

A stylized globe in shades of blue and grey. A magnifying glass with a black handle and a silver rim is positioned over the continent of Australia, which is highlighted in white. The magnifying glass enlarges the view of Australia.

FTSE ASFA AUSTRALIA INDEX SERIES

FOR A CLEARER PICTURE
OF PERFORMANCE

ABOUT FTSE

FTSE Group ("FTSE") is a world-leader in the creation and management of indices. With offices in London, Boston, Beijing, Dubai, Frankfurt, Milan, Mumbai, Hong Kong, Madrid, New York, Paris, San Francisco, Sydney, Shanghai and Tokyo, FTSE works with investors in 77 countries globally. It calculates and manages a comprehensive range of equity, fixed income, real estate and investment strategy indices, on both a standard and custom basis.

It calculates and manages the FTSE Global Equity Index series, which includes world recognised indices ranging from the FTSE All-World Index to the FTSE4Good Index Series and the FTSEurofirst Index Series, as well as indices such as the prestigious FTSE 100 Index. The company has collaborative arrangements with a number of stock exchanges, trade bodies and asset class specialists around the world. Arrangements exist with the ATHEX, Borsa Italiana, Cyprus, NYSE Euronext, Johannesburg, London, Madrid, Malaysia, NASDAQ, Singapore, Taiwan and Thailand exchanges, as well as companies or associations which include ASFA, EPRA, NAREIT, Research Affiliates, Global Wealth Allocation, Singapore Press Holdings, Yasaar, APCIMS, Record plc, QS Investors and Westpeak Global Advisors. FTSE also has a collaborative agreement with Dow Jones Indices and has developed a single sector classification system for global investors, the Industry Classification Benchmark (ICB). FTSE indices are used extensively by investors world-wide for investment analysis, performance measurement, asset allocation, portfolio hedging and for creating a wide range of index tracking funds. Independent committees of senior fund managers, derivatives experts, actuaries and

other experienced practitioners review and approve all changes to the indices to ensure that they are made objectively and without bias. FTSE is an independent company jointly owned by The Financial Times and London Stock Exchange Group.

www.ftse.com

ABOUT ASFA

As the 'Voice of Super', ASFA is driven to achieve four policy outcomes:

- 1. Enhanced retirement outcomes;**
- 2. Engaged and informed fund members;**
- 3. Industry efficiency gains; and**
- 4. Effective governance and regulators.**

The only peak body to truly represent all aspects of the Australian superannuation industry, ASFA's members include corporate, industry, public sector and retail funds as well as specialist service providers and individual members.

ASFA's mission is to advance effective retirement outcomes for members of funds through research and advocacy and to serve ASFA members by providing a range of services.

ASFA demonstrates industry leadership in advocacy, policy and research, learning and development and our extensive Australia-wide program of events, led by the flagship ASFA National Conference and Super Expo.

ASFA's advocacy focuses on providing the best possible outcomes for the Australian public. A part of this is facilitating appropriate investments by superannuation funds.

By engaging and consulting with members, ASFA has fostered a united presence to government, regulators, financial industry stakeholders and the Australian public.

www.superannuation.asn.au

PROVIDING A CLEARER PICTURE OF PERFORMANCE

Superannuation funds in Australia rely on indices to benchmark their fund's performance, communicate this to their members, and to assess the performance of their fund managers. Traditionally, superannuation funds have used indices calculated on a pre-tax basis for benchmarking purposes. This can create a misalignment between superannuation funds and their fund managers as some investment decisions are attractive on a pre-tax basis but harm after-tax performance.

As a result, an increasing number of superannuation funds are now measuring their fund managers on an after-tax basis using the FTSE ASFA Australia Index Series.

The FTSE ASFA Australia Index Series provides a range of benchmarking solutions for superannuation funds, institutional and retail investors to better align investment decisions with tax positions.

All types of investors need a clearer picture of performance.

A UNIQUE SOLUTION FOR AUSTRALIAN INVESTORS

FTSE works with some of the largest pension funds globally to build benchmarking solutions that accommodate a wide range of needs. The FTSE ASFA partnership focuses on providing Australian superannuation funds, their fund managers and other stakeholders with the necessary benchmarking tools to assist the industry's transition to after-tax performance measurement and reporting. The FTSE ASFA Australia Index Series offers broad investable coverage of the Australian equity market in addition to after-tax indices for superannuation funds and other types of Australian investors. It combines unique tax features with FTSE's rules-based methodologies and global standards.

The FTSE ASFA Australia Index Series is designed primarily for benchmarking purposes and can also be used as the basis for the creation of index-linked products such as Exchange Traded Funds (ETFs), structured products and other derivatives.

First industry standard after-tax benchmarks

Industry standard after-tax benchmarks did not exist for Australian investors until the launch of the FTSE ASFA Australia Index series in 2009, due to the complexities involved in developing the methodology in this area. FTSE's independence and focus on providing tailored benchmarking

solutions assures Australian superannuation funds they are using an objective and valid point of reference for measuring after-tax performance. Now superannuation funds can share a common basis with their fund managers and other stakeholders for greater transparency and focus on tax efficient investing.

A clearer picture for all investors

A clearer picture of performance is important to all types of investors. FTSE uses varying tax rates to calculate a franking credit and buy-back adjusted version of the FTSE ASFA Australia Index Series for:

- Tax exempt investors
- Superannuation funds
- Investors in the mid-tax bracket
- Investors in the high-tax bracket

After-tax benchmarks with capital gains tax for superannuation funds

FTSE provides superannuation funds with an additional range of benchmarks which also takes into account the effects of capital gains tax in order to facilitate assessments on a far more granular level. These are the first standardised benchmarks in the market which calculate the realised and unrealised capital gains tax in a portfolio in addition to the effects of franking credits and off-market buy-backs. The methodology is based on a 5-year rolling turnover mechanism to maintain a meaningful and relevant cost base and also mimic the average tenure of a portfolio manager. Whether it's optimising value from franking credits, participating in off-market buy-backs, managing capital gains tax efficiently or all three, FTSE offers superannuation funds a range of benchmarking solutions to make tax efficient investing a focus in every portfolio.

Informed opinions

The depth and breadth of data included in the FTSE ASFA Australia Index Series provides a new dimension of granularity for performance attribution at the tax level. This facilitates more informed discussions between superannuation funds, fund managers and other stakeholders,

when measuring the performance of a portfolio against an after-tax benchmark. FTSE places great importance on the transparency of its index design. Index ground rules are accessible at all times at www.ftse.com/australia.

Best representation of the Australian market

Unlike other Australian equity indices, FTSE excludes CDIs and investment trusts from the FTSE ASFA Australia Index Series to minimise duplicate holdings of companies within a diversified portfolio. Additionally, investors will be better positioned to capture investment opportunities associated with Small Cap companies via a dynamic All-Share Index. Constituents in the All-Share Index will not be fixed, allowing the indices to expand and contract with the market.

Tested to be liquid and tradable

Investors require liquidity and tradability. FTSE's free float methodology ensures that constituent weights within the index reflect the shares available to investors. The system reflects the investability of a company, without subjecting investors to unnecessary re-balancing and transaction costs. Additionally, companies must trade a sufficient level of their available shares in issue prior to a review to be eligible for inclusion, but also to remain in the index series. You can be assured that every stock is liquid, your trading costs are kept lower and turnover is reduced.

Independent Committee

The FTSE ASFA Australia Advisory Committee governs the ongoing management of these indices to ensure they continue to meet your needs. The committee is made up of senior superannuation investment professionals and finance industry experts acting independently to advise on the creation of new indices, enhancements to the methodology and to ensure that the index series evolves with any changes in the market environment.



FTSE ASFA AUSTRALIA INDEX SERIES

FTSE ASFA
AUSTRALIA
LARGE CAP
50

FTSE ASFA
AUSTRALIA
100 INDEX

FTSE ASFA
AUSTRALIA
MID CAP
150

FTSE ASFA
AUSTRALIA
200 INDEX

FTSE ASFA
AUSTRALIA
300 INDEX

FTSE ASFA
AUSTRALIA
SMALL CAP

FTSE ASFA
AUSTRALIA
ALL-SHARE

FTSE ASFA
AUSTRALIA
ALL-SHARE
EX 100

FTSE ASFA
AUSTRALIA
SECTORS

1. Include franking credits attached to dividends
2. Include franking credits and capital gains tax from participation in off-market buy-backs*
3. Apply different tax rates to income in the index



franking credits indices

TAX EXEMPT
0%

SUPERANNUATION
15%

MID-TAX
31.5%

HIGH-TAX
46.5%

FTSE ASFA
AUSTRALIA
LARGE CAP
50

FTSE ASFA
AUSTRALIA
100 INDEX

FTSE ASFA
AUSTRALIA
MID CAP
150

FTSE ASFA
AUSTRALIA
200 INDEX

FTSE ASFA
AUSTRALIA
300 INDEX

FTSE ASFA
AUSTRALIA
SMALL CAP

FTSE ASFA
AUSTRALIA
ALL-SHARE

FTSE ASFA
AUSTRALIA
ALL-SHARE
EX 100

FTSE ASFA
AUSTRALIA
SECTORS

4. In addition to the franking credit adjustments, apply capital gains tax via the calculation of realised and unrealised indices, initially for the superannuation tax bracket



capital gains tax indices

SUPERANNUATION
15%

FTSE ASFA
AUSTRALIA
LARGE CAP
50

FTSE ASFA
AUSTRALIA
100 INDEX

FTSE ASFA
AUSTRALIA
MID CAP
150

FTSE ASFA
AUSTRALIA
200 INDEX

FTSE ASFA
AUSTRALIA
300 INDEX

FTSE ASFA
AUSTRALIA
SMALL CAP

FTSE ASFA
AUSTRALIA
ALL-SHARE

FTSE ASFA
AUSTRALIA
ALL-SHARE
EX 100

*To meet the specific needs of several clients FTSE has developed a suite of indices for the Tax Exempt and Superannuation Fund tax bracket which exclude off-market buy-backs

FREQUENTLY ASKED QUESTIONS

1) Why should superannuation funds and fund managers switch to using the FTSE ASFA Australia Index Series?

Superannuation funds are focused on delivering after-tax returns, however fund managers have traditionally been measured and assessed on a pre-tax basis using pre-tax indices as benchmarks. This conventional method of benchmarking creates an issue for fund managers as some investment decisions can be attractive on a pre-tax basis but may harm after-tax performance. The FTSE ASFA Australia Index Series is the first to offer a range of industry standard benchmarks that focus superannuation funds and their fund managers on the delivery of after-tax returns as efficiently as possible. Asset owners can now share a common language with their fund managers and other stakeholders for greater transparency around the investment process.

2) What are some examples of investment decisions that look attractive on a pre-tax basis but harm after-tax performance?

For example, if a fund manager's performance is measured on a pre-tax basis, the fund manager has no incentive to wait those few extra days when selling the fund's shares to get a discount on the capital gain that the sale might have generated if the shares had been held for more than 12 months. Thus, capital gains tax may not be managed as efficiently as it could be. Likewise, when a fund manager is benchmarked to an index that does not contain franking credits, the fund manager might sell its holdings in a company before fulfilling the 45-day rule and thus not benefit from the franking credits as part of the dividend distribution. The value of franking credits is overlooked.

3) Why has FTSE created after-tax indices for superannuation funds which include capital gains tax?

During the consultation process, superannuation funds strongly voiced their need for a benchmark that considers a fund manager's performance with respect to franking credits attached to dividend distributions and off-market buy-backs, as well as the effects of capital gains and losses in order to facilitate assessments on a far more granular level. The FTSE ASFA Australia Advisory Committee alongside market participants worked throughout 2010 to agree an industry standard methodology for incorporating the effects of capital gains tax into an after-tax benchmark. The structure of the series now provides superannuation funds with options to select the benchmark that measures what they want managed, whether it's franking credits, participation in off-market buy-backs, capital gains tax, or all three.



4) Why are the capital gains tax indices based on a rolling 5-year turnover method?

The capital gains tax indices are based on a rolling 5-year turnover method to maintain a relevant and meaningful cost base over time. A cost base is needed for the calculation of capital gains and losses, but a single cost base would quickly become irrelevant to new portfolios benchmarked to the index. FTSE in conjunction with the FTSE ASFA Advisory Committee has developed a rolling 5-year turnover method whereby the index begins on 30 June 2004 and one fifth of the constituent shares are sold and re-purchased each year over a five year period. The 5-year period mimics the average tenure of a portfolio manager. The rolling turnover method dictates that FIFO (first in, first out) is the accounting standard applied in the index to determine the order of selling tax lots of companies. This method maintains a meaningful and relevant cost base over time. FTSE can customise this methodology to cater for a specific client's requirements, i.e. tax parcel selection - FIFO/modified FIFO, etc.

5) Does FTSE adjust for capital gains offset by capital losses in the capital gains tax indices?

Yes, a quarterly true-up process for the capital gains/losses is included to ensure that any capital gains are offset by any accumulated capital losses, to prevent a misalignment within the index calculation. For example, there may be realised a capital gain event at the start of the month, incurring a tax impact to the index, but later on in the month a capital loss event may be applied.

The true-up process is applied at the index review dates, in March, June, September, and December and at the end of the financial year, 30th of June. It is applied on a quarterly basis as the majority of the index changes occur at the index review.

6) What additional data is provided by FTSE with regards to franking credits and capital gains tax to enhance performance attribution?

FTSE provides clients with daily capital gains tax information including: any realised capital gains/losses incurred on index changes; any unrealised capital gains/losses, but also any deferred tax assets if the index portfolio were sold that day, all expressed in dollar amount and in index points. Additionally, FTSE provides valuable franking credit data. This additional data facilitates more informed discussions between asset owners and their managers when measuring the performance of a portfolio against the after-tax benchmark.

7) Can I customise the FTSE ASFA Australia Index Series?

Yes, we understand that some clients are looking for more tailored benchmarks and require increasingly complex and sophisticated solutions for the basis of fund measurement, derivatives and structured products. FTSE's Custom team is committed to meeting your specific index needs.

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www.ftse.com/australia**



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