CommSec Margin Loan

Managing Your Margin Loan

CommSec

Important information.

Risk Disclosure

Remember, whilst borrowing to invest can multiply your investment returns, it may also multiply your losses if the value of your investment falls. Margin Loans involve risk, before acting on this information please read and consider the CommSec Margin Loan Important Information & Risk Disclosure Statement located at www.commsec.com.au>Tools& Support>Contact&Support>FAQ's>CommSec Margin Loan Risk Disclosure, Important Information and Disclaimer.

This information has been prepared without taking account of the objectives, needs, financial and taxation situation of any particular individual. For this reason any individual should, before acting on the information, consider the appropriateness of it having regard to their own objectives, needs, financial and taxation situation and, if necessary, seek appropriate independent financial and taxation advice.

The target market for these products can be found within the product's Target Market Determination, available at **commbank.com.au/tmd** and **commsec.com.au/tmd**.

CommSec Margin Lending facilities are provided by the Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945 (the Bank) and administered by its wholly owned but non-guaranteed subsidiary Commonwealth Securities Limited ABN 60 067 254 399 AFSL 238814 (CommSec), a Participant of the ASX Group. Exchange Traded Options (Options) are issued by CommSec. Please obtain and consider the Product Disclosure Statements (PDS) for the CommSec Margin Loan and Options, available from commsec.com.au before making any decision about the products. Only investors familiar with the risks of these products should consider these products. Fees and charges apply.

Contents

Managing Your Margin Loan.

A Margin Loan can multiply your profit potential; but if it is not managed correctly it can also potentially multiply your losses.

At CommSec, we understand the importance of risk management. That's why we provide a suite of risk management tools that can help you to understand and manage risk, avoid margin calls and maximise your returns.

UNDERSTANDING YOUR MARGIN LOAN

To access your margin loan:

i. The first step to managing your CommSec Margin Loan is understanding several important terms and ratios: **LVR**: A security's Loan-to-Value Ratio (LVR or Lending Ratio) indicates the maximum amount you can borrow against the security, expressed as a percentage. We lend you between 30% and 75% of the market value of an accepted security and up to 95% of cash lodged.

ii. **Current LVR:** The Current LVR identifies the current position of your loan expressed as a percentage and is calculated by dividing your current loan liability by the value of your accepted investment(s). The Current LVR is also known as your '**gearing level**'.

iii. **Base LVR:** The Base LVR is the maximum gearing level your loan can reach based on the weighted average of the LVRs of approved securities in your portfolio. The base LVR determines the maximum loan amount that you can borrow against your accepted securities, and is expressed as a percentage.

iv. **Margin Call LVR:** The Margin Call LVR is the gearing level (or Current LVR) of your portfolio at which a Margin Call is triggered and immediate action to reduce your gearing level is required. The Margin Call LVR is calculated by determining the Base LVR of your portfolio then adding the Buffer percentage. If you do trigger a Margin Call, we require that you reduce your gearing level so that your Current LVR is below your Base LVR.

v. **Buffer:** The Buffer is a percentage amount we provide to allow for market fluctuations once your Base LVR has been exceeded. It provides you with the opportunity to restore the gearing level of your portfolio before a Margin Call is triggered. The current Buffer amount is published on our Accepted Securities List. If your loan is in Buffer this is a notification to you that your gearing level should be reduced. If you reduce your gearing level while your loan is in buffer, you will need to reduce your gearing level by a smaller amount than would be required if you were to trigger a Margin Call.

vi. **MGR:** The MGR (Maximum Gearing Ratio) is the maximum level of gearing we will allow your loan to reach regardless of the Base LVR that is calculated from your portfolio, and is expressed as a percentage against your portfolio. The current MGR is published on our Accepted Securities Lists. When the MGR is reached, you are immediately required to reduce your gearing level so that your Current LVR is below the MGR

vii. **Credit Limit:** Your loan's credit limit is the dollar amount you have nominated and been approved for, as the maximum amount you can borrow through your loan facility. In the event you breach your credit limit we will notify you and you will be required to either request an credit limit increase and have it approved, or reduce your loan balance within the specified timeframe so that your current loan liability is less than your credit limit.

viii. **Funds Available:** Your loan's available funds determine the amount you can invest with or draw down, and can be derived from the lesser of your:

(Credit Limit - Loan Liability) or
(Lending Value – Loan Liability) or
(Credit Limit – Loan Balance)

ix. **Collateral Available:** Your loan's collateral available is the maximum amount that your securities' lending value would entitle you to draw down exclusive of any credit limit. Calculated as Lending Value – Loan Liability, Collateral Available is often the same dollar amount as Funds Available. However, these amounts do differ when your portfolio's lending value exceeds your Credit Limit, or you have unsettled Sell transactions pending. Collateral Available is therefore a reference only.

x. **PLVR:** PLVR (Portfolio LVR) is a feature of the CommSec Margin Loan that rewards investors with diversified portfolios of five or more approved standard securities. PLVR is automatically applied to diversified loans, increasing the LVR of your holdings and also providing access to bonus stocks which normally don't receive an LVR in a non-diversified portfolio. You can use the extra lending value as additional buffer in case of market falls. For additional details and examples, download our Portfolio LVR Brochure available at **www.commsec.com.au>Tools&Support>Forms&Downloads>MarginLending**.

What are the Potential Risks?

There's no doubt that every investment involves some risk. A Margin Loan is a powerful financial tool that allows you to create a larger market exposure than you could afford using just your own capital. This also means that price movements of your holdings have a multiplying effect on your initial capital.

The key risks of margin lending include:

- Adverse market conditions may result in your portfolio value being reduced and subsequently your gearing level (the level of Loan Debt to Portfolio Value) may increase, triggering a Margin Call.
- Adverse market and/or stock-specific conditions may result in the value of your security being insufficient to repay your loan.
- We may reduce or remove the LVR applied to some or all of your investments, or to your portfolio as a whole at any time, which may result in a Margin Call.
- Margin Calls may require investments to be sold by you or us quickly at unfavourable prices or may trigger unwanted capital gains if you are unprepared.
- Default events or enforcement events (as defined in the Margin Loan Terms & Conditions available at **www.commsec.com.au> Tools&Support>Forms&Downloads> MarginLending**) occurring, which would result in all amounts owing becoming immediately payable.
- The variable interest rate may increase, resulting in higher interest costs which may reduce your profits or even exceed the portfolio's return.
- Tax legislation or marginal tax rates may change and have an adverse impact on your tax position.
- Your financial situation may materially change, which may adversely affect your Margin Loan.

Successfully Managing Gearing Risks

When making an investment choice in equities or managed funds, you should be aware that prices fluctuate from day to day, and some shares and funds will turn out to be better investments than others.

When using a Margin Loan, you need to consider the investment risks inherent in the asset you are buying, as well as the additional effects that gearing creates. Fortunately, there are ways you can get the risks under control. It is easy to address most risks by following these simple steps:

1. Understand your strategy and stick to it

Before you start, decide on the amount of capital to commit, your investment or trading strategy, your choice of industry/asset type, entry and exit prices and the amount you would like to borrow. A disciplined approach can help you make better investment decisions.

2. Research your securities

When you purchase a stock, you become part owner in a business. Use the CommSec company research tools and analyst reports to monitor the financial health and metrics of your holdings.

3. Stagger your entry into the market

You can reduce the risk of incorrectly timing the market by using 'dollar cost averaging' — investing the same dollar amount regularly over a period of time. If you prefer managed funds, you can automate this with a Regular Gearing Plan. Or if you prefer stocks, you can use conditional orders and price alerts.

4. Diversify

Reduce the risk from individual stock price movements or LVR changes by spreading your investment across different companies, assets and industries. A fall in the value of one investment may be offset by a rise in the value of another. Plus you can take advantage of CommSec Portfolio LVR to create additional buffer and access bonus stocks when you hold 5 or more accepted securities.

5. Borrow less than the maximum

You can control the multiplication effect of gearing by using only part of your potential funds available. Lower gearing will leave you with a greater buffer to protect you against margin calls triggered by price drops.

6. Control your cash flow

Estimate your interest payments and ensure you can cover them. Reinvest income from dividends to offset your interest costs and loan principal. Pay your interest through a bank account rather than capitalising to the loan — capitalised interest will increase your loan and result in larger interest expense over time.

7. Fix your interest rate

Transfer part of or your entire loan to a fixed rate for a selected term — this way you will eliminate the risk of rising interest expenses for the chosen term.

8. Monitor your investments

Our website offers you a suite of tools to monitor your portfolio and loan status. You can use price alerts to notify you when a stock has reached a pre-determined price, and conditional orders to create an automated stop-loss order instruction.

9. Use Options for protection

Certain Exchange Traded Options can allow you to keep your existing shares over periods of market uncertainty, while protecting you against losses from falling share prices.

10. Take action early

If you notice your gearing level is getting too high and is approaching or already in buffer, take action before a Margin Call is triggered.

Understanding Margin Calls

A Margin Call occurs when the lendable value of your portfolio has fallen to a point where you must add collateral to bring it back within its gearing limit. A Margin Call is triggered when your current LVR (gearing level) has reached or exceeded your portfolio's Margin Call LVR.

A Margin Call is often seen as a negative feature associated with a Margin Loan, but you can also regard it as a risk management tool that alerts you to your portfolio's under-performance, providing you with the opportunity to re-evaluate continued investment in underperforming assets.

Because a Margin Loan is a flexible tool that allows you to deposit or withdraw funds from your loan facility at any time, a Margin Call is essentially a notification that your level of equity in the loan is no longer sufficient for your level of debt.

If you choose to deposit cash to satisfy a Margin Call, what you are actually doing is increasing your proportion of equity in your original investment. Taking a long-term view, this means that if the value of your investment moves in your favour, you will then have more than the original value of equity in your loan facility, which will be available to draw down when you require it.

In summary:

A MARGIN CALL IS TRIGGERED WHEN:

- your Current LVR exceeds the Margin Call LVR; or
- your Current LVR exceeds the Maximum Gearing Ratio.

A MARGIN CALL CAN HAPPEN WHEN:

- The market value of your portfolio falls; and/or
- we reduce the LVR of an investment that is securing your margin loan;
- interest that is capitalised increases your loan balance
- your gearing level exceeds the permitted Maximum Gearing Ratio and/or

In addition to the usual circumstances explained above, you may also be called to repay your loan in full if an enforcement or default event occurs, as outlined in the Margin Loan terms & conditions

IN THE EVENT OF A MARGIN CALL:

- You will notice that your Loan Status in your portfolio on the website will change from “Account in Order” or “In Buffer” to “In Margin Call”.
- We will take reasonable steps to also notify you by SMS, email or phone. You must ensure you are contactable at all times in the event of a Margin Call. Please ensure you keep us informed of your current contact details.
- You must adjust your gearing level by 2pm (Sydney time) the next business day after a Margin Call is triggered, so that your Current LVR (gearing ratio) is below the lower of:
    - o the Base LVR; and
    - o the Maximum Gearing Ratio

HOW TO RESOLVE A MARGIN CALL:

You can simulate resolving a Margin Call using our "WhatIf" calculator. The options available are:

- Deposit money into your Margin Loan to reduce your loan balance, and/or
- Provide additional accepted shares, managed funds or secured cash in your Commonwealth Direct Investment Account to increase your portfolio value; and/or
- Sell a sufficient amount of your portfolio to reduce your loan balance and gearing level.

EXAMPLE: CLEARING A MARGIN CALL

Scenario: Josh has noticed that his Loan Status is showing as "In Margin Call", and later that day receives an email notifying him a Margin Call for $2000 has been triggered on his loan. His Margin Loan is secured by eight different stocks, with lending values between 0% and 70%. Josh considers his three options:

1: *Transfer cash to reduce the loan balance — amount required $2000*

A loan balance reduction of $2000 will directly lower Josh's debt levels, reducing his gearing ratio to restore his loan position so that his Current LVR is below his Base LVR.

2: *Transfer a 70% stock as additional security — amount required $2,857*

How much stock needs to be transferred to meet a Margin Call depends on the stock's LVR. In Josh's case, he is transferring a stock with an LVR of 70%, so he divides the Margin Call amount ($2000) by the LVR (0.7) for a total of $2,857.

Josh needs to transfer at least $2,857 of this stock to increase his loan security value so that his Current LVR will be below his Base LVR.

3: *Sell a 70% stock already held on the loan — amount required $6,667*

If Josh wishes to sell stock he holds on his margin loan, how much stock he needs to sell will depend on the stock's LVR: the higher the LVR, the more he will need to sell. The calculation is the Margin Call amount divided by 1-LVR. In this case, Josh is thinking about selling a stock with an LVR of 70%, so he will have to sell $2000/(1-LVR) = $2000/0.3= $6,667. That's more than three times the dollar amount of the Margin Call. For each dollar of stock Josh sells, he reduces his loan balance by a dollar, but he is also removing 70 cents of collateral, the net result being only a slight reduction to his gearing ratio.

Alternatively, if Josh chooses a 0% stock, he only needs to sell $2000, as he is not borrowing against it.

By selling securities and using the value of his equity in those stocks to further repay his loan balance Josh is reducing both his loan balance and his loan security value, which will restore his loan position so that his Current LVR is below his Base LVR.

Please note: due to market fluctuations, the required amount may change after the original Margin Call has been triggered. If the Margin Call has not been resolved in full within the required time, we may have to sell a portion of your portfolio on your behalf to cover the difference. To prevent this, we encourage you to take action yourself within the required timeframes.

IDENTIFYING WHEN A FALL IN THE MARKET VALUE OF YOUR SECURITY WILL TRIGGER A MARGIN CALL

Margin Calls are commonly triggered by adverse market conditions reducing the value of your security. The table below shows how you can give yourself more breathing space by borrowing less than the maximum, and how much the market value of your security must fall before a Margin Call would be triggered.

Current LVR	Fall in Portfolio Value to Trigger margin Call if Base LVR is:					
	75%	70%	65%	60%	55%	50%
35%	56.3%	53.3%	50.0%	46.2%	41.7%	36.4%
40%	50.0%	46.7%	42.9%	38.5%	33.3%	27.3%
45%	43.8%	40.0%	35.7%	30.8%	25.0%	18.2%
50%	37.5%	33.3%	28.6%	23.1%	16.7%	9.1%
55%	31.3%	26.7%	21.4%	15.4%	8.3%	0.0%
60%	25.0%	20.0%	14.3%	7.7%	0.0%	
65%	18.8%	13.3%	7.1%	0.0%		
65%	12.5%	6.7%	0.0%			

CommSec's Risk Management Tools

At CommSec, we're committed to providing you the tools you need to help you most effectively manage your risk exposure so that you can maximise your returns, and potentially avoid Margin Calls. Summarised below is the suite of Risk Management tools that you receive when you open a CommSec Margin Loan:

PORTFOLIO LVR

Portfolio LVR is a feature of the CommSec Margin Loan which 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 more cover against Margin Calls or be used to further grow your portfolio.

Holding a diversified portfolio doesn't just give you access to Portfolio LVR, it also offers better protection if one or more of your investments don't perform as expected. CommSec offers increased lending values in diversified portfolios because our experience in margin lending has generally shown us that a diversified portfolio is less likely to trigger a Margin Call than a non-diversified portfolio.

EXPERT COMMENTARY AND RESEARCH

The CommSec website offers Daily & Weekly Reports, Economic Updates, Analyst Research & Recommendations as well as a Company Search tool that allows you to keep track of your portfolio's performance.

You can also use our commentary and research to changes in external factors that may affect the future performance of your securities – so that you seize opportunities as they arise. We also publish video reports by CommSec Research Analysts on YouTube.

WHATIF CALCULATOR

As a CommSec Margin Lending client you'll get exclusive access to our websites WhatIf risk calculator to help assess your risk before investing in the market. You can place a simulated trade to see how various transactions will affect your loan portfolio, before you decide whether you want to proceed with your trade.

Transactions that can be simulated include:

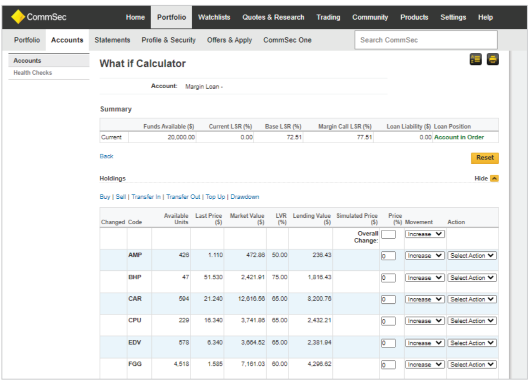
- Trade (Buy/Sell)
- Transfers (In/Out)
- Cash (injections/withdrawals)
- Market Movements (up/down)

It's as simple as:

1. Login to your margin lending account at commsec.com.au and go to:
   Portfolio> Click on your Margin Loan > Account Details > WhatIf Calculator
2. Enter the transaction you want to simulate and follow the prompts:

SELF-SERVICE FACILITIES

At CommSec, we make it easy and convenient for you to manage your investments, with self-service options:



- ***View*** your current **Loan Position & Loan Status** online in real time, 24 hours a day, 7 days a week
- ***Transact*** by placing a **BUY or SELL** Trade 24 hours a day, 7 days a week through any one of the following platforms: CommSec Website, CommSec Mobile App, CommSec Iress, CommSec Phone Trader, or the CommSec Call Centre
- ***Request*** real-time Online **Funds Transfer** between your loan and linked bank accounts to address or prevent a Margin Call
- ***Request*** an online **Credit Limit Increase**
- ***Manage*** & update your **Profile** which includes your personal contact details and banking instructions
- ***Create*** an **Email or SMS Share Alert** to help keep you informed, wherever you happen to be. You can use a Price Alert to tell you instantly when a selected stock or option reaches a high or low trigger price, a Time Alert to monitor the price of a watchlist at the time of day you choose or an Announcement Alert to inform you when a new company announcement has been made for a stock. CommSec Share Alerts are sent straight to your mobile phone or email inbox.
- ***Create*** unlimited **Watchlists** online, that allow you to keep an eye on stocks of interest and the performance of your portfolio.
- ***Create*** an email **After Market Notification** containing data showing high, low, last, trades and volume for each stock in your various watchlists.
- ***View*** the current **Approved Security List** as well as any upcoming and recent **Amendments to LVR's** on the Approved Security List that may impact your portfolio
- ***Create Conditional Orders*** that instruct us to monitor a particular stock on your behalf, and if the share price reaches your predefined target, a buy or sell order will be triggered automatically. You can also elect to receive SMS and/or email notifications regarding the status of your conditional order
- **Purchase an Exchange Traded Put Option** to protect the value of your shares. This is an alternative to a conditional stop-loss order, and allows you to customise price protection with Put Options. For details about using Put Options to hedge (protect) your portfolio, visit **www.commsec.com.au>Products>Derivatives>Options&Warrants**

CASE STUDIES

Every investor is slightly different — their goals, their strategies and their appetite for risk can all vary.

While we can't provide scenarios for every possible situation, we've created a series of case studies that are available to download through our website that show how margin lending can work for a number of different investors, with different aims.

These case studies address topics of particular interest to investors with real-life illustrations of how each strategy works.

SMS BUFFER ALERTS

As well as providing a real time Loan Status on our website, we regularly notify clients whose loans are in buffer as a reminder that their Current LVR is approaching their Margin Call LVR. We'll endeavour to contact you by SMS if you're in buffer when our regular SMS is sent, to help you avoid a Margin Call. Please ensure you always keep us informed of your current contact details.

MARGIN CALL ALERTS

In addition to providing a real time Loan Status on our website, we'll endeavour to contact you by phone, email or SMS when you have triggered a Margin Call so that you are aware immediate action is required to reduce your level of gearing and to provide you with the maximum amount of time to assess your portfolio make your decision on how to clear the Margin Call. Please ensure you keep us informed of your current contact details.

Extended Hours With *Margin Lending Specialists*

Our dedicated team is available on **13 17 09** from 8am to 6pm, Monday to Friday (Sydney time) to help you with any queries that you have. Alternatively you can email us anytime at **marginloan@commsec.com.au**

PAGE LEFT INTENTIONALLY BLANK

PAGE LEFT INTENTIONALLY BLANK

We're here *to help*

To find out more, call us on **13 17 09**, 8am to 6pm (Sydney time), Monday to Friday, or visit our web site at **commsec.com.au**

13 17 09

commsec.com.au

CommSec

MKTG926 (06/21)