

# SMSF BORROWING WITH WEALTHFOCUS INVESTMENT ADVANTAGE

## GEARING INTO A DIVERSIFIED PORTFOLIO OF INVESTMENTS WITH A SINGLE LIMITED RECOURSE LOAN.

### **BORROWING IN SELF-MANAGED SUPERANNUATION FUNDS**

Superannuation funds are only allowed to borrow within the narrow constraints set forth by the Superannuation Industry (Supervision) Act (the 'SIS Act'). Funds can gear investments only through limited recourse loans for a single acquirable asset.

The narrow constraints of the legislation outlines that superannuation funds cannot use a single loan to acquire a diversified portfolio of managed funds. To acquire a diversified portfolio a superannuation fund would have to use a series of separate loans, resulting in administration complexity and higher borrowing costs.

### **BORROWING USING WEALTHFOCUS INVESTMENT ADVANTAGE**

WealthFocus Investment Advantage is structured to provide capital gains tax efficiencies and allows SMSF investors to use a single loan to acquire a diversified portfolio of investment options. These benefits come from the investor's holding in WealthFocus Investment Advantage constituting a single unit in the Fund.

An investor can purchase a single unit in WealthFocus Investment Advantage regardless of the amount invested.

This single unit is defined by a bundle of rights including:

- The right to spread the investment across different investment options
- The right to switch investment options
- The right to withdraw money
- The right to make additional investments

If a SMSF wanted to diversify across five different asset classes using WealthFocus Investment Advantage, it could use one limited recourse loan to purchase a diversified portfolio of five separate funds. In a situation where the value of a particular fund falls below the amount borrowed to invest within that fund, the limited recourse would be tested against the net position of the five asset classes.

Contrastingly, if a SMSF wanted to diversify across five different asset classes using conventional managed funds, it would have to set up five separate limited recourse borrowings to acquire units in the five separate managed funds. If one particular managed fund goes down in value below the amount borrowed, the lender is required to bear the loss under the limited recourse terms. The loss cannot be offset against gains from the other managed funds. This increased risk to the lender will lead to a reduced willingness to lend and higher interest rates.

### **THE DISADVANTAGES OF USING MULTIPLE BORROWINGS**

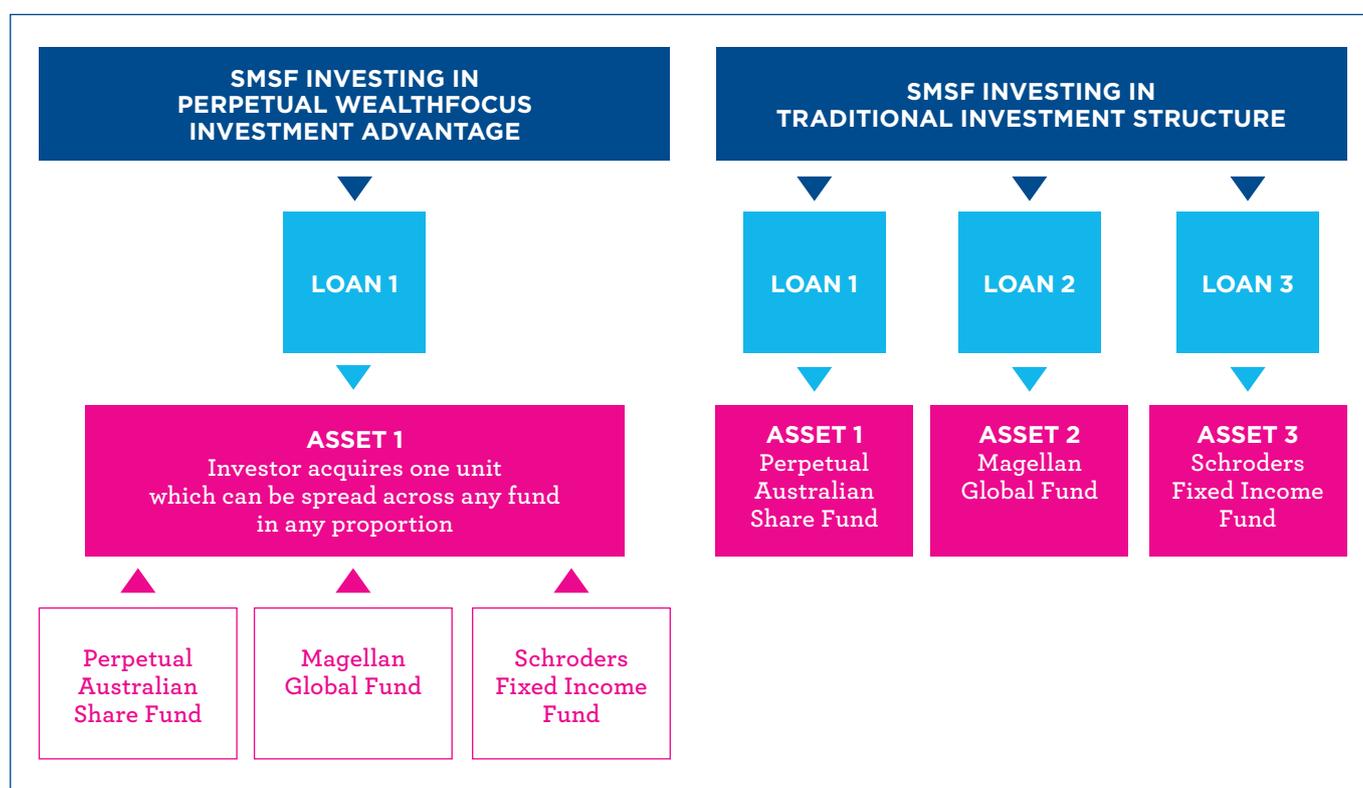
A geared diversified portfolio may be constructed using multiple limited recourse loans. This method has a number of disadvantages:

1. Multiple recourse loans increase the complexity and cost of a portfolio
2. Borrowings are limited recourse and the recourse needs to be separately limited under each borrowing
3. Borrowings recouped against a single investment option may be higher risk to the lender resulting in higher interest rates

## THE WEALTHFOCUS INVESTMENT ADVANTAGE DIFFERENCE

An investor in WealthFocus Investment Advantage acquires a single unit in the fund regardless of the amount invested, rather than multiple units in a range of managed funds. The investor can exercise their right to spread their investment across the range of investment options offered in any proportion they want. For the purposes of the SIS Act, this single asset can be acquired with a single borrowing.

Contrastingly, using a conventional structure the investor acquires multiple assets being multiple units in each unit trust. As illustrated, the investor would acquire three assets – the Perpetual Australian Share Fund, Magellan Global Fund and Schroders Fixed Income Fund. In order to construct a geared portfolio, the assets must be acquired with three separate borrowings.



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