GEARING POLICY

Version: 1.04
Last updated 14.05.19

THE AIM OF THIS POLICY
The aim of this policy is to detail the policy requirements that apply when providing advice to a client that incorporates recommendations to borrow to invest, otherwise known as gearing.

WHO THIS POLICY APPLIES TO
This policy applies to all representatives who are authorised to give gearing advice.

If a retail client or prospective client seeks advice from you and during the course of your fact find you determine that the funds they wish to invest are geared funds, you must also follow all sections of this policy.

WHAT THIS POLICY COVERS
This policy covers:

- Adviser Obligations
- General Obligations
- Loan to Value Ratios
- Client Profile
- Financial Requirements
- Preparing the Advice

Please note, if you are giving gearing advice to SMSFs then you need to follow all policy requirements of this policy in addition to those listed in the Self- Managed Super Fund Policy.

This gearing policy does not apply to credit recommendations.

VARYING FROM THIS POLICY
Where you wish to take action that falls outside of this policy, you must contact the Responsible Manager before discussing or making a recommendation to the client.

DEFINITION OF GEARING ADVICE
Gearing is defined as the placement of borrowed monies into investments. The amount or source of the borrowings or the method of repayment may vary but any investment which is funded by borrowed money is deemed to be gearing for the purposes of this policy.

Margin lending, home equity loans, personal loans are all sources of capital for gearing. When providing margin lending advice you are also required to follow the Margin Lending Policy requirements in addition to this policy.

ADVISER OBLIGATIONS
Each requirement in this policy must be followed
This policy comprises a number of requirements and each must be followed.

Authorisation to provide gearing advice
You can only provide gearing advice if:

- You are authorised by Insight Investment Partners to provide Gearing Advice;
- Where applicable, you have completed any pre-requisite Accreditation and Training Requirements (i.e. Protected Equity Loan – PEL – Accreditation requirements); and
- You are authorised to advise on insurance.

You will also need to be authorised for any particular types of advice; for example:

- Margin Lending
- SMSF

If you are not authorised by Insight Investment Partners to provide advice on insurance you can still provide gearing advice to the client; however, you must refer the client to another representative to obtain insurance advice which takes into account the increased debt situation that you intend to recommend as part of your gearing strategy. They must receive this advice (or confirm that they declined to obtain comprehensive insurance analysis) prior to implementing your gearing recommendations. Refer to section Comprehensive Insurance Analysis section below for more information.

Professional Indemnity
Insight Investment Partners may have certain terms in their Professional Indemnity Insurance Policy which will be reflected in this Policy.

GENERAL OBLIGATIONS

Best Interests Duty
In providing gearing advice to a retail client you must act in the best interests of the client.

Comprehensive Insurance Analysis
Where you are authorised to provide insurance advice, you must offer and complete a comprehensive insurance analysis with recommendations covering Life, TPD, Trauma, Income Protection and Business Expense (where applicable). The recommendations must be provided to the clients prior to the implementation of the gearing advice.

You must collect sufficient information to enable you to assess whether the client will require cover or additional cover. You cannot limit the insurance recommendation to simply covering the new debt and repayments - a full insurance analysis is required (unless the client has declined the offer of a comprehensive insurance analysis).

If the client declines to receive insurance advice or does not provide sufficient information to conduct a comprehensive insurance analysis, you must discuss the risks with your client prior to preparing the Statement of Advice.

If the client is not eligible for insurance based on their age, occupation or any other reason you must address this as part of the Contingency Plan in the advice document.

If the client declines to receive insurance advice or is ineligible to apply for insurance, you must also consider whether or not it is in the client's best interest to make a gearing recommendation at all.

If the client chooses not to implement any part of your advice, this must be acknowledged by them in the Authority to Proceed (ATP) section of the advice document.

Scope of Advice

Gearing advice cannot be provided where the client provides incomplete/inaccurate information and that information is necessary to ascertain the appropriateness of the gearing strategy to the client's overall situation. The advice must be appropriate to the client's overall needs and objectives. It must be based on sufficient and accurate information to ascertain the appropriateness to the client.

Once a Fact Find (or Financial Planning Questionnaire) is completed, the advice you provide can be scoped to the client's needs provided you include appropriate warnings and disclosures in the advice document. Where a client has borrowed funds and they have scoped your advice to receiving investment advice only from you, you must offer to provide advice on the suitability of the gearing to their situation. If they still do not wish to receive this advice, to be able to provide investment advice only you must seek the approval from the Responsible Manager (RM). In these situations, you will still need to obtain sufficient information as to the amount borrowed, the structuring of such borrowing (whether double gearing was used) and any guarantors on the funds. There may be other financial information that is required by the RM to assist in the decision to allow you to provide investment advice only.

LOAN TO VALUE RATIOS (LVR)

Definition of Loan to Value Ratio

The loan to value ratio (LVR) is the amount of debt (loan) compared to the value of the investment expressed as a percentage.

For example, a client has $50,000 in cash. The client wishes to use this cash component to commence a gearing strategy. The maximum amount that can be borrowed is $50,000 to generate a 50% LVR, the total investment is now $100,000.

Maximum Limits on Loan to Value Ratios for different types of gearing

Margin Lending	**Initial LVR:** 50% or the LVR permitted by the lender (whichever is less.) **Maximum LVR:** Once the LVR reaches 60%, the portfolio will be reviewed. Should the LVR reach 70%, the adviser must provide an action plan to the client to reduce the LVR back to 60% or lower. **Loan Duration:** Minimum 7 years. No maximum. Please refer to the Margin Lending Policy for further information.
Equity Access loans (against family home, commercial, industrial or retail property)	**Initial LVR:** The maximum LVR in all instances is 80% of the value of the property/ies. Where a client is using multiple properties to secure the investment, the maximum global LVR is 80% across all properties.

	Maximum LVR: 80% of the value of the property/ies. As the Equity Access Loan is used to purchase additional assets, the global LVR across all securities is to be below 80%. **Loan Duration:** Minimum 7 years. Maximum 30 years. In calculating the loan amount available for investment, all other loans against the property must be included (i.e. The current mortgage and any loans taken out for other purposes). If the strategy involves a new gearing arrangement/strategy or increase to an existing gearing arrangement/strategy, the client must obtain and provide you with a new valuation for the property. If the strategy is existing but has been in place for longer than 12 months and involves an increase to an existing strategy, the client must obtain and provide you with a new valuation for the property. **Example 1:** the client has a home valued at $500,000 with an existing mortgage of $100,000. You can provide investment advice based on taking out a loan which is equivalent to borrowings up to 80% of the family home, i.e. $400,000 but as the client has a current loan of $100,000, you can only recommend a loan of $300,000 for investment purposes in this situation. **Example 2:** the client has a home valued at $500,000 with an existing mortgage of $100,000. You can provide investment advice based on purchasing an investment property for $500,000 borrowing 100% of the new purchase price when the client is offering their home as security. Total loans are $600,000 and total security of $1,000,000. The global LVR across all properties in 60%, and therefore acceptable.
Structured Product Loans	**Initial LVR:** The LVR will be provided for each structured product at the time the product is approved for recommendation. **Maximum LVR:** The LVR will be provided for each structured product at the time the product is approved for recommendation. **Loan Duration**: Minimum 7 years. No maximum.

SMSF Loans (against commercial, industrial or residential property)	**Initial LVR:** Up to the LVR that is allowed by the lender. **Maximum LVR:** Up to the LVR that is allowed by the lender. **Loan Duration:** Minimum 7 years. Maximum 30 years. Related Party Loans: For all SMSF Related Party Loans, you must seek approval from the Responsible Manager prior to proceeding with a recommendation.
All other types of loans not noted above	For any loan which is not captured by the types of loans listed above, the maximum LVR that can be recommended is 50%. **Loan Duration:** Minimum 7 years.

Double or Multiple Gearing
It is your duty to make reasonable inquiries to obtain complete and accurate information. The existing debt obligations of the client must always be ascertained; this includes the type of debt and the amount of such debt obligations and whether the debts are secured.

Double or Multiple Gearing is not permitted. You cannot use borrowed funds from any source (e.g. an Equity Access Loan) as security for further borrowing (e.g. margin lending or internally geared products).

Ongoing Advice Service
Ongoing Advice must be offered to every client with a gearing recommendation.

If the client doesn't want ongoing advice, this must be documented in the advice document (along with the risks of not receiving ongoing advice and it's the client's responsibility to contact you when they wish to review their portfolio) and acknowledged by the client in writing in the ATP.

If the ongoing advice service is cancelled or otherwise terminated at any time you must advise the client of the risks in not receiving ongoing advice and it is their responsibility to contact you when they want to review their financial situation.

You must meet your Fee Disclosure Statement Obligations.

Charging clients when borrowed monies are used to acquire financial products
From 1 July 2013, you must not charge asset based fees for advice services when borrowed monies are used by your client to invest in financial products. An asset based fee is a fee (e.g. % or tiered) where the level of fee is dependent upon the amount of funds used to acquire the financial products (e.g. shares, interests in a managed fund).

Example: A client has $100,000 cash and wishes to invest a total of $200,000 in financial products by borrowing an additional $100,000 under a margin lending facility. An advice fee calculated as a % of the total amount invested ($200,000) is prohibited. You can only charge a flat dollar fee where borrowed funds are used to acquire the financial products. Our policy does not permit an asset based fee on any geared portion of the investment.

Clients in gearing strategies prior to 1 July 2013
You may continue to charge an asset based fee for advice to clients with existing gearing facilities (those in place prior to 01/07/2013) provided

- there are no further borrowings/draw-downs under that facility for the purpose of investment.

In all other cases, you will need to enter into a new fee arrangement for the ongoing advice service notwithstanding that the client may have had a gearing strategy in place prior to 1/7/13.

You will need to monitor the status of those clients who remain on asset based fees after 1 July 2013 and have gearing strategies in place prior to 1/7/13. If their circumstances change, that is:

- their borrowings/draw-downs under the gearing facility have increased,
- they have replaced or 'switched' a underlying investment (shares, interests in a fund etc) after 1 July 2013,or
- it is reasonably apparent to you that they have used any other borrowed monies outside their gearing facility to invest in additional financial products (e.g. shares interests in a managed fund etc) after 1/7/13.

You will need to change the structure of their ongoing advice fee. You cannot deliberately or knowingly disregard relevant information or fail to make reasonable inquiries when monitoring whether borrowed monies have been used to acquire financial products, including in the context of determining the appropriate fee structure for the client. You are responsible for ensuring that asset based fees are not charged for providing financial product advice when the client is acquiring a financial product using borrowed funds after 1/7/13. This applies whether or not the platform on which your client is invested retains the functionality to permit the charging and collection of asset based fees or where the financial products are acquired off platform.

CLIENT PROFILE

Risk Profiles suitable for Gearing Advice
The client must have an overall Risk Profile of 'Growth' or higher to be considered suitable for a gearing strategy.

Minimum time frame for a gearing strategy
The minimum timeframe is 7 years. This is consistent with the minimum investment timeframe for a client with a 'Growth' risk profile.

A shorter time frame may be selected where you have sought approval from the Responsible Manager or a structured product is recommended which provides a lending facility, is approved for use and offers a shorter term as a standard feature.

Additional steps to be taken when risk profiling clients with gearing recommendations
When recommending gearing to clients, you need to be able to demonstrate that you explained how gearing increases the upside and downside of volatility. Your file notes of this meeting should indicate this.

Upper Age Limit when recommending a Gearing Strategy
Approval is required from the Responsible Manager Licensee where gearing is to be recommended to a client aged 55 or above. This is despite the fact the client may meet all other requirements within this policy (for example, the client has a minimum investment timeframe of 7 years).

In addition, for clients aged 58 and over starting or continuing a gearing strategy, at each review you must ensure that the strategy continues to comply with this policy. That is, having considered the client circumstances, market conditions etc, does the client's remaining investment timeframe provide sufficient time for the gearing strategy to deliver the proposed outcome. For some situations this might mean that another 7 year timeframe is necessary. However, the period may be shorter if the existing gearing strategy is progressing as planned and likely to deliver an appropriate result in the time recommended in the initial plan.

FINANCIAL REQUIREMENTS

Assessable Income for servicing the loan
You must determine a client's financial ability to service the loan under the gearing strategy you recommend.

You can only consider the following income in determining their ability to service a loan:

Individuals:

- You can only include full time and permanent part time regular employment income for determining serviceability.
- Bonuses may be included if there is a consistent amount paid for at least 3 years.
- For those with a Transition to Retirement (TTR) arrangement, the net salary (i.e. net of the salary sacrifice amount) should be used and the actual income from the TTR pension should also be included in the calculation.
- Clients who are small business owners or who are self-employed must provide evidence of income in the form of the last 2 years tax returns and ATO assessment notices (copies of these must be retained in the client file).
- Director's fees.
- Regular net income from rental property can be included where the property has been leased for the previous 12 months or an agreement is in place for leasing the property for the next 12 months. For example, where the property is to be acquired by an SMSF and leased back to a related party, the commercial rental payable on that new lease may be included. Please note if the property has not been rented previously (as it is new or is owner occupied) the client must obtain documentation to state that it is in a rentable condition and a letter from a real estate agent confirming what the approximate rent that could be achieved is.
- Investment income net of fees on non-borrowed funds.

For Companies / Trusts (including SMSF) that have been operating for longer than 2 years:

- The last 2 years tax returns and ATO assessment notices
- The last 2 years of audited Financial Statements

For Companies / Trusts (including SMSF) that have been operating for less than 2 years:

- Forecast of the Statement of Position once the investment is owned by the relevant entities
- Details of income for the relevant entities. For an SMSF, details of member's proposed annual superannuation contributions

All other forms of income on the borrowed funds cannot be included when determining the client's ability to service the loan. There must be evidence on file which supports the assumption that there will be sufficient income to service the loan for the duration of the gearing strategy.

You must calculate a client's ability to service the loan under any recommended gearing strategy. This calculation must be completed at the time the gearing advice is provided and evidence of the calculation must be retained in the client's file.

Cash flow requirements
You must not rely on the projected income that may be generated from the geared investments to meet the client's cash flow requirements. This is because there may be times when the income generated by these investments alone will not be sufficient to meet the interest payments on the loan, and other sources of cash flow/capital will be needed to meet these obligations. Consequently, a cash flow analysis must be completed for all clients undertaking gearing, both when the initial recommendation for gearing is provided and at any subsequent review.

Requirement for surplus income to service a 2% interest rate rise
You must ensure the client has sufficient surplus income to service the interest cost of their total debt (not just the debt relating to the gearing strategy) if interest rates were to increase by 2% from the level(s) at the time of providing the advice.

This calculation must be completed at the time the gearing advice is provided and evidence of the calculation retained in the client's file.

Capitalisation of Interest
Interest can be capitalised, however the amount of interest capitalised must be included when determining whether there is sufficient surplus income to service the client's total debt, including a 2% increase in interest rate, over the duration of the gearing strategy i.e. a minimum of 7 years.

The advice document and Contingency Plan must discuss the impact of the increasing debt and interest expense over the duration of the loan as a result of the capitalised interest.

You must be able to show that it remains in the client's best interest to undertake this strategy even if they are capitalising interest. For further information please see the Best Interest Duty policy.

PREPARING THE ADVICE
How geared funds are to be invested
Investments in a geared portion of a portfolio can only be held in the following asset classes:

- Australian Shares;
- International Shares;
- Growth- based Alternative Investments; and
- Property

The only exception to this is where the product provider mandates holdings in other asset classes within the product.

Family home and overall asset allocation
The family home cannot be included when considering the client's risk profile and their overall asset allocation for gearing advice.

Taxation
You must explain to the client and ensure the advice document includes each of the following items:

- The primary purpose for recommending a gearing strategy is to accelerate wealth accumulation;
- Any tax benefits are of a secondary nature;

Additional requirements for the fee disclosure
In addition to the standard disclosures required which relate to the recommended products, the initial and ongoing fees related to the debt product (such as the margin loan or home equity loan) must be disclosed with the standard breakdown between you and Insight Investment Partners. In addition, you must ensure that any early break costs, increased interest, increased product costs etc are fully disclosed to the client.

Conflicts of Interest
An adviser is prohibited from receiving a commission from recommending a client purchase a residential or commercial property. Any recommendation to purchase a residential or commercial property must be approved by the Responsible Managers.

Internally Geared Products
The ban on asset based fees only applies at the client level and relates only to those situations where the client has used borrowed funds to invest in a financial product. Where a client invests in financial products that include some element of gearing as part of the product features (internally geared products) charging an asset based fee for the ongoing advice service is not prohibited unless the client has used borrowed amounts to invest in that product.

Contingency Plan
Contingency planning considers what you should do in the event of any unforeseen change in personal circumstances of the client, or potential risks that could result in making loan repayments difficult or force the sale of investments. Large unforeseen expenses, loss or reduction in the client's income or financial pressures caused by sickness or temporary disablement of the client may require them to call on other financial resources or sell geared investments if you haven't helped them plan for these contingencies. You must be able to provide evidence that proper consideration has been given to contingency planning, so that the client is aware of the risks they face by using a gearing strategy and that you have considered options to reduce those risks.

Contingency planning must include the following:

- The presence of strong and stable cash flow~~s~~ to fund the interest costs plus an interest rate rise of 2% pa.
- The details on how to protect against the loss of employment income due to, sickness and/or accident.
- The details of insurance cover to ensure the strategy can remain in place in the event of unexpected illness, injury or death OR if the client has declined to complete a comprehensive insurance analysis, what strategy will be adopted to ensure the strategy can remain in place in the event of unexpected illness, injury or death.
- The details on how the debt will be repaid in full.
- An outline of what situations the client may wish or need to exit the gearing strategy and how this would be accomplished.

And, where applicable:

- The effect of capitalising interest on the level of debt and interest expense; and
- How the client will meet a potential margin call. Please refer to the Margin Lending Policy.

If one of the possible scenarios involves the client liquidating a property, then you should mention the liquidation of assets as a possible scenario but that you will discuss this with the client at the point in time where it needs to be considered.