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Accelerated Answers

Newsletter - Winter 2004

Welcome to our Winter 2004 edition

To kick off the new financial year, this edition highlights our *MyPortfolio* service. *MyPortfolio* provides a flexible information source for your ANZ Margin Lending account information such as Portfolio Value and Loan Balances. This online tool is particularly useful for ANZ Margin Lending clients as account information is automatically updated. This is offered at no additional cost – just another benefit of being an ANZ Margin Lending client.

In previous editions we have outlined a particular gearing strategy to show an example of how our gearing products can successfully accelerate a diversified portfolio. In this edition we highlight our Golden Age strategy, particularly suited to those who want to diversify their investments, increase superannuation assets for a non-working spouse and manage their tax position. If you are interested in more information about a gearing strategy that would suit your investment profile, please contact the ANZ Margin Lending Client Services Team.

Our new APEP Plus is set to attract a lot of attention now that we have received an ATO Product Ruling (PR 2004/61). This provides greater certainty to investors in respect of their tax outcomes from their investments. This product may be attractive to investors who wish to enhance their exposure to the sharemarket without committing their own capital. If you would like to know more about APEP Plus, download a Product Disclosure Statement from www.anz.com/go/apep or contact the ANZ Margin Lending Client Services Team.

ANZ's Chief Economist, Saul Eslake, provides an insightful economic update with the 2004-05 budget in mind. In particular, the impact of the income tax reductions, interest rate forecast and an outline of projected economic growth.

If you would prefer to receive any communications from us via email as opposed to hardcopy mail, please contact the ANZ Margin Lending Client Services Team on FREECALL™ 1800 639 330 between 8am and 6pm, Monday to Friday Melbourne time (excluding public holidays) or email us at **marginlendingonline@anz.com**.

Here's to a prosperous new financial year!

Robert Bell
Head of Margin Lending

Feedback

Remember, this is your newsletter. If you have any questions, comments or suggestions about 'Accelerated Answers' please email your feedback to **marginlendingonline@anz.com**

Coming Soon...

- An update on the Approved Securities & Managed Funds list
- A feature on another of ANZ's gearing strategies

Surprisingly rewarding. Surprisingly soon.

MyPortfolio – *your online tool*

The *MyPortfolio* tool provides Margin Lending account information exclusively to ANZ Margin Lending clients – at no additional cost!

MyPortfolio gives you the ability to access your account details via the Internet by going to www.anz.com/wealth and selecting the *MyPortfolio* menu item. It enables you to check your loan balance and the value of shares and managed funds in your portfolio, online at any time* that is convenient to you, with your account balances automatically updated. Should you wish, you can also grant permission for your financial adviser to gain access to your account details via *MyPortfolio*.

What are the benefits to you?

MyPortfolio provides you and (if you choose) your financial adviser the ability to:

- View a summary of your ANZ Margin Loan details
- View the value of the shares, managed funds and cash holdings in your portfolio
- Check your loan balances, including details of the current financial year's worth of transactions on your variable loan account
- View the detail of unsettled transactions
- Access a broad range of other ANZ product balance details (eg, ANZ Credit Cards, ANZ Loans, etc)
- View your account details to ensure that they are correct such as address and contact numbers, and
- Complete 'what if' scenarios using the Margin Lending calculator.

In summary, it offers you the convenience and flexibility to view the details of your margin loan at anytime* that suits you.

It's easy to register. Simply call our ANZ Margin Lending Client Services Team on 1800 639 330 and they will show you the way.

* Subject to system outages and availability

Lynda has been an ANZ Margin Lending client for many years, and a regular user of *MyPortfolio*.

Lynda says, "It is a powerful tool in helping me manage my investment portfolio – by checking the position of my margin lending account at the end of each business day. I can make informed decisions such as whether I'm in buffer or close to a margin call; I can determine whether to add more money to the account or sell a particular stock."

We invite you to discover for yourself, like so many of our clients already have, the many benefits of including *MyPortfolio* as part of your investment toolkit.

MyPortfolio

– an example of one of the

Position Summary

Assets	
Portfolio Market Value	$818,580.90
Portfolio Security Value	$573,044.13
Cash Balance	$10,000.00
Total Security Value	**$583,044.13**
Liabilities	
ANZ ML Fixed Loans	$35,000.00
ANZ ML Variable Loan	$150,908.59
Unsettled Transactions	$100,136.17
Total Liabilities	**$286,044.76**
Funds Available	**$213,955.24**
Gearing Ratio	33.72%
Loan to Security Value	49.06%

many available screens

Assets

The Portfolio Market Value shows the value of your stock as priced daily by the ASX at the close of trading on the previous business day.

The Portfolio Security Value is the total value that ANZ Margin Lending will loan you against your stock.

Cash balance shows how much cash you have in your linked V2 PLUS account. (V2 PLUS is not available to Margin Lending Online accounts.)

Liabilities

The ANZ Margin Lending Fixed Loans shows how much of your account is a fixed loan.

The ANZ Margin Lending Variable Loan shows how much of your account is a variable loan.

The unsettled transactions shows which trades are still to settle so you can reconcile any trades actioned by your broker.

The Total Liabilities is the sum of all three above items.

Funds Available

This shows how much extra money you have approved for further investment (gearing) should you wish to do so. The funds available balance is equal to the Total Security Value (including any cash balance in the V2 PLUS) minus the Total Liabilities.

The Gearing Ratio shows how far your portfolio is geared as a percentage. It is determined by loan value divided by the Market Value multiplied by 100.

The Loan to Security Value shows the percentage of loan divided by Security Value and multiplied by 100.

The Golden Age strategy

Here we highlight an ANZ gearing strategy called the *Golden Age*, which suits investors who want to diversify their investments, increase superannuation assets for a non-working spouse, and manage their taxation position.

The following is an example of a *Golden Age* strategy – please note this is for illustration purposes only.

Present situation

Kathryn, 45, is an executive within a large corporate. She and her partner Joe, 52, are financially very successful. Joe is currently not working and is considering returning to the workforce.

Kathryn's annual income	$200,000
Number of company shares (vested) as part of Kathryn's bonus structure	110,000
Value of company shares (vested) as part of Kathryn's bonus structure	$1,760,000
Number of executive options (held in trust) as part of Kathryn's bonus structure	50,000
Value of Kathryn's executive options upon exercising based on a market share price of $16	$800,000
Cost to convert Kathryn's options into shares (based on an exercise price of $10)	$500,000
Value of Kathryn's staff super fund	$142,000
Joe's super fund value	$26,000

Kathryn and her partner Joe now want to further diversify and grow their investment portfolio whilst minimising their taxation liability. How?

Leveraged solution

The ANZ *Golden Age* strategy can accelerate Kathryn and Joe's ability to diversify their current asset base. Their Financial Adviser establishes a recommendation that aims to address diversification issues, utilise taxation planning opportunities and increase Joe's superannuation. They can achieve this by opening a margin lending facility, which will also provide Kathryn the ability to convert her executive options into shares when she is ready.

Their Financial Adviser recommends using Kathryn's stock as security against the borrowings. Rather than investing the borrowed funds in individual shares Kathryn and Joe choose to invest in managed funds to achieve even greater diversification, as well as allowing investment professionals to manage their investments. Both Kathryn and Joe do not have the time or expertise to manage their investments.

Additionally, Kathryn and Joe have also been advised to establish their own superannuation fund. A Self Managed Superannuation Fund (SMSF) can provide a number of benefits, including flexibility of investment choice, ability to maximise taxation position, and ability to address estate planning and insurance issues within the SMSF environment.

Once the fund is established they roll Joe's superannuation balance of $26,000 into the fund. To increase Joe's account their Financial Adviser recommends that Kathryn makes an in specie transfer of 20,000 shares at market value to Joe's account. As there is a change in the beneficial ownership of these shares, there may be Capital Gains Tax (CGT) implications, including potential access to CGT concessions.

Now Joe's account has $26,000 in cash and 20,000 shares valued at $320,000 dollars. To diversify Joe's superannuation account it is recommended that he sell 10,000 shares. The proceeds of $160,000 are invested into a series of Instalment Warrants*. Kathryn also elects to exercise her options.

Kathryn's security value	$2,240,000
ANZ's loan contribution at 70% Loan Value Ratio (maximum is 75%)	$3,700,000
Loan Value Ratio chosen by Kathryn to minimise her chance of a margin call	50%
ANZ's loan value amount	$2,240,000
Growth on investment	5%
Income	3%
Interest rate on margin loan	7.49%
Are income distributions reinvested?	Yes
Time period	5 years
Amount accumulated after 5 years and repaying loan and capital gains taxes	$4,024,000

The calculation above does not include any additional potential benefits from the deductibility of interest and the impact of receiving franking credits.

The *Golden Age* strategy has increased Joe's superannuation balance and diversified his investments within superannuation, which based on financial modeling, will also allow Joe to utilise his Reasonable Benefits Limit (RBL) at retirement.

By using Kathryn's available equity they have been able to further diversify Kathryn's investment portfolio via the use of managed funds and provide potential tax benefits to Kathryn during the accumulation stage of her working life.

Strategy benefits

The *Golden Age* strategy delivers Kathryn and Joe with the following benefits:

- unlocks the value in concentrated positions to provide diversification without a Capital Gains Tax event being triggered on the shares provided as security value for the margin loan
- a facility to convert executive options to shares
- provides a vehicle to invest within the concessional tax environment of Self Managed Superannuation Fund
- potential tax benefits for interest costs associated with investment borrowing.

To find out more about the ANZ *Golden Age* strategy, or any of our other wealth creation strategies, please don't hesitate to contact the ANZ Margin Lending Client Services Team on FREECALL™ 1800 639 330.

* Self Managed Superannuation Funds are able to invest in Instalment Warrants only in particular circumstances, as a result of a joint APRA/ATO release dated 16 December 2002. Further information is contained in the ANZ Instalment Warrant Product Disclosure Statement.

Australian economic outlook

New Federal Budget - Financial market implications

The 2004-05 Budget has been framed with the forthcoming Federal election in mind, with the 'big ticket' items being directed at middle-income families with children. The Budget's centrepiece is income tax cuts totalling nearly $15bn over four years, through increases in the income thresholds at which marginal tax rates of 42% and 47% become payable. The Budget also provides for additional spending totalling nearly $30bn over the next four years, concentrated in the areas of payments to families with young children, health, aged care, education, defence, and infrastructure.

With the Federal Budget forecast to remain in surplus and an already low level of Commonwealth net debt, the implications of the Budget for the credit worthiness of the Commonwealth Government are very limited.

The Budget forecasts an underlying cash surplus of A$4.6bn for 2003-04 and A$2.4bn for 2004-05, estimates that are little different from consensus expectations of A$5.6bn and A$1.5bn. The economic growth forecasts upon which the Budget estimates are formed were also right on market expectations of 3.75% and 3.5%. In that sense, little to no reaction from financial markets was not surprising.

The Budget is framed on reasonably conservative economic assumptions. Economic growth is projected to average 3.5% in 2004-05, representing a marginal slowing from 3.75% in 2003-04. However, the mix of growth is expected to change significantly, with growth in domestic spending slowing from 6% in 2003-04 to 3.75% in 2004-05. Dwelling investment is forecast to fall by 3%, after a 6% increase in 2003-04. In addition, the expected 'flattening in aggregate' in house prices is anticipated to result in an easing in the growth rate of consumer spending from a robust 5.5% in the current financial year to 4.25% in 2004-05. Business capital spending, which is expected to have grown by 11% in 2003-04, is forecast to slow to 7% in the coming financial year.

While we do not have any major quarrel with Treasury's growth forecast, we expect that inflation may be a little higher, given that the A$ is likely to be weaker than the 'no change' assumption on which the Budget forecasts are predicated.

The net effect of the income tax reductions and other measures in the Budget is estimated to add about .5% point to economic growth in 2004-05, compared with what may otherwise have been anticipated.

That said, however, the Budget is likely to have little significant impact on financial markets.

On the outlook for short term interest rates, the Treasury makes no forecast. However, with the RBA seeking to restrain consumer spending and household credit growth, the Budget's net stimulus leaves the door open to higher interest rates. ANZ expects the next movement in the cash rate to be up although this is unlikely to occur until next year. The Treasury notes that the major uncertainties to the outlook going forward – mainly downward - are housing investment and borrowing.

Prospects for housing markets over the next six months or so will continue to be a key determinants of whether and how soon the RBA might need to lift rates.

Saul Eslake
Chief Economist, ANZ

If you would like more information on Australia's economy, please visit our website www.anz.com. Click on 'Corporate' then 'Economic outlook', under the 'News and Research' tab.

Investment Protection with APEP Plus

ANZ will lend approved clients 100% of the capital required (net of transaction costs) to purchase shares, without having to provide any equity. Investors are protected from any downside in the sharemarket.

That is, if the share price falls below your original purchase price, you will not receive a margin call.

*ANZ has recently received an ATO Product Ruling for our protected equity investment product (ATO Product Ruling PR2004/61)**

Passive Switch

A Passive Switch allows investors to sell the profitable securities in their portfolio and have the gains distributed to them.

This option can only be performed for profitable securities.

The initial loan amount that was used for the purchase of the security that has been sold is retained by the bank within a Cash Management Trust to be used by the investor for buying back the stock, or for repayment of the loan at maturity.

When repurchasing the security, the investor is required to buy back the same type of stock and same number of units.

Active Switch

An Active Switch allows investors to sell one type of security in their portfolio and acquire a different type of security.

This option provides investors with the ability to manage their portfolio exposure by switching among different companies. It may also be suitable for some investors who may have a 'conflict of interest' arise from holding a particular type of security.

When buying the new type of security, investors must buy the same dollar value to the loan amount used for the original security sold.

An Active Switch fee applies. This is due to the restructuring of the facility to protect the new security.

Loan Reset

A Loan Reset allows investors to draw down additional loan funds as a result of the appreciation in their share portfolio.

Investors can access and protect the unrealised gains, maintain their exposure to the security as it has not been sold, and release additional funds for investment purposes to help them further diversify their investments.

The security that has appreciated in value is used to calculate the additional loan amount available as well as having its protection increased to the new value.

A Loan Reset Fee applies. This is due to the restructuring of the facility to protect the security at the higher price.

The following case study demonstrates how each of the above product features can be utilised.

* Please note that the Product Ruling obtained will only refer to the application of Australian taxation laws to the APEP Plus and will not represent an endorsement by the ATO of the commercial viability of the product or its soundness as an investment, or commerciality of any fees charged. Any such Product Ruling will only be applicable if the APEP Plus facility is used specifically in the manner intended in the PDS and as provided for in the Product Ruling.

Case Study

Michael and Julie are joint applicants and together they have a $100,000 APEP Plus portfolio.

Their existing portfolio holds the following securities:

Security	Initial price	Initial value	Current price	Current value
ANZ	$15.00	$25,000	$20.00	$33,250
AMP	$20.00	$25,000	$5.00	$6,250
CBA	$30.00	$25,000	$28.00	$23,325
NCP	$10.00	$25,000	$15.00	$37,500
	Total	$100,000		$100,325
New Security				
PBL			$10.00	

Note: No accounting or brokerage costs have been taken into account in the above example.

Passive Switch Option

Michael and Julie elect to perform a Passive Switch to sell either ANZ or NCP. If they sell ANZ they can realise $8,250 and if they sell NCP they can realise $12,500. Alternatively they can sell both securities and receive $20,750.

The original loan tranche amount is retained in a Cash Management Trust to be used for buying back the securities at a later stage.

Active Switch Option

Michael and Julie elect to perform an Active Switch to sell their NCP.

They decide that they want to maintain an exposure to the Media industry and nominate to buy PBL with the proceeds.

They sell NCP and realise a gain of $12,500, and use the original $25,000 loan tranche amount to buy PBL shares.

Loan Reset Option

Michael and Julie elect to perform a Loan Reset on either ANZ or NCP.

If they elect ANZ, they can draw down an additional $8,250 and if they elect NCP they can obtain $12,500. Alternatively, they can elect to have a Loan Reset on both securities and obtain an additional loan draw down for $20,750.

They can now use this money for further investment and choose to buy PBL shares or any other approved security.

For more information on APEP Plus please contact the ANZ Margin Lending Client Services Team on FREECALL™ 1800 639 330, between 8am and 6pm, Monday to Friday, Melbourne time (excluding public holidays).

Your questions...

How do I change my contact details on my ANZ Margin Lending account?

ANZ Margin Lending require changes in your contact details to be in writing and signed by the account holder. These notifications may be faxed to our office on 03 9273 4601 or sent via Australia Post.

You can download a change of address notification form from www.anz.com/wealth/personalsolutions/marginlending

Please note that a change in contact details submitted to another part of ANZ may not guarantee that your ANZ Margin Lending details are updated (and vice versa).

How do I calculate the equity gearing ratio of my ANZ Margin Lending portfolio?

To calculate the gearing ratio of your portfolio, use the following equation:

Total Loan Balance minus V2 PLUS Balance (if applicable) divided by Portfolio Market Value and then multiplied by 100.

For example:

Total Loan Balance = $45,744.71

V2 PLUS balance = $0.00

Portfolio Market Value = $67,141.31

$$\frac{(\$45{,}744.71 - \$0.00)}{\$67{,}141.31} \times 100 = 68.13\%$$

When is a cheque fee payable?

The cheque fee of $7.50 is not applicable for requests to draw funds for purchase of managed funds and corporate actions. All other requests for funds via cheque will incur a fee of $7.50. This fee will be drawn from your loan account.

Need more information?

ANZ Margin Lending provides a range of gearing solutions to meet a range of investment needs:

- Margin Lending
- Protected Equity Investments
- Regular Geared Savings Plan
- Instalments
- Equity Manager (a home equity facility).

To find out more information about ANZ Margin Lending, you can contact our dedicated ANZ Margin Lending Client Services Team on **FREECALL™ 1800 639 330** from 8.00am to 6.00pm, Monday to Friday, Melbourne time (excluding national public holidays).

Or you can write to us at:

GPO Box 4338
Melbourne VIC 3001

Or send us an email at:
marginlendingonline@anz.com

You can also visit our website **www.anz.com** to find out about each gearing solution or download an offer document. Just go to:

www.anz.com/go/marginlending
for ANZ Margin Lending and ANZ Regular Geared Savings Plan

www.anz.com/go/apep
for ANZ Protected Equity Investments

Surprisingly rewarding. Surprisingly soon.