12th October 2020

The Committee
Body Corporate for Southport Central Residential CTS 35751
56 Scarborough Street
Southport QLD 4215

Dear Committee,

**Statement of Advice**

Thank you for the opportunity to advise on your financial affairs. We have pleasure in presenting your Statement of Advice (SOA), which sets out our specific recommendations for your consideration.

This Statement of Advice is based on details of your relevant personal circumstances and forms the basis of our recommendations. If any information in this report is incorrect, or if you have anything further to add, please advise us before proceeding any further.

Several steps are involved in designing a strategy to reflect your personal circumstances. The recommendations made in this Statement of Advice are the starting point of this process and therefore should only be undertaken after consulting with us.

It is very important that you take full ownership of your financial decisions. To that end, we can assist you in making the appropriate decisions, but those decisions remain yours. If necessary, please seek more information and advice from us until you are comfortable to do so.

We look forward to being of service to you in implementing the recommended strategies and assisting you in the attainment of your personal and investment objectives.

Should you have any queries in relation to the above or should you wish to fine-tune any aspect of the recommended strategy, please do not hesitate to contact me.

Yours sincerely,

**Ben McGrath**
Authorised Representative 337146

# Statement of Advice

Prepared for

**Body Corporate for Southport Central Residential CTS 35751**

INNOVATIVE
FINANCIAL SOLUTIONS
(QLD) PTY LTD

Prepared by

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**12 October 2020**

IFS Private Wealth Pty Ltd | **AFSL** 511051 | **ABN** 29 628 093 363

# Contents

# Executive summary

A summary of our advice is provided below.

## Background summary

This Statement of Advice (SOA) has been prepared based on our discussions and the information you have provided in the Fact Find. The below is a summary of the reasoning leading you to seek advice:

The BC has engaged the services of body corporate specialist lawyer Robert Herd, of Herd Law. Robert has advised that the BC should obtain financial advice with respect to the exercise of the power of investment as contained in section 96(2) of the Body Corporate and Community Management Act ("BCCM Act"). The financial advice among other things should examine the cashflow implications to the BC's Sinking Fund, and consider the investment return as well as the diversification benefits of using the BC's surplus funds.

The BC wishes to diversify its investments to include higher yielding assets other than just Cash. The BC is considering investment into units in a property unit trust, with a focus on residential units in the local area within the next 12 months.

Robert has confirmed that the BC has the power to invest by section 96(2) of the BCCM Act as well as section 144(4) of the Body Corporate and Community Management (Accommodation Module) Regulation 2008. The BCCM Act stipulates that the BC may invest its funds in the same way and in the same types of investments that a Trustee can invest. The Trusts Act 1973 (QLD) outlines that the BC may invest in any form of investment unless prohibited by the instrument creating the trust; In making any investment the BC must exercise care, diligence and skill of a prudent person. The Trusts Act outlines the matters which the BC must take into account in exercising the power of investment and stipulates that the BC may obtain independent advice from a person competent to give such advice. The strategy of the Body Corporate is to invest in units in a property trust that invests in residential investment units with a focus on local real estate including units located within the scheme. Investment in units in a property trust is a permissible investment under the Trusts Act.

The BC is aware there is always the risk of the misuse of BC funds. This has played into the BC's decision to use those funds to invest in property so that the risk of theft of the funds is substantially reduced given that asset will be units in a unit trust that has invested in 'real property'.

The main objective and purpose of the BC investing the surplus capital relates to increasing the diversification within the Sinking Fund and earning a higher return rather than continue to have it decrease in value in real terms given the current Cash return less than CPI.

The BC currently has $5.7 million in Cash assets. You have stated that you always require $1.5-2 million liquid capital within the Sinking Fund however that you wish to invest the remainder.

## Scope of advice

You have subsequently asked us to provide you with advice on the following areas:

- Cash Flow Management (Body Corporate – Sinking Fund)
- Investment

## The Body Corporate's needs and objectives

In preparing our recommendations we have taken into consideration your personal and financial goals and objectives. These are outlined below:

- You want to consider investment options that will realize both income and capital growth;
- You want to receive strategic advice on the cash flow effects and diversification benefits of using surplus funds in the Sinking Fund to invest in growth assets through the acquisition of units in a unit trust that has invested in residential units in the local market including within your own scheme.
- Over the long term you want to achieve a higher return on the surplus capital within your Body Corporate Sinking Fund than what cash is currently providing.
- You want to use your surplus capital within your sinking fund to invest in units in the Property Trust over the next 12 months.
- From a due diligence perspective are wanting strategic advice on how the investment in units in the Property Unit Trust will impact the sinking fund from an asset value perspective over the long-term.
- You want to ensure the liquidity needs of the sinking fund, being $1.5-$2 million are met.
- You require a full capital projection of your sinking fund to illustrate how the Unit acquisition strategy will benefit the sinking fund's position moving forward, when compared to maintaining your current approach of being 100% invested in cash.
- You want to be able to demonstrate to lot owners that you have sought financial advice before making your decision to invest in this manner.

## Strategy recommendations

We recommend you implement the following strategies to assist you achieve your needs and objectives:

- Via the advice of your Solicitor, we recommend that you conduct due diligence on the Unit Property Trust which is to be utilised for the purposes of making the investment.
- If you proceed with Unit acquisition strategy, we recommend that you continue to do your due diligence and conduct independent research prior to making each investment.
- We recommend that you review our 10-year comprehensive Sinking Fund future capital projection (income and growth), which includes an analysis of current versus proposed investment yield.
- We recommend you ensure you retain liquid capital within the Sinking Fund of approx. $1.9 million.
- We recommend that you review the strategic information we have provided to you concerning the investment analysis of asset classes (Property versus Cash).
- We recommend that you consider further diversification within the investment strategy of the Body Corporate Sinking Fund over-time given your desired strategy doesn't create a full diversification.
- We recommend that you see your Accountant on an annual basis to have the Body Corporate financial statements prepared to meet your Body Corporate obligations.

## Investment portfolio recommendations

The below figures have been provided by you, following your own independent research into the buildings (and you will continue to do your due diligence prior to making an investment).

We have based our projections on the averages of the costs and income as outlined below. If these figures vary greatly in reality when purchases are made, then the projections may not be relied upon.

| | 1 Bedroom Unit (7x) | 2 Bedroom Unit (5x) |
|---|---|---|
| **Upfront Costs** | | |
| e.g. stamp duty, solicitor's fees | $250,000 – $300,000 | $350,000 – $400,000 |
| *figure used for projection purposes* | *$275,000* | *$375,000* |
| **Ongoing Costs** | | |
| e.g. outlays for repairs, maintenance, levies, rates, management | $10,000pa – $15,000pa | $15,000pa – $20,000pa |
| *figure used for projection purposes* | *$12,500pa* | *$17,500pa* |
| **Ongoing Income** | | |
| expected rental income | $350pw – $420pw ($18,200pa – $21,840pa | $400pw – $550pw ($20,800pa – $28,600pa) |
| *figure used for projection purposes* | *$20,020pa* | *$26,000pa* |
| | *we have assumed a 2%pa rise in the rental income & expenses* | |

We subsequently recommend the following transactions for you:

| Investment | Current Amount | Action | Action Amount | Proposed Amount | Proposed % |
|---|---|---|---|---|---|
| **Body Corporate for Southport Central Residential CTS 35751** | | | | | |
| **Cash** | | | | | |
| Sinking Fund Surplus | $5,700,000 | Sell | $3,800,000 | $1,900,000 | 33.33% |
| *Sub-Total* | *$5,700,000* | | | *$1,900,000* | |
| **Direct Property** | | | | | |
| 1 Bedroom Unit @ $275,000 (7x) * | $0 | Buy | $1,925,000 | $1,925,000 | 33.77% |
| 2 Bedroom Unit @ $375,000 (5x) * | $0 | Buy | $1,875,000 | $1,875,000 | 32.90% |
| *Sub-Total* | *$0* | | | *$3,800,000* | |
| **Total** | **$5,700,000** | | | **$5,700,000** | **100.00%** |

* This is a hypothetical simulation of purchases based on information that you have provided, based on your stated intentions. It is not a recommendation to purchase these specific numbers and types of lots. The transactions above are estimates as the actual amounts will depend on the property values when the purchases take place.

# The scope of our advice

This Statement of Advice (SOA) has been prepared based on our discussions and the information you have provided in the Fact Find. You have asked us to provide you with advice on the following areas:

- Cash Flow Management (Body Corporate – Sinking Fund)
- Investment

## Advice limitations

During our discussions, you requested that we limit our advice to the scope of advice and the needs and objectives as outlined in this Statement of Advice. Because of this request, it is important that you are aware that the following advice areas have been limited:

- **Cash Flow Management (Body Corporate – Sinking Fund)** – My advice is limited in that I have based my projections on forecast data provided by yourself with respect to your Sinking Fund. The cashflow forecasts are based on previous BC financial statements and assume that similar numbers will apply moving forward.
- **Investment** – I am not providing advice on the underlying unit investment given you will conduct your own independent analysis on the properties to be acquired by the Unit Property Trust and your investment in Units in the Trust in conjunction with the BC rental managers sales and rental history, CBRE valuers and RP Data. My advice is further limited given my projections are based on lot purchase figures that you have provided me. Furthermore, alternative investment vehicles and asset classes are not being addressed in detail in light of your decision to invest in residential property.

It is also important that you are aware that we have not provided advice on the following areas:

- **Direct Property** – I am not providing advice on the appropriateness and quality of the individual Units themselves. You have stated you have full access to the complete sales history of all properties to be acquired by the Trust and therefore will make the decisions yourselves as a committee, in light of your belief that you have a unique advantage to identify quality purchase opportunities.
- **Legal Advice** – You are in consultation with your Body Corporate lawyer, Robert Herd of Herd Law. I am not providing advice on the legalities of using body corporate sinking fund assets to invest in units in the Unit Property Trust, , nor am I advising on the legalities of any requirements to establish associated entities or trusts to facilitate the purchases.

**Further limitations**

- We will not be able to provide the legal advice/sign off on the entity that is or will be established in order to make the investments .
- We cannot draft an actual investment strategy document for the Body Corporate given it is not considered a 'financial' product/entity, but reference can be made back to the governing Trusts Act, which states that diversification is important and that they have the 'power to invest'.
- We can only base our advice and future projections on estimated/assumed purchase prices and rental income etc., given you do not know exactly what properties you will purchase first. We are therefore relying on information you have provided to us.
- **Our strategic advice purely relates to the cash flow/future projection analysis and the diversification benefits of investing in this manner.** We explained that we would require the Sinking Fund forecast schedule for this purpose.

Due to the reduced scope of our advice, this SOA may not address all of your issues and needs. Therefore, the advice is, or may be, based on incomplete or inaccurate information relating to your relevant personal circumstances. Because of this, before acting on this advice, you should consider the appropriateness of our advice with regard to your objectives, financial situation and needs.

# The Body Corporate's objectives

## Agreed needs and objectives

In preparing our recommendations we have taken into consideration your personal and financial goals and objectives. These are outlined below:

- You want to consider investment options that will realize both income and capital growth;
- You want to receive strategic advice on the cash flow effects and diversification benefits of using surplus Sinking Fund capital to invest in growth assets through the acquisition of Units in the Property Unit Trust which has investments in real estate including lots in your own scheme.
- Over the long term you want to achieve a higher return on the surplus capital within your Body Corporate Sinking Fund than what cash is currently providing.
- You want to use your surplus capital within your sinking fund to make the investments
- You are not wanting advice on the form of investment, including the properties within the Unit Trust, but from a due diligence perspective are wanting strategic advice on how the investment will impact the sinking fund from an asset value perspective over the long-term.
- You want to ensure the liquidity needs of the sinking fund, being $1.5-$2 million are met.
- You require a full capital projection of your sinking fund to illustrate how the Lot acquisition strategy will benefit the sinking fund's position moving forward, when compared to maintaining your current approach of being 100% invested in cash.
- You want to be able to demonstrate to lot owners that you have sought financial advice before making your decision to invest in this manner.

# The Body Corporate's financial position

Here is a summary of the relevant aspects of your personal and financial details that you have provided to us. We have taken this into consideration when developing our advice so if any information is incomplete or incorrect, please advise us before proceeding.

## Body Corporate Structure Information

*Body Corporate Scheme Details*

| Description | |
|---|---|
| Body Corporate Name | Southport Central Residential CTS 35751 |
| Constitution Date of Body Corporate | 09/08/2006 |
| Date Scheme Registered | 12/12/2008 |
| Company ABN | 71 311 039 814 |
| GST Registered | Yes |
| Start of Financial Year (Body Corporate) | 1 August |
| Date of Annual General Meeting (AGM) | 1 October |
| Number of Lots/Units | 789 |

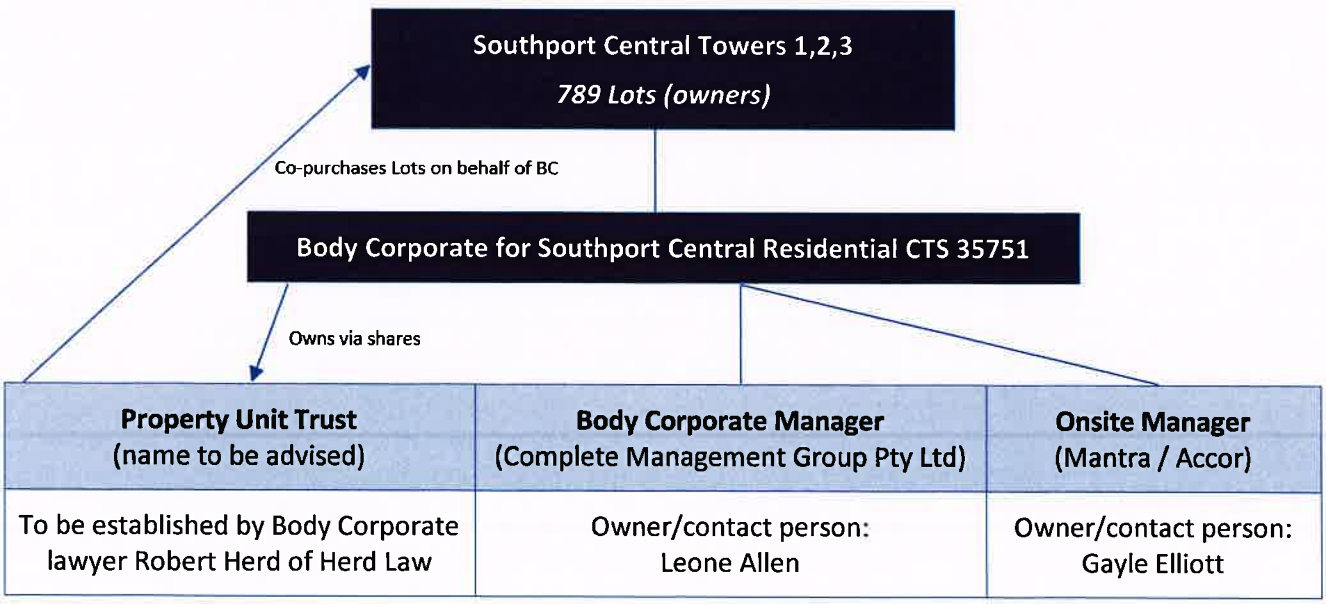
The Body Corporate (BC) is responsible for the day to day management of the scheme and each owner of the units is a member of the BC. The BC is a separate legal entity. The BC as a body has a committee and elects positions, e.g. Chairman, Treasurer, committee. There are 7 members in total (including BC Manager, Chairman and Treasurer). These 7 members make all the decisions on behalf of the 789 lot owners.

The BC engages a body corporate manager to manage the scheme; currently Complete Management Group Pty Ltd (as of 3 years ago). The BC also engages an onsite manager (Mantra/Accor) who handles all rental and owner payment aspects (except for the 100 lots which are managed by external real estate agents).

The BC collects levies 4 times per year and the amounts are contained in the financial statements you have provided. The BC manager, Complete Management Group Pty Ltd, controls the funds.

(There is also a separate Commercial BC that manages the retail businesses in the Towers.)

## Organisation Flow Chart



## Body Corporate Sinking Fund

*Body Corporate Sinking Fund Assets*

| Description | Owner | Amount |
|---|---|---|
| Cash | Body Corporate | $5,700,000 |
| **Total** | | **$5,700,000** |

You have advised that you always need $1.5-$2 million in liquid capital within the Sinking Fund, but that you wish to invest the remainder for further capital growth to achieve a better rate of return than Cash.

Furthermore, you have provided the following information:

The BC plans to paint Tower 2 next year and may have to paint Tower 1 again in the next few years, which is expected to cost $1 million in total. The BC is expecting to raise between $1.1-$2 million each year for the Sinking Fund over the next few years. This means the value of the Sinking Fund will continue to grow year on year as it has done so in previous years (you have provided documentation to substantiate this).

The balance sheets and annual budgets etc. indicate that the BC makes provisions for more expenses than take place each year. Therefore, the BC appears to be managing the cashflow very effectively and appears to be very prudent with the levies it raises to avoid having to raise a special levy. The liquid capital buffer which has been maintained allows the BC to outlay approx. $3.8 million over the course of the next 12 months to purchase the lots.

There is also an amount of $1-$2 million of anticipated reimbursement to the BC within the next 12 months which relates to errors made by the previous BC manager; a matter which is now in court. This capital will further bolster the liquidity requirements of the BC which will mean there will be less chance the BC would ever have to sell a unit to top up the Sinking Fund.

### Sinking Fund Forecast

We discussed the projected 15-year income flows of the Sinking Fund, based on the Sinking Fund Forecast you provided to us (dated 4 September 2018; prepared by Seymour Consultants).

It is important to note that this is templated data created by a quantity surveyor and is not real time data. On average, the BC raises $100,000pa more than what is required, to absolutely avoid raising special levies on the lot owners, given these are not tax deductible. You have therefore asked us to base our advice on the current level of excess capital within the Sinking Fund, being approximately $3.7 million, after we factor in a conservative $2 million liquidity buffer.

# Risk profile

Based on our initial discussions and completion of a risk profile questionnaire we have assessed that you have characteristics in line with the following investor profile(s):

| Portfolio | Risk profile |
|---|---|
| Body Corporate for Southport Central Residential CTS 35751 | Not completed |

We have explained to you that we cannot advise you on the quality of the individual investments you make. We can discuss and project the potential outcomes of the investment based on hypothetical growth and income figures for residential unit investments and compare that to your current investment strategy.

You have stated that you feel comfortable with this as you have full access to the complete 12-year sales history and rental data on all Lots within the three towers, and you therefore believe you are at a unique advantage to identify good investment opportunities in the local market and invest in the Unit Trust that will purchase properties that become available over the next 12 months.

We had detailed conversations around the importance of diversification and the fact that this new investment strategy does assist them in that regard.

However, we discussed alternative asset classes in a general manner to further explain the concept of diversification given your chosen investment strategy is not completely diversified and will be heavily skewed to property.

A risk profile was therefore not completed in light of the unique advice being provided.

**However, the following pages are excerpts from the BT Select Risk Profiler Information Booklet (pages 7, 8, 14 and 15), to provide further clarification concerning the investment analysis of asset classes (Property versus Cash).**

# Picking winners isn't easy*

This graph shows the best-performing asset class each year in blue, and the worst-performing asset class in grey.

As you can see, there are no consistent winners or losers. However, the more growth-orientated assets (shares and property) are more likely to provide the highest returns in any given year. And they're also more likely to provide the lowest returns in a year.

The more defensive asset classes of Fixed Interest and Cash are rarely the best performers, but they're rarely the worst performers either.

| Year | Australian Shares | International Shares | Australian Fixed Interest | International Fixed Interest | Property | Alternatives | Cash |
|---|---|---|---|---|---|---|---|
| 1993 | 45.4% | 24.2% | 16.3% | 13.5% | 30.0% | 10.4% | 5.4% |
| 1994 | -8.7% | -8.1% | -4.7% | -2.5% | -6.3% | -0.7% | 5.3% |
| 1995 | 20.2% | 26.0% | 18.6% | 20.6% | 14.3% | 13.6% | 8.0% |
| 1996 | 14.6% | 6.2% | 11.9% | 9.5% | 14.2% | 9.1% | 7.6% |
| 1997 | 12.2% | 41.6% | 12.2% | 10.7% | 21.8% | 10.9% | 5.6% |
| 1998 | 11.6% | 32.3% | 9.5% | 10.1% | 18.4% | 12.3% | 5.1% |
| 1999 | 16.1% | 17.2% | -1.2% | 0.3% | -4.2% | 25.0% | 5.0% |
| 2000 | 5.2% | 2.2% | 12.0% | 11.6% | 18.9% | 13.3% | 6.2% |
| 2001 | 10.4% | -10.0% | 5.5% | 8.3% | 14.8% | 8.5% | 5.3% |
| 2002 | -8.8% | -27.4% | 8.8% | 11.6% | 11.8% | 4.6% | 4.8% |
| 2003 | 14.6% | -0.6% | 3.0% | 6.6% | 8.8% | 13.2% | 4.9% |
| 2004 | 28.0% | 9.9% | 7.0% | 8.9% | 32.2% | 2.6% | 5.6% |
| 2005 | 22.8% | 16.8% | 5.8% | 3.8% | 12.7% | 2.5% | 5.7% |
| 2006 | 24.2% | 11.5% | 3.1% | 5.4% | 34.1% | 9.0% | 6.0% |
| 2007 | 16.1% | -2.6% | 3.5% | 6.6% | -8.4% | 3.9% | 6.8% |
| 2008 | -38.4% | -24.9% | 14.9% | 9.2% | -55.3% | -24.8% | 7.6% |
| 2009 | 37.0% | -0.3% | 1.7% | 8.0% | 9.6% | 13.1% | 3.5% |
| 2010 | 1.6% | -2.0% | 6.0% | 9.3% | -0.7% | 5.0% | 4.7% |
| 2011 | -10.5% | -5.3% | 11.4% | 10.5% | -1.6% | -9.1% | 5.0% |
| 2012 | 20.3% | 14.1% | 7.7% | 9.7% | 32.8% | 3.4% | 4.0% |
| 2013 | 20.2% | 48.0% | 2.0% | 2.3% | 7.3% | 6.6% | 2.9% |
| 2014 | 5.6% | 15.0% | 9.8% | 10.4% | 26.8% | -0.7% | 2.7% |
| 2015 | 2.6% | 11.8% | 2.6% | 3.3% | 14.4% | -3.8% | 2.3% |
| 2016 | 11.8% | 8.4% | 2.9% | 5.2% | 13.2% | 2.4% | 2.1% |
| 2017 | 11.8% | 13.6% | 3.6% | 3.7% | 6.5% | 6.0% | 1.7% |
| Average | 11.4% | 8.7% | 7.0% | 7.9% | 10.8% | 5.5% | 5.0% |
| Best | 45.4% | 48.0% | 18.6% | 20.6% | 34.1% | 25.0% | 8.0% |
| Worst | -38.4% | -27.4% | -4.7% | -2.5% | -55.3% | -24.8% | 1.7% |

Source: Financial Express, Bloomberg

O Defensive O Moderate O Balanced O Growth O High Growth Reset Chart

*Annualised performance as at 31 December 2017. Returns are calculated using benchmark indices. Past performance is not a reliable indicator of future performance.

7

# Why diversification makes sense

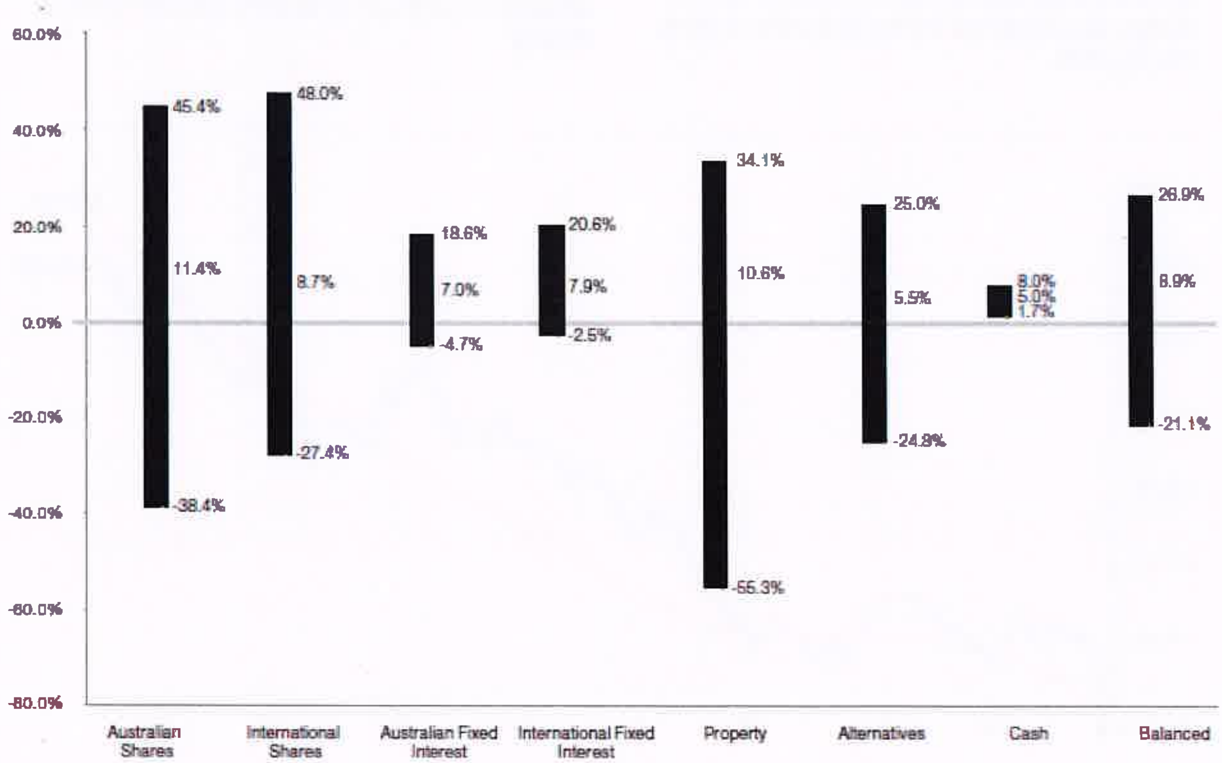
Because it's so difficult to predict which asset classes will perform well in any one year, it makes sense to diversify or spread your investment across different asset classes.

This strategy allows you to combine the benefits of potentially higher returns from growth assets with the reduced risk that defensive assets provide. If one or two asset classes perform poorly, you've generally got others that perform better to compensate for some or all of the losses.

The result of diversification is that you usually experience more consistent performance.

This chart shows the average return for each asset class over the past 25 years. It also shows the return in the best and worst years, which provides a measure of the volatility of the return and the potential loss.

This is compared to the performance of the "Balanced" portfolio, diversified across all asset classes. This portfolio has less variation in return when compared to an investment solely in growth assets, due to the diversification across the different asset classes.




**Note**

The asset allocation scenario is based on investments in a 'Balanced' portfolio diversified across different asset classes. Diversification does not assure a profit or protect against loss. It is possible to lose money in a diversified portfolio. The Balanced model is rebalanced on an annual basis and is before tax, includes both capital growth and income. The examples are for illustrative purposes only and do not reflect actual performance of any investments. The data is historical. Past performance is not a reliable indicator of future performance. It is not possible to invest directly in an index.

8

# Residential property vs shares*

A common dilemma for many people is whether to invest your spare money in residential property or shares.

Some of the attractions of property is that it's a tangible asset, you benefit from steady income (through rental returns), increases in the property value and you can make DIY improvements to increase the value of the investment.

However, there are a lot of costs associated with owning property (e.g. stamp duty, loan interest, real estate agent fees, repairs and maintenance, strata fees etc.). There are also risks when you rent your property out (e.g. damage by tenants, period of vacancy etc.). Generally speaking, it's up to you to manage your investment to make it a success. There is also potential risk that the value of your property may decrease.

When you invest in shares, you don't have to manage any of the companies you're investing in. But you do benefit from a company's increase in value (i.e. through its share price) and from its profits (i.e. through dividends).

Shares and investment properties can both be rewarding long-term investments. And depending on your situation you may find it's worth investing in both to add diversification to your portfolio.

You can refer to the chart below which shows the significant difference in returns over the long term between shares vs property.


Source: Financial Express, CoreLogic RP Data

* Returns on benchmark indices with an initial investment of $100,000. Past performance is not a reliable indicator of future performance.

14

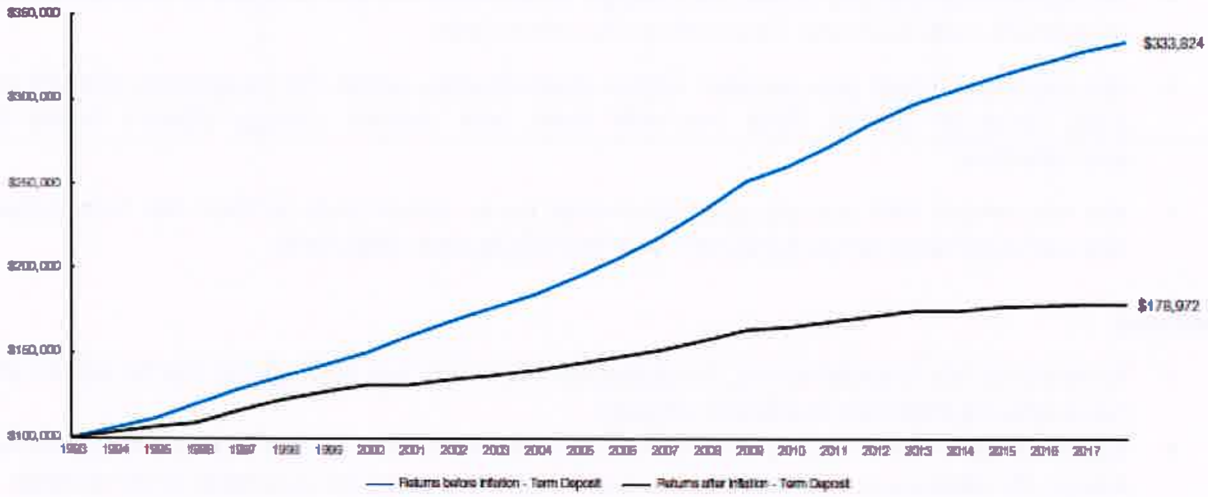
# Real returns – factoring in inflation*

To have a real impact on growing your wealth, you need your money to grow at a faster rate than inflation.

Even if the rate of inflation remained at a relatively low 3% for the next 15 years, a $1.00 purchase made today will cost $1.56 in 15 years' time. If the after-tax return on your investments is less than the rate of inflation, the real value of your money will decline.

The graph below shows the inflation-adjusted returns from cash over the last 25 years.

This highlights the dangers of investing only in cash or term deposits, which pay reliable income but don't offer the potential for capital growth.




Source: Financial Express, RBA

* Returns on benchmark indices, after inflation, with an initial investment of $100,000. Past performance is not a reliable indicator of future performance.

# Strategy recommendations

We recommend you implement the following strategies to assist you achieve your needs and objectives. Below, we have outlined the benefits to you, how these strategies place you in a better position and the key aspects you should be aware of. Additional information about these strategies is available in the Strategy Flyers we have provided to you.

## Strategy recommendations

We recommend you implement the following strategies to assist you achieve your needs and objectives:

- Via the advice of your Solicitor, we recommend that you proceed with the due diligence of the entity which is to be utilised to facilitate your investment.
- If you proceed with the Unit Trust acquisition strategy, we recommend that you continue to do your due diligence and conduct independent research prior to making investment in units in the unit trust which will purchase residential units as they become available to purchase.
- We recommend that you review our 10-year comprehensive Sinking Fund future capital projection (income and growth), which includes an analysis of current versus proposed investment yield.
- We recommend you ensure you retain liquid capital within the Sinking Fund of approx. $1.9 million.
- We recommend that you review the strategic information we have provided to you concerning the investment analysis of asset classes (Property versus Cash).
- We recommend that you consider further diversification within the investment strategy of the Body Corporate Sinking Fund over-time given your desired strategy doesn't create a full diversification.
- We recommend that you see your Accountant on an annual basis to have the Body Corporate financial statements prepared to meet your Body Corporate obligations.

### Reasons

- By receiving this financial advice, in conjunction with your own legal advice, the BC will be able to commence its preferred investment strategy.
- Based on the 'return' assumptions made within the projections at the back of this Statement of Advice, the asset value of the Sinking Fund will be greater over time as a result of the strategy.
- The BC has a much clearer understanding of the associated benefits of an investment strategy from an income and growth perspective when compared to the current investment approach.
- Protection of the BC Sinking Fund from fraudulent use has been enhanced given less capital will be invested in Cash.
- Conservative liquidity needs have been catered for via the recommendation to keep $2 million liquid, which is the upper end of the Sinking Fund's requirement.
- Whilst you have obtained your own legal advice on how the Trusts Act relates to and governs your Body Corporate, our advice supports the elements contained within the Power of Investment by the Trustee section, in terms of the benefits of diversification and capital appreciation etc.
- The overall level of diversification within the Sinking Fund has been increased.
- Diversification can minimise investment risk. Investing across different asset classes means that if one particular asset class performs poorly this may be balanced by the stronger performance of other asset classes hence achieving smoother, more consistent returns.
- You can invest for both income (paid as distributions) and capital growth (when the unit price of the underlying asset increases in value over time). The Sinking Fund only pays minimal interest.

### Consequences

- Stamp duty may apply to the purchase of units in a property trust.
- While diversification has been increased, you are still heavily exposed to residential property. If there is a downturn in the market, the valuation of the Sinking Fund will be negatively impacted accordingly.
- By making this lump sum investment, your investments are no longer capital guaranteed, you are exposed to volatility risks and may experience negative returns.
- Investment returns (both income and capital growth) are not guaranteed and your investment amount may increase or decrease in value over time.
- Your investment, except cash, is subject to market valuations and growth assets (property and shares) can be more volatile than other investments (cash and fixed interest).
- Investment in Units in a property trust is not as easily accessible as your savings account (illiquid).
- In the event of requiring more capital than usual within the Sinking Fund in the event of a large expense, a Unit may have to be sold quickly, regardless of market conditions, to cater for your liquidity requirements.

## Trusts Act 1973 (QLD)

The following is an excerpt from the Trusts Act 1973 confirming the Trust's Power to Invest and its Duties:

**21 Power of trustee to invest**
A trustee may, unless expressly forbidden by the instrument creating the trust—
(a) invest trust funds in any form of investment; and
(b) at any time, vary an investment or realise an investment of trust funds and reinvest an amount resulting from the realisation in any form of investment.

**22 Duties of trustee in relation to power of investment**
(1) A trustee must, in exercising a power of investment—
(a) if the trustee's profession, business or employment is, or includes, acting as a trustee or investing money for other persons—exercise the care, diligence and skill a prudent person engaged in that profession, business or employment would exercise in managing the affairs of other persons; or
(b) if the trustee's profession, business or employment is not, or does not include, acting as a trustee or investing money for other persons—exercise the care, diligence and skill a prudent person of business would exercise in managing the affairs of other persons.
(2) A trustee must, in exercising a power of investment, comply with a provision of the instrument creating the trust that is binding on the trustee and requires the obtaining of a consent or approval or compliance with a direction for trust investments.
(3) A trustee must, at least once in each year, review the performance, individually and as a whole, of trust investments.

## Alternative strategies

We have considered and dismissed the following alternative strategies for the reasons shown:

- We considered utilising a portion of the Sinking Fund's surplus capital to invest in other asset classes to further diversify the Body Corporate's portfolio (so that it is not so heavily invested in Property based assets) however for now this has been rejected given your focus is to invest in units in a Property Trust that will acquire local residential properties. However, you have indicated that you are happy to review this as the surplus capital accumulates again over-time after each investment.

# Investment portfolio recommendations

## Proposed Investment Portfolio

After considering your current financial position, investment profile and financial objectives, as well as the current economic environment, we present the following investment transactions for you:

| Investment | Current Amount | Action | Action Amount | Proposed Amount | Proposed % |
|---|---|---|---|---|---|
| **Body Corporate for Southport Central Residential CTS 35751** | | | | | |
| **Cash** | | | | | |
| Sinking Fund Surplus | $5,700,000 | Sell | $3,800,000 | $1,900,000 | 33.33% |
| *Sub-Total* | *$5,700,000* | | | *$1,900,000* | |
| **Direct Property** | | | | | |
| 1 Bedroom Unit @ $275,000 (7x) * | $0 | Buy | $1,925,000 | $1,925,000 | 33.77% |
| 2 Bedroom Unit @ $375,000 (5x) * | $0 | Buy | $1,875,000 | $1,875,000 | 32.90% |
| *Sub-Total* | *$0* | | | *$3,800,000* | |
| **Total** | **$5,700,000** | | | **$5,700,000** | **100.00%** |

* This is a hypothetical simulation of purchases based on information that you have provided, based on your stated intentions. It is not a recommendation to purchase these specific numbers and types of lots. The transactions above are estimates as the actual amounts will depend on the property values when the purchases take place.

The **reasons** for our recommendations and associated **consequences** are explained below.

### Reasons

The main reason for investing the surplus capital relates to increasing the diversification within the Sinking Fund and earning a higher return rather than continue to have it decrease in value in real terms given the current Cash return is 1%, which is less than CPI. Given you have full access to the complete sales history of all Lots within the three towers, you believe you are at a unique advantage to identify good investment opportunities and purchase properties as they become available over the next 12 months.

The Sinking Fund currently has $5.7 million in Cash assets. You have stated that you always require $1.5-2 million liquid capital within the Sinking Fund however that you wish to invest the remainder.

### Consequences

Colin and Leone, the table below shows the costs associated with the property purchases:

| | 1 Bedroom Unit | 2 Bedroom Unit |
|---|---|---|
| **Upfront Costs** | | |
| e.g. stamp duty, solicitor's fees | $250,000 – $300,000 | $350,000 – $400,000 |
| **Ongoing Costs** | | |
| e.g. outlays for repairs, maintenance, levies, rates, management | $10,000pa – $15,000pa | $15,000pa – $20,000pa |

**Please note**

The above figures have been provided by you, following your own independent research into the buildings (and you will continue to do your due diligence as Lots become available).

We have based our projections based on the averages of the upfront and ongoing costs outlined above (for example, we have used the upfront cost of a 1-bedroom unit at $275,000). If these figures vary greatly in reality when purchases are made, then the projections may not be relied upon.

## Costs & Risks of Property Investment

We have included information relating to the costs and risks of ownership of investment properties to assist you in your decisions.

Any decision to purchase, retain, or sell a property related assets should be carefully considered as there are specific costs and risks associated with this type of asset. We have listed below some of the main costs and risks relating to direct property assets.

**Purchasing Direct Property**

- **Purchase costs:** There are many purchase costs associated with direct property such as time and cost of searching for a suitable property, pest and building reports, legal and conveyancing fees, loan establishment costs, and stamp duty.
- **Location, location, location:** The character and location of a property can have a big influence (positive or negative) on the current and future desirability of the property to purchasers and/or tenants. It is important to think about changes in the suburb that will affect future prices like planned developments or population changes.
- **Timeframe:** Direct property should be viewed as a long-term investment. This is due to the potential short-term volatility that the direct property market (and/or specific locations) may experience. It may also take time to make back the significant initial and ongoing costs related to purchasing a direct property asset.
- **Opportunity cost:** When investing into direct property, you give up the opportunity to use that money to invest into other assets which may be more appropriate to helping you achieve your goals and objectives. You need to consider if a direct property investment will provide you with the best net return after considering all estimated costs risks and returns.

**Owning Direct Property**

- **Risk vs Return:** The return on direct property is impacted by various risks which affect income and growth of the property. The rental income you receive will depend on the demand for property in its location as well as the condition of the property. The capital growth or loss on a property depends on the location of the property and its condition. Other influences also include movement of interest rates.
- **Lack of diversification:** If you invest only in direct property assets, you will have all of your wealth concentrated in the residential property market. Poor diversification increases your risk as no one type of asset class provides the best performance over all time periods.
- **Lack of liquidity:** Direct property is an inflexible asset. You can't sell off a bedroom if you need to access some cash in a hurry. If you decide to sell a property, there is usually a lengthy time-delay between making the decision to sell and actually receiving the sale proceeds.
- **Problems with tenants:** There may be periods of time where you don't have a tenant and will have to cover all costs yourself. Tenants may also damage the property and may pay the rent late or not at all.
- **Ongoing costs:** There are many ongoing costs associated with direct property. These may include:
  - Maintenance and repair of existing structures and fittings, both internal and external;
  - Agent fees (where an agent is used to secure a tenant and/or manage the property);
  - Time devoted to managing the property including attending body corporate meetings (if applicable);

  - Council rates, water rates, insurance, land tax, body corporate fees;
  - Loan interest, repayments and fees.

- **Improvements:** Often capital improvements to a property are necessary (for example, the replacement of an oven or air conditioner). Such capital expenses can be costly and unplanned. Other costs may include building or renovation work, or subdivision costs.
- **Legislative risk:** The taxation rules relating to investment properties currently allow the claiming of certain deductions and depreciation which may make property investment more attractive to some investors. There is no certainty that these potential tax benefits will continue into the future, as the relevant legislation may change over time.
- **International property:** Where international property is being held or considered, it is important to be aware of any applicable international tax laws, residency issues and currency risks before you proceed with this advice.

**Selling Direct Property**

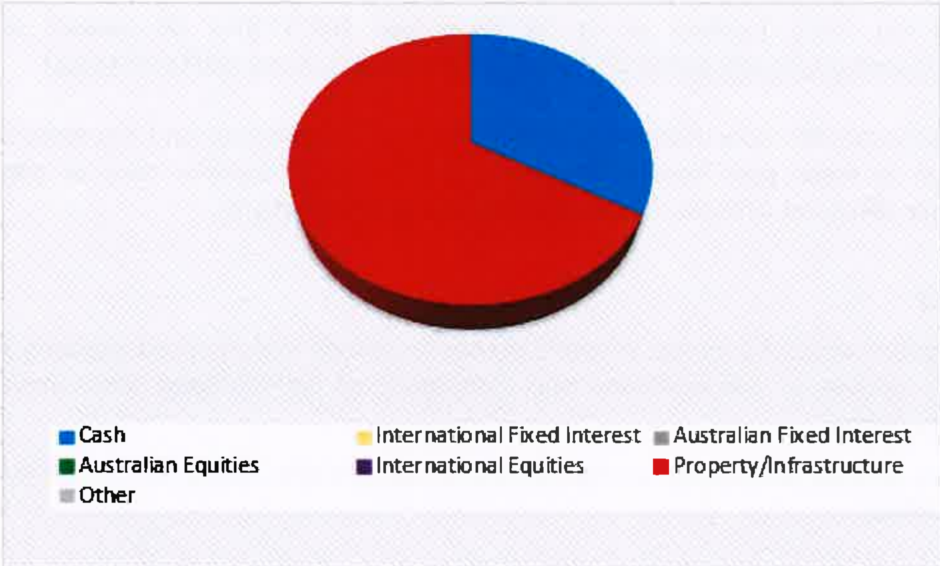
- **Sale costs:** There are many sale costs associated with direct property. These may include.
  - Time needed to select an agent to manage the sale;
  - Time spent preparing and vacating the property for inspections;
  - Legal and conveyancing fees;
  - Advertising costs; and Agent fees.
- **Capital gains tax (CGT):** Unless the property is your home, you may have to pay CGT on some or all of any gain in the value of the property (i.e. the difference between the price you bought and sold it for). This could significantly reduce the net sale proceeds available to you once the property is sold.
- **Sale date uncertainty:** Unlike some other asset types, it may take months or even years to sell a direct property. This could be due to the property's location and desirability (or lack of), the asking price, the length of the settlement period and/or the state of the property market. Generally, it takes at least 2 months from the time you decide to when you receive the sale proceeds.

## The Body Corporate Sinking Fund's Proposed Asset Allocation

Upon implementation of our recommendations, the asset allocation of the portfolio will be as follows:

**Body Corporate Sinking Fund**

<u>**Asset Allocation**</u>




**You have made the decision to hold a large allocation to direct property and understand the potential risks involved. Your over-exposure to direct property adds risk due to greater concentration of funds into this asset class. This means that if the properties significantly decline in value, it may impact the Body Corporate's ability to meet its financial commitmetns and growth targets.**

**This being the case, your stated goal of wanting to create diversification with your sinking fund will not be fully achieved if you proceed with your desired property acquisition strategy.**

# Additional information

For more information about our strategy recommendations, please read the following Additional Information Flyers that have been provided to you:

- BT Select Risk Profiler Information Booklet (version 1.5, 2018)
- Trusts Act 1973 (current as at 24 November 2017) [Can be viewed online as well: http://www8.austlii.edu.au/cgi-bin/viewdb/au/legis/qld/consol_act/ta1973132/]

These documents provide more information about our recommendations and any associated risks. They may assist you to make your financial decisions. If you require another copy of any of the above documents, then please let us know. Copies will be provided free of charge.

### Taxation advice

I am not authorised under IFS Private Wealth's licence to provide specific direct property advice, taxation services, legal services or administration and compliance of Self-Managed Superannuation Funds or consumer credit advice.

You should give consideration to the tax implications of this strategy. Please refer to our comments within 'Scope of our advice'.

# Fees and disclosures

This section outlines the amounts you will pay for our advice and the services provided. We also set out any other amounts that we or any related parties may receive as a result of our recommendations to you. All amounts are inclusive of GST (where applicable).

## Advice fees

| Type | Fee |
|---|---|
| Preparation / Implementation Fee | $5,170 |
| Ongoing Advice Service Fee | $0 |

**Preparation / Implementation Fee** – this fee is for the preparation and implementation of my recommendations. This fee is a flat dollar amount and will be invoiced to the Body Corporate for Southport Central Residential CTS 35751. The fee must be paid for by the Sinking Fund.

## Commission

There are no commissions paid on Investments.

## Conflicts of interest

I do not have any conflicts of interest.

# Actions required

After you have carefully read this Statement of Advice and the associated information, you will need to undertake the following steps to proceed with our advice:

| Action Item | Who is responsible | When |
|---|---|---|
| Read the following documents:<br>- Statement of Advice and all the appendices<br>- Product Disclosure Documents or other disclosure documents | Colin and Leone | Before you decide to proceed |
| Read and sign the following documents:<br>- Authority to Proceed | Colin and Leone | After you have decided to proceed |
| Bring documents required for client identification (Anti-Money Laundering) purposes | Colin and Leone | After you have decided to proceed |
| **Implementation and Follow up**<br>• Lodge the paperwork on your behalf to implement our advice.<br>• Contact you when all the above actions have been completed. | Ben | Until complete |

# Authority to proceed

Body Corporate for Southport Central Residential CTS 35751

Mr. Colin Buckley
*as Chairman of Body Corporate for Southport Central Residential CTS 35751*

56 Scarborough Street
Southport QLD 4215

- We have read and understood this Statement of Advice (SOA) prepared by our adviser and dated 17 June 2020, including the disclosure of fees and commission associated with the implementation and ongoing management of the recommendations.
- We confirm that the information provided by us and restated in this SOA accurately summarises our current personal and financial position and our needs and objectives. We understand that if any of this information is incomplete or inaccurate then the advice may not be appropriate to our circumstances.
- We understand that the recommendations in this SOA have been prepared for our sole use and are current for a period of 60 days from the date of the SOA. We acknowledge that after this time We should not implement the recommendations without further review from our adviser to ensure they remain appropriate.
- We have received your Financial Services Guide and understood the contents.
- We have received Product Disclosure Statements for all products recommended within this SOA and any 'Additional Information' listed in this SOA (where applicable).

☑ We accept the recommendations offered in this document and authorise Ben McGrath to implement all recommendations.

☐ We agree to proceed as varied below. We understand that by choosing to implement a variation to the advice we risk making a financial decision that may be inappropriate to our needs.

____________________________________________
____________________________________________
____________________________________________
____________________________________________

Colin Buckley
Chairperson, on behalf of the Body Corporate Committee
Southport Central Residential
CTS 35751

Signature

15/10/2020
Date

Accepted for and on behalf of IFS Private Wealth Pty Ltd by:

Ben McGrath
Authorised Representative of IFS Private Wealth Pty Ltd

Signature

15/10/2020
Date

# Appendix: Projections

The financial projections included in this Statement of Advice include various assumptions about likely future economic conditions and investment performance. Details about these assumptions have been included below. The projections provided are purely estimates, they are not guaranteed, and may vary with changing circumstances.

Specifically, the below figures have been provided by you, following your own independent research into the buildings (and you will continue to do your due diligence as Lots become available).

We have based our projections on the averages of the costs and income as outlined below. If these figures vary greatly in reality when purchases are made, then the projections may not be relied upon.

## Property Assumptions

| | 1 Bedroom Unit (7x) | 2 Bedroom Unit (5x) |
|---|---|---|
| **Upfront Costs** | | |
| e.g. stamp duty, solicitor's fees | \$250,000 – \$300,000 | \$350,000 – \$400,000 |
| *Figure used for projection purposes* | *\$275,000* | *\$375,000* |
| **Ongoing Costs** | | |
| e.g. outlays for repairs, maintenance, levies, rates, management | \$10,000pa – \$15,000pa | \$15,000pa – \$20,000pa |
| *Figure used for projection purposes* | *\$12,500pa* | *\$17,500pa* |
| **Ongoing Income** | | |
| Expected rental income | \$350pw – \$420pw (\$18,200pa – \$21,840pa) | \$400pw – \$550pw (\$20,800pa – \$28,600pa) |
| *Figure used for projection purposes* | *\$20,020pa* | *\$26,000pa* |
| **Net Yield (Year 1)** | 2.73% | 2.26% |
| **Capital Growth** | 4.00%pa | 4.00%pa |
| **Indexation** | We have assumed a 2%pa rise in the rental income & expenses | |
| **Debt** | Nil | |

## Sinking Fund Assumptions

| | Sinking Fund |
|---|---|
| Body Corporate Levies* | \$1,000,000pa |
| Body Corporate Expenses* | \$900,000pa |
| Indexation | We have assumed a 2%pa rise in the levies & expenses |
| Interest Rate | 1.00%pa |

** For the purpose of these projections we have used these figures however in reality these will vary.*

**PROPOSED - PURCHASE THE PROPERTIES**

| Properties | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Starting Balance | $ 3,800,000.00 | $ 3,952,000.00 | $ 4,110,080.00 | $ 4,274,483.20 | $ 4,445,462.53 | $ 4,623,281.03 | $ 4,808,212.27 | $ 5,000,540.76 | $ 5,200,562.39 | $ 5,408,584.89 |
| Capital Growth | $ 152,000.00 | $ 158,080.00 | $ 164,403.20 | $ 170,979.33 | $ 177,818.50 | $ 184,931.24 | $ 192,328.49 | $ 200,021.63 | $ 208,022.50 | $ 216,343.40 |
| *Sub-Total* | *$ 3,952,000.00* | *$ 4,110,080.00* | *$ 4,274,483.20* | *$ 4,445,462.53* | *$ 4,623,281.03* | *$ 4,808,212.27* | *$ 5,000,540.76* | *$ 5,200,562.39* | *$ 5,408,584.89* | *$ 5,624,928.28* |
| **Sinking Fund** | | | | | | | | | | |
| Starting Balance | $ 1,900,000.00 | $ 2,114,140.00 | $ 2,334,324.20 | $ 2,560,691.10 | $ 2,793,382.14 | $ 3,032,541.77 | $ 3,278,317.52 | $ 3,530,860.03 | $ 3,790,323.15 | $ 4,056,863.99 |
| ***Inflows*** | | | | | | | | | | |
| Body Corporate Levies | $ 1,000,000.00 | $ 1,020,000.00 | $ 1,040,400.00 | $ 1,061,208.00 | $ 1,082,432.16 | $ 1,104,080.80 | $ 1,126,162.42 | $ 1,148,685.67 | $ 1,171,659.38 | $ 1,195,092.57 |
| Income 1-BR Properties | $ 140,140.00 | $ 142,942.80 | $ 145,801.66 | $ 148,717.69 | $ 151,692.04 | $ 154,725.88 | $ 157,820.40 | $ 160,976.81 | $ 164,196.35 | $ 167,480.27 |
| Income 2-BR Properties | $ 130,000.00 | $ 132,600.00 | $ 135,252.00 | $ 137,957.04 | $ 140,716.18 | $ 143,530.50 | $ 146,401.11 | $ 149,329.14 | $ 152,315.72 | $ 155,362.03 |
| Interest on Cash | $ 19,000.00 | $ 21,141.40 | $ 23,343.24 | $ 25,606.91 | $ 27,933.82 | $ 30,325.42 | $ 32,783.18 | $ 35,308.60 | $ 37,903.23 | $ 40,568.64 |
| ***Outflows*** | | | | | | | | | | |
| Body Corporate Expenses | -$ 900,000.00 | -$ 918,000.00 | -$ 936,360.00 | -$ 955,087.20 | -$ 974,188.94 | -$ 993,672.72 | -$ 1,013,546.18 | -$ 1,033,817.10 | -$ 1,054,493.44 | -$ 1,075,583.31 |
| Expenses 1-BR Properties | -$ 87,500.00 | -$ 89,250.00 | -$ 91,035.00 | -$ 92,855.70 | -$ 94,712.81 | -$ 96,607.07 | -$ 98,539.21 | -$ 100,510.00 | -$ 102,520.20 | -$ 104,570.60 |
| Expenses 2-BR Properties | -$ 87,500.00 | -$ 89,250.00 | -$ 91,035.00 | -$ 92,855.70 | -$ 94,712.81 | -$ 96,607.07 | -$ 98,539.21 | -$ 100,510.00 | -$ 102,520.20 | -$ 104,570.60 |
| *Sub-Total* | *$ 2,114,140.00* | *$ 2,334,324.20* | *$ 2,560,691.10* | *$ 2,793,382.14* | *$ 3,032,541.77* | *$ 3,278,317.52* | *$ 3,530,860.03* | *$ 3,790,323.15* | *$ 4,056,863.99* | *$ 4,330,642.99* |
| **Closing Balance** | **$ 6,066,140.00** | **$ 6,444,404.20** | **$ 6,835,174.30** | **$ 7,238,844.67** | **$ 7,655,822.80** | **$ 8,086,529.79** | **$ 8,531,400.79** | **$ 8,990,885.54** | **$ 9,465,448.88** | **$ 9,955,571.28** |

**ALTERNATIVE - RETAIN FUNDS IN CASH**

| Sinking Fund | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Starting Balance | $ 5,700,000.00 | $ 5,857,000.00 | $ 6,017,570.00 | $ 6,181,785.70 | $ 6,349,724.36 | $ 6,521,464.82 | $ 6,697,087.55 | $ 6,876,674.66 | $ 7,060,309.98 | $ 7,248,079.01 |
| ***Inflows*** | | | | | | | | | | |
| Body Corporate Levies | $ 1,000,000.00 | $ 1,020,000.00 | $ 1,040,400.00 | $ 1,061,208.00 | $ 1,082,432.16 | $ 1,104,080.80 | $ 1,126,162.42 | $ 1,148,685.67 | $ 1,171,659.38 | $ 1,195,092.57 |
| Interest on Cash | $ 57,000.00 | $ 58,570.00 | $ 60,175.70 | $ 61,817.86 | $ 63,497.24 | $ 65,214.65 | $ 66,970.88 | $ 68,766.75 | $ 70,603.10 | $ 72,480.79 |
| ***Outflows*** | | | | | | | | | | |
| Body Corporate Expenses | -$ 900,000.00 | -$ 918,000.00 | -$ 936,360.00 | -$ 955,087.20 | -$ 974,188.94 | -$ 993,672.72 | -$ 1,013,546.18 | -$ 1,033,817.10 | -$ 1,054,493.44 | -$ 1,075,583.31 |
| **Closing Balance** | **$ 5,857,000.00** | **$ 6,017,570.00** | **$ 6,181,785.70** | **$ 6,349,724.36** | **$ 6,521,464.82** | **$ 6,697,087.55** | **$ 6,876,674.66** | **$ 7,060,309.98** | **$ 7,248,079.01** | **$ 7,440,069.06** |
| **DIFFERENCE IN 2 SCENARIOS** | $ 209,140.00 | $ 426,834.20 | $ 653,388.60 | $ 889,120.31 | $ 1,134,357.98 | $ 1,389,442.24 | $ 1,654,726.13 | $ 1,930,575.56 | $ 2,217,369.86 | $ 2,515,502.22 |

*Please note that these figures do not include any capital reimbursement from the Commercial Body Corporate.*