

## FAQ on Schroders' distribution policy under the AMIT Rules

### Will Schroders' distribution policy change under the AMIT Rules?

Historically, Fund Managers have typically distributed an amount at least equal to the taxable income of the fund. However, under the 'Attribution Managed Investment Trust' tax regime (the AMIT Rules) a fund can choose to distribute a level of cash that is different to its taxable income, without adverse tax consequences.

From 1 July 2017, Schroders has made an election to apply the AMIT rules to a range of funds managed by us and have made some changes to the distribution policies for the benefit of investors. These include:

- The ability to provide guidance on future distributions with greater certainty and predictability. This will enable investors to more effectively budget and plan for their income requirements from investments in Schroders' funds.
- Removal of year end processing delays of up to 6 business days. This will allow investors to continue to make transactions in our funds without disruption.

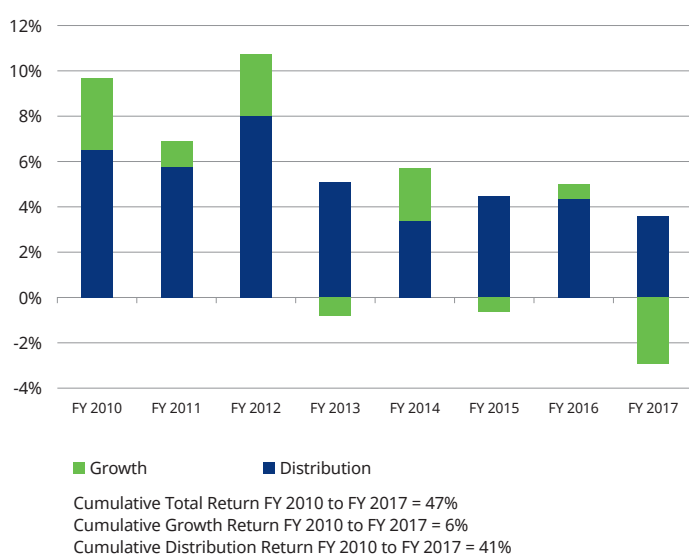
Schroders' distribution policy together with the estimated guidance for our fund range is set out in Appendix A.

### Will this change in distribution policy affect a fund's performance?

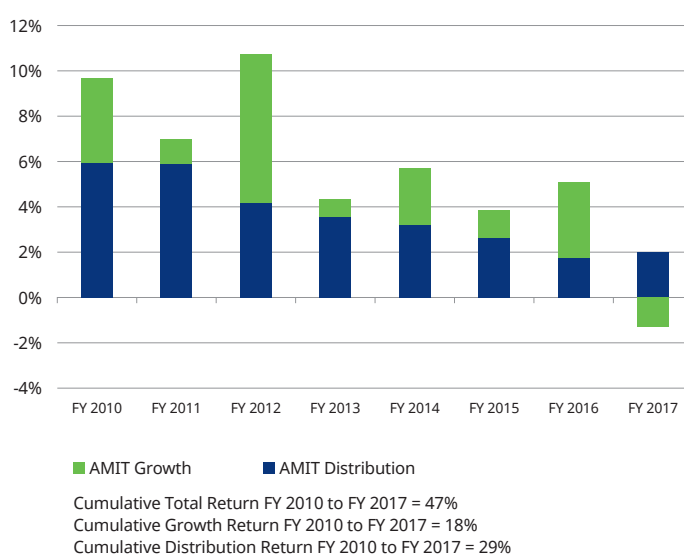
The new distribution policy does not affect the performance of a fund. The total return of a fund is made up of the 'Growth' and 'Distribution' returns. Schroders' new distribution policy will simply mean the 'Distribution' return will be more stable and predictable compared to the past. As an example, we have set out below a chart of the historic Distribution and Growth returns for the Schroder Fixed Income Fund Wholesale Class compared with the Distribution and Growth returns under the new distribution policy for the same periods.

#### Schroder Fixed Income Fund Wholesale Class

##### Historical Growth/Distribution return



##### Historical Growth/Distribution return assuming AMIT regime



## Will this change in distribution policy affect the way investors are taxed?

Schroders' new distribution policy will not affect the net tax outcome for investors as the AMIT Rules are designed to be tax neutral. Under the AMIT Rules:

- Investors pay tax on the taxable income that is attributed to them on a 'fair and reasonable' basis by a fund. Non-resident investors will have withholding tax deducted based on the taxable income that is attributed to them.
- The cost base of units increase to the extent that the taxable income attributed exceeds the cash distributions paid. Conversely, the cost base of units decrease to the extent that cash distributions paid exceed the amount of taxable income that is attributed.

The net result is that investors pay no more or less tax in respect of units held.

We illustrate below that the tax outcome for investors in a fund is neutral before and after applying the AMIT Rules. The examples are based on a unit in a fund with a market value of \$2.40 comprising taxable/realised income of \$0.80 and cost base of \$1.60.

### Example 1: Before AMIT Rules - where cash distribution is derived from taxable income.

Pre-distribution		Cash decoupled from taxable income	Post distribution	
Market value = taxable income + cost base		Fund pays cash distribution = taxable income	Cost base = \$1.60 (no cost base adjustment)	
Market value of unit \$2.40		Taxable/realised income \$0.80	Cash distribution \$0.80	No gain or loss on sale as market value = Cost base
Cost base \$1.60			No cost base adjustment	No gain or loss on sale
			Cost base post distribution \$1.60	Market value of unit post distribution \$1.60 (\$2.40 - \$0.80)

Investors pay tax based on the taxable income distributed of \$0.80.

There is no gain or loss on sale of the investment as the market value of the unit post distribution equals the cost base.

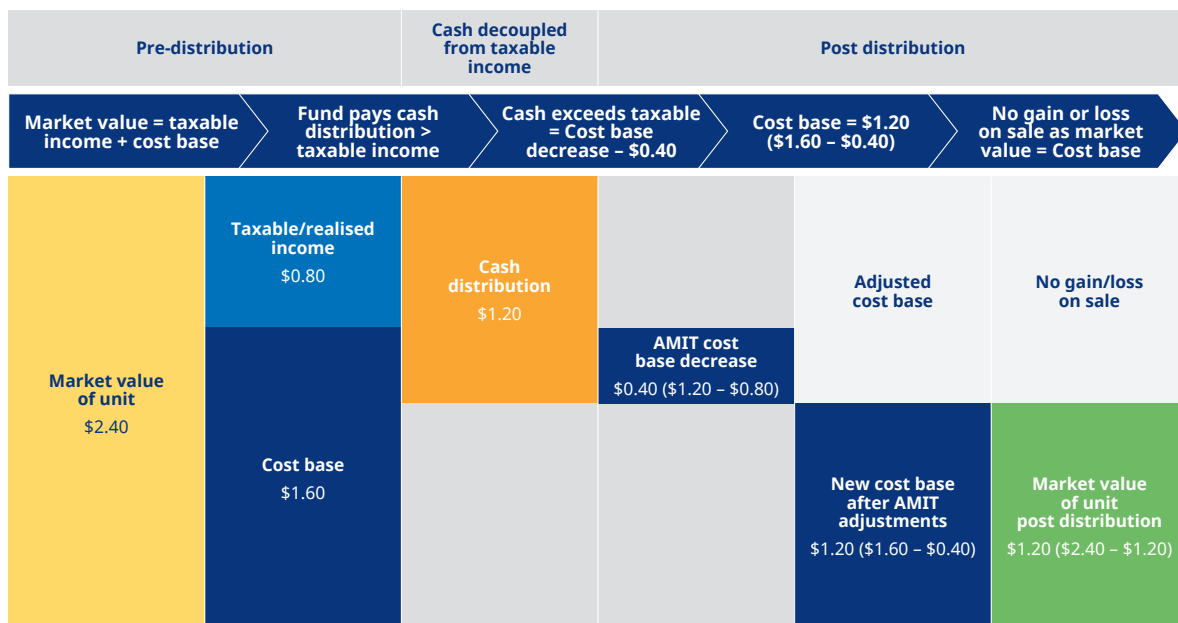
### Example 2: AMIT Rules - where cash distribution is less than taxable income.

Pre-distribution		Cash decoupled from taxable income	Post distribution	
Market value = taxable income + cost base		Fund pays cash distribution < taxable income	Taxable exceeds cash = Cost base increase - \$0.40	Cost base = \$2.00 (\$1.60 + \$0.40)
Market value of unit \$2.40		Taxable/realised income \$0.80	Cash distribution \$0.40	No gain or loss on sale as market value = Cost base
Cost base \$1.60			AMIT cost base increase \$0.40 (\$0.80 - \$0.40)	No gain/loss on sale
			Adjusted cost base	Market value of unit post distribution \$2.00 (\$2.40 - \$0.40)
			New cost base after AMIT adjustments \$2.00 (\$1.60 + \$0.40)	

Investors pay tax based on the taxable income attributed of \$0.80 though a cash distribution of \$0.40 was made.

A cost base increase of \$0.40 under the AMIT rules mean there is no gain or loss on sale of the investment as the market value of the unit post distribution equals the cost base.

### Example 3: AMIT Rules - where cash distribution is greater than taxable income.



Investors pay tax based on the taxable income attributed of \$0.80 though a cash distribution of \$1.20 was made.

A cost base decrease of \$0.40 under the AMIT rules mean there is no gain or loss on sale of the investment as the market value of the unit post distribution equals the cost base.

### Will cash distributions always be sufficient to meet tax liabilities?

Cash distributions made under Schroders' distribution policy should generally be sufficient for investors to pay their tax liabilities arising from the taxable income attributed to them. To the extent that there may be a shortfall, Schroders may at its discretion make additional cash distributions to help investors satisfy their tax obligations. Having regard to our distribution policy, Schroders expects that this will only arise where a fund attributes a significant capital gain to investors in respect of units held.

### Are there any benefits for investors in the 'pension phase'?

Subject to meeting minimum pension payment rules, when a superannuation account enters pension phase, the earnings on assets financing the pension are exempt from tax. Schroders funds are ideally suited for investors in the pension phase for the following reasons:

- Cash distributions are stable and predictable, this makes it easy to manage minimum drawdown requirements.
- Being tax exempt, the amount of taxable income attributed can be disregarded.
- Cost base adjustments don't matter as gains on pension assets are not subject to tax.

### Will investors still receive tax statements?

Investors will receive an Attribution Managed Investment Trust Member Annual (AMMA) statement instead of an annual tax statement. The AMMA statement will contain all of the details investors require to complete their income tax returns.

### Contact Schroders

[www.schroders.com.au](http://www.schroders.com.au)

Level 20, Angel Place  
123 Pitt Street,  
Sydney, NSW 2000

Email: [info.au@schroders.com](mailto:info.au@schroders.com)  
Phone: 1300 136 471

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## Appendix A

The table below sets out the distribution policy and distribution guidance for Schroders' fund range.

Fund Range	Class	Distribution Frequency	Distribution Policy	Distribution Rate Guidance+	Full Year Distribution Guidance*
<b>Australian Equities</b>					
Schroder Australian Equity Fund	Professional	Half-yearly	Forward dividend yield net of fees	3.4%	\$0.3734
Schroder Wholesale Australian Equity Fund	Wholesale	Half-yearly	Forward dividend yield net of fees	3.1%	\$0.0394
Schroder Equity Opportunities Fund	Professional	Half-yearly	Forward dividend yield net of fees	2.8%	\$0.0293
Schroder Equity Opportunities Fund	Wholesale	Half-yearly	Forward dividend yield net of fees	2.5%	\$0.0268
<b>Global Equities</b>					
Schroder Global Core Fund	Wholesale	Half-yearly	Forward dividend yield net of fees	2.3%	\$0.0144
Schroder Global Value Fund	Wholesale	Half-yearly	Forward dividend yield net of fees	2.1%	\$0.0191
Schroder Global Value Fund (Hedged)	Wholesale	Half-yearly	Forward dividend yield net of fees	2.1%	\$0.0231
Schroder Global Quality Fund	Wholesale	Half-yearly	Forward dividend yield net of fees	1.8%	\$0.0253
Schroder Global Blend Fund	Wholesale	Half-yearly	Forward dividend yield net of fees	2.0%	\$0.0224
Schroder Global Blend Fund (Hedged)	Wholesale	Half-yearly	Forward dividend yield net of fees	2.0%	\$0.0191
Schroder QEP Emerging Markets Fund	Wholesale	Half-yearly	Forward dividend yield net of fees	1.9%	\$0.0248
Schroder Asia Pacific Fund	Wholesale	Half-yearly	Trailing dividend yield net of fees	0.2%	\$0.0062
Schroder Global Emerging Markets Fund	Wholesale	Half-yearly	Trailing dividend yield net of fees	1.0%	\$0.0117
Schroder Global Recovery Fund	Professional	Half-yearly	Trailing dividend yield net of fees	1.6%	\$0.0175
Schroder Global Recovery Fund	Wholesale	Half-yearly	Trailing dividend yield net of fees	1.4%	\$0.0155
<b>Fixed Income</b>					
Schroder Absolute Return Income Fund	Professional	Monthly	RBA Cash + 2.5% net of fees	3.4%	\$0.0342
Schroder Absolute Return Income Fund	Wholesale	Monthly	RBA Cash + 2.5% net of fees	3.4%	\$0.0358
Schroder Fixed Income Fund	Professional	Quarterly	Yield to maturity net of fees	2.2%	\$0.0244
Schroder Fixed Income Fund	Wholesale	Quarterly	Yield to maturity net of fees	2.0%	\$0.0221
<b>Multi-asset</b>					
Schroder Real Return CPI Plus 3.5% Fund	Wholesale	Quarterly	CPI plus 1.75% net of fees	3.0%	\$0.0290
Schroder Real Return CPI Plus 5% Fund	Professional	Half-yearly	CPI plus 2.50 net of fees	3.7%	\$0.0441
Schroder Real Return CPI Plus 5% Fund	Wholesale	Half-yearly	CPI plus 2.50% net of fees	3.4%	\$0.0392
Schroder Real Return Fund (ASX: GROW)	Wholesale	Half-yearly	CPI plus 2.50% net of fees	3.4%	\$0.1256
Schroder Balanced Fund	Professional	Half-yearly	CPI plus 2.50% net of fees	3.7%	\$0.0418
Schroder Balanced Fund	Wholesale	Half-yearly	CPI plus 2.50% net of fees	3.4%	\$0.0373

### Notes

\*Subject to change from time to time in line with underlying assumptions.

\*CPU estimate based on prices as at 31 May 2018, subject to change in line with changes in the Distribution Rate and a fund's net asset value.