

AUSTRALIAN

RESEARCH

MANAGED INVESTMENTS ANALYSIS

Lifeplan NextGen Investments

EXTRACT

July 2008

Tax-effective investment with estate-planning features

Australian Managed Investments

Structured Products

Lifepan NextGen Investments

Tax-effective investment with estate-planning features.

Note: This report is based on the Lifepan NextGen Investments PDS, dated **27 June 2008**, together with other information provided by Lifepan Funds Management as at May 2008.



Offer Overview

Product Summary

Lifepan NextGen Investments (*NextGen* or the *Bonds*) are insurance bonds issued by Lifepan Funds Management (the *Issuer*), a business of Lifepan Australia Friendly Society Limited. Investors can invest in either the NextGen product, which offers optional participation in the NextGen Wealth Preserver feature, or the NextGen Child product. The product offers investors a choice of 50 investment options from a range of investment managers, which offer varying risk/return profiles. As the product is classified as an Insurance Bond for tax purposes, it may provide a tax-effective investment, with the benefit of estate-planning features. The product offers daily liquidity, with investors able to withdraw their investment at any time, in full or in part, subject to a minimum withdrawal amount of \$500. Features of the product include: (a) deferral of individual annual tax liabilities until a withdrawal is made; (b) eligibility for investors to receive a 30% tax rebate on any assessable component of a withdrawal made within 10 years of the commencement of the investment; (c) ability to control the amount of tax payable on the investment, with the investment achieving tax-paid status if maintained for more than 10 years.

Investment View

Investor Suitability

Aegis regards an investment in the product as suited to those investors seeking a professionally managed investment with the potential of limiting or reducing increases in their personal tax liability. An investment in the product is suitable for investors with a long-term investment horizon saving for a specific goal or who would like to start an investment plan for a child. Investors subject to marginal tax rates of 30% or above derive the greatest tax benefit from an investment in the product. Over the longer term it is not tax effective for investors subject to marginal tax rates of less than 30%, given investors are not eligible for the 30% rebate after the Bonds reach tax-paid status (no additional tax liability incurred), unless the investment can be used to reduce the individuals' assessable income to a level that enables tax offsets to be obtained. We note all investors may benefit from the estate-planning features.

Recommendation

Aegis has assigned NextGen with a **Recommended** rating. Investors should note the rating is based on the structure of the product, not the underlying investment options. Investors should note the performance of the Bonds is a function of the underlying investments and as such investors should make informed choices. The Bonds provide investors with a flexible, tax-effective investment in one or more of 50 investment options, which include a range of single-manager and multi-manager funds covering a range of asset classes. The Bonds have a number of features and can be used in many ways to assist in limiting or reducing the tax liability of investors. Whilst the fees are high for the lower-risk investment options, the Bonds provide simplicity, transparency and flexibility for investors to control the extent of their tax liabilities and estate planning. In addition, the investment achieves tax-paid status after year 10 if the investment criteria have not been breached, which is advantageous for those investors that incur marginal tax rates of 30% or greater.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

Offer Details

Offer Period	Open ended
Listing Date	Not listed
Maturity (years)	Open ended*
Min. Investment	\$1,000
Regular Savings Plan	Min. \$100 per month
Liquidity	Daily**
Distributions	None

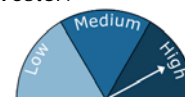
*We note that an investment is required to be held for 10 years or more for the full tax benefits of the product to be realised and that investors should seek professional financial advice before considering an investment in the bonds.

**All or part of the investment may be withdrawn at any time, subject to a minimum withdrawal of \$500.

Risk/Return Profile

The risk/return profile of the Bonds is dependent on the underlying investment option/s chosen by the investor.

Tax Effectiveness



Fees (paid to advisors), incl. GST, %

Upfront	Up to 4.4
Ongoing	0.44 p.a.

Note: (a) Upfront advisor fees can be negotiated with your advisor. Where no advisor is involved, the maximum fee will be incurred; (b) Some or all ongoing fees may be rebated by advisors. Rebates will form part of investor earnings. Where no advisor is used, no rebate will apply.

For Advisers Only

SWOT Summary

Strengths

- The tax liability reduces over time, with no additional tax payable when the investment is held for more than 10 years (if the investment criteria are not breached).
- The Bonds enable investors to manage the amount of tax paid on investment income, as investors incur a tax liability only upon making a withdrawal from the investment, which can be done at any time.
- Investors have the ability to tailor the investment to suit their risk/return profile given the range of investment options and the varying profiles of the Funds.
- Provides access to the 'Wealth Preserver' feature, which is a unique feature in the marketplace that enables investors to control the amount and timing of benefit payments to the nominated beneficiaries. The feature provides a cost- and time-effective solution to estate planning.
- Ability to switch between underlying investments with no service fee and no personal tax liability. However, transaction costs of up to 0.91% will be incurred.

Weaknesses

- Fees are high for those investing in conservative (low-risk) investment options. We note that we also view the sector average fees as high for low-risk investments.
- In the event the 125% rule is breached or no annual contribution is made, the 10-year period required to achieve tax-paid status will be reset (the 125% rule states that investors can contribute no more than 125% of the previous year's contribution in any given year, and if no contribution is made in any given year then no further contributions can be made without triggering a reset of the 10-year period to achieve tax-paid status – refer page 8). We note that Lifeplan will inform investors in the event this may occur.
- Tax rebates cease when the Bonds achieve tax-paid status. As such, investors that incur marginal tax rates of less than 30% pay 30% on income generated by the investment. As such, the tax efficiencies for investors that fall into this category may be reduced, once the Bonds achieve tax-paid status.

Opportunities

- Opportunity to achieve tax-paid status if the investment is maintained for more than 10 years.
- Opportunity to limit or potentially reduce the tax liabilities incurred from the investment. As outlined under *Bond Strategies* in Section 4, an investment in the Bonds may be used to provide a tax-effective alternative to investors.

Threats

- Tax regulations in relation to investment bonds may change, which may alter the tax treatment of the Bonds and, therefore, adversely impact returns.

Product Fees (paid by investors)

	Product	Sector Avg. ¹
Base Fees, % of Assets		
Upfront ¹	4.00	3.8
Ongoing ²	1.26-2.46	2.3
Buy/Sell Spread	0-0.91 ³	0.34/0.22
Exit	0.0	0.6

*Based on insurance bond products on offer in the Australian market (see Figure 7).

1. Assumes maximum advisor commission. Commissions may be negotiated with advisors and as such may be lower. Does not include GST.

2. Ongoing fees include Lifeplan's management fee, any expense recoveries and investment management costs charged by the appointed investment managers. Note, the investment manager fees include GST. The fees vary depending on the investment option chosen. Investments of greater than \$1M are subject to annual rebates. Refer to the "Fees and Costs" section of the PDS. Underlying investment manager fees include GST.

3. The buy/sell spread for the Lifeplan product is charged upfront. As such, it is charged only on purchase of the units or upon a switch of the investments compared to the sector average, which reflects the spread incurred for both the purchase and sale of units.

4. An advisor service fee may be arranged between an investor and their advisor. The fee may be an ongoing fee or a one-off fee.

Performance Fees

Some but not all investment managers are eligible for performance fees. Those investment options that are subject to performance fees are outlined in *Part 2* of the PDS.

Indirect Fees

Investors may incur additional fees and charges as a result of an investment in an investment option. These additional fees will be reflected in the unit price calculated by Lifeplan.

Fee Commentary

Investors incur both upfront and ongoing fees, the extents of which vary depending on the underlying investment option(s) selected. We note that upfront fees are subject to negotiation between clients and advisors. Fees include a fixed layer on top of that paid to the underlying managers, payable to Lifeplan for administering and facilitating the product, as is prevalent in all fund-of-fund products.

A buy/sell spread (transaction cost) of up to 0.91% will be incurred by investors upon investment and in the event they switch between investment options throughout the investment term.

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Level 6, 33 York Street
Sydney NSW 2000 Australia
Locked Bag 7 Australia Square
Sydney NSW 1215
Phone 61 2 8296 1100
Fax 61 2 9299 3777
ABN 72 085 293 910
www.aegis.com.au

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An investor considering purchasing a structured product should conduct their own investigation and analysis of the product and consult their professional advisers as to the risks involved in making such a purchase.

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