



BetaShares

Exchange Traded Funds

PREPARING FOR THE UPCOMING SUPERANNUATION REFORMS:

**CASE STUDIES WITH
BETASHARES FUNDS
FOR ADVISERS**



SUPERANNUATION REFORMS:

Imposition of a \$1.6m transfer balance limit

Highlights of reform:

- The maximum balance in pension phase to be capped at \$1.6 million from 1 July 2017.
- Balances over this limit to remain in Accumulation Phase (taxed at 15%).
- Potential to re-set CGT cost base for assets moved to Accumulation Phase before 1 July 2017 to comply with the transfer balance limit.

Strategy Insight 1: CGT cost base re-set

- As part of the super reforms, Self Managed Super Fund (SMSF) investors may have the opportunity to benefit from a potential resetting of the cost-base of investments moved to an accumulation account before 1 July 2017 in order to comply with the new SMSF regime*. Those investors who are able to benefit from a cost-base reset have the opportunity to consider alternative and potentially preferable exposures, without the burden of capital gain implications on long held investments.

Strategy Insight 2: Using franking credits to offset tax payable

- Franking credits can offset tax payable and are relevant to all investors, particularly SMSFs.
- Certain investment options, like the **BetaShares Australian Dividend Harvester Fund (managed fund) (ASX code: HVST)**, offer the potential for a high level of franking credits.
- Broad market equity exposures, such as the **BetaShares FTSE RAFI Australia 200 ETF (ASX code: QOZ)** and **BetaShares Managed Risk Australian Share Fund (managed fund) (ASX code: AUST)**, provide investors with a diversified portfolio that can be used as the core of an investment portfolio.



CASE STUDY: EXAMPLE

Anna is 66 years old, is currently in retirement and has an SMSF with a balance of \$2.4m. With the new balance transfer limit of \$1.6m for pension phase accounts about to come into effect, she will need to move \$800,000 back into "accumulation" and thus faces a tax rate of 15% on earnings on this balance.

For Anna, investing in a strategy that has the potential for a high level of franking credits can help to reduce her earnings tax liabilities for the portion of her funds that are in accumulation phase, which may assist her in maintaining higher levels of income that would otherwise be lost to additional taxes.

Relative to holding a bank stock like CBA, for example, Anna could potentially benefit substantially from the high level of franking credits HVST seeks to provide, if she chose to hold this investment as a meaningful portion of her \$800,000 accumulation balance.

Anna has the opportunity to substantially increase the after tax income in her accumulation account and may also be able to reduce market risk and volatility by incorporating HVST into her portfolio alongside other investments. Based on the assumptions in the illustration below, this strategy (Case Study 1 below) illustrates a 53% uplift in after tax income from the accumulation account relative to the alternative strategy of buying the bank stock alone for income and franking.

The table below breaks down the cash yield and franking components of an investment in HVST, CBA, QOZ and AUST respectively as stand-alone investments, assuming a \$400,000 investment and applying the historical yields of these investment options as at 10 Mar 2017. This is an illustration only and is not indicative of future performance:

Exposure	HVST	CBA	QOZ	AUST
Cash Yield	11.05%	4.99%	4.94%	2.59%
Franking	3.12%	2.13%	0.96%	0.91%
Cash Investment:	\$400,000	\$400,000	\$400,000	\$400,000
Income:	\$44,200	\$19,960	\$19,760	\$10,360
Franking (Including Excess Franking):	\$12,480	\$8,520	\$3,840	\$3,640

Source: Bloomberg. Cash yield and franking is based on 12 month historical yields as at 10 Mar 2017 and is subject to change. Not indicative of future performance.

*Please note there are several eligibility rules associated with this benefit, including the need for those assets sold to be owned prior to 9 November 2016, the need to elect in an approved form prior to lodgement of 2016-17 tax returns. Also note that the application of the relief differs depending on whether the SMSF is using the segregated or unsegregated method.

	SCENARIO 1 Blend HVST 50:50 with a broad market portfolio such as QOZ	SCENARIO 2: Blend HVST 50:50 with a risk managed broad market portfolio such as AUST	SCENARIO 3: Blend CBA 50:50 with a broad market portfolio such as QOZ
Cash income received:	\$63,960	\$54,560	\$39,720
Tax payable:	\$9,594	\$8,184	\$5,958
Franking credits:	\$16,320	\$16,120	\$12,360
	*franking credits exceed tax payable therefore \$63,960 distribution is income tax free, plus excess franking of \$6,726	*franking credits exceed tax payable therefore \$54,560 distribution is income tax free, plus excess franking of \$7,936	*franking credits exceed tax payable therefore \$39,720 distribution is income tax free, plus excess franking of \$6,402
Tax Free income	\$63,960	\$54,560	\$39,720
Excess franking credits	\$6,726	\$7,936	\$6,402
Total after tax income	\$70,686	\$62,496	\$46,122
Income yield on \$800k asset base*	8.84%	7.81%	5.77%

*After tax income yield on \$800k
Illustration only. Not indicative of future performance.



SCENARIO 1

If Anna invested \$400k into HVST and \$400k into an Australian broad market exposure such as QOZ, she would receive \$63,960 in income of which \$9,594 would be taxable.

Given that the portfolio generates \$16,320 of franking credits, this offsets the tax payable for Anna as well as leaving her with \$6,726 remaining franking credits which increases her total after tax income to \$70,686. This translates into an after tax income yield of 8.84%.



SCENARIO 2

If Anna invested \$400k into HVST and \$400k into a risk managed Australian broad market exposure such as AUST, she would receive \$54,560 in income of which \$8,184 would be taxable.

Given that the portfolio generates \$16,120 of franking credits, this offsets the tax payable for Anna as well as leaving her with \$7,936 remaining franking credits which increases her total after tax income to \$62,496.

This translates into an after tax income yield of 7.81% and her exposure to AUST will potentially have reduced volatility and provided a smoother investor experience despite changing market conditions.



SCENARIO 3

If Anna invested \$400k into CBA and \$400k into a broad market exposure such as QOZ, she would receive \$39,720 in income of which \$5,958 would be taxable.

Given that the portfolio generates \$12,360 of franking credits, this offsets the tax payable for Anna as well as leaving her with \$6,402 remaining franking credits which increases her total after tax income to \$46,122. This translates into an after tax income yield of 5.77%.

CONCLUSION: If one intends to add an income oriented investment to a broad equity market portfolio exposure, considering a fund like HVST rather than just buying bank shares may provide several benefits including:

- An income boost – 53.2% in the hypothetical example shown (Scenario 1)
- Added diversification over just holding a bank stock
- Reduced volatility
- Potential cushioning against downside market risk

FUND INFORMATION



BetaShares Australian Dividend Harvester Fund (managed fund) (ASX code: HVST)

HVST aims to provide investors with exposure to large-cap Australian shares, along with franked income that is **at least double the yield of the broad Australian share market** on an annual basis.

Using HVST investors have the potential to:

- Obtain enhanced franked income outcomes on large-cap shares
- Benefit from equity returns while cushioning downside market risk
- Enjoy a smoother investment ride – potential for significantly reduced volatility and a smoother investor experience despite changing market conditions
- Increase tax efficiency in investment portfolios via high levels of franking credits
- Benefit from monthly income payments including a distribution reinvestment plan (DRP)



BetaShares FTSE RAFI Australia 200 ETF (ASX code: QOZ)

QOZ aims to provide exposure to a diversified portfolio of Australian equities, weighted in a way that is reflective of the economic footprint rather than the market capitalisation of its constituents.

Benefits of QOZ include:

- Seeks to avoid potential of market cap indices to overweight stocks that are overvalued, and underweight stocks that are undervalued
- Breaks the link between price and index weight and so aims to produce superior long-term performance compared to using traditional market-cap weighted indices
- A core portfolio holding providing broad economic representation and transparency benefits
- A cost-effective complement and/or alternative to investments with active fund managers



BetaShares Managed Risk Australian Share Fund (managed fund) (ASX code: AUST)

Provides exposure to a broadly diversified portfolio of 200 of the largest Australian shares, while seeking to reduce the volatility of the equity investment returns and defend against losses in declining markets.

Using AUST investors have the potential to:

- Get exposure to Australian shares whilst mitigating the risk of market volatility and large drawdowns
- Benefit from dividends and franking credits available in the Australian share market
- Obtain equity exposure but alleviate concerns about uncertain financial markets

BetaShares Adviser Support Materials

- Third Party Research (Lonsec, Zenith, Morningstar)
- Portfolio analytics and modelling service
- Educational whitepapers/webinars on topics of interest
- Regular trading pieces delivered via email, demonstrating ideas that can be considered for clients
- BetaShares Educational Blog, including economic and markets insight from our Chief Economist, David Bassanese
- Investment Masterclass Series & other educational events
- Capital Markets Service
- Stay connected with regular updates on our social media channels



SUPERANNUATION REFORMS:

Reduction of concessional contribution caps

Highlights of reform:

- Annual cap on concessional contributions will be lowered to \$25,000 for all taxpayers from 1 July 2017.
- This has been reduced from \$30,000 for people under 50 years of age and \$35,000 for people 50 years of age or older.

Summary of Strategy: Maximise contributions through gearing

- Additional investment funds can be accessed through gearing without breaching the concessional contribution limit.
- Internally geared managed funds are an eligible way for SMSFs to access this strategy.
- Geared strategies allow investors to increase exposure to potential capital growth of the share market beyond contribution cap.
- Can increase exposure to income (and franking credits if available).
- BetaShares has available a geared exposure to the Australian share market, the **BetaShares Geared Australian Equity Fund (hedge fund) (ASX code: GEAR)**.



CASE STUDY: EXAMPLE

John is 55 years old, in full time work and for the past 5 years has been salary sacrificing \$35,000 per annum in additional super contributions in his SMSF which has a balance of \$1 million. From 1 July 2017, he will only be permitted to contribute \$25,000 per annum under the concessional tax regime.

If John invests \$10,000 of his contributions into the GEAR fund, assuming a gearing ratio of 60%, every \$1 of investment he makes in his SMSF adds approximately \$2.50 of market exposure, meaning a \$10,000 contribution would enable \$25,000 of market exposure from GEAR plus whatever other exposure he purchases with the remaining \$15,000 to give a total additional exposure of \$40,000 without exceeding the SMSF contribution cap of \$25,000.

In addition to this, John is also increasing his exposure to income and franking credits. By way of illustration, see below a comparison of distribution income and yield deriving from GEAR vs. a S&P/ASX 200 ETF (ASX code: STW), applying the historical yields of these investment options as at 28 February 2018.

	GEAR	STW
Initial Investment	\$10,000.00	\$10,000.00
Price [^]	\$15.16	\$45.90
Quantity Purchased	659	217
Distributions*		
Cash Distributions	\$857.84	\$446.98
Estimated Franking Credits	\$434.73	\$146.66
Estimated Gross Distributions	\$1,292.57	\$593.64
Estimated Gross Yield as a % of Amount Invested	12.93%	5.94%

[^] closing NAV as at 28 Feb 2016

* Based on distributions paid for last 12 months for GEAR and STW which are subject to change. Source: ASX, BetaShares, Bloomberg. Illustration only. Not indicative of future performance.



CONCLUSION

Adoption of this strategy has allowed John to remain within his lower contribution cap of \$25,000, however has provided him with the following additional benefits:

1. \$15,000 of additional exposure to the potential growth of the market.
2. A gross yield of 12.93% for the amount invested in GEAR relative to 5.94% for the broad market.
3. Additional cash income of $\$857.84 - \$446.98 = \$410.86$ to add to future compound returns.
4. Additional excess franking credits of \$288.07 relative to holding a broad market portfolio alone, which could be used to offset tax otherwise payable on contributions or income within John's SMSF of \$1920.47.



BENEFITS

The BetaShares Geared Australian Equity Fund (hedge fund) (GEAR) and BetaShares Geared US Equity Fund (hedge fund) (GGUS) provide investors with a simple way to obtain a cost-effective geared exposure to the returns of the Australian share market and US share market respectively. Benefits for investors include:

- **SMSF eligible** – a means to access gearing in SMSFs/super as a component of a diversified portfolio
- **No margin calls for investors** – gearing obligations are met by the Fund with no further recourse to the investor and no need for investors to provide collateral as security
- **Cost effective** – management fee lower than most geared fund alternatives
- **Wholesale funding** – Fund uses its capacity as wholesale investor to borrow at significantly lower interest rates than those available directly to individual investors



CONSIDERATIONS

Gearing magnifies gains and losses and may not be a suitable strategy for all investors.

Investors in geared strategies should be willing to accept higher levels of investment volatility and potentially large moves (both up and down) in the value of their investment.

Investors should seek professional financial advice before investing, and monitor their investment actively.

An investment in either Fund should only be considered as a component of an investor's overall portfolio.

The Funds do not track a published benchmark - past performance is not an indication of future performance.



IMPORTANT NOTE

The above case studies are illustrative only and do not take into account the particular circumstances of any investor. They are based on certain assumptions which may not prove to be accurate. The strategies may not be suitable for the risk profiles of all investors and are not a recommendation to adopt any particular strategy or investment. BetaShares is not a tax adviser and therefore investors should obtain professional tax advice before making any investment decision.

IMPORTANT:

PricewaterhouseCoopers has reviewed the tax related calculations included in the case studies.

This document is for the use of licensed financial advisers only. It must not be distributed to retail clients.

BetaShares Capital Limited (ACN 139 566 868 / AFS Licence 341181) ("BetaShares") is the responsible entity and product issuer of BetaShares Funds referred to in this document. The information in this document is general information only and we have not taken the individual circumstances, financial objectives or needs of any investor into account when preparing this information. Investors should consider their circumstances and the relevant PDS and obtain professional financial and tax advice before making any investment decision. PDSs are available at www.betashares.com.au. The information in this document is not a recommendation or offer to invest in BetaShares Funds or to adopt any particular investment strategy, and the strategies illustrated in this document may not be suitable for the risk profiles of all investors. You should make your own assessment of the suitability of this information. An investment in any BetaShares Fund is subject to investment risk and the value of units may go down as well as up.

Past performance shown is not an indication of future performance. Actual performance outcomes may differ materially from assumed or projected performance outcomes. The performance of BetaShares Funds is not guaranteed by BetaShares or any other person.

Future results are impossible to predict. This document includes views, assumptions, estimates and projections ("forward looking statements") which are, by their very nature, subject to various risks and uncertainties. Actual events or results may differ materially, positively or negatively, from those reflected or contemplated in such statements. Forward looking statements are based on certain assumptions which may not be correct. You should therefore not place undue reliance on such statements. BetaShares does not undertake any obligation to update forward looking statements to reflect events or circumstances after the date such statements are made or to reflect the occurrence of unanticipated events.

BetaShares is not a tax adviser. This information should not be construed or relied on as tax advice and you should obtain professional, independent tax advice before recommending any course of action for investors.

To the extent permitted by law BetaShares accepts no liability for any errors or omissions or loss from reliance on the information in this document.

PricewaterhouseCoopers is not licensed to provide financial product advice under the Corporations Act. To the extent that this document contains any information about a "financial product" within the meaning of the Corporations Act, taxation is only one of the matters that must be considered when making a decision about the relevant financial product. This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider taking advice from a person who is licensed to provide financial product advice under the Corporations Act. Any recipient should, before acting on this material, also consider the appropriateness of this material having regard to their objectives, financial situation and needs, and consider obtaining independent financial advice. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.



BetaShares