



New Arrangements for Quantum Portfolio Warrants

Background

In September 2007 SMSF rules were reformed for gearing to allow superannuation trustees to enter into loan agreements for the purchase of assets, with section 67(4A) inserted into the SIS Act. This allowed Trustees to borrow to acquire an asset they would be permitted to acquire directly, with the following conditions:

- the loan must be limited recourse to ensure that the only assets of the funds used as security are the assets purchased with the borrowings.
- the fund must have a beneficial interest in the asset, but the asset must be held by a third party.
- the fund must have the option to fully acquire the asset by making one or more final payments.

July 2010 changes

In July 2010 the Government amended the borrowing provisions which involved replacing section 67 (4A) of the SIS Act with two new sections, 67A and 67B so that:

- super fund assets are better protected in the event of a default on a borrowing
- the asset within the arrangement can only be replaced by a different asset in very limited circumstances specified in the law.
- super fund trustees cannot borrow to improve an asset (for example, real property)
- the borrowing is permitted only over a single asset or a collection of identical assets that have the same market value.
- the asset within the arrangement is not subjected to a charge other than to the lender in respect of the borrowing by the super fund trustee.

Quantum Portfolio Warrants

With Quantum Portfolio Warrants, the main changes were as follows:

- Borrowings can only be used to acquire a single acquirable asset. In the case of shares, this also includes a parcel of shares where all the shares are of the same class in the same company. Where the trustee wishes to borrow to acquire shares in a number of companies, they need to put in place a borrowing arrangement for the shares of each company. This differs to the old rules under which a portfolio of different assets could be held under a single borrowing arrangement.
- Under the pre-July 2010 rules, assets could be bought and sold within the holding trust. This would effectively allow share trading with borrowed funds. This arrangement is prohibited under the new rules, which restrict the replacement of assets to limited events such as where new shares are issued due to corporate actions.
- If the parties adopt a change to the terms or conditions of an arrangement (either expressly or by inference) that alters the character of the arrangement in a significant way – then there is a new arrangement from that time and the earlier arrangement has come to an end. If that change happened after 7 July 2010, the requirements of section 67A of the SISA apply to the arrangement.

Changes resulting in a new arrangement include:

- refinancing
- borrowing (drawdown) to purchase additional securities
- a change to the ultimate beneficiaries of the arrangement



QUANTUM WARRANTS

New Quantum Portfolio of Warrants

Quantum Portfolio of Warrants was recently launched to allow investors to continue to invest in Securities with a level of gearing that they now select within an individual warrant structure, which will be managed with other Warrants you hold so as to create a Portfolio of Warrants compared to a warrant over a portfolio of shares.

With a choice of Securities, Initial gearing LVR (up to the Gearing Ratio for the relevant Security) and the term (up to 20 years), Quantum's Portfolio of Warrants is one of the most flexible gearing offerings available to investors.

Matrix comparing old and new arrangements

We have created a simple matrix to highlight the differences between the Portfolio Warrants and the new Portfolio of Warrants product. It will also help existing Portfolio Warrants holders understand what they can and can't do under the old arrangement.

Status	Current Offering	Closed to new Funds from 7 July 2010	Existing Investors
Product	Portfolio of Warrants	Portfolio Warrants	Portfolio Warrants
<i>New application</i>	Personal details, investment selection, gearing ratio selection, loan selection		
<i>Initial contribution</i>	Minimum \$30,000 - minimum \$10,000 each warrant (minimum 3 warrants)	Minimum \$30,000	
<i>Initial Investment</i>	Select stock, total amount to invest, loan amount & LVR up to maximum	Purchase stock as you wish	
<i>Initial loan</i>	Calculated with Initial investment and selected LVR on application form	Calculated by Quantum with selected investments and LVR	
<i>Additional contribution/loan reduction</i>	YES, Select individual loan account to be added or purchase new warrant	Allocated to loan account	YES, Allocated to loan account
<i>Additional investment purchase</i>	YES, select stock, total amount to invest, loan amount & LVR up to maximum	Select stock, no of shares or amount	NO. Use new Portfolio of Warrants PDS
<i>Sale of Securities</i>	YES. Only sell entire individual warrant.	Sell stock as you wish	YES. Sell stock as you wish
<i>Partial withdrawal</i>	NO. Must sell entire warrant to withdraw funds	Partial withdrawal available	YES, minimum \$5,000
<i>Full withdrawal</i>	YES - redeem securities, pay loans, interest & fees then tfr balance to SMSF	YES - redeem securities, pay loan, interest & fees then tfr balance to SMSF	YES
<i>Off market transfer out</i>	YES to nominated account	YES to nominated account	YES
<i>Dividend /distribution payment</i>	Payment added to individual security loan account	Payment allocated to Loan account	Payment allocated to Loan account
<i>Margin call</i>	Make additional contribution or sell warrant	Make additional contribution or select number of shares to Sell	Make additional contribution or select number of shares to Sell
<i>Maximum Gearing Ratio</i>	70%	70%	