



## 2023 Client Portfolio Reports Notes for Accountants

### Introduction

These notes have been prepared to assist Accountants of clients of First Samuel Limited in their interpretation and use of the client Portfolio Reports for the year ended 30 June 2023.

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](mailto: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 received. In addition, new components relating to adjustments of 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. Capital Gains resulting from a Return of Capital

Income payments may include a return of capital which can be found on the *Investment Income Report* and the *Cash Ledger Reports* under *Capital Adjustments*. A capital return amount in excess of the security's original cost base is deemed a CGT event in the year received. It is recorded as a security with a nil cost base on the *Unrealised Capital Gains Tax Report*. Where the security was disposed in the same year, the reportable CGT detailed on the *Realised Capital Gains Tax Report* will only be the amount of capital required to bring the cost base to nil.

Securities with capital returns in FY23;:

HOLDCO.UNL - Australasian Foods Holdco Pty Ltd - Class B

Please refer to your client's cost base records to ascertain whether the return of capital triggers a tax liability in addition to the income received.

## 5. 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, volatile market conditions in any asset sector, or that 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 Non-Managed balance (see below).

## **6. 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 ANZ V2 cash account, but not yet available for investment, is allocated to 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 a transfer out from the ANZ V2 Cash security and a transfer to the ANZ V2 Non-Managed security. These transactions can be seen on the *Portfolio Cash Ledger Report* under Transfer Out , Transfer In.

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 Non-Managed allocation are used for investment, cash is recorded as a transfer out from the ANZ V2 Non-Managed security and a transfer to 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.

## **7. 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.

## **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 labelled 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.

**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 the 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 occur 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 FY23: N/A**

**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.

<b>Date</b>	<b>Old Code</b>	<b>Name</b>	<b>New Code</b>	<b>Name</b>
22-May	HT1	HT&E Limited	A1N	ARN Media Limited
1-Mar	ATC	Altech Chemicals Ltd	ATC	Altech Batteries Ltd
28-Nov	SCP	Shopping Centres Australasia Property Group	RGN	Region Group
28-Nov	HMC	Home Consortium Limited	HMC	HMC Capital Limited

**14. In Specie Transfers**

Where assets have been transferred to the portfolio by way of an in-specie transfer, they are reported at the cost base that was advised by the client or transferring institution. Whilst First Samuel will endeavour to obtain supporting documentation to confirm the accuracy of this information, we cannot provide any warranties as to the accuracy of this historical data which should be confirmed to original data sources.

## **15. Early Stage Venture Capital Limited Partnership (ESVCLP) & Taxation of Financial Arrangements (TOFA)**

If the portfolio has been invested in any of the holdings listed below, there will be additional tax letter(s) attached to the rear of these notes.

- Acorn Capital Expansion Fund I
- Acorn Capital Expansion Fund II
- Significant Early Venture Capital
- Co:Act Venture Capital Fund
- Mutual Credit Fund
- Mutual Income Fund