



# Tax effectiveness of distributions from Invesco's Australian Smaller Companies Fund

## Your Invesco representatives

For information about the tax efficiency of an investment in Invesco's Australian Smaller Companies Fund, please contact your Invesco representative.



**Sam Sorace**  
National Retail Sales Manager  
(Vic, SA, Tas)  
Phone: 0413 050 909



**Matthew Hattersley**  
Manager Retail Sales  
(NSW, Qld)  
Phone: 0414 847 511



**David Ray**  
Manager Retail Sales  
(NSW, ACT & WA)  
Phone: 0437 404 445

**This document is provided for general information purposes only and does not represent tax advice. Individual clients should seek independent taxation, legal, financial or other professional advice before making an investment decision.**

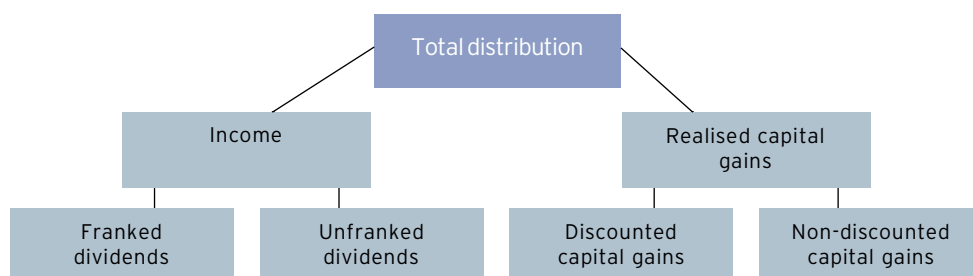
The Australian funds management industry currently reports fund performance generally on a net of fees but gross of tax basis. The tax effectiveness of fund distributions is not taken into account when we compare one fund's returns with another's.

This document explains how low portfolio turnover of 25-30% p.a. for Invesco's Australian Smaller Companies Fund can provide significant post-tax advantages for your clients.

## Components of a distribution

Leaving aside the growth in a fund's unit price, when a managed fund with a holding in Australian shares pays a distribution, the distribution can be made up of a number of components. Each has a different tax treatment and therefore tax implication for investors.

The diagram below breaks down a fund's distribution into four key components.



## Dividend income and franking credits

Australian shares offer investors the advantage of dividends with franking credits. That is, the investor receives credit for the amount of tax already paid by the issuing company on its profits. Franking credits are also referred to as imputation credits.

We have not included franking credits as a component of a fund distribution in the chart above. This is because most Australian unit trusts do not assign a value to the franking credits as part of the distribution unitholders receive. However, franking credits are reported at the end of a financial year on the annual tax statement as a tax benefit to the investor.

Dividends that have high levels of franking credits attached are very attractive to investors because they effectively achieve a higher after-tax return.

## Capital gains - discounted and non-discounted

The Australian tax system treats 'short-term' capital gains in a similar way to income; i.e. the full capital gain is added to other taxable income and taxed at the investor's marginal rate. Short-term capital gains are realised when an asset is sold after being held for less than 12 months.

When capital gains are realised on the sale of an asset that has been held for more than 12 months, the gains are discounted before being taxed at the investor's marginal rate. These gains are classified as 'discounted capital gains', as opposed to non-discounted 'short term' gains. For an individual, the discount level is 50%; for superannuation funds, it's 33.3%.

When considering the tax effectiveness of an Australian equity fund, investors will generally look for a higher proportion of franked income than unfranked. Similarly, from a taxation perspective investors benefit from a lower level of non-discounted capital gains.

## Tax effectiveness of distributions from Invesco's Australian Smaller Companies Fund

### The benefits of Invesco's approach

At Invesco, our approach to investing in Australian Smaller Companies is core and GARP (growth at a reasonable price), focusing on sound companies that are under-appreciated by the market and therefore mispriced.

We take a longer-term view of 3 to 4 years to allow either:

- the market to realise a value that is higher than the current price at which a stock is trading and approaching the value Invesco has determined; or
- for Invesco to review a stock's price after an event that forces a change in our view of the stock's intrinsic value.

By focusing on the longer term, we can take advantage of periods when the market takes time to realise the value of a company's underlying earnings stream and to price the stock at what we believe to be its true value. As a result, more of the capital gains we realise are for assets we have held for over 12 months, thereby attracting discounted capital gains tax.

For your clients, this means a lower amount of tax and, all other things being equal, a higher investment return on an after-tax basis.

As an example, the effect of our low annual portfolio turnover is illustrated in the capital gains data in the tables below. The first table highlights the franking levels attained through investing in the Invesco Wholesale Australian Smaller Companies Fund over the past six years, accompanied by a low level of non-discounted capital gains.

The second table highlights the amount of the fund distribution, the distribution as a yield, and the grossed-up yield after allowing for franking credits assuming full value will be received for the imputation credits. This allows comparisons to other types of investments that may not carry the same tax effectiveness as the Invesco fund.

### Invesco Wholesale Australian Smaller Companies Fund

#### Percentage of franked and non-discounted capital gains

Period	Fund income franking level <sup>§</sup> %	Fund dividend franking level* %	Non-discounted capital gains <sup>†</sup> %
1 July 2004 – 30 June 2005	27.2	90.9	0
1 July 2005 – 30 June 2006	14.2	93.4	0
1 July 2006 – 30 June 2007	23.7	94.0	0
1 July 2007 – 30 June 2008	26.0	96.8	0
1 July 2008 – 30 June 2009	45.4	96.4	0
1 July 2009 – 30 June 2010	58.3	91.8	0
1 July 2010 – 30 June 2011	60.0	96.1	0

<sup>§</sup> Fund income franking level is calculated as the franking credits as a proportion of total income received (including realised capital gains), as per FSC Standard No 2.00.

\* Calculated on franked dividends received divided by total Australian dividends received.

<sup>†</sup> The level of realised gains paid out by the fund that do not qualify for a capital gains discount.

### Invesco Wholesale Australian Smaller Companies Fund

#### Income and realised gains with grossed-up distributions

Period	Distribution cents per unit	Distribution net income yield* %	Distribution net realised capital gains yield <sup>†</sup> %	Total distribution yield <sup>‡</sup> %	Grossed-up net income yield <sup>§</sup> %
1 July 2004 – 30 June 2005	31.04	3.4	10.0	13.4	4.7
1 July 2005 – 30 June 2006	59.97	2.5	19.5	22.0	4.0
1 July 2006 – 30 June 2007	38.19	2.5	11.5	14.0	4.0
1 July 2007 – 30 June 2008	35.44	2.0	8.3	10.3	3.3
1 July 2008 – 30 June 2009	9.86	2.9	0.3	3.2	3.6
1 July 2009 – 30 June 2010	4.49	2.0	0.0	2.0	2.2
1 July 2010 – 30 June 2011	5.59	2.2	0.0	2.2	2.6

\* Calculated as the income received by the trust less management expenses expressed as a percentage of the start of period fund value.

<sup>†</sup> Calculated as the realised capital gains of the trust expressed as a percentage of the start of period fund value.

<sup>‡</sup> Calculated as the total distribution expressed as a percentage of the start of period fund value.

<sup>§</sup> A grossed-up yield calculated by assuming full value will be received for the imputation credits.



This document has been prepared by Invesco Australia Ltd (Invesco) ABN 48 001 693 232, Australian financial services licence number 239916, RSE licence number L0002530, who can be contacted on freecall 1800 813 500 or by writing to GPO Box 231, Melbourne, Victoria, 3001.

This document contains general information only and does not take into account your individual objectives, taxation position, financial situation or needs. You should assess whether the information is appropriate for you and consider obtaining independent taxation, legal, financial or other professional advice before making an investment decision. A Product Disclosure Statement (PDS) for Invesco's range of Funds referred to in this document is available from Invesco. The PDS should be considered before making a decision to invest.

Invesco is authorised under its licence to provide financial product advice, deal in financial products and operate registered managed investment schemes. If you invest in an Invesco Fund, Invesco may receive fees in relation to that investment. Details are in the PDS. Invesco's employees and directors do not receive commissions but are remunerated on a salary basis. Neither Invesco nor any related corporation has any relationship with other product issuers that could influence us in providing the information contained in this document.

Neither Invesco nor any other member of the Invesco Ltd group guarantee the return of capital, distribution of income, or the performance of any of the Funds. Any investments in the Funds do not represent deposits in, or other liabilities of, any other member of the Invesco Ltd group. Investments in the Funds are subject to investment risks including possible delays in repayment and loss of income and principal invested. Invesco has taken all due care in the preparation of this document. To the maximum extent permitted by law, Invesco, its related bodies corporate, directors or employees are not liable and take no responsibility for the accuracy or completeness of this document and disclaim all liability for any loss or damage of any kind (whether foreseeable or not) that may arise from any person acting on any statements contained in this document.

© Copyright of this document is owned by Invesco. You may only reproduce, circulate and use this document (or any part of it) with the consent of Invesco.