WEALTH MANAGEMENT

Broadridge®

MODULE 1

Broadridge SBL Practice Optimizer

Understanding the Basics of Securities-Based Lending (SBL)

Discover how Securities-Based Lending can help transform and grow your business by providing clients with a new source of liquidity or working capital.

Ready for Next

How Securities-Based Lending provides you with the holistic edge you need to deliver the liquidity your clients want.

Introduction

Across the marketplace, investors face challenges like these every day:

1. An Ultra High Net Worth couple receives a large tax bill and wonders how to pay it since liquidating select holdings would have capital gains consequences.
2. A recently retired High Net Worth couple has paid off their mortgage and is concerned about having adequate liquidity to meet emergency funding needs. Aside from liquidating a portion of their qualified assets (i.e. non-retirement investments), they are unsure what to do.
3. An affluent partnership team recognizes a timely opening for expanding their business if they can secure a fresh line of working capital within 72 hours.

Investors are turning to their financial professionals – from wealth managers and investment representatives to CPAs and bankers – for more help in meeting their increasingly complex personal and business financial needs. In addition to their interest in Separately Managed Accounts (SMAs), private funds and Environmental, Social and Governance (ESG) opportunities, affluent investors have signaled their openness to an ever-expanding array of other ideas.[1]

The liability side of the client's balance sheet also provides opportunities to introduce ideas that can help manage the client's credit picture and safeguard wealth.

WHAT SBL CAN MEAN TO YOU

Securities-Based Lending (SBL) is a strategy that not only provides a risk-managed way to unlock liquidity from highly appreciated, qualified (non-retirement) portfolios; but also offers a gateway into other client and family discussions. Such conversations can help touch on cash flow management, financing strategies, debt management, education financing, tax management and estate planning.

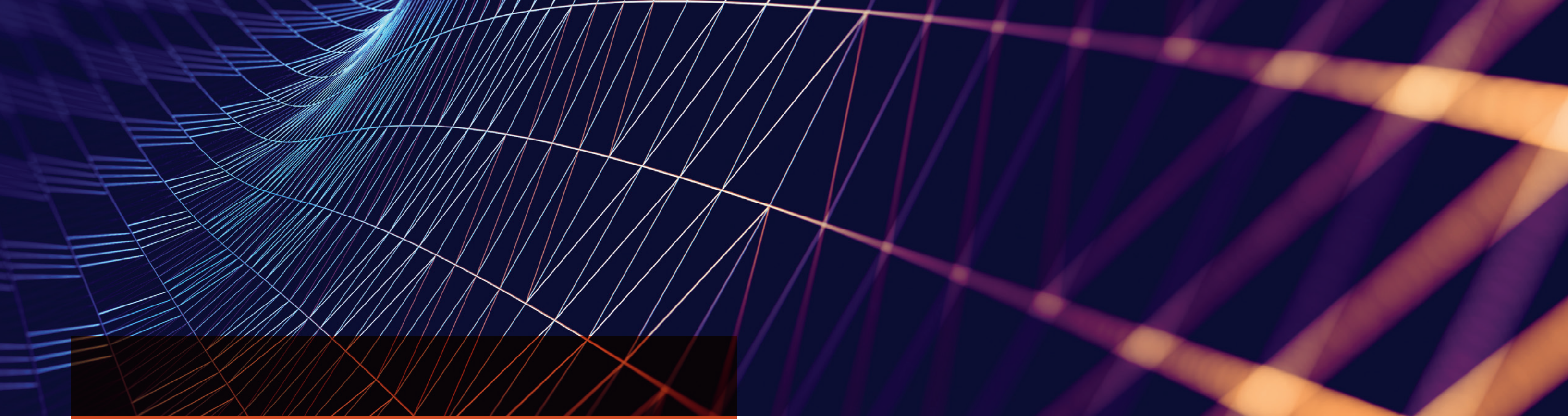
PUT THE ADVANTAGES OF THE SBL PRACTICE OPTIMIZER TO WORK

Offered through Broadridge Financial Services, the SBL Practice Optimizer is a three-part CE-accredited educational resource. This program can help you present Securities-Based Lending to qualified prospects and open the door to exploring your clients' broader wealth management horizons.

Designed to help you communicate SBL's benefits to those clients and prospects who need them most, these materials are provided for communications training only and do not represent tax, investment, accounting, legal, estate or planning advice.

To earn CE credit with the SBL Practice Optimizer, first register with FA-IQ Think Tank. You will also need to complete the self-graded quizzes that are associated with each SBL Practice Optimizer module. Finalizing the three modules will equip you to comfortably discuss SBL's benefits with those of your clients and prospects who need it most.

[1]Broadridge, "The Evolving Advice Business Model"



TAKEAWAYS FROM MODULE 1

After completing the SBL Practice Optimizer: Module 1, you will be able to:

I. Define what SBL is
II. Understand how SBL works
III. List three ways advisors benefit from SBL
IV. List three ways clients benefit from SBL
V. Consider both sides of the client balance sheet
VI. Weigh the benefits of SBL versus other lending choices
VII. Set the stage for exploring your clients' liquidity needs
VIII. Begin qualifying potential SBL-suitable clients

I. DEFINING SBL

Securities-based lending (SBL) is the investor practice of borrowing money by using the qualified portion of their investment portfolio as collateral. In this way, clients can unlock the liquidity in their portfolios without selling a single security.

Your clients can use an SBL Line-of-Credit (SBLOC) to:

- Purchase real estate
- Make home improvements
- Pay educational expenses
- Manage capital gains exposures
- Finance their business expansion, pay expenses and cover cash flow shortfalls
- Consolidate existing debt at a lower rate
- Other non-securities related expenditure

II. UNDERSTANDING HOW SBL WORKS

As the diagram below illustrates, SBL offers a straight-forward way for investors with an investment portfolio of liquid assets to leverage the portfolio to release liquidity for activities other than purchasing additional securities or paying down a margin loan. Due to the highly liquid nature of stocks and bonds, lenders generally offer a relatively low interest rate for this credit, making it a secure and low-cost credit line.

Typically, investors are attracted to SBLOCs because they need liquidity for a new investment, tax or tuition

payments; working capital for business expenses or expansion and many other qualifying needs. SBLOCs also offer a way for investors to consolidate high-cost debt into a typically lower-cost credit vehicle.

You have worked hard to help clients build investment portfolios to achieve their long-term needs. Why liquidate securities when they need working capital? Let your affluent investors unlock the liquidity in their portfolios with an SBLOC instead while preserving their investment goals.

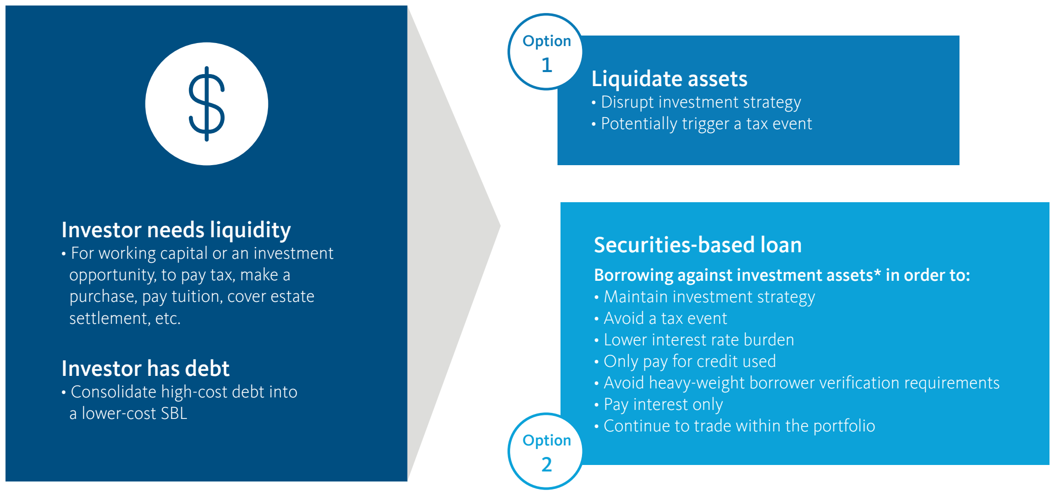
III. THREE WAYS ADVISORS BENEFIT FROM SBL

Optimizing a client's liquidity profile is a powerful way for holistic advisors to demonstrate value:

1. **Advisor empowerment and control:** When advisors work with clients to implement SBL strategies, portfolios and assets under management (AUM) get stickier. The alternative may be an untimely portfolio liquidation, which could trigger taxable capital gains and might also throw longer-term investment goals off track.

   How can a portfolio liquidation impact longer-term investment goals? If a client's objectives have not changed, it is typically not optimal to disrupt portfolio allocations by making an unplanned liquidation. SBL lending helps to keep clients' securities where they belong – in their investment portfolios.

How to tap into the liquidity that is locked inside client portfolios



•Including whole life insurance policies and yeild away assets
Funds may not be used to buy sharesor to repay a margin loan; portfolio may not be retirement

Additionally, once you start discussing credit requirements with your clients, other needs crop up that can further increase revenue, safeguard AUM, and improve client satisfaction.

2. **Digitized dashboards do the heavy lifting:** With the right tools, SBL can be very accessible. Advisors can digitally assess accurate borrowing scenarios for loan origination discussions during the client meeting. These borrowing scenarios will provide the client with a comfort level regarding the degree of cover their portfolio gives to the loan.

   Machine learning algorithms can also unlock value in the SBL business with automated prospect qualification and pipeline creation. Sophisticated models can scan and segment your business for prospective churn, new business potential and debt consolidation opportunities. By accessing actionable business insights directly on their workstations, advisors can not only protect AUM balances but can predict what their client base is thinking about and doing.

3. **SBL opens doors to the new Affluent market:** The digital friendliness of SBL is also attracting the attention of the quickly rising cohort of Next-Gen investors. Many Millennial investors are already comfortable with digitized advisor communications through dashboards, websites and social media platforms[2] and are on the tipping point of joining the ranks of HNWI themselves.

   Representing "the potential future of High Net Worth Investors (HNWI)," Cap Gemini's 2020 World Wealth Report noted that while Affluent customers said they wanted access to the same products and services enjoyed by Ultra High Net Worth Investors (UHNW),[3] only a third of financial services providers "offered solutions tailored to the Affluent market."[4]

   The influence of this segment is intensifying. Thirty-three million households, representing 26% of the U.S. population, now control 23% of all investable assets in the U.S., according to Cerulli Associates.[5]

IF YOU ARE NOT THE CLIENT'S LENDING ADVISOR, YOUR COMPETITION WILL BE

If your current clients are unaware of your liability or debt management expertise, they will ultimately seek other experts to fill their credit needs. The specialists providing this advice will quickly offer cross-selling strategies that may encroach on your investment management, wealth management or financial planning efforts.

When you serve as your clients' credit resource, you join the ranks of highly valued and trusted advisors who are committed to managing their client's balance sheet from a 360-degree perspective – a viewpoint that includes liabilities as well as assets.

[2] Personalizing Advice from a Digital Distance
[3] Households with investment under $1 million and earnings of at least $100,000 a year
[4] Securities-Based Lending Goes Mainstream
[5] SIFMA–Cerulli Individual Investor Project, P 7

IV. THREE REASONS CLIENTS BENEFIT FROM SBL

Increasing numbers of investors warmed to the "lending-at-a-distance" phenomenon that emerged from the 2020 pandemic lockdown. Accelerated adoption of digitization, advisor dashboards, e-signatures and rapid loan approvals has created a new, accessible standard for SBL that can benefit the client in various ways.

1. **Unlock working capital from a portfolio of highly appreciated securities**

   SBL offers a powerful, cost-efficient way for investors to unlock the liquidity that lies buried in their highly appreciated, non-retirement investment assets. A tool for managing short-term liquidity needs, SBL keeps investment goals on track while eliminating the capital gains exposure and investment strategy lag that can result from selling securities.

2. **Lower cost, greater flexibility**

   The high quality of assets used to collateralize SBL loans means that lending rates are normally lower than the rates associated with Home Equity Lines of Credit (HELOCs), credit card advances and other

   There are usually no fees associated with SBL loans, plus they involve minimal underwriting work usually not requiring financial statements or tax returns.

   Paying only for what they use, borrowers are never "locked in" and can release their assets at any time.

3. **Freedom to use cash for different purposes**

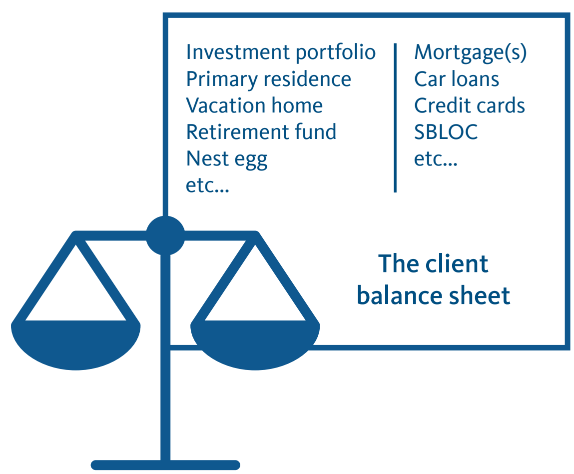
   SBL users can deploy their line-of-credit virtually anywhere except the securities market. Popular uses for SBLOCs include bridging finance for an unexpected expense or opportunity, business acquisition or routine business expenses; a tax payment; rainy day fund for emergencies; educational expenses or other major purchase.

V. VIEW BOTH SIDES OF EVERY CLIENT'S BALANCE SHEET

According to the 2020 State of Connected Customer report,[6] almost 80% of consumers say the experience a company provides is as important as its products or services. While personalization has changed how companies approach customer-centricity, hyper-personalization takes it to the next level. Fueled by deep client data, Artificial Intelligence (AI) and Machine Learning (ML) empower advisors to employ a holistic, 360-degree client-centric view. Systems that harness the power of the data already on their workstations help advisors to better understand their client base, grow their businesses and deliver a higher standard of care with services and solutions focused on both sides of the client balance sheet.

Robust, scalable and measurable, SBL-enabling technology provides lending advisors with the kind of data-rich information and insights that quickly lead to Next Best Action (NBA) strategies and growing relationships.

Knowing each client's liabilities as well as their assets hyper-personalizes their wealth management experience



[6] Salesforce State pf Connected Consumer

Securities-Based Lending Benefits

- Rapid access to funding
  - Minimal paperwork, with streamlined application process the norm
  - Income statements generally not required
- Stay invested
  - Maintain the investment portfolio and wealth management strategy
  - Avoid using savings or emergency funds to access capital
  - Continue to trade within the leveraged portfolio
  - Avoid potentially triggering a taxable gain
- Cost effective
  - Relatively lower interest rates, based on SOFR, BSBY or similar, charged monthly
  - Typically there are no application, origination or annual fees; no penalty fees for early pay off
  - Pay for the part of the loan you use, no charge for the portion of the line not in use
- Convenient borrowing
  - Loans typically greater than $75,000
  - Generally, a revolving line of credit – access liquidity and flexibly pay off balances

VI. WEIGHING THE BENEFITS OF SBL VERSUS OTHER LENDING CHOICES

SBLOCs are different from other loans. They provide a quick, cost effective and flexible lending alternative to HELOCs and other credit instruments. Qualified borrowers gain rapid access to the liquidity they need in days rather than weeks, while keeping their portfolios whole and their investment goals on track. Favored by Ultra High Net Worth and High Net Worth Individuals for decades, SBL is quickly becoming more attractive to the emerging Affluent demographic too.

While home-owning investors often reflexively turn to HELOCS in their search for credit, wealthier investors prefer SBL to the prospect of leveraging the home they own outright as collateral. With an SBLOC, the client can continue to trade the securities in their portfolio and, through SBL's daily monitoring feature, switch to another lending solution if market performance warrants a change in strategy.

VII. SET THE STAGE FOR EXPLORING YOUR CLIENTS' LIQUIDITY NEEDS

Your first SBL prospect will generally be one of your current clients

For advisors, the addition of SBL to their product array can attract new prospects over the long term. In the short term, however, advisors are more likely to close their first SBLOC with an existing client who has expressed a need for rapid access to more liquidity. Once such balance sheet discussions start, they frequently lead to other client concerns and desires, including discussions about estate planning or other family members who themselves may be one inheritance, bonus or transaction away from joining the HNWI cohort themselves.

Debt and Intimacy

By definition, credit discussions are sensitive, detailed and intimate. Collateralizing assets through SBL lending creates asset stickiness, while increasing the cross-sell opportunities for non-credit products and services, including:

- Goals and constraints analyses
- Portfolio modeling
- Tax and cash flow planning
- Education analysis
- Cash flow management
- Incapacity planning

To optimize liquidity readiness, consider showing clients how to open an SBLOC even before a specific need arises.

VIII. DETERMINING WHICH CLIENTS ARE SUITABLE FOR SBL

Every client needs occasional access to ready liquidity. What about yours?

Start a client balance sheet discussion today with questions like these:

- How important is it for you to have adequate emergency funds for unexpected expenses, such as rebuilding a home that has been stricken by environmental catastrophe?
- How likely are you to make a major purchase (such as real estate or for a luxury item) over the next year?
- Do you have outstanding credit that could be consolidated in a lower-cost SBL?
- Are you concerned about having to liquidate investment assets, potentially triggering capital gains taxes?

Not all investors are candidates for SBL

Using SBL to optimize debt as part of the overall financial plan may not be suitable for all. Clients must know the risks of SBL as well as the benefits. Carefully evaluate each candidate's qualifications and tolerance for risk.

One rule of thumb: SBL may be especially appropriate for market-savvy clients with substantial, well-diversified, qualified and non-retirement portfolios whose short-term liquidity needs are in line with their long-term investment goals.

In the Search for Working Capital and Liquidity, Which Route Should Your Client Choose?

Download copies of our client-use Personal Liquidity Selector to compare and contrast three popular credit choices.

AS CREDIT BECOMES A PRE REQUISITE, ADVISORS WITHOUT AN SBL OFFERING ARE MORE LIKELY TO LOSE OUT...

SUMMARY:

- SBL helps deepen client relationships by leveraging high-quality assets to generate a readily available source of credit.
- An SBL Line-of-Credit (SBLOC) can be used to: purchase real estate, pay educational expenses, manage capital gains exposures, finance business expansion and much more.
- For financial advisors, SBL provides a highly digitized way to manage liabilities and explore new markets.
- Managing both sides of a balance sheet adds significant value to client relationships

NEXT STEPS:

1. Review Module 2 of the Broadridge SBL Practice Optimizer

2. Identify your first SBL prospect

Taking the simple and direct approach to finding your first SBL prospect starts with looking at your current book of business.

- Distinguish risk exposures among liability options
- See how portfolio appreciation empowers SBL strategies
- Understand why investors are increasingly open to SBL advantages
- Discover which prospects are suitable for SBL
- Build your own SBL revenue generation strategy

Can you get a perfect score?

Proceed to complete the Pop Quiz for this module.

MODULE 1 POP QUIZ: DO YOU UNDERSTAND THE BASICS OF SECURITIES-BASED LENDING?

Take the SBL Practice Optimizer challenge for Module #1. Check all of the boxes that apply—then review your answers on the last page.

1. Securities-Based Lending (SBL) offers a proven way for your clients to unlock liquidity from their investment portfolios in all of the following ways except one. Which is the exception?

A. Build an emergency fund.	
B. Expand a business.	
C. Consolidate debt.	
D. Buy shares in Amazon.	
E. Purchase a second home.	
F. Manage capital gains exposures.	

2. How else can clients benefit from an SBL?

A. Because the SBL is in the client's name, margin requirements are waived if the underlying equities go down in price.	
B. Portfolio objectives stay on track since the client still owns the underlying securities.	
C. Digital conveniences like e-signature can save time when working capital from an SBL is needed on short notice.	
D. Clients can use SBL liquidity to pay off high interest credit card balances.	
E. Purchase a second home.	

3. Advisors benefit from presenting SBL to clients too. Which of the following statements is true?

A. Once collateralized, portfolio assets get stickier.	
B. Other client needs begin to appear that can contribute to an advisor's revenue stream.	
C. Opportunities arise for aggressive short selling strategies.	
D. SBL digitization features integrate seamlessly with most advisor dashboards.	
E. SBL offers advisors a fresh idea to discuss with the growing ranks of Affluent Millennials who are one inheritance or equity event away from become HNWI themselves.	

SBLOCS GIVE READY ACCESS TO LIQUIDITY AT A LOWER INTEREST RATE AND CAN AVOID TRIGGERING TAXABLE GAINS

4. Introducing SBL to clients allows professionals to hone their skills as lending advisors. Which of the following can result from managing both sides of a client's balance sheet—assets as well as liabilities?

A. Advisor's business model can evolve in a direction that is more holistic.	
B. Because debt is so personal, any discussions about managing liabilities can make the client feel hostile and defensive.	
C. Discussions about debt open up the possibilities of broadening a relationship in a positive, more intimate manner.	
D. Knowing both side of a balance sheet helps the advisor provide a higher level of personalized attention.	
E. The client enjoys the peace of mind of knowing their advisor understands their full financial picture.	
F. Manage capital gains exposures.	

5. Which of the following debts is unlikely to appear on the "liabilities" side of a client's balance sheet?

A. Other SBL commitments.	
B. Mortgages for first and second residences.	
C. Car loans.	
D. Outstanding gambling obligations.	
E. Credit card balances.	

6. Advisors who are new to presenting SBL are likely to find their first SBL prospect from among which of the following?

A. Random strangers.	
B. Out-of-state family members.	
C. Business colleagues.	
D. Current clients.	
E. LinkedIn connections.	

7. SBL is not right for everyone. Which of the following prospects are best-suited for SBL?

A. An Ultra High Net Worth couple with a well-diversified non-retirement portfolio.	
B. Job seeker with an outstanding, high rate education loan.	
C. High Net Worth single mom in a coastal flood region who wants to build an emergency fund for housing repairs in the event of an environmental catastrophe.	
D. Affluent Millennial who wants to make a major luxury purchase.	
E. Successful entrepreneur who wants a low-rate debt consolidation solution.	
F. Affluent individual looking for an alternative to liquidating investment assets and triggering a large capital gains payment to the IRS.	

DO YOU WANT TO KNOW MORE?

Expand your knowledge of SBL and its benefits by taking a few minutes more to read these articles.

ARTICLE	DICRIPZTION
LEVERAGE, NOT LIQUIDATE: How Digital SBL Offers a Roadmap to Post-COVID Liquidity	Digitization of SBL through a single platform quickly unlocks capital for those clients looking to acquire a business, make a major purchase, pay taxes and more. Discover why financial institutions are focusing on SBL as a key enabler for client retention and the attraction of new AUM.
As Clients Embrace Holistic Lending, Some Advisors Hesitate	According to a Broadridge Survey of the SBL Industry, 77 percent of private banks polled believe that SBL is a "must-have" product. Here's how both wealth managers and advisors can become advocates for the role debt can play in the prudent expansion of purchasing power.
Unlock your advisors' "Inner Rainmaker" in 2021 with a strong SBL Pipeline	Managing a holistic wealth management strategy that includes optimizing credit as well as client assets not only makes good business sense, it's a demonstrable way to add value to a client's entire balance sheet.

FOR MORE INFORMATION ON
Broadridge's SBL platform and Wealth Lending Network, please contact **jeff.leone@broadridge.com** or visit **broadridge.com/navigator**

Securities-based lending is a low-cost, flexible liquidity tool. It is not suitable for everybody and carries certain risk, including but not limited to:

- Only qualified assets may be used – e.g. securities held in a retirement account are ineligible for a securities-based loan
- The proceeds from securities-based lines of credit may not be used to purchase additional securities or to pay down margin
- Interest rates may rise, increasing the cost of borrowing
- Market downturns may cause the value of pledged securities to fall below the loan thresholds, requiring the borrower to pay down the line of credit or to pledge additional eligible securities in order to maintain the loan.
- Securities can be sold (with or without advance notice to the client) to meet maintenance calls at the lenders' discretion, which may cause the borrower to suffer adverse tax consequences
- Financing real estate and other illiquid purchases with a securities-based line of credit carries risk and may not be appropriate for your needs. A complete assessment of your circumstances is needed to help determine the best loan for your purpose
- Always carefully review the loan agreement, which explains the terms and conditions of the loan

The Broadridge SBL Practice Optimizer
An introduction to Securities-Based Lending

Module 1
Understanding the basics of Securities-Baised Lending
- Define what SBL is
- Understand how SBL works
- List three ways advisors benefit from SBL
- List three ways clients benefit from SBL
- Consider both sides of the client balance sheet
- Weigh the benefits of SBL versus other lending choices
- Set the stage for exploring your clients' liquidity needs
- Begin qualifying potential SBL-suitable clients

Module 2
Finding your first SBL prospect
- View client debt as an overlooked route to greater wealth creation
- Include debt management in holistic client discussions
- Distinguish risk exposures among liability options
- See how portfolio appreciation empowers SBL strategies
- Understand why investors are increasingly open to SBL's advantages
- Discover which prospects are right for SBL
- Begin building your own SBL business development strategy

Module 3
Putting SBL at the core of your growth strategy
- Incorporate lending advice into your holistic offering
- Let SBL act as a "Tier 3" differentiator for your business
- Put SBL at the core of your prospecting strategy
- Reach out to an expanding number of SBL prospects – including the Affluent
- Hone your ability to identify qualified SBL prospects
- Include introductory SBL messages in your client communications
- Establish yourself as an SBL Center of Influence
- Integrate SBL marketing goals into your business growth strategy

ANSWERS

1	D: Funds may not be used to buy shares.
2	B, C and D: Funds may not be used to repay a margin loan.
3	A, B, D and E: Funds are not permitted to be used in the derivatives marketplace.
4	A, C, D and E: While common sense and sensitivity are required in reviewing a client's debt obligations, the intimate nature of these discussions can create greater trust and deepen relationships.
5	A, B, C and E: Large "off the books" lending arrangements could be a red flag.
6	D: Current clients are fertile ground for identifying an advisor's first SBL prospect.
7	A, C, D, E, and F: Job seekers in debt are unlikely to have meaningful AUM.

Broadridge Financial Solutions (NYSE: BR), a global Fintech leader with $5 billion in revenues, provides the critical infrastructure that powers investing, corporate governance, and communications to enable better financial lives. We deliver technology-driven solutions that drive business transformation for banks, broker-dealers, asset and wealth managers and public companies. Broadridge's infrastructure serves as a global communications hub enabling corporate governance by linking thousands of public companies and mutual funds to tens of millions of individual and institutional investors around the world. Our technology and operations platforms underpin the daily trading of more than U.S. $9 trillion of equities, fixed income and other securities globally.

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