

## AvSuper investment education – Securities Lending

AvSuper, like many other investors and super funds with long term investment strategies, engages in the practice of “securities lending” (sometimes also referred to as “stock lending”) in order to gain additional investment income for AvSuper members.

### What is securities lending?

Securities lending is the temporary transfer of securities (for example shares in an investment portfolio) from the owner of the securities to a third party, for a fee. Institutional shareholders such as super funds may agree to lend their securities to a third party, in order to benefit from the fee that they can charge for lending them.

Securities lending fees are an important means of generating an additional source of low risk income within an investment portfolio for superannuation funds, which contributes to overall investment performance.

### Does lending a security affect its share market price?

Securities lending is an established feature of investment markets but is not generally considered to be a key driver of share prices or returns, particularly over long periods. Share prices can change for many reasons, and it is not necessarily as a result of securities lending or **short-selling**. For example, some companies experience share price movements as a consequence of fundamental issues such as high debt levels and refinancing issues, not simply short-selling.

Short-selling refers to a practice whereby borrowed securities are sold with the expectation that the security’s value will fall in the short term. If a fall eventuates, the borrower can then buy back the securities at the lower price – thus achieving a profit before delivering the securities back to the original lender.

### What is AvSuper’s approach to securities lending?

The Trustee of AvSuper has carefully considered the various risks associated with securities lending and the lending program operates under very strict conditions via a formal agreement between AvSuper and the National Australia Bank Limited (NAB), making it highly unlikely that AvSuper could suffer a loss from a failure in the lending program.

When lending securities, AvSuper still retains all associated benefits and entitlements (for example, dividends paid) over the loan period. The securities (or an equivalent number and type of securities) must be returned to AvSuper at the end of the loan term or sooner if we request that they be returned.

AvSuper’s securities lending program is conservative – only a small proportion of AvSuper’s overall shares portfolio is lent out at any time – and the program is subject to regular reporting, monitoring and review by the Trustee.

All investment decisions, including those related to securities lending, are made for the sole benefit of AvSuper members and their beneficiaries. We believe securities lending provides greater liquidity, increased efficiencies in share markets and a low risk opportunity to provide additional income for AvSuper members.



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