The AUSSIE TEP FUND

A compelling story of high yields, security and tax advantages

(Wholesale Investors only)

May 2019

What are TEPs

A TEP, (Traded Endowment Policy), is a second-hand conventional life policy with capital guaranteed value issued by AMP, MLC and Comminsure. The Life Company will pay the maturity amount of the TEP within 5-10 years. These issuers carry an "A" credit rating which backs the maturity payout.

How do we get TEPs?

The Aussie TEP Fund is the new and only way to get access to this asset class in Australia. This is a wholesale managed fund with a minimum investment of $100k.

Who supplies TEPs to the Aussie TEP fund?

The Outlook Group has 20 years' experience in acquiring TEPs for investors. Traditionally, TEPs were bundled together and sold as directly held investments with durations, (like a bond), of 5-10 years. The Outlook Group has an exclusive supply agreement to deliver TEPs to The Aussie TEP Fund.

How much is the possible supply of TEPs?

The three life companies still have over $10bn in value of these old policies on their books which are owned by retail clients. The Outlook Group anticipates over $100m in possible TEP supply per annum from this pool for at least 15 years.

How do TEPs grow?

TEPs are a growth only asset that don't pay income. The gain on a TEP is given special tax treatment, (like an Insurance Bond). The Aussie TEP Fund expects to pay quarterly, tax-paid, (i.e., with an attached 30% tax credit), distributions after 5 years and tax-exempt distributions after 10 years.

Future Annuity like cashflows

Once TEPs start to mature in 5 years, the Aussie TEP Fund will pay regular quarterly cash distributions on the TEP gains. The Fund will be buying TEPs each year which will occasion highly predictable regular future cashflows from A-AA rated policy issuers.

What is the TEP yield made up of?

Just, like a franked dividend, TEPs provide the cash yield from the TEP gain paid by the Life Company to The Aussie TEP Fund. The second part of the yield/return comes from the ATO in the form of a 30% Tax Offset/Rebate or Tax Exemption.

How do we work out the Pre-Tax Yield in the Aussie TEP Fund?

Most investments are measured in a pre-tax number. With different taxpayers in Australia, we work out the pre-tax yield for each investor type, being the addition of the Life Company cash yield plus the ATO tax Offset/Rebate/Exemption.

Our web site shows the pre-tax yield for Individual, Company and tax paying Superfund investors.

Current Pre-Tax yields (before fund expenses of 1% approx.) at May 2019 are;

Individual Investor- (Top Marginal Tax Rate)	**7.30% pa**
Company Investor	**6.03% pa**
Tax paying Superfund Investor	**4.96% pa**

Taxation

The Aussie TEP Fund has ATO Private Binding Tax Rulings confirming the gains on TEPs are treated under the 10-year Insurance Bond rules. Gains on TEPs with a duration of upto 8 years are taxed in the year of maturity and receive a 30% Tax Offset/Rebate. TEPs maturing between years 8 and 10 have 1/3 then 2/3 of the gain excluded from taxable income. After 10 years the TEPs are tax free.

TEPs Liquidity

The Life Act 1995 requires the Life Companies to payout the surrender value of a TEP on any given day. This is effectively a buyer-of-last-resort feature. All the TEPs in the fund can be cashed within 7-10 days. There are other liquidity features of TEPs that offer the fund ability to manage its cashflows.

TEPs security of title

The Aussie TEP Fund's title to ownership of a TEP is guaranteed by the Life Act 1995.

Unitholder Liquidity

Unitholders can redeem quarterly. The Aussie TEP Fund is designed for medium term investors who take a 5-year investment time frame. Unitholder redemptions before that time are exposed to an early redemption penalty.

Counter- Intuitive Fixed Interest/Alternative Asset

The annual capital guaranteed bonuses on a TEP ensure its guaranteed value will always rise. In a rising interest rate environment, The Aussie TEP Fund is a unique asset class that is immune from the capital losses that Bond funds are exposed to in such a rising interest rate cycle.

Why Invest in the Aussie TEP Fund?

The Aussie TEP Fund is targeted at Individual Investors, (on Top Marginal Tax rates), Corporate Investors and to a lesser extent tax paying Superfund Investors.

This is a very safe conservative asset class that will outperform its peers because of 3 key factors;

- An in-built investment subsidy left behind by the original policy owner
- 70 years of Life Companies "smoothing" the returns they allocate to TEPs
- Grandfathered tax concessions that aren't matched by modern financial products

TEPs have consistently achieved over 5.00% above the Commonwealth Bond rate over the last decade.

The purchase price of TEPs are 90-110% capital guaranteed. The annual increasing value of a TEP is also capital guaranteed. The current value of the guarantee is "A" rated.

TEPs can be liquidated within 7-10 days with the issuing Life Company acting as buyer-of-last-resort.

TEPs will provide highly predictable tax paid quarterly cashflows from 5 years; like an annuity.

TEPs are uncorrelated to capital losses in a rising interest rate cycle, unlike bonds.

The Aussie TEP fund overheads are likely to be 1%, which is a relative low price to pay for an alternative asset class.

TEPs are not a volatile asset. Growth rates are highly predictable as a result of 70 years of actuarial smoothing of bonus rates on the TEPs.

For more details please visit our website www.aussieteps.com.au