

Frequently Asked Questions

S&P/ASX Franking Credit Adjusted Indices

- 1. Why have S&P Dow Jones Indices and the Australian Securities Exchange created versions of their Australian benchmarks that adjust for franking credits?** Traditionally, most Australian investment funds and portfolios have been measured against benchmarks that are calculated on a pre-tax basis. However, most investors typically care most about after-tax returns. As a result, there is significant market demand for tax-aware versions of the S&P/ASX benchmarks in order to more precisely measure after-tax investment performance.
- 2. Who are the primary users of franking credit adjusted indices?** Stakeholders in Australia's Post Retirement/Tax Exempt Sectors and Superannuation Funds (Financial Advisors, Investment Consultants, Trustees, Investment Managers, etc.) have expressed a significant need for tax-aware versions of the most widely used S&P/ASX Indices.
- 3. What are the main reasons to adopt the S&P/ASX Franking Credit Adjusted Indices?** The indices employ a simple, transparent approach to measuring the after-tax returns of the most widely used indices in Australia, thereby providing superannuation funds and tax-exempt investors with more precise tools to measure the after-tax performance of their investments.
- 4. Which indices are available in franking credit adjusted versions?** S&P Dow Jones Indices currently offers versions of the flagship S&P/ASX 200 and S&P/ASX 300 indices, the S&P/ASX 20, the S&P/ASX 50, and the S&P/ASX 100, with total returns adjusted for franking credits.
- 5. Which tax brackets are available?** Versions are available that incorporate tax rates relevant for superannuation funds (currently 15%) and tax-exempt investors (0%).
- 6. What is the difference between the Annual and Daily Total Return Indices?** The annual series accrues a pool of gross dividend points (adjusted for the net tax effect of franking credits) on a daily basis, but only reinvests them annually after the end of the financial year (i.e. at the close of the first business day, following June 30).

The daily series reinvests the gross dividend amount across the index at the close of the ex-date on a daily basis. So, the net tax effect of franking credits compounds on a daily basis throughout the year.

- 7. Why does S&P Dow Jones Indices offer two versions?** Market feedback indicated that the annual reinvestment process after the end of the fiscal year most closely replicates the actual cash flows of investors. Therefore, we expect these versions to serve as the primary performance benchmarks. However, there was a clear desire among market participants to have access to the daily version as well to serve as an additional source of information.

- 8. What types of dividends are included in the index calculation?** The franking credits attached to both regular and special cash dividends are included in the index calculation. Any tax effects from off-market buybacks are not included.
- 9. Why do the indices not make any tax adjustments relating to off-market buybacks?** Market feedback indicated that decisions relating to participation in off-market buybacks typically constitute an active decision by the investment/portfolio manager. As a result, benchmarks should not make assumptions about participation in these corporate events.
- 10. Why do the indices not take into account any impact from capital gains taxes?** Market feedback indicated that adjustments for capital gains taxes involve too many assumptions based on the timing of investments to accurately gauge the tax effect on investment portfolios and therefore are not appropriate for inclusion in standard indices.
- 11. What type of data is provided to index subscribers?** The data package includes daily index level files for all S&P/ASX Franking Credit Adjusted Indices as well as all daily underlying franking credit information, allowing a subscriber to replicate the franking credit adjusted total return index calculation if desired. Standard constituent, corporate action and index level files for the S&P/ASX 20, the S&P/ASX 50, the S&P/ASX 100, the S&P/ASX 200, and the S&P/ASX 300 are also included.
- 12. How much index history is available?** Daily index history is available from July 1, 2005 for all indices.

APPENDIX 1: EXPLANATION OF ANNUAL FRANKING CREDIT ADJUSTED INDEX CALCULATION

First, the “grossed-up” dividend for each company dividend event is calculated on the dividend ex-date. Both regular and special cash dividends are included.

Grossed-up Dividend = [As Reported Dividend* (1-% Franked) + (As Reported Dividend* % Franked)/(1 – Company Tax Rate)]

Next, the Net Tax Effect of the franking credit is calculated based on the investor tax rate (i.e. 0% for tax-exempt investors and 15% for superannuation funds).

Net Tax Effect = [Grossed-up Dividend * (1 – Investor Tax Rate)] – As Reported Dividend

The Net Tax Effect of each dividend is then multiplied by the index shares of that company to calculate the gross dividend market capitalization.

Gross Dividend Market Cap = Net Tax Effect * Index Shares

These are then summed for all dividends going ex on that date and converted to dividend points by dividing by the index divisor

Gross Dividend Points = Sum of Gross Dividend Market Caps / Index Divisor

For the annual series, the gross dividend points are accumulated throughout the year in a separate pool and then reinvested across the index at the market close of the first day following June 30. For the daily series, the gross dividend points are reinvested across the index on a daily basis.

See the [S&P Dow Jones Index Mathematics Methodology](#) for further details on total return index calculations.

GENERAL DISCLAIMER

Copyright © 2019 S&P Dow Jones Indices LLC. All rights reserved. STANDARD & POOR'S, S&P, S&P 500, S&P 500 LOW VOLATILITY INDEX, S&P 100, S&P COMPOSITE 1500, S&P MIDCAP 400, S&P SMALLCAP 600, S&P GIVI, GLOBAL TITANS, DIVIDEND ARISTOCRATS, S&P TARGET DATE INDICES, GICS, SPIVA, SPDR and INDEXOLOGY are registered trademarks of Standard & Poor's Financial Services LLC, a division of S&P Global ("S&P"). DOW JONES, DJ, DJIA and DOW JONES INDUSTRIAL AVERAGE are registered trademarks of Dow Jones Trademark Holdings LLC ("Dow Jones"). These trademarks together with others have been licensed to S&P Dow Jones Indices LLC. Redistribution or reproduction in whole or in part are prohibited without written permission of S&P Dow Jones Indices LLC. This document does not constitute an offer of services in jurisdictions where S&P Dow Jones Indices LLC, S&P, Dow Jones or their respective affiliates (collectively "S&P Dow Jones Indices") do not have the necessary licenses. Except for certain custom index calculation services, all information provided by S&P Dow Jones Indices is impersonal and not tailored to the needs of any person, entity or group of persons. S&P Dow Jones Indices receives compensation in connection with licensing its indices to third parties and providing custom calculation services. Past performance of an index is not an indication or guarantee of future results.

It is not possible to invest directly in an index. Exposure to an asset class represented by an index may be available through investable instruments based on that index. S&P Dow Jones Indices does not sponsor, endorse, sell, promote or manage any investment fund or other investment vehicle that is offered by third parties and that seeks to provide an investment return based on the performance of any index. S&P Dow Jones Indices makes no assurance that investment products based on the index will accurately track index performance or provide positive investment returns. S&P Dow Jones Indices LLC is not an investment advisor, and S&P Dow Jones Indices makes no representation regarding the advisability of investing in any such investment fund or other investment vehicle. A decision to invest in any such investment fund or other investment vehicle should not be made in reliance on any of the statements set forth in this document. Prospective investors are advised to make an investment in any such fund or other vehicle only after carefully considering the risks associated with investing in such funds, as detailed in an offering memorandum or similar document that is prepared by or on behalf of the issuer of the investment fund or other investment product or vehicle. S&P Dow Jones Indices LLC is not a tax advisor. A tax advisor should be consulted to evaluate the impact of any tax-exempt securities on portfolios and the tax consequences of making any particular investment decision. Inclusion of a security within an index is not a recommendation by S&P Dow Jones Indices to buy, sell, or hold such security, nor is it considered to be investment advice.

These materials have been prepared solely for informational purposes based upon information generally available to the public and from sources believed to be reliable. No content contained in these materials (including index data, ratings, credit-related analyses and data, research, valuations, model, software or other application or output therefrom) or any part thereof ("Content") may be modified, reverse-engineered, reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of S&P Dow Jones Indices. The Content shall not be used for any unlawful or unauthorized purposes. S&P Dow Jones Indices and its third-party data providers and licensors (collectively "S&P Dow Jones Indices Parties") do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Dow Jones Indices Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON AN "AS IS" BASIS. S&P DOW JONES INDICES PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Dow Jones Indices Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

S&P Global keeps certain activities of its various divisions and business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions and business units of S&P Global may have information that is not available to other business units. S&P Global has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

In addition, S&P Dow Jones Indices provides a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.

ASX, ALL ORDINARIES are trademarks of ASX Operations Pty Ltd. and have been licensed for use by S&P Dow Jones Indices.