



introducing the Income Generator

meeting the need for  
income and capital growth



## the changing face of retirement

### that was then

It all used to be so different.

After many decades of service – usually with the same company – it was time for the farewell bash, the gold watch and ‘thanks for the memories’.

Retirement was short, retirees’ expectations were minimal and the age pension was almost universal. As recently as 1968, the average Australian could only expect to live until the age of 71.\*

### this is now

Fast forward to the present day and the picture has changed drastically. Medical advances and healthier lifestyles mean that life expectancy is now at 82 and rising – indeed, for a couple reaching the age of 60, there’s a 50 per cent chance that one of them will live beyond the age of 90.†

This means new retirees can look forward to 30 years or more of retirement. And at the same time, the onus is shifting towards individuals taking personal responsibility for planning their own retirement.

Meanwhile, the expectations of today’s retirees are changing. After a lifetime’s hard work, it’s no longer good enough just to get by. You might be looking forward to that long-postponed overseas trip, renovating the family home or even hitching your wagon to the grey nomad trail around Australia.

# ensure your assets go the distance

## you need reliable income and capital growth

All through your working life there has been a very important constant – regular and reliable income that has helped fund your lifestyle and build your nest egg.

In retirement, you move from saving with the aim of building wealth to unlocking your capital to provide the regular income you need to fund your lifestyle. This income will either supplement your salary as you transition from full-time employment or deliver a reliable income if you have retired.

You will need your capital and income to continue growing over time to offset the impact of inflation and to help your money last the distance.

### so what types of assets will do the job?

Defensive assets such as fixed interest are an important anchor for your investments strategy, providing stability and regular income.

But given greater life expectancy and retirement expectations, you can't afford to ignore the potential of growth assets such as shares, property and infrastructure to deliver both income and capital growth.

Growth assets need to be part of your investment mix if you are to successfully stave off inflation and ensure your capital can last for what could potentially be 30 years or more.



\* ABS and KPMG, taken from 'The AXA Retiring when I want, how I want PLAN' brochure.

† ABS Life table 2006-08.

# Income Generator

## the solution is ipac's Income Generator

ipac's new Income Generator is designed to provide regular and reliable income that grows over time. It has been built to deliver a number of benefits to allocated pension investors.

### 1 Regular and reliable income

The fund pays income monthly. The aim is to deliver yields consistently above or equal to the long-term cash rate\* by investing in a diversified mix of income-producing assets:

- a) traditional income-generating investments like fixed interest
- b) other income-focused strategies like hybrids and inflation-linked bonds
- c) growth assets like equities, particularly Australian shares that generally pay higher dividends and can provide franking credits.

### 2 Long-term growth in your capital and income

By investing in some growth assets the fund aims to deliver long-term growth in your income and capital to help offset the impact of inflation. In addition to regular monthly payments, any capital gains the fund makes will be paid in a separate distribution that will be automatically reinvested to help grow your capital base, and therefore the income it can deliver, over time.

### 3 Tax efficiency for low marginal tax investors

The fund is designed to be particularly efficient for investors on low marginal tax rates, such as retirees.

### 4 Daily liquidity

You can access your money any time. We have combined different asset classes and strategies that are very liquid.

### 5 Lower volatility

Exposure to growth assets helps grow your capital but it does mean fluctuations in the value of the fund. However, the focus on income-generating domestic assets means your investments are less prone to fluctuations in market sentiment or currency changes.

## the Income Generator compares well

Income Generator	vs	term deposits
✓ Some capital growth to maintain the purchasing power of your money		X No capital growth means your money loses its purchasing power over time
✓ Well-diversified exposure to income producing assets		X Vulnerable to falls in interest rates at end of term. Lower rates when you reinvest mean lower income.
✓ Fund is fully liquid, can be drawn on at any time		X Generally need to lock your money up for longer periods to get better rates
Income Generator	vs	regular drawdowns of a managed fund
✓ Focussed on delivery of regular income		X Does not seek to optimise income return
✓ Potentially no need to draw down capital		X Could be drawing down capital at the worst time if markets fall heavily
✓ Designed for low marginal tax payers		
Income Generator	vs	annuities
✓ Access to capital		X Reduced access to capital
✓ Fully liquid		X Money generally locked away for length of annuity
✓ Costs are transparent		X Costs hard to identify as generally built into the annuity income

## experience matters

The Income Generator is managed by ipac, which is responsible for the asset allocation, overall portfolio construction and ongoing selection and monitoring of fund managers.

The ipac group has been helping clients achieve their financial goals since its formation in 1983. The financial advice and investment group is one of Australia's largest operators of multi-manager portfolios, with more than \$14 billion under management.<sup>†</sup>

Through extensive research, ipac has identified and selected specialist managers to manage the day-to-day investments within each asset class of the Income Generator. All these managers have expertise in their particular asset class and strong track records in achieving income outcomes for clients.

\* After investment fees and including franking credits for a 0% tax payer.

† As at 30 June 2010.

# managing the fund to meet your income need

One constant about investing is that market prices rise and fall every day. Change is always with us. Of course if the income you expect from your investment continues to be delivered then you are not too concerned about these fluctuations.

But you want the manager of your money to take advantage of opportunities as they emerge.

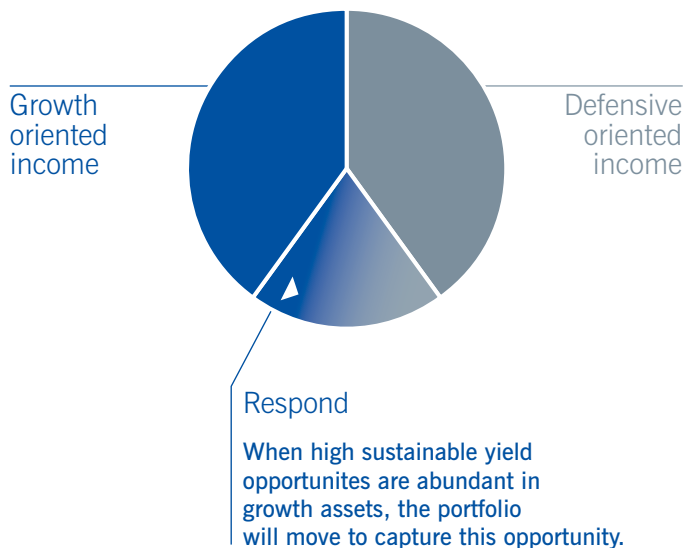
That's why ipac, the manager of the Income Generator, constantly monitors investment markets to identify where they are offering investors the most productive income opportunities. The asset allocation is outlined below.

asset class	description	range
Australian equities	Stocks with high and reliable yields	15-45%
International equities	Stocks chosen where yields are meaningfully higher than the market average	0-15%
Property	Focus on property investments that rely on rental yield	0-15%
Infrastructure	Exposure to investments with a consistent yield	0-10%
Fixed interest	Government bonds with consistent and stable yield, and high-quality corporate issues	30-70%
Inflation-linked bonds	Bonds where the yield is indexed to inflation	0-20%
Hybrids and other	Income-focused strategies	0-5%
Cash		Balance

ipac has the flexibility to adjust the portfolio to enhance the level and the reliability of its income prospects.

It is often the case that dividend yields rise as share prices fall. Allocating capital to sharemarkets in such circumstances not only raises the income level but positions the portfolio for further capital growth if the market decline turns out to be temporary.

Conversely, dividend yields fall if share prices rise quickly. While this is not always a negative signal for sharemarkets, ipac would consider whether there are better areas in which to place capital.



## dividends – the ignored opportunity

Investors often focus solely on short-term share price movements, dwelling on quick rewards or painful losses, and ignore an important source of return – regular dividend payments.

Dividend-paying shares provide investors with a regular income stream that has the potential to grow over time. And franked dividends, which are common in the Australian market, are even better.

With franked dividends, the company has already been deemed to have paid tax. This is particularly good news for investors on low rates of tax. If your marginal tax rate is less than the company rate of 30 per cent, you will receive a refund of franking credits that boosts your income. And for investors within an allocated pension with a zero rate of tax, the advantages can be significant.

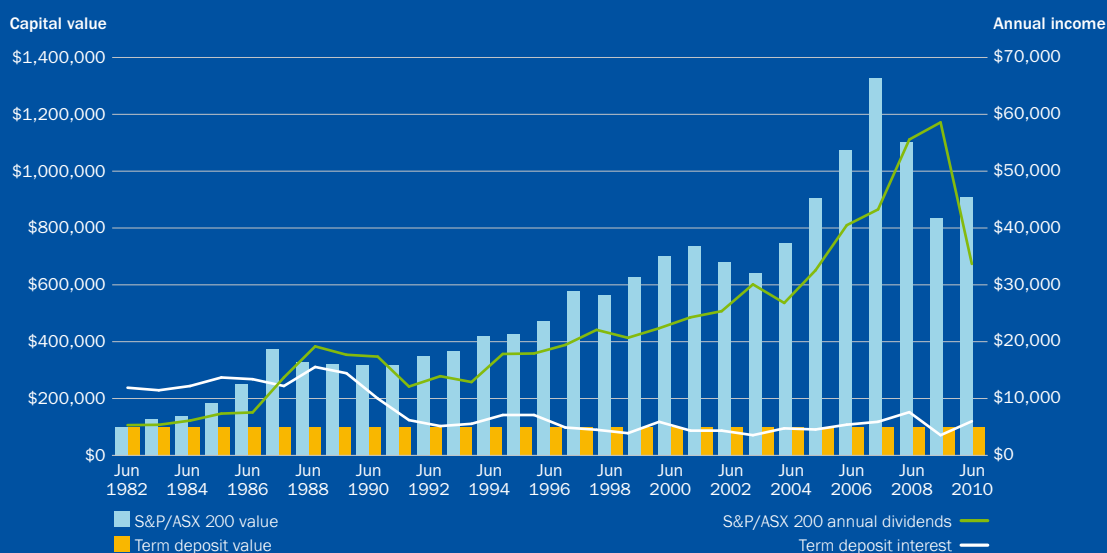
### harnessing the power of dividends

The specialist Australian shares fund managers, in the Income Generator, actively seek opportunities in shares that pay higher dividends and that often have franked dividends. They have expertise in identifying these opportunities that history suggests have benefited investors.

While dividend payments fluctuate, they average out over time to provide a sustainable income stream.

As you can see from the graph, dividends can continue to provide a vital income stream even in tough times, when companies can be reluctant to cut dividends completely as it would send a negative message to the market. Even at the height of the global financial crisis, dividend yields still far outstripped the interest on term deposits.

### return on investment (income and capital value) of \$100,000 to June 2010



The capital value of the share investment (blue) has risen significantly by the end of the period.

The income from dividends (green) is greater than it was at the start.

Meanwhile, the capital value of the term deposit (yellow) has stayed the same. The term deposit has less purchasing power in 2010 if you take inflation into account.

The income from the term deposit (white) has reduced as cash rates have declined over the period.



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