (value and sentiment scores) to produce an overall assessment on whether investments are attractive or unattractive on a tactical basis. The outputs of this process are then used to help inform our decision making in funds across different regions and asset classes.

Alternative investments form a significant part of many diversified portfolios and in recent years we have seen higher allocations towards these assets. Private assets and hedge funds are commonly found in portfolios; one under-utilised alternative asset class however is horse racing. Our Strategic Asset Allocation has a 0% allocation to horse racing, however on one day every year we look for tactical opportunities to generate excess returns by allocating capital to the Melbourne Cup.

This note applies our quantitative tactical investment framework to the Melbourne Cup to identify the best opportunities to generate excess returns.

Source: Russell Investments

# .. And the other big event in November

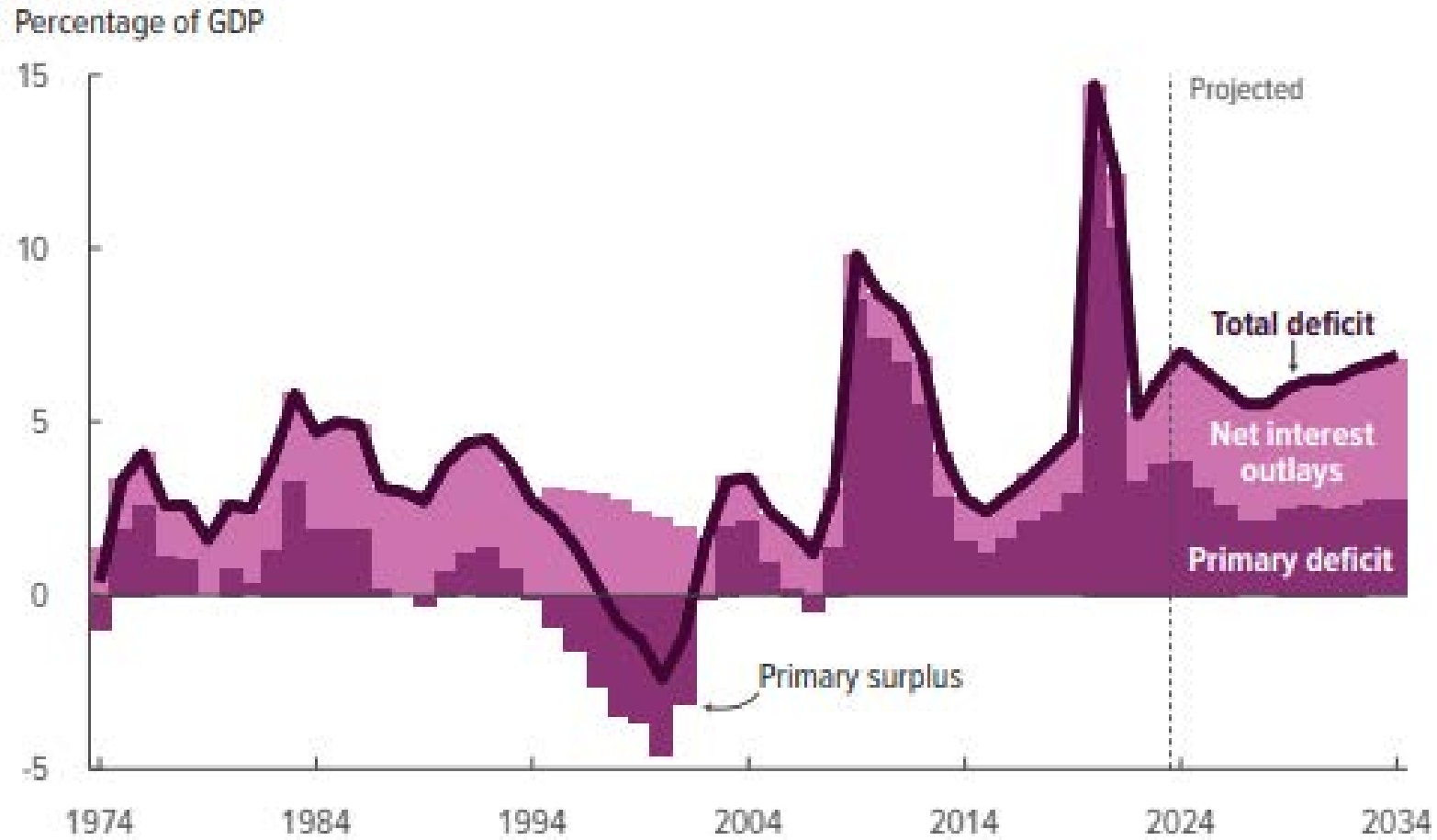
Scaling-up average market response to the debate, attempted assassination, and Biden's exit

Market	Trump Win	Harris Win	
S&P 500	0.0%	-0.1%	
Russell 2000 – S&P 500	0.5%	-0.4%	
EURO STOXX 50 – S&P 500	-1.6%	1.6%	
10yr yield	+34bp	-32bp	
10yr-2yr spread	+5bp	-5bp	
DXY	1.1%	-1.0%	
Energy	9.2%	-8.6%	Trump: deregulation but more production = lower WTI?
Real Estate	5.8%	-5.7%	
Materials	2.5%	-2.3%	
Financials	1.9%	-1.9%	Trump: deregulation, growth, steeper curve, M&A
Staples	-0.5%	0.5%	
Industrials	-0.9%	0.8%	
Health Care	-1.2%	1.2%	Trump: "most favored nation" pricing on drugs
Communication Services	-3.8%	3.6%	
Consumer Discretionary	-4.7%	4.5%	
Information Technology	-5.3%	4.9%	
Utilities	-6.6%	6.3%	Trump: higher yields a concern for utilities

denotes more robust findings where market direction was the same in all 3 episodes

# Longer term challenge/consideration

What will restore discipline in US fiscal policy



Source: Congressional Budget Office, 2024

# Key Takeaways

- **Australia is set to see sluggish growth over the next twelve months, but should remain the lucky country (in avoiding recession)**
- **Longer term, Australia needs to see an improvement in productivity**
- **Australian equities are close to fair value relative to global equities, with softer growth prospects**
- **Australian government bonds remain attractively valued**



ASSET MANAGEMENT



# Antares Equities

## Generative AI and its impact on consumers

OCTOBER 2024 | EQUITIES



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# An overview of Artificial Intelligence



## What is it and how has it evolved?

The history of AI is full of false dawns and squandered capital ...  
Is it different this time?

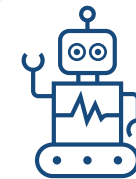


## What changed?



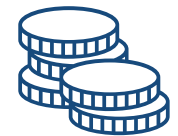
## Why is it important?

How **has it** changed work?  
How **could it** change work?



## What can it do?

What impact will you see in daily life, if any?



## Can you invest in Australia?

# Artificial Intelligence - A Potted History



## Artificial Intelligence is not new

The programmable digital computer was invented in the 1940's

Using the pure mathematics of Boolean logic (like brain neurons) this kick started machine learning

**1956**

**The discipline of Artificial Intelligence was founded in 1956 at a conference at Dartmouth College**

- Grand promises were made that it would revolutionise the world as machine capabilities matched humans
- Millions of dollars (then) were invested on the promise
- Such promises and investment is a common feature of the history of AI.

**2017**

**The breakthrough came in 2017**

- Google AI Scientists developed a model for transformative neural networks
- This was then open-sourced and is the basis for the majority of Language Learning Models today

This is what we think of as “generative AI” as it can literally “generate” its own thoughts

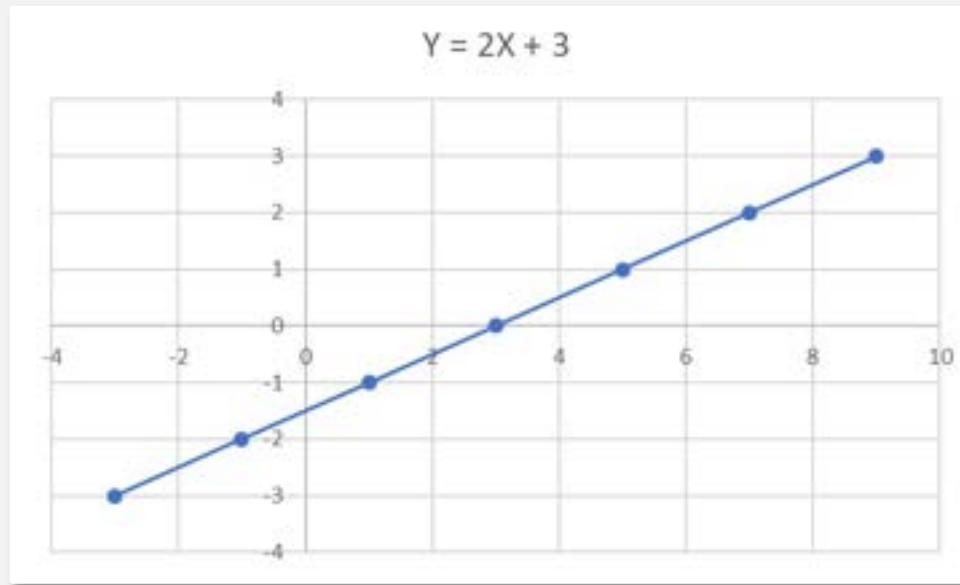


## These books were published in 1972 and 1986 – doubts have long existed

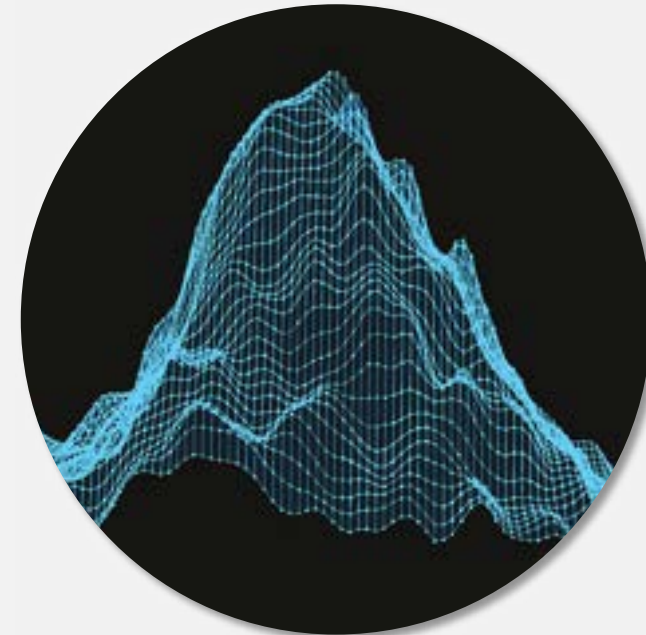
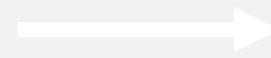
- The premise: human decisions are not made in a vacuum but in context.
- It is one thing “to know what” but it is quite another to “know how” to use the “what”
- Machines could not (then) provide such context

**The industry accepted this criticism and new models were developed – most famously by GoogleAI**

# Predictive algorithms had to change

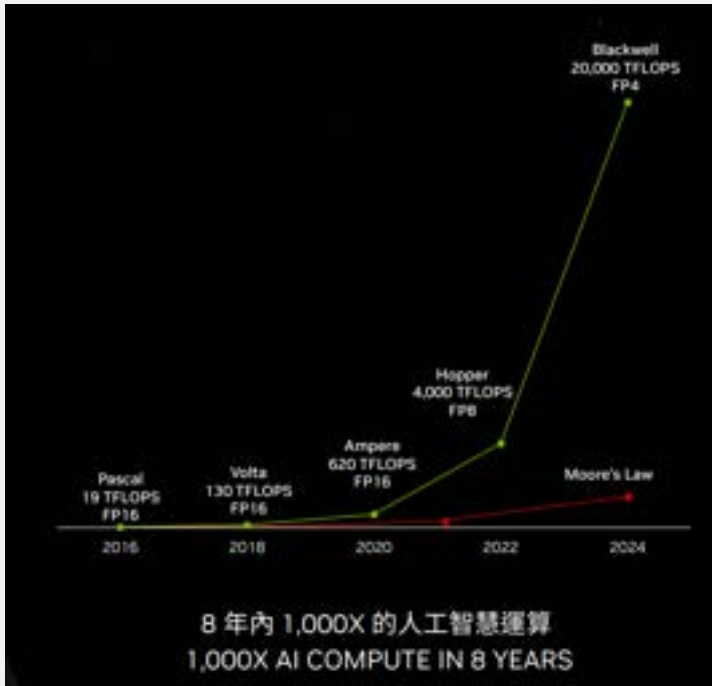


**From this...**

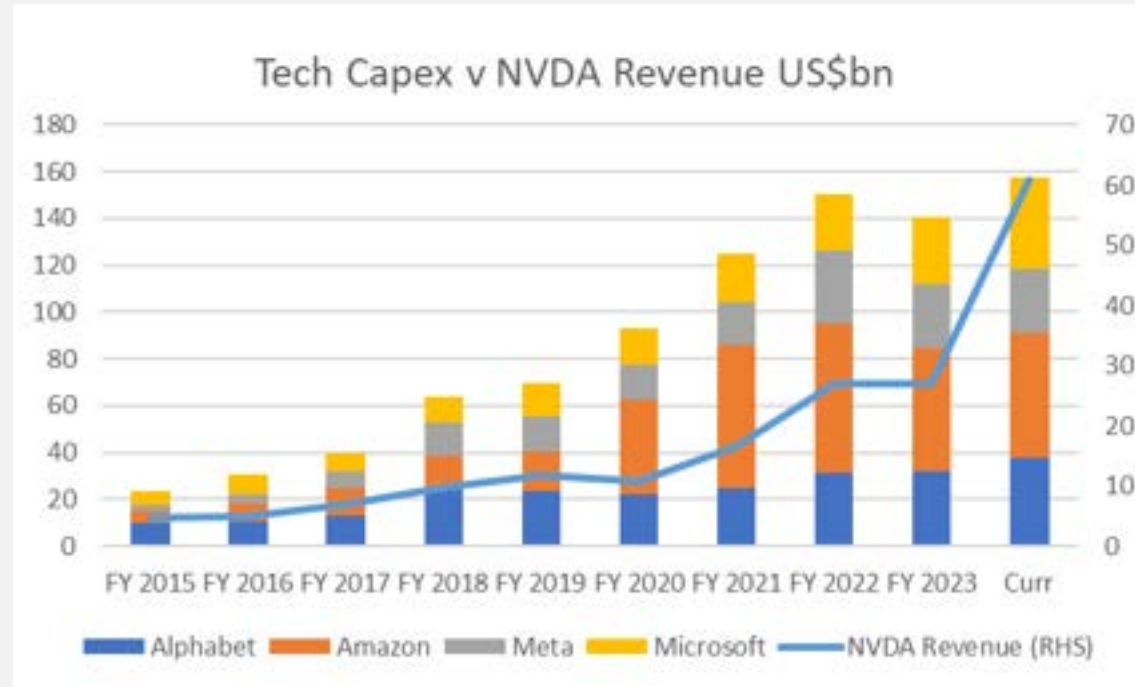


**to this.**

# With the advances in chip technology, the money has flooded back



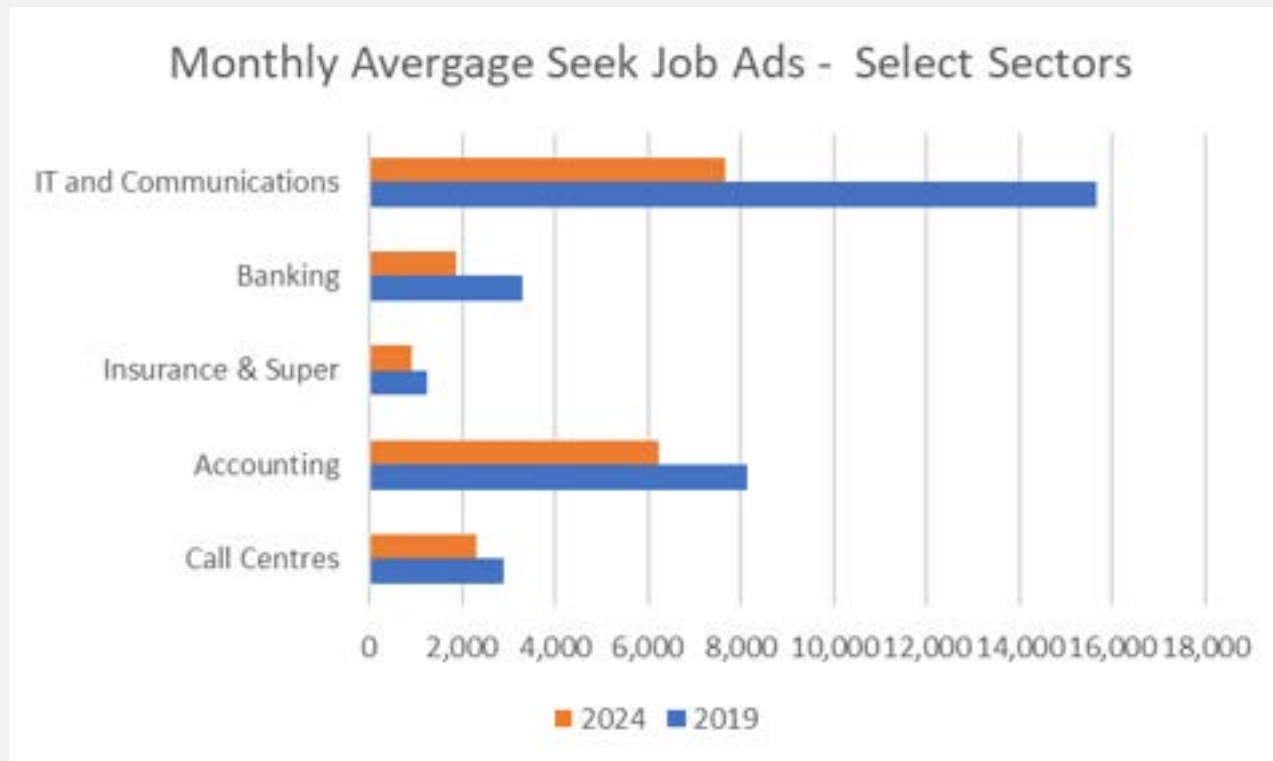
Source: NVIDIA investor Presentation March 2024



Source: Antares Equities and Company Reports

**Yet again huge sums are investing into the promise of AI**  
**What does this mean? And how do you profit?**

# All that capex needs a return. How?



- Efficiency gains are the first area
- Jobs ads are flat in total since 2019 ... and yet the population is 10% larger?
- Some sectors are notably weak and AI seems to be having an impact
- Computational work is easily moved
- But call centres?
- And IT?
- This potentially is an impact of Gen AI

# TABLE DISCUSSION – What next for the consumer?



**Pre-Internet**  
In-person shopping



**The Internet Age**  
Buy anything, from anyone,  
at anytime

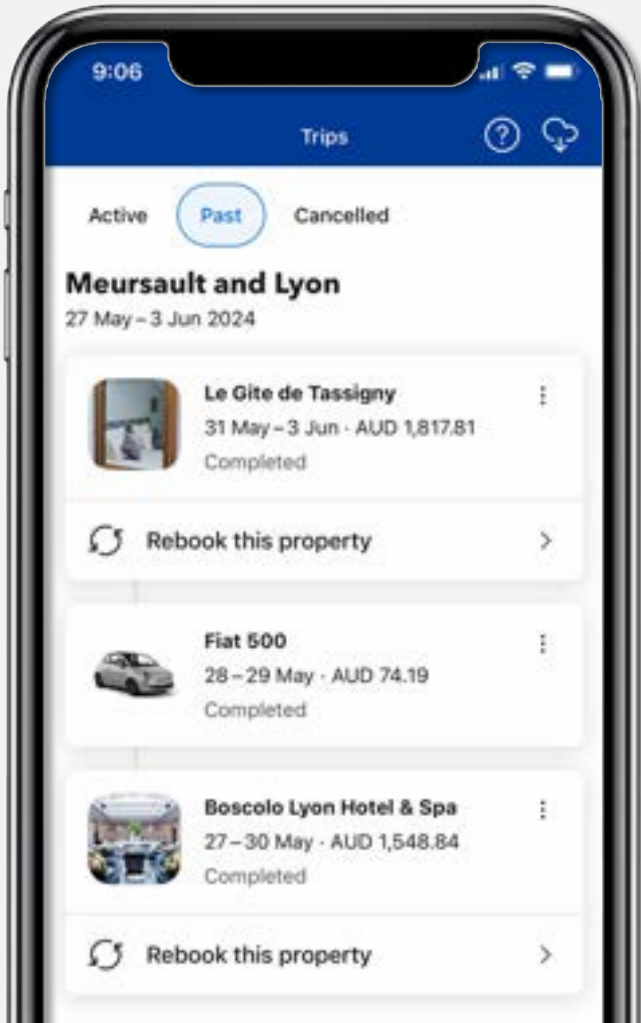


**The GenAI Age**  
Buying things you didn't  
know existed

**DISCUSS:** What efficiency benefits does AI offer for businesses, and what about AI for growth?



# Where are we headed? Gen AI in the consumers' hands



## Booking.com: “The connected trip”

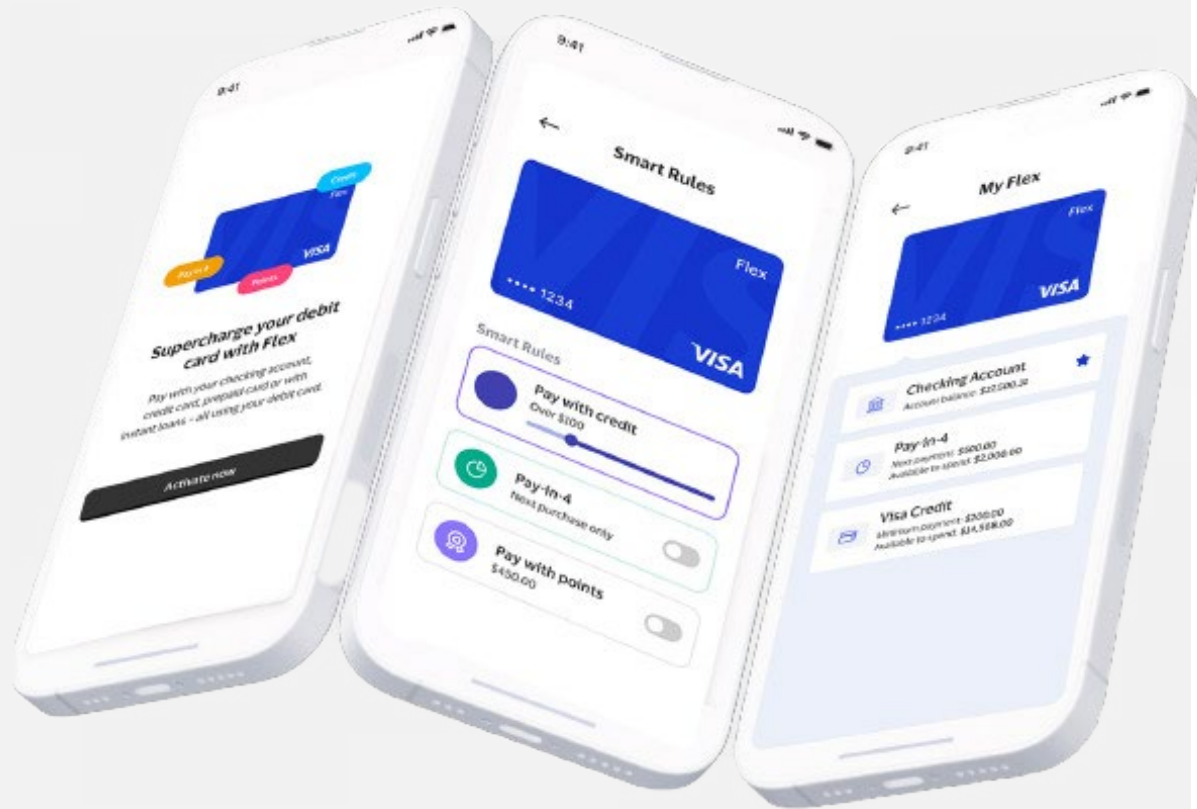
**“Tailor-made trips powered by predictive technologies**  
With smart, data-powered predictive technologies, we will offer services based on travellers’ preferences and past choices.”

This is the booking.com “connected trip”

Will you need a travel agent?  
Will packaged tours still exist?

Source: Booking.com

# Visa Flexible Credentials: Who owns the payment?



## Picture this...

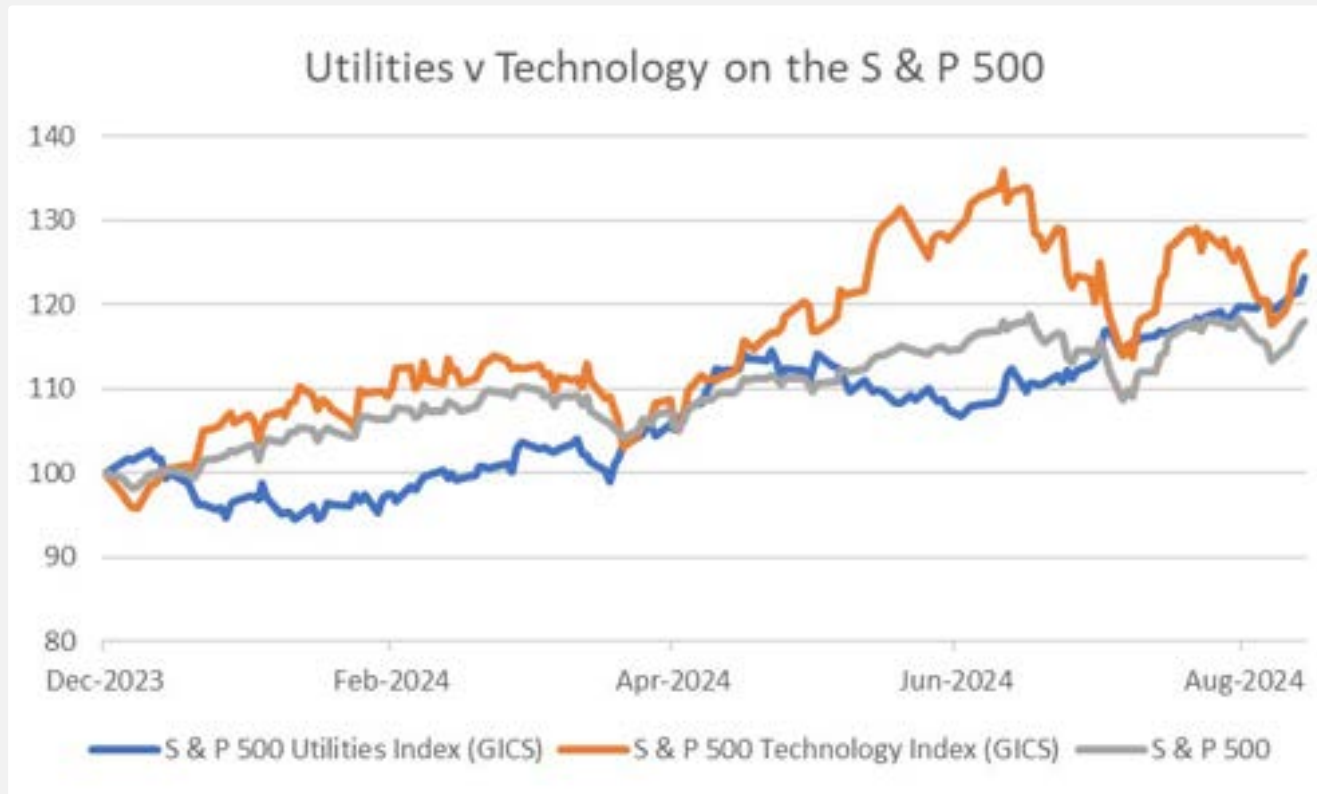
You're at the checkout and your account balance isn't quite what it needs to be.

However, your loyalty points and line of credit are both healthy.

Enter **'Visa Flexible Credential'**

- a new technology that lets issuers give their clients the ability to access different funding sources on an existing payment card.

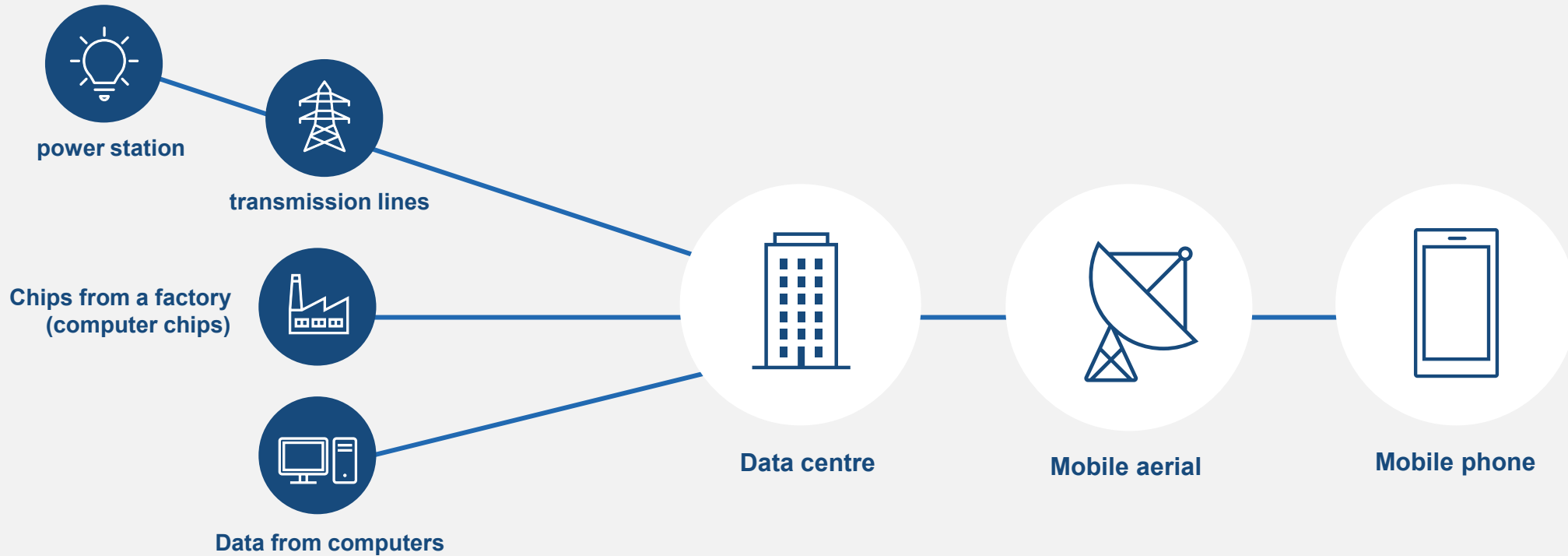
# How to invest – in Australia



## Not every winner is obvious

- Data Centres need vast amounts of power
- Utilities in the US are major beneficiaries of this, and perhaps in Australia
- A ChatGPT request requires 10x the power of a simple google search (toptech.news)
- It is estimated that on current adoption rates, AI will add the same demand as a country like Holland to power systems
- Power needs to be connected – copper is another indirect winner

# How to invest – the AI processing value chain



The obvious winners are data centres and their developers, such as Next DC, Megaport and Goodman Group. However, there are many indirect investments and certainly many losers.

# In Summary – Gen AI is a step change in capability



## **Gen AI is already disrupting the labour market**

Whether we will accept this as a community is an interesting question  
Gen AI can reach into previously “safe” white collar work such as call centres and clerical work



## **Gen AI is moving the decision-making capability directly into the hands of consumers**

It is empowering consumers’ choice at the point of consumption  
Companies will lose control of payments and choices – broader offerings will win



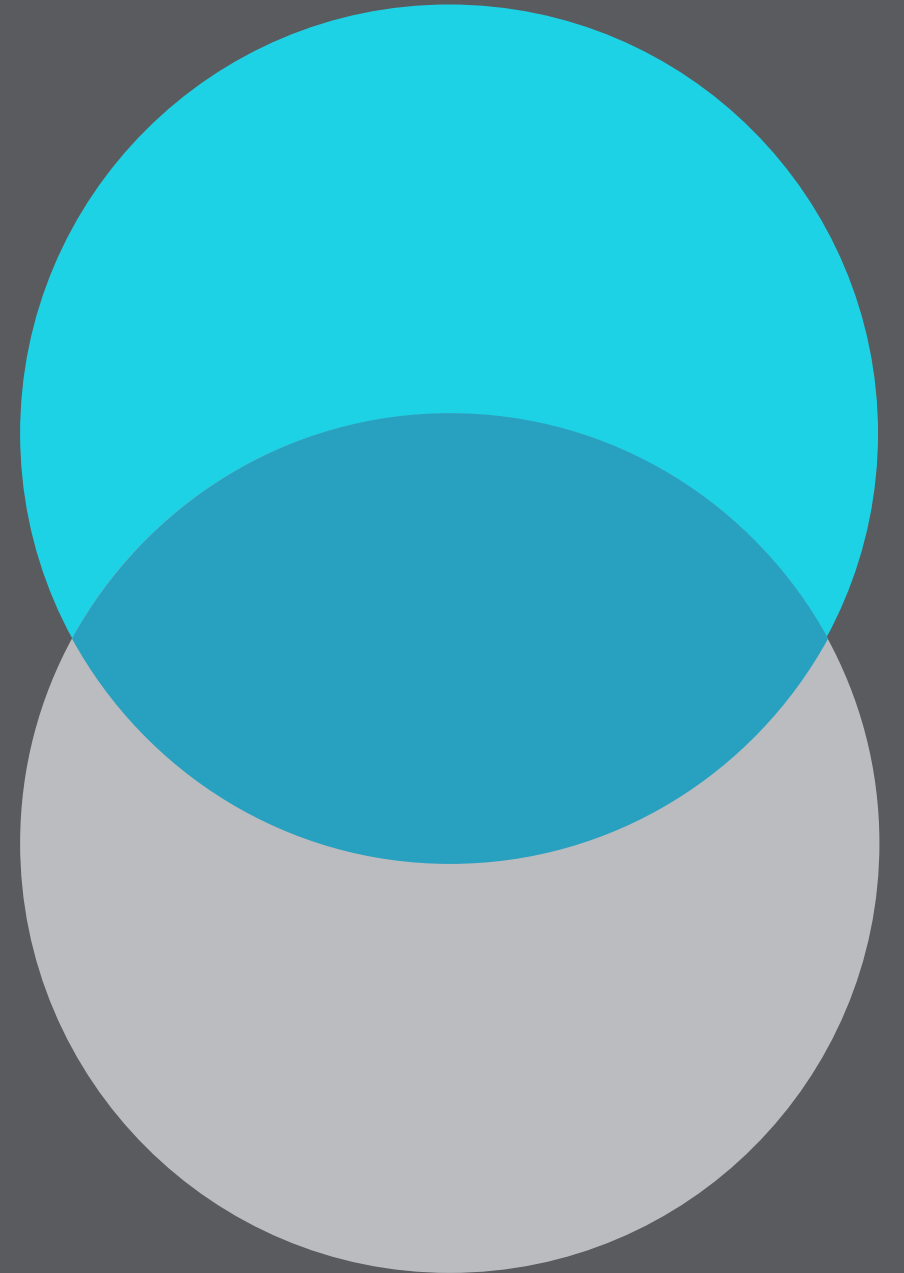
## **Incumbent companies have advantages in data which inform models**



## **Winners are not always obvious and losers will be broad-based**

# THANK YOU

Questions



# THANK YOU TO OUR EDUCATION PARTNERS

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code to take our 2-min survey.**

