GUIDE SERIES 9

FINANCIAL STANDARD GUIDE TO

Leveraged SMSF Strategies

PUBLISHED BY

FINANCIAL STANDARD.

PROUDLY SUPPORTED BY

Take control of your financial goals

Borrow to build your share portfolio.

UBS Investment Builders can help you to take control of your financial goals with a convenient and flexible way to borrow money and buy shares. For further information contact your broker, financial adviser or call UBS on 1800 633 100.

www.ubs.com/investmentbuilders

© UBS 2016. All rights reserved. Issuer: UBS AG, Australia Branch ACN 088 129 613 AFSL 231087. Before making an investment decision you should read the relevant UBS Dividend Builder Master Product Disclosure Statement (PDS) dated 17 October 2014 or the relevant UBS Share Builders Master PDS dated 25 September 2014 or 16 October 2015, as applicable and any accompanying Supplementary Product Disclosure Statements and the Term Sheet(s) relating to the relevant Series which are available by calling UBS on 1800 633 100 or visiting the website www.ubs.com/investmentbuilders This information does not take into account your objectives, financial situation or needs and is not a recommendation concerning an investment in UBS Investment Builders. Before acting on this information, you should consider its appropriateness having regard to your situation.

Contents

Growth of SMSFs and leveraged strategies **03**

SMSFs and LRBAs 04

How does SMSF leveraging work? **06**

Leveraging strategies for SMSFs **09**

Property 09

Instalment warrants 10

New innovations 11

Benefits and risks **13**

Tax and costs **15**

Fees **16**

Legal considerations **18**

Death of an SMSF member 19

UBS Investment Builders **20**

Case studies **22**

Case study one: Warrants help build wealth inside an SMSF 22

Case study two: Using leveraging to boost retirement assets 26

Glossary **28**

Editor
Mark Smith

Writer
Gayle Bryant

Creative Director
Paul Ortiz-Gomez

Director of Media and Publishing
Michelle Baltazar

Group Managing Director
Christopher Page

A: Level 7, 55 Clarence Street, Sydney NSW 2000
T: + 61 2 8234 7500 **F:** + 61 2 8234 7599

www.financialstandard.com.au

www.rainmaker.com.au

Financial Standard is the media division of Rainmaker Group, Australia's leading financial services company providing database services, industry research, consulting services and media. It publishes a range of titles including the Financial Standard newspaper, FS Advice, FS Super, FS Private Wealth and FS Managed Accounts. It also runs Professional Development programs and publishes video content through its proprietary platform, FSiTV.

Growth of SMSFs and leveraged strategies

Self-managed super funds (SMSFs) have become a core investment vehicle for Australians planning retirement. As the fastest-growing sector in the Australian super industry, they are becoming increasingly important in retirement and estate planning.

Total assets managed under SMSFs stood at $590 billion in 2015, according to the Australian Tax Office. In 2015, the number of SMSFs was 557,000, from a standing start only a couple of decades ago.

SMSF investors are demanding more control over their investments and spend a large amount of time seeking opportunities to build wealth. Financial planners play a major role in helping them identify the best strategies in which to reach their goals.

An increasingly popular strategy is leveraging. Also known as gearing, leveraging allows investors to use borrowed money to generate returns that have the potential to be greater than if they used only their own funds.

In this guide, we will review the leveraged strategies available, the regulatory environment and provide two case studies.

These days borrowing is a popular strategy for SMSFs as investors realise how difficult it is to reach retirement goals using their own funds, particularly in a low interest-rate environment. According to ATO statistics, the number of LRBAs within SMSFs has almost tripled in four years.

SMSFs and LRBAs

Within the super environment, borrowing is referred to as a limited recourse borrowing arrangement or LRBA. An LRBA means that the lending can only be secured against the asset being bought and there is no recourse for the investor personally or for the SMSF. This protects the SMSF's other assets.

An LRBA can only be used to purchase what is called a "single acquirable asset", which can either be a single asset, such as a property on a single title, or a collection of identical assets that have the same market value – such as a parcel of shares or units in a managed fund.

Regulators had previously frowned on borrowing by SMSFs but this changed in September 2007 when LRBAs were first introduced. Amendments were added in 2010 that further clarified the capacity of SMSFs to borrow to invest. Specifically, section 67A and 67B of the Superannuation Industry Supervision Act (SIS Act) stipulates that borrowing must take place using an LRBA.

These days borrowing is a popular strategy for SMSFs as investors realise how difficult it is to reach retirement goals using their own funds, particularly in a low interest-rate environment. According to ATO statistics, the number of LRBAs within SMSFs has almost tripled in the four years to June 30, 2014.

In fact, investing with leverage can be likened to building a house with power tools. While any DIY enthusiast will tell you that you have to be careful around power tools or risk injury, they are a means to build or repair a house much more quickly. It's the same with certain forms of leverage when it comes to building wealth.

How does SMSF leveraging work?

Many people are already familiar with borrowing to fund purchases such as their home, shares or managed funds, either in their own name or some other structure such as a company or trust.

Investors generally employ leveraged strategies because they don't have enough cash to buy an asset outright, or the returns generated by the asset are expected to exceed the after-tax cost of borrowing to buy it.

Borrowing to invest allows investors to purchase an asset immediately, rather than wait to save up for it.

As with any type of investment, care must be taken when implementing a leveraged strategy within an SMSF. Superannuation is a highly regulated environment and specialist advice is usually required when setting up a borrowing arrangement.

Before an SMSF can borrow to invest, its trustees must confirm that its trust deed is set up to allow it to do so. The trust deed and the governing rules of the SMSF set out the rights and obligations of the trustees and their powers to act.

Prior to borrowing being allowed within SMSFs it was common for deeds to have clauses that prohibited the strategy. If the deed doesn't allow borrowing, it will need to be altered before entering into an arrangement. Trustees are required by law to review the fund's investment strategy regularly so any proposed super borrowing arrangement should be reviewed for consistency.

SMSF trustees can either borrow from a financial institution such as a bank, or from a related party, such as the members of the SMSF, or an entity controlled by the members.

The SMSF is allowed to borrow providing it has a deposit that meets the lender's loan-to-valuation ratio requirements. If this is the case, the lender will provide the balance of the purchase price of the asset. The trustee then uses those funds to purchase a single asset (or collection of identical assets that have the same market value).

Assets that are bought via this arrangement are required to be held in a separate trust to the SMSF, called a holding trust, in order to protect the other assets of the SMSF. [The Australian Taxation Office refers to it as a holding trust while the SMSF industry calls it as a bare trust.]

Although the holding trust is the legal owner of the asset, the SMSF has a beneficial interest in the asset and any investment returns earned go to the trustees of the SMSF. The SMSF is also responsible for making the loan repayments. If the loan defaults, the lender's rights are limited to the asset held in the holding trust.

The SMSF can pay the loan in full at any time, provided the particular lender and loan product allow it. Once the loan is repaid, the trustees have the right to acquire legal ownership of the asset and it can then be transferred out of the holding trust.

SMSF trustees can either borrow from a financial institution such as a bank, or from a related party, such as the members of the SMSF or an entity controlled by the members.

Unlike margin lending products, there are no margin calls and the product can be sold on the ASX at any time.

Leveraging strategies for SMSFs

SMSFs can generally borrow to buy any asset that they can otherwise legally acquire. This includes property – both residential and commercial – shares, managed funds and exchange-traded funds (ETFs).

As there are contribution limits around super, leveraging is an effective strategy to build wealth.

For example, Susan wants her SMSF to purchase $200,000 worth of shares in a blue-chip company but her SMSF balance is only $100,000. Her SMSF will need to borrow at least $100,000 to purchase the shares. However, before Susan enters into an LRBA to buy the shares, she needs to ensure her SMSF will have the required cash flow to repay the interest on the loan. This cash flow can come from dividends, other super contributions, or returns from any other investment the SMSF may hold.

There are various leveraging strategies available to SMSFs, depending on what they want to purchase. The most common strategies involve buying property or shares using instalment warrants or, in keeping with the times, new innovations such as UBS Investment Builders.

Property

If more funds have been accumulated within an SMSF than outside, an SMSF trustee might consider buying a property through their SMSF.

For example, Henry wants to buy a $500,000 investment property. While his SMSF has a balance of $250,000, his only asset outside super is an online bank account with $50,000. Leaving aside purchasing costs such as stamp duty, if he bought outside super in his own name he would need to borrow at least $450,000. However, if his SMSF purchases the property, it would only need to borrow at least $250,000.

Restrictions exist around SMSFs purchasing assets from members or related parties to the SMSFs. However, an exception is “real property” where the property is used exclusively for business purposes. Business real property can be bought by an SMSF from a member or related party.

Where the business owner already owns his or her business premises, the SMSF may be used to buy the asset from the owner – freeing up their accumulated equity. The small-business CGT concessions may also be used to minimise capital gains tax on the transaction.

An LRBA cannot be set up over multiple residential or commercial properties. Individual LRBAs need to be established over each.

When implementing leveraged strategies within SMSFs, it is important to document the assets correctly, especially if the asset being purchased is an interest in another asset – such as a tenants-in-common interest in a property.

Proper documentation will prevent an LRBA from being deemed ineffective and non-compliant further down the track.

Instalment warrants

One of the most popular ways to use leveraging in superannuation is to buy instalment warrants, which allow investors to borrow a fraction of the value of a share.

Instalment warrants have been around for many years and require investors to put a down payment on a stock and repay the debt over a pre-agreed period. Typically, there are two payments. The first entitles the SMSF to all the dividends, franking credits and distributions paid on the shares, while the second payment is an agreed and fixed amount that finalises the purchase of the shares. However, the fund is not obligated to make the final payment and investors can walk away from the investment.

There are also self-funded instalment warrants which allow investors to borrow, for example, 50% of the value of the equity, while the dividends repay the debt over a set period.

New innovations

In recent years, product manufacturers have started developing solutions that are more in step with the times.

Investment Builders, for example, is a product suite from UBS that works much like instalment warrants, but with an added feature to address risks.

Like instalment warrants, they allow investors to buy shares, ETFs or listed managed funds on the Australian Securities Exchange, including the top 50 stocks in the local market.

SMSF investors pay a portion of the underlying share price themselves, while UBS provides an LRBA for the balance.

As with warrants, the investors are the beneficial owners and have exposure to the price performance, dividends and any franking credits. The dividends can be used to pay down the loan or received as cash.

The innovation lies in the product's "walkaway" feature, which means if the value of the shares falls to less than the loan amount at maturity, investors do not have to make any further loan repayments. This addresses concerns around volatile markets and is a means to protect investors from incurring further losses should markets fall.

Put another way, this means the investor can borrow to invest without the risk of defaulting on loan repayments.

In addition, unlike margin lending products, no margin calls are attached to Investment Builders and the product can be sold on the ASX at any time.

There are two options within the Investment Builders range: UBS Share Builders for those accumulating wealth and wanting to build a share portfolio while reducing the loan through the dividends; and UBS Dividend Builders, which use dividends from shares to provide an income stream.

If the share performs, then investors are putting less of their money down and getting a higher exposure to the assets than if they bought the investment using only their money.

Benefits and risks

A primary incentive for borrowing to invest is to build wealth. Over time investors will want net investment returns to exceed the after-tax cost of borrowing – whether the leveraged investment is inside or outside the super environment. (See the Case Studies section for examples of the benefits of leverage.)

If the share price rises, investors will be putting less of their money down and getting a higher exposure to the assets than if they had bought the investment using only their money.

Leveraged investors also receive the same dividends and franking as investors who are not leveraged.

But before setting up an LRBA, an SMSF trustee must seek professional advice. With or without using leverage, an SMSF is subject to a set of rules and requirements. If these requirements are not met, the fund will be in breach of the superannuation rules and may face penalties.

Borrowing to invest has a number of different risks, with some dependent on whether investors are borrowing within a super environment or outside it.

Say for example, an investor purchases a $100 share using $50 of his own money and $50 of borrowed funds – in other words – the gearing level is 50%. The share consequently performs poorly and becomes worthless. If the investor borrowed outside super using a margin loan, he would have lost the $50 he owned, the $50 of borrowed money, which still needs to be paid back to the lender, plus the interest the loan attracted.

However, if the investor bought the share using a limited recourse loan within an SMSF, he would only have lost the $50 of his own funds. The nature of the limited recourse loan means the loan never needs to be repaid.

Tax and costs

Tax on SMSF earnings is capped at the same rate as other types of super funds (15%). This means the maximum tax payable on any income earned within the fund is 15%. Any expenses such as interest, council rates, insurance and maintenance can be claimed as tax deductions by the SMSF.

Capital gains tax (CGT) is capped at 10% if a fund holds the asset for more than 12 months and potentially no CGT bill will apply at all if the property is sold after the trustees retire and the SMSF is in pension phase.

After the loan has been paid off, the legal ownership of the asset is then transferred from the holding trust to the SMSF. Trustees should seek legal advice on any stamp duty implications resulting from the transfer.

Non-SMSFs, such as industry or retail super funds, are charged interest on earnings each year that is automatically deducted from members' accounts.

However, as SMSFs are permitted to borrow to purchase assets such as property and shares (either through instalment warrants or Investment Builders), the interest and costs relating to a loan can be offset against other taxable earnings, which has the potential to reduce tax payable by the SMSF to zero.

Interest and costs relating to a loan can be offset against other taxable earnings, which can potentially reduce tax payable by the SMSF to zero.

Fees

The fees and costs related to SMSF borrowings vary widely depending on how the services and the products are provided and by whom. If an SMSF has not already been set up, there will be the additional cost of establishing one.

Typically, fees will be incurred for: establishing the holding trust, purchasing the property (e.g. valuation, mortgage application, conveyancing and stamp duty), stamp duty on the transfer of the asset, and investment asset advice.

Products such as UBS Investment Builders have fees that include the interest-rate costs on the loan, as well as a fee for the "walkaway" feature if used, which varies depending on the level of the loan and the specific stocks.

An LRBA can attract a higher fee than a non-super borrowing arrangement but, as its name suggests, provides the benefit of being "limited" only, protecting the rest of the borrower's financial assets.

The fees and costs related to SMSF borrowings vary widely depending on how the services and the products are provided and by whom.

Legal considerations

The assets SMSFs can buy using an LRBA are outlined in section 67A of the Superannuation Industry (Supervision Act). Under this Act, there are no restrictions on who can lend money to an SMSF under an LRBA. Usually the SMSF will borrow money from a bank or financial institution, but related parties, including SMSF members, may also lend money to the SMSF under an LRBA.

SMSF trustees need to ensure proper reporting and documentation around the LRBA is recorded. In particular, details of the loan, income, expenses, capital gains and asset value need to be documented in the SMSF's financial statements.

Until the SMSF pays its loan in full, legal title to the property is held in a holding trust. This trust needs to be established once the fund has loan pre-approval. The nature of the trust arrangement is important as it has implications for the flow of tax and stamp duty once the title of the asset is transferred from the holding trust to the SMSF trustee.

Note that the SMSF industry refers to the trust arrangement as a bare trust, with a custodian being the bare trustee. But the Australian Tax Office refers to the LRBA trust as a holding trust and has said that an LRBA trust arrangement is not strictly a bare trust. The nature of the relationship between the LRBA trust and the SMSF trustee depends on individual circumstances, including the terms of the legal documents that underpin the relationship.

The trustee of the holding trust needs to be independent of the SMSF trustee. He or she can be an individual (friend or relative), or a corporate trustee. The trust deed for the holding trust needs to be reviewed by the SMSF adviser to guard against tax or stamp duty issues.

SMSFs are not allowed to borrow to buy multiple assets in one holding trust. However, a single acquirable asset may include a collection of assets that are identical and have the same market value. For example, an SMSF can use an LRBA to buy 1,000 shares in the same company but not one LRBA to buy 500 shares in two different companies. It can however, use separate LRBAs to buy the two different parcels of shares.

Lenders assess the ability of the SMSF to service the loan in a number of ways that include member contributions, rental income and personal income streams. Some lenders may ask for a personal guarantee, but these are negotiable and do not need to be given.

Once the loan is repaid, the legal ownership of the asset reverts to the SMSF trustee. Note that the trustee of the SMSF cannot be the same as the trustee of the holding trust.

Death of an SMSF member

There should be a contingency plan in place in the event of the death of an SMSF member. It should be clear from the outset how the fund's assets will be disbursed to the right beneficiaries in order to address liquidity issues.

If the fund holds a large asset, it may be required to sell it, prompting a wind-up of an LRBA. Insurance exists to help deal with this type of risk.

SMSF trustees need to ensure proper reporting and documentation around the LRBA.

Sponsored statement

Target your investment goals with control, flexibility and transparency in your SMSF

Do you want to take Control of an investment goal?

BORROW

- To build a securities portfolio
- To build a dividend income stream
- To build assets and income in your SMSF
- To diversify

Are you looking for Flexibility when you invest?

UBS Investment Builders:

- ✓ Can be bought and sold on the ASX
- ✓ Allow you to choose the amount you borrow
- ✓ Allow you to invest as an individual, SMSF, trust or company
- ✓ Let you borrow without credit checks and margin calls

Do you like Transparency as you work toward your investment goals?

UBS Investment Builders:

- ✓ Observable pricing, live on ASX
- ✓ Daily pricing analysis on UBS website
- ✓ Annual summary to assist with tax returns

Take control of your financial goals

One step to borrow and build a share portfolio

UBS Investment Builders offer investors a convenient way to borrow money to build a portfolio of listed securities such as shares and exchange traded funds. You can purchase UBS Investment Builders directly via a broker the same way you buy shares listed on the ASX.

When you buy a UBS Investment Builder, you will receive exposure to price performance, dividends and potential franking credits from the underlying share.

To exit your investment you can simply sell the UBS Investment Builder on the ASX through your broker.

Select the UBS Investment Builder that best fits your investment goal:

- UBS Share Builders – helping you build your share portfolio
- UBS Dividend Builders – helping you build a source of dividend income from your shares

You can borrow without credit checks and all or part of the interest paid on the Loan should be tax deductible, making this a tax effective investment.

Are UBS Investment Builders right for you?

You may choose to buy UBS Investment Builders for the following reasons:

- Investment – you want to acquire a greater exposure to the underlying share than what you could buy with your own cash
- Convenience – no loan application forms, no credit checks, just buy on ASX via your broker
- No margin calls – you control the buy and sell decisions and you will not be forced to sell your UBS Investment Builders or be required to make additional cash payments if the underlying share price falls
- Walkaway Feature – if your Equity Value is zero at Maturity, the underlying share will be transferred to UBS and you will lose the Purchase Price paid but you do not have to make any further payment to repay your Loan
- Transparency in pricing – the amount you pay can be broken down into your initial Equity Value, Interest Amount and Fees (if any)
- Share ownership benefits – Dividends, potential franking credits and potential interest deductions
- Can be used by self-managed superannuation funds to implement a gearing strategy if purchased on the ASX or via a Cash Application or Rollover Application

UBS Investment Builders will not be suitable for you if:

- You are not familiar or comfortable with the risks of investing in listed shares, ETFs and securities or the risks of borrowing to invest
- You are looking for a capital protected investment – you can lose the entire Purchase Price paid for UBS Investment Builders
- You do not want to regularly monitor your investments – the price of a UBS Investment Builder is expected to be more volatile than the price of the underlying share
- You do not understand the terms applicable to a Series of UBS Investment Builders as set out in the Master PDS and Term Sheet

For further information contact

Peter Mermelas
Email: peter.mermelas@ubs.com
Telephone: +61 2 8121 5748
Mobile: +61 401 150 505
Web: www.ubs.com/investmentbuilders

Before making an investment decision you should read the relevant UBS Dividend Builder Master Product Disclosure Statement (PDS) dated 17 October 2014 or the relevant UBS Share Builders Master PDS dated 25 September 2014 or 16 October 2015, as applicable and any accompanying Supplementary Product Disclosure Statements and the Term Sheet(s) relating to the relevant Series, issued by UBS AG, Australia Branch AFSL 231087 and which are available by calling UBS on 1800 633 100 or visiting the website www.ubs.com/investmentbuilders This information does not take into account your objectives, financial situation or needs and is not a recommendation concerning an investment in UBS Investment Builders. Before acting on this information, you should consider its appropriateness having regard to your situation.

Case studies

Case study one:

Warrants help build wealth inside an SMSF

Daniel White is CEO of advisory firm CMH Financial, which typically caters to wealth accumulators, aged between 35-55 years. White says many of his SMSF clients are adopting leveraging and he uses the UBS Investment Builders suite as part of the product mix.

“We approached UBS to create the SYISSA and SYISSB series for our clients,” he says. “It is a listed investment that can also be accessed by the general public via the ASX. The SYI index consists of 42 stocks, which offers significantly less risk than single stock warrant portfolios.”

White says these Investment Builders allow an SMSF to use dividends to pay down the loan while benefiting from the franking credits. “This is why we describe a warrant as simply a principal and interest loan to buy more shares,” White says. “The dividends pay off the loan and once it’s paid off the fund takes possession of the shares.”

Like any form of gearing, instalment warrants let you buy more than you could instead of using only the cash you have. White cites one client, James, who wanted to fast track his super by leveraging.

"We helped James build a portfolio of self-funding instalment warrants of blue-chip shares," White says. "We chose a cross-section of 10 stocks, which resulted in his fund earning above market returns, while paying significantly reduced tax."

White says the biggest expense of most super funds isn't fees paid to advisers or fund managers, it is tax. "Self-funding instalment warrants can offset contributions tax from salary sacrificing as well as the 15% tax on income within super," he says. "Most of our clients reduce tax in their SMSF and still get a tax refund."

Instalment warrants with 50% gearing will generate an extra 6.15% a year of the value of an Australian share portfolio from extra franking credits and tax savings, White says. "We also use self-funding warrants to control the gearing level in the fund at an individual stock level," he says.

A critical point about warrants White says is to be aware of how cash-flow positive they are. "There are a lot of single stock warrants and even with 50% gearing they are not always cash-flow positive," he says. "It's easy to get caught out with that. If someone is going to buy warrants themselves rather than through an adviser, then they need to read the PDS back to front as they are all so different."

He adds SMSF clients like warrants because they are a low-cost way to borrow. "Unlike investing in property, you don't pay stamp duty on the purchase price of shares so it is a low cost to entry, they are easy to transact, and there's no additional legal fees," White says. "Warrants offer an easy and transparent way to borrow to invest in your super fund."

White says the following key points are ones he passes onto SMSF clients considering leveraging:

Key points

- Understand what you are investing in
- Know thyself – your personality and investor behaviour is a major, if not the main, risk factor to consider
- A warrant is a principal and interest loan to buy shares
- Ensure that your dividends are far greater than your interest – cash-flow positive
- Either diversify your portfolio or hold a single broad ETF
- Use the leveraging to buy more when prices are low
- Protect your downside: put options are better than "stop-loss"
- If it is cash-flow positive and the final value is greater than your purchase price then it makes sense to use a warrant
- Investing in warrants at a high price will magnify lower returns

Self-funding instalment warrants can offset contributions tax from salary sacrificing as well as the 15% tax on income within super.

Case studies

Case study two:

Using leveraging to boost retirement assets

Hau Nguyen is a director at Renaissance Wealth Advisors where clients typically want growth portfolio enhancement strategies for their personal and self-managed super funds.

"Clients want growth as well as risk management on such wealth strategies," Nguyen says. "And we've been using UBS Investment Builders as a risk management tool for the strategies."

Nguyen says during the global economic downturn in 2008, clients using margin lending were badly burnt by margin calls. This adversely affected their lifestyles and retirement plans. The lower current margin loan interest rates – some are around 5% compared with 8% previously – have not enticed investors back into wealth strategies that use margin lending.

Nguyen says while previously the firm recommended margin lending as a strategy, it now offers a "safer way of leveraging". He says instalment warrants are a good solution and also offer a more disciplined way of investing.

Jenny and Bill are a married couple in their 40s who came to Nguyen because they wanted to boost their retirement assets to support the lifestyle they had planned. They had $200,000 in their self-managed super fund and Nguyen suggested investing a portion in instalment warrants as they provide an eligible gearing strategy within the fund.

By parking $150,000 in managed funds and purchasing $50,000 in instalment warrants, Jenny and Bill were exposed to a greater dividend yield (including franking credits) compared with the same dollar investment in shares.

"The fund was initially geared at 20% and the dividends went towards paying off the loan," Nguyen says. "Over time, thanks to the repayment of the loan, Jenny and Bill owned the shares outright and had a larger SMSF balance than if they adopted a strategy that allowed for no gearing."

Nguyen says the firm has many enquiries from younger people who want to leverage into the property market but are finding the cash flow doesn't support the loan repayments. He says his firm is working on a strategy to use Investment Builders as an alternative to gearing into residential property for clients in this demographic.

Nguyen says the critical points he brings up when discussing leveraging with clients is the need to understand the risk associated with it. "They need to focus on it being a long-term strategy," he says. "The cash-flow element is also important – it needs to be a sustainable strategy so the dividends are able to pay the interest on the leveraging."

Glossary

Leveraging
Borrowing to purchase an investment asset - also known as gearing.

Limited recourse borrowing arrangement (LRBA)
A type of loan structure used within SMSFs where, if the SMSF is unable to meet its loan repayments, then the only SMSF asset to which the lender has access is the asset that was purchased using the loan.

Holding (or bare) trust
A trust that holds the asset bought using borrowed funds within an SMSF. It holds the asset until the debt is repaid and the SMSF trustee has a beneficial interest in the asset. [The Australian Taxation Office refers to this trust as a holding trust, while the SMSF industry refers to the trust as a bare trust.]

Instalment warrants
Structured financial instruments issued by a financial institution and traded on the Australian Stock Exchange. Structured products are a combination of a traditional deposit and a derivative where the return is dependent on the performance of an underlying financial instrument, such as a share.

Single acquirable asset
An LRBA can only be used to purchase a single acquirable asset, which may be a property on a single title but can also be an identical parcel of shares in one company only.

Self-funded instalment warrants
Warrants that allow an SMSF to use dividends to pay down the loan while benefiting from the franking credits.

Self-managed super fund (SMSF)
A superannuation scheme set up to provide retirement income for the members of that fund. The beneficiaries are also the members.

Trustee
The person/s responsible for ensuring the SMSF is maintained for the purpose of providing retirement benefits. An SMSF can have no more than four trustees.

Transparent investment goals

Borrow to build assets in your SMSF.

UBS Investment Builders is a cost effective alternative to margin lending.

For further information contact your broker, financial adviser or call UBS on 1800 633 100.

© UBS 2016. All rights reserved. Issuer: UBS AG, Australia Branch ACN 088 129 613 AFSL 231087. Before making an investment decision you should read the relevant UBS Dividend Builder Master Product Disclosure Statement (PDS) dated 17 October 2014 or the relevant UBS Share Builders Master PDS dated 25 September 2014 or 16 October 2015, as applicable and any accompanying Supplementary Product Disclosure Statements and the Term Sheet(s) relating to the relevant Series which are available by calling UBS on 1800 633 100 or visiting the website www.ubs.com/investmentbuilders This information does not take into account your objectives, financial situation or needs and is not a recommendation concerning an investment in UBS Investment Builders. Before acting on this information, you should consider its appropriateness having regard to your situation.

PUBLISHED BY

FINANCIAL
STANDARD.

PROUDLY SUPPORTED BY