Margin Lending Facility issued by Leveraged Equities Finance Limited: Product Disclosure Statement

30 June 2013

IMPORTANT INFORMATION

The *Margin Lending Facility* is issued and provided by Leveraged Equities Finance Limited (referred to as Leveraged Equities, we, or us). This Product Disclosure Statement (PDS) refers to a brochure entitled 'Make the most of your potential' (Brochure), which provides further details of the *Margin Lending Facility*. The specific terms and conditions that govern the *Margin Lending Facility* (T&Cs) are contained at the end of the Brochure. The Brochure (and the T&Cs contained therein) should be read in conjunction with this PDS. Italicised terms in this PDS have the meaning given in part E of the T&Cs. The Brochure can be obtained from our website *www.leveragedequities.co.nz* or by calling us on the telephone numbers detailed below.

CONTENTS

INTRODUCTION

This PDS is a summary of significant information about features of the *Margin Lending Facility* and contains a number of references to additional important information.

It is recommended that you read and consider this PDS and any other additional important information referred to in this PDS (e.g. the Brochure and the T&Cs) before making a decision to use the *Margin Lending Facility* or any additional features.

The information provided in this PDS is general information only and does not take into account your personal objectives, financial situation, or needs. It is recommended that you seek independent tax advice and financial advice from a financial advice provider that is tailored to your personal circumstances before deciding to use the *Margin Lending Facility*.

CONTACT DETAILS

For more information speak to your financial advisor or contact the Leveraged Equities Client Service Team. Our contact details are as follows:

Telephone: (04) 495 1327
Toll free: 0800 Margin (0800 627 446)
Facsimile: (04) 495 8199
Website: *www.leveragedequities.co.nz*
Email: *info@leveragedequities.co.nz*
Post: PO Box 621, Wellington 6140

1. ABOUT LEVERAGED EQUITIES FINANCE LIMITED AND THE MARGIN LENDING FACILITY

The *Margin Lending Facility* is issued and provided by Leveraged Equities as the lender. Leveraged Equities was established in 1994 and its principal business is lending money against security of certain approved securities.

Under the *Margin Lending Facility*, we lend you money (on the security of some investments you hold) that you can use to invest in securities (e.g. shares and fixed interest securities). This allows you to access capital without selling existing securities you hold, and provides you with an opportunity to increase the amount and diversity of your investments. You can repay your loan in a number of ways including transferring money into your loan account or by selling some, or all, of the investments under your *Margin Lending Facility*.

Investing borrowed monies by using the *Margin Lending Facility* magnifies the returns/losses you may receive in the event of an increase/decrease in the market value of your securities (when compared to investing without borrowing).

You should regularly monitor your *Margin Lending Facility* and your portfolio so that you are aware of any changes to the terms of the *Margin Lending Facility* and so that you can take timely action to prevent or reduce any potential losses.

In some circumstances (e.g. when the value of your securities falls substantially) you may need to, at short notice:

(a) Repay some, or all, of your loan.

(b) Sell some or all of your investment portfolio. In some instances we may sell investments without giving you prior notice.

(c) Give us *Security Interests* over additional property.

If the value of your investment portfolio does not cover the cost of repayments for the loan, then you may need to pay any shortfall from other funds or we may sell any assets provided as security for your *Margin Lending Facility* (without prior notice).

2. BENEFITS OF THE MARGIN LENDING FACILITY

The following is a description of the key benefits available to you under the *Margin Lending Facility*:

Increase the amount you have to invest

Borrowing monies under the *Margin Lending Facility* increases the amount of funds you have to invest.

Access your equity

When an investment opportunity arises you may not always wish to sell your current investments. With the *Margin Lending Facility* you can borrow against your existing securities without needing to sell them to access your equity.

Diversify your portfolio

You can use any monies borrowed under the *Margin Lending Facility* to invest in a greater number of securities and also across different sectors, thereby spreading your risk.

Manage your investments with the help of a flexible facility

The *Margin Lending Facility* has a number of flexible features, including:

(a) A number of ways to operate your *Margin Lending Facility*. For example, there is flexibility in relation to drawing down, repaying, and paying your interest, in respect of your *Margin Lending Facility*.

(b) An extensive list of approved investments both in New Zealand, Australia and selected overseas markets that can be used to secure your obligations (i.e. the Margin Lending Ratio (MLR) Securities List, which can be found on our website at *www.leveragedequities.co.nz/margin-lending-ratio.aspx* or by contacting us).

Potential income tax deductibility

Interest may be tax deductible provided the funds are used for taxable income generating purposes. Your taxation advisor may be able to assist you and we recommend you seek their advice.

Statements of Account

Statements of Account may be requested from our website. These statements will be automatically emailed to you, so that you can regularly monitor your *Margin Lending Facility*.

Please refer to the Brochure to read further important information regarding the potential benefits of the *Margin Lending Facility*.

3. HOW THE MARGIN LENDING FACILITY WORKS

Under the *Margin Lending Facility,* you can borrow monies from us. These may be used to acquire investments (in addition to any investments you have acquired with your own money) or for your other business and/or investment purposes. We can advance you monies in either NZD or AUD. Other than a requirement that any monies borrowed must be used primarily for business and/or investment purposes, there is no limitation on the types of investments you can purchase with the borrowed monies.

You are required to pay us interest in respect of the monies you have borrowed under the *Margin Lending Facility.*

Minimum borrowing thresholds apply. Please contact us for details of current minimums.

To secure your obligations, you give us a *Security Interest* in your investments (including investments acquired with the proceeds of a loan made under the *Margin Lending Facility*) *(Mortgaged Securities)* and any other property you give us a security interest in (together the *Secured Property)*. For this purpose, you transfer to us (or our nominee) all your rights, title, and interest in the *Mortgaged Securities.* We may sell some or all of the *Secured Property* if you do not meet your obligations and there is a margin call (please see next section below), or if certain events (usually market related) occur.

The maximum amount that you are able to borrow depends on factors such as your *Credit Limit* and the market value of your *Secured Property* and the Loan to Value Ratio (also called the Margin Lending Ratio) (MLR) assigned to specified investments that can form part of your *Secured Property* (MLR Securities). Generally speaking, we will lend you a maximum amount equal to the market value of an MLR Security that you hold multiplied by the MLR for that MLR Security.

The MLR is a percentage approved by us and assigned to each MLR Security. For example, the MLR for share XYZ could be 70%.

The market value is the current dollar value of an investment that is part of the *Secured Property*. For example, if share XYZ has a price of $2.00 per share, a portfolio of 50,000 XYZ shares has a market value of $100,000 (50,000 multiplied by $2). Securities are marked to market daily based on the closing prices on the preceding *Working Day*. The market value of overseas securities is also subject to translation into NZD at a rate determined by us.

Therefore, if you held XYZ shares that had an MLR of 70% and had a market value of $100,000, generally speaking, we would lend you a maximum amount of $70,000 ($100,000 multiplied by 70%).

You should refer to the list of MLR Securities (which also outlines the applicable MLRs) that we publish before making a decision. This list may change between the time you read this PDS and begin operating your *Margin Lending Facility*. The list of MLR Securities can be found at *www.leveragedequities.co.nz/margin-lending-ratio.aspx* or by contacting us. The MLRs are subject to change, at our discretion, at any time.

The *Margin Lending Facility* is a non-standard margin lending facility because you must transfer to us (or our nominee) all your rights, title, and interest in your *Mortgaged Securities* as security for your obligations. We are authorised to transfer the *Mortgaged Securities* to any person in the ordinary course of and for the purposes of our business under an arrangement commonly known as a ‘stock lending’ arrangement which requires that person to undertake to retransfer the *Mortgaged Securities* or deliver *Equivalent Securities* to us.

If we enter into such stock lending arrangements, you are exposed to counterparty risk that the other party may fail to retransfer the *Mortgaged Securities* or *Equivalent Securities* back to us (e.g. if they become insolvent). Also, we may not be able to fulfil a request to retransfer *Mortgaged Securities* or *Equivalent Securities* to you if the market for the *Mortgaged Securities* becomes illiquid resulting in it being impossible to obtain *Equivalent Securities* to transfer to you. We manage this risk by requiring that person to hold cash with us to the value of the transferred *Mortgaged Securities* plus a 5% margin. This cash buffer will fluctuate depending on changes in the value of the underlying *Mortgaged Securities*.

When you transfer Securities to us or our nominee, those Securities will be held in either our name or the name of our nominee together with other Securities held in the *Margin Lending Facility*.

You may request that we retransfer your *Mortgaged Securities* or *Equivalent Securities* back to you. We will comply with such a request once you have repaid any applicable outstanding balances on your *Margin Lending Facility*.

You can terminate your *Margin Lending Facility* at any time once you have repaid all your *Total Liabilities*.

In some circumstances, we may require persons to provide a guarantee and indemnity in respect of obligations you owe us under the *Margin Lending Facility*.

In the event of our insolvency, you will be an unsecured creditor. Accordingly, in the event of our insolvency, there is the risk that we may not be able to retransfer the *Mortgaged Securities* or *Equivalent Securities* back to you as contemplated above.

Further details of your rights and obligations under the *Margin Lending Facility* are set out in the Brochure and the T&Cs contained therein. We recommend that you read the Brochure before making a decision to use the *Margin Lending Facility*. The Brochure can be obtained from our website *www.leveragedequities.co.nz* or by contacting us.

The Money Smart website (*www.moneysmart.gov.au*), which is an initiative of the Australian Securities & Investments Commission (ASIC), includes a margin loan calculator. This margin loan calculator can help you work out how the amount you borrow could affect your potential gains and losses, the risk of a margin call, and how much money you would need to meet a margin call if markets go down.

4. WHAT IS A MARGIN CALL?

A margin call occurs if, at any time, all amounts that you owe us or will or may owe us in the future (*Total Liabilities*) exceed either your *Credit Limit* and/or the total security value of the *Secured Property* plus 5% of the market value of the *Secured Property*.

The total security value of the *Secured Property* is the total of the values determined under the following formula in respect of each item of *Secured Property*:

a x b, where

a = the market value of each item of *Secured Property*

b = the proportion (expressed as a percentage) of the value of that item of *Secured Property* that we determine from time to time. In respect of each MLR Security, this proportion is the MLR listed on the list of MLR Securities (which can be found on our website) or any MLR we have notified to you.

The purpose of the 5% buffer is to allow for small fluctuations in security value without triggering a margin call.

To resolve a margin call you must, generally speaking by 3pm the following *Working Day*:

(a) give us *Security Interests* over additional property (to our satisfaction); and/or

(b) repay to us some of the money you owe us; and/or

(c) sell, or give directions to sell, any *Secured Property* or other securities (and the sale proceeds will be applied in repaying the money you owe us);

so that your *Total Liabilities* no longer exceed either your *Credit Limit* and/or the total security value of the *Secured Property.*

A margin call could be made at any time, if any one or a combination of the following events occurs:

(a) The market value of one or more securities comprising the *Secured Property* falls.

(b) The value of the NZD changes adversely affecting the NZD value of overseas loans or investments.

(c) The amount you borrow increases. For example, this could occur due to interest accruing and/or capitalised on your loan balance.

(d) We reduce an MLR or remove an LVR Security.

The following example illustrates how a margin call works:

The only *Secured Property* held by you is XYZ shares. The market value of the XYZ shares is $100,000. The MLR for share XYZ is 70%. Accordingly, generally speaking, the maximum amount you can borrow under the *Margin Lending Facility* is $70,000. You borrow $50,000 under the *Margin Lending Facility*, and have not reinvested the borrowed monies. The 5% buffer is equal to $5,000 ($100,000 multiplied by 5%).

Therefore, all else being equal, in this example a margin call would occur, if, for example, the security value of the XYZ shares dropped to $45,000 (i.e. the market value of the XYZ shares drops to $64,285). This is because your Total Liability (i.e. $50,000) would be greater than the sum of your *Credit Limit* and/or the total security value of the *Secured Property* (i.e. $45,000) plus the 5% buffer (i.e. $3,214), being $48,214.

In order to deal with this margin call, you could reduce your Total Liability by repaying greater than $5,000 of your loan with us, such that your resulting Total Liability is below the $45,000 level.

- To resolve a margin call you must respond within a very short time.
- If you are close to a margin call we will endeavour to send you a warning that a margin call event may happen, though this is not always possible.
- Once a margin call event occurs we will take all reasonable steps to notify you and/or your financial advisor.
- You must keep your contact details up-to-date to enable us to contact you at any time in the event of a margin call.
- If you do not resolve a margin call when and as required, we may enforce a sell down of some or all the *Secured Property*, without further notice (and apply the sale proceeds to reduce your *Total Liabilities*).

5. THE RISK OF LOSING MONEY

Changes to the value of your investments

Investing borrowed monies by using the *Margin Lending Facility* magnifies the returns/losses you may receive in the event of an increase/decrease in the market value of your securities (when compared to investing without borrowing).

Also, a fall in the value of your securities may trigger a margin call, which, if not met in full, may result in some or all of your securities being sold by us.

Changes to interest rates and foreign exchange rates

An increase in interest rates may increase your borrowing costs. If the net return on your Securities (including capital gains and dividends received) is less than your borrowing costs, then you may earn a lower return or incur a greater loss than if you had not borrowed to invest. Also, you will have exposure to changes in foreign exchange rates if your loan and/or Securities are denominated in different currencies.

Events that result in your loan becoming due for payment in a short period

These events include margin calls (which can be triggered by market events such as a fall in the market value of your Securities as well as us reducing an MLR or removing an investment from the list of MLR Securities a MLR Security) or where you are in default under the T&Cs. If these occur, this can result in your loan becoming due for repayment (in part, or in full) in a short period of time. These events may be outside your control, can occur at any time and may occur unexpectedly.

Net sale proceeds may not cover the loan

To repay the loan you may have to sell or redeem some or all, of the Securities offered by you or any Guarantor as security for your *Margin Lending Facility* (the *Secured Property*). Your liability is not limited by any net sale proceeds from the *Secured Property* and you will be required to repay your loan in full from other funds if the sales proceeds are not sufficient.

Reliance on Leveraged Equities, your financial advisor, and any stock lending counterparty

You rely on our solvency as well as our risk management and compliance, policies and procedures that we use in the operation of your *Margin Lending Facility*. You also rely on the actions of the financial advisor that you may appoint as your authorised representative. Further, if we enter into stock lending arrangements, you are exposed to counterparty risk that the other party may fail to retransfer the Securities back to us.

Regulatory risks

There is the risk that legislative and/or regulatory changes may occur that have an adverse impact on you (for example, taxation laws may change and this may have a negative effect on your tax position).

LE Shorts

If you use the added LE Shorts feature, you should read and understand the risks of using this feature contained in our LE Shorts brochure. Please contact us if you would like further information on the LE Shorts feature.

This section is a summary of the important risks and these risks may change over time.

Information about margin loans published by ASIC can be accessed at *www.moneysmart.gov.au/investing/borrowing-to-invest*

If you are not comfortable with taking on an additional level of risk over and above the risk that already exists with investing in the sharemarket, then margin lending is not for you.

6. THE COSTS

You must pay interest on monies borrowed under your *Margin Lending Facility*.

The interest rate differs depending on whether your advance is a *Floating Rate Advance* or a *Fixed Rate Advance*.

Interest is currently charged on one of the following bases:

(a) For a *Floating Rate Advance*, at a variable interest rate equal to the *Base Rate* (discussed below) plus the applicable *Floating Interest Rate Margin*. Interest is calculated on the daily balance of the amount borrowed at a variable interest rate. Currently, the interest rates payable for a *Floating Rate Advance* are as follows:

Amount of Advance	***Interest Rate***
Less than $30,000	*Base Rate* plus 5%*
Between $30,000 and $499,999.99	*Base Rate* plus 3%*
Between $500,000 and $999,999.99	*Base Rate* plus 2.85%*
Greater than $1,000,000	*Base Rate* plus 2.65%*

*Referred to as the *Floating Rate Interest Margin* in the T&Cs.

The *Base Rate* is the cost of our funds for the *Margin Lending Facility* as determined by us from time to time. The *Floating Rate Interest Margin* is set by us and may change from time to time. Please contact us for further details.

(b) For a *Fixed Rate Advance*, at a fixed interest rate agreed between you and us. Interest accrues daily and is payable at different times, depending on the *Interest Period* agreed between you and us. The minimum amount for a fixed rate advance and the funding period to which a fixed rate advance will be made can be found by contacting us.

As the *Base Rate* may change daily, the variable interest rate may also change daily, and you will need to contact us to get an update of the current rate. The average rate charged appears on your monthly statement of account, which will be sent to you at the end of each month. Interest accrues daily and is payable on the last day of each calendar month and the date of repayment. You may choose to pay this interest each month, or capitalise it onto your loan. You cannot elect to capitalise interest where to do so would cause your *Credit Limit* to be exceeded.

You must pay interest at a default rate on any amount that is overdue and any part of your *Total Liabilities* which exceeds your *Credit Limit*. The default interest rate is 4% above the standard rates we specify (see above).

You must pay us the following standard fees:

(a) A one off establishment fee of $125.

(b) A *Credit Limit* increase request fee of $75, per request.

These fees are set by us and may change from time to time.

There are no ongoing account maintenance fees, although fees may be charged for additional account services requested. Where monies are advanced for an application in a public offering and we are responsible for lodging and/or completing the application, a line fee may apply. You have ultimate responsibility for deciding what to invest in, therefore if we incur any charges or fees as a result of any investment decision you make, we will pass this these costs on to you.

Fees may be charged for some funds transfers, foreign exchange transfers, nominee trade settlements, and any obligations that may arise from changes to legislation and regulation at anytime in the future. Your financial advisor, broker, and bank may also charge fees for advice and transactions related to your *Margin Lending Facility*.

We may pay a trail commission to a broking firm who introduces you to us. The current standard trail commission is normally 0.25% of your daily loan balance and is paid out of the income that we earn from the *Margin Lending Facility* (and not by you directly). As this is a percentage, the amount of commission that we pay is dependant on the size of your loan. The Issuer of investments that you acquire may also pay commissions or handling fees payable to your financial advisor or broking firm.

For further information on interest rates and fees, you should read sections 2 and 3 of the T&Cs in the Brochure.

Brokerage on transactions depends on what you agree with your financial advisor and/or broking firm. We do not charge any brokerage on financial transactions.

7. HOW TO APPLY

a) Read this PDS including all important disclosures.

b) Ensure that you are eligible (e.g. over 18, have the consent of directors of a company and trustees of a trust).

c) Read the Brochure including the T&Cs.

d) Contact the Client Service Team to clarify any aspects of using the *Margin Lending Facility* that may appear unclear to you.

e) Complete the *Application Form.*

f) Complete the *Declaration as to Purpose form* (if applicable).

g) Post the completed *Application Form* and *Declaration as to Purpose form,* together with all required supporting documentation.

Cooling off period

There is no cooling off period.

We recommend that you seek independent advice, including financial advice, prior to opening a *Margin Lending Facility* to see if this is appropriate for your financial objectives.

Dispute Resolution Procedures

If you are dissatisfied with any aspect of your *Margin Lending Facility*, please contact the Client Service Team.

Telephone: (04) 495 1327
Toll free: 0800 Margin (0800 627 446)
Facsimile: (04) 495 8199
Website: *www.leveragedequities.co.nz*
Email: *info@leveragedequities.co.nz*
Post: PO Box 621, Wellington 6140

If you are still not satisfied you may direct your complaint to:

Financial Services Complaints Ltd (FSCL)
PO Box 5697
Lambton Quay
Wellington 6145
Toll Free 0800 347 257