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# Austock AGM

21 November 2013



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**Austock**  
Group



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# Austock Life Presentation

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21 November 2013



# Overview – Austock Life

## Austock Life

- A start-up, investee of AGL's PDF – first new life office of its kind in over 20 years
- Leading and specialist issuer of life insurance “investment” bonds
- APRA prudentially supervised & unrestricted life licenced

## Austock Life's Business (\$400m FUM)

- **Three Products (\$368 m FUM)**
  - Imputation Bonds (IB)
  - ChildBuilder Bonds
  - Tax-Paid Term Deposits
- **Acquisitions (\$32m FUM)** – three small friendly societies (closed products)

## Established Business & Core Capabilities

- Formative years – built product & distribution – admin, governance & compliance
- Core capabilities and proven expertise:
  - product manufacture and innovation – life investment products
  - distribution model - BDMs & Financial Adviser strategy based / advice driven sales



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# Austock Life - Strategy & Direction

## Strategic Focus is Organic Sales & FUM Growth

**Main goal** - grow FUM & business's value for AGL shareholders

Attained critical FUM mass for profitable operation – **future profits (and dividends):**

- are by-products of our success with FUM growth objectives; and
- geared to level of investment in our Sales & Distribution Strategy

## Sales & Distribution Strategy

- Predominant focus - Financial Adviser market via a National BDM Distribution team
- Strategy-based / advice driven Financial Adviser business – targeting \$100,000+ Bonds
- Hands-on, technical & educational - engaging with Advisers & referral sources (solicitors & accountants)

## Acquisitions & Alliances

- “Opportunistically” pursue - provided not disruptive to our central organic FUM growth goals



# Austock Life - Strategy & Direction

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## Strategic Focus is Organic Sales & FUM Growth

### Main goals

### Attained

- are
- gear

### Sales &

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### Sales Team & Distribution Activity in 2013

- Team expanded to 8 & national coverage
- National Sales Manager & Northern Region Manager appointed
- BDM appointed to cover WA & SA
- Approved Dealer Group List growth 177 to 198
- New business by 110 separate Dealer Groups

### ts (and dividends):

- and
- egy
- BDM Distribution team
- targeting \$100,000+ Bonds
- referral sources (solicitors &

## Acquisitions & Alliances

- “Opportunistically” pursue - provided not disruptive to our central organic FUM growth goals



# APRA Capital Requirements – A Snapshot

## Austock Life's Capital Considerations

- A relatively small, but growing Life Company – a low capital intensive business mix
- **Not** issuing **risk** life insurances or capital **guaranteed/performance guaranteed** business

## APRA LAGIC Capital – Three Components:

1. **Entity Licence** - \$10m minimum capital (Austock Life currently exempted/grandfathered)
2. **Management Fund Capital** - APRA minimum requirements (**0.25% Operational Risk Reserve**)
  - sufficient capital to fund **Business & Product Plans**
  - also **Target Surplus (25% - 50% buffers** above minimums)
3. **Product Capital (Benefit Funds)**
  - **Imputation Bonds (29 Benefit Funds)** – **NIL** - investment-linked & risk is with investors (But need Operational Risk Reserve in Management Fund - \$1.00m @ \$400m FUM)
  - **Acquired Business (10 Benefit Funds)** - **5% minimum** capital of policy liabilities

## Capital Sources

- 1) Profits & retained earnings
- 2) AGL parent
- 3) Transfers (acquisitions) of businesses



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# Austock Life – FUM Growth & Sales Overview

## Sales, FUM & Growth

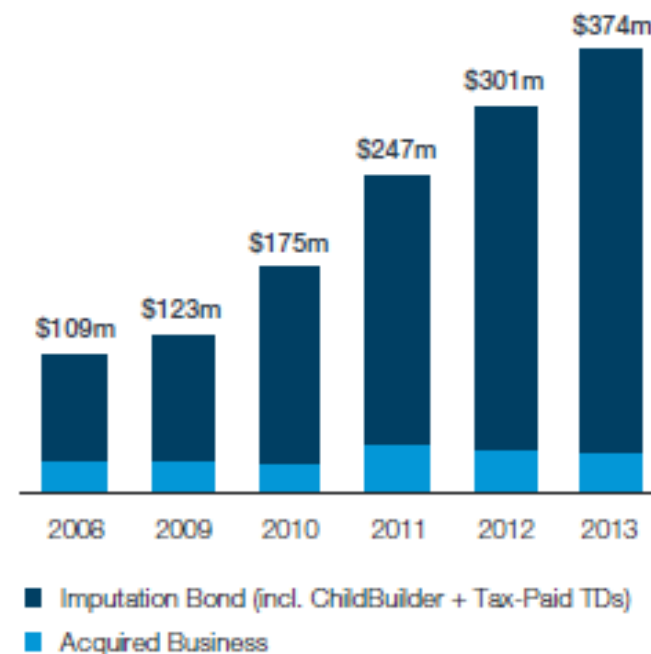
	FY08		FY09		FY10		FY11		FY12		FY13	
IB Sales	\$55m	72%	\$40m	-27%	\$66.2	66%	\$80.1m	21%	\$88.8m	11%	\$105.4m	19%
FUM	\$109m		\$123m		\$175m		\$247m		\$301m		\$374m	
Growth	\$35m	47%	\$14m	13%	\$52m	42%	\$72m	41%	\$53m	21%	\$72m	24%

### Since commencing operations in 2003:

- assets grown to \$400m
- over 15,000 policy owners

### Since June 2009

- 4 consecutive years record sales
- 32.1% CAGR in FUM





# Austock Life - FUM Reconciliation for 2012/13

**\$72m net asset growth to \$374m (up 24%)**

<b>Opening FUM</b>	<b>\$301.2m</b>		
IB Investment Growth	\$20.6m	Acquired Business	(\$1.4m)
IB Sales	\$105.4m	IB Withdrawals	(\$17.7m)
		IB Maturities	(\$18.7m)
		<b>Closing FUM</b>	<b>\$373.5m</b>

## IB Investment Growth

- Markets driven – Equities & Property – a favorable year

## IB Sales

- Include Savings Plans & 125% Add-ons

## Acquired Business

- Closed & run-off / Higher fee revenue

## IB Withdrawals & Maturities

- **Withdrawals** - voluntary & market & economic factors impact levels
- **Maturities** - death profile driven



# Austock Life – Business Value Factors

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## Licence & Barriers to Entry

- A valuable, unique and unrestricted Life Licence
- Lead-time & capital for APRA licence & product approvals & difficult to readily replicate

## Imputation Bonds & ChildBuilder

- Higher value “retail” life insurance investment business
- Medium to long-term business – linked to financial, tax & estate planning strategies
- High quality and high denomination business– ave. lump sum \$100,000+ since inception
- Established and growing Financial Adviser base (200 Dealer Groups – 7000 Advisers est.)
- Imputation Bond - Zenith “**Highly Recommended**” Rating

## Imputation Bond Platform

- Highly scalable & expandable platform – adding new menu options & new breakout products
- Relatively fixed administration & operational cost base



# The Market & Competition

## 1980s/90s – The Heyday of Insurance Bonds

- FUM peaked \$40bn+ - then nearly half of Retail Funds Industry
- Late 90s/early 2000s - majors AMP, AXA, MLC exited the market

## The “Lost” Decades

- Antiquated investment structures & poor returns (capital guaranteed) – low interest rates
- Little innovation with investment menus - unlike managed funds & superannuation to modern multi-optioned investment platforms & switching facilities
- Removal of means-tested pension advantages

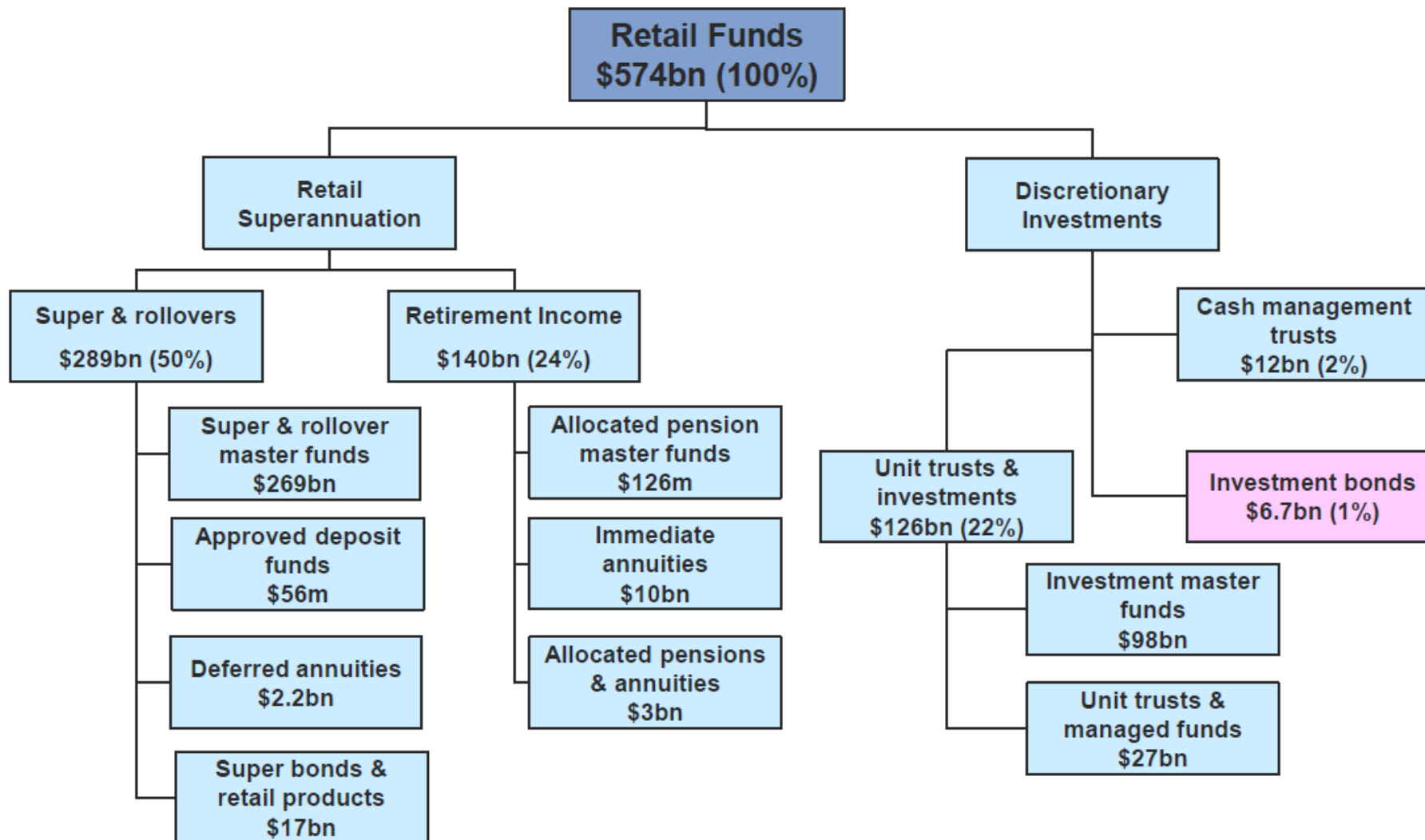
## Today

- Industry FUM \$6.7m (just over 1% of Retail Funds Industry) & mainly old run-off FUM
- **A “green fields” market** – some new entrants & old providers returning (AMP)
- Austock Life leads the way – we’re recreating the Financial Adviser interest



# Retail Funds Industry – where do insurance bonds sit?

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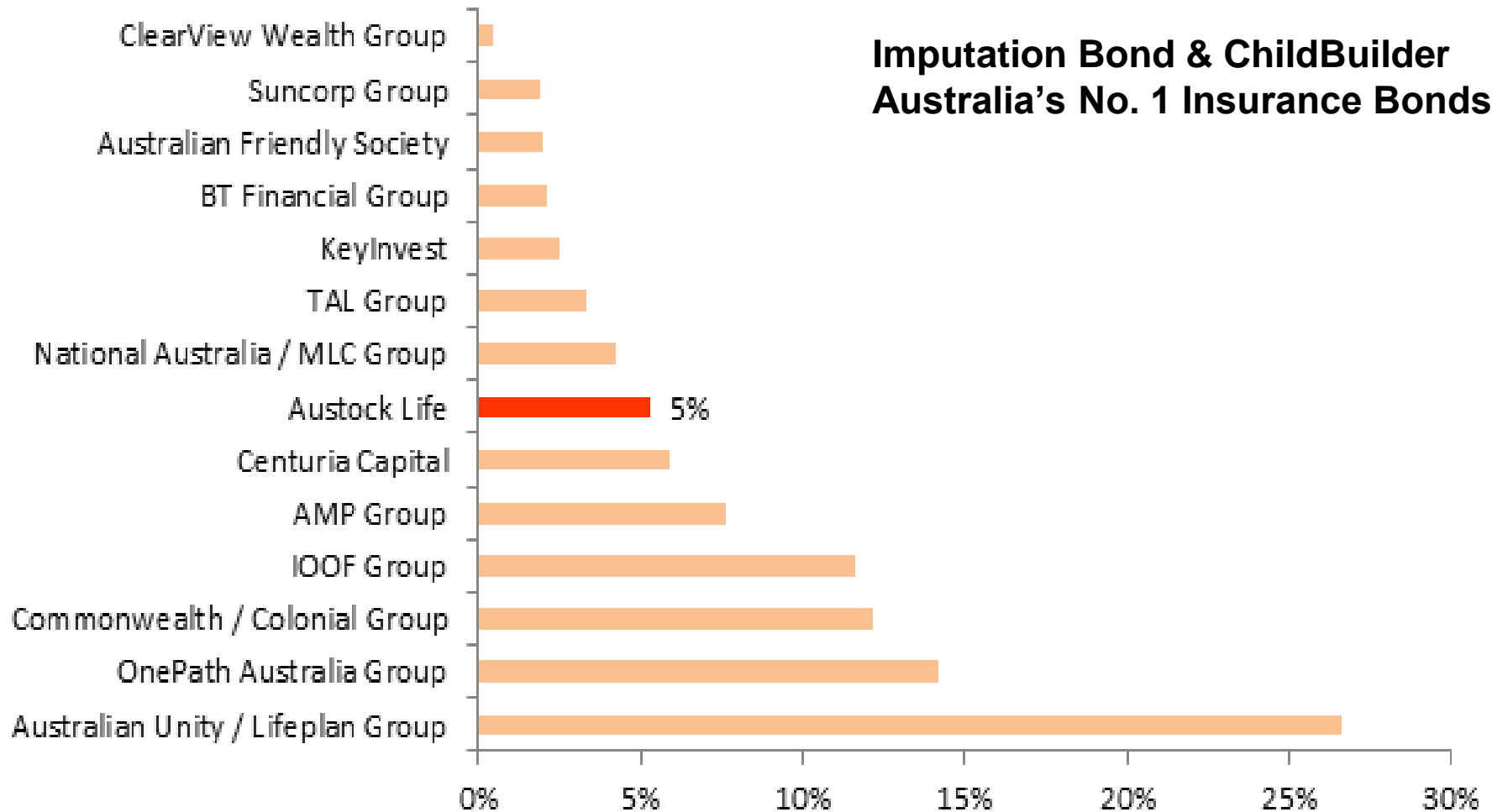


Source: Citi Research Equities "Trends in Wealth Management" – 1 July 2013.



# Competitive Landscape

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\* By net inflows - Source: Plan for Life (June 13)



# The Environment – Financial Advisers & Dealer Groups

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## Financial Advisers shifting to “strategy-based” financial planning

- Post FOFA – Adviser need to be “seen to be adding value”
- Suits our distribution model - educate & re-educate on strategy

## FOFA

- Fee-for-Service (suits us)
- Conflicted Remuneration - changes remuneration & business models – suits us
- Best Interest Rules – really to our advantage & also independent planners
- “Tied” product & platform arrangements gone/weakened – creates new APL openings

## Dealer Groups – Lots of Change & Unrest

- Dealer Group acquisitions, defections, breakouts, & new start-ups
- AMP / AXA Takeover – CBA acquisition Count – BT poaching Count – PIS defections - Whitakers gone
- Some under pressure – FOFA challenging / changing remuneration models



# The Environment - Government & Taxation

## New Conservative Government

- Financial Services Review & Taxation Reform Review
- Industry Lobby: Tax-Paid Rate reduction lobby to 20% (from 30%)

## Changes to Superannuation??? They have worked our way...

- Halving of the contribution caps (\$50k ↓ \$25k ↑ \$35k (over 60s))
- Possibility of extending Preservation Age to 67

## Aged Care Reforms

- Labor government package due 1 July 2014

## Significant Investor Visa Opportunities

- Industry Lobby: Include insurance bonds

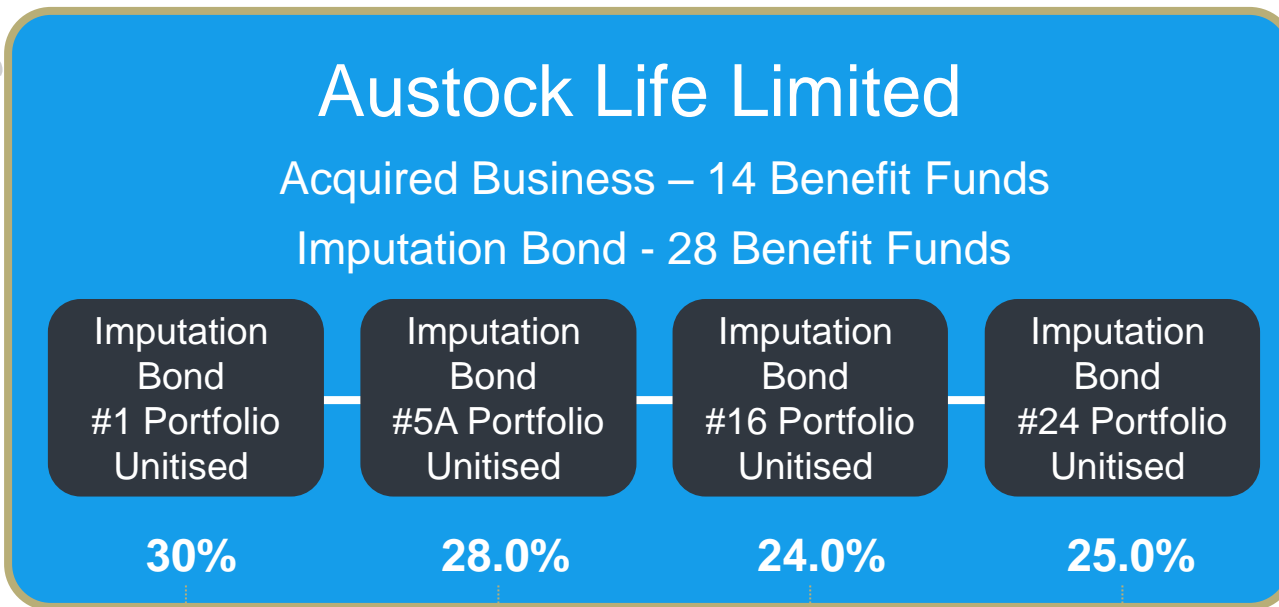
## ATO & Government Crackdowns - family wealth/ trusts/offshore arrangements

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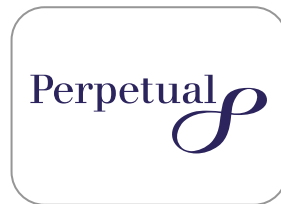


# Entity & Product Structure

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- Transparent and unit linked benefits



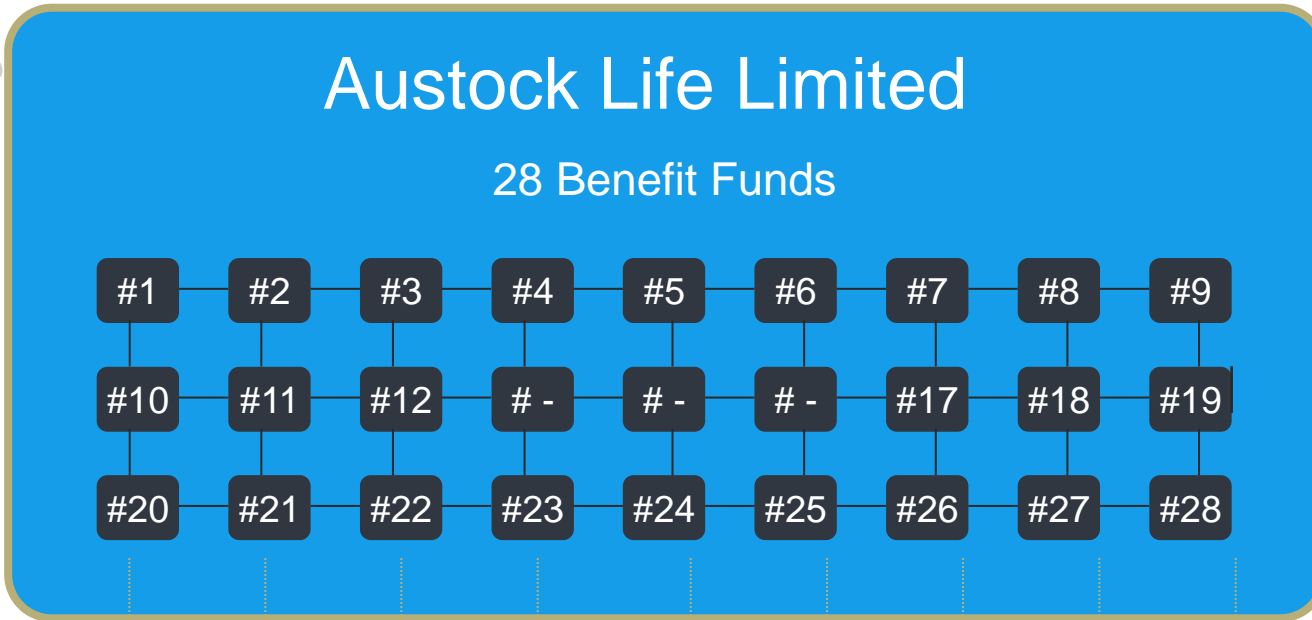
Austock Life pays Portfolio Tax at effective 21%-30% p.a.  
Tax Rate depends on imputation credits, deductions & tax reserving





# Investment Structure & Menu

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Bond Owners  
(select)

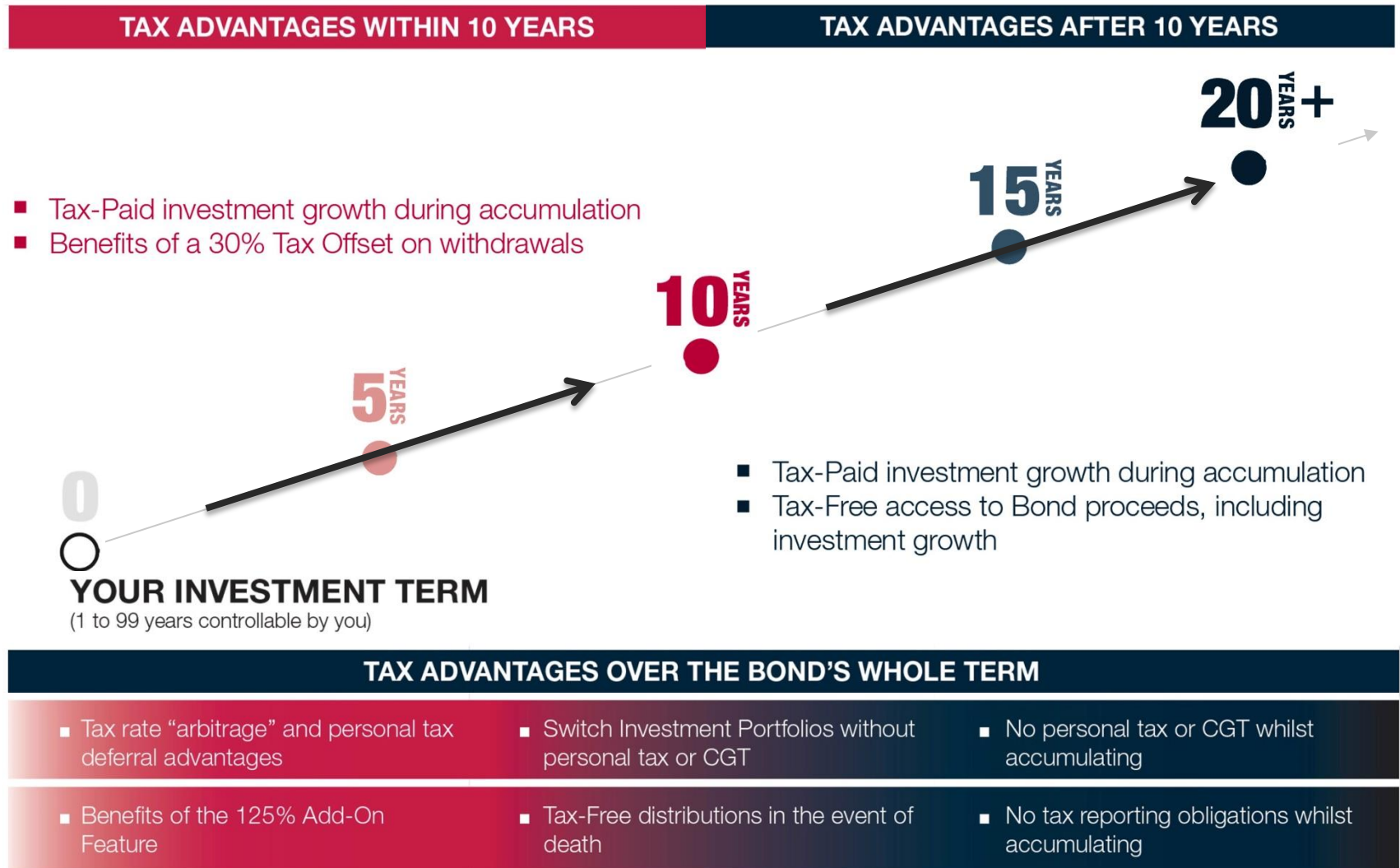


**Investment Menu**  
Investors select from some of Australia's best Wholesale Managed Funds – there are 28 options on the menu



# About the Taxation Framework

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# Imputation Bonds

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## Imputation Bonds

### Australia's No. 1 ranked Investment Bond\*

The modern re-invention of the insurance bond that combines:

- **Insurance Bond** – “Tax-Paid” Structure & “Tax-Free” Distributions
- +
- **Master Fund Like Investment Menu** – offers 28 investment menu options
- +
- **“Strategy Wrap”** of financial planning applications

\* By net funds flows. Source: Plan For Life Actuaries & Researchers “Investment Bonds Report”



# Imputation Bonds

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## Strategies for Using Imputation Bonds

- Life Events Accumulations & Endowments
- Estate Planning (In-Built Features)
- Alternative to Superannuation
- Aged Care Strategies
- Alternative “Annuity-Like” Streams
- Imputation Bonds in Private Trusts & Companies
- Education Funding
- Business Provisioning & Succession Funding
- Foreign Resident Investors
- Asset Protection

## Aligned to our strategy-based/advice-driven distribution model

- Reflected by high denomination Imputation Bonds (\$100,000+ since inception)

*For many client objectives – the Imputation Bond is a superior investment and tax structure to directly held investments, superannuation, private trusts and companies – it can also produce better estate planning outcomes.*



# Imputation Bonds

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## Strategies for Using Imputation Bonds

- Life Events Accumulations & Endowments
- Estate Planning
- Alternative to S
- Aged Care Strategies
- Alternative “Annuity”
- Imputation Bonds in Private Trusts & Succession Funding

### Imputation Bonds – Activity in 2013

- 580 Imputation Bonds issued - \$100.7m sales
- \$73.3m net platform gain - FUM to \$339.2m (up 28%)
- 125% Add-On Investments & Savings Plans = 4% of new business
- Average Imputation Bond size increased to \$130,000
- Retained “Highly Recommended” Zenith Product Rating

### Aligned to our strategy

- Reflected by high

For many client objectives, directly held investments can produce better estate planning

tax structure to also produce



# Imputation Bonds – Investment Menu 2013 Performance

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## Imputation Bond FUM by Manager at 30 June 2013

Mutual Limited	\$124.4m	36.7%
Macquarie	\$51.7m	15.2%
Perpetual	\$42.6m	12.6%
Vanguard	\$41.4m	12.2%
PIMCO	\$17.0m	5.0%
MLC Investments	\$13.6m	4.0%
UBS	\$9.1m	2.7%
Investors Mutual	\$6.7m	2.0%
Dimensional	\$6.7m	1.9%
Tyndall	\$6.3m	1.8%
Fairview	\$4.8m	1.4%
Schroders	\$3.7m	1.1%
Aberdeen	\$4.2m	1.3%
Lazard	\$4.1m	1.2%
Equity Trustees	\$2.0m	0.6%
AMP Capital	\$0.9m	0.3%
<b>Total</b>	<b>\$339.2m</b>	<b>100%</b>

- Platform has Menu 28 Options – we invest into Wholesale UMFs
- We actively manage non-mandated segment of UMF appointments
- We mainly make “sector-specific” UMF appointments
- Facilitates Financial Adviser to construct Client’s Bond own investment mix



# Imputation Bonds – Investment Menu 2013 Performance

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## Imputation Bond FUM by Manager at 30 June 2013

Mutual Limited	\$124.4m	36.7%
Macquarie	\$51.7m	15.2%
Perpetual	\$4	
Vanguard	\$4	
PIMCO	\$1	
MLC Investments	\$1	
UBS	\$	
Investors Mutual	\$	
Dimensional	\$	
Tyndall	\$	
Fairview	\$	
Schroders	\$	
Aberdeen	\$	
Lazard	\$	
Equity Trustees	\$	
AMP Capital	\$	
<b>Total</b>	<b>\$339.2m</b>	<b>100%</b>

- Platform has Menu 28 Options – we invest into Wholesale UMFs

## Investment Menu Performance in 2013

- Menu Investment Growth \$20.6 m
- All 28 menu options achieved positive returns
- 18 of 28 options had 10%+ returns
- 6 investment options returned in excess of 20%
- Standout 55.86% Perpetual Geared Australian Shares Option

manage non-mandated UMF appointments

“sector-specific” UMF

Financial Adviser to construct own investment mix



# ChildBuilder Bonds™

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## ChildBuilder™ – Our re-invention of the old Children's Advancement Policy

For Parents / grandparents to set up specific endowments for children & for estate planning.

A “break-out” product from the Imputation Bond's platform:

- uses its same tax framework & full investment menu
- innovative menu of “Intended Purposes” (e.g. first home or deposit) – works like non-binding Will instructions
- Parents/Grandparents) retain control and access to the Bond (pre-vesting) for own unspecified purposes





# ChildBuilder Bonds

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ChildBuilder is designed for Financial Adviser use in “life-events” plans and estate planning

## Children’s Intended Purpose Menu

- Home Ownership & Deposits
- Education & Qualifications
- Wedding, Child’s Special Needs
- Travel & Career Goals
- Parent’s/Grandparent’s Special Designated Purposes

## Estate Planning

- Earmarked inheritances for Children & Grandchildren
- Outside the Will and beyond challenge from the Estate
- Low maintenance, low cost alternative to Testamentary Trusts



# ChildBuilder Bonds

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ChildBuilder is designed for Financial Adviser use in “life-events” plans and estate planning

## Children’s Interests

- Home Ownership
- Education & Training
- Wedding, Christmas & Birthdays
- Travel & Car Expenses
- Parent’s/Grandparents’ Retirement

## Estate Planning

- Earmarked income
- Outside the will
- Low maintenance, low cost alternative to Testamentary Trusts

### ChildBuilder – Activity in 2013



- ChildBuilder = 28% of new business mix x product type
- 229 ChildBuilder Bonds issued - \$2.5m of new business
- Average ChildBuilder Bond size \$11,000
- Increasing sales & higher denominations



# Tax-Paid Term Deposits

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**Tax-Paid Term Deposits Portfolio**  
(Portfolio #14A)





**Portfolio #14A**

Size \$121.7 million

Commencement 20 July 2010

APIR code ALLO028AU

Managed by  Mutual Limited

**Portfolio Description**

A diversified portfolio (by issuer and duration) of Term Deposits (TDs) predominantly issued by major Australian Banks. The portfolio may also include other licensed Australian banks and invest in Authorised Deposit-taking Institutions (ADIs) provided that they are covered by the Australian Government ADI Guarantee. (ADI Guarantee).

Portfolio #14A is managed by Mutual Limited under an investment mandate agreement with Austock Life.

**Objective and Investment Strategy**

To outperform (before tax and fees) the UBS Australian Bank BI Index and achieve returns superior to cash management trusts.

Mutual's strategy is to source and actively manage a diversified portfolio of the best TDs on offer by the major Australian banks. Mutual will also seek to enhance the fund's core yield from the major banks by selectively investing in other Australian banks, and also in the TDs of ADIs that qualify for the ADI Guarantee.

Mutual seeks to capitalise on the increasing competition and changed market funding dynamics with TD business for (and as between) the major banks, the second tier and regional banks and other ADIs, such as credit unions and building societies.

31 July 2013

Financial Adviser Reference Sheet  
Imputation Bond – Investment Menu

**Features and Benefits**

**Unique and Tax-Effective TD Investing**  
An actively managed and daily unit priced portfolio of TDs under a "Tax-Paid" and "Tax-Free" distributing insurance bond structure.

**Liquidity**  
Withdrawals (full or partial) use the portfolio's daily unit price and are processed in normal market conditions within 14 business days.

**Very Low Risk**  
TD counterparties are predominantly the major Australian banks, but can include other institutions with the ADI Guarantee:




No. of TD Counterparties	8
Short-term rating A1+	100%
Long-term rating AA	98%
Long-term rating AAA	2%
Government ADI Guaranteed	2%

**Low Management Fees**

Austock Life	0.50% p.a.
Mutual Limited	0.15% p.a.

Compares very favourably against competitors' high cost Capital Guaranteed insurance bonds.

**Platform Tax-efficiency and Switching Flexibility**  
Portfolio #14A is one of 28 options on the Imputation Bond's menu – investors can switch between options without personal tax or capital gains tax implications.

## Tax-Paid Term Deposits

Austock Life's invention – A portfolio approach to investing in TDs

+  
Insurance bond tax treatment

- Tax-effective TD investing for high taxed investors
- Superior liquidity & flexible access
- Low fees – Low/no TD management
- Most popular menu option - \$130 m FUM



# Tax-Paid Term Deposits

**Australia's (and likely the world's) first actively managed portfolio of Term Deposits**

**+**

**Innovation of being under a Tax-Paid insurance bond framework**

**A “product-like” option of IB menu with “stand-alone” attractions**

- investors favouring TDs in uncertain & volatile market conditions
- added margin - new prominence of TDs in bank funding
- superior security & potential returns – over traditional capital guarantee insurance bonds

**Financial Adviser Strategies**

- Aged Care Strategy - a safe & simply understood TD portfolio
- Tax Arbitrage Advantages - TD investing for high taxed investors
- TD backed annuity-like alternative
- Pension monies exiting superannuation

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# Tax-Paid Term Deposits

Australia's (and likely the world's) first actively managed portfolio of Term Deposits

+

Innovation of being under a Tax-Paid insurance bond framework

A "product-like" offering

- investors favourable
- added margin -
- superior security

## Tax-Paid TDs – Activity in 2013

- \$51m of new business - FUM growth to \$122m
- 4.76% p.a. average gross yield = 2.65% p.a. (after fees / Portfolio Tax)
- 4.98% p.a. over 3 years – 0.84% value add over benchmark (12 month – 1.28% over benchmark)

Financial Adviser

- Aged Care Strategies
- Tax Arbitrage Advantages - TD investing for high taxed investors
- TD backed annuity-like alternative
- Pension monies exiting superannuation

insurance bonds



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