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INVESTMENT PERFORMANCE MEASUREMENT, ATTRIBUTION & RISK MANAGEMENT

WHY **AFTER-TAX** PERFORMANCE REPORTING MATTERS FOR INVESTORS

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Hamilton12



INTRODUCTION

HAMILTON12



S&P Dow Jones Indices

A Division of S&P Global

FOUNDERS



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PhD BCom (Hons) CFA

Leads the systematic investment approach
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Head of Responsible Entity & Trustee Services, K2 AM
25+ years in fund operations and ASX-listing compliance

A team built around one conviction: that after-tax is the number that counts.



WHAT I'LL PRESENT TODAY

- 1 There are two tax problems, not one.**
One inside the strategy, one outside it. Pre-tax reporting captures neither.

- 2 Tax inside the strategy is large – and re-orders the league table.**
Tax erodes most of broad-market alpha and changes who looks like a top manager.

- 3 Tax outside the strategy varies wildly.**
The investor's situation transforms a fund's gross return into a take-home outcome.

- 4 Better reporting is possible – and the standards already exist.**
The reform makes adoption urgent. The infrastructure runs.



01

SECTION 01

**TWO TAX PROBLEMS,
NOT ONE**

TWO SEPARATE TAX CONSIDERATIONS

1 / TAX INSIDE THE STRATEGY

What the manager does

- Turnover triggers realised capital gains
- Holding-period decisions (short vs long-term CGT)
- Dividend and franking-credit capture
- Income vs growth balance in returns

2 / TAX OUTSIDE THE STRATEGY

What the investor brings

- Marginal tax rate (0% / 15% / 30% / 47%)
- Entity type (super, trust, individual, company)
- Pension vs accumulation phase
- Ability to use franking credits

Pre-tax reporting captures neither. After-tax requires solving both.



02

SECTION 02

TAX INSIDE THE STRATEGY

TAX IS NOT A ROUNDING ERROR

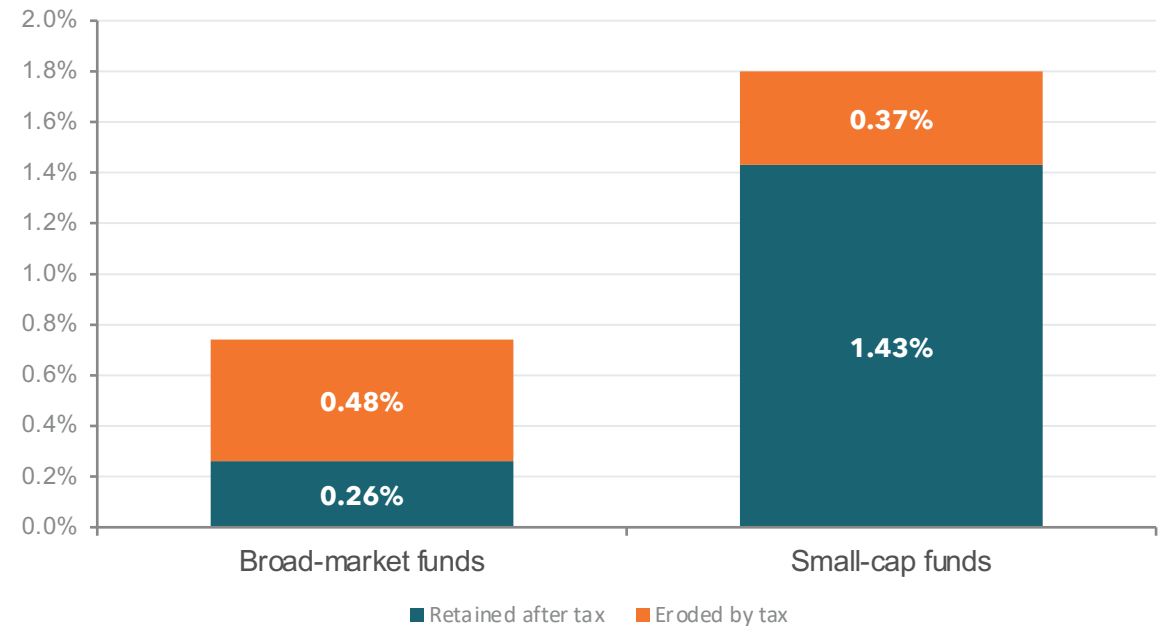
~65%

of the active excess return on broad-market Australian equity funds is eroded by tax, even for complying super funds – the most lightly taxed of the taxed investor classes.

For top-rate individuals it is worse again: the same study finds active management adds meaningful after-tax excess return only for small-cap funds of certain styles.

Tax drag is shaped by turnover, style and the franking-credit profile of holdings – and is worst in bull markets, exactly when headline returns look most attractive.

ACTIVE EXCESS RETURN, RETAINED VS. ERODED BY TAX (% P.A.)



Source: "How much does tax erode fund excess returns?" Chen, Gallagher, Harman, Warren & Xi (2020), *Accounting & Finance* 60(4). Sample: 207 active Australian equity funds, 2001–2010. Modelled at complying-super rates of 15% (income / short-term gains) and 10% (long-term gains); after-tax alpha is gross of management fees.

AND THE MANAGER'S BEHAVIOUR CHANGES THE ANSWER

1 Portfolio turnover

Every realised gain is a taxable event. A high-turnover strategy crystallises tax early and surrenders the value of deferral.

2 Realisation timing

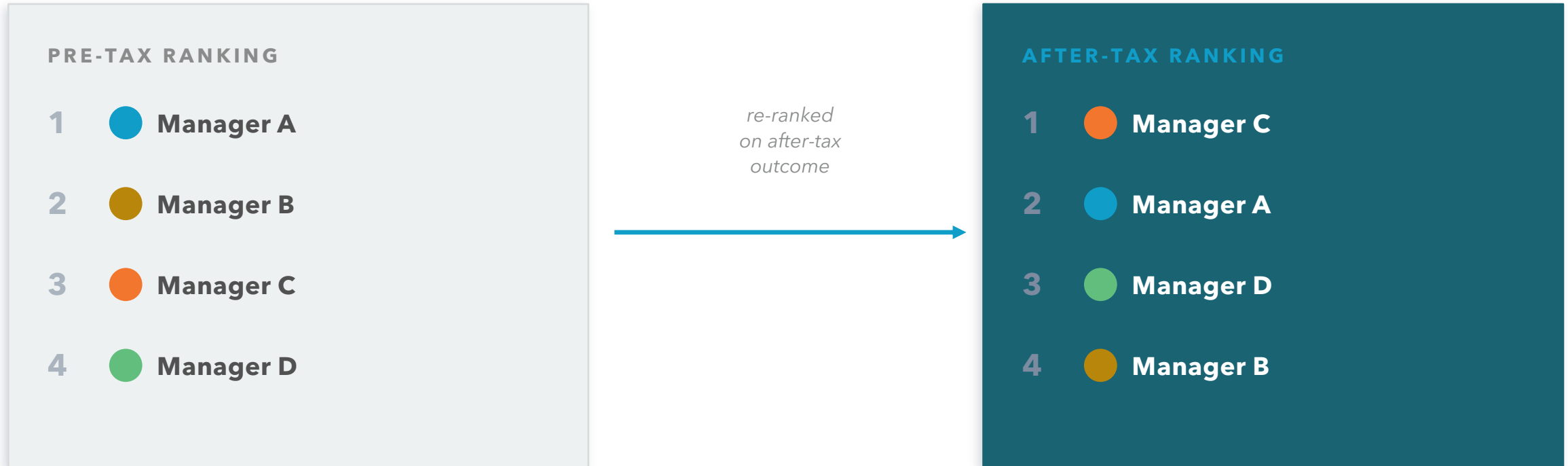
When gains are taken can matter as much as whether they are earned; Swan, Fong, Lau & Gallagher (2009) show Australian managers already shift realisations around tax incentives.

3 Income vs growth mix

Franked income, unfranked income and capital growth are each taxed differently, so the composition of a return, not just its size, drives the outcome.

None of this is visible in a pre-tax number. Two managers with identical pre-tax numbers can deliver very different outcomes.

PRE-TAX AND AFTER-TAX ARE NOT THE SAME LIST



The top-quartile pre-tax manager can be mid-pack after tax. Pre-tax reporting does not just understate returns; it can point investors at the wrong manager.

Illustrative re-ranking. Principle: Dickson & Shoven (1993); Jeffrey & Arnott (1993); reinforced for Australian active funds by Chen, Gallagher, Harman, Warren & Xi (2020).



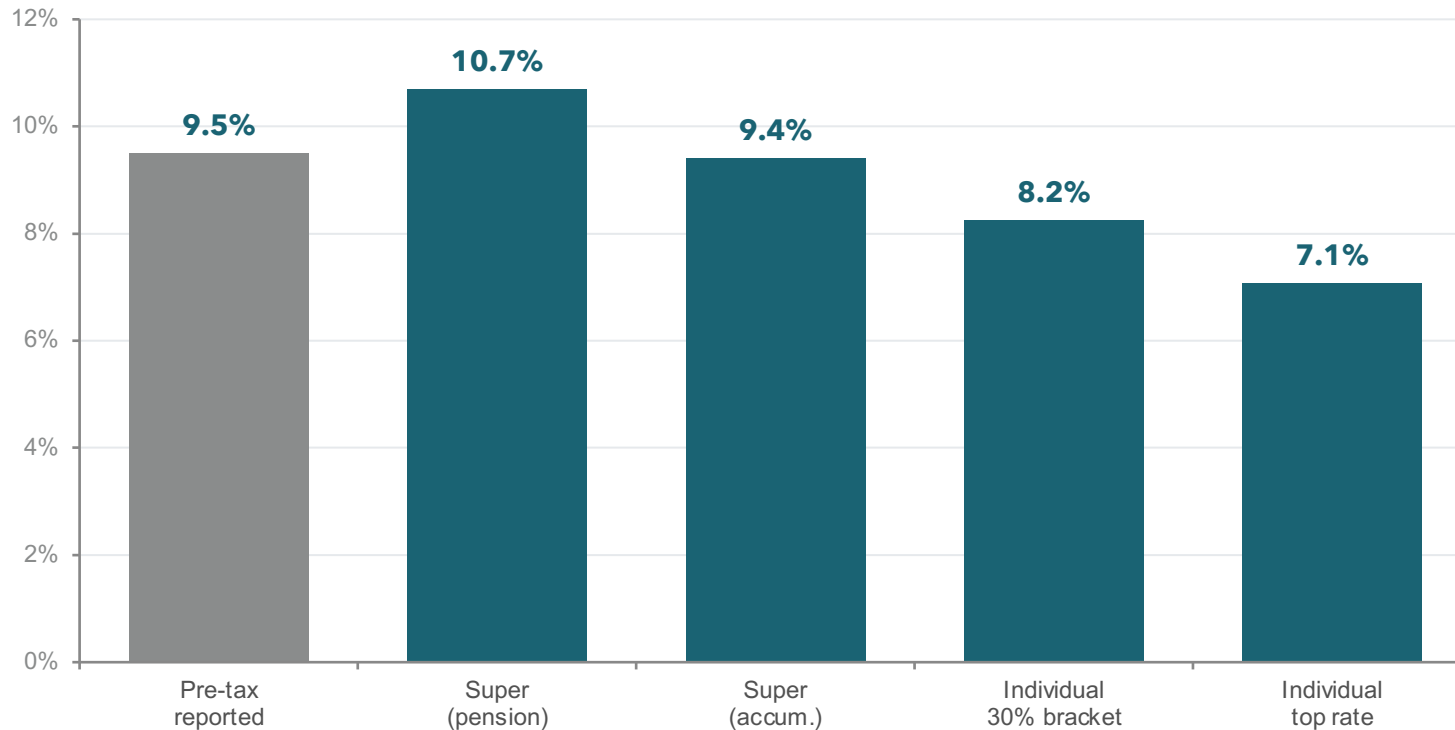
03

SECTION 03

TAX OUTSIDE THE STRATEGY

THE SAME GROSS RETURN, MANY DIFFERENT OUTCOMES

WORKED EXAMPLE: AFTER-TAX RETURN FROM AN IDENTICAL 9.5% PRE-TAX RETURN



THE WORKED EXAMPLE

A representative Australian-equity portfolio
3.5% cash yield (80% franked) + 6.0% capital growth, realised in-year = a 9.5% pre-tax return.

Taxed under current FY2025-26 rules

Marginal rates, the 50% and 33 $\frac{1}{3}$ % CGT discounts, and refundable franking credits.

One gross return, a 3.6-point after-tax spread.

Worked example using current FY2025-26 tax settings; the capital gain is assumed realised in-year.

WE REPORT ONE NUMBER; THEY RECEIVE ANOTHER

WHAT WE REPORT

Pre-tax returns

- Marketed to prospective investors
- Ranked in peer surveys and league tables
- Benchmarked and used in incentive calculations

WHAT THE INVESTOR RECEIVES

After-tax returns

- The dollars actually available to spend
- What genuinely funds a member's retirement
- Rarely reported, rarely compared

The entire industry measures what the manager produced, not what the investor received.



04

SECTION 04

**TAX REFORM
SHARPENS BOTH**

ON 12 MAY, THE RULES CHANGED

BEFORE · UNTIL 30 JUNE 2027

The 50% CGT discount

Investors holding an asset for more than 12 months are taxed on half the nominal gain.

FROM 1 JULY 2027

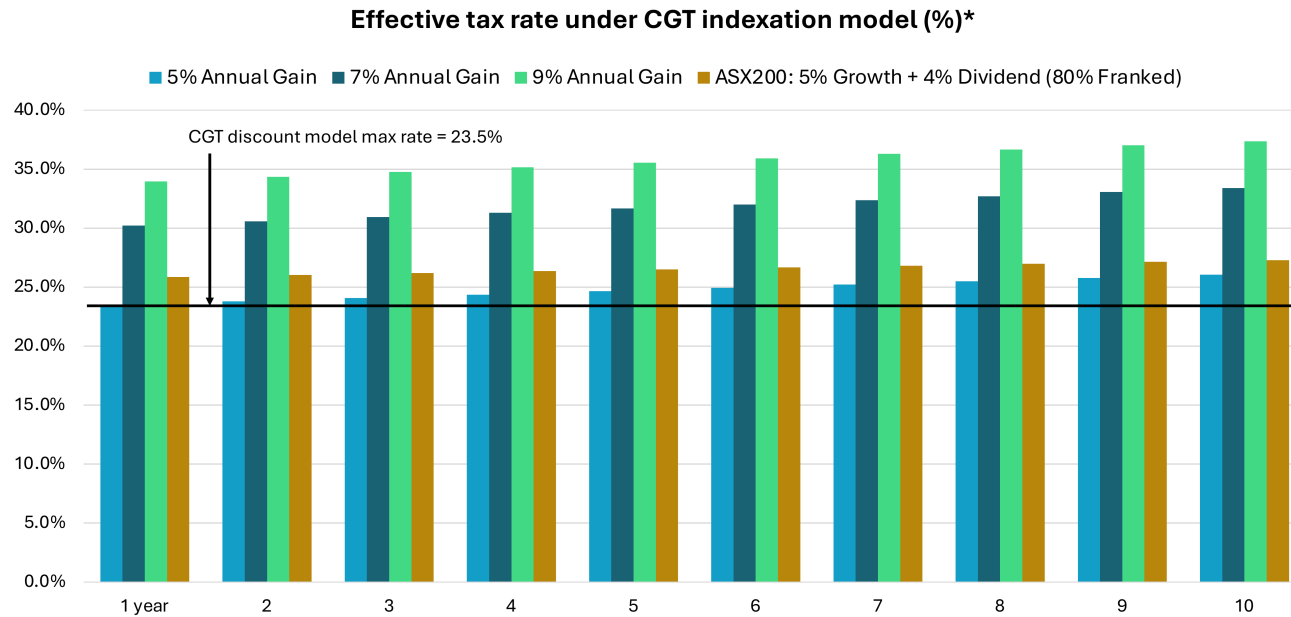
Indexation + a 30% minimum tax

The discount is replaced by cost-base indexation, with a new 30% minimum tax on capital gains, applying to individuals, trusts and partnerships.

The biggest change to capital gains tax since the 50% discount was introduced in 1999. Transitional rules mean the changes apply only to gains arising after 1 July 2027, and the package is still subject to legislation.

THE REFORM RAISES THE EFFECTIVE CGT RATE

EFFECTIVE TAX RATE UNDER THE NEW INDEXATION REGIME · TOP-RATE INVESTOR



* Assumes inflation averages 2.5% p.a. and the investor is on the top marginal tax rate of 47%, including Medicare levy. ASX 200 illustrative return assumption is 9% p.a., comprising 5% capital growth and a 4% cash dividend yield, with dividends 80% franked at a 30% company tax rate. Sources: Budget 2026-27, AFR and Hamilton12 Pty Ltd.

Effective rate by holding period under the new indexation regime, vs the 23.5% maximum under the existing CGT discount. Top-rate individual (47% inc. Medicare); assumed 2.5% inflation; ASX 200 illustrative return = 9% p.a. (5% growth + 4% cash dividend, 80% franked at 30%). Sources: Budget 2026-27, AFR and Hamilton12.

WHAT CHANGES FROM 1 JULY 2027

Individuals

The 50% discount becomes cost-base indexation; only the real, above-inflation gain is taxed.

Superannuation

Excluded from the reform; pension and accumulation are unchanged.

The 30% floor

Bites only in low-income years; not for investors already taxed at 30%+.

Super holds; individuals slip, and the spread widens again.

A WIDER, MORE MANAGER-DEPENDENT GAP

The transitional window rewards timing

The window until 30 June 2027 creates a live, dated incentive to manage when gains are realised.

Tax-aware turnover matters more – patience does not

Without the 50% discount, every realisation crystallises a higher effective rate. Longer holding periods do not reduce the rate; they slightly raise it. Tax-aware turnover becomes the bigger differentiator.

Super's discount is untouched

The CGT discount inside super is unchanged, so the after-tax gap between investment vehicles widens.

THE NET EFFECT

A reporting framework that was already inadequate just became more so.

The gap between the number we report and the number investors receive is now wider, and depends more on the manager.



05

SECTION 05

WHAT BETTER REPORTING LOOKS LIKE

THE STANDARDS STOP SHORT, ESPECIALLY HERE

GIPS

Global Investment Performance Standards

- The global benchmark for performance-reporting credibility
- Requires returns after transaction costs, not after tax
- After-tax reporting exists only as a US-specific extension
- Adoption among Australian managers is patchy

FSC GN25

Product Performance: Calculation of After-Tax Returns

- Australia's own industry guidance for after-tax returns
- Sets principles to make product comparisons consistent
- The framework already exists here, and is specific to us
- But it is not consistently used, nor consistently demanded

Standards and benchmarks already exist – the FTSE/ASFA Australia Index Series has provided four tax-adjusted benchmark families since 2009; the Cooper Review called for after-tax focus in 2010. The infrastructure runs.

WE ALREADY STANDARDISE HARD ASSUMPTIONS

We make defensible, disclosed assumptions everywhere else in performance reporting:

Benchmark selection

Fee schedules

Valuation hierarchies

Composite construction

After-tax reporting is no different: it asks for transparency about assumptions, not perfect foresight. Russell, Vanguard, Parametric and Phoenix already report after-tax in Australia today.



A transparent, disclosed after-tax number beats a pre-tax number that is precisely wrong for every investor who receives it.



RECAP

TWO PROBLEMS, ONE CONCLUSION

1

Tax inside the strategy is large.

Chen finds 65% of broad-market alpha eroded by tax events the manager generates.

2

It re-orders the league table.

Pre-tax and after-tax manager rankings are not the same list.

3

Tax outside the strategy varies wildly.

The same gross return becomes very different take-home outcomes across investor types.

4

Pre-tax reporting is silent on both.

The standards and benchmarks to fix this already exist.

WHAT WE OWE THE INVESTOR

1

Report after-tax alongside pre-tax

Make it a first-class metric, presented as standard, on a transparent and consistent basis.

2

Measure what the investor receives

Reframe success around the member's outcome, not the manager's output.

3

Make the assumptions visible

Disclose the tax assumptions openly: transparency, not false precision.



The members in your funds are about to ask what the budget means for them.

The question is whether our reporting can give them an honest answer.

Thank you

Richard McDougall · Hamilton12 · iPARM Australia 2026

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