



2022 Client Portfolio Reports Notes for Accountants

Introduction

These notes have been prepared to assist Accountants of clients of First Samuel in their interpretation and use of the client Portfolio Reports for the year ended 30 June 2022.

As First Samuel manages each client's portfolio individually, not all information included in this document will be relevant to every client.

If you have any questions regarding the reports for your client(s), please contact Makellan Bootes at makellan.bootes@firstsamuel.com.au or on 03 8610 9222.

Basis of Preparation

Portfolio Reports have been prepared using information from the records of First Samuel together with data provided by external custodians, investment managers, share registry managers and other sources of relevant information such as prospectuses, the ATO and the Australian Securities Exchange.

In particular, the information in the Taxation Reports reflects the information received from those external parties and any assumptions or limitations in that information.

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1. Reporting of franked dividends

Franked dividends are reported on a gross basis, i.e. including the amount of attached imputation credits. This is consistent with general industry practice.

2. AMIT/AMMA tax reporting regime

Since 2018, a number of investment entities have elected to apply the Attribution Managed Investment Trust (AMIT) regime to their reporting. This regime requires investors to include on their tax returns income that was attributed to them in respect of the reporting period whether that income was actually received or not. In addition, new components related to adjustments to cost bases have been introduced.

The tax components of investment income for entities that have adopted the new AMIT regime are reported on the *Investment Income Report* (against the securities to which they relate) based on data provided by those entities.

3. Capital Gains components of income

Where investment income includes components related to capital gains, the information reported to us (and reflected on our reports) assumes the entity entitled to the income is an individual Australian tax resident. For other entity types, e.g. a company, complying superannuation fund or trust, or for non-residents, the taxable gain will differ.

4. Asset Class Cash allocations (AFI, ALT, EQUITY & PROP)

From time to time our investment team may choose to hold cash in clients' portfolios over and above any agreed allocation to cash or amounts held for liquidity purposes. This represents a conscious, short-term decision to hold cash rather than securities within the Asset Classes usually owing to the absence of appropriate investment opportunities, that the market conditions in any asset sector are volatile, or there is a heightened risk of not meeting the Objective.

In order to fairly calculate and report investment performance for the above asset classes, the allocation to cash is included in the Australian Fixed Income, Alternative, Australian Equities, and Property asset allocations. This is done by creating separate cash securities under these Asset Classes.

Accounting Treatment

When a new Cash Allocation is established, cash is recorded as a withdrawal from the ANZ V2 Cash security and a deposit to the corresponding Asset Class Cash Allocation security. These transactions can be seen on the *Portfolio Cash Ledger Report*.

The *Portfolio Appraisal* shows all cash sub accounts (under the corresponding Asset Class) and the ANZ V2 Cash security (under the category Cash and Equivalents) with their respective holdings at the date of the report.

However, no cash is actually moved from the ANZ V2 bank account as a result of this transaction as both the ANZ V2 Cash security and other cash securities are invested in the same underlying cash account with ANZ (V2 Plus Account).

When funds in the Sub Asset Class Cash Allocation are used for investment, cash is recorded as a withdrawal from the Asset Class Allocation security and a deposit to the ANZ V2 Cash security. Again, these transactions can be seen on the *Portfolio Cash Ledger Report* but no underlying cash movement occurs.

Interest Earned

The ANZ V2 Account pays the market rate of interest advertised by ANZ, plus a bonus amount of interest for clients of First Samuel. Interest is calculated daily and earned on the total amount held in each client's ANZ V2 bank account, regardless of which security is used to record the amount invested, i.e. interest is earned on the sum of the ANZ V2 Cash balance, Australian Fixed Income, Alternative, Australian Equities, and Property cash allocations plus any ANZ V2 At Call balance (see below).

5. ANZ V2 Non-Managed (CASHV2_NM.UNL)

From time to time, we may be unable to immediately and fully invest clients' funds. This may be because market conditions are unfavourable or because of individual client circumstances. In these situations, a separate security is used to identify these amounts and to exclude them for fee purposes.

Accounting Treatment

Clients' cash that has been received into the V2 cash account, but not yet available for investment, is allocated to the ANZ V2 Non-Managed (CASHV2_NM.UNL) and excluded for investment management fee calculation purposes.

When an amount is set aside, cash is recorded as transfer out from the ANZ V2 Cash security and a transfer in to the Non-Managed security. These transactions can be seen on the *Portfolio Cash Ledger Report* under Transfer In, Transfer Out.

The *Portfolio Appraisal* shows the ANZ V2 Non-Managed security in addition to the ANZ V2 Cash security, with their respective holdings at the date of the report.

No cash is moved from the ANZ V2 bank account as a result of this transaction as both the ANZ V2 Cash security and the ANZ V2 Non-Managed security are invested in the same underlying cash account with ANZ (V2 Plus Account). In effect the split is a notional one reflected in each client's investment ledger maintained by First Samuel rather than any movement in the underlying investment.

When funds in the ANZ V2 At Call allocation are used for investment, cash is recorded as a transfer out from the ANZ V2 Non-Managed security and a transfer into the ANZ V2 Cash security. Again, these transactions can be seen on the *Portfolio Cash Ledger Report* but no underlying cash movement occurs.

Superannuation Funds

Although the internal account transfers come under '*Contribution & Withdrawal*' in the *Portfolio Transaction Report* please note these are not monies going in or out of the accounts but internal entries and should not be recorded as contributions or pension/withdrawals from the fund.

6. Investment income received

Investment income comprises dividends, distributions and interest received on investments and cash deposits. For tax purposes investment income is broken down into its various components based on data provided by external custodians, external investment managers, share registry managers and other sources of relevant information such as prospectuses and the Australian Securities Exchange.

Accounting Treatment

The cash amount of investment income received (i.e. after any tax withheld and before imputation credits) is included under *Investment Income Received* and either *Interest* or *Investment Income Declared* (as applicable) on the Portfolio Transaction Report.

Taxation Reporting

The tax components of investment income received are reported on the *Investment Income Report* (against the securities to which they relate) based on data provided by external custodians, external investment managers, share registry managers and other sources of relevant information such as prospectuses and the Australian Securities Exchange.

The information on the *Investment Income Report* relies on the information received from those parties and any assumptions or limitations in that information. Whilst First Samuel believes the information provided is correct, we cannot warrant this is the case. If users are unsure whether the information provided is correct, they should make their own enquiry or seek their own independent advice.

All available imputation credits have been included on the assumption that the owner of the asset is eligible; in particular that the conditions of the '45 day' rule have been met.

The *Investment Income Report* comprises separate sections for *Domestic Income* and *Foreign Income*. Where investment income has components that are reported on more than one page, the total of income received is repeated on the subsequent pages to allow it to be identified, however the total is not double counted. The sum of components in both the *Domestic* and *Foreign Income* sections comprise the total amount of investment income received.

7. Interest on trade settlement accounts

All interest earned on bank accounts used to settle client investment transactions is allocated proportionately to clients and paid into their portfolios annually. No portion of such interest is retained by First Samuel. A notional security called *Trade Settlement Account* is used to record this income.

Accounting Treatment

Each client's portion of income earned on the trade settlement account is included under *Investment Income Received* on the *Portfolio Transaction Report* during the year to which it relates.

Taxation Reporting

Each client's portion of income earned on the trade settlement account is reported as *Other Income* on the *Investment Income Report* in the year in which it is paid, against a notional security called *Trade Settlement Account*.

8. Taxation reporting of 'Traditional Securities'

The ATO has provided guidance that income derived from traditional securities is taxable income while any gains or losses on disposal are taxed as 'Other Income' or 'Other Deductions', as applicable. That is, the disposal of a traditional security does not give rise to a capital gain or loss, and the normal CGT discount rules do not apply.

The ATO have further guided that the tax treatment of securities is determined by their underlying nature and not what they might be called by the company that issues them. Where required, we refer to the original prospectus and any further information available, e.g. ATO Class Rulings or information on the issuing company's website, to determine if a security is a 'traditional security' or not. Unless we are specifically aware of any further later information, we generally adopt the treatment set out in the prospectus.

Taxation Reporting

Income from traditional securities is reported on the *Investment Income Report* in the period in which it is taxable and is categorised based on information received from the custodian or the company, i.e. interest, franked dividend, etc.

Gains or losses on the disposal of traditional securities are reported on the *Capital Gains – Realised – Traditional Securities* report and categorised as either *Other Income* or *Other Deduction* as appropriate.

9. Foreign sourced income – Foreign withholding & FATCA tax

Investment income sourced from foreign domiciled companies may be subject to withholding tax in the applicable jurisdiction.

In addition, client entities that have holdings that earn income from the US and who have not submitted the required US tax declaration forms may have additional withholding tax (FATCA tax) deducted before that income is paid.

Taxation Reporting

Investment income received is reported on the *Investment Income Report* in the period in which it is taxable against the securities to which it relates. For foreign income, the related tax components are shown in the *Foreign Income Components* section of the *Investment Income Report* and any withholding tax deducted is shown under the category *Foreign W/Hold Tax*.

10. Australian Non-Resident withholding tax

Certain components of investment income earned by client entities that are non-resident for Australian tax purposes are paid after deduction of *Non-Resident Withholding Tax* (at various rates). Typically, this applies to unfranked dividends and interest.

For the period 16/6/2021 to 30/6/2021 Non-Resident Withholding Tax was not deducted during the custodial transition. The deductions were taken from the V2 cash account in the FY22 tax year, however, were reported in the FY21 tax reports.

Taxation Reporting

Income received that is subject to Australian Non-Resident Withholding Tax is included on the *Investment Income Report* against the applicable security and categorised by component. The amount of tax withheld from each payment is included under the heading *Non Resident W/Holding Tax* on the *Domestic Income Components* page.

11. Company reconstructions

When a company undergoes a capital reconstruction, typically a share or debt split or consolidation, the transaction is recorded as a sale of the affected securities for proceeds equal to their original purchase cost and a purchase on the same day of the required number of new securities at the same original cost.

Accounting Treatment

On the effective date of the reconstruction, a sale at their original cost of the number of old securities held on that date is included under *Sales* on the *Portfolio Transaction Report*. On the same date, a purchase of the required number of new securities (calculated based on the terms of the reconstruction, e.g. 5 for 1 or 2 for 3), at a cost equal to the original cost of the securities sold, is included under *Purchases* on the *Portfolio Transaction Report*. No actual cash transactions occurred for either the sale or purchase.

Taxation Treatment

The sale transactions are reported on the *Capital Gains – Realised* report but do not give rise to any realised gain or loss as the sale is at cost. The tax cost base for the old securities is rolled forward into the tax cost base of the new securities and the year-end capital gains position is reported on the *Capital Gains – Unrealised* report.

Securities Affected in FY22:

VEA.ASX (Viva Energy Group Limited) 0.97:1 Consolidation of Ordinary Shares 19/10/2021

IMB.ASX (Intelligent Monitoring) 1:100 Consolidation of Ordinary Shares 7/12/2021

CDD.ASX (Cardno) 1:10 Consolidation of Ordinary Shares 29/12/2021

HAS.ASX (Hastings) 1:20 Consolidation of Ordinary Shares 23/6/2022

12. Income reinvestment or capitalisation

When income earned on a security is reinvested (in whole or part) in the same security the transaction is recorded as both an income event and the purchase of additional shares or securities.

Accounting Treatment

The amount of income receivable is recorded under *Investment Income Received* on the *Portfolio Transaction Report* and as a notional deposit to the *Distribution Reinvestment Account* on the *Portfolio Cash Ledger Report*.

On the same date a notional withdrawal of the same amount is recorded from the *Distribution Reinvestment Account* on the *Portfolio Cash Ledger Report* and a purchase of additional securities recorded under *Purchases* on the *Portfolio Transaction Report*.

Taxation Reporting

Investment income receivable is reported on the *Investment Income Report* in the period in which it is taxable and categorised based on its nature, e.g. interest, franked dividend, etc.

13. Security Name and Code Changes

During the financial year the below company codes and/or names were updated. They may appear under both names/codes on our reports.

Date	Old Code	Name	New Code	Name
19/07/2021	WMX	Wiluna Mining Corporation Limited	WMC	Wiluna Mining Corporation Limited
3/08/2021	MXT	MCP Master Income Trust	MXT	Metrics Master Income Trust
3/09/2021	JRV	Jervois Mining Limited	JRV	Jervois Global Limited
27/10/2021	KPT	Kangaroo Island and Plantation Timbers Ltd	KIL	Kiland Ltd
30/11/2021	FNP	Freedom Foods Group Limited	NOU	Noumi Limited
17/12/2021	TPS	Threat Protect Australia Limited	IMB	Intelligent Monitoring Group Limited
25/05/2022	WPL	Woodside Petroleum Ltd	WDS	Woodside Energy Group Ltd

14. BHP Petroleum Merger with Woodside

On 25th of May 2022, BHP sold its petroleum business to Woodside by way of a fully franked dividend and an in-specie distribution of WDS stock to every BHP holder.

Accounting Treatment

On the 1st of June 2022, you will see a fully franked dividend settle to the distribution reinvestment account under *Investment Income Received* on the *Portfolio and Transaction Report*. On the 25th of May 2022, included in *Purchases* on the *Portfolio Transaction Report* was a purchase of WDS shares for the value of the fully franked dividend. This is equivalent to 1 WDS Share for Every 5.534 BHP Shares.

The Dividend will appear under the *Distribution Reinvestment Account* in the *Portfolio Cash Ledger*.

Taxation Treatment

The tax cost base for the WDS shares is the amount of Dividend received from the transaction. (\$5.38 Fully Franked per share)