

AUSTRALIAN

# RESEARCH



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## Australian Managed Investments Instalment Warrant

# Quantum Portfolio Warrants

**Super-fund-compliant instalment warrants providing geared exposure to an investor-selected portfolio of equities and/or managed funds**

### Offer Overview

Quantum Portfolio Warrants (*Portfolio Warrants*) are issued by QuantumWarrants Pty Ltd (*Quantum*), a division of the Quantum Group. The Portfolio Warrants provide leveraged exposure to a portfolio of Australian equities and/or managed funds selected by the investor (from the approved securities list) through a limited-recourse loan. Owing to the limited-recourse nature of the loan, the Portfolio Warrants are a super-fund-compliant investment, as they meet the terms of the section 67(4A) of the *Superannuation Industry (Supervision) Act 1993* (the *SIS Act*). The loan-to-value ratio (*LVR*) of the portfolio can be up to 70% of the value of the underlying securities. The investor is required to make a payment of at least 30% (minimum A\$30,000) of the value of the underlying securities. The Portfolio Warrants have an investment period of 10 years from the issue date; however, a completion payment can be made or a redemption notice can be completed at any stage throughout the investment term to exit the warrants and either transfer ownership of the underlying securities to the investor or dispose of the underlying securities. Investors will not receive any dividends/distributions paid out by the underlying securities over the investment term, as these will be credited to the outstanding loan balance or reinvested. However, investors will be entitled to any franking credits distributed.

### Investment View

#### Investor Suitability

The Portfolio Warrants are a suitable investment vehicle for a self-managed superannuation fund seeking to invest in a portfolio of securities at a capacity in excess of its current capital holdings. Given the leveraged nature of the investment, we view the product as suited to those investors who have a medium to high tolerance for risk. Interest will be capitalised, and dividends/distributions from the underlying securities will be used to service loan payments; however, the distributions may not be sufficient to service the interest payments. The loan will be drawn down in this case if the LVR is within an acceptable range. Once the LVR of the portfolio increases above 75%, Quantum will sell off a portion of the underlying securities to reduce the LVR to acceptable levels. Given the leverage inherent in the product, investors should have a positive view of the securities selected to make up the portfolio. Investors should note that through the product they have only a beneficial interest and do not have legal ownership of the securities until the underlying securities are disposed of or transferred to the investor once the completion payment has been made (which is consistent with a normal warrant structure).

#### Recommendation

Aegis has assigned Portfolio Warrants with a **Recommended** rating. Note our rating covers the product structure only. Aegis notes that investors should carefully consider the choice of underlying securities. Aegis views it is beneficial to investors to include securities that historically have a strong dividend yield in an attempt to cover interest payments and other fees without the requirement for Quantum to sell off securities.

**The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.**

**Note:** This report is based on the Quantum Portfolio Warrants PDS, dated **22 February 2010**, together with other information provided by QuantumWarrants as at April 2010.



### Offer Details

Offer Period	Open
Listing Date	Not listed
Maturity (years)	10 years*
Min. Investment	A\$30,000
Distributions	None

\*Maturity date is 10 years from the issue of the Portfolio Warrants or upon a completion payment or redemption request being made.

### Risk/Return Profile



### Fees (paid to advisors), incl. GST, %

Upfront	Up to 0.5*
Ongoing	Up to 0.35**

Note: All advisor/broker fees are paid by investors. Fees can be negotiated between investors and advisors.

\*Of the initial instalment amount and loan amount or increases in the loan.

\*\*Of the total loan amount. This fee will be calculated monthly and paid on a quarterly basis. This fee will be paid out of the manager's own funds and based upon the loan balance.

## SWOT Summary

### Strengths

- The loan is organised by Quantum increasing the convenience of the product for those seeking a leveraged exposure to the domestic market. In addition, the limited-recourse nature of the loan means the Portfolio Warrants are super-fund-compliant.
- The Portfolio Warrants are able to be written over a portfolio of securities, subject to approved investments, unlike most instalment warrants, which are written over single securities, and the investor has the opportunity to select the portfolio.
- Investors require only a portion of the value of the securities up-front.
- No additional cash payment is required by investors throughout the investment term. The loan and any fees will be serviced with the dividends/distributions received from the portfolio or from the sale of the underlying securities in the event the dividends/distributions are not sufficient to cover the costs.

### Weaknesses

- Investors do not have the option of a fixed-rate loan and are, therefore, subject to the exogenous risk of the interest-rate environment.
- A sell-off of underlying securities to service interest payments and other costs during the investment term may trigger a capital gains tax (CGT) event.

### Opportunities

- Opportunity to benefit from the capital gains of the underlying securities over the investment term; however, in turn, investors may generate a capital loss. We note that due to the cost of capital and fees, returns need to be greater than those from a direct investment to generate a capital gain.
- Quantum is seeking to expand its approved securities list to include exchange-traded funds (ETFs). This will give investors an opportunity to gain leveraged exposure to ETFs, which provide a low-cost and tax-effective alternative to gaining exposure to market indices.

### Threats

- In the event of a substantial fall in the underlying value of investments, investors may incur a loss and loose control over the divestment of their investments.
- The interest rate sourced by Quantum is variable and is, therefore, likely to change throughout the investment term.
- Interest will be capitalised on the loan. Investors should be aware that this will result in the loan amount increasing by the amount of the interest payment. Dividends/distributions made by the underlying securities will be used to service the loan but may not be sufficient to service the interest payments, resulting in the issuer selling securities to reduce the LVR to acceptable levels.
- It may take one to two weeks to invest in the portfolio of securities. As such, the desired entry points for securities may not be obtained.

### Product Fees (paid by investors)

	Product	Sector Avg.
<b>Base Fees, % of Assets</b>		
Up-front <sup>1</sup>	Up to 1.25	1.9
Ongoing <sup>2</sup>	0.85	1.7
Exit <sup>3</sup>	0.25	0.25

<sup>1</sup>The up-front facility fee of 1% and a brokerage fee of 0.25% on securities purchased.

<sup>2</sup>The ongoing fee steps down from 0.85% to 0.45% p.a., depending on the investment amount (see the *Fees* section of the PDS). Note that portfolio churn will incur brokerage fees in addition to the fees mentioned.

<sup>3</sup>Brokerage of 0.25% of the value of the trade (minimum A\$65) will be incurred on the sale of listed securities.

### Total Fees, % of Expected Total Return\*

	Product	Sector Avg.
Upfront	4.2	2.8
Ongoing	6.5	13.5
Exit	0.4	0.3
<b>Total</b>	<b>11.1</b>	<b>16.5</b>

\* Assumes maximum fees and a return of 13% per annum by the product. Only considers product fees. Does not include loan costs.

### Product Costs

A variable interest rate is applicable for the loan incorporated in the Portfolio Warrants. Interest is paid monthly in arrears. The rate as at April 2010 is 8.8% p.a.; however, as the interest rate is variable, the rate may change.

### Indirect Fees

Investors may incur additional fees such as management fees, exit fee and performance fees as a result of an investment in a managed fund.

### Fee Commentary

The facility fee and the administration fee are viewed as low at 1.00% and 0.85%, respectively, given the function the product offers. In addition, the interest rate on the loan is comparable with that of other margin loans as published by Cannex in April 2010.

## 2. Structure

### Product Overview

The Portfolio Warrants are issued by QuantumWarrants Pty Ltd, a division of the Quantum Group. The Portfolio Warrants provide leveraged exposure to a portfolio of Australian equities and/or managed funds (*underlying securities*) selected by the investor from the approved securities list and are super-fund-compliant due to the limited-recourse nature of the loan. There are over 200 shares and 1,200 managed funds to select from. The approved securities list can be sourced from Quantum's website ([www.quantumwarrants.com.au](http://www.quantumwarrants.com.au)).

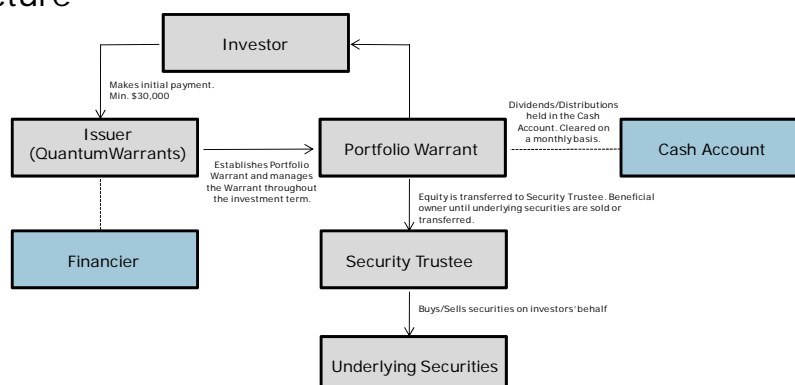
Under the structure, investors make an up-front payment of at least 30% (minimum A\$30,000) of the value of the underlying securities. The underlying securities will be purchased and held in a trust by Equity Financial Pty Ltd (the *Security Trustee*). It may take up to two weeks to establish the Portfolio Warrant once the application form has been received by Quantum. It should be noted that once an application is received, the up-front payment is non-refundable.

Quantum will externally source the loan, with the portfolio of securities able to have an LVR of up to 70%, with a maximum gearing ratio of 75% (including the 5% buffer). The maximum gearing ratio buffer enables a degree of flexibility in the LVR in case of portfolio volatility. However, once the buffer is exceeded, Quantum is required to sell down the portfolio holdings at its discretion to bring the LVR back to an acceptable level.

The Portfolio Warrants mature 10 years from the issue date; however, investors may exit early by making a completion payment, at which point ownership of the underlying securities will be transferred to the investor, or by completing a redemption notice, in which case the underlying securities will be disposed of and the net proceeds (after loan payments and other fees and costs) will be paid to investors. Investors will not receive any cash dividends/distributions made by the underlying securities, as these will be used to offset interest payments, pay outgoings and expenses, or be reinvested. Investors may request a cash extraction. The extraction request will be accepted only if there is sufficient equity in the portfolio to meet the loan requirements. While investors will not receive dividends/distributions, they are entitled to any franking credits distributed by the underlying securities.

Upon maturity, investors have three options: (1) make the completion payment with their own funds, which includes the outstanding loan amount, accrued interest and fees, and take ownership of the securities; (2) have Quantum sell the securities on their behalf and the investor will be credited with the returns, net of the loan amount, interest and fees; or (3) roll into a new Portfolio Warrant, provided a new series of warrants is available.

### Investment Structure



### Key Exposure

Underlying Exposure:	Investors are exposed to the portfolio of underlying securities. This will vary for each investor, as investors choose the composition of their portfolio.
Currency Exposure:	No direct currency exposure.

### Exit Details

Exit Facility:	Investors should view this product as a long-term investment; however, investors can terminate the Portfolio Warrants at any time prior to maturity by making a completion payment or completing a redemption notice. At maturity, investors can elect for Quantum to organise to dispose of the underlying securities on investors' behalf or roll over into a new Portfolio Warrant (if available).
Liquidity:	There is no secondary market available to trade the Portfolio Warrants; however, if investors wish to exit the investment prior to maturity, a Completion Payment can be made or a redemption notice completed at any time.
Issuer Early Redemption:	Quantum has the discretion to terminate the Portfolio Warrants prior to the maturity date in the event of a termination event (refer to PDS for a list of termination events).  In the event Quantum breaches its obligations with the financier, the financier may take possession of or dispose of the underlying securities. If the underlying securities are disposed of, investors will receive the net proceeds after loan repayments and other costs.
Financier Early Redemption:	

### Product Leverage

Used:	The Portfolio Warrants offer a geared exposure of up to 70% of the total value of the underlying securities. The loan is sourced from domestic financial institutions.
Cost:	The loan is a variable-rate loan, and, as such, the interest rate payable will likely change throughout the investment term. The interest rate will be published on the website ( <a href="http://www.quantumwarrants.com.au">www.quantumwarrants.com.au</a> ) or can be obtained by contacting Quantum. As at 9 April 2010, the interest rate was 8.8% p.a.
Recourse:	Limited recourse to investors.

### Capital Protection

Method:	None
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### Tax

Disclaimer:	Tax consequences depend on individual circumstances. Investors must seek their own taxation advice. The following comments show Aegis' expectation of tax for ordinary Australian taxpayers, but cannot be considered tax advice.
Capital gains:	No CGT event will arise when the underlying securities are transferred from the security trustee to the investor at the maturity of the Portfolio Warrants. In the event the securities are sold post the maturity of the warrant, the investor will likely be eligible for the full CGT discount (33.3% for super funds and 50% for individuals and trusts) if the warrant is held for greater than 12 months. In the event a completion payment is not made and the securities are sold by Quantum as a result, a CGT event will likely arise and be incurred by the investor. A CGT event will also likely arise in the event of any churn in the portfolio throughout the investment term.
Distributions:	Dividends/distributions paid by the underlying securities over the investment term will be assessable in the year they are earned, even though they are not received directly by the investor. Investors will be entitled to any franking credits issued by the underlying securities.
Interest deductibility:	Interest payments paid to Quantum as a consequence of acquiring a warrant will likely be deductible in the year incurred. The fees will also likely be tax deductible in the year they are incurred.
Foreign Income Fund (FIF):	n/a

### Legal Structure

Wrapper:	Instalment Warrant
Security Trustee:	Equity Financial Pty Ltd
Offer Document:	The Product Disclosure Statement (PDS), dated 22 February 2010, has not been lodged with the Australian Securities Investment Commission (ASIC) and is not required by the <i>Corporations Act 2001</i> to be lodged with ASIC.

### Returns

Capital vs. Income:	The Portfolio Warrants provide a capital return to investors through the capital growth of the underlying securities over the investment term. Dividends/distributions paid by underlying securities are not paid to investors, but are used to service loan payments and other fees and costs.
Income:	Dividends/distributions may be paid by the underlying securities; however, these will be used to offset the interest payments and fees or be reinvested on behalf of the investor.
Foreign Currency Risk:	There is no direct foreign currency risk associated with the product; however, the underlying companies or managed funds invested in may be exposed to foreign currency risk.

### Investor Leverage

Available:	Yes. Up to 70% of the total value of the underlying securities.
Cost (incl. Fees):	The loan is a variable-rate loan and, therefore, the interest rate will likely change throughout the investment term. As at 9 April 2010, the rate was 8.8% per annum. Investors should either contact Quantum or visit the website ( <a href="http://www.quantumwarrants.com.au">www.quantumwarrants.com.au</a> ) to obtain the latest rate.
Recourse:	Limited-recourse loan – Should the investment value fall below the loan amount (including interest), the investor may not redeem the amount invested; however, the limited-recourse nature of the loan means the investor will not be required to repay any shortfall. If such an event occurs, the underlying securities will be sold or transferred to Quantum in discharge of the loan.

### Risks

Key Risks:	Investments in instalment warrants are subject to a range of risks, including general market risks and risks specific to the product. Refer to the PDS for a full list of risks associated with this product. Investors should read and understand these risks before investing in the product.
Tax Law Risk:	A change in the tax laws may adversely affect the product.
Default Risk:	If Quantum breaches its obligations with the financier, the financier may take possession of or dispose of the underlying securities. If the underlying securities are sold, the required payments will be made to the respective parties, with the remaining proceeds distributed to the investor.

## 3. Management & Corporate Governance

### Quantum Group

QuantumWarrants is a division of the Quantum Group, an investment group established in 1986. The group provides financial advisory and funds management services to retail and institutional clients. The group currently manages in excess of A\$500M in assets. The product offering currently includes portfolio warrants; property warrants; property syndicates and funds; QSmart (reporting and management system); and a private wealth advisory platform.

### Board of Directors

The board consists of two members, with only one of the two board members being non-executive. Each board member has experience in the finance and/or accounting industry.

Figure 1. QuantumWarrants Board of Directors

Board Member	Position	Industry Experience
Peter Gribble	Executive Director – CEO	Mr. Gribble is a qualified accountant and has in excess of 25 years' experience in the tax, investment and property industries. Mr. Gribble is the founder of Quantum.
Joanna Fisher	Non-executive Director	Ms. Fisher has in excess of 25 years' experience in the finance industry. Ms. Fisher previously worked for the Commonwealth Bank as the General Manager for Strategy and Marketing and spent 12 years working for Bankers Trust, developing and managing the institutional funds management business.

Source: Quantum Group

### Management Team

The management team comprises three people, who, between them, have over 44 years of experience in accounting, portfolio and account management. The portfolio manager has over 19 years' experience previously with large fund managers, including MLC and AM Corporation.

Aegis notes that the management team is small; however, the management team's involvement in the Portfolio Warrants is limited, given investors select the composition of the portfolio from the approved list of securities. Management is more focused on facilitating the transactions and sourcing the financing arrangements.

### Information Flow

Quantum will issue an annual tax statement to investors. Information regarding the investment and its progress will be provided online. The online web service will provide a breakdown of the securities in the portfolio, the outstanding loan amount and any transactions that have taken place on a 24/7 basis (refer to [www.quantumwarrants.com.au](http://www.quantumwarrants.com.au)).

All correspondence from the underlying securities will be received by the Security Trustee, which will not be forwarded on to investors but each investor's account will be updated immediately via the web server.

Dealers and advisors have separate log-ons providing direct access to their clients, which can be grouped as a portfolio group, giving advisors easy access to portfolio reviews and snapshots of total holdings, gearing and income levels.

## 4. Investment Process

### Investment Process

Investors lodge an application form indicating the underlying securities they wish to purchase (from the list of approved securities). Quantum will then process the application and organise loan finance on the application lodged. The Security Trustee will use the equity and the loan proceeds to purchase the appropriate underlying securities and a Portfolio Warrant will be issued. The securities will be held in a trust by the Security Trustee until a redemption notice is received, a completion payment is made or until maturity.

Each individual security has been allocated a gearing ratio; however, the LVR of the portfolio is to be no greater than 70% of the value of the underlying securities. Quantum has a 5% buffer on the maximum LVR, which allows the LVR to reach 75% before action is taken to reduce the LVR to acceptable levels. The buffer allows for a degree of volatility in the portfolio. In the event the acceptable gearing ratio is breached, Quantum has the discretion to sell off some of the securities and pay down part of the loan to reduce the LVR to within acceptable limits.

In addition to the underlying securities and the loan, the investment will include an interest-bearing cash account, which will be operated by the Security Trustee. Any dividends/distributions paid by the underlying securities will be deposited in the cash account. The cash will be used to cover interest payments and fees. The cash account will be cleared on a monthly basis and credited to the loan account. If there is an insufficient amount in the cash account and an insufficient loan balance to cover the payment, securities will be sold to make up the difference.

Interest accrues daily and is payable monthly in arrears. Interest will be capitalised to the loan amount, provided the maximum gearing ratio buffer has not been exceeded.

An investor can sell or buy securities throughout the investment term. Investors are required to lodge an Investment Instruction Notice if they wish to trade. To purchase further securities, investors either must have enough cash in the cash account to make the purchase or must provide a further contribution; the maximum gearing ratio must not be breached. Investors should note that a facility fee of 1% will be incurred on any contributions or loan increases.

Prior to maturity, investors can exit the investment via one of two ways: (1) complete a redemption notice, at which point Quantum will sell the underlying securities and distribute the amount, net of the outstanding loan payment, interest, fees and other costs, to the investor or (2) make a completion payment, whereby the investor pays the outstanding loan amount, accrued interest and any other fees/costs, and ownership of the underlying securities is transferred to the investor, or a combination of both.

Upon maturity, investors may choose one of the following three options:

- **Make the completion payment** – This can be done at any time, not just at maturity. The investor pays the outstanding loan amount, interest and fees and takes ownership of the securities;
- **Request Quantum to sell the securities** – Quantum will sell the securities on behalf of the investor and distribute the amount, net of the outstanding loan amount, accrued interest and any other fees/costs, to the investor; or
- **Roll over into a new Portfolio Warrant** – This is subject to a new series of the Portfolio Warrants being available.

## 5. Performance Analytics

Key points of the performance analytics include the following:

- The analysis below considers an investment in the portfolio by a superannuation fund using the Portfolio Warrants against a direct investment in the securities, which is not leveraged. The analysis takes into consideration three scenarios, representing good, moderate and weak market conditions from a capital-growth perspective over a five-year term. For the purposes of the analysis, we have assumed a constant dividend yield of 3.0% per annum and all calculations are net of fees. We have not taken into consideration the CGT discount benefit over the investment term. The assumptions used in our analysis are detailed in Figure 2 below. Note, the analysis is for illustrative purposes only and does not provide any indication of the future returns of an investment in the product;
- A scenario depicting negative growth has not been incorporated; however, investors should be aware consistent portfolio declines will result in negative returns in excess of those illustrated in the weak market scenario;
- The below figures illustrate that investors should be bullish on the stocks/managed funds they select given that leverage magnifies the losses incurred when the portfolio value declines, as can be seen in the weak market scenario;
- Maximum ongoing fees of 0.85% are assumed and these will fall to 0.65% for portfolios over A\$1M. These fees may vary, given the investment amount and the fee negotiated with individual advisors;
- We note that we have assumed no cost of investment for a direct investment, and, as such, the break-even amount is overstated; and
- Assuming the dividend was 3.0% per annum over the investment term, we determined that the portfolio would need to generate annual capital-growth returns of around 6.73% per annum for the investment to be indifferent to whether the investor used the Portfolio Warrants or a direct investment. If we assume zero dividends over the investment term (holding the interest rate constant), the portfolio would be required to generate a capital return in excess of 9.97% per annum to outperform a direct investment in the securities.

Figure 2. Scenario Assumptions for Portfolio Warrants

Assumptions	Scenario A	Scenario B	Scenario C
Dividend Yield, % p.a.	3.00	3.00	3.00
Capital Growth, % p.a.	15.00	7.00	0.00
Tax Rate, %	15	15	15
Franking Level, %	70	70	70
Gearing Ratio, %	70	70	70
Outstanding Instalment, A\$	70,000	70,000	70,000
Interest Rate, %	8.80	8.80	8.80
Portfolio Warrant Investment, A\$	100,000	100,000	100,000
Investor Equity, A\$	30,000	30,000	30,000
Up-front Fees, %	1.25	1.25	1.25
On-going fees, %	0.85	0.85	0.85

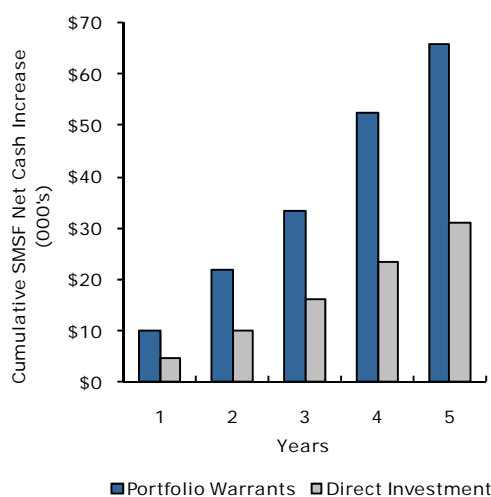
Source: Aegis Equities Research

Figure 3. Scenario A – Good Market Conditions (Capital Growth = 15% p.a.)

	Year 1		Year 3		Year 5	
	Portfolio Warrants	Direct Investment	Portfolio Warrants	Direct Investment	Portfolio Warrants	Direct Investment
Dividend Income (\$)	3,000	900	3,183	955	3,377	1,013
Franking Gross Up (\$)	900	270	955	286	1,013	304
Assessable Income (\$)	3,900	1,170	4,138	1,241	4,389	1,317
Interest Expense (\$)	(6,160)	-	(6,160)	-	(6,160)	-
Taxable Income (\$)	(2,260)	1,170	(2,022)	1,241	(1,771)	1,317
Tax (Cost) / Benefit (\$)	339	(176)	303	(186)	266	(198)
Excess Franking (\$)	1,239	95	1,258	100	1,279	106
Net Cash (\$)	(1,921)	995	(1,719)	1,055	(1,505)	1,119
Pre-tax Capital Growth (\$)	15,000	4,500	50,588	15,626	96,857	30,341
Pre-tax Capital Growth net of fees (\$)	14,625	4,500	49,296	15,626	95,148	30,341
Tax on Capital Growth (\$)	(2,194)	(675)	(7,394)	(2,344)	(14,272)	(4,551)
Post Tax Capital Growth (\$)	12,431	3,825	41,901	13,282	80,875	25,790
Net Cash (\$)	10,510	4,820	40,182	14,337	79,370	26,909
<b>Cumulative SMSF Net Return (\$)</b>	<b>10,510</b>	<b>4,820</b>	<b>36,440</b>	<b>16,356</b>	<b>72,295</b>	<b>31,070</b>
<b>Annual Return on Equity (%)</b>	<b>35.0%</b>	<b>16.1%</b>	<b>40.5%</b>	<b>18.2%</b>	<b>48.2%</b>	<b>20.7%</b>
<b>Total SMSF Equity (\$)</b>	<b>40,510</b>	<b>34,820</b>	<b>66,440</b>	<b>46,356</b>	<b>102,295</b>	<b>61,070</b>

Source: Aegis Equities Research

Figure 4. Scenario A – Cumulative Net Cash



Source: Aegis Equities Research

Figure 5. Scenario A – Return on Equity



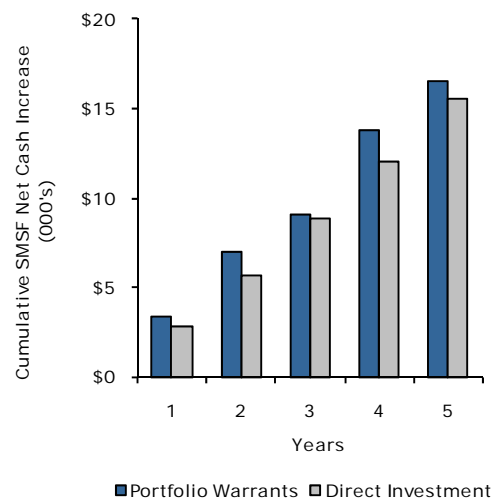
Source: Aegis Equities Research

Figure 6. Scenario B – Moderate Market Conditions (Capital Growth = 7% p.a.)

	Year 1		Year 3		Year 5	
	Portfolio Warrants	Direct Investment	Portfolio Warrants	Direct Investment	Portfolio Warrants	Direct Investment
Dividend Income (\$)	3,000	900	3,183	955	3,377	1,013
Franking Gross Up (\$)	900	270	955	286	1,013	304
Assessable Income (\$)	3,900	1,170	4,138	1,241	4,389	1,317
Interest Expense (\$)	(6,160)	-	(6,160)	-	(6,160)	-
Taxable Income (\$)	(2,260)	1,170	(2,022)	1,241	(1,771)	1,317
Tax (Cost) / Benefit (\$)	339	(176)	303	(186)	266	(198)
Excess Franking (\$)	1,239	95	1,258	100	1,279	106
Net Cash (\$)	(1,921)	995	(1,719)	1,055	(1,505)	1,119
Pre-tax Capital Growth (\$)	7,000	2,100	21,156	6,751	36,752	12,077
Pre-tax Capital Growth net of fees (\$)	6,625	2,100	20,115	6,751	35,559	12,077
Tax on Capital Growth (\$)	(994)	(315)	(3,017)	(1,013)	(5,334)	(1,811)
Post Tax Capital Growth (\$)	5,631	1,785	17,089	5,739	30,225	10,265
Net Cash (\$)	3,710	2,780	15,379	6,794	28,721	11,384
<b>Cumulative SMSF Net Return (\$)</b>	<b>3,710</b>	<b>2,780</b>	<b>11,636</b>	<b>8,812</b>	<b>21,645</b>	<b>15,545</b>
<b>Annual Return on Equity (%)</b>	<b>12.4%</b>	<b>9.3%</b>	<b>1.2%</b>	<b>9.8%</b>	<b>14.4%</b>	<b>10.4%</b>
<b>Total SMSF Equity (\$)</b>	<b>33,710</b>	<b>32,780</b>	<b>41,636</b>	<b>38,812</b>	<b>51,645</b>	<b>45,545</b>

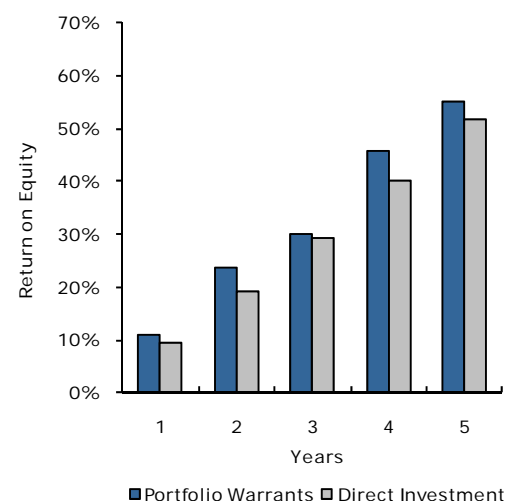
Source: Aegis Equities Research

Figure 7. Scenario B – Cumulative Net Cash



Source: Aegis Equities Research

Figure 8. Scenario B – Return on Equity



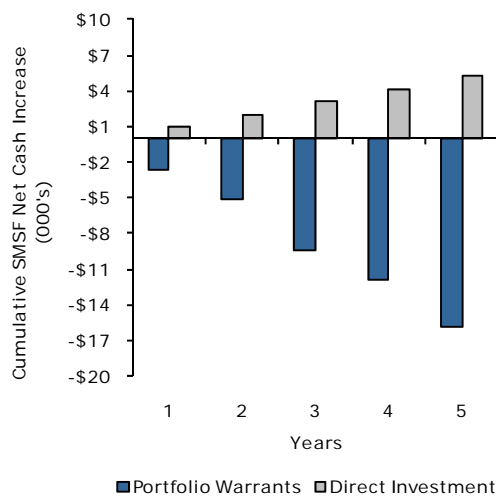
Source: Aegis Equities Research

Figure 9. Scenario C – Poor Market Conditions (Capital Growth = 0% p.a.)

	Year 1		Year 3		Year 5	
	Portfolio Warrants	Direct Investment	Portfolio Warrants	Direct Investment	Portfolio Warrants	Direct Investment
Dividend Income (\$)	3,000	900	3,183	955	3,377	1,013
Franking Gross Up (\$)	900	270	955	286	1,013	304
Assessable Income (\$)	3,900	1,170	4,138	1,241	4,389	1,317
Interest Expense (\$)	(6,160)	-	(6,160)	-	(6,160)	-
Taxable Income (\$)	(2,260)	1,170	(2,022)	1,241	(1,771)	1,317
Tax (Cost) / Benefit (\$)	339	(176)	303	(186)	266	(198)
Excess Franking (\$)	1,239	95	1,258	100	1,279	106
Net Cash (\$)	(1,921)	995	(1,719)	1,055	(1,505)	1,119
Pre-tax Capital Growth (\$)	-	-	(1,225)	-	(2,925)	-
Pre-tax Capital Growth Net of Fees (\$)	(375)	-	(2,075)	-	(3,775)	-
Tax on Capital Growth (\$)	56	-	311	-	566	-
Post Tax Capital Growth (\$)	(319)	-	(1,764)	-	(3,209)	-
Net Cash (\$)	(2,240)	995	(3,483)	1,055	(4,714)	1,119
<b>Cumulative SMSF Net Return (\$)</b>	<b>(2,240)</b>	<b>995</b>	<b>(7,225)</b>	<b>3,074</b>	<b>(11,789)</b>	<b>5,280</b>
<b>Annual Return on Equity (%)</b>	<b>-7.5%</b>	<b>3.3%</b>	<b>-8.0%</b>	<b>3.4%</b>	<b>-7.9%</b>	<b>3.5%</b>
<b>Total SMSF Equity (\$)</b>	<b>27,760</b>	<b>30,995</b>	<b>22,775</b>	<b>33,074</b>	<b>18,211</b>	<b>35,280</b>

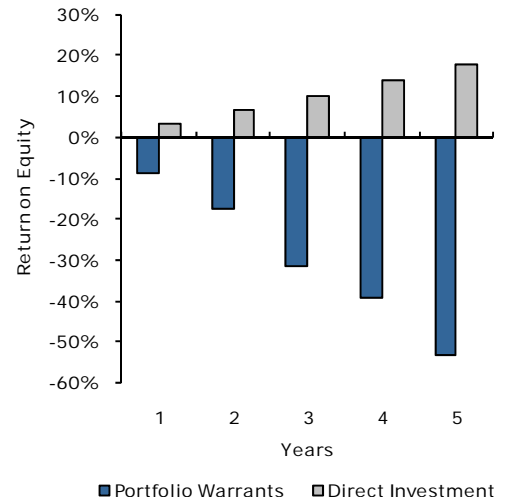
Source: Aegis Equities Research

Figure 10. Scenario C – Cumulative Net Cash



Source: Aegis Equities Research

Figure 11. Scenario C – Return on Equity



Source: Aegis Equities Research

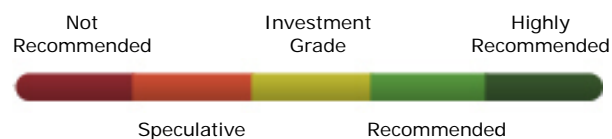
## Appendix – Ratings Process

Aegis has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors.

Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

### The Ratings

Our rating is based on the following scale:



**Highly Recommended:** indicates that Aegis believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and scored exceptionally in a number of categories. It has an attractive risk/return trade-off; however, we caution that the risk/return trade-off will not be suitable for all investors.

**Recommended:** indicates that Aegis believes this is an above average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above average risk/return trade-off; however, we caution that the risk/return trade-off will not be suitable for all investors.

**Investment Grade:** indicates that Aegis believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation parameters. The product may provide unique diversification opportunities, but may not stand apart from its peers. It has an acceptable risk/return trade-off; however, we caution that the risk/return trade-off will not be suitable for all investors. In the previous five category rating system, this category was termed 'Approved'.

**Speculative:** indicates that Aegis believes this is a product that has a number of positive attributes; however, there are a number of risks that make investing in this product a speculative proposal. While Aegis does not rule out investing in this product, investors should be very aware of, and be comfortable with, the specific risks. The product may provide unique diversification opportunities; however, concerns over one or more features means that it may not be suitable for most investors.

**Not Recommended:** indicates that Aegis believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. However, this does not mean that the product is without merit.

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**The offer of the securities is made in the Product Disclosure Statement (PDS), and anyone wishing to acquire the securities should complete the application form in the PDS.**

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