Above The Index Asset Management Pty Ltd

Fact Sheet

ATI Australian Equity Portfolio

Information as at 29 February 2016

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/ASX300 Accumulation Index by 3% p.a. over rolling five-year periods.

Performance Update

(*Returns to 29 February 2016)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Inception (% p.a.)
ATI Equity Portfolio (gross)	(1.8)	(4.0)	(14.9)	2.5	4.3	5.9
Benchmark Index	(1.7)	(4.6)	(13.5)	2.8	4.6	5.2
Relative Outperformance	(0.1)	0.6	(1.4)	(0.3)	(0.3)	0.7

*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 OneVue SMA product. Performance assumes reinvestment of all income. Inception date is 23 December 2005.

Portfolio Details as at 29 February 2016

Largest Holdings	Portfolio Weight (%)	Benchmark Weight (%)
Commonwealth Bank	9.6	9.2
Westpac	7.1	7.4
Telstra	6.9	4.9
ANZ Bank	6.8	5.0
National Australia Bank	5.7	4.9
CSL	4.7	3.7
Wesfarmers	4.2	3.4
Amcor	2.9	1.2
Asciano	2.8	0.6
AMP	2.6	1.2

Sector Allocation	Portfolio Weight (%)	Benchmark Weight (%)
Financials	45.8	45.5
Healthcare	11.8	7.3
Telecommunications	9.4	5.6
Materials	8.5	12.9
Industrials	6.7	8.6
Consumer Staples	5.2	7.3
Consumer Discretionary	2.4	5.1
Energy	2.3	4.0
Utilities	2.3	2.5
Information Technology	1.5	1.2

Selected Portfolio Statistics as at 31 February 2016

Inception Date	23-Dec-05
Number of Stocks	38
ATI Funds Under Management	~ $400m

MER (est.)	~ 0.90% p.a.
Tracking Error (forward estimate)	~ 3% p.a.

Portfolio Performance

The ATI Equity Portfolio fell 1.8% in February compared with a fall of 1.7% in the benchmark index. Against this benchmark, ATI is producing excess returns on a quarterly, 10 year and since inception (Dec'05) basis.

The Best and Worst Performing Sectors

On a relative basis, the best performing sectors for the month were materials (+8.2%), industrials (+5.8%), and property trusts (+2.0%) whilst the worst performers were financials (-9.1%), telco's (-5.7%) and consumer staples (-5.7%).

From a sector perspective, the relative performance of the ATI portfolio was most positively impacted from being neutral financials (45.8% v benchmark of 45.5%) and overweight healthcare stocks (11.8% v benchmark of 7.3%) whilst it was most negatively impacted by being underweight materials stocks (8.5% v benchmark of 12.9%) and underweight industrial stocks (6.7% v benchmark of 8.6%).

Attribution of Stocks

The portfolio performance during February was assisted by overweight positions in Primary Health Care (PRY), Vocus Comms (VOC) and CSR (CSR); and by not holding Macquarie Group (MQG), Bendigo Bank (BEN) and Bank of Queensland (BOQ). The three stocks in the portfolio that contributed most to its relative performance during December were:

> **Primary Health Care (PRY) (+29.7%)** outperformed the market following a positive response to its 1H16 result (which met downgraded guidance), the 2H16 outlook and implications for FY17 earnings. Underlying sales increased modestly on pcp in medical centres (+3%), pathology (+6%) and technology (+12%), while diagnostic imaging (DI) experienced negative growth (-7%). Key to this was management's comments that it would be able to offset the ~$50m negative impact from the proposed MYEFO initiatives via restructuring and new revenue initiatives. We maintain our overweight position as there is still valuation support at current price levels. We also note that there is still significant short interest in the stock with 73M shares short representing 15% of the register and 6.4 days cover and there has been press speculation regarding potential corporate activity.
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> **Vocus Comms (VOC) (+4.3%)** outperformed the market as the merged entity with M2 Group MTU began trading as a single company (VOC). VOC reported there 1H16 result which was strong with EPS up 39% on pcp, driven by the acquisition of Amcom in July 2015. Management have also identified about $40m in cost synergies going forward, which are in addition to those already tabled for network synergies and revenue synergies. The addition of MTU's traffic to VOC's fibre will decrease overall network costs and increase margins on the merged business; duplication of company costs will also be eliminated. We continue to maintain an overweight position in the merged entity due to valuation support driven by cost and operational synergies and confidence that the business is now a viable competitor to Telstra and TPG Telecom.
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> **CSR (CSR) (+16.1%)** outperformed the market and made a positive contribution to performance on the back of a generally positive building company reporting season, and with particular reference to Boral with which CSR has a JV in bricks. Although CSR itself did not report (it has a March balance date) the upbeat commentary from peers was sufficient to lead to a better performance. An improvement in investor sentiment towards the mining sector outlook also saw the negativity to CSR's aluminium activities diminish somewhat over the month. We maintain our overweight position in the stock in the lead up to its FY16 result to be announced in May with the view that the company will showed an improved trading result for 4Q16 and concerns regarding the Tomago power re-negotiation are fully reflected in the current share price.

Positions that detracted most from the portfolio's performance during the month were from being overweight Ansell (ANN), Telstra (TLS), and National Australia Bank (NAB); and from not holding Newcrest Mining (NCM), Cimic Group (CIM) and South 32 (S32). Stocks in the portfolio that detracted most from relative performance during the month included:

> **Ansell (ANN) (-14.2)** underperformed the market as they downgraded their FY16 EPS guidance from US$1.05-$1.20 to US$0.95 - $1.10. ANN also reported its 1H16 result which showed signs of very mixed trading, with FX and commodity cost discounts to purchasers impacting the bottom line. The industrial division & medical divisions were particularly weak with global PMI's at low's, particularly those in Europe. The sexual division was the highlight with revenue growth up 10% and margins increasing 130bps for the full year period. We continue to maintain an overweight position in the company on the basis that the business can turn around in 2H16 as systems efficiencies and improved logistics flow through. There is valuation support at current levels and the thematic of operational leverage to recovering US and European markets is still intact in our view.
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> **Telstra (TLS) (-6.8%)** underperformed the market in February as they reported their 1H16 result. The result itself was generally in line with consensus market expectations and management reaffirmed guidance of mid-single digit revenue growth, low single digit EBITDA growth, CAPEX of ~15% and free cash flow of $4.6-$5.1b. However, market competition in mobile and fixed line continued to intensify into CY16 and this raised concerns with some analysts. The market is also concerned with the potential Asia investment with San Miguel (potential JV partner) being taken to court by two current players over having 100% of 700Mhz spectrum. We continue to hold an overweight position in the stock on the basis of valuation support underpinned by the defensive nature of the holding. We are comfortable with the Phillipines strategy and expect improvement in mobile growth into 2H16.

National Aust. Bank (NAB) (-9.3%) underperformed following the spin-off of the UK banking division, Clydesdale Bank. This is one of the last steps in NAB cleaning up its underperforming portfolio of assets and we expect the bank to be re-rated once the better performing Australian and New Zealand assets report in the future results. We anticipate NAB to regain investor support over the next few years as a more focused Australasian business and we retain the overweight portfolio position.

Portfolio Construction

The main portfolio weighting changes during February included: new portfolio positions for Ardent Leisure (AAD) and Qube Holdings (QUB); top-ups for our holdings in ASX (ASX), Incitec Pivot (IPL), Primary Healthcare (PRY) and Wesfarmers (WES); the removal of our position in Oilsearch (OSH) and some slight reductions for our holdings in Car Sales (CAR), CSL (CSL) and Telstra (TLS).

Cash at the end of February was 4.2% and is below the 5% maximum threshold, similar to the 4.2% in January, reflecting our view that the equity market has opportunities but some caution is required at present.

The ATI portfolio, with regard to its market capitalisation exposures, is differentiated to the benchmark index with ~88% of the portfolio (excluding cash) in the top 50 stocks (benchmark ~82%), ~9% in the next 100 (benchmark ~14%), and ~3% in the last 150 stocks (benchmark ~4%). The 10 largest holdings constitute ~62% of the portfolio (benchmark ~50%), the dividend yield is 5.0% (benchmark 4.8%) and the portfolio's historic or trailing PE is 14.3x (benchmark of 15.1x).

Whilst the portfolio's market cap bias intentionally remains tilted to the larger stocks, its underlying active sector positioning is not the same as that of the benchmark index. The main points of differentiation are that the portfolio remains underweight the industrial and consumer staples and material sectors and overweight the financial, healthcare and telecommunication sectors.

We also continue to remain overweight in stocks we view as having industry structural advantages and/or the expected benefit of USD currency exposure from offshore earnings such as Brambles (BXB), CSL (CSL) and Resmed (RMD) in combination with other opportunities that we feel have fundamental valuation support, such as Suncorp (SUN), Virtus Health (VRT) and Wesfarmers (WES). We are maintaining our holding in AIO due to our expectation that Qube Logistics (QUB) will be successful in their bid for AIO.

Portfolio Risk

The current forecast tracking error of ~2.4% is similar to last month (~2.4%). We are continuing to be presented with a number of stock opportunities in the energy, financial, materials and consumer discretionary sectors as a result of some recent relative market underperformance. At this stage we still feel that any overweight positioning in the resource stocks is unlikely in an environment with ongoing profit earnings downgrades, minimal forward earnings clarity and continued reductions in the expected mining capex spend of the larger mining companies over the next few years. However, we have taken steps to increase our weighting in the energy sector with the additions of Santos (STO) and Origin Energy (ORG) in the portfolio. At present, the main sources of portfolio risk are from overweight positions in AIO, RMD, and TLS.

General Market Commentary

The local equity market struggled in February, falling in the first half of the month on rising risk aversion then recovering somewhat, though finishing the month lower with the ASX300 accumulation index down 1.7%. Global equity markets were weighed down by a global sell-off in bank stocks, a weakening economic backdrop particularly from China, deflation fears particularly from Europe, and worries over Brexit' fears over the upcoming British referendum on E.U. membership. In a reversal of recent fortunes, the materials sector outperformed as iron ore and gold prices rose. Also in line with global peers, banks were the worst performing subsector, hit by reports in the media highlighting the possibility of a bubble in the Australian housing market.

The February reporting season proved typically volatile, with lavish rewards on offer for companies that exceeded expectations, whilst selling awaited those that fell short. Among numerous significant developments, BHP's decision to cut its dividend stood out and whilst the cut itself was not unexpected, the magnitude was. In other major developments, WOW's first half result was swamped by deeper than expected impairments on home Improvement whilst the board did, however, meet its self-imposed deadline to appoint a new CEO with an internal appointment the outcome.

The Reserve Bank of Australia left the cash rate steady at 2.0% in February, with the resting easing bias preserved. The Governor opted for few changes in the statement announcing the decision, despite the softer run of data in the back half of February. The Aussie dollar appreciated 0.8% against the greenback in February. Our currency also appreciated against most of its trading partners (CNY 0.4%, KRW 3.4% and EUR 0.4%), but depreciated sharply against the Japanese Yen (-6.2%) following the BoJ's surprise announcement of negative interest rates on 29th January.

There was more of a mixed message feel to a number of the economic indicators in February that potentially tempers the argument that conditions in the non-mining economy are slowly improving: 4Q15 CPI came in stronger than expected with headline inflation for the quarter printed at 0.4%, overshooting consensus expectations by (+0.1%); the core inflation measures were also up (+0.55%)

for the quarter as the trimmed mean rose (+0.3%) to 0.6%; Australia's terms of trade declined (-5.1%) in the December quarter and the weakness was attributable to export price growth, with iron ore (-9%), coal (-6%) and LNG (-4%) recording sizeable declines; the labour force survey was flat this month (-1,000 jobs), but the prior month was revised up to +74,900 jobs; the unemployment rate remained steady at 5.8% with the participation rate weakened slightly to 65.1%; the turmoil in global equity markets took its toll on business confidence this month; the NAB business confidence survey slipped from (+5) to (+3), but still sits well above average (+1); the NAB business conditions measure, which has the strongest correlation with domestic activity slipped from (+10) to (+7); the weakness in the conditions measure was concentrated in the retail sector; on the consumer front, the Westpac Consumer Confidence index fell below the break-even 100 mark; all but one of the major components in the headline index declined, notably, the family finances measure plunged (-9%); retail sales rose 0.4%, below 0.5% last month with the moderation driven by weakness in food as discretionary categories remained robust, particularly household goods; home loans approvals bounced unexpectedly (+1.8%); the rise runs contrary to other evidence that the housing market is cooling; private sector credit growth printed at 0.5% this month, while business credit bounced back to 0.5% after flat lining last month with the uptick is supportive of an improvement in the non-mining economy.

The highlight in commodities during the month was the rally in the iron ore price, which rose from US$41.5 at the end of last month to as high as US$50.5 (its highest level since October) before falling back to finish the month at US$48.9. The gold price rallied strongly (10.8%) during the month on safe-haven as rising US economic risks aided support. The oil price had divergent trends during the month, depending on whether one looked at the WTI price (which fell) or the Brent price (which rose). On February 16th, Russia, Saudi Arabia, Venezuela, and Qatar decided to freeze crude oil production at January 2016 levels, the impact of which was greeted with skepticism. Crude oil prices rose to their highest level since early January on a number of OPEC headlines including the agreement to freeze production and Iran's potential involvement remains in focus. Base metals were mostly metals up for the month, with the LME Metals Index rising 3.5%, including zinc (+8.0%), tin (+7.2%), aluminium (+5.1%), copper (+3.0%) and lead (+2.0%) which all rose, while nickel (-1.1%) declined.

Outlook

Despite the reporting season being far from a disaster at the stock level, the Australian equity market remains on track for its second successive year of negative earnings growth. Consensus EPS growth ex-resources continues to track at a better but still anaemic 3-4% growth pace for FY16, down from 6% in FY15. The overall market consensus earnings growth rate for FY17 currently stands at 9%, though there is still likely some downside from less of a rebound in commodities than the consensus currently assumes. The ex-resources growth rate for FY17 is at a moderate 5% which is achievable in our view. A return to overall positive market earnings growth (which should assist overall market price performance) likely rests on a bottoming in commodity prices (iron ore and oil are overwhelming the key drivers) and an ongoing benign domestic macro backdrop.

Whilst Australian equities have been sold down on concerns around a variety of global and particularly domestic (housing) risks, any expectation of a positive reversion rally must be balanced in light of the fact that the market is still running into an earnings headwind in an aggregate sense. We remain overweight banks as we see the sell-off this year on a mix of global banking system concerns and local housing market concerns as overdone. We believe valuations for the sector are attractive despite constrained EPS growth currently (due primarily to equity issuance) and the bad debt cycle continues to looking very benign. In addition, we continue to remain underweight mining and neutral energy as we see the recent spike in the iron ore price as vulnerable to some retracement on weaker Chinese steel production.

We also remain positioned to benefit from a weaker AUD/USD exchange rate if that eventuates by holding a number of stocks with USD earnings exposure that are likely to have translation benefits from any further weakness in the Aussie dollar. In addition, we also expect that a strengthening US economic outlook will continue to put pressure on the gold price and this is why the portfolio still has no direct exposure to gold. Other specific active sector positioning includes being underweight the industrials (including holding no mining services stocks) and consumer staples stocks. We have begun to increase out weightings in energy stocks. Outside of the financials, we also remain overweight the healthcare and telecommunications utilities sectors.