

# Fact Sheet

## ATI Australian Equity Portfolio

### Information as at 28 February 2011

#### Portfolio Objective

The ATI Australian Equity Portfolio seeks to achieve total returns (includes income and capital appreciation, before the deduction of fees and taxes) that exceed those on the S&P/ASX 300 Accumulation Index by 3% p.a. over rolling three-year periods.

#### Performance Update

(\*Returns to 28 February 2011)

	1 Mth (%)	3 Mth (%)	1 Yr (%)	2 Yr (% p.a.)	3 Yr (% p.a.)	5 Yr (% p.a.)	Inception (% p.a.)
ATI Equity Portfolio (gross of fees)	2.2	6.4	7.6	30.7	4.0	7.2	7.6
S&P/ASX 300 Accumulation Index	2.3	6.3	9.0	25.7	(0.3)	4.0	4.8
Relative Outperformance	(0.1)	0.1	(1.4)	5.0	4.3	3.2	2.8

\*Past performance is not a guarantee of future results and may not be indicative of them. The gross returns are calculated using the Portfolio's net asset value of a model mandate within the Share Invest SMA product. Performance assumes reinvestment of all income.

Inception date is 23 December 2005.

### Portfolio Details as at 28 February 2011

Largest Holdings	Portfolio	S&P/ASX300	Sector Allocation	Portfolio	S&P/ASX300
	Weight (%)	Weight (%)		Weight (%)	Weight (%)
BHP Billiton	16.0	13.3	Financials	44.2	37.4
ANZ Bank	7.8	5.4	Materials	26.9	28.4
Westpac Bank	7.8	6.1	Consumer Discretionary	6.7	3.9
National Australia Bank	7.1	4.8	Consumer Staples	5.1	8.2
Commonwealth Bank	5.9	7.0	Telecommunications	4.8	3.0
Rio Tinto	5.7	3.2	Industrials	4.5	6.2
Telstra	4.8	2.7	Energy	2.3	7.6
Woolworths	3.0	2.8	Healthcare	1.9	3.2
QBE Insurance	3.0	1.6	Utilities	1.2	1.2
News Corporation	2.4	0.6	Information Technology	0.0	0.7

### Selected Portfolio Statistics as at 28 February 2011

Inception Date	23-Dec-05	MER (est.)	~ 0.90% p.a.
Number of Stocks	34	Tracking error (forward estimate)	~ 3.0% p.a.
ATI Funds under Management	~ \$460m		

## Relative Portfolio Performance

The ATI Equity Portfolio rose 2.2% in February compared with a rise of 2.3% by the S&P/ASX300 Accumulation Index. Against this benchmark, ATI is producing excess return on a 3 month, 2 year, 3 year, 5 year and since inception (Dec-05) basis.

### The Best and Worst Performing Sectors

The better performing sectors during February were: Materials (+3.4%); Energy (+3.0%), and Property Trusts (+2.4%). The worst performing sectors were: Information Technology (-3.8%), Health Care (-3.3%) and Utilities (-2.4%). Our monthly performance was assisted by overweight positions in the Financials and Consumer Discretionary sectors, a relatively neutral position in the Materials sector, and underweight positions in the Energy, Healthcare and Industrial sectors.

### Attribution of Stocks

The portfolio performance during February was assisted by overweight positions in Ardent Leisure (AAD), News Corporation (NWS), and BHP Billiton (BHP); and by not holding Wesfarmers (WES) and CSR [CSR]. Stocks in the portfolio that contributed to its relative performance during the month included:

**Ardent Leisure (AAD) (+34.3%)** outperformed during February after releasing a strong 1H11 result despite market concerns that the bad weather in Queensland would materially reduce attendances at the Gold Coast theme parks. This did not prove to be the case and AAD managed to deliver revenue, margin and earnings growth across all its divisions. In particular the theme park division and US operations (Main Event) performed strongly. The bowling alleys (AMF), gyms (Goodlife), and marinas (d'Albora) all showed signs of improvement on pcp. AAD remains a portfolio holding and is still relatively attractive within the industrials sector of our universe.

**News Corporation (NWS) (+5.8%)** rose during the month after reporting a solid 2Q11 result which was in line with market expectations, and reiterating its FY11 EBIT guidance of "low double digit" growth. Towards the end of the month there was some press speculation (BBC) emerging that NWS's bid for the remainder of BSkyB might actually be approved in the coming weeks without the need for a full UK Competition Commission review (which would take at least 6 months). If the BSkyB deal were to be successful we believe it would be very positive for the market's valuation of NWS. In other news, Rupert Murdoch bought US\$65m of non-voting stock (his first NWS stock purchase since 2006), the company reached an in-principle agreement to acquire international TV production house Shine, and the ratings and revenue for the Super Bowl were very strong. NWS remains a portfolio holding and is still relatively attractive within the industrials sector of our universe.

**BHP Billiton (BHP) (+4.2%)** outperformed the market during February after reporting a 1H11 NPAT of US\$10.5b, a 72% increase on pcp, and marginally ahead of consensus broker forecasts. With the benefit of higher commodity prices and disciplined cost control, the company's EBIT margin registered a remarkable 46%. A highlight of the result was the material 123% increase in operating cash flow, which enabled BHP to close out CY10 in a net cash position. The company immediately outlined plans to return US\$10b of cash to shareholders, through an on-market buyback in the UK and an off-market buyback in Australia, and flagged expanded organic growth plans which may involve the reinvestment of up to US\$80b in new projects by 2015. Despite the quantum of investment in the organic growth pipeline, BHP retains balance sheet flexibility to pursue accretive acquisitions, and during February invested US\$4.75b in acquiring extensive US shale gas assets in the Fayetteville basin from US company Chesapeake Energy Corp. This transaction establishes BHP as a top twenty US natural gas producer, and is likely in our view to represent only the first of several acquisitions in this industry as the company builds its presence. BHP remains relatively attractive and a core ATI portfolio holding.

Positions that detracted most from the portfolio's performance during the month were from being overweight Pacific Brands (PBG), Insurance Australia Group (IAG), and Hastie Group (HST); and from not holding Iluka (ILU) and Santos (STO) which both outperformed. Stocks in the portfolio that detracted from performance during the month included:

**Pacific Brands (PBG) (-14.5%)** underperformed during the month following the release of its 1H11 result. The company downgraded its FY11 guidance due to ongoing input pricing pressure (specifically from cotton and higher China labour costs) and a lack of pricing power for its products domestically. In addition, the expectation of A\$ retracement and soft Australian retail conditions have led to FY12 earnings downgrades and increased earnings uncertainty as cost benefits from its 3 year restructure are eroded away. We have modeled these factors and PBG remains a portfolio holding due to its relative attractiveness within our investment grade universe.

**Insurance Australia Group (IAG) (-4.2%)** underperformed the market during February despite announcing that its reinsurance cover meant the maximum financial impact on the group from the Christchurch earthquake would be \$40m. This announcement, however, also included a downgrade to its FY11 insurance margin guidance to 8-10% (from 9-11%) to reflect an increased natural peril cost assumption of \$540m (from \$500m) and the estimated cost of reinstatements in respect of its catastrophe reinsurance cover. This comes shortly after a downgrade to its FY11 insurance margin earlier in the month, when IAG pre-announced its 1H11 result on the back of higher UK losses and negative credit spreads. Despite the downgrade, IAG remains relatively attractive within the financials sector of our investment universe.

**Hastie Group (HST) (-2.4%)** fell during February on market concerns about the likelihood of a weak interim result and the associated potential impact on the company's balance sheet and banking covenants (which were already eased in December given the extremely tough trading conditions that HST is currently dealing with). Unfortunately these concerns were confirmed when the company announced in the middle of February that it was going into suspension and delaying the release of its 1H11 result while it speaks to its banks and advisors about its capital management options. HST has said that the suspension could be in place for up to four weeks. We will be awaiting the outcome of those discussions and closely examining the interim result when it is released to determine both the extent of the current downturn and the likelihood and pace of any earnings recovery, at which point we will re-evaluate our portfolio position.

## Portfolio Construction

The ATI portfolio remains fairly neutral with regard to its market capitalisation exposures (vs the S&P/ASX300 index) with 83% of the holdings in the top 50 stocks, 13% in the next 100, and 4% in the last 150 stocks. The number of stocks (34) in the portfolio has not changed from last month. The ATI stock rankings are still indicating that the market has rallied to a point where the number of relatively cheap stocks has reduced such that the portfolio is likely to remain holding a similar number of stocks in the near term with overweight positions held in the larger capitalisation stocks which have become relatively attractive in the ATI stock universe.

## Portfolio Risk

The current forecast tracking error of ~3.0% (range of 2-8%) for the ATI portfolio also reflects the fact that our stock rankings do not currently indicate the benefit of taking on additional risk and moving far above this current level.

As at 28 February the main sources of portfolio risk are from a variety of overweight smaller capitalisation stock holdings including Pacific Brands (PBG), Alesco Corporation (ALS), Emeco Holdings (EHL), Mount Gibson (MGX) and Equinox Minerals (EQN). Larger capitalisation stocks that provide a contribution to portfolio risk include having no holding in Newcrest Mining (NCM) and Wesfarmers (WES), and having overweight positions in BHP Billiton (BHP), Rio Tinto (RIO), OneSteel (OST) and Lend Lease (LLC).

## General Market Commentary

February proved to be another positive month for equity markets despite the concerns about the ongoing unrest in the Middle East and North African regions that were clearly reflected in higher oil and gold prices. Outside these issues, markets were focused on the reporting season results, both domestically (soft) and offshore (strong), as well as China's rising inflation and interest rates. The Australian equity market (S&P/ASX300 Accumulation Index) managed to overlook the political unrest and generally softer domestic reporting season to finish the month higher (+2.3%)

The domestic reporting season brought mixed news as a number of companies alluded to sluggish trading conditions in Australia, notably in sectors such as retailing and media. Overall, results were generally in line with market consensus forecasts although they were fairly mixed at the sector level. There were some signs of improvement from US and European economies, and mining sector results reflected buoyant commodity prices. Many resource stocks exceeded market consensus forecasts and this reflected the strength in commodity prices while some industrial stocks (ex financials) were lower reflecting the continued variability in demand across the economy. The bank trading updates indicated that results may be stronger than the market had been forecasting. In summary for the six months ended Dec-10, net profit across the Industrials increased 3%, across resources increased 88%, while the banks (mainly CBA) reported a 13% net profit increase.

While outlook comments during the domestic reporting season remain subdued, dividends were generally better than consensus forecasts reflecting the strength in corporate balance sheets. In other news, BHP announced a A\$5b off-market share buy-back, insurers were again hit by natural disaster costs with Cyclone Yasi causing widespread damage in northern Queensland and a major earthquake striking Christchurch.

During February, political unrest led to the fall of Egypt's President Hosni Mubarak, and an uprising left large parts of Libya in the hands of anti-government forces. There were also significant protests in Bahrain, Yemen and Iran. Oil prices rose sharply to reflect the risk of supply disruption in the region. In local economic news, the employment rate made further gains, capex intentions were reported to be strong and consumer confidence posted a gain despite the recent floods. Consumer-related data (retail sales, housing and credit) continuing to be soft and inflation data surprised the market on the downside. As widely expected the RBA left rates unchanged at 4.75%. The \$AUD consolidated recent gains against the USD and finished the month at US101.7¢ (+2.0¢).

Oil prices rose in February as unrest in the Middle East and North Africa raised concerns regarding risks to supply. The rally steepened in the final week of the month as conflict intensified in Libya, which produces around 1.8% of world production. The 12% rise in spot Brent was the largest monthly move since May 2009 when the world was on course for recovery from the financial crisis. This political unrest also saw spot gold rebound strongly (+6.1%) from its setback in January; bullion has not suffered consecutive monthly falls since January 2010. Base metals were mostly stronger despite concerns that anti-inflation measures in China and other emerging economies might be spurred on by rising oil prices; copper (0.0%) was the laggard of the major metals as inventories continued to build from their December low. The Tianjin 62% benchmark for spot iron ore prices slipped over the month (-0.8%) but remains at historically high levels, reflecting concerns over supply disruption. An example of this was seen when the Indian Steel Minister was quoted as supporting further restrictions on iron ore exports.

## Outlook

Just as investors were becoming increasingly more optimistic about the outlook for 2011 with a more positive tone from the US and diminishing concerns around Europe and China, the Middle East/African regions popped up with their own risks. The ATI portfolio continues to hold stocks leveraged to the key growth themes driving the domestic economy (mining investment and volumes, plus consumption), as well as those stocks exposed to the US that have increasing potential for positive surprises to emerge during 2011.

The reporting season has clarified the divergence in fortunes for different sectors of the domestic market. The earnings picture is now quite clear with resource stocks being the clear winner in terms of earnings reported and consensus forecasts for FY11 despite the Queensland flood impact. Banks have continued to show their earnings resilience in this market, whilst many industrial stocks reported subdued levels of growth and were generally quite cautious in their earnings outlook for FY11.

ATI's relative value process is still identifying some attractive opportunities, particularly in stocks where operating leverage may emerge during our three year forecast period. Those stocks whose share prices have rallied excessively in anticipation of the expected simultaneous global economic recovery remain the standout risks over the course of the next quarter as signs of earnings growth are now required to provide the next upward phase in equity markets.

# PORTFOLIO RISK SUMMARY

Portfolio Name:	<b>MyPort</b>
Benchmark:	ASX300
Date of Data:	28-Feb-11

Model:	48months - 5 factors
Factor Analysis:	Multi-Factor
Timestamp of Analysis:	3/1/2011 11:49:52 AM

Historic portfolio alpha **7.0%** **Active Exposures:**  
 Historic portfolio beta **1.00** Held: 43.4%  
 Raw return **1.8%** Total: 84.4%

Forecast Tracking Error	<b>2.96 %</b>	<b>2.96 %</b>
	(residual risk)	(active risk)

Source of portfolio risk	contribution to active portfolio risk	standard deviation	variance / covar.
A Stocks held in portfolio (B+C)	72%	2.5	6.3
B Overweight positions	71%	2.5	6.2
C Underweight positions	1%	0.2	0.1
D Stocks not held in portfolio	38%	1.8	3.3
E Factors (correlations between stocks)	-10%		(0.9)
F Total (A + D + E)	100%	3.0	8.7
G Systematic risk (undiversifiable)	0.0	0.0	
H Residual risk definition tracking error (G - F)	3.0	8.7	

