



Product Review

Centuria LifeGoals

ISSUE DATE: 27-02-2023

About this Review

ASSET CLASS	SPECIALISED
SECTOR	INVESTMENT BONDS
TOTAL ISSUERS RATED	5

About the Issuer

ISSUER	CENTURIA LIFE LIMITED ('CENTURIA')
OWNERSHIP	CENTURIA CAPITAL (ASX: CNI)
ASSETS MANAGED IN THIS SECTOR	\$812M (31 DECEMBER 2022)

Investment Menu

NO. OF INVESTMENT OPTIONS	28
PASSIVE OPTIONS INCLUDED	7
ADDITIONAL FEATURES	CHILD PLAN
MINIMUM INVESTMENT	\$500

What are Investment Bonds?

- An investment bond (insurance bond or growth bond) is technically a life insurance policy that combines features of a managed fund with an insurance policy, with each investment bond having an owner and at least one life insured. It is designed as an investment that can be a tax-effective way to invest if certain rules for making contributions and withdrawals are followed.
- Investment bonds and their issuing entities (insurance companies and friendly societies) are regulated by APRA and ASIC.
- Investment bonds are 'tax paid' investments. Investment earnings, including realised capital gains, are taxed at a maximum rate of 30% when they are received by the issuer and do not contribute to an investor's personal income. For some investment options, the actual effective tax rate can be lower than 30% due to tax offsets, such as dividend imputation or foreign tax credits.
- Investors may usually access their investments at any time. However, withdrawals made within the first 10 years may attract personal tax liability, where some or all of the earnings may be taxable at an investor's marginal tax rate depending on when the withdrawals are made. However, due to the tax paid status of investment bonds, taxable withdrawals are usually eligible for a full 30% tax rebate from the ATO, which can be used to offset against other taxable income.
- Additional contributions of up to 125% of the previous year's contributions can be made into an investment bond each investment year without restarting the 10-year advantage period. However, if a contribution is not made in one year, then any contributions in subsequent years will restart the 10-year period.
- If an investment bond is held for at least 10 years, providing that the 125% additional contribution rule

has been adhered to, then the investment will be completely tax paid after 10 years.

- Please refer to our important notice below and to the PDS which contains further details on the features of investment bonds and their taxation implications.

What this Rating means

- The 'Recommended' rating indicates that Lonsec considers the investment bond to be a recommended entry point to this sector. The issuer or structure of the investment bond has competitive advantages in several areas of assessment in people, process and design.

Scope of this Rating

- The research process has included, but is not restricted to, the Lonsec Ratings Process for Investment Bonds. Lonsec has not sought legal advice regarding the structure of the product or engaged a taxation specialist; no assessment has been made on the product's tax effectiveness.

Strengths

- Centuria is an experienced and well-established investment bond issuer.
- A selective, 'best-of-breed' investment menu.
- Robust and rigorous manager review, selection and monitoring process supported by dedicated investment resources.
- Cheap and transparent fee structure.

Weaknesses

- Fewer additional features than Lonsec rated peers.

Using Investment Bonds

The tax treatment of the product is expected to influence some benefits of the product. This Review does not amount to tax advice and Lonsec has not obtained specialist tax advice on the product. As taxation implications may vary for each investor, Lonsec strongly advises investors to consult a taxation specialist before deciding to invest.

Lonsec notes that the product issuer has produced a Target Market Determination (TMD) which forms part of their Design and Distribution Obligations for the product. Lonsec has collected the TMD that has been provided and notes that this should be referred to for further details on the Target Market Summary, Description of Target Market and Review Triggers.

Investment bonds may be suited to investors:

- As a tax effective long-term investment;
- As a complement to superannuation;
- As a way to invest for children; and
- As an estate planning and wealth transfer solution.

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Changes Since Previous Lonsec Review

- No key changes since Lonsec's previous review.

Lonsec Opinion of this Issuer

Issuer experience

- Centuria Life ('Centuria'), an APRA regulated Life Company, is a well-established and profitable investment bond issuer. Having managed investment bonds since 1981, Centuria is the fourth largest player in the market, managing circa \$812m of investment bonds as at 31 December 2022. The business is well resourced with 21 people involved directly in investment bonds, covering investment management, distribution, investor services, fund accounting and compliance. Centuria will also leverage off its parent company Centuria Capital in areas such as business infrastructure, risk management, operational support and marketing.
- Michael Blake is Head of Centuria Life and oversees the investment team responsible for LifeGoals. Prior to joining Centuria in April 2018, Blake held senior positions in Heine Funds Management, Mercantile Mutual, Zurich, HSBC Asset Management and Cromwell Property Group. Blake has a strong understanding of the investment bond landscape and played a pivotal role in the design and implementation of the LifeGoals product. Blake is supported by Investment Analyst Thomas Nielsen.
- Centuria operates a committee-based decision-making structure with the Investment Sub-Committee ('ISC') responsible for the operational, quantitative and qualitative selection, and review aspects of LifeGoals. The ISC meets weekly to analyse incumbent funds, discuss market movements, present new ideas and managers, and review performance. Blake, Nielson and John Slater (External Consultant and Non-executive Director) comprise the ISC. The ISC will put forward recommendations to the Investment Committee ('IC') for consideration.
- The IC is ultimately accountable for manager selection and performance monitoring. The IC consists of Blake, Slater, John McBain (CEO of Centuria Capital) and Peter Done (Non-Executive Director). It meets monthly and is responsible for approving all investment decisions.
- Centuria aims to select only 'best-of-breed' underlying managed funds ('UMFs') and is guided by strategies rated 'Recommended' or 'Highly Recommended' by the major research houses. The ISC conducts its own qualitative and quantitative analysis, including face-to-face meetings with the UMFs. Centuria's proprietary 'Traffic Light' model forms an important part of the process which allows for a repeatable and consistent framework for assessing and comparing UMFs.
- Centuria considers a broad range of qualitative and quantitative factors when selecting UMFs appropriate for the Investment Bond. These include, but are not limited to:
 - Suitability of the UMF to the investment menu;
 - Consistent, true to label, investment strategy;

- Staff experience and track record;
- Funds under management;
- Performance through different market cycles;
- Superior risk statistics and risk-adjusted statistics; and
- A competitive fee structure.

- Lonsec considers Centuria's manager selection process to be both rigorous and robust. Pleasingly, the investment menu's construction does not appear to be influenced by UMF rebates, in-house product or distribution deals.
- Centuria has built custom models to quantitatively assess and monitor the risk adjusted performance of UMFs on an ongoing basis to ensure the investment menu retains its best-of-breed characteristics. Being one of the larger players in the market, Centuria has good access to the key decision makers of the UMFs. UMFs are monitored for ratings changes initiated by research houses, extended period(s) of underperformance, style drift and staff turnover. Centuria also employs a range of external tools to assist in the monitoring process, including iRate and Bloomberg.
- The IC/ISC may recommend the termination of a manager if it does not meet its investment objective over the medium and longer term, or if its investment capability is believed to be impaired (e.g. departure of a senior investment professional). Back-up managers are in place for each asset class, which is important for the prompt replacement of managers no longer considered desirable.

Investment menu

- Centuria manages a selective investment menu comprising 28 options across 16 high quality managers. Investors can choose from 21 active and 7 low-cost index strategies. Centuria intends to keep the menu relatively compact, with circa 30 options. All major asset classes are covered, including diversified options ('Balanced' and 'Growth' risk profiles), Australian and international shares, property and infrastructure funds, domestic fixed interest and cash. Although considerably smaller than some investment menus offered by peers and lacking investment options in the alternatives asset class, Lonsec considers the LifeGoals investment menu to offer investors good breadth to select and manage their desired exposures.
- All investment options are managed by external UMFs, which is viewed positively by Lonsec as it removes any potential conflicts of interest. Furthermore, all UMF recommendations must be approved by the IC, which is considered robust from a governance standpoint.
- The UMFs are generally low to moderate turnover strategies. This is preferred when owned within an investment bond structure where realised capital gains are taxed at the life company rate of 30% (no capital gains discount available). High turnover funds (i.e. small caps and alternatives) are generally not as advantageous in an investment bond structure.

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Fees

- The average net administration fee (after a 30% tax rebate is applied) charged by Centuria is 0.30% p.a., which is attractive compared to Lonsec rated peers.
- The UMFs will also charge management fees (set out later in the report). Centuria actively negotiates fee rebates with UMFs and passes those rebates back to investors entirely. Each investment option also receives a 30% tax deduction on the management fee, resulting in net management fees that are 30% lower than the standard rate.
- The management fees shown do not include estimated performance fees and, as such, the actual management fees incurred may be materially higher than stated.
- Lonsec is pleased to note that Centuria passes all UMF rebates and tax benefits back to investors. In Lonsec's observation, this has not always been the case with some peers assessed. Lonsec considers Centuria's fee structure to be fair and transparent.

Additional features

- The number of additional features offered by LifeGoals is below the peer average. LifeGoals offers a Child Plan, but currently does not provide a loan facility, bonds custodian trust or death benefit guarantees. Centuria has reviewed the relevance of such features and is of the view that they are of limited benefit for its target market, particularly in light of the additional associated administrative costs. Lonsec recognises these features may not be valued by all investors but believes they provide a layer of flexibility that can enhance an investment bond's appeal.
- Pleasingly, Centuria has sought to improve the online experience for investors and advisers over the past year. This included developing the Lifegoals Investments Forecasting Tool, an online application tool and an online switching tool.
- Furthermore, Centuria continues to assess future enhancements and is currently considering additional features.

Overall

- Lonsec has maintained a **'Recommended'** rating on the Centuria LifeGoals investment bond at its latest review. Centuria is a well-established player in the investment bond market and has dedicated significant resources to bringing LifeGoals to the market. Centuria's manager selection and monitoring processes are both robust and rigorous, the result of which is a tightly constructed, 'best-of-breed' investment menu. While in terms of size, the LifeGoals investment menu may appear modest compared to some peers assessed, Lonsec considers it to offer investors good breadth to select and manage their desired exposures.

Issuer

Centuria is one of Australia's largest friendly societies and has been managing investors' funds since 1981. Centuria is a wholly owned subsidiary of Centuria Capital, an Australian Stock Exchange (ASX: CNI) listed

entity. The Group has funds under management of more than \$21.2bn (as at 31 December 2022) split across property funds management and investment bonds.

Centuria and the investment bonds offered are subject to regulation by APRA and ASIC.

More information on Centuria LifeGoals is available from <https://LifeGoals.centuria.com.au/>.

Underlying Managed Funds

Please refer to the Lonsec Product Review of the underlying investment options for Lonsec's opinion of the UMFs.

Fees

Centuria charges a gross administration fee of 0.42% p.a. but this is reduced by a 30% tax deduction benefit allocated by Centuria to each investment option. On a net of tax basis therefore, this fee is generally 0.30% p.a. The UMFs will also charge management fees (set out later in the report). Centuria passes on any UMF fee rebates negotiated with managers back to investors, which at times, can be up to 20bps lower than the headline fee. Management fees are further reduced by a 30% tax rebate. The management fees set out in the table are net of any applicable rebates but exclude estimated performance fees. Performance fees, when charged, can result in a materially higher UMF management fee than stated.

Further, investors may also incur transaction costs (i.e. buy/sell margin) when investing, switching or withdrawing from an investment option. Lonsec is not aware of any other transaction and operational costs borne by investors.

Please refer to the latest PDS (dated October 2021) for further details of fees and costs that may apply.

Additional Features

These are features beyond a 'vanilla' investment bond offering and are considered by Lonsec to sufficiently differentiate the Investment Bond from some or all its Lonsec rated peers.

Child Plan. The Centuria LifeGoals Child Plan can be established for children below the age of 16 years as an endowment. Ownership, control and access rights to the Investment Bond are retained by the owner but are automatically transferred to the selected child once the nominated vesting age (must be between 10 and 25 years) is reached. Importantly, the Centuria LifeGoals Child Plan retains its original commencement date.

Please refer to the latest PDS (dated October 2021) and subsequent Product Updates for further details.

Risk Management

Centuria operates a dedicated Risk and Compliance function and has implemented a broad range of policies and Committee structures (IC, ISC, Risk & Compliance Committee, Audit Committee) to manage and monitor risk across various levels of the firm.

The ISC continually monitors the performance of the UMFs. On an ongoing basis, a range of risk and return metrics of the investment managers are considered, which include:

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- Various risk or volatility measures such as standard deviation, beta, downside deviation and/or maximum drawdown analysis;
- Risk adjusted return metrics, such as Sharpe ratio, Information ratio and Sortino ratio.

Risk management within the investment options themselves is delegated to the UMFs. Each UMF is managed to a set of risk limits that is subject to regular monitoring by the ISC.

Risks

An investment in the Investment Bond carries a number of standard investment risks associated with investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the PDS and should be read in full and understood by investors. Lonsec considers the major risks to be:

Market risk

Investment returns are influenced by the performance of the market. This means investments can be affected by, for example, changes in interest rates, investor sentiment and global events depending on which markets or asset classes invested in and the timeframe chosen.

Regulatory risk

Changes to the government fiscal, monetary and regulatory policies (including changes to the taxation laws in relation to investment bonds) or statutory changes may affect the investment bonds.

Other risks

Please refer to the latest PDS for other key risks.

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Glossary

[Click here for the glossary of terms.](#)

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