

FTSE ASFA Australia Index Series

A more precise way to measure after-tax performance

Superannuation funds in Australia rely on indexes 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 indexes 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 and customised solutions for superannuation funds and institutional investors, to better align investment decisions with tax positions.

All types of investors need a more precise way to measure after-tax performance.

A unique index for Australian investors

FTSE Russell 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 tools to assist the industry's transition to after-tax performance measurement and reporting. The FTSE ASFA Australia Index Series offers a broad investable coverage of the Australian equity market in addition to tax-adjusted indexes for superannuation funds and other types of Australian investors. It combines unique tax features with FTSE Russell's rules-based methodologies and global standards.

The FTSE ASFA Australia Index Series is designed primarily for benchmarking purposes with the ability to customise at the portfolio level for a more tailored solution. The series is also 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

The first industry standard tax-adjusted 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 Russell's independence and focus on providing tailored benchmarking solutions assures Australian superannuation funds 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 Russell 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 Russell provides superannuation funds with an additional range of benchmarks which also take 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 Russell offers superannuation funds a range of benchmarking solutions to make tax efficient investing a focus in every portfolio.

Customised after-tax solutions

FTSE Russell understands that there is not necessarily a 'one size fits all' when it comes to measuring after-tax performance. Investors have different requirements and FTSE Russell can develop customised solutions to meet your needs. The Custom team at FTSE Russell will work collaboratively with you to design and create an after-tax benchmark to suit your specific investment strategy or mandate.

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 Russell 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 indexes, FTSE Russell excludes CHESSE depositary interests (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 indexes to expand and contract with the market.

Tested to be liquid and tradable

Investors require liquidity and tradability. FTSE Russell'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.

Independent committee

Since the launch in 2009 the FTSE ASFA Australia Advisory Committee was instrumental in ensuring that the indexes were calculated in accordance with best practice and are relevant to market requirements. In 2014 the oversight of the Index Series was passed over to the FTSE Asia Pacific Regional Advisory Committee to govern the ongoing management of these indexes to ensure they continue to meet your needs. The committee is made up of senior investment professionals and finance industry experts acting independently to advise on the creation of new indexes, enhancements to the methodology and to ensure that the index series evolves with any changes in the market environment.

Index family structure

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 Indexes								
Tax exempt 0%		Superannuation 15%			Mid-tax 34.5%**		High-tax 47%**	
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 indexes, initially for the superannuation tax bracket



Capital Gains Tax Indexes								
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	FTSE ASFA Australia Sectors

ASFA

The Association of Superannuation Funds of Australia (ASFA) is the peak policy, research and advocacy body for Australia's superannuation (super) industry.

ASFA's purpose is to help achieve the best retirement outcomes for members of super funds through the development of good public policy and industry best practice. ASFA has been operating since 1962.

- **Not for profit:** ASFA re-invests its income back into the industry and community via research and advocacy projects based on the expertise of its experienced policy and Research Centre teams. This includes producing submissions to the government, reports, best practice papers, education for the community and research into key issues affecting superannuation fund members.
- **Non-sector aligned:** ASFA focuses on whole-of-system issues including superannuation system design, regulatory frameworks, industry operations and governance. ASFA takes positions that are in the best interest of fund members, rather than advocating any one sector's interests over another.
- **Non-party political:** ASFA advocates for sound, long-term public policy, not politically aligned outcomes.

Through ASFA's members – which include superannuation funds from the corporate, industry, retail and public sectors, as well as service providers – ASFA represents the whole super industry.

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

** Including Medicare.

For more information about our indexes, please visit ftserussell.com.

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