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RESEARCH

MANAGED INVESTMENTS ANALYSIS

Lifeplan NextGen Investments

July 2008

Tax-effective investment with estate-planning features

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For Advisers Only

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.

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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.
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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2. Structure

Product Overview

NextGen Bonds are issued by Lifeplan Funds Management. NextGen offers investors two types of Bonds: (1) NextGen Bonds with an optional Wealth Preserver feature, which allows investors to control the amount and timing of benefit payments to the nominated beneficiaries (see Section 4); and (2) NextGen Child Bonds. Both Bonds operate as insurance bonds, and as such, can provide a tax-effective savings vehicle for those investors subject to marginal tax rates of 30% or more.

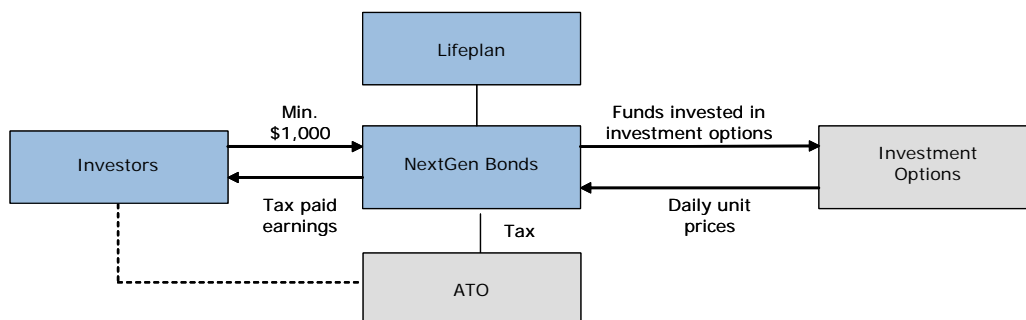
The Bonds are a tax-paid investment, with earnings taxed at the company tax rate (30%) and no additional tax payable by investors if the investment is held for more than 10 years. Investors will incur a tax liability on income generated by the investment only if a withdrawal is made within 10 years of the commencement of the investment. As the Bonds are tax-paid, if a withdrawal is made within this 10-year period, investors are eligible for a 30% tax rebate on the earnings, which can be used to offset other assessable income. Given an individual tax liability is incurred only upon the withdrawal of funds, investors have the ability to manage/limit the amount of tax paid on the income generated.

Upon investment in NextGen, investors choose one or more of 50 investment options to invest in, one of which is capital guaranteed by Lifeplan (see Section 5). The investment options cover a range of asset classes and have varying risk/return profiles and investment styles, enabling investors to tailor the investment profile to satisfy their risk/return appetite. The investment options are managed by an array of fund managers, with the suite including both single- and multi-manager options. Investors may switch between investment options throughout the investment term. No tax liability will be incurred as a result of switching; however, transaction costs may be incurred.

Once committed to the Bonds, investors can make additional contributions of up to 125% of the contributions made in the previous investment year. If a contribution exceeds 125% of the previous year's contribution, the 10-year period to achieve tax-paid status recommences in the year the excess contribution is made. If investors wish to invest more than 125% of the previous year's contribution, the tax status of the current Bond can be retained by investing the excess amount in a new Bond. If an additional contribution is not made in any one year, no further contributions can be made to the investment without triggering a reset of the 10-year period to gain tax-paid status.

Total returns generated by the underlying investment funds, net of fees and taxes, will be reflected in the unit price of the investment option. Unit prices will be calculated daily by Lifeplan.

Investment Structure



Key Exposure

Underlying Exposure: Investors have the option to invest in one or more of 50 investment options managed by a range of investment managers (see Part 2 of the PDS).

FX Exposure: An investment in an option that has international stock exposure may be subject to foreign currency exposure.

Exit Details

Exit Facility: Investors may partially or fully withdraw the investment at any time; however, the tax benefits may not be fully realised unless the investment is held for greater than 10 years.

Holder Early Redemption: Daily liquidity available.

Issuer Early Redemption: In the event Lifeplan is unable to continue operating the product, investors may redeem any contributions and accumulated earnings or retain their investment if the responsibility for managing the investment is acquired by another Friendly Society/Life Company.

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Product Leverage

Used: Lifeplan is unable to leverage the investment (as stipulated in the constitution); however, the underlying investment options may incorporate gearing. Investors should be aware of the extent of gearing used in the underlying investment options and associated costs.

Capital Protection

Method: With the exception of the capital guaranteed investment option, Lifeplan does not provide capital protection

Tax

Disclaimer: Tax consequences depend on individual circumstances. Investors must seek their own taxation advice. The following comments show Aegis' expectation of tax for ordinary Australian taxpayers, but cannot be considered tax advice.

Capital gains: There are no capital gains tax (CGT) consequences for investors upon a withdrawal from the Bonds. Any CGT incurred from the underlying investment funds is reflected in the daily unit prices calculated by Lifeplan.

Withdrawals: Withdrawals made within 10 years of the commencement of the investment will be assessable as income in the year the withdrawal is made. The tax liability reduces over time. If a withdrawal is made within eight years of the commencement of the investment, all earnings withdrawn are assessable. For amounts withdrawn in the ninth year, only two-thirds of the earnings are assessable, and in the tenth year, only one-third of the earnings withdrawn are assessable. No individual tax is payable for withdrawals made beyond 10 years of the commencement of the investment (investment is fully tax paid). Investors are eligible for a 30% tax rebate on any tax liability incurred upon withdrawal prior to the Bonds achieving tax-paid status. There is no tax payable in the event of death regardless of the period of the investment.

Foreign Income Fund (FIF): n/a

Legal Structure

Wrapper: Insurance Bond

Custodian: n/a

Trustee: n/a

Offer Document: The Product Disclosure Statement (PDS) is not required to be lodged with the Australian Securities and Investments Commission (ASIC) in accordance with the *Corporations Act 2001*.

Returns

Capital vs. Income: Capital and income returns, net of fees and taxes, are reflected in the unit price/bonus rate calculated by Lifeplan for each investment option.

Withdrawals: Withdrawals can be made at any time.

Foreign Currency Risk: An investment in an option with international exposure may result in returns being subject to foreign-exchange exposure.

Investor Leverage

Available: No

Risks

Key Risks: Investments in structured products are subject to a range of risks, including general market risks and risks specific to the product. The PDS contains a full list of risks associated with this product. Investors should read and understand these risks before investing in the product. In our view, the key risks specific to this product are as follows:

Liquidity Risk: Lifeplan provides daily liquidity (subject to a seven-day notice period), as do each of the underlying investment options; however, circumstances may arise that may affect the liquidity of the underlying investments and, therefore, the liquidity of the Bonds.

Taxation Risk: Tax laws may change, which, in turn, may affect the value of the investment.

Investment Management Risk: Lifeplan invests NextGen's assets into funds managed by the appointed investment managers. The investment managers may not perform to expectations.

Currency Risk: An investment in an option that invests in global markets exposes investors to exchange-rate risk. Returns may be affected by movements in the exchange rate.

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3. Management & Corporate Governance

Company Background and Overview

Lifepan is a Friendly Society that provides retail funds-management services. Lifepan is the third-largest Friendly Society in Australia, with in excess of A\$1.6B of assets and funds under management.

Aegis regards Lifepan as well placed to offer tax-effective investments such as the Bonds. Lifepan operates in niche markets and provides unique products, primarily due to the favourable tax treatment for which the investment products issued by Friendly Societies are eligible, as disclosed in the *Income Tax Assessment Act 1997*. Products issued by Lifepan include a range of investment bonds, funeral bonds, fixed-interest investments and education savings plans. Lifepan is the market leader in investment bonds in the Australian marketplace.

Board of Directors

The board comprises eight members, the majority of whom are non-executive directors. The board directors have extensive experience in the accounting/finance industry. The directors have an average tenure of approximately 11 years, with the longest-serving director residing on the board for 23 years and the most recently appointed director residing on the board for two years.

Management Team

The senior-management team comprises 13 people and is responsible for the creation and management of the Bonds, with its primary responsibility being to manage the flow of funds between the underlying investment funds and investors. The management team is relatively stable, with the average tenure of management personnel being approximately nine-and-a-half years.

Lifepan is the market leader in investment bonds in the Australian marketplace. Aegis regards the management team as well qualified and appropriately equipped to manage the product.

Alignment of Interest

Remuneration of management includes incentives based on the profitability of the product, which aligns the interests of management and investors/members to some extent. The alignment of interest is further improved through the reputational risk associated with the performance/operation of the product.

Employees of Lifepan are eligible to invest in the Bonds; however, employee participation is expected to be relatively low.

Information Flow

Lifepan will distribute a half-yearly statement as at 31 December and a communications pack on an annual basis, which will include an annual statement and information regarding the financial position and performance of the investment. A newsletter will also be provided on a regular basis, keeping investors up to date with issues affecting their investment. Furthermore, investors will receive notification of any component of a withdrawal that may be assessable as income within 10 years of the commencement of the investment.

In addition, investors can visit Lifepan's website (www.lifepan.com.au) or call Lifepan on 1300 133 285 to obtain the latest information and performance updates.

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4. Investment Process

Investment Philosophy

The objective of the Bonds is to provide investors with a tax-effective investment. There are two types of insurance bonds offered by NextGen: (1) NextGen Bonds and (2) NextGen Child Bonds. Individuals older than 16 years (or as young as 10 years if parental consent is obtained), companies and trusts are eligible to invest in the NextGen Bonds. The NextGen Child Bonds are designed for parents, grandparents or other family members or friends wishing to start a savings plan for a child.

The underlying investment funds are managed by a range of fund managers. The investment option suite consists of single-manager and multi-manager options, with both domestic and international investments. The risk/return profiles of investment options range from low to high, enabling investors to tailor the investment to suit their risk/return appetite.

Tax Implications

The Bonds are a tax-paid investment. Any income generated by the investment is taxed to Lifepan at the company tax rate (30%). As a result, investors are eligible for a 30% tax rebate on any tax liability incurred from withdrawals. Investors should note that they are eligible for the rebate only on the assessable component of the drawdowns. As such, upon achieving tax-paid status, investors are no longer eligible for the 30% rebate, as drawdowns are classified as non-assessable income. Therefore, after achieving tax-paid status, returns from the Bond are taxed to Lifepan at the company tax rate of 30%. This is beneficial to those investors who incur a marginal tax rate above 30% as their tax is reduced. However, this reduces the tax effectiveness of the product for those investors that incur marginal tax rates of less than 30%, as these investors are effectively incurring an increased tax on the investment.

Withdrawals comprise an assessable and a non-assessable component. The tax payable on the assessable component of withdrawals reduces over time. For withdrawals made within eight years of the commencement of the investment, the assessable component is taxed as income in the year of the withdrawal. Only two-thirds of the assessable amount withdrawn in the ninth year is taxable and one-third of the assessable amount withdrawn in the tenth year is taxable. No individual tax is payable for amounts withdrawn beyond 10 years of the commencement of the investment.

Given tax is incurred at the company tax rate of 30%, investors who incur marginal tax rates of 30% or more benefit the most from an investment in the Bonds, especially following the 10-year time period, when tax-paid status is achieved. This is because the tax liability incurred from the investment is reduced for those who fall within this category. For investors who fall in the lower marginal tax bracket, the Bonds will only be a tax-effective investment for those that can effectively use the tax offsets. For example, investors may benefit from the investment if their assessable income can be reduced to enable them to be eligible for tax offsets, such as Senior Australian Tax Offset (*SATO*). However, it should be noted that once the Bonds have achieved tax-paid status, investors are no longer eligible for a tax rebate and, therefore, investors pay tax at a rate of 30% (company tax rate) for all income generated by the investment beyond this point.

125% Rule

The 125% rule affects the amount of funds that can be contributed throughout the investment term. Investors can invest any amount upon opening the Bond and during the first year; however, throughout the investment term, no more than 125% of the previous year's contributions can be contributed to the investment in any given year. If a contribution amount exceeds 125% of the previous year's contribution, the 10-year period to achieve tax-paid status will be reset, recommencing at the start of the investment year in which the excess contribution is made (see example in Figure 1 below). If investors wish to contribute more than 125% of the previous year's contribution, they can start a new Bond to avoid resetting the 10-year period required to achieve tax-paid status.

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Furthermore, if investors do not make an additional contribution during an investment year (subsequent to year one) over the investment term, no further contributions can be made to the investment without triggering the reset of the 10-year period to achieve tax-paid status.

Figure 1. Example of 125% Rule – Maximum Additional Contribution

Investment Year	Maximum Additional Contribution (A\$)
1	20,000
2	25,000
3	31,250
4	39,063
5	48,828
6	61,035
7	76,294
8	95,367
9	119,209
10	149,012

Note: (a) Assumes contribution of A\$20,000 during the first year. We note there are no caps or restrictions on contributions during the first year and (b) The 125% rule applies for the life of the Bond.

Source: Aegis Equities Research

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NextGen Bonds

Individuals older than 16 years (or 10 years of age if parental consent is obtained), companies and trusts are eligible to invest in the NextGen Bonds. Ownership of the Bond(s) may be transferred upon request; however, stamp duty (which varies from state to state) may be incurred. The Bonds have three estate-planning features:

1. Investors have the opportunity to nominate one or more individuals, including themselves, as 'life insured'. The Bonds mature upon the death of the life-insured parties nominated and the investor/beneficiary will receive the proceeds from the investment, free of tax. A nominated life-insured cannot be removed after the commencement of the investment; however, additional lives insured may be added.
2. Provided investors nominate themselves as the 'life insured', they can nominate one or more beneficiaries, who will automatically receive the proceeds of the investment, tax free, upon the death of the last surviving investor/life insured.
3. The NextGen Wealth Preserver feature allows investors to control the benefits paid to the nominated beneficiaries. The Wealth Preserver feature allows investors to control the amount and timing of benefit payments to the nominated beneficiaries, as opposed to the benefits being paid as a lump sum upon the investor's death. A minimum of \$15,000 is required to activate the NextGen Wealth Preserver. The Wealth Preserver feature is patent pending.

NextGen Child Bonds

NextGen Child Bonds are designed for parents, grandparents, other family members or friends who wish to start a savings plan for a child under the age of 16 at the commencement of the investment. The Bonds allow the initial investor to transfer the ownership of the Bonds to the nominated child when he or she reaches the nominated age (must be between 10 and 25 years). Transferring ownership to the nominated child will not result in the reset of the 10-year period required to achieve tax-paid status.

Bond Strategies

The Bonds can be used in numerous ways to assist in increasing the tax efficiency of an investment. Following are some examples of ways in which the Bonds can be used to increase the tax effectiveness of investments. We note the following scenarios are provided for illustrative purposes only and investors should seek professional financial advice before considering an investment in the Bonds.

Scenario 1 – Tax-Effective Income Stream

An investor aged 69 who has no spouse/partner and has a conservative investment profile requires an annual net income of A\$24,000. The investor currently has A\$1,000,000 invested in an income fund that earns 5% per annum (A\$40,400), net of tax (excluding Medicare levy). The annual income earned is in excess of the investor's requirements and the investor is ineligible for SATO with this level of income.

How the Bonds can be used

As shown in Figures 2 and 3 below, the Bonds can be used as a means to overcome the excess income and maximise the tax effectiveness of the investment. One way to achieve this is to keep A\$400,000 of the initial A\$1,000,000 invested in the existing income fund and assume the investment continues to generate net returns of 5% per annum (A\$20,000), and invest the remaining A\$600,000 in a NextGen Bond. Given the conservative profile of the investor, an appropriate underlying investment fund would be a conservative fund. Assume the fund earns a net return of 4.5% per annum. The investor requires A\$24,000 per annum. The shortfall from the income fund (A\$4,000) can be withdrawn on a regular basis from the Bonds on which the 30% tax rebate is obtained.

Outcome

By allocating a portion of the investment to the Bonds, the investor has realised a net gain, as shown in Figure 4. The primary outcomes of this arrangement include the following:

- The investor's annual assessable income is reduced, given the reduced distributions and the manner in which tax is calculated on Bond withdrawals. This, in turn, results in the investor being eligible for the maximum available SATO and the maximum low-income tax offset.
- A greater amount of capital remains invested, which ultimately results in the value of the investment being greater than it otherwise would have been had the investor remained solely invested in the income fund (see Figure 3).
- Given the individual is eligible for the full SATO and low-income tax offsets, is single and had taxable income of less than A\$25,867 (effective tax threshold for FY07/08 for individuals eligible for SATO), the individual is not required to lodge a tax return and is exempt from PAYG instalment tax.

Investors should note that tax on withdrawals from the Bonds is calculated using the 'insurance bonds' formula, as stipulated in ATO ruling IT2346. Investors are advised to contact Lifepan for further information regarding the tax-calculation method.

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Figure 2. Returns generated and tax incurred from an investment in the income fund

Income Fund		\$1,000,000				
Net Return		5.0%				
Required Annual Income		\$24,000				
Year	Income	Tax	Net Income	Withdrawal	Reinvestment in Income Fund	Fund Balance
1	50,000	9,600	40,400	24,000	16,400	1,016,400
2	50,820	9,846	40,974	24,000	16,974	1,033,374
3	51,669	10,101	41,568	24,000	17,568	1,050,942
4	52,547	10,364	42,183	24,000	18,183	1,069,125
5	53,456	10,637	42,819	24,000	18,819	1,087,944
6	54,397	10,919	43,478	24,000	19,478	1,107,422
7	55,371	11,211	44,160	24,000	20,160	1,127,582
8	56,379	11,514	44,865	24,000	20,865	1,148,448
9	57,422	11,827	45,596	24,000	21,596	1,170,043
10	58,502	12,151	46,352	24,000	22,352	1,192,395

Source: Lifepan/Aegis Equities Research

Figure 3. Returns generated and tax incurred from an investment in the Bonds and the income fund

NextGen Bonds		\$600,000			Income Fund		\$400,000		
Net Return		4.50%			Net Return		5.0%		
Required Annual Income		\$24,000							
Yr	Income Fund	Drawdown	Assessable Income¹	Total Tax Paid²	Net Income	Withdrawal	Income Fund Balance	Bonds Balance	Total Ending Balance
1	20,000	4,000	20,172	0	24,000	24,000	400,000	623,000	1,023,000
2	20,000	4,000	20,337	0	24,000	24,000	400,000	647,035	1,047,035
3	20,000	4,000	20,495	0	24,000	24,000	400,000	672,152	1,072,152
4	20,000	4,000	20,646	0	24,000	24,000	400,000	698,398	1,098,398
5	20,000	4,000	20,790	0	24,000	24,000	400,000	725,826	1,125,826
6	20,000	4,000	20,928	0	24,000	24,000	400,000	754,489	1,154,489
7	20,000	4,000	21,061	0	24,000	24,000	400,000	784,440	1,184,440
8	20,000	4,000	21,187	0	24,000	24,000	400,000	815,740	1,215,740
9	20,000	4,000	20,872	0	24,000	24,000	400,000	848,449	1,248,449
10	20,000	4,000	20,474	0	24,000	24,000	400,000	882,629	1,282,629

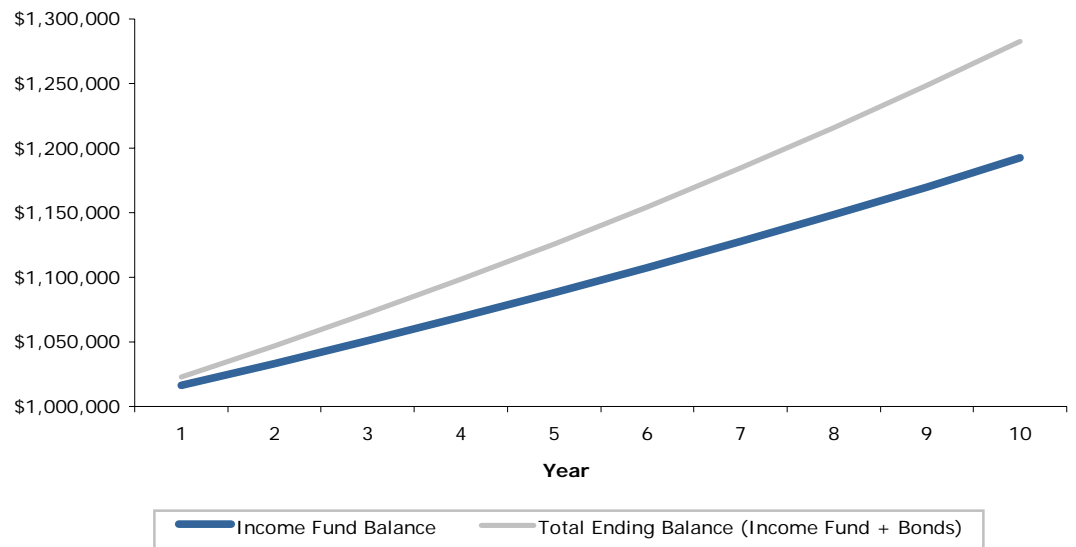
¹The assessable component of the Bonds is calculated using the ATO insurance bonds tax formula, as stipulated in ATO ruling IT2346. The formula takes into consideration all previous withdrawals and contributions. Contact Lifepan for more information about the formula used.

²Tax paid equals zero because the tax liability is offset by the tax rebates for which the investor is eligible due to the investment in the Bonds. The rebates include (1) 30% tax rebate from Bonds; (2) Senior Australian Tax Offset (SATO); and (3) low-income tax offset.

Source: Lifepan/Aegis Equities Research

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Figure 4. Ending Balance of the Two Investments



Source: Lifeplan/Aegis Equities Research

Scenario 2 – Windfall

The Bonds can be used as a tax-effective investment vehicle in the event an individual receives a windfall and does not want to increase his or her current tax liabilities. For example, an investor receives an inheritance of A\$1,500,000. The investor wishes to invest the funds into his/her super fund; however, current regulations restrict the amount of funds the investor is able to add to the superfund in any one year to a maximum of A\$150,000, leaving the investor with a large sum of money in the interim (A\$1,350,000). The individual currently earns A\$60,000 per annum.

How the Bonds can be used

An investment of the remaining funds in the Bonds would enable the investor to generate returns with reduced tax implications and the ability to withdraw the funds at any time to invest in his/her super fund. The funds continue to generate returns whilst being invested in the investment bonds, with the investor incurring a tax liability only upon the withdrawal of funds on which the investor receives the 30% tax rebate (see Figure 5).

Outcome

Investing the remaining funds in the Bonds enables the investor to generate returns on the remaining funds from the windfall whilst minimising additional tax liabilities and provides the investor with the flexibility that comes with owning the Bonds. The primary outcomes include the following:

- The investor incurs a reduced tax liability, given the formula used to calculate the tax payable on drawdowns. Furthermore, after the eighth anniversary of the commencement of the investment, the assessable component of withdrawals decreases until after year 10, at which point withdrawals are free of tax;
- The investor has the flexibility to draw down funds at any time and has the ability to manage the amount of tax incurred, given that a tax liability is incurred only when drawdowns are made; and
- The assessable component of Bond withdrawals does not attract a PAYG instalment tax liability.

It should be noted that Figure 5 illustrates how an investment in the Bonds would be treated given the above-mentioned assumptions and does not provide a comparison of product outcomes, as is provided in Figure 4.

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Figure 5. Scenario 2

Net Return: 6.0%		NextGen Bonds					
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	
Balance of Investment (\$)	1,350,000	1,431,000	1,366,860	1,298,872	1,226,804	1,150,412	
Earnings (after tax)	81,000	85,860	82,012	77,932	73,608	69,025	
Balance before drawdown	1,431,000	1,516,860	1,448,872	1,376,804	1,300,412	1,219,437	
Drawdown	0	150,000	150,000	150,000	150,000	150,000	
Ending Balance	1,431,000	1,366,860	1,298,872	1,226,804	1,150,412	1,069,437	
Assessable income:							
<i>Taxable amount¹</i>	0	16,501	24,057	31,186	37,911	44,256	
<i>Other assessable income²</i>	60,000	60,000	60,000	60,000	60,000	60,000	
	60,000	76,501	84,057	91,186	97,911	104,256	
Tax on assessable income	12,600	17,550	20,223	23,074	25,765	28,302	
Tax Rebates:							
<i>30% tax rebate</i>	0	4,950	7,217	9,356	11,373	13,277	
Income (after tax)	47,400	63,901	71,051	77,467	83,520	89,230	
Non-taxable portion of Income ³	-	133,499	125,943	118,814	112,089	105,744	
Net Income	47,400	197,400	196,994	196,281	195,609	194,974	
Net Superannuation Contribution ⁴	0	150,000	149,594	148,881	148,209	147,574	
		Year 7	Year 8	Year 9	Year 10	Year 11	
Balance of Investment (\$)		1,069,437	983,603	892,619	796,176	693,947	
Earnings (after tax)		64,166	59,016	53,557	47,771	41,637	
Balance before drawdown		1,133,603	1,042,619	946,176	843,947	735,584	
Drawdown		150,000	150,000	150,000	150,000	150,000	
Ending Balance		983,603	892,169	796,176	693,947	585,584	
Assessable income:							
<i>Taxable amount¹</i>		50,241	55,888	40,806	22,058	0	
<i>Other assessable income²</i>		60,000	60,000	60,000	60,000	60,000	
		110,241	115,888	100,806	82,058	60,000	
Tax on assessable income		30,697	32,955	26,922	19,423	12,600	
Tax Rebates:							
<i>30% tax rebate</i>		15,072	16,766	12,242	6,617	0	
Income (after tax)		94,617	99,699	86,125	69,252	47,400	
Non-taxable portion of Income ³		99,759	94,112	109,194	127,942	150,000	
Net Income		194,376	193,811	195,319	197,194	197,400	
Net Superannuation Contribution ⁴		146,976	146,411	147,919	149,794	150,000	

¹Tax on drawdown is calculated using the ATO insurance bonds tax formula as stipulated in ATO ruling IT2346. The formula takes into consideration all previous withdrawals and contributions. Contact Lifepan for more information about the formula used.

² Annual income of investor.

³Non-taxable portion of income equals the annual drawdown minus the assessable component of the drawdown.

⁴Signifies the net amount available for superannuation contribution after allowing for annual net living requirements of \$47,400, which was the annual net income earned prior to the windfall gain.

Source: Lifepan/Aegis Equities Research

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5. Performance Analytics

Performance of the investment will depend on the performance of the underlying funds chosen by the investor. The 50 investment options available cover a range of asset classes and encompass varying degrees of risk and, therefore, return. The funds are managed by a range of investment managers. Investors should be comfortable with the fund manager's abilities before investing.

Figure 6 provides an indication of the historical performance of the underlying investment funds. The illustration is for informational purposes only and is not representative of the expected future performance of the underlying investment funds.

The returns provided below represent the historical performance of the underlying investment funds. They do not include the tax-paid nature of returns that will be provided by Lifeplan, with the exception of the Lifeplan Managed Investment and the Lifeplan Capital Guaranteed Fund, nor do they include the additional layer of fees charged by Lifeplan for facilitating the operation of the Bonds.

Figure 6 below illustrates the historical returns for the Capital Guaranteed investment option. The Capital Guaranteed option is an investment option in which Lifeplan guarantees investors the payment of the account balance and any declared bonuses. The capital guarantee is supported by the reserves Lifeplan is required to maintain by the actuarial standards. The option operates as follows: at the end of the financial year, Lifeplan declares a rate of return (bonus rate) that represents the income generated over the year, net of tax, fees and expenses, and the required amount to maintain sufficient reserves. Lifeplan will automatically reinvest the bonus for the period. We note, Lifeplan may declare a bonus rate more frequently than yearly. In the event an investor withdraws from the Capital Guaranteed option prior to financial year end, an interim bonus rate will be used to calculate the withdrawal proceeds.

Figure 6. Historical Performance of Underlying Investment Funds to 31 May 2008

Fund Name	Total Return 1 yr %	Total Return 3 yr %pa	Total Return 5 yr %pa
BT Options (6)			
BT Enhanced Cash	4.65	5.58	5.62
BT Active Balanced	-7.84	9.24	11.56
BT Conservative Outlook	-1.99	6.20	7.14
BT Ethical Share	-5.08	18.93	22.52
BT Future Goals	-9.84	9.98	12.22
BT Geared Imputation	-8.87	22.05	24.72
Colonial First State Options (11)			
Colonial First State Enhanced Yield	1.56	7.33	—
Colonial First State FirstChoice Australian Share	-7.16	14.98	17.48
Colonial First State FirstChoice Conservative	-0.40	6.62	7.22
Colonial First State FirstChoice Growth	-8.72	9.77	11.11
Colonial First State FirstChoice Moderate	-5.52	8.40	9.51
Colonial First State Generation Global Sustainability	—	—	—
Colonial First State FirstChoice Global Share	-15.99	4.50	5.44
Colonial First State FirstChoice Property Securities	-37.77	1.15	5.87
Colonial First State 452 Australian Share	-12.21	10.32	15.85
Lifeplan Managed Investment ¹	-0.52	6.66	7.22
Lifeplan Capital Guaranteed ^{1,2}	4.0	3.17	2.97

1. Returns are tax paid (ie. inclusive of the company tax rate of 30%)

2. Annualised return for the nine-month period from 1 July 2007 to 31 March 2008.

Source: Lifeplan Funds Management/Morningstar

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Figure 6. Historical Performance of Underlying Investment Funds to 31 May 2008 (continued)

Fund Name	Total Return 1 yr %	Total Return 3 yr %pa	Total Return 5 yr %pa
AMP Options (4)			
AMP Capital Investors - Conservative Fund-Class A	-2.76	6.48	7.59
AMP Capital Balanced Growth	-7.54	9.86	11.71
AMP Capital Sustainable Share	-9.04	17.32	18.95
AMP Capital Future Directions Australian Share	-8.08	15.03	17.83
ING Options (8)			
ING Australian Share	-2.84	17.30	19.27
ING Capital Stable	0.53	6.14	7.04
ING High Growth	-11.48	9.10	11.73
ING Managed Growth	-7.88	8.95	10.89
ING Optimix Conservative	-3.56	3.79	4.57
ING Optimix Growth	-9.00	8.94	10.74
ING Optimix Moderate	-6.60	6.07	—
ING Optimix Australian Share	-7.04	14.05	16.48
MLC Options (7)			
MLC Australian Share	-7.87	14.03	17.00
MLC Horizon 2 - Capital Stable	-2.89	—	—
MLC Horizon 3 - Conservative Growth	-1.81	8.23	9.21
MLC Horizon 4 - Balanced	-4.48	9.57	11.12
MLC Horizon 5 - Growth	-6.59	10.39	12.18
MLC Horizon 6 - Share	-7.83	11.56	13.59
MLC Horizon 7 - Accelerated Growth	-12.73	12.56	15.42
Perpetual Options (6)			
Perpetual Property Securities	-35.23	2.12	6.32
Perpetual Balanced Growth	-6.65	7.85	10.88
Perpetual Conservative Growth	0.19	6.95	—
Perpetual Diversified Growth	-3.67	6.88	8.76
Perpetual Ethical SRI	-18.12	13.94	16.82
Perpetual Industrial Share	-16.30	9.24	13.76
Vanguard Options (5)			
Vanguard Australian Fixed Interest Index	3.21	43.84	4.15
Vanguard Australian Shares Index	-6.91	15.88	18.09
Vanguard Global Fixed Interest Index (Hedged)	7.60	4.90	5.68
Vanguard Global Shares Index	-16.62	3.69	5.60
Vanguard Property Securities Index	-33.21	2.89	7.06
Other Options (3)			
Advance Imputation	-4.45	12.52	15.43
IML Australian Share	-9.70	10.54	13.92
UBS Australian Share	-6.72	15.08	17.39

Source: Lifeplan Funds Management/Morningstar

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6. Peer Comparison

The key outcomes of the peer comparison include the following:

- Insurance bond products largely offer the same features, with some variations.
- The major differentiating factors are the level of fees and the range of investment options offered to investors. Lifeplan's NextGen Bonds offer the greatest number of investment options of the insurance bonds currently in the market.
- Fees charged by Lifeplan are in line with its peers.
- Lifeplan NextGen Bonds are the first and only insurance bonds to offer the Wealth Preserver feature, which provides increased flexibility and control over the benefit payments to beneficiaries.

Insurance Bond Products

There are five comparative products offered in the Australian market, as illustrated in Figure 7. The below-mentioned products are insurance bond products that encompass the same tax features as the NextGen Bonds. The key differences between the products are the level of fees, the minimum initial investment amount, the number of investment options offered and the Wealth Preserver feature in the case of the NextGen Bonds.

Figure 7. Peer Comparison

	Australian Unity Investment bonds	Austock Imputation Bonds	IOOF Super Saver Option	ING Investment Bond	Lifeplan Tax Minimiser	Lifeplan NextGen
Minimum Investment (A\$)	1,000	10,000	2,000	2,500	1,000	1,000
Number of Investment Options	5	25	5	15	14	50
Entry/Contribution Fee (%)	Up to 4.0	Up to 4.0	Up to 3.00	Up to 4.0	Up to 4.0	Up to 4.0
Management/Ongoing Fees (%)	Up to 2.70	Up to 2.1	1.5	Up to 2.66	Up to 2.35	Up to 2.46
Withdrawal Fee (%)	Up to 3.0	0.00	0.00	0.00	0.00	0.00
Exit Fee (%)	0.00	0.00	0.00	Up to 3.0	0.00	0.00
Switching Fee (A\$)	0.00	50.00	0.00	0.00	0.00	0.00

Note: The above fees do not include buy/sell spreads or rebates for investments of more than \$1 million. We note, some ongoing fees include advisor trail fees, while others don't.

Source: IOOF/Australian Unity/Austock/ING/Lifeplan/Aegis Equities Research

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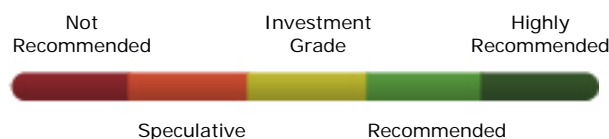
Appendix – Ratings Process

Aegis has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors.

Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

The Ratings

Our rating is based on the following scale:



Highly Recommended: indicates that Aegis believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and scored exceptionally in a number of categories. It has an attractive risk/return trade-off; however, we caution that the risk/return trade-off will not be suitable for all investors.

Recommended: indicates that Aegis believes this is an above average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above average risk/return trade-off; however, we caution that the risk/return trade-off will not be suitable for all investors.

Investment Grade: indicates that Aegis believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation parameters. The product may provide unique diversification opportunities, but may not stand apart from its peers. It has an acceptable risk/return trade-off; however, we caution that the risk/return trade-off will not be suitable for all investors. In the previous five category rating system, this category was termed 'Approved'.

Speculative: indicates that Aegis believes this is a product that has a number of positive attributes; however, there are a number of risks that make investing in this product a speculative proposal. While Aegis does not rule out investing in this product, investors should be very aware of, and be comfortable with, the specific risks. The product may provide unique diversification opportunities; however, concerns over one or more features means that it may not be suitable for most investors.

Not Recommended: indicates that Aegis believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. However, this does not mean that the product is without merit.

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