

PORTFOLIO
LVR
MANAGE RISK
TO MAXIMISE
WEALTH

CommSec
YOU ARE WHAT YOU DO



WHAT IS PORTFOLIO LVR?

Portfolio LVR is a feature of the CommSec Margin Loan. It rewards investors who hold a diversified portfolio by granting increased Loan to Value Ratios (LVRs) and access to LVRs on stocks that normally don't receive a LVR in a non-diversified portfolio.

We call these – bonus stocks.

Portfolio LVR may increase the LVR of a security in a diversified portfolio. This increased lending value, can provide investors a larger cover against margin calls or be utilised by investors to further grow their portfolio.

In addition to having access to *Portfolio LVRs*, investors holding a well diversified portfolio will be better protected if one or more of the investments don't perform as expected.

We are able to offer increased lending values in diversified portfolios because our experience in margin lending has shown us that a diversified portfolio is less likely to trigger a margin call than a non-diversified portfolio. Therefore we offer a reduced LVR on single stock and non-diversified holdings.

HOW DOES PORTFOLIO LVR WORK?

The diversity of your portfolio will determine if *Portfolio LVR* is applied on the *Approved Equities* in your portfolio.

If you hold a diversified portfolio of five or more *Approved Securities* then *Portfolio LVR* is applied to the *Approved Equities* in your portfolio.

Note: Approved managed funds and other approved non-equity securities will count towards the number of securities in your portfolio, however only the *Approved Equities* will receive *Portfolio LVRs*.

Portfolio LVR = Standard LVR + 5%

Portfolio LVR is applied to *Approved Equities* in a diversified portfolio:

- *Approved Equities*: are equities in our approved list which is available on the CommSec website.
- *Approved Securities*: are any securities (including equities, managed funds and cash) which are taken into account when calculating your portfolio's lending value.

Equities in our *Approved Equities* list will have one of three LVRs as outlined in the below table:

Portfolio	No. of <i>Approved Securities</i> in the portfolio	LVR received
Diversified	5 +	Portfolio LVR
Standard	2 - 4	Standard LVR
Single Stock	1	Single Stock LVR

Portfolio LVR (5 or more securities)	X+5%
Standard LVR (2-4 securities)	X
Single Stock LVR (1 security)	X-5%

X = Standard LVR of an Approved Equity

Example of *Approved Equities* list:

Security Name	Single Stock LVR	Standard LVR	<i>Portfolio LVR</i>
Equity A	65%	70%	75%
Equity B*	0%	0%	40%

* Equity B is an example of a bonus stock which receives a *Portfolio LVR* in a diversified portfolio.

BENEFITS OF PORTFOLIO LVR

Increases your cover against a margin call

By increasing the difference between your margin loan's current Loan to Value Ratio (LVR) and your Margin Call LVR, *Portfolio LVR* can help provide you with increased cover before a margin call is triggered.

Additional LVRs on currently *Approved Equities*

Portfolio LVR offers a diversified portfolio higher LVRs on *Approved Equities*. For example, if an *Approved Equity* receives a standard LVR of 50%, with *Portfolio LVR* on a diversified portfolio that *Approved Equity* will receive a 55% LVR.

Access to bonus stocks

Bonus stocks are equities which are also on our approved list and have a 0% standard LVR, however, as a benefit of *Portfolio LVR*, on a diversified portfolio they receive a 40% LVR.

RISKS OF PORTFOLIO LVR

A Margin Loan uses borrowing to increase your investment exposure, which may have the effect of multiplying any losses, as well as gains, in a portfolio.

If your portfolio qualifies for *Portfolio LVR*, trades you place may significantly affect your gearing ratios. For example, if you sell an *Approved Security* and as a result there are fewer than 5 *Approved Securities* in your portfolio, your portfolio will no longer qualify to receive *Portfolio LVR* and you will lose *Portfolio LVR* on all *Approved Equities*. The LVR will revert to standard or single stock LVRs, which could potentially trigger a margin call.

We strongly recommend that you use the What-If calculator on the CommSec website to see what the effect of any trade might be on your loan position. The What-If calculator is available once you logon to your margin loan page at www.commsec.com.au

CASE STUDY

Pete holds a single stock portfolio

Pete currently holds a single stock portfolio invested in Equity 1 with a market value of \$60,000. Since Pete has a single stock portfolio, he receives a single stock LVR on Equity 1 of 65%. Pete's current loan balance is \$36,000.

Security	Weight	Market Value	LVR	Maximum Lending Value
Equity 1	100%	\$60,000.00	65%	\$39,000.00
Total		\$60,000.00		\$39,000.00

Pete's Loan Summary:

Loan Balance	\$36,000.00
Portfolio Market Value	\$60,000.00
Current LVR	60%
Base LVR	65%
Margin Call LVR	70%
Cover to Margin Call	10% (70% - 60%)

Current LVR = Loan balance divided by the Portfolio Market Value expressed as a percentage. *Base LVR* = Portfolio Lending Value divided by the Portfolio Market Value expressed as a percentage. *Margin Call LVR* = Base LVR + 5%

Pete starts to diversify

After learning about *Portfolio LVR* Pete decides to diversify his portfolio to take advantage of its benefits, however, Pete does not have the collateral required to invest in 4 additional securities, so he decides to invest in 2 securities now and another 2 securities once he is ready.

Pete invests \$30,000 in Equity 2 and \$25,000 in Equity 3. As a result, Pete gains standard LVRs; notice that Equity 1 now receives 70% LVR since Pete no longer holds a single stock portfolio. To buy the additional investments Pete borrows another \$33,000. Pete's loan balance is now \$69,000.

Security	Weight	Market Value	LVR	Maximum Lending Value
Equity 1	52.2%	\$60,000.00	70%	\$42,000.00
Equity 2	26.1%	\$30,000.00	70%	\$21,000.00
Equity 3	21.7%	\$25,000.00	70%	\$17,500.00
Total		\$115,000.00		\$80,500.00

Pete's Loan Summary:

Loan Balance	\$69,000.00
Portfolio Market Value	\$115,000.00
Current LVR	60%
Base LVR	70%
Margin Call LVR	75%
Cover to Margin Call	15% (75%-60%)

Pete further diversifies, receives *Portfolio LVR*

A few months later, Pete decides to invest in 2 additional securities to take full advantage of *Portfolio LVR*. By this time Pete's investments in Equity 1 have grown to \$65,000 and Equity 2 to \$35,000 while his investment in Equity 3 has fallen to \$20,000. For his additional investments, Pete decides to invest \$55,000 in Managed Fund 1 and \$45,000 in Equity 4. As a result, Pete gains *Portfolio LVR* on his four equity investments, notice that Equity 1/2/3 & 4 now receives 75% LVR (*Portfolio LVR*) since Pete holds a diversified portfolio. To buy the additional investments Pete borrows another \$63,000. Pete's current loan balance is \$132,000.

Security	Weight	Market Value	LVR	Maximum Lending Value
Equity 1	29.5%	\$65,000.00	75%	\$48,750.00
Equity 2	15.9%	\$35,000.00	75%	\$26,250.00
Equity 3	9.1%	\$20,000.00	75%	\$15,000.00
Equity 4	20.5%	\$45,000.00	75%	\$33,750.00
Managed fund 1	25.0%	\$55,000.00	75%	\$41,250.00
Total		\$220,000.00		\$165,000.00

Pete's Loan Summary:

Loan Balance	\$132,000.00
Portfolio Market Value	\$220,000.00
Current LVR	60%
Base LVR	75%
Margin Call LVR	80%
Cover to Margin Call	20% (80%-60%)

Holding a well balanced, diversified portfolio should reduce Pete's portfolio volatility. Further, by holding a diversified portfolio with CommSec Margin Lending, Pete qualifies for *Portfolio LVR* which effectively increased his cover to margin call by 10% when compared to his initial single stock portfolio.

Pete has also received higher LVRs on *Approved Equities*. *Portfolio LVR* will allow Pete to receive an LVR on bonus stocks, should he hold any in the future.

NEED MORE INFORMATION?

Visit our website

Information regarding CommSec Margin Lending and Portfolio LVR is available at **commsec.com.au**

Our Margin Lending Team can help you with any specific queries on *Portfolio LVR* or margin lending in general.

To find out more call us on **13 17 09** between 8am to 6pm (Sydney Time), Monday to Friday (excluding National public holidays).

marginloan@commsec.com.au

Important Information

The example in this document is for illustrative purposes only. It has been compiled using our understanding of typical margin lending customers. The names and identifying features do not reflect any particular person and neither the basis nor the assumptions made for the recommendation are disclosed. CommSec Margin Lending facilities are provided by Commonwealth Bank of Australia ABN 48 123 123 124 and administered by its wholly owned but non-guaranteed subsidiary Commonwealth Securities Limited ABN 60 067 254 399. The information contained in this document is not intended to be used as specific advice as it does not take into account the particular investment objectives, financial situation and needs of any particular individual.

Because of that, you should assess with the help of legal, financial and taxation advice, whether the information is appropriate in light of your own circumstances before acting on it. Information on taxation is based on the continuation of current laws and their interpretation. No warranty or guarantee is given by Commonwealth Bank of Australia or its subsidiaries for the repayment of capital invested or the payment of income with respect to any investment listed as a security.

Only investors who fully understand the risks associated with gearing into investments should apply.

13 17 09
commsec.com.au

CommSec
YOU ARE WHAT YOU DO



MKTG562 08-14