

## AFCI UPDATES     September 2002 Edition

*Current information on issues of importance to the Financial Services Industry.*



### **IN THIS ISSUE:**

- ***Improving Financial Results: Tax Reclaims and Automated Reconciliation***

#### ➤ **Tax Reclaims**

For every \$100 million invested in foreign equities, up to \$250,000 of recoverable taxes is being left unclaimed by many institutional investors. Although institutional investors are entitled to reclaims, many are not recovering all that they should. This “found money” could significantly impact the performance of investment funds. For example:

- US pension plans investing in foreign ordinary shares can recover between 10 and 35% of the gross dividend depending on the market. A global equity fund based on the MSCI EAFE index could potentially reduce performance by up to 24 basis points if reclaims are not filed properly and collected promptly.
- Institutional investors may not be filing the appropriate papers for reclaim of withheld monies from dividends payable on ADRs. While ADRs may be listed and traded in the U.S. market, the underlying shares are subject to local tax withholding and reclamation the same as direct investments.
- Filing of tax reclaims customarily requires completion of paperwork by the beneficial owner of the securities. Regional or local custodians, “piggy-backing” on a major global custodian for international service, may not provide the full gamut of tax reclaim capabilities.
- Most brokers, prime brokers and others often do not offer tax reclamations services. Investors relying on these institutions for safekeeping and asset servicing of international assets are almost certain to be leaving money on the table.

It is arguable that there is a fiduciary duty to pursue every income entitlement, in full, apart from small amounts that cost more to claim than they are worth. Furthermore, with performance bands so tight, the ability to add basis points to a portfolio’s yield could mean moving performance from one quartile to the next.

**ACTION:** *For every \$10 million invested in foreign stocks or ADRs you could be leaving \$25,000 unclaimed. Verify that you are receiving all of the reclaimable funds to which you are entitled.*



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