ROUND TOWER
SOLUTIONS

ROUND TOWER SUPER INDEX

Preliminary 2014 Report

INTRODUCTION

We are pleased to provide a preliminary update on the Round Tower Super Index to the end of 2014. The index is based on Round Tower's estimate of the allocations made by typical balanced superannuation funds in Australia over the last twenty years, which we consider to be the *Reference Portfolio* for the industry. With similar return targets and similar investment philosophies, superannuation funds have typically allocated significant portions of their funds to Australian and international equities, with smaller allocations to fixed income, property, and cash. The index uses broad assumptions to generate an after fee, after tax outcome, and has been designed to closely resemble funds with similar asset allocations. It also assumes passive exposure to markets. As such, superannuation funds with alternative investment philosophies, dynamic asset allocation processes, strong levels of active management, and / or after tax management strategies should be expected to outperform the index over time on either a total return, or risk-adjusted basis.

PURPOSE

Round Tower has developed the *Reference Portfolio* is to provide to the industry an independent performance comparison with a greater focus on market outcomes and investment decisions, as opposed to the current practice of peer analysis. By focusing on opportunities and market outcomes, it is hoped that the industry can engage in a higher level of self-reflection, and move beyond internal industry comparisons. It is our view that, to date, the industry has engaged in sub-optimal investment practices as a result of its focus on peer outcomes. We hope that by producing the Round Tower Super Index we can assist in bringing the focus back to investment decisions. The assumptions behind the index were published a previous Round Tower Perspective. Please contact us should you be interested in receiving a copy.

PERFORMANCE & COMMENTARY

The Round Tower Super Index generated a preliminary return of 8.2% for the calendar 2014 year. The table below attributes performance on a contribution above the cash rate basis.

Cash	2.7%
Australian Equities	1.0%
International Equities	3.5%
Foreign Currency	0.4%
Fixed Income	1.1%
Property	0.6%
Compounding	0.2%
Gross Return	9.5%
Taxation	-0.8%
Fees	-0.5%
Net Return	**8.2%**

On a pre-fee, pre-tax basis, the Index's asset allocation decisions produced a return of 9.5%. The biggest contribution for the year came from international equities, whilst fixed income, Australian equities, and property all added value above cash. International equities strongly outperformed the local market, which should result in investors with greater relative international exposures outperforming. This result is in line with the 2013/14 outcome, though the differential has grown with hedged international equities returning around 12.5%, versus a 5.5% return for Australian equities. Local property and fixed income both returned 9%+ for the year.

Foreign currency exposure, which is effectively set at 17.5% in the *Reference Portfolio* (a 50% hedge), contributed 0.4%. This low contribution may surprise some given that the Australian dollar fell 8% against the US dollar on a spot basis over the year. However, it rose over 4% against both the Japanese Yen and the Euro, reducing the value of the contribution. This is a great example of some of the complexity that needs consideration in managing currency, which can often be missed when simply looking at the US Dollar exchange rate.

As the reference portfolio deliberately does not allocate to alternative assets, hedge funds, and other active management strategies, investors who have generated returns from these decisions should out perform the index. We would speculate that allocations to private equity and infrastructure will have contributed positively, whilst hedge fund contributions may be more mixed depending on the strategies targeted - CTAs / Managed Futures were the stand out performers in 2014. Lower relative allocations to Australian equities will generally have been rewarded for the first time in some time!

FINANCIAL YEAR 2015 UPDATE

Performance for the first six months of the 2014 / 15 year currently stands at a net of 5%. The most significant contributions over cash have come from international equities and foreign currency. In particular, currency has had the biggest impact as the Australian dollar has fallen more consistently across the major foreign currencies, and also by a larger amount versus the US Dollar (13%) with the foreign currency exposure adding over 1.5% of the 5%. Investors with lower hedges will most likely be at the top of the surveys for the year thus far.

On a pre-fee, pre-tax basis, the Index's asset allocation decisions produced a return of 9.5%. The biggest contribution for the year came from international equities, whilst fixed income, Australian equities, and property all added value above cash.