

# SELF FUNDING INSTALMENTS

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## What are Key Benefits of SFI's:

### Instalment warrants (SFI's):

SFI's are a simple and effective way to gain long term *geared* exposure to ASX listed shares while still receiving the FULL benefit of any share price movements, dividends and franking credits for a partial capital outlay (usually around 50%).

SFI's can potentially accelerate your returns (both positive and negative) using the gearing approach without exposing the investor to any margin calls.

## Who can buy SFI's?

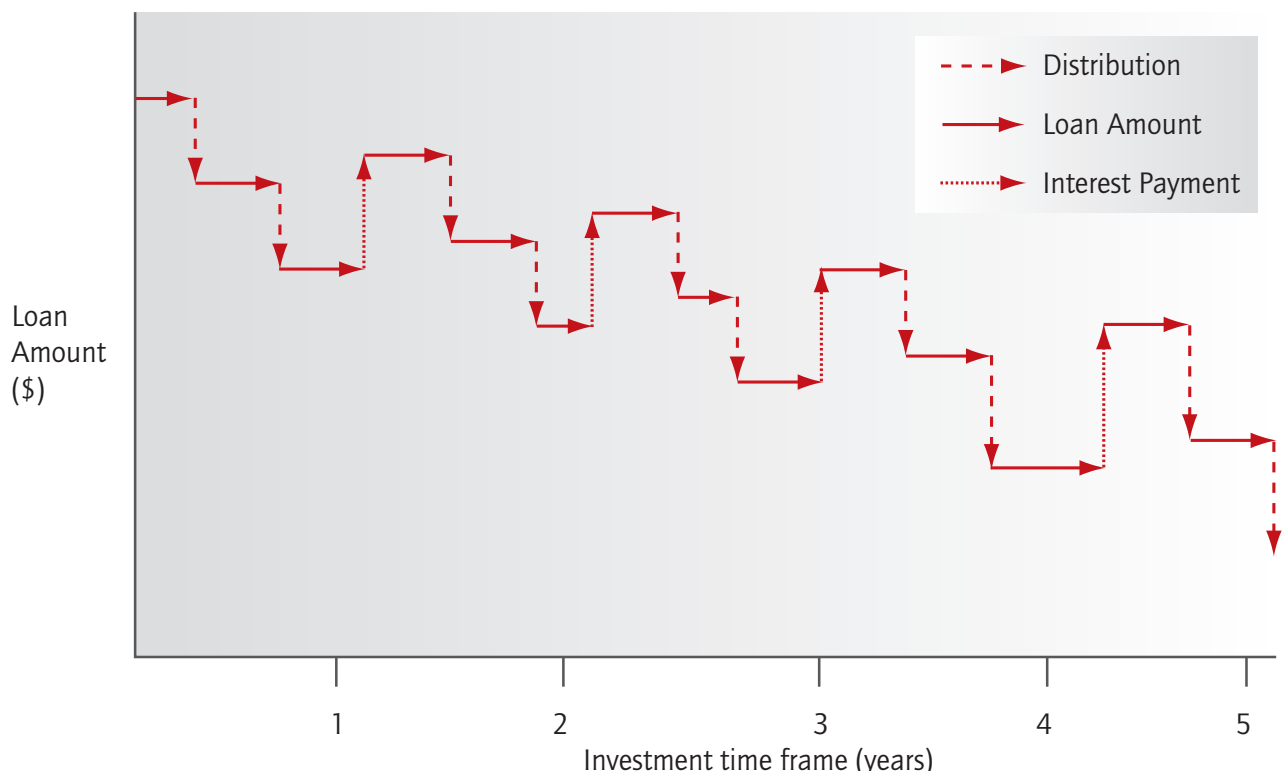
SFI's can be purchased by individuals, companies, trusts and Self Managed Super Funds. They are predominantly used for investors that have a 5-7 year plus time frame for the investment.

## How do SFI's work?

SFI's allow investors to buy shares in two payments, or instalments, to the underlying product provider.

The first payment is usually 40 – 60% of the current share price. Once the investor has made this initial payment they are then exposed to any share price movements (up or down). The self funding feature of the investment means that all dividends are used to assist in the repayment of outstanding money (loan amount or instalment payment) as well as assisting with the ongoing interest charges. This means that over time, if the dividends exceed the interest payments, the loan amount will reduce, resulting in a building up of equity in the SFI. Ideally the eventual result would be the investor owning the shares outright and having paid for them via the distributed dividends.

The second payment (if required) is not due until the term of the warrant has expired, with warrants existing for up to 10 years depending on the class chosen. At this time the warrants can be paid out by the investor less any dividends that have been used to reduce the loan, or it can be rolled into a new warrant.



## Key Benefits of SFI's:

1. **Potential to accelerate capital growth** – via the gearing exposure the investor is increasing their overall investment exposure without committing themselves to additional financial commitments. Minimum investments in SFI's is \$2,000.
2. **Geared share exposure with no margin calls** – despite the additional gearing the investor is not exposed to possible margin calls and the sell down of assets should the price of the underlying share decrease.
3. **Optional second payment** – at the investor's discretion they can decide if they want to purchase the shares outright, with the payments ideally reduced via the ongoing dividend distribution.
4. **No On-going payments** – after the initial payment the structure is "set and forget" in essence, with the investor not required to provide any on-going funding to keep the investment in place.
5. **Low administration** – the platform provider manages all dividend distributions and payment of interest as well as any tax related reports, while the investor is able to monitor the investment without any active involvement necessarily required.
6. **Potentially tax efficient** – investing in SFI's rather than shares can accelerate the number of excess franking credits that can be used to offset the tax liability on earnings and contributions tax for a Self Managed Super Fund.

## Example of the benefit of purchasing SFI's over purchasing direct stocks.

The following table compares the outcome of investing \$50,000 in ANZSZA versus ANZ shares within the superannuation environment.

The calculations show that through the use of SFI's the client is able to contribute \$12,310 and offset the contributions tax payable by the super fund, as compared to the investor that purchased direct equities, whose \$50,000 investment only allows them to offset the contributions tax on \$3,780.80 worth of contributions.

## Conclusions

This product is suitable for investors who have a 5-7 year time frame for the investment. Ideally you would utilise high yielding shares so the distribution will reduce the loan balance over the period as well as creating tax efficiency through the franking credits.

## Talk to Centre Capital

To arrange a meeting with one of our financial planners or advisors, please email [advice@centrecapital.com.au](mailto:advice@centrecapital.com.au) or call 1300 132 214. For further information, visit our website at [www.centrecapital.com.au](http://www.centrecapital.com.au)



	Buy ANZ Shares	Buy ANZSMUs	Calculations
Investment	\$50,000	\$50,000	
Price	\$25.69	\$12.69	Primary market price Investment comm
Units purchased	1,946	3,939	Investment / Price
Dollar exposure to ANZ	\$50,000	\$101,193	No. of units x ANZ Share Price
Forecast Dividend Income (\$1.36 DPS)*	\$2,646.56	\$5,357	Units x Forecast Dividends
Forecast Franking Credits (100%)	\$1,134.24	\$2,295.85	Dividends x 3/7
Gross Taxable Income	\$3,780.80	\$7,652.85	Income + Franking Credits
Potential Deductions	N/A	\$4,657.64	Assume 12 months interest
Taxable Income	\$3,780.80	\$2,995.21	Income – Deductions
Tax payable (15%)	\$567.12	\$449.28	Taxable Income x 15%
Excess franking credits	\$567.12	\$1,846.57	Franking credits – Tax Payable
Contribution & Earnings Shelter	\$3,780.80	\$12,310.46	Excess / 15%

\* Based on Commsec dividend rates as at 04.08.08. \*\* Table based on research provided via ASX website.

The advice provided in this document is General Advice only and we have not considered your personal circumstances. Before making any decision on the basis of this advice you should consider if the advice is appropriate for you based on your particular personal circumstances.