

# Instalment Warrants – Cash Extraction

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Cash Extraction is a strategy commonly used to re-weight a share holding or share portfolio using instalments. Instalments are financial instruments issued by banks and other institutions, traded on ASX. Instalments provide investors with the means to gain exposure to a variety of different underlying assets.

## What is Cash Extraction?

The cash extraction strategy (or Share Holder Application) allows investors to switch from existing share holdings into instalment warrants without triggering a capital gains tax (CGT) event. This strategy is one of many different strategies to be used with Instalments and offers features such as:

- Entitlement to income in the form of dividends and franking credits
- Capital protection, and
- Exposure to a diverse range of asset classes from shares to debt to commodities to indices

## Case study: Unlock existing wealth

### The scenario

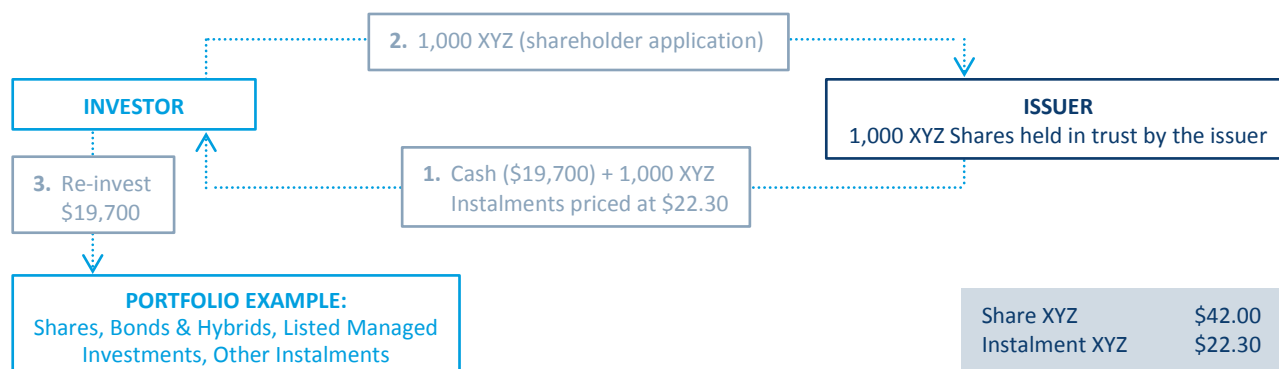
The Investor owns 1,000 shares of XYZ and wishes to release cash from the investment but maintain the level of exposure to capital growth and income.

### The process explained

- The shares are priced at \$42.00 each, meaning the 1,000 shares are valued at \$42,000.
- Upon submission of the shareholder application document, the warrant issuer holds 1,000 XYZ shares in trust on your behalf.
- The instalment warrants are priced at \$22.30 each, meaning 1,000 instalments (the equivalent to a 1,000 shares) are valued at \$22,300.
- The investor receives the instalments and cash sum \$19,700.

### The cash extraction outcome

- This \$22,300 investment with instalment warrants replicates the investor's original \$42,000 investment exposure to XYZ's income and capital growth.
- The outstanding cash sum of \$19,700 (\$42,000 – \$22,300) is now available for re-investing in other assets.
- No Capital Gains Tax is payable as XYZ shares have not been sold.



Note: This strategy is not allowable within Self Managed Super Funds (SMSFs)

## Key Benefits of Cash Extraction

Using existing share holdings, you can use instalments to diversify an investment portfolio in the share market. This strategy is ideal for those who have significant capital in existing share holdings and do not wish to trigger a Capital Gains Tax (CGT) event, or invest further funds into the market. The investor receives dividend income, franking credits and capital growth of the share. The cash realised can reduce portfolio risk through diversification with other investments.

### The advantages of using this strategy are:

- The investor maintains original share exposure
- The release of capital from the existing investment
- The extraction of cash to either leverage or diversify

### Why would you execute this strategy?

A typical investor would use this strategy when:

- Overweight in certain stocks in your portfolio
- To extract some cash to invest in other assets
- To maintain an exposure to the stock for capital growth and income

## How do you implement this strategy?

After selecting the instalment, the investor obtains and completes the 'shareholder application' form in the disclosure document. Lodge the form with a warrant issuer and they will transfer the shares into a trust, while simultaneously transferring the instalments and cash payment to you. The cash payment may be placed into a nominated bank account or the investor can elect to purchase further instalments available over any other underlying share.

## Benefits of Instalments

Instalments offer investors many benefits and strategies including:

- Leverage and diversification
- Enhanced dividend yield (compared to shares)
- Unlocking wealth from existing share holdings
- Application within self-managed super funds (SMSFs)
- Smaller initial outlays through partial payment upfront
- Known and limited downside risk
- Excess franking credits can be refundable for SMSFs
- Potential taxation benefits
- Interest expense deductible
- Tradeable on ASX

## Risks of Instalments

Instalments are issued by a number of different investment banks. Each Instalment is unique. Therefore, it is important that you read each instalment product disclosure statement to obtain a proper understanding of gearing, dividends and the relationship to the underlying asset.

## Additional Information

- For more information consult your adviser or visit [www.asx.com.au/warrants](http://www.asx.com.au/warrants) for investor education, trading and portfolio strategies, issuer contact details, and prices.
- For more general information on warrants and their characteristics please refer to the ASX fact sheet Instalment Warrants – Getting started.
- Contact ASX customer service on 131 279 or email [info@asx.com.au](mailto:info@asx.com.au)

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