Above The Index Asset Management Pty Ltd

Fact Sheet

ATI Australian Equity Portfolio

Information as at 30 April 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 30 April 2016)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Inception (% p.a.)
ATI Equity Portfolio (gross)	2.5	5.6	(5.8)	5.1	5.8	6.5
Benchmark Index	3.3	6.4	(4.7)	5	6.2	5.4
Relative Outperformance	(0.8)	(0.8)	(1.1)	0.1	(0.4)	1.1

*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 30 April 2016

Largest Holdings	Portfolio Weight (%)	Benchmark Weight (%)
Commonwealth Bank	8.7	9.0
Westpac	7.5	7.4
ANZ Bank	7.5	5.0
Telstra	6.7	4.7
National Australia Bank	6.3	5.1
CSL	4.5	3.5
Wesfarmers	4.0	3.4
BHP	2.9	4.7
IAG	2.5	1.0
Vocus Comms	2.5	0.3

Sector Allocation	Portfolio Weight (%)	Benchmark Weight (%)
Financials	46.7	45.2
Healthcare	11.2	6.8
Telecommunications	9.4	5.3
Materials	9.4	14.4
Industrials	6.0	8.3
Consumer Staples	4.6	7.1
Energy	2.7	4.2
Utilities	2.2	2.4
Consumer Discretionary	3.1	5.0
Information Technology	1.4	1.3

Selected Portfolio Statistics as at 30 April 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 rose 2.5% in April compared with a rise of 3.3% in the benchmark index. Against this benchmark, ATI is producing excess returns on a three year, 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 (+14.2%), energy (+7.7%), and healthcare (+3.3%) whilst the worst performers were consumer discretionary (-1.6%), utilities (-0.4%) and telecommunications (+0.5%).

From a sector perspective, the relative performance of the ATI portfolio was most positively impacted from being underweight consumer staples (4.6% v benchmark of 7.1%) and underweight consumer discretionary (3.1% v benchmark of 5.0%), whilst it was most negatively impacted by being underweight materials stocks (9.4% v benchmark of 14.4%) and overweight healthcare stocks (11.2% v benchmark of 6.8%).

Attribution of Stocks

The portfolio performance during April was assisted by overweight positions in Annsell (ANN), Origin Energy (ORG) and Virtus Health (VRT); and by not holding Qantas (QAN), Macquarie Group (MQG) and Caltex (CTX). The three stocks in the portfolio that contributed most to its relative performance during the month were:

Ansell (ANN) (+17.5%) outperformed the market in April recovering most of the losses incurred after downgrading guidance from US$1.05 – US$1.20 to US$0.95 – US$1.10 in February and sequentially sold off. Ansell recently has benefited from the appreciation of the AUD, lower global latex and cotton prices and a small uptick in global PMI's. In the first half Ansell noted production capacity issues and excess waste levels in the process. We are awaiting an update to the market on progress before making any further portfolio weighting decisions.

Origin Energy (ORG) (+21.4%) outperformed the market during the month as it continued to recover from recent price lows as the global oil price improved and investors became more confident that Sinopec would take its agreed cargoes from the APLNG project. This project is now largely de-risked and is reporting strong operational performances both upstream and downstream. Investors were also impressed with the energy markets division performance which exceeded expectations in the interim result. Whilst there is still some way to go in the debt reduction programme, and global oil prices will likely remain volatile, the underlying business trends at ORG are improving and we are comfortable retaining the overweight position at this point in time.

Virtus Health (VRT) (-2.7%) outperformed during the month following the release of March MBS data which showed a return to strong IVF growth. After recording subdued results in January and February, total cycle growth rebounded to +7.7% vs. pcp in March. The industry continues its positive momentum with 3-month rolling growth now at +4.6% and 12-month rolling at +7.5%. March growth was driven by frozen cycles at +9.9% (vs. fresh at +6.4%). NSW (VRT's largest market) posted +12.0% growth in total cycle volumes for March, ahead of Victoria at +8.4% and QLD at +5.5%. NSW also remains the strongest YTD at +11.2%, with Victoria and QLD recording +6.0% and +8.4%, respectively. We continue to maintain an overweight position in VRT based on i) confidence in the industry demand drivers for Assisted Reproductive Services and the view that the slowdown in volumes exhibited in FY15 were cyclical rather than structural ii) VRT is the largest operator in an industry with rational market behaviour, high barriers to entry and government Medicare reimbursements and iii) valuation support underpinned by a normalisation of industry growth and a positive contribution expected from its acquisitions in Ireland and Singaporean ARS businesses in the next few years.

Positions that detracted most from the portfolio's performance during the month were from being underweight BHP Billiton (BHP), overweight Lend Lease (LLC) and Primary Healthcare (PRY); and from not holding Fortescue Metals (FMG), Santos (STO) and Newcrest Mining (NCM). Stocks in the portfolio that detracted most from relative performance during the month included:

BHP Billiton (BHP) (+22.7) outperformed the market during April in line with the broader rally across the resources sector, and accordingly detracted from performance due to our underweight portfolio position. Oil prices recovered ~20% over the course of the month and iron ore prices were volatile at US$55-70/t, but well in excess of consensus forecasts, as massive speculative activity emerged in Chinese iron ore derivatives, eventually forcing regulatory intervention. Meanwhile resource equities rallied across the board, largely attributed to some "less worse" Chinese macroeconomic indicators, a weakening US$, and ongoing easy monetary policy globally. BHP Billiton released relatively robust production statistics for the March 2016 quarter, however reduced medium term iron ore production guidance by ~10mtpa due to a previously undisclosed rail maintenance program. In an environment of weak global demand growth and significant oversupply across most commodities, we remain sceptical about the recent increase in commodity prices, and accordingly the sustainability of the equity rally. We also expect the shadow of the Samarco incident to continue to overhang BHP for many years. Accordingly we remain underweight the stock.

Lend Lease (LLC) (+1.0%) underperformed the market as ongoing speculation in the media and by broker analysts that the residential apartment cycle had peaked which would result in reduced earnings going forward. We remain of the view that LLC has a vast work in hand book that is both geographically and industrially diversified with the potential peak in the cycle not a defining factor for the Groups overall earnings growth over the next few years. Whilst we are by no means suggesting that there may be some softer apartment prices in major Australian capital cities over the next few years, the extremely low default rates that LLC have provided to the market along with historically low domestic interest rates should go a long way to ensuring the stock they have on hand is still cleared in a profitable manner. We continue to retain an overweight position in the stock and expect the market to put aside its current fears as domestic rates continue to fall.

Primary Health Care (PRY) (-2.7%) underperformed the market in April following a period of solid outperformance since the position was initiated in December 2015. There were three reasons for the underperformance 1) corporate governance issues regarding CEO's Peter Grigg's involvement in the Unaoil bribery scandal in his former role as CFO at Leighton Holdings 2) concerns regarding potential changes to Medicare reimbursement in the budget and 3) no further news regarding Chinese investor Jangho's intentions, following its move to 15% of the register. We maintain our overweight position as there is still valuation support at current price levels. We note that the budget measures in relation to Medicare were not as onerous as some had expected and there is still significant short interest in the stock (albeit lower than in previous months) and the potential for corporate activity still remains.

Portfolio Construction

The main portfolio weighting changes during April included: new portfolio position in Impedimed (IPD); top-ups for our holdings in ANZ Bank (ANZ), CSL (CSL), PRY and Telstra (TLS); and some slight reductions for our holdings in Aurizon Holdings (AZJ), Commonwealth Bank (CBA), Resmed (RMD), RIO Tinto (RIO) and Wesfarmers (WES).

Cash at the end of April was 4.3% and is below the 5% maximum threshold, similar to the 4.2% in March, 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 ~83%), ~9% in the next 100 (benchmark ~14%), and ~3% in the last 150 stocks (benchmark ~4%). The 10 largest holdings constitute ~63% of the portfolio (benchmark ~50%), the dividend yield is 4.8% (benchmark 4.6%) and the portfolio's historic or trailing PE is 14.5x (benchmark of 15.3x).

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 and RMD in combination with other opportunities that we feel have fundamental valuation support, such as Suncorp (SUN), VRT and WES. We are maintaining our holding in AIO due to our expectation that the Qube Logistics (QUB) consortium bid will be successful. In February we took a position in QUB to maintain the exposure to the Patricks' assets.

Portfolio Risk

The current forecast tracking error of ~2.5% is similar to last month (~2.6%). 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 industrials with the additions of QUB and Ardent Leisure (AAD) in the portfolio over the past few months. At present, the main sources of portfolio risk are from overweight positions in AIO, PRY, and AAD.

General Market Commentary

A resurgent mining sector underpinned a strong month in April for Aussie equity investors, with the ASX300 accumulation index enjoying a 3.3% return. With the exception of Dec-12, iron ore enjoyed its largest single monthly gain this decade, rising by 23.4% with the nation's most important commodity now up by 46.3% in the calendar year. The move in iron ore, combined with other commodities rising, saw the resources component of the index post its third consecutive positive monthly return (+15.4%); the index's largest monthly move on record.

Despite similar moves in the prices of oil and iron ore, mining companies significantly outperformed energy stocks. Helping commodity prices has been a recovery in China data on the back of strong policy support (a large pick-up in social financing and increasing credit flows). Firm-level evidence suggests that demand for commodities has picked up as infrastructure projects ramp up and the property market continues to recover. On the flip-side, towards the end of the month Chinese exchanges introduced measures to curb a large increase in speculative trading in iron ore (given futures markets have recently traded more in a day than China imports in a year).

Some material company specific announcements in April included: the decision by the 'Big 3' producers (BHP, RIO & Vale) to scale back iron ore production further supported an already buoyant iron market; the recovery in iron prices came too late for Arrium, which was placed in voluntary administration; Investa Office Fund (IOF) shareholders rejected the Dexus (DXS) $2.5b takeover bid, with votes falling short of the 75% threshold required to approve the deal (~61% voted yes); Nine Network (NEC) and Southern Cross

Media (SXL) announced an affiliation agreement in regional QLD, southern NSW and regional Victoria; and Telstra (TLS) announced the sale of its majority stake in Autohome.

The Reserve Bank of Australia left the cash rate steady at 2.0% in April. In the statement announcing the decision, the commentary describing the currency changed from "...adjusting to the evolving economic outlook" to "the Australian dollar has appreciated somewhat recently. In part, this reflects some increase in commodity prices, but monetary developments elsewhere in the world have also played a role. Under present circumstances, an appreciating exchange rate could complicate the adjustment under way in the economy." In the minutes, members assessed that it was appropriate for monetary policy to be "very" accommodative. The AUD depreciated 0.7% against the Greenback during the month.

In what appeared to be a major catalyst for the 25bp May rate cut by the RBA, Australia's 1Q16 CPI result was considerably weaker than expected, with both headline and core inflation below the RBA's target range. Headline inflation printed at -0.2% for the quarter, with the annual rate of headline inflation falling to its lowest ever level of 1.3% p.a. The core trimmed mean printed at 0.2%, the lowest level since 1997, with the annual rate of core inflation falling to 1.7%. Employment growth printed on the higher side of expectations – up 26k. The upside surprise in employment nudged the jobless rate one-tenth lower to 5.7%, which is a two-and-a-half-year low. The participation rate was unchanged at 64.9%. The survey details were less upbeat, with the composition of employment skewed to part-time workers and a 1.1% decline in aggregate hours worked.

On the consumer front, the Westpac consumer confidence index slipped a further 4.0%. The headline index fell to 95.1, which is well below the long-run average of 101.4 and its lowest level in seven months. In the underlying details of the survey, the sub-index that measures whether households think it is a good time to buy a dwelling fell from 104.7 to 95.1. Expectations of family finances over the next year fell from 104.8 to 97.9. Retail sales were unchanged month-on-month. The disappointingly weak result comes after sales were unchanged in December and up only 0.3% in January. Non-discretionary spending slowed notably, but there was weakness across all categories and states. Building approvals data (+3.1%) was good, but not great. The better than expected outcome was attributable to a rise in the high density approvals component, which rose 7.7%. Single family approvals fell 1.0%. In the NAB business survey, Australian business conditions climbed from +8 to +12. Business confidence was also modestly stronger than expectations. Employment intentions improved across almost all sectors of the survey. Australian private sector credit rose 0.4% in March. Business credit growth slowed (+0.3%), but still remains close to cycle highs at 6.5% p.a. Mortgage credit growth to property investors slowed to 7.0% p.a., the slowest pace since late 2013. Owner occupier housing credit growth (+7.2% p.a.) is now running above that of investors.

Base metals turned up sharply in April, with the LME Metals Index rising 6.3%. Nickel (+11.4%), aluminum (+10.5%), zinc (+6.9%), lead (+6.4%), copper (+3.8%) and tin (+3.2%) all rose over the month. Iron ore rose 23.2% to $66.24/mt. The sharp rise in iron ore was driven in particular by the announcement of production cuts from the 'Big 3' (BHP, RIO and Vale). Further signs of improving economic conditions in China also served to support sentiment. Brent and WTI established year-to-date highs, rising 16.2% and 19.8% respectively to $47.37/bbl and $45.92/bbl. A rapid escalation in outages and improving Chinese economic data underpinned the move. Coal was among the weakest in the commodities complex; falling 0.7% to $51.00/mt across the month. Silver was the major mover in precious metals over the month, rising 15.6% to $17.85/oz. Gold also rose 4.9% to $1292.99/oz.

Outlook

Despite the major banks generally reporting larger than expected provisions for non-performing commercial loan exposures in the 1H16 reporting, their share prices have been remarkably strong to start the month of May. However, even with the bank reporting season being far from a disaster at the stock level, the Australian equity market overall 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 in calendar 2016 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. Given the RBA rate cut in the first week of May, we remain overweight the major banks as we feel the sell-off this year on a mix of global banking system concerns and local housing market concerns as overdone in light of a lower domestic interest rate environment. We believe valuations for the sector are attractive despite constrained EPS growth currently (due primarily to equity issuance) and the residential 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 have taken profits on some our exposure to a weaker AUD/USD but still hold a number of stocks with USD earnings exposure We are focused on high quality domestic industrials and other specific active sector positioning includes being underweight the industrials (still holding no mining services stocks) and consumer staples stocks. We have begun to increase our weightings in non-resource material stocks. Outside of the financials, we also remain overweight the healthcare, telecommunications and utilities sectors.