BT Professional Investment Loan

Innovative gearing strategies for Russell Investment's high dividend yield ETF

BT Super Investment Insurance Advice

Enhance returns with a BT Professional Investment Loan

In the current investment environment, the Reserve Bank (RBA) Cash Rate Target is at historically low levels and more recently there has been an emergence of confidence in investing in the Australian share market. Combining high dividend yielding shares and ETFs with conservative levels of gearing may enable investors to construct positively geared investments where dividends are used to offset interest costs on the loan amount. This also creates leveraged exposure to movements in the investment's price.

BT's Professional Investment Loan may enhance returns while building a diversified portfolio of Australian securities without the risk of margin calls during the life of the investment.

The BT Professional Investment Loan at a glance

Minimum Loan	$50,000
Max term	5 years
Repayment	Interest only with principal repayment on maturity
Early repayment	Ability to repay early without penalty (break costs may be payable on fixed rates)
Margin calls	No margin calls during the term of the facility
Capital protection	No
Gearing levels (LVR)	50% – 70% depending on the size of the loan

Case Study – Gearing strategies combining the BT Professional Investment Loan and Russell Investment's high dividend yield ETF

Robert is a professional who manages his investments with his adviser. He has $250,000 in a one year term deposit expiring next month and a positive medium to long term view of Australian shares.

His adviser has suggested he consider an investment in an Exchange Traded Fund (ETF) and has recommended he consider Russell's High Dividend Australian Shares ETF (RDV) which aims to deliver income through higher dividends and franking credits, as well as providing potential for capital growth.

His adviser presents him with two investment strategies.

1_Invest the $250,000 in RDV ('Ungeared RDV').

2_Gear the $250,000 by using an additional $250,000 to invest $500,000 in RDV. As Robert wants to eliminate margin calls, his adviser suggests he use BT's Professional Investment Loan, a 5 year term facility with no margin calls ('Geared RDV').

The adviser explains to Robert any investment decision should take into consideration:

- Interest costs associated with implementing the gearing strategy;
- Potential dividend income and franking credits generated; and
- Potential capital returns.

The following table shows a series of capital return outcomes (excluding costs associated with purchasing and disposing of the asset).

CAPITAL RETURNS (realised on RDV disposal, pre-tax)	1. Ungeared RDV	2. Geared RDV
Sale price:		
5% higher than purchased	$12,500	**$25,000**
10% higher than purchased	$25,000	**$50,000**
Same price as purchased – break-even	$0	**$0**
5% less than purchased	-$12,500	**-$25,000**
10% less than purchased	-$25,000	**-$50,000**

The following table demonstrates the after tax outcomes for the income generated by the respective investment strategies (after 12 months and excluding capital returns).

	1. Ungeared RDV	2. Geared RDV
INVESTMENT DETAILS		
Portfolio Equity	$250,000	$250,000
Total Loan Amount	$0	$250,000
INVESTMENT VALUE	**$250,000**	**$500,000**
OTHER DETAILS		
Term Deposit Rate (pa)	n/a	n/a
Fixed Loan Interest Rate (pa)	n/a	5.99%
Marginal Tax Rate	46.50%	46.50%
Implied Portfolio Dividend Yield	5.20%	5.20%
Franking Amount	$4,750	$9,500
PRE-TAX CASHFLOW		
Loan interest payable	$0	-$14,975
Dividends	$13,000	$26,000
PRE-TAX GAIN/(LOSS)	**$13,000**	**$11,025**
TAX IMPACT		
Dividends	$13,000	$26,000
Franking Amount	$4,750	$9,500
TOTAL ASSESSABLE INCOME	**$17,750**	**$35,500**
Deductable borrowing costs	$0	-$14,975
Taxable Income/(Loss) for tax purposes	$17,750	$20,525
Tax receivable/(payable)	-$8,254	-$9,544
Franking Amount	$4,750	$9,500
NET TAX RECEIVABLE/ (PAYABLE)	**-$3,504**	**-$44**
AFTER TAX POSITION	**$9,496**	**$10,981**

On an after tax basis, the Geared RDV strategy is self-funding – the strategy generates $10,981 in after tax income.

As the investment value using the Geared RDV strategy is twice that of the Ungeared RDV strategy, the Geared RDV strategy provides Robert with additional exposure to support his outlook on Australian shares.

Special End of Financial Year Fixed Offer

We are currently offering new Professional Investment Loan facilities a special 1 year prepaid interest rate of 5.99% p.a. for interest fixed prior to 30 June 2014.

Russell's High Dividend Australian Shares ETF at a glance

Fund name	Russell High Dividend Australian Shares ETF
ASX Ticker	RDV
Investment Objective	The Fund aims to provide a total return before costs and tax, in line with the Russell Australia High Dividend Index over the long term. The Russell Australia High Dividend Index is comprised of Australian blue-chip companies with a bias towards those that have favourable dividend characteristics
Inception Date	11 May 2010
Total Net Assets	$265.9m at 15 April 2014
Responsible Entity	Russell Investment Management Ltd
Management Costs	0.34% pa
Underlying Assets	Australian Equities (Physicals)
Distribution Frequency	Quarterly
More information	For more information about the Fund and to view a copy of the PDS, please visit www.russell.com/AU/exchange-traded-funds/products/RDV

Strategy Summary

1_Select from the Approved Securities List a Separately Managed Account, Exchange Traded Fund, or selected Australian Equities Managed Fund with high forecast dividends and franking credits.

2_Determine the appropriate level of gearing and fund the investment using BT's Professional Investment Loan.

3_Hold the investment for up to 5 years and receive all dividends and potentially be entitled to franking credits due over the period. The leverage in the portfolio may increase the income generated by the investment.

4_In addition to potentially receiving a higher investment income, any capital gains or losses generated by the portfolio will also be magnified through using leverage.

Investors who may find this strategy suitable

Investors:

- With a positive medium to long term outlook on the Australian equity market.
- Overweight cash and looking to increase their risk profile via a professionally managed investment.
- Comfortable with gearing.
- Not wishing to be subject to margin calls during the term of the investment.

Risks

With gearing, capital gains and losses are magnified. The higher the level of gearing, the greater the level of volatility in gains and losses.

With BT's Professional Investment Loan, your liability is not limited to the secured assets and you remain responsible to us for the full amount outstanding at the end of the loan. You also need to ensure you can fund your obligations under your loan including any interest payments due. If you do not meet your obligations under the facility, the securities may be sold and used to satisfy the amount outstanding.

How do I open a BT Professional Investment Loan Facility?

1_Request the application pack containing the Facility Agreement and related product collateral from your adviser or by calling us on 1800 990 107.

2_Ensure the application form is completed and submitted.

3_Send the completed application form plus all relevant supporting documentation to us.

For more information

Call 1800 990 107 Visit bt.com.au

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Important information about the case study

The purpose of this case study is limited to demonstrating the potential costs that an investor might expect during a 12 month period. The net tax receivable/payable could impact the cash flow in the year following the 12 month period depending on the tax arrangements of the investor, even though in the calculation it has been disclosed as expected in the 12 month period. In performing the cashflow table for 12 months it has been assumed that the investor will hold the BT Professional Investment Loan for the full 12 month term. We have not taken the financial situation, investment objectives or particular needs of any particular investor into consideration and recommend that investors consider the appropriateness of this information and seek independent advice before making any decision. In particular, this estimated costs case study does not contemplate the changing market value of the Securities; or the capital gains tax implications of a Loan maturing. This estimated costs case study is based on a number of assumptions. Please consider the explanation for each assumption listed below, and make an independent assessment of the validity of those assumptions, the likelihood of the assumption actually occurring, and the effect if the assumption does not come to pass. Many of these assumptions reflect BT's understanding of a typical investor's situation, but the validity of each assumption will depend on the individual circumstances of each investor. The individual situation of investors may differ and investors should seek independent advice. While every effort has been taken to ensure that the assumptions on which this estimated costs case study is based are reasonable, any projection may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ from those shown. A number of these assumptions also rely on historical analysis. Past performance is not indicative of future performance, and the outcomes may be materially different from those reflected in the assumptions. Any reference to taxation matters is a general statement only and should only be used as a guide. It does not constitute tax advice and is based on current tax laws and proposed announced tax amendments. The individual situation of investors may differ and investors should seek independent professional tax advice on any taxation matters.

1. Taxation. This estimated costs case study reflects the current:

- company tax rate of 30%; and
- top marginal tax rate of 46.5% (incorporating the Medicare levy but not the Medicare surcharge)
- note, from 1 July the Medicare levy will increase from 1.5% to 2.0% of taxable income.

This estimated costs case study proceeds on the assumption that there will be no other changes in relevant tax legislation during the term of this case study.

2. Dividends. This case study uses an estimated level of dividends per share based on data supplied by Russell Investment Management Ltd. ('Russell') as at 31 March 2014. Dividends are gross of Russell's fees. Dividends are discretionary and their quantum can change from the forecast dividends or may not be paid at all. The board of directors ultimately decide the timing and amount (if any) of dividends. Accordingly, the accuracy of dividend forecasts cannot be guaranteed.

3. Franking. The case study uses an estimated level of franking based on data supplied by Russell as at 31 March 2014. In calculating the Franking Amount numbers the forecast dividend has been used as the basis for the calculation. In addition, this estimated costs case study reflects additional assumptions that the investor:

- is an individual applicant;
- enters into the BT Professional Investment Loan and acquires the Securities for the purpose of deriving assessable income in the form of Dividends;
- has absolute beneficial ownership of the Securities;
- holds the Securities on capital account; and
- where dividends or distributions are franked the assessable income includes the dividend or distribution and the franking credits attached. The entitlement of franking credits is subject to the holding period rule. Investors will also need to consider their net delta position to determine their entitlement to franking credits; and
- earns taxable income otherwise, such that any tax receivable including any excess franking credits operate to reduce the investor's income tax liability. The cash flow impact on reducing the tax liability may only occur within the next 12 months following the year end as it depends on the tax arrangements of the investor.

4. Interest rates. Interest rates are indicative and are subject to change.

Important information about the product issuer

This information has been prepared without taking into account your personal objectives, financial situation or needs. For this reason, before acting on the information you should consider its appropriateness to your objectives, financial situation and needs and consider the disclosure documents, which include BT Investment Loan Application ('PIL') and the Russell High Dividend Australian Shares ETF Product Disclosure Statement ('PDS'). The PDS is relevant when deciding whether to acquire or hold that product and can be obtained by visiting http://www.russell.com/AU/exchange-traded-funds/products/RDV. The PIL Application can be obtained by visiting http://www.bt.com.au/investment/products/professional-investment-loan.

Russell High Dividend Australian Shares is a financial product issued by Russell Investment Management Limited ABN 53 068 338 974, AFSL 247185. It is not a deposit with or other liability of Westpac Banking Corporation ABN 33 007 457 141 ('Westpac') or any other company in the Westpac Group of companies. It is subject to investment risk, including possible delays in repayment and loss of income and principal invested. Neither Westpac nor any of its respective directors, officers, employees, associates or its subsidiaries guarantee or give any assurance in regard to the capital value, income return or performance of any investment offered in the PDS.

Information current as at 15 April 2014. BT14401-0414lc