

# Westpac Self-Funding Instalments.

**An opportunity to gain exposure to a range of ASX-listed securities and exchange traded funds (ETFs).**

200



200 years proudly supporting Australia



## If you'd like the potential to accelerate your wealth by borrowing to invest in the sharemarket, Westpac Self-Funding Instalments (Westpac SFIs) provide geared exposure to a range of ASX-listed securities and exchange traded funds (ETFs).

The Australian share market can offer a wealth of opportunities to investors for capital growth, income and diversification. One way you could potentially accelerate your returns from a range of Australian shares, stapled securities and ETFs is to borrow to invest.

### Westpac SFIs.

Westpac SFIs offer an easy way for investors including self-managed super funds (SMSFs) to build and diversify their exposure to the Australian share market, borrowing to invest without the worry of margin calls. Importantly, you will still receive many of the benefits of share ownership – like potential for dividends or distributions, franking credits (if eligible) and the potential for capital growth with a lower capital outlay upfront.

You can obtain full legal ownership of the underlying securities at any time up until the expiry date for the relevant Westpac SFIs (known as the 'Completion Date') by making the second instalment payment ('Completion Payment').

### Key Benefits.

- Leveraged exposure to the Australian share market
- Limited recourse loan
- Make the Completion Payment and receive full legal title to the underlying securities at any time
- If the price of the underlying security falls below the loan amount, the investor can walkaway at the Completion Date with no additional payments required
- Benefit from dividends/distributions and related franking credits received from the underlying security (subject to eligibility) with dividends or distributions automatically applied to reduce the loan amount
- No margin calls
- Buy and sell the Westpac SFIs on the ASX
- Potential tax benefit of deductibility of interest payments (depending on the investor's circumstances)
- No separate loan application or credit checks
- Available to SMSFs

### Why Westpac SFIs?

Westpac SFIs may suit investors wanting to:

- Build or diversify an investment portfolio with ASX-listed shares, stapled securities and ETFs but have limited funds available for investment
- Acquire ownership of a range of ASX-listed shares, stapled securities and ETFs in two payments, with no obligation to make the Completion Payment if they do not wish to acquire legal title to the underlying securities
- Benefit from any capital growth in the underlying securities

- By making a Securityholder application, unlock some of the value in existing security holdings without having to sell those securities and potentially creating a capital gains tax event (not available for SMSFs).

### What are the risks?

Some of the key risks associated with Westpac SFIs are set out below.

- Gearing can magnify losses as well as gains. If the price of the underlying security falls, the price of the Westpac SFI may fall at a greater rate and investors may risk losing some or all of their initial investment (known as the 'First Payment')
- The gearing level of your Westpac SFIs may change materially as the price of the underlying securities and the loan amount changes throughout the term of the Westpac SFIs
- The interest amounts that are capitalised to the loan may be higher than the dividends or distributions received from the underlying securities used to reduce the loan amount, causing the loan amount to increase
- Tax legislation may change and affect your tax benefits or obligations
- If you do not provide your TFN, ABN or proof of an exemption, we may withhold a tax amount from dividends or distributions received, and you may be required to pay an additional amount for tax in respect of any dividends or distributions that are not fully franked
- The Completion Date for a Westpac SFI may be brought forward where an 'Extraordinary Event' occurs

These are not all the benefits and risks of investing in Westpac SFIs. Please see the Product Disclosure Statement (as supplemented) (PDS) for more information ([www.westpac.com.au/sfi](http://www.westpac.com.au/sfi)).

## Westpac SFIs are eligible geared investments available to many SMSFs.

### How do Westpac SFIs work?

#### Get many of the benefits of owning ASX-listed securities and ASX-quoted ETFs without paying the full amount upfront.

Put simply, Westpac SFIs let investors including SMSFs buy ASX-listed securities and ETFs in two payments, known as 'instalments'. After making the First Payment, investors have access to many of the immediate benefits of securities ownership such as potential capital growth, dividends or distributions (used to reduce the loan amount) and franking credits. This can all be achieved for a lower capital outlay upfront compared to buying the underlying securities outright.

#### Optional second payment.

The second payment, referred to as the 'Completion Payment', is the loan component payable if an investor wants to obtain full legal title to the underlying securities. If you don't want to make the Completion Payment at maturity, Westpac will sell the underlying securities, pay off the loan and then pay the net proceeds (if any) to you.

The loan in respect of each Westpac SFI is limited recourse, which means that you will not be liable to pay any shortfall to Westpac in the event that the price of their underlying security is less than the loan amount when your Westpac SFI expires on the Completion Date. That is, if the price of the underlying security falls below the loan amount you can simply walk away with no additional payments required. Consequently there are no margin calls or credit checks.

Alternatively, you can sell your Westpac SFIs on the ASX at any time prior to maturity.

#### Ability to buy and sell on the ASX.

Westpac SFIs are quoted and tradeable on the ASX and may be purchased or sold on the ASX during their term like any other listed security.

There are a range of factors which affect the value at which the Westpac SFIs trade on the ASX. These factors include:

- the market price of the underlying security and the volatility of that price;
- the loan amount (degree of leverage);
- prevailing interest rates;
- the timing and expected amount of dividends or distributions to be paid on the underlying security; and
- the remaining term, i.e. the time remaining until maturity.

#### Dividends and distributions.

If you hold Westpac SFIs, any dividends or distributions paid on the underlying securities will be used to reduce your loan amount. This will occur automatically on the ex-distribution date for the relevant dividend or distribution.

You may also be entitled to receive the benefit of any related franking credits (subject to eligibility).

#### Interest Amount.

When you acquire a Westpac SFI, part of the First Payment is used to pay the 'Initial Interest Amount'. The Initial Interest Amount is a variable prepaid amount that will differ for each Series of Westpac SFIs and it includes the cost to Westpac of providing you with the protection of a limited recourse loan.

On each Annual Interest Date, generally 30 June, the interest amount is automatically paid by increasing the loan amount.

Depending on your circumstances and subject to the capital protected borrowing rules<sup>1</sup>, some or all of the interest may be tax deductible.

1. Refer Section 6 Tax Considerations of the PDS for further information.

## Westpac SFI Investment Cycle.

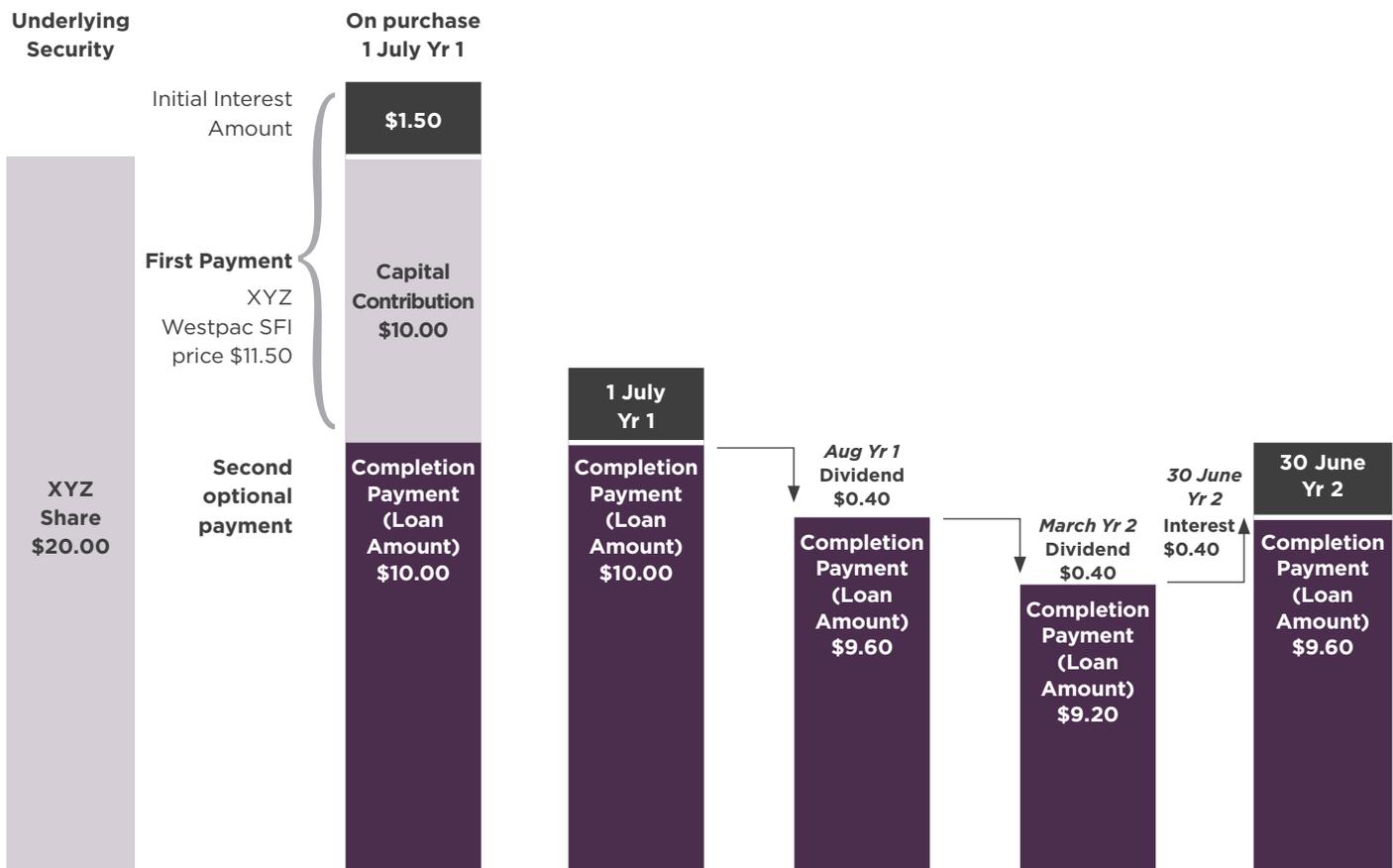
At the start	During the investment term	At maturity
<ul style="list-style-type: none"> <li>Select the ASX-listed security or ETF you want to invest in. Choose the relevant Westpac SFI.</li> <li>Invest in the Westpac SFI by purchasing on the ASX or by a cash application</li> <li>Alternatively, you may be able to acquire a Westpac SFI by transferring underlying securities you already hold to the security trustee and receiving a cash back amount (if any) (not available to SMSFs).</li> </ul>	<ul style="list-style-type: none"> <li>Interest is charged annually and added to the loan.</li> <li>Any dividends or distributions received from the underlying securities are used to reduce the loan.</li> <li>You may be entitled to franking credits attached to the dividends or distributions.</li> <li>You can sell your Westpac SFIs on the ASX at any time.</li> <li>You can choose to pay off the loan and take full legal title of the underlying securities at any time.</li> </ul>	<p>You can either:</p> <ul style="list-style-type: none"> <li><b>Do nothing</b> – we'll sell the underlying securities and pay the net proceeds (if any) to you.</li> <li><b>Make the Completion Payment</b> – you repay the loan in full and take full legal title of the underlying securities.</li> <li><b>Reinvest</b> – apply to rollover your existing Westpac SFIs into a new series of Westpac SFIs over the same security (if available).</li> </ul>

### What happens during the Term of the Westpac SFIs?

An investor purchases an XYZ Westpac SFI for \$11.50 on 1 July in Year 1 when the price of the underlying security, XYZ share is \$20.00.

Throughout the term of the Westpac SFI, dividends paid on XYZ shares are used to reduce the Completion Payment (the Loan Amount), whilst ongoing interest is charged once a year (usually 30 June) and automatically added to the Loan Amount.

**At any time prior to maturity, the investor can sell their Westpac SFIs on the ASX or make the Completion Payment and take full legal title of the underlying XYZ shares.**



The hypothetical example above is provided for illustration purposes only and assumes the price of each XYZ share is \$20.00 and a XYZ Westpac SFI price of \$11.50 as at 1 July in Year 1, a theoretical interest rate of 4.37% p.a. and two dividends of 40 cents each declared and paid on XYZ share during the relevant financial year.

Please note dividends cannot be reliably predicted and may not be declared or paid at all. The interest capitalised to the loan may be higher than the dividends received from the underlying security, causing the loan amount to increase rather than decline as shown above.

## Using Westpac SFIs.

Some of the strategies an investor can incorporate within their investment portfolio using Westpac SFIs are set out below.

Please note the examples are provided for illustrative purposes only and are not indicative of the pricing or likely performance of any Westpac SFI. They assume the investor is an Australian resident for tax purposes and is entitled to any franking credits on the underlying security. Generally an investor must satisfy the holding period rule to be entitled to the franking credits. Future/actual dividend or distribution performance and franking credits cannot be reliably predicted. The individual situation of investors may differ and investors should seek independent professional tax advice on any taxation matters. An investor should also consider the risks of investing in a Westpac SFI. Please refer to the PDS for more information.

### Strategy 1: Increased share market exposure using Westpac SFIs.

Westpac SFIs can provide increased exposure to a portfolio of securities for the same upfront cost as purchasing the securities.

An investor may also potentially capture a proportionally greater level of dividends or distributions and associated franking credits (if eligible) on the underlying securities.

#### How does it work?

As shown in example below, an investor could invest approximately \$100,000 in Westpac SFIs over ABC shares rather than buying ABC shares directly. This would result in:

- An increase in initial exposure to ABC shares by \$73,900, based on a price of \$20.00 per ABC share and \$11.50 per Westpac SFI.
- Over the course of a year, based on a dividend yield of 4% (fully franked) on ABC shares, a potential increase in the total amount of dividends and franking credits (if eligible) received from the underlying security of \$4,223. (The dividends are automatically applied to reduce the loan amount, which is initially \$10 per Westpac SFI.)

	Buy ABC shares	Buy Westpac SFIs over ABC shares
Investment amount	\$100,000	\$99,993
Price	\$20 per share	\$11.50 per Westpac SFI
Completion Payment (Loan Amount) per Westpac SFI	N/A	\$10
Initial gearing	N/A	50%
Number of securities or Westpac SFIs	5,000	8,695
Initial ABC share exposure	\$100,000	\$173,900
Assumed annual dividend per share	\$0.80	\$0.80
Assumed dividend income p.a.	\$4,000	\$6,956
Assumed franking credits p.a.	\$1,714	\$2,981

The above example uses an assumed level of fully franked dividends of 4% p.a. of the security price of \$20.00. Future/actual dividends and franking credits cannot be reliably predicted.

## Strategy 2: Leveraging investment solutions for an SMSF.

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

Westpac SFIs, with a moderate level of gearing and a longer investment term, may suit an SMSF which also has the ability to utilise excess franking credits (subject to eligibility). Excess franking credits in relation to any dividends or distributions paid on the underlying security may be available to offset the SMSF's taxable income and reduce the contributions tax payable.

### How does it work?

As shown in the indicative example below for a hypothetical year, if an SMSF investor, with \$100,000 to invest, wished to increase their exposure to Australian equities, they could invest into Westpac SFIs over a broad Australian equity ETF as an alternative to buying the underlying ETF. By investing \$100,000 in the Westpac SFIs over the ETF, the SMSF could:

- Increase their initial exposure to the underlying ETF by \$69,490.
- Potentially increase their excess franking credits entitlements by \$1,120 (based on a distribution yield of 4.0% (fully franked) on the ETF securities) which may be able to offset tax payable on additional taxable earnings or taxable contributions to the fund.

	ETF	Westpac SFI over ETF
Investment amount	\$100,000	\$99,999
Price	\$10.00 per security	\$5.90 per Westpac SFI
Completion Payment (Loan Amount) per Westpac SFI	N/A	\$4.72
Initial gearing	N/A	47%
Number of securities or Westpac SFIs	10,000	16,949
Initial ETF exposure	\$100,000	\$169,490
Assumed distribution income p.a.	\$4000	\$6,780
Assumed franking credits p.a.	\$1,714	\$2,906
Assessable income	\$5,714	\$9,686
Potential interest deductions <sup>1</sup>	\$0	\$3,496
Tax payable by SMSF at 15%	\$857	\$929
Excess franking credits (the amount of franking credits minus the tax payable by the SMSF)	\$857	\$1,977
The amount of potential earnings or concessional contributions that can be offset with excess franking credits <sup>2</sup>	\$5,714	\$13,180

1. Based on a theoretical loan amount of \$4.72 per Westpac SFI, a theoretical interest rate of 4.37% p.a and an Incurred Date Benchmark Rate of 6.80% under the capital protected borrowing rules.
2. The excess franking credits create an offset which may be used to offset the tax on additional income or taxable contributions (based on a 15% tax rate).

This example is for illustrative purposes only and assumes the investor is an SMSF paying a tax rate of 15% and the investor receives a full year of distributions and is entitled to all related franking credits on the underlying security.

Future/actual distributions and franking credits cannot be reliably predicted.

**Strategy 3: Diversifying an equity portfolio without selling existing shares (not available to superannuation entities including SMSFs).**

By transferring your existing shares to acquire Westpac SFIs, you could extract capital, allowing you to grow and diversify your portfolio whilst continuing to maintain your original exposure.

This should not trigger a capital gains tax event and the capital released can be redeployed for other investment purposes.

This is achieved by making what is known as a 'Securityholder application' to transfer the existing shares to the security trustee, receive Westpac SFIs and a 'Securityholder Cash Back' amount.

Please note that this strategy is not available for superannuation entities (including SMSFs).

**How does it work?**

An investor owns 1,000 XYZ shares. By transferring the XYZ shares into 1,000 Westpac SFIs over XYZ shares, they could:

- Maintain their exposure to any capital growth, dividends and franking credits associated with the 1,000 XYZ shares
- Receive a 'Securityholder Cash Back' amount of \$27,080 which they can use to purchase other securities thereby diversifying their investment portfolio
- At any time up until maturity, make the Completion Payment to take back full legal title of the XYZ shares, without triggering a capital gains tax event in relation to the shares.

Annual interest charged on the loan will be added to the loan amount on each annual interest date and any dividends paid on the XYZ shares will be used to automatically reduce this amount.

If the investor does not make the Completion Payment prior to the Completion Date (i.e. maturity of the Westpac SFIs) to take back full legal title of the XYZ shares, the underlying XYZ shares are sold at maturity and the investor receives any net proceeds in excess of the loan amount.

Existing shares	XYZ shares	
Security price	\$55.61	
Number of securities	1,000	
XYZ share Exposure	\$55,610	
		<b>Westpac SFI over XYZ shares</b>
Westpac SFI price (First Payment)		\$28.53
Number of Westpac SFIs		1,000
XYZ share exposure		\$55,610
Completion Payment (Loan Amount) per Westpac SFI		\$29.11
Initial gearing		52%
Initial Interest Amount (Westpac SFI price + Loan Amount - Security price)		\$2.03
Securityholder Cashback per Westpac SFI <sup>1</sup>		\$27.08
Total Securityholder Cashback amount (cash available for other investments)		\$27,080

1. The Westpac SFI price includes an 'Initial Interest Amount' (\$2.03 in the above example). This amount is deducted from the Loan Amount in calculating the Securityholder Cashback amount per Westpac SFI.

## How to buy Westpac SFIs.

### On the ASX.

Buy on the ASX through a stockbroker or financial adviser.

### Cash application.

Complete the application form accompanying the Product Disclosure Statement (PDS) for the Westpac SFIs and submit it to your stockbroker, financial adviser or directly to us.

### Securityholder application.

To transfer existing shareholdings into Westpac SFIs (if available) complete the application form accompanying the PDS and submit it to your stockbroker, financial adviser or directly to us.

Note this is not available for superannuation entities.

### Rollover application.

You may be able to roll over your current Westpac SFIs into a new series of Westpac SFIs over the same underlying securities (if available).

Superannuation entities can generally only acquire Westpac SFIs through a cash application or directly on the ASX.

### At a glance.

ASX SFI Code	<u>T L S S W R</u> <ul style="list-style-type: none"><li>• The first three letters are the ASX code of the underlying security e.g. TLS Telstra Corporation Limited;</li><li>• The fourth character identifies the type of warrant ie 'S' = Self-funding instalment warrant;</li><li>• The fifth character identifies the warrant issuer ie 'W' stands for Westpac; and</li><li>• The sixth character identifies the warrant series ie 'R' represents the R Series which mature June 2020.</li></ul>
Term	Ordinarily one to five years from the Issue Date as specified in the relevant Supplementary PDS
Underlying securities	A range of ASX-listed shares, stapled securities and ASX-quoted ETFs
Initial gearing level	Generally around, 30%, 50% and 70% (dependent on the series and underlying security) as at the Issue Date as specified in the relevant Supplementary PDS
Annual Interest Date	30 June
Interest	Charged upon acquisition of a Westpac SFI and subsequently calculated and added to the loan on each Annual Interest Date
Value	The value of a Westpac SFI takes into account factors such as the loan amount, current value and volatility of the underlying security, time to maturity, interest rates and dividend expectations

You can check the value of your Westpac SFIs at [www.asx.com.au](http://www.asx.com.au) or through your financial adviser or stockbroker.

### Like to know more?

For more information about Westpac SFIs, speak to your financial adviser or stockbroker, or:

- call our Investment Sales team on 1800 990 107
- send an email to [structured.investments@westpac.com.au](mailto:structured.investments@westpac.com.au)
- go to [www.westpac.com.au/sfi](http://www.westpac.com.au/sfi)

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**For more information:**



**1800 990 107**



**[westpac.com.au/sfi](http://westpac.com.au/sfi)**



**Talk to your financial adviser or stockbroker.**

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