The Directors
Capital Prudential Manager Pty Limited
103 / 147 Pirie Street
Adelaide, SA 5000

1 July 2024

Tax summary for Investors - Capital Prudential Development Equity Fund I

Dear Directors

We have prepared this letter to provide you with a broad summary of the Australian income tax, GST and stamp duty considerations for the Capital Prudential Development Fund I (**the Fund.**). The terminology and definitions used in this summary are consistent with that of the Information Memorandum.

The comments below are based on the relevant taxation laws in the *Income Tax Assessment Act 1936, the Income Tax Assessment Act 1997, the Income Tax Rates Act 1986, A New Tax System (Goods & Services Tax) Act 1990 and the Taxation Administration Act 1953* (referred to collectively herein as **the Australian Tax Act**), and the respective stamp duty legislation administered by the Australian States and Territories, as at the date of this document and the associated administrative instruments, except where otherwise indicated.

The taxation information provided below is intended only as a brief guide. The information applies only to Australian tax resident and non-resident Investors who subscribe for Units and hold their Units in the Fund on revenue account. This section does not cover the taxation implications for Investors who hold their investments on capital account or as trading stock, or who are exempt from Australian income tax, or are subject to the Taxation of Financial Arrangements (**TOFA**) rules in Division 230 of the Australian Tax Act.

The information contained in this document does not constitute “financial product advice” within the meaning of the *Corporations Act 2001* (Cth) (**Corporations Act**). The PricewaterhouseCoopers Partnership, which is providing this advice, is not licensed to provide financial product advice under the Corporations Act. To the extent that this document contains any information about a “financial product” within the meaning of the Corporations Act, taxation is only one of the matters that must be considered when making a decision about the relevant financial product.

This summary has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient of the Information Memorandum. Accordingly, any recipient should, before acting on this summary, consider taking advice from a person who is licensed to provide financial product advice under the Corporations Act. Any recipient should also consider seeking specific professional advice on the taxation implications of holding or disposing of the Units, taking into account their own individual circumstances.

Taxation of the Fund

General Outline

The general outline has been prepared on the following assumptions:

- the Fund is not eligible for the Trustee to treat the Fund as a managed investment trust under Division 275 of the Australian Tax Act;
- Investors will hold the units in the Fund on revenue account and not on capital account for Australian income tax purposes[1];
- Investors, whether Australian resident or foreign resident, are not exempt from Australian income tax;
- Investors are not subject to the Taxation of Financial Arrangement rules is Division 230 of the Australian Tax Act;
- Investors that are Australian residents do not hold their units through an offshore permanent establishment; and
- Investors that are foreign residents do not hold their units through an Australian permanent establishment and each Investor, together with their associates, holds less than 10% of the total equity interests in the Fund either at the time of any disposal or throughout a 12 month period that began no earlier than 24 months before that time.

Application of Division 6C: Public Trading Trusts to the Fund

The taxation treatment of a trust will depend on whether it is a public trading trust under Division 6C of the Australian Tax Act during a particular income year. Broadly, a public trading trust will be treated as a corporate tax entity and subject to tax on its taxable income at the corporate tax rate. In order to be treated as a public trading trust, the Fund must be both a public unit trust and a trading trust during an income year.

Broadly, a unit trust will be considered a public unit trust where it is listed on an official stock exchange, any of the units in the trust were offered to the public, it has more than 50 unitholders or has 20 per cent or more of its units held by 'exempt entities'.

A trust will be a trading trust in respect of a year of income if it carries on a trading business or controls an entity that carries on a trading business at any time during an income year. Importantly, a trust (or an entity controlled by the trust) must undertake only 'eligible investment business' (**EIB**) for Australian taxation purposes to not be considered a trading business. Relevantly, EIB includes:

- investing in land for the purpose, or primarily for the purpose of deriving rent;
- investing or trading in:
    - shares in a company;
    - units in a unit trust; and
    - various other financial instruments as prescribed by the Australian Tax Act.

Given that the Fund is to be marketed to a diverse group of Investors, including fund managers and family offices, the Fund is anticipated to qualify as a 'public unit trust' on the basis that it will be offered to the public. There are certain exclusions from being treated as a 'public unit trust', which include where the Fund is closely held (as defined). The Trustee will consider the application of these exclusions when the final Investors in the Fund are identified.

[1] On the basis that the term of the Fund is expected to be three years and that Investors will be acquiring Units in the Fund with the intention of making a gain and not for recurrent distributions from the Fund, the units should be held by Investors on revenue account.

We understand that the Fund will be for an initial term of three years. The investment objective of the Fund is to provide equity exposure to commercial real estate developments with a view to delivering overall gains to Investors. Investing in land for the purposes of realising gains on disposal is not an EIB and as such the Fund should be considered to be a trading trust.

On the basis that the Fund is anticipated to be both a public unit trust and a trading trust it should be regarded as a public trading trust for the purposes of Division 6C. Therefore, the Fund should effectively be treated as a corporate tax entity for Australian tax purposes for each income year during its term. The Fund will be subject to tax on its income at the prevailing corporate tax rate. Distributions of profits made by the Fund should be regarded as dividends in the hands of Investors and are capable of being franked.

Where a trust is a trading trust, it cannot be treated as a managed investment trust under Division 275 or an Attribution Managed Investment Trust under Division 276 of the Australian Tax Act.

The comments below on the taxation of Investors have been prepared on the basis that the Fund will be treated as a public trading trust for each income year.

Tax losses

Where a tax loss is incurred by the Fund, the loss must be quarantined within the Fund and cannot be passed to Investors for tax purposes. Instead, tax losses should be able to be carried forward and offset against income derived by the Fund in future years subject to satisfying the relevant loss recoupment tests.

Taxation of Investors

Investment in Units

The Australian tax cost base of Units acquired by an Investor by way of subscription should broadly be equal to the subscription price paid by the Investor and any costs incurred by the unitholder in relation to subscribing for, and the holding of the units.

Distributions

Broadly, distributions made by a public trading trust are treated in a similar way to dividends and are capable of being franked. Specifically, a distribution by a public trading trust will be a “unit trust distribution” where it is paid or credited to the unitholder, except to the extent that it is:

- paid out of profits earned in a year where the trust was not a public trading trust; or
- paid in respect of the cancellation, extinguishment or redemption of a unit and the payment represents repayment of amounts paid to create or establish the unit; or
- paid out of corpus (subject to certain anti-avoidance provisions).

Accordingly, distributions made by the Fund which are not paid in respect of the cancellation, extinguishment or redemption of Units should be a “unit trust distribution” which is a “unit trust dividend” and qualifies as a “distribution” for the purposes of determining if it is frankable.

As such, the Fund should be able to attach franking credits on the distributions made, where the franking percentage of each distribution will be determined at the time of the distribution, having regard to the circumstances of the Fund at that time and the relevant taxation law.

The Fund will be required to issue a distribution statement to each Investor who receives distributions from the Fund, outlining the amount of franking credits attached to the distributions and the extent to which the distributions are franked.

Australian tax resident Investors

Any unit trust distributions together with the amount of any attached franking credits received from the Fund by an Australian tax resident Investor should be included as assessable income of the Investor for the particular income year in which the distributions are received. The franking credits received by the Investor should be used to offset any income tax liability arising from the distributions provided that the Investor satisfies the relevant requirements to utilise the franking credits.

Broadly, if an Investor's marginal tax rate is lower than the corporate tax rate, the Investor may have excess franking credits for that income year. Australian tax resident individuals and complying superannuation funds may be eligible for a refund of any excess franking credits.

An example of the taxation of franked unit trust distributions made by the Fund to various Australian tax resident Investors is as follows:

Item	Australian resident company	Australian resident individual	Australian resident complying superannuation fund
Cash distribution	$700	$700	$700
Franking credits[2]	$300	$300	$300
Taxable income	**$1000**	**$1000**	**$1000**
Tax rate	30%[3]	45%[4]	15%
Tax liability	**$300**	**$450**	**$150**
Franking credit offset	$300	$300	$300
Net tax liability / (refund)	**$0**	**$150**	**($150)**

Foreign tax resident Investors

Where unit trust distributions are fully franked, foreign tax resident Investors should not incur any dividend withholding tax liability. However, for distributions that are not fully franked, foreign tax resident Investors will be liable for Australian dividend withholding tax on the unfranked portion of the distributions. This tax is generally imposed at a rate of 30% unless a double tax agreement between Australia and the Investor's country of residence reduces the applicable withholding tax rate.

The Trustee is responsible for withholding any applicable dividend withholding tax and remitting it to the Australian Taxation Office. This withholding tax is considered final, meaning no additional Australian income tax liability should arise for the foreign tax resident Investor.

[2] Assuming the Fund only distributes fully franked dividends
[3] Assuming Company is not a base rate corporate entity
[4] Assuming resident individual taxed at the top marginal rate of 45% and does not include Medicare levy of 2%

Disposal of the investments of the Fund

On the basis that the Fund is intending to acquire, develop and sell Australian commercial real estate the investments of the Fund should be regarded as being on revenue and not capital account. Therefore, any gains should be revenue gains (i.e. ordinary income). Where this is the case, the full amount of the gain will be subject to tax at the prevailing corporate income tax rate. This tax is paid by the Fund and is not a withholding tax.

Disposal of units of the Fund

Should an Investor choose to sell some or all of the Units in the Fund prior to the end of the term of the Fund, then any gains should be treated as ordinary income for the Investor.

For an Australian resident Investor, the full amount of the gain will be subject to tax at the Investor's marginal tax rate. The Investor would not be eligible to apply the capital gains tax discount to the realised gain.

For a non-resident Investor who does not hold their Units through an Australian permanent establishment any revenue gain on the sale of Units would be subject to Australian tax on the basis that any such gain is likely to be Australian sourced. However, if a double tax agreement exists between the Investor's country of residence for tax purposes and Australia, Australia may be excluded from taxing the revenue gain under the terms of the double tax agreement. A non-resident Investor should seek their own advice at the time of any sale of Units.

Tax File Numbers and Australian Business Numbers

An Investor need not quote a Tax File Number (**TFN**) when applying for Units in the Fund. However, if a TFN is not quoted, or no appropriate TFN exemption information is provided (e.g. where an Investor has lodged a TFN application and is awaiting confirmation), the Fund may be required to withhold tax at the highest marginal tax rate plus Medicare levy (currently 47 per cent) from payments made to Investors. Investors that hold their Units as part of their business may quote their Australian Business Number instead of their TFN.

Goods and Services Tax (GST)

No GST should be payable by Investors on the acquisition, disposal or redemption of the Units in the Fund as these transactions should be treated as financial supplies for GST purposes.

Duty

Whether or not any stamp duty is payable by Investors on an acquisition, disposal or redemption of Units will depend on the nature and location of the investments acquired by the Fund and the extent of the interest in the Fund acquired or held by the Investor (whether alone or together with associates or acquired as part of substantially one arrangement with other Investors).

Under current stamp duty legislation, no stamp duty should ordinarily be payable by Investors on the acquisition or subsequent trading of Units in the Fund provided the Investor does not acquire (whether alone or together with associates or as part of substantially one arrangement with other Investors) 20% or more of the Units in the Fund.

This assumes that no underlying real estate assets are located in the State of Queensland. If the Fund invests in assets located in the State of Queensland, an acquisition, disposal or redemption by an investor of any interest may give to rise to stamp duty, unless the Fund constitutes a type of "public unit trust" for Queensland stamp duty purposes.

Investors should seek their own advice as to the impact of stamp duty in their own particular circumstances.

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Yours faithfully

Andrew White

Partner

PricewaterhouseCoopers