# Bell Potter Capital

Shifting Gears – Understanding leverage

12 March 2024

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Any portfolios and investments mentioned in this presentation are examples only.

# Contents

# BELL POTTER CAPITAL
## Your Presenter

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Regional Sales Manager

- Over 15 years' experience in Financial Services.
- 7 years of that working with leveraged solution whilst at Bell Potter Capital and with Macquarie's Specialist Investment Solutions division.
- Provided advice on leverage when a practicing financial adviser.
- Holds a Bachelor of Business majoring in Financial Planning and a Diploma of Financial Services, as well as holding Margin Lending and Self Managed Super Fund accreditation.

# BELL POTTER CAPITAL
## Who are we?

Bell Potter Capital (BPC) is part of the Bell Financial Group Ltd (ASX:BFG), an Australian-based provider of stockbroking, investment and financial advisory services to private, institutional and corporate clients.

Bell Financial Group has over 760 employees, operates across 13 offices in Australia and has offices in New York, London, Hong Kong and Kuala Lumpur.

Across our entities Bell Potter Securities Ltd, Bell Potter Capital Ltd and Third Party Platform Pty Ltd, we service over 600,000 clients with funds under advice exceeding $72.8 billion. Our collective strength lies in providing focused investment solutions for all our clients – corporations, institutions, superannuation funds and individuals.

Bell Potter Capital is licenced (AFSL 360457) for standard margin lending and is an ASX custody and settlement participant. Bell Potter Capital has a range of products to meet different borrowing and investment needs.

Bell Potter Securities Ltd

Bell Potter Capital Ltd

Third Party Platform Pty Ltd

# BELL POTTER CAPITAL

## How we meet our different client needs

The market has developed different leverage options to support different investment structures.  Some examples below of different products that we have developed include:

### SELF MANAGED SUPER FUNDS

PRIMARY BORROWER TYPES

Self Managed Super Funds

PRODUCTS

- **Super Lending** is a SIS act compliant margin loan
- **Bell Equity Lever** is an instalment receipt structure
- **Bell Financial Trust** is an at-call investment account that can be linked to a super lending account

### OTHER BORROWER TYPES

PRIMARY BORROWER TYPES

Individuals, Companies, Trusts

PRODUCTS

- **Portfolio Lending** or **Direct Margin Loans** are standard margin loans
- **Geared Equities Investment (GEI)** is a protected lending product
- **Bell Financial Trust** is an at-call investment account that can be linked to a broking account, margin loan or a protected equity loan

# LEVERAGE

## How can I get access to leverage?

Leverage is typically obtained by either borrowing funds or via derivatives.

### Borrowing

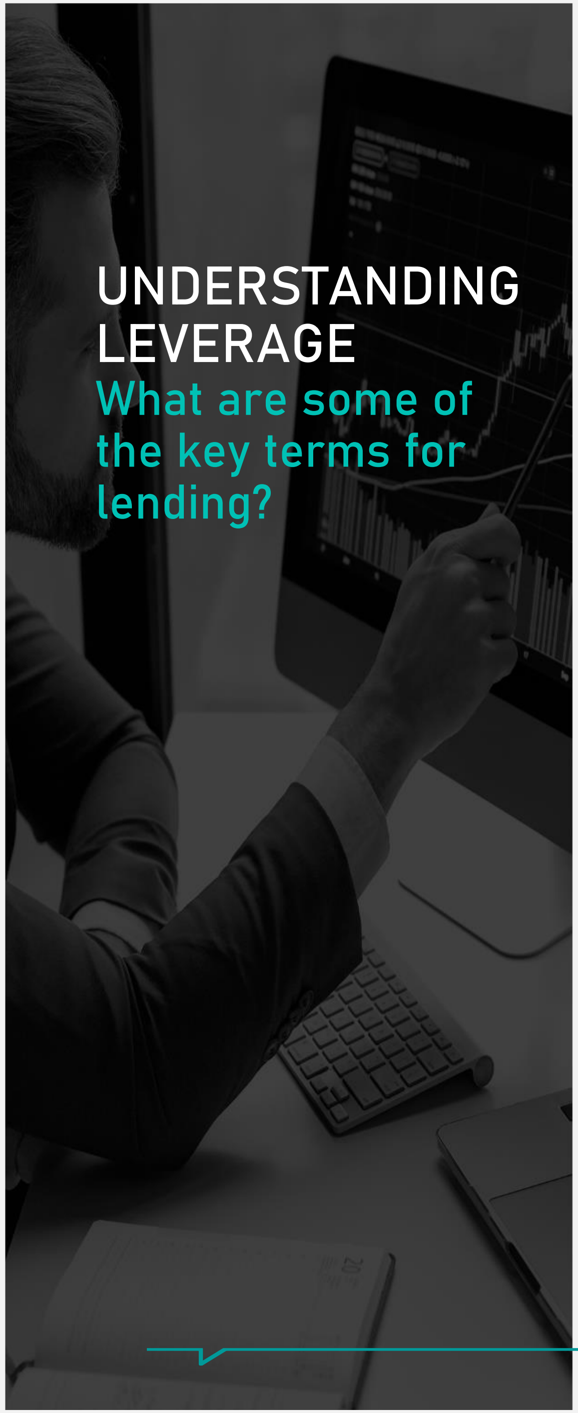
investors may apply for a loan or a debt as funding source for their investment strategy

- Full recourse means that the borrower is liable to repay the debt if the secured assets are insufficient to cover the outstanding loan obligation or;
- Limited recourse means the liability is limited to the secured assets.  If this is insufficient to repay the loan amount in full, the lender cannot seek further payment or capital for the shortfall.

### Derivatives

Investment products or contracts that derive their value from the performance of an underlying asset, index or interest rate.

- Derivatives can be traded on an exchange or over-the-counter.
- Prices for derivatives can be impacted by fluctuations in the underlying asset.
- Derivatives are usually leveraged instruments, which increases their potential risks / rewards
- Common derivatives include futures contracts, forwards, options, and swaps.



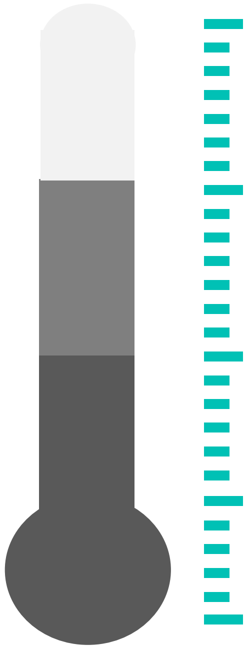
# UNDERSTANDING LEVERAGE

## What are some of the key terms for lending?

These terms are used interchangeably in the market depending on the product

| | |
|---|---|
| Gearing | This is typically your loan to market value of the portfolio expressed as a percentage. Sometimes referred to as LVR. |
| Loan to Value Ratio (LVR) | This is the percentage that a lender may apply to the value of each holding to calculate the borrowing capacity.<br>▪ Margin loans can have LVRs ranging from 40% to 75%<br>▪ Lending products to SMSF typically have an LVR of 50%<br>▪ Protected lending products can have an LVR of 100%<br>Sometimes this can be referred to as the gearing ratio or max LVR |
| Credit Limit | The maximum amount of credit that can be provided to you. You may apply for a change in credit limit |
| Buffer | Products may include a buffer to ensure that small fluctuations in price will not trigger a margin call. Facilities in the buffer cannot make further buys. |
| Margin calls | Lending products may include a margin call feature. This may be triggered by a negative price movement decreasing your borrowing capacity (inclusive of the buffer) below the outstanding loan amount. |
| Interest rates | These can be fixed or variable |
| Approved Investments | Product may accept different assets types (equity, unlisted managed fund, options) and provide different LVR. |

# LOAN CONSIDERATIONS
## The anatomy of an investment loan



**Market value:** the current market value of the secured portfolio

**Borrowing capacity:** the amount you can borrow with consideration to your secured portfolio and/or your credit limit

**Loan:** the amount the investor has borrowed (this can be limited to their borrowing capacity)

**Equity:** this is equal to your market value less your loan (and any outstanding interest obligations)

# UTILISING LEVERAGE
## What are some considerations?

When gearing forms part of a comprehensive financial plan, it can assist to balance risk and return and do so in a tax efficient manner

1

### INVESTMENT PERFORMANCE

Will the expected gains exceed the losses on a post-tax basis?

- Price gain/falls
- Income (distributions)
- Taxation considerations (e.g. capital gains tax, franking credits)

2

### INVESTMENT HORIZON

Can the investment be held for the target term?

- Servicing costs
- Margin calls
- What is the recourse structure
- Market volatility

3

### WHAT IS THE RIGHT STRUCTURE

It is important to select the right product for your investment structure

- SIS Act compliant?
- Easy to administer?
- Authorised investment for a trustee?
- Tax considerations

# GEARED VS UNGEARED

## IMPACT OF GEARING

Gearing (borrowing part of the purchase price) magnifies the impact of price changes on the value of the investor's equity.

| **UNGEARED** | | **10% RISE** | **10% FALL** |
|---|---|---|---|
| Market value | $30,000 | $33,000 | $27,000 |
| Investor's equity | $30,000 | $33,000 | $27,000 |
| **GEARED** | | **10% RISE** | **10% FALL** |
| Market value | $100,000 | $110,000 | $90,000 |
| Gearing ratio | 70% | 70% | 70% |
| Gearing value | $70,000 | $77,000 | $63,000 |
| Loan balance | $70,000 | $70,000 | $70,000 |
| Investor's equity | $30,000 | $40,000 | $20,000 |
| **% CHANGE IN INVESTOR'S EQUITY** | | **33% RISE** | **33% FALL** |

*The above table does not take into account any tax effects*

# WHY SHOULD I CONSIDER LEVERAGE?

## What are some of the potential benefits of leverage.

Leverage provides the potential to create wealth and expedite the achievement of financial goals by

- Increasing the potential for capital gain through gearing
- Greater access to dividends including franking credits and deferred taxation benefits
- Increasing income; e.g. covered calls, buy/write strategies
- Prepaying interest to provide certainty & potentially accelerate tax deductions
- Potentially accessing the portfolio value without realising capital gains
- Increased purchasing power providing the potential to diversify and spread risk across multiple sectors and economies globally.
- Investment loans (e.g. a margin loan) can be used to provide a flexible source of funding that can allow an investor to take market opportunities as they arise

# WHY SHOULD I CONSIDER LEVERAGE?

## What are some of the potential risks?

When you invest with the use of leverage, you should consider the potential risks, including:

**Performance:** The price of the assets chosen may fall by a material amount, even over a short time.

**Borrowing to invest:** Investors will be more exposed to the assets they buy using the loan (and their price and dividend changes) than if they bought them with their own funds.

- **Breakeven:** They could lose money by buying assets using a loan. The costs they pay (such as interest and break costs) may be greater than the gains they may receive (such as price increases and dividend income).

**Early termination:** A loan may be terminated early by the lender or by the investor. In this instance, they may need to pay any costs that apply, such as break costs, interest, or fees.

**Interest:** The loan's interest rate may rise.

**Liquidity:** If there is a lack of liquidity for the assets, the ability to sell/redeem the assets or close out the loan early may be limited.

**Tax:** The Australian Taxation Office (ATO) may deny part or all tax deductions for interest expenses.

# REDUCING THE RISK

Some strategies to reduce risk when using leverage

## Factors that tend to decrease risk

### LOW LEVEL OF GEARING

Lower level of gearing can provide a greater cushion for a decrease in market values before a margin call is triggered

### LIQUIDITY

Liquid assets can allow you to enter or exit a position in a more timely manner

### DIVERSITY

By investing across sectors, countries and asset classes, you can reduce your reliance on the performance of any one security

# SELF MANAGED SUPERANNUATION FUNDS

## When can I use leverage?

There are a limited number of circumstances where a SMSF can invest with the use of leverage.

Some options may include:

- Super (equities) Loan (67A)
- SMSF property (67A)
- Instalment warrants
- Instalment receipts

### SMSF investing using a loan

Limited recourse borrowing arrangements to acquire a single acquirable asset:

- This single acquirable asset' means that a separate LRBA is required for each individual purchase. That is, each purchase is partly funded by its own limited recourse margin loan.
- The asset is held on trust so that the SMSF trustee receives a beneficial interest
- Single acquirable assets vary by investment. E.g. property is a single title, shares are a single contract note & managed funds are a single application form.

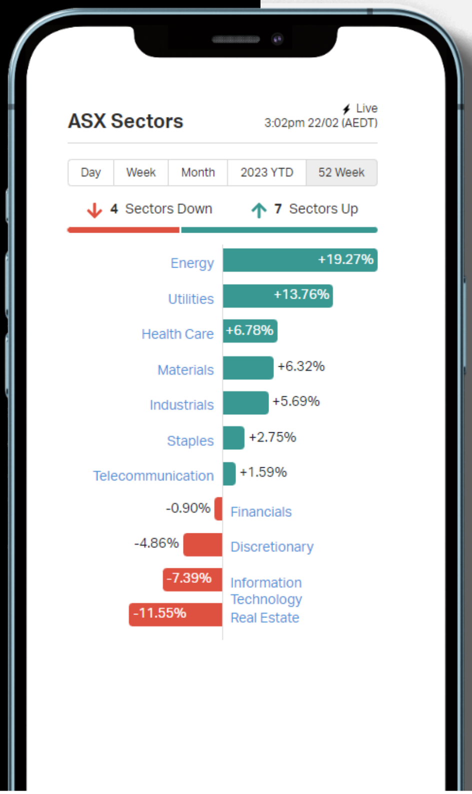
### SMSF investing using a debt

Instalment receipts (and some instalment warrants) are structured so that the amount owing is classified as a debt, rather than a loan. This means a SMSF can invest using these structures as:

- There is no advance of money;
- Limited recourse arrangement where the debt (instalment) may not be repaid;
- The underlying securities are transferred to a security trustee and are held in trust for the SMSF;
- Security trustee grants the charge over the assets, not the SMSF trustee;
- SMSF trustee acquires an instalment receipt with an embedded security interest.

# LEVERAGE

## What are some examples of different types of leverage




### Borrowing

- Home Loans
- Margin Loans

### Internally Leveraged

- Equities (subset)
- Geared Managed Funds
- Exchange Traded Funds (subset)

### Structured Products

- Instalment Receipts
- Instalment Warrants
- Protected Equity Loans
- Bond / Call structures

### Derivatives

- Futures Contracts
- Contracts for Difference
- Exchange Traded Options

# HOME EQUITY

## What is a home equity loan?

- In Australia, residential property can be a popular investment which can represent a significant portion of the investor’s asset allocation.
- A home equity loan is an investment loan that can be used to purchase other investments (e.g. shares) and is secured by a residential property.
- Residential mortgages are typically a full recourse lending arrangement.

## Consider your available equity

- The amount of equity you can access varies by product, but a guide would be 80% of your residential property’s value less the amount owing.
- This structure may not be tax deductible and you should consult your tax and investment adviser.

# MARGIN LENDING

## Standard margin lending facility

- Issuers of a standard margin lending facility to a retail client are required to be licenced.
- A margin loan allows for you to borrow money to invest in marketable securities that form part of your secured portfolio.
- A standard margin loan is regulated under Responsible Lending requirements of the Corporations Act (Cth) 2001.

## Margin call

- When an investor's loan balance exceeds their borrowing capacity (inclusive of any buffer), then a margin call may be triggered. A margin call can require a borrower to:
  - Sell securities (to reduce their loan balance relative to their borrowing capacity) or;
  - Transfer in additional securities (to increase the borrowing capacity) or;
  - Deposit funds to reduce some or all of their loan balance.

## Full recourse

- Similar to most residential mortgages and home equity loans, a margin loan is traditionally a full recourse lending arrangement, which means that you are liable to repay the full amount of the outstanding balance.
- If the secured portfolio is insufficient to repay the loan, then the lender may seek repayment of the loan from the borrower and any guarantor.

# Margin Lending

## Key Concepts

1

### SECURED PORTFOLIO

You retain beneficial ownership of the securities and cash that you provide.

2

### BORROWING CAPACITY

The lender will assess the amount they are willing to lend against your portfolio.

- Shares, ETFs, LICs
- Linked at-call a/c

3

### LOAN

Fixed or Variable loans (or a combination of the two) are available.

You have no obligation to have a drawn balance. Please note this varies by lender.

4

### BUFFER

Margin loans can have a buffer built into the facility to allow for small fluctuations in the price without triggering a margin call.

5

### CREDIT LIMIT

This is the maximum amount of credit that can be provided to the facility.

# MARGIN LENDING

## Definition of a Standard Margin Loan

**Section 761EA(2) of the *Corporation Act 2001*:**

A standard margin lending facility is a facility under the terms of which:

(a) credit is, or may be, provided by a person (the provider) to a natural person (the client); and

(b) the credit provided is, or must be, applied wholly or partly:

- (i) to acquire one or more financial products, or a beneficial interest in one or more financial products; or
- (ii) to repay, wholly or partly, another credit facility, the credit provided under which was applied, wholly or partly, to acquire one or more financial products, or a beneficial interest in one or more financial products; and

(c) the credit provided is, or must be, secured by property (the secured property); and

(d) the secured property consists, or must consist, wholly or partly of one or more marketable securities, or a beneficial interest in one or more marketable securities; and

(e) if the current LVR of the facility exceeds a ratio, percentage, proportion or level (however described) determined under the terms of the facility, then:

- (i) the client becomes required to take action; or
- (ii) the provider becomes entitled to take action; or
- (iii) another person becomes required or entitled to take action in accordance with the terms of the facility to reduce the current LVR of the facility.

# INTERNALLY GEARED INVESTMENTS

Sometimes known as one-click gearing, internally geared managed funds are the easiest to access leveraging option, although maybe not the easiest to understand.

## Administrative Ease

- Less paperwork – just a click if investing via a platform;
- No credit checks
- Low cost

## Less flexibility

- Leverage cost (interest) may not be tax deductible (subject to investment structure) or less tax effective (e.g. no prepayment of interest)
- One LVR for all
- Rebalancing and asset selection

## Rebalancing

You should be mindful that you may not have control on the rebalancing of your investments and this may impact your performance.

An example of rebalancing in a bear market:

- In a falling market, stocks can automatically rebalance and sell down.
- This can result in sales being executed at a lower price, crystallising the loss and dampening the effect of the eventual market recovery.

# INSTALMENT RECEIPTS

## Instalments receipts

- An investment structure where you are not required to provide the full value of the purchase up front.
- Purchase of an instalment receipt consists of an initial payment (initial instalment) and at an agreed date, a second payment (final instalment) to receive the underlying asset.
- Instalment receipts are not commonly listed on an exchange.
- Interest deductibility may be impacted by the ATO treatment for capital protected products (RBA Indicator Lending Rate for Standard Variable Housing Loans – Investor plus 100 basis points).

## Limited recourse

- Instalment receipts are always limited recourse, meaning you do not need to repay the final instalment if the value of your investment is less than the final instalment amount.

## Self Managed Superannuation Funds (SMSF)

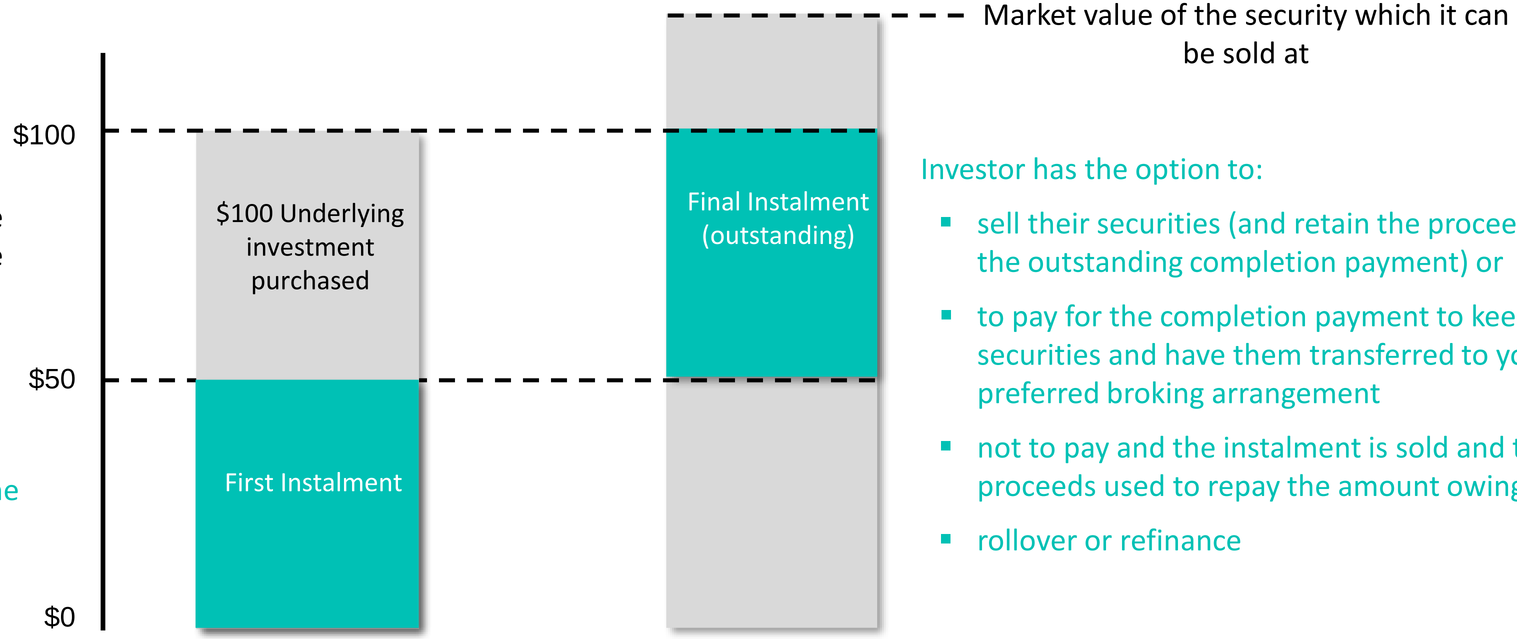
- SMSFs can purchase instalment receipts as they are structured so that the amount owing is classified as a debt, not a loan.

# INSTALMENT RECEIPTS

## Example of an Instalment Receipt

Servicing costs are paid on the outstanding instalment balance (variable or fixed interest rates)

Investor makes an initial payment to the issuer at the nominated LVR (e.g. 50% of the investment amount = $50)




Investor has the option to:

- sell their securities (and retain the proceeds less the outstanding completion payment) or
- to pay for the completion payment to keep your securities and have them transferred to your preferred broking arrangement
- not to pay and the instalment is sold and the proceeds used to repay the amount owing
- rollover or refinance

The above example is a simulated price increase and does not take into account any dividends received, debt costs or taxation effects

- Investors receive the full dividends and franking credits where eligible
- Investors return is impacted (gain/loss) by the underlying share price movements.
- Action may be required where the LVR breaches a threshold.

# INSTALMENT WARRANTS

Instalment warrants are lending arrangement that enable an investor (including an SMSF) to acquire an asset through a  series of agreed instalment payments.

They are similar to an instalment receipt, however some difference are:

- Listed on the ASX which may simplify trade execution
- First instalment is made by paying the market price on the ASX
- Issuer then provides you with a limited recourse loan which can be repaid with the second instalment (or by selling the security).
- Instalment warrants can be borrowing arrangements (loans)

| | Listed Instalment Warrants | Instalment Receipts |
|---|---|---|
| No Credit Checks | ✓ | ✓ |
| Limited recourse & suitable for SMSF | ✓ | ✓ |
| Two instalments, second is optional | ✓ | ✓ |
| Receive dividends / franking credits / share price changes | ✓ | ✓ |
| Trade execution via your broking account (on the ASX) | ✓ | ✗ |
| Ability to set stop losses (no margin calls for LVR increases) | ✓ | ✗ |
| Coverage of securities / ETFs and relative cost | ✗ | ✓ |
| Flexible gearing with the ability to reduce / repay your 2nd instalment amount (early repayment) | ✗ | ✓ |

# PROTECTED EQUITY LOAN

## Borrow against the protected value

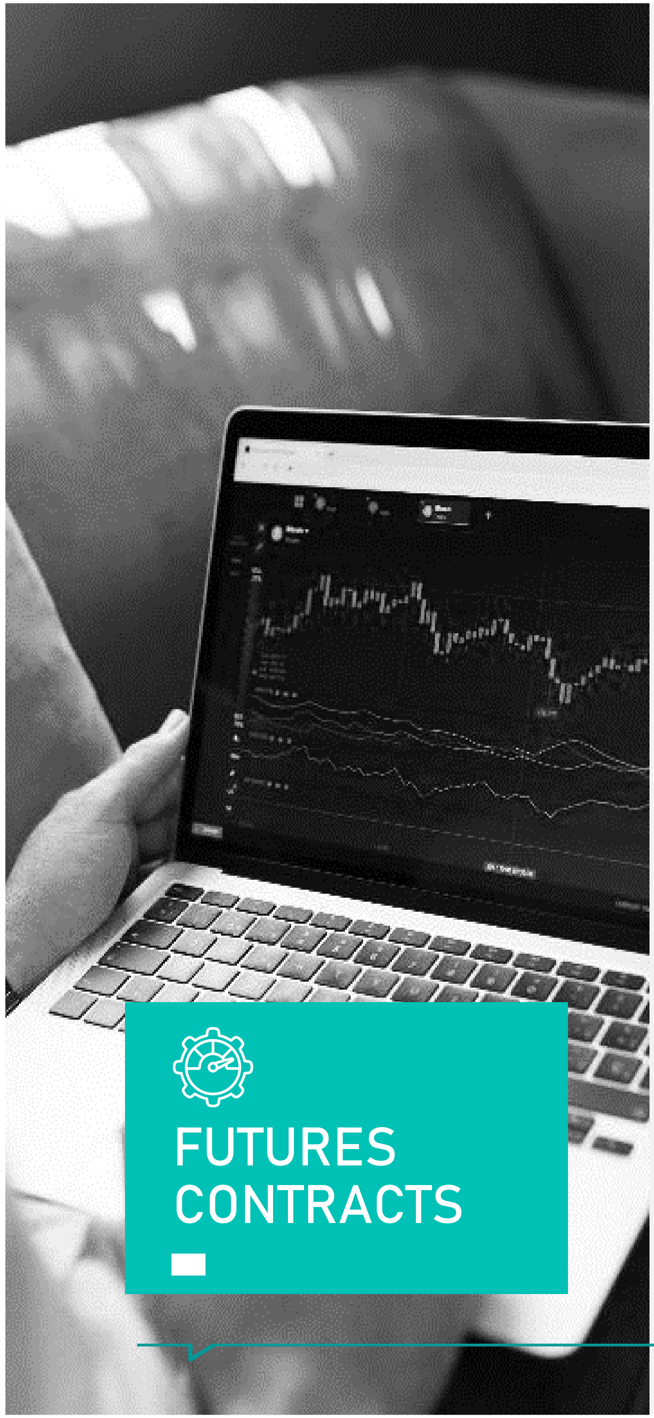
- It is possible to borrow up to 100% of the investment value, meaning investments can be made with no up-front capital.

## Limited recourse loan (‘Principal protected’)

- Protection from a fall in the share price. Where 100% protected, investors can transfer the share holding back to the lender in full repayment of the loan, and generally there are no Margin Calls.

## Flexibility to choose

- Portfolio, typically from listed shares and ETFs;
- Loan term. These are fixed term loans & investors can nominate the term.
- Interest type can be fixed rate (e.g. pre-paid in advance) and/or variable rate (monthly repayments).



# FUTURES CONTRACTS

A futures contract is a standardised legal contract to:

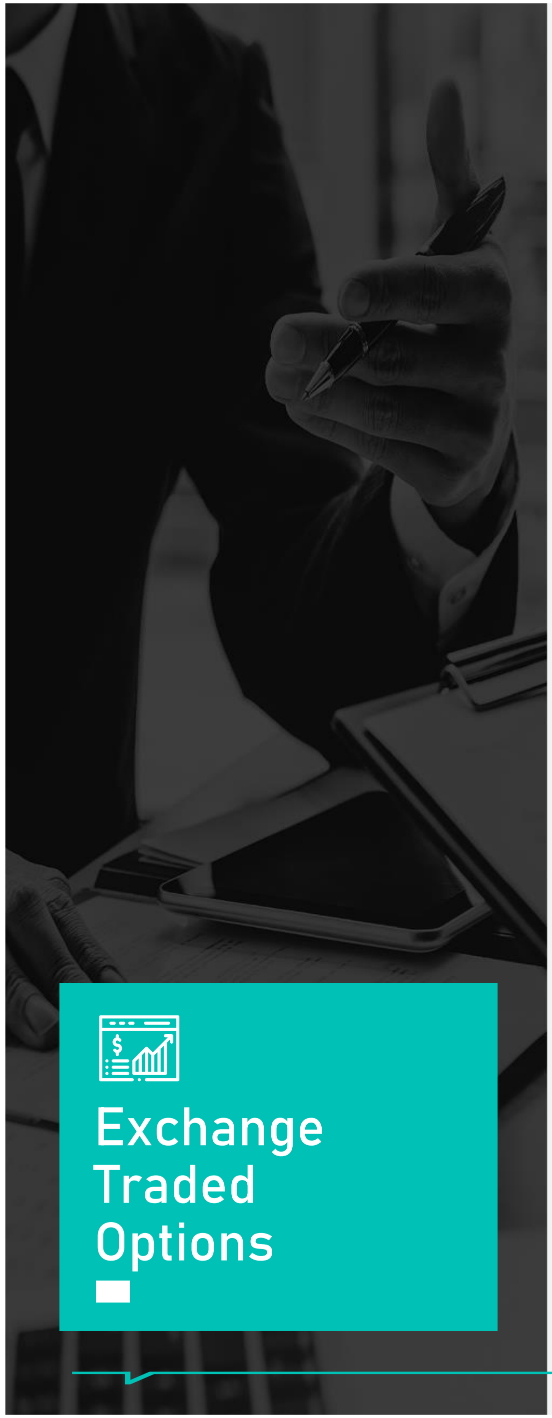
- Agreement to buy or sell at a predetermined price and date.
- Can be traded before the settlement date.
- Contracts may trade:
  - Bond futures;
  - Indices;
  - Commodities; or
  - Energy.
- Legally binding agreement that must be closed out or rolled over.
- Close out:
  - Physically deliver contracts;
  - Cash settlement; or
  - Offset.
- Purpose:
  - Leveraged speculation; or
  - Hedging.

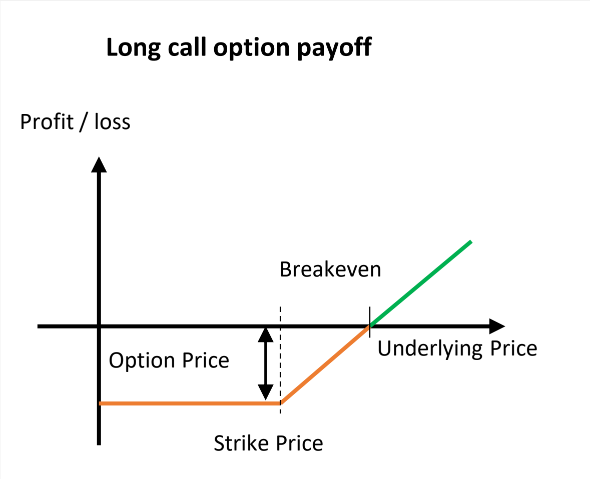
Futures are generally not appropriate for Retail investors.

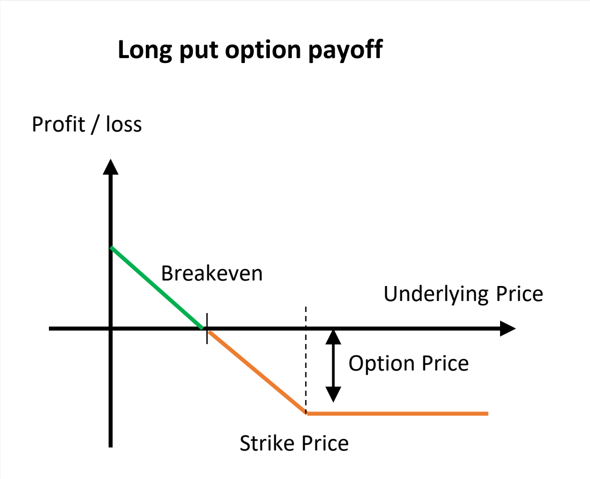
# Contracts for Difference

Contracts for Difference (CFDs) is a contract between two parties, a “buyer” and a “seller”. Generally these are highly leveraged investment structures (sometimes known as ‘spread betting’).

- An investor can take a long position if they think the asset price will go up, or alternative take a short position if they think an asset price will go down.  The outcome will determine whether the investor will make a profit or incur a loss.
- CFDs are cash-settled but usually allow significant margin trading so that investors need only put up a small amount of the contract's notional payoff.  As a result, CFDs can be very highly leveraged investments where price volatility or fluctuations can lead to wide spreads between the bid and the ask.
- Investors holding a losing position can get a margin call requiring the deposit of additional funds
- CFDs can provide an investor with all of the benefits and risks of ‘owning’ a security without ever ‘owning’ it.
- It has traditionally been considered advanced trading strategy for experienced traders and is not allowed in the United States.
- These assets include, but aren’t limited to:
  - Foreign exchange rates;
  - Share Prices
  - Indices
  - Crypto.






# Exchange Traded Options

An option is a right, but not an obligation, to buy or sell an agreed quantity of a security on, or before, an agreed (maturity) date for an agreed (strike) price.  The cost of the option is referred to as the 'premium'.

A basic overview of some option considerations:

- A call option is the right but not the obligation to buy a security at an agreed price on an agreed date.
- A put option is the right but not the obligation to sell a security at an agreed price on an agreed date
- An option can be a tool for investors to increase risk or decrease risk
- You can either be long (buy the option) or short (sell the option).
- A long call option can be a form of leverage because the cost of the option is generally much less than the share purchase.
- Options can be American (exercised at / or prior to maturity) or European (at maturity)
- An options position can be collateral covered (e.g. lodge the underlying security) or cash covered (which has margining requirements)

# Gearing

## Investment strategies and taxation considerations

# Negative gearing

Negative gearing means the costs of owning the asset exceed any income that you make.

- For example, an investment where the income (e.g. dividends) received is less than the interest cost of borrowing (e.g. interest expense).
- This may be attractive to investors due to the taxation benefits, as some or all of the cost above income may be tax deductible, and the investor may be eligible for franking credits.
- For an investment that you are seeking capital growth from, the aim is to have a asset price increase (value increase) that is greater than the investment price (plus any borrowing costs).
- Asset is usually either a property or share market linked investment

# GEARING

## Neutral gearing

Neutral gearing means the costs of owning the asset is equal to the income that you make.

- An investment where the income (dividends / distributions) and tax benefits are approximately equal to the cost of borrowing (interest expense).
- The goal is for the capital growth to provide profit over time.
- Asset is usually either a property or share market linked investment

# GEARING
## Positive gearing

Positive gearing means the costs of owning the asset is less than any income that you make

- An investment where income and tax benefits exceed the cost of borrowing.
- Often achieved by a mix of high yielding investments and low LVR borrowing.
- Often suitable for investors seeking an income stream.
- For long term investors mindful of total returns, where capital gains are expected to be minimal, investors may consider some level of dividend reinvesting.
- Asset is usually either a property or share market linked investment

# GEARING

## Tax considerations

As you approach the end of financial year, what are some additional taxation considerations when utilising leverage?

- Prepayment of your interest, as this may bring forward a tax deduction (subject to your tax advice) for the full interest amount in the current financial year.
- Consider your gearing strategy (negative, neutral or positive) against your expected tax position.
- Consider your potential versus realised capital gains for the financial year.
- Ability to have two years' worth of interest (and therefore any deductions) in a single financial year. An example would be a variable rate loan for a financial year (July to June) and then in June, setting up a pre-paid in advance loan facility that matures the following financial.

# SMSF Case Study

With zero growth, is it possible to build equity with leverage?

# Case study: zero growth
## Scenario assumptions

- Mike and Jess are both 31 years old and are the joint trustees for their dual-member SMSF.
- Mike and Jess's SMSF has $300,000 cash and they are considering investing 50% of that amount.
- They are comparing investments amongst instalment receipt product to acquire a share portfolio, an unleveraged share portfolio (of the same underlying shares) and a term deposit at a rate of 4.00%[1].
- Given their desire to use leverage, Mike and Jess's SMSF can invest in instalment receipts, using the $150,000 in cash to gain ~$200,000 exposure to high yielding Australian shares (at an LVR of ~25%).
- Mike and Jess are prepared for their SMSF to invest for up to 7 years, even if they assume the shares achieve zero capital growth.
- The tax rate for Mike and Jess's SMSF is 15%.
- Their SMSF's investment strategy and fund deed provisions include the ability to invest in shares and employ leverage.

1. 4.00% reflects rates advertised by the major Australian banks for 5-year term deposits (the longest term advertised).

# Case study: zero growth
## Scenario assumptions (continued)

- Total Investment Amount of $200,000. The total First Instalment amount of $150,000.
- Investment of equal weights in ANZ, WBC, WDS, RIO on 19 February 2024 at these assumed purchase prices:

| Stock | ANZ | WBC | WDS | RIO |
|---|---|---|---|---|
| Weighting | 25% | 25% | 25% | 25% |
| Purchase Price | 27.71 | 25.82 | 30.10 | 127.69 |

- Instalment Gearing facility Interest Rate is 9.60% pa (assumed constant over term)[1]
- Interest deductibility of 10.35% pa (assumed constant over term)[2]
- Capital growth in share portfolio of zero over the term with no negative price movements
- At the end of term, Mike and Jess's SMSF makes the Completion Payments and takes legal ownership of the Underlying Securities.

1. All interest is capitalised, all dividends are applied to reduce the total Outstanding Instalment Balance for all Instalment Receipts, and no Instalment Acceleration Events (margin calls) occur over the term.
2. The capital protected borrowing rules apply to the product. Consequently, interest may be deductible up to the Reserve Bank of Australia benchmark rate, being the indicator lending rate for standard variable housing loans - investor plus 100 basis points (currently 10.35% pa as at February 2024).

# Case study: zero growth
## Dividend and franking credit assumptions

| Financial Year ending 30 June: | | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|---|---|
| | | | **ANZ Bank** | | | | | |
| **ANZ** | Dividends | $0.81 | $1.62 | $1.63 | $1.63 | $1.63 | $1.63 | $1.63 |
| | Franking Level | 60% | 60% | 75% | 75% | 75% | 75% | 75% |
| | | | **Westpac Bank** | | | | | |
| **WBC** | Dividends | $0.70 | $1.42 | $1.42 | $1.42 | $1.42 | $1.42 | $1.42 |
| | Franking Level | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| | | | **Woodside Energy** | | | | | |
| **WDS** | Dividends | $0.74 | $1.46 | $1.41 | $1.41 | $1.41 | $1.41 | $1.41 |
| | Franking Level | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| | | | **Rio Tinto** | | | | | |
| **RIO** | Dividends | $3.92 | $8.82 | $8.93 | $8.93 | $8.93 | $8.93 | $8.93 |
| | Franking Level | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

* Dividend assumptions are based on Macquarie Research Equities forecasts as at 19 February 2024 and are indicative only. Estimated dividends are assumed constant from 2026 and may not reflect the actual dividends paid.

# Case study: zero growth
## Cashflow

| | 30 Jun 24 | 30 Jun 25 | 30 Jun 26 | 30 Jun 27 | 30 Jun 28 | 30 Jun 29 | 30 Jun 30 |
|---|---|---|---|---|---|---|---|
| **Pre-tax cash flow ($)** | | | | | | | |
| Distributions received | 5,572 | 11,545 | 11,530 | 11,530 | 11,530 | 11,530 | 11,530 |
| Interest paid[1] | (1,672) | (4,046) | (3,294) | (2,468) | (1,563) | (559) | 00 |
| **Pre-tax benefit / (cost)** | **3,901** | **7,499** | **8,235** | **9,062** | **9,967** | **10,971** | **11,529** |
| | | | | | | | |
| **Tax calculation ($)** | | | | | | | |
| Distribution received | 5,572 | 11,545 | 11,530 | 11,530 | 11,530 | 11,530 | 11,530 |
| Franking credits[2] | 2,138 | 4,447 | 4,626 | 4,626 | 4,626 | 4,626 | 4,626 |
| Deductible interest | (1,672) | (4,046) | (3,294) | (2,468) | (1,563) | (559) | 00 |
| **Taxable gain / (loss)** | **6,038** | **11,946** | **12,862** | **13,688** | **14,593** | **15,597** | **16,156** |
| Tax refund / (payment) @ 15% | (906) | (1,792) | (1,929) | (2,053) | (2,189) | (2,340) | (2,423) |
| Franking credits[2] | 2,138 | 4,447 | 4,626 | 4,626 | 4,626 | 4,626 | 4,626 |
| **Net tax refund / (payment)** | **1,232** | **2,655** | **2,697** | **2,573** | **2,437** | **2,287** | **2,203** |
| | | | | | | | |
| **Post-tax cash flow ($)** | | | | | | | |
| Pre-tax benefit / (cost) | 3,901 | 7,499 | 8,235 | 9,062 | 9,967 | 10,971 | 11,529 |
| plus: net tax refund / (payment) | 1,232 | 2,655 | 2,697 | 2,573 | 2,437 | 2,287 | 2,203 |
| **After-tax benefit / (cost)** | **5,133** | **10,154** | **10,932** | **11,635** | **12,404** | **13,258** | **13,732** |

1. This is the total annual interest amount an investor is required to pay out of their own funds. This slide does not show the benefit of any capital losses.
2. Subject to the investor's eligibility to claim franking credits and the investor's own circumstances.

# Case study: zero growth
## Leverage vs unleveraged vs Term Deposit comparison

This table provides you with a post-tax comparison of the potential returns from the different investment strategies.

| | Leveraged portfolio (25%) | Unleveraged portfolio | Term Deposit |
|---|---|---|---|
| **Initial Outlay** | $150,000 | $150,000 | $150,000 |
| Purchase Price of Underlying portfolio | $200,000 | $150,000 | - |
| Plus Dividends/income | $74,766 | $56,075 | $47,390 |
| Plus Interest | -$13,602 | - | - |
| Plus Initial Outstanding Instalment Balance | -$50,000 | - | - |
| Plus change in value of portfolio | - | - | - |
| Plus net tax refundable or payable during the term (considering franking credits) | $16,084 | $14,858 | -$7,108 |
| **Net equity position at maturity** | **$227,248** | **$220,932** | **$190,282** |

The above comparison is influenced by the dividend assumptions, interest rate assumptions and the investment term. Variations in the expected dividends may result in a significant difference in net equity position at maturity.

# Case study: zero growth
## Cashflow summary

- Investment is cashflow positive within the first year:
  - Mike and Jess's SMSF pays down its entire Outstanding Instalment Balance using excess dividends throughout the term.
  - Excess franking credits[1] can be used to offset tax payable, including super contributions tax, or may result in a tax refund.

- Over the entire term, total dividends received exceed interest expense by $61,164
  - total dividends received: $74,766
  - total interest expense: $13,602

- By **investing in a 25% leveraged instalment receipt facility, Mike and Jess are $6,315 better off** than if they had invested in the unleveraged portfolio of like shares and $36,966 better off than if they invested in a term deposit
  - Cumulative net after-tax benefit from 25% leveraged investment: **$77,248** (based on zero capital growth from the SMSF's portfolio).
  - Cumulative net after-tax benefit from unleveraged portfolio of like shares: **$70,932** (based on zero capital growth from the SMSF's portfolio).
  - Cumulative after-tax benefit from the Term Deposit: **$40,282** (based on $150,000 earning 4.00% pa over 7 years).

1. Subject to the investor's eligibility to claim franking credits and the investor's own circumstances.

# Case study: zero growth
## Understanding the return sensitivity

In this example, the Term Deposit investment would result in a better returns than the Instalment Receipt investment and unleveraged portfolio if:

- Mike and Jess's share investments have negative capital growth of -16.27% over the term (with constant dividends)
- Actual dividends are approximately less than 50% of the forecast dividends (with zero capital growth)
- Significant rises in prevailing interest rates.

| | Leveraged portfolio (25%) | Unleveraged portfolio | Term Deposit |
|---|---|---|---|
| Initial Outlay | $150,000 | $150,000 | $150,000 |
| Net equity position at maturity | $227,248 | $220,932 | $190,282 |
| **Term Deposit better return if share portfolio fall by** | **-16.27%** | **-13.87%** | **n/a** |

It is important to note that Instalment Receipts and Term Deposits have different risk profiles and provide different return profiles.

In this example, the instalment receipts provides zero capital growth (which is a conservative assumption relative to historical expected returns). However, the instalment receipts and unleveraged share portfolio both include benefits from dividend income and franking credits from Australian shares and is generally a riskier investment than a Term Deposit.

# Protected Lending Case Study

## How can protected lending safeguard my investments and leverage returns in a highly volatile market?

# Case study: Protected lending
## Scenario assumptions

- John, aged 50 has $100,000 available to invest annually for the next 2 years.
- John is considering whether to invest in a protected lending product or an unleveraged equities investment of like shares.
- Given John's risk and return preferences, he chose the protected lending product which is an interest only, limited recourse loan used to fund 100% of the investment in certain ASX listed securities and managed investment schemes (MIS).
- The investment is 100% principle protected with no upside caps.
- John requested a 2 year investment term and is prepared to hold onto the investment until end of the term.
- John requested to fix the interest rate for the entire term and prepay annually in advance. Throughout the term, John will use his available funds ($100,000 for each year for the next 2 years) to meet the interest payments as they fall due.
- John's Marginal Tax Rate including Medicare Levy is 47%.
- The underlying investments have been assumed to grow at 8.10% annually (based on the average return of the S&P/ASX200 observed over the last 20 years).

# Case study: Protected lending

## Scenario assumptions (continued)

- Investment consists Bell Financial Trust (BFT) [1], ANZ, CBA, WBC, NAB on 19 February 2024 at these assumed purchase prices:

| Stock | BFT | ANZ | CBA | WBC | NAB |
|---|---|---|---|---|---|
| Weighting | 50% | 12.5% | 12.5% | 12.5% | 12.5% |
| Purchase Price | $1.00 | $28.49 | $117.09 | $25.19 | $33.02 |

- John's invests in a portfolio of securities totaling $1,063,829
- Interest rate for this limited recourse loan is 9.40% p.a.[2] and has results in an interest expense of $100,000 p.a. The interest rate is below the RBA benchmark rate [3] that may otherwise limit the allowable deductions (currently this is 10.35% and is assumed constant over term).
- At the end of term, John can decide whether to:
  - Sell some or all the above securities (and repay the loan with the sale proceeds) or;
  - Retain some or all of the securities (by paying off the outstanding loan) or;
  - Refinance the positions with a new protected lending deal.

1. Bell Financial Trust (BFT) is at-call investment, which is a managed investment scheme administered by Bell Potter Capital. As at 19 February 2024 the trust have a distribution rate of 4.25% pa.
2. The interest rate is based a number of factors including the limited recourse nature of the product, the security selection(s), the investment term and the type of interest rate (variable or fixed).
3. The capital protected borrowing rules apply to the product. Consequently, interest may be deductible up to the Reserve Bank of Australia benchmark rate, being the indicator lending rate for standard variable housing loans - investor plus 100 basis points (currently 10.35% pa as at Feburary 2024)

# Case study: Protected lending
## Dividend and franking credit assumptions

| Financial Year ending 30 June: | | 2024 | 2025 |
|---|---|---|---|
| | **ANZ Bank** | | |
| **ANZ** | Dividends | $1.62 | $1.63 |
| | Franking Level | 60% | 75% |
| | **Commonwealth Bank** | | |
| **CBA** | Dividends | $4.55 | $4.51 |
| | Franking Level | 100% | 100% |
| | **National Australia Bank** | | |
| **NAB** | Dividends | $1.67 | $1.67 |
| | Franking Level | 100% | 100% |
| | **Westpac Bank** | | |
| **WBC** | Dividends | $1.42 | $1.42 |
| | Franking Level | 100% | 100% |

* Dividend assumptions are based on Macquarie Research Equities forecasts as at 19 February 2024 and are indicative only.

# Case study: Protected lending
## Cashflow

- Tax efficiency through potential franking credits[2] on dividends or distributions.
- Interest payments may be deductible up to the applicable benchmark rate for capital protected.[3]
- In this scenario, the investor is expected to receive a net tax refund of ~$29,000 p.a.
- The indicative after tax cost (or sometimes referred to as the holding cost) is expected to be ~$21,000 p.a.

| | 30/06/2024 | 30/06/2025 |
|---|---|---|
| **Pre-tax cash flow ($)** | | |
| Interest Payable by Client[1] | (100,000) | (100,000) |
| Dividends from Shares | 26,954 | 26,955 |
| Distributions from Bell Financial Trust ("BFT") | 22,628 | 22,604 |
| **Pre Tax Position** | **(50,418)** | **(50,442)** |
| **Tax calculation ($)** | | |
| Total Dividend / Distribution received | 49,582 | 49,558 |
| Franking Credit[2] | 10,255 | 10,737 |
| Deductible interest | (100,000) | (100,000) |
| **Income less deductions** | **(40,163)** | **(39,705)** |
| Value of net tax deduction (47%) | 18,876 | 18,661 |
| Tax Offset on Franking Credit[2] | 10,255 | 10,737 |
| **Net tax refund / (payment)** | **29,132** | **29,398** |
| **Post-tax cash flow ($)** | | |
| Pre Tax Position | (50,418) | (50,442) |
| Net tax refund / (payment) | 29,132 | 29,398 |
| **Indicative After Tax Position** | **(21,286)** | **(21,043)** |

1. This is the total annual interest amount an investor is required to pay out of their own funds. This slide does not show the benefit of any capital losses.
2. Subject to the investor's eligibility to claim franking credits and the investor's own circumstances.
3. The capital protected borrowing rules apply to the product. Consequently, interest may be deductible up to the Reserve Bank of Australia benchmark rate, being the indicator lending rate for standard variable housing loans - investor plus 100 basis points (currently 10.35% pa as at Feburary 2024)

# Case study: Protected lending
## Protected lending vs unleveraged investment

Scenario analysis of post-tax returns using different investment strategies shows that the protected lending portfolio would outperform the unleveraged investment portfolio by $91,309.

| Summary Details | Capital Protected Lending (100% protected) | Unleveraged Portfolio |
|---|---|---|
| Total Interest expense for protected lending | -200,000 | N/A |
| Total Initial investment for unleveraged investment | N/A | -200,000 |
| Purchase Price of Underlying portfolio | 1,063,829 | 200,000 |
| Capital Protected Loan | -1,063,829 | 0 |
| Plus Dividends and Distributions income | 99,141 | 18,638 |
| Plus net tax refundable or payable during the term | 58,530 | -6,668 |
| Change in Portfolio Value | 179,320 | 33,712 |
| **Net Equity Position at Maturity** | **336,990** | **245,682** |

1. The net tax refundable or payable includes deductible interest expense for protected lending and applicable franking credit. Franking credit subject to the investor's eligibility to claim and investor's own circumstances.
2. Based on the scenario's assumed growth in the investments of 8.10% p.a.

# Case study: Protected lending
## Protected lending vs unleveraged investment (continued)

**Outperforming Markets** (simulation of a 15% increase in the underlying price of the investment per annum)

- Protected lending portfolio would be $224,285 better off compared to unleveraged portfolio

| Outperforming Market | Capital Protected Lending (100% protected) | Unleveraged Portfolio |
|---|---|---|
| If portfolio up by 30% by end of the term | 343,085 | 64,500 |
| **Net equity position at maturity** | **500,755** | **276,470** |

**Underperforming Markets** (simulation of a 15% decrease in the underlying price of the investment per annum)

- In this scenario, due to the limited recourse nature of the loan, the unprofitable investments can be returned to Bell Potter Capital and John will receive the benefit of the protected amount (e.g. the Loan Amount). The Net Equity position for John has decreased due to the servicing costs (net of dividends received and taxation), but remains more favourable than the unleveraged portfolio return.

| Underperforming Market | Capital Protected Lending (100% protected) | Unleveraged Portfolio |
|---|---|---|
| If portfolio down by 15% p.a. by end of the term | 0 | -55,500 |
| **Net equity position at maturity** | **157,670** | **156,470** |

1. The net tax refundable or payable includes deductible interest expense for protected lending and applicable franking credit. Franking credit subject to the investor's eligibility to claim and investor's own circumstances.

# SMSF Case Study
## Important note

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# Protected Lending Case Study
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# Questions?