

Accelerate your wealth with less stress.

By gaining exposure to shares with a smaller initial investment, you can increase the amount of cash you have available to invest and significantly increase the money you earn from your investments.



“We are looking for ways to build a diversified share portfolio with limited capital.”

The Australian sharemarket offers a wealth of opportunities to investors for capital growth, income and diversification. One way you can potentially accelerate your returns from Australian shares is to borrow to invest.

Westpac Self-Funding Instalments (SFIs) offer an easy way for individual investors and self-managed super funds (SMSFs) to increase their exposure to the Australian sharemarket without the worry of margin calls. Importantly, you will still get many of the benefits of share ownership – like potential for dividends, franking credits and capital growth – all for less cash upfront.

Build a balanced portfolio faster

Marie and Alan have an SMSF and are looking for ways to build a diversified share portfolio with limited capital. They want to benefit from long-term capital growth from Australian shares and invest in a range of shares to help reduce portfolio risk. This is consistent with their SMSF’s constitution and investment strategy. Marie and Alan are also comfortable using a moderate level of gearing to accelerate the potential growth of their portfolio.

Marie and Alan have \$100,000 to invest and they select four shares which they have a long term positive view on; AMP, ANZ, BHP and WDC. By investing the full \$100,000, this gives them around \$25,000 worth of exposure to each share. Alternatively, they can invest in four Westpac SFIs over those shares and gain more than \$40,000 worth of exposure to each share.

Buying shares directly will give Marie and Alan \$99,934.97 of share exposure

| ASX Code | Price | Units | Amount Invested / Share Exposure |
|------------------------|---------|-------|----------------------------------|
| AMP | \$5.09 | 4,911 | \$24,996.99 |
| ANZ | \$23.24 | 1,075 | \$24,983.00 |
| BHP | \$46.05 | 542 | \$24,959.10 |
| WDC | \$9.81 | 2,548 | \$24,995.88 |
| Amount Invested | | | \$99,934.97 |
| Share Exposure | | | \$99,934.97 |

Buying Westpac SFIs will give Marie and Alan \$174,255.51 of share exposure

| ASX Code | Price | Units | Amount Invested | Share Exposure |
|------------------------|---------|-------|--------------------|---------------------|
| AMPSWG | \$2.84 | 8,803 | \$25,000.52 | \$44,807.27 |
| ANZSWG | \$13.47 | 1,856 | \$25,000.32 | \$43,133.44 |
| BHPSWG | \$27.16 | 920 | \$24,987.20 | \$42,366.00 |
| WDCSWG | \$5.58 | 4,480 | \$24,998.40 | \$43,948.80 |
| Amount Invested | | | \$99,986.44 | |
| Share Exposure | | | | \$174,255.51 |

Indicative pricing as at 20 January 2011. Please note the securities identified above have been chosen without reference to their particular economic profile or likely performance. This information should not be misconstrued as any opinion or recommendation in relation to the securities mentioned.

By using Westpac SFIs, Marie and Alan can:

- increase their share exposure by nearly \$75,000 for the same upfront cost.
- use their SMSF to borrow to invest.
- access more cash to diversify their portfolio.
- earn more dividends and benefit from additional franking credits.
- use excess franking credits to reduce contributions and earnings tax within their SMSF.

Like to know more?

Talk to your Business Development
Manager or call Adviser Relations
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Build or diversify your SMSF investment portfolio with less stress.

Westpac Self-Funding Instalments (SFIs) are one of the few eligible geared equity investments for self managed super funds (SMSFs).

Westpac SFIs are an easy way for SMSFs to borrow to invest in ASX-listed blue chip shares and exchange traded funds (ETFs) with:

- less capital outlay
- no risk of margin calls or early termination due to temporary share price volatility, and
- many of the benefits of share ownership, such as potential for dividends, franking credits and capital growth.

Gearing inside your SMSF with Westpac SFIs

Buy ASX-listed shares and ETFs in instalments

The first instalment is paid upfront:

- typically around 50% (based on initial listing date) of the cost of the underlying security
- includes a protection premium, along with the first year of interest.

Paying the second instalment is optional:

- it represents the limited-recourse loan component payable if you want to own the underlying share or units outright
- alternatively, you can sell your SFIs on the ASX at any time.

Using dividends to help pay your interest

- Ongoing interest is charged once a year on 30 June and is automatically added to your loan
- Dividends or distributions paid by the underlying securities are used to reduce your loan.

Managing tax in your SMSF more effectively

- Interest deductions and franking credits generated through your Westpac SFIs can assist in reducing the tax payable by your SMSF in the accumulation phase.

Case study: The after-tax cost of SMSF gearing with a Westpac SFI

Overleaf, we calculate the after-tax cost of using an SMSF to gear into CBA via a Westpac SFI (ASX code CBASWG). The results are summarised below.

| Financial Year | Initial capital outlay | Loan | Pre-tax interest cost | After-tax cost | Forecast dividend income |
|----------------|------------------------|----------------------------|-----------------------|---------------------|--------------------------|
| 2012 | \$30.00 | \$25.00 | \$5.00 | \$4.03 | \$3.00 |
| 2013 | - | \$23.76 | \$1.76 | \$0.82 | \$3.15 |
| 2014 | - | \$22.26 | \$1.65 | \$0.69 | \$3.31 |
| 2015 | - | \$20.47 | \$1.52 | \$0.54 | \$3.47 |
| 2016 | - | \$18.35 | \$1.36 | \$0.37 | \$3.65 |
| | | \$14.71 at maturity | | \$6.46 total | \$16.58 total |

Depending on your personal circumstances the after-tax cost can be more than offset by a range of potential benefits. These include freeing up capital, increasing exposure to underlying securities and getting protection if shares drop below the loan value.

Like to know more?

Visit our website at www.westpac.com.au/sfi, talk to your financial adviser, call us on 1800 990 107 or send an email to structured.investments@westpac.com.au

A range of potential benefits

Based on our assumptions, the total after-tax cost of a five year, 50% geared investment in a CBA share via a Westpac SFI is \$6.46. This after-tax cost:

- includes the after-tax cost of the protection feature which guarantees that there is no risk of margin calls
- includes the after-tax annual interest cost on the loan amount
- reflects the positive impact of franking credits that can be used each year to reduce the tax payable by the SMSF.

In our example, the after-tax cost of \$6.46 is more than offset by the after-tax benefit received from a total of \$16.58 in cash dividends (not to mention any capital growth that may be achieved).

At the same time:

- capital (nearly 50%) is freed up for other purposes
- share exposure (including benefits flowing from that share exposure like dividends, and franking credits) is increased by nearly 50% for the same upfront cost
- any capital gain from the shares that have increased in value above the loan amount can be retained
- dividends have been used to reduce the loan
- as a result of the protection facility, if the shares drop below the loan value, the shares can be handed back and there is no additional future payment required.

Assumptions:

Underlying Share: Commonwealth Bank of Australia (CBA)
 Westpac SFI code: CBASWG
 Underlying Share Price: \$50.00
 Westpac SFI First Instalment: \$30.00
 Westpac SFI Second Instalment (Loan Amount): \$25.00
 Investment Date: 1 July 2011

Completion Date: 30 June 2016
 Headline interest rate p.a.: 8.00%
 RBA benchmark rate plus 1%: 8.80%
 SMSF Tax Rate: 15%
 Assumed Dividend Yield on CBA: 6.00%
 Dividend growth p.a.: 5.00%

| Financial year ¹ | Loan ² | Pre-tax cost | | Pre-tax income | | | Taxable income | Income tax payable ⁶ | Excess franking credits | After-tax cost |
|-----------------------------|-------------------|----------------------------|---------------------------------------|----------------------------|------------------|--|----------------|---------------------------------|-------------------------|----------------|
| | | Interest cost ³ | Deductible interest cost ⁴ | Forecast dividend income | Franking credits | Grossed up dividend income (5)=(3)+(4) | | | | |
| | | (1) | (2) | (3) | (4) | (5)=(3)+(4) | (6)=(5)-(2) | (7)=(6)×15% | (8)=(4)-(7) | (9)=(1)-(8) |
| 2011/2012 | \$25.00 | \$5.00 | \$2.20 | \$3.00 | \$1.29 | \$4.29 | \$2.09 | \$0.31 | \$0.97 | \$4.03 |
| 2012/2013 | \$23.76 | \$1.76 | \$1.76 | \$3.15 | \$1.35 | \$4.50 | \$2.74 | \$0.41 | \$0.94 | \$0.82 |
| 2013/2014 | \$22.26 | \$1.65 | \$1.65 | \$3.31 | \$1.42 | \$4.73 | \$3.08 | \$0.46 | \$0.96 | \$0.69 |
| 2014/2015 | \$20.47 | \$1.52 | \$1.52 | \$3.47 | \$1.49 | \$4.96 | \$3.45 | \$0.52 | \$0.97 | \$0.54 |
| 2015/2016 | \$18.35 | \$1.36 | \$1.36 | \$3.65 | \$1.56 | \$5.21 | \$3.85 | \$0.58 | \$0.99 | \$0.37 |
| At maturity | \$14.71 | | | | | | | | | |
| TOTAL | | | | \$16.58⁵ | | | | | | \$6.46 |

¹ CBASWG purchased for \$30 on 1 July 2011.

² Continue to hold CBASWG. Each year the loan amount will be increased by one year's worth of prepaid interest and reduced by cash e.g. \$23.76 [2012/2013] = (\$25.00 + \$1.76 - \$3.00).

³ First year's interest cost includes protection cost for the full term. If the SFI is disposed of on the ASX prior to maturity the time value of the protection component will be refunded to you.

⁴ Interest costs are deductible up to the RBA benchmark rate plus 1%, the excess is the cost of a deemed put option.

⁵ In this example, tax payable on forecast dividend income has been fully offset by available franking credits.

⁶ Income tax payable is fully offset by available franking credits.

Don't let the \$25K contributions cap spoil your retirement plans.

Westpac Self-Funding Instalments (SFIs) are one of the few eligible geared equity investments for self managed super funds (SMSFs).

Being strategic about your super can help you build the savings you need for the retirement you want.

Westpac Self-Funding Instalments (SFIs) provide one way to overcome the limitations of the \$25,000 contributions cap and make the most of your SMSF super contributions.

Andrew's super challenge

Andrew is 45 years old. He manages his super, with his adviser, through his SMSF. The maximum amount Andrew can contribute to his SMSF at the concessional tax rate of 15% is \$25,000 a year. He is concerned that this limitation may force him to postpone some of the plans he has for his life after work.

How to get more out of his super contributions

Once the 15% contributions tax (\$3,750) has been paid, there is \$21,250 left to invest. Andrew, in his role as Trustee of the SMSF, decides to invest in Australian shares.

Andrew and his financial adviser think that shares in the Commonwealth Bank of Australia (CBA) have good growth and dividend prospects over the medium term so he decides to invest the contributions in CBA shares in his SMSF.

Andrew, as Trustee of the SMSF, has the option of:

- investing directly in CBA shares, giving a \$21,250 exposure; or
- increasing exposure to around \$35,000 by investing in a Westpac SFI over CBA shares.

The table below provides a summary of the outcomes for Year 1*.

| Year 1 comparison | Buy CBA shares (CBA) | Buy CBA SFIs (CBASWG ¹) |
|---|----------------------|-------------------------------------|
| Investment amount | \$21,250 | \$21,250 |
| Security price ¹ | \$49.68 | \$30.10 ² |
| Number of securities | 427 | 706 |
| Share exposure | \$21,213 | \$35,074 |
| Forecast dividend income p.a.* | \$1,350 | \$2,233 ³ |
| Forecast franking credits p.a.* | \$579 | \$957 ³ |
| Forecast taxable income p.a. | \$1,929 | \$3,190 |
| Potential interest deductions p.a. ⁴ | \$0 | \$1,491 |
| Tax payable at SMSF tax rate of 15% | nil | nil |
| Forecast excess franking credits | \$289 | \$702 |

1. Prices sourced from Bloomberg and IRESS on 9/11/2011. CBASWG was geared at 50% and expires on 30 June 2016.

2. The first instalment includes prepaid interest for year 1 and the cost of protection for the life of the loan.

3. Dividends are used to pay down the second instalment so whilst they form part of assessable income, they are not received by the investor. Franking credits are received by the investor.

4. Initial Interest Rate applicable on the Loan Amount for the SFI is 7.75% p.a. - this amount may vary. The RBA indicator lending rate for standard variable housing loans plus 100 basis points (currently, for November 2011, adding to 8.55%) has been used to determine the deductible interest amount.

* This example (including the Forecast dividend income p.a. and Forecast franking credits p.a.) is for illustrative purposes only and uses rates and figures that we have selected to demonstrate how the product works. It cannot be relied upon as any indication of the outcomes of the investment. Past performance is not a reliable indicator of future performance. The following assumptions also apply: the SMSF has absolute beneficial ownership of the securities and there is no bare trust; there are no corporate actions during the holding period of the SFI by the SMSF; any contribution by Andrew for the second instalment, maturity payment etc could count towards the contributions cap; Andrew has no other superannuation contributions other than the \$25,000 contribution above; borrowing fees and transactions costs have been excluded from this analysis.

The benefits of using Westpac SFIs

- After-tax contributions of \$21,250 can be used to create \$35,074 exposure to CBA shares.
- The additional exposure has the potential to generate excess returns if the CBA share price rises.
- The expected dividends, which have increased by \$883 each year, will be used to reduce the loan amount (the SFI's second instalment).
- As the annual interest cost (\$1,352) is lower than the forecast dividend yield (\$2,233), the investment can be self-funding.
- By increasing the expected franking credits by \$378 each year, the tax payable can be reduced.

With Westpac SFIs you can:

- Build a portfolio of shares and ETFs for less initial outlay.
- Use a conservative gearing strategy to accelerate your returns without margin calls or the need for a credit assessment.
- Enjoy the benefits of direct share ownership including the potential for capital growth, dividends and franking credits.
- Access a low maintenance investment. There are no annual payments to make as interest (offset by any dividends) is added to the loan amount each year.
- Buy and sell SFIs on the ASX

But you can't ignore the risks

- If the price of the underlying security falls, the price of the SFI will generally fall. Gearing can magnify losses as well as gains.
- The interest that Westpac capitalises to the loan may be higher than the dividends received from the underlying securities, causing the loan amount to increase.
- Any rise in interest rates will increase the amount added to the loan as interest.
- Tax legislation may change and affect any tax benefits or obligations.

These are not all the benefits and risks of investing in Westpac SFIs. Please see the Westpac SFI Product Disclosure Statement (PDS) for more information.

Like to know more?

Speak to your broker or adviser or to Westpac about how an SFI may help you get the most from your super contributions.

- Call us on 1800 990 107
 - Send an email to structured.investments@westpac.com.au
 - Go to westpac.com.au/sfi
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