ATI·AM
Above The Index Asset Management Pty Ltd

Fact Sheet

ATI Australian Equity Portfolio

Information as at 30 June 2013

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 June 2013)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Inception (% p.a.)
ATI Equity Portfolio (gross)	(2.8)	(3.6)	20.0	6.7	5.3	6.1
Benchmark Index	(2.4)	(2.8)	21.9	8.2	2.7	4.5
Relative Outperformance	**(0.4)**	**(0.8)**	**(1.9)**	**(1.5)**	**2.6**	**1.6**

*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 June 2013

Largest Holdings	Portfolio Weight (%)	Benchmark Weight (%)
BHP Billiton	10.3	8.5
National Australia Bank	8.1	5.9
ANZ Bank	8.1	6.6
Telstra	7.2	5.0
Westpac Bank	7.1	7.5
Commonwealth Bank	6.7	9.3
Rio Tinto	4.5	1.9
Woodside Petroleum	3.5	1.8
Wesfarmers	3.4	3.8
News Corporation	3.3	0.7

Sector Allocation	Portfolio Weight (%)	Benchmark Weight (%)
Financials	39.4	44.8
Materials	22.6	16.7
Telecommunications	7.2	5.4
Consumer Discretionary	6.8	4.4
Consumer Staples	5.5	8.8
Industrials	3.2	6.6
Energy	3.5	6.2
Healthcare	3.1	4.7
Utilities	2.5	1.7
Information Technology	2.2	0.8

Selected Portfolio Statistics as at 30 June 2013

Inception Date	23-Dec-05
Number of Stocks	31
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 2.8% in June compared with a fall of 2.4% in the benchmark index. Against this benchmark, ATI is producing excess returns on a 5 year and since inception (Dec'05) basis.

The Best and Worst Performing Sectors

The best performing sectors for the month were Health Care (+1.4%), Financials ex-Property (0.4%), and Consumer Staples (-0.4%); while the worst were Materials (-10.3%), Information Technology (-6.0%), and Energy (-5.8%).

From a sector perspective, the relative performance of the ATI portfolio was most positively impacted from being underweight Energy (3.5% v benchmark of 6.2%) and underweight Industrials (3.2% v benchmark of 6.6%) stocks; but was negatively impacted from being overweight Materials stocks (22.6% v benchmark of 16.7%) and Consumer Discretionary stocks (6.8% v benchmark of 4.4%) and being underweight Financials (39.4% v benchmark of 44.8%).

Attribution of Stocks

The portfolio performance during June was assisted by overweight positions in National Australia Bank (NAB), Ardent Leisure (AAD), and News Corp (FOX); and by not holding Newcrest Mining (NCM), Origin Energy (ORG) and ASX (ASX). The three stocks in the portfolio that contributed most to its relative performance during June were:

National Australia Bank (NAB) (+2.3%) rose in June despite no material news flow or releases by the company. The more logical explanation for NAB's performance was its ability to benefit from the thematic trade as the market reverted to chasing defensive yield stocks whilst selling off the materials stocks. During the month, NAB did announce that it had bought back $300m of shares on-market to partially neutralise or reduce the dilutionary impact of the group's 1H13 dividend reinvestment plan (which had ~20% participation) and bonus share plan. NAB remains relatively attractive in the ATI rankings and an overweight portfolio holding.

Ardent Leisure (AAD) (+1.8%) outperformed the market during June as it appeared to be the beneficiary of the falling $AUD and the fact that it has an increasing component of US dollar earnings from its very well performing Main Event businesses. In recognition of this fact, AAD announced during June that it had executed an extension and increase of the existing debt facilities with these debt arrangements to include an increased proportion of US dollar denominated debt to better reflect the growth profile of the Main Event Entertainment business. The financial close is expected to occur prior to 30 June 2013 with the $320 million facility maturing in two tranches in 3 and 4 years with four participating banks to provide future funding flexibility and capacity. The average margin on the debt facilities drawn will be lower than the margin that applied prior to the variation. AAD remains attractive in the ATI rankings and an overweight portfolio holding.

News Corp (FOX) (+1.3%) announced on June 19, that News Corp would be de-merged into Twenty-First Century Fox (FOX) and New NewsCorp (NNC). The combined price of these two stocks was above the pre-demerger NWS price. FOX now contains the TV, Cable, Film and Direct broadcast business. We have maintained our overweight position in FOX following the de-merger due to the earnings profile of the business driven by increasing global TV and Film consumption and pricing power. FOX remains relatively attractive in the ATI rankings and an overweight portfolio holding.

Positions that detracted most from the portfolio's performance during the month were from being overweight Lend Lease (LLC), Sandfire Resources (SFR) and AMP (AMP); and from not holding Amcor (AMC), Westfield Holdings (WDC) and Sonic Healthcare (SHL). Stocks in the portfolio that detracted most from relative performance during the month included:

Lend Lease (LLC) (-16.7%) substantially underperformed during the month after it provided a profit update and also announced a restructuring of its Australian construction and infrastructure business, with the Abigroup, Baulderstone, Project Management & Construction and Infrastructure Services businesses to be consolidated. With regards to profit, LLC announced it was on track to deliver FY13 earnings in line with consensus expectations. However, the change in the composition of earnings included a lower tax rate of 4-8%, compared to previous guidance of ~13%, and reduced earnings from construction businesses in Australia and Asia due to softening markets. This outcome disappointed investors and lead to downgrades to consensus earnings expectations with the shares falling 7.5% on the day of the announcement. Regarding the business restructure, all business units will be transitioned into sector-based businesses, with one business in the building, engineering and infrastructure services sectors. The company also announced the earlier than expected sale of its stake in a Singapore-based shopping mall project (JEM). Despite the rebasing of earnings, LLC remains attractive in the ATI rankings and is still an overweight portfolio holding.

Sandfire Resources (SFR) (-19.8%) underperformed the market during June after significantly outperforming during May. During the month the copper price fell to ~US$3.05/lb from ~US$3.30/lb, however the gold price continued its precipitous fall, losing a further ~US$150/oz to close the financial year at US$1,235/oz. ATI continues to view the supply/demand outlook for copper as robust, and certainly the most attractive of the base metals, with recent supply interruptions at three of the largest global copper mines, Bingham Canyon, Grasberg, and Oyu Tolgoi, highlighting the current tight nature of the market. Further, SFR remains relatively insulated from the impact of the recent gold price correction, with only ~10% of forecast revenue from its production of gold as a by-product, compared to ~20% for Oz Minerals (OZL) and ~40% for PanAust (PNA). SFR remains relatively attractive in the ATI rankings and an overweight portfolio holding.

AMP (AMP) (-18.0%) underperformed the market after providing updated 1H13 earnings guidance late in the month, with underlying profit now expected to be in the range of $415m-435m. This guidance was disappointing as it equated to a downgrade of ~12% to the 1H13 consensus earnings expectations of ~$480m and AMP shares fell 12.9% on the day of the announcement. AMP said the primary reason for the downgrade was due to poor claims and lapse experience of $32m in its Australian wealth protection business in the second quarter, particularly in May. These losses stemmed primarily from insurance claims of $26m, with half of these claims relating to term life and group polices. Outside life insurance, AMP said a stronger 1H13 performance in its bank, mature and NZ businesses will largely offset a lower wealth management result. Despite the earnings downgrade, AMP remains attractive in the ATI rankings and is an overweight portfolio holding.

Portfolio Construction

The main portfolio weighting changes during June included: the purchase of Suncorp Group (SUN) after it announced the sale of the majority of its non-core bank portfolio of loans; portfolio top-ups for our holdings in Atlas Iron (AGO), Commonwealth Bank (CBA), Fortescue Metals Group (FMG), Pacific Brands (PBG), and Telstra (TLS); and a slight portfolio weighting reduction for AMP, NAB and Woolworths (WOW). Cash at the end of June was 3.6% (May 3.8%).

The ATI portfolio, with regard to the market capitalisation exposures, remains quite similar to the benchmark index with ~92% of the portfolio (excluding cash) in the top 50 stocks (benchmark ~84%), ~7% in the next 100 (benchmark ~13%), and ~2% in the last 150 stocks (benchmark ~3%). ATI's 10 largest holdings make up ~65% of the portfolio (benchmark 55%), the dividend yield is 4.5% (benchmark 4.5%) and the portfolio's historic PE is 13.8x (benchmark of 14.9x).

Whilst the portfolio's market cap bias is broadly similar to the benchmark index, its underlying sector positioning is not. ATI has maintained its portfolio position of being overweight the Materials and underweight Financials sectors. We remain comfortable holding a number of smaller resource stocks with iron ore and copper exposure that have become sufficiently attractive for their relatively high expected return profile to justify some additional portfolio risk. These stocks include AGO, FMG and SFR. We continue to remain overweight in consumer discretionary stocks we view as having structural advantages such as News Corporation (FOX) or value opportunities with fundamental value support such as PBG, Toll Holdings (TOL) and Fairfax Media (FXJ).

Portfolio Risk

The current forecast tracking error of ~2.8% is slightly below last month ~3.4%. We are continuing to be presented with a number of stock opportunities in the underperforming materials and industrial sectors as a result of their recent underperformance. At this stage we still feel that any further additional risk is unlikely to be justified in an environment with minimal earnings clarity and continued reductions in the expected mining capex spend over 2013 and beyond. That said, we also feel that the negative reaction of some materials stocks in the iron ore and copper space has been overdone in the last few months as recent commodity pricing levels remain well above the lower levels that we saw the second half of 2012 and during the GFC.

At present the main sources of portfolio risk are from overweight positions in SFR, FMG, AGO, Lynas Corp (LYC), Rio Tinto (RIO), LLC and an underweight position in CBA.

General Market Commentary

The Australian equity market fell for a second month running as it came under pressure from media speculation that the US Fed may bring forward the 'tapering" of their quantitative easing program and the potential growth implications of some tighter liquidity rules in the Chinese banking system. There was some sort of relief rally later in the month after several better-than expected US data releases and the Chinese authorities taking swift action by injecting funds into financial institutions in order to calm market jitters. The mining-heavy Materials sector was the biggest casualty amid the concerns about the Chinese economic growth profile as Government rhetoric appeared to be taking a firmer line on the need for tighter liquidity control in the banking system.

Whilst the benchmark ASX300 Accumulation Index ended June down 2.4%, it delivered an FY13 return of ~22% which was similar to that of the US equity market over the same period and its strongest annual return for six years. In Australia, most of the annual return has been driven by PE multiple expansion as the market rise has occurred despite the fact that consensus earnings expectations for the market actually fell over the course of the last twelve months. The market consensus currently expects a fall of ~3% in the benchmark earnings for FY13 following a 13% downgrade to consensus earnings expectations since the start of the financial year. Whilst market consensus is currently expecting ~11% EPS growth for FY14, this number is also likely to change as the earnings estimates for FY14 had already been revised down by over 10% over the course of the FY13 financial year.

Investors also sold down Australian equities in June on growing concerns about the domestic economy slowing with a number of company downgrades being issued. Mining and mining services related companies including Newcrest Mining (NCM), Transpacific Industries (TPI), NRW Holdings (NWH), Bradken (BKN), Matrix C&E (MCE) and Emeco Holdings (EHL) all issued earnings downgrades as resource companies continue to defer capex, cut costs and restructure their businesses. Other downgrades of note during the month included Cochlear (COH), LLC, AMP, Billabong (BBG), GUD Holdings (GUD), and Caltex (CTX) with many of these names pointing to the softness in general business conditions across the broader domestic economy that have resulted in their expectations for lower earnings. In M&A news, the biggest headline was the de-merger of News Corp's entertainment and publishing assets into, respectively, 21st Century Fox (FOX) and the New News Corporation (NNC).

The RBA left the cash rate on hold at 2.75% in June and this was no surprise as most economic forecasters had expected no change. Despite there being no change in rates, the Australian dollar continued falling against major currencies, dragged down by talk of US "tapering", negative sentiment towards China and falling commodity prices. As a result, the AUD/USD continued its recent slide and ended the month at US$0.926 (-3.2¢ or -4.5%) and hit its lowest level versus the greenback since October 2010. The recent trajectory of the Australian dollar versus the US dollar only looks set to continue with a backdrop of domestic growth being weak and getting weaker, the peak in mining investment coming to an end, many commodity prices continuing to fall, the unemployment rate picking up and short term interest rates possibly moving lower.

As has been the case for most of this calendar year, domestic economic data continues to be mixed at best, with the positive data points including: the May unemployment rate falling by 10bp to 5.5% (consensus 5.6%); while the June consumer confidence survey was up +4.7% mom. Data on the more negative side included: Australian 1st quarter calendar year GDP surprising on the downside at +0.6% qoq (consensus +0.7% qoq) and this represented the second consecutive quarter of gross national expenditure (GNE) contraction despite an environment being assisted by favourable weather, government stimulus, lower interest rates and solid consumer wealth gains during the quarter.

Commodity prices were generally lower during June with the broader index of base metals (LME index) plunging 7.2% in the month as markets digested the potential impacts of "QE tapering" in the US and some Chinese policy changes that appeared to put the brakes on the level of credit-fuelled investment. For example, copper was down 7.6% and aluminium was down 7.7% on a monthly basis. The benchmark spot iron ore contract, Tianjin 62% fines, managed to buck a broader downward trend in the industrial metals, ending the month up 5.5% as inventory sell-downs by Chinese steel mills and traders in April and May on the back of global economic uncertainty were partially reversed in June. With the USD strengthening and bond yields expanding, precious metals lost their investment appeal and the sell-off in gold (-11.0%) continued as rising short-term rates spooked investors with bullion hitting a three-year low during June. Oil, on the other hand, edged higher over concerns that the conflict in Syria might spread to neighbouring countries and disrupt supply of the commodity – with spot Brent crude ending June up 2.2%.

Outlook

Whilst the annual market return for domestic equities looks good compared to history, it is becoming increasingly clear that at some point we need positive earnings revisions to help maintain the momentum. Whilst it has done the job for the last year, PE multiple expansion alone is unlikely to be able to continue driving our equity market, especially in an environment where we have already been made aware that there will not be "unlimited" or indefinite liquidity supply from central banks globally. As we witnessed during June, mere speculation the US may be closer to ending its quantitative easing program and the potential concerns around China's growth trajectory were thematic events that had sufficient impact to see equity markets sold off globally.

In the absence of an improved earnings outlook that would provide a clear line of sight for investors, the current environment appears set to be one where equity markets will continue to be thematically driven. The potential for this outcome only encourages us to ensure that the portfolio has sufficient exposure to some of the more contemporary thematic market drivers, such as stocks that: earn and/or report in US dollars; are relatively more immune from a domestic economic slowdown; have strong and defensive franchises operating within oligopolistic industry structures; and are beneficiaries of any rise in the market expectation for global interest rates. Whilst ensuring the portfolio is not going to be devoid of opportunities to benefit from the thematic ideas mentioned above, we have maintained our overweight materials sector positioning as we continue to expect that the improving global macro dynamics of an ongoing recovery in the US economy, an expanding Chinese economy and a less troubled Eurozone will be supportive of an environment where materials stocks can outperform the broader market. As we have noted previously, the falling Australian dollar may enhance the prospects for many materials stocks as commodity prices and indeed sales are generally denominated in US dollars, meaning the potential currency translation benefit should actually help their cause.

The ATI portfolio remains balanced with a mix of high yielding, large capitalisation financial, telco and consumer staples stocks combined with an overweight exposure to the materials sector via the two large diversified miners and some smaller commodity specific positions. The portfolio is also balanced by a mix of strategic consumer discretionary and industrial stocks that we feel are capable of improving our expected return over the coming year.

PORTFOLIO RISK SUMMARY

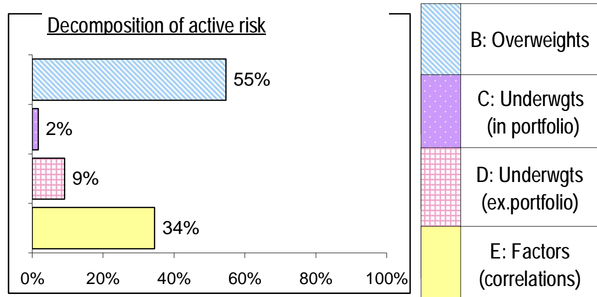
Portfolio Name:	**MyPort**
Benchmark:	ASX300
Date of Data:	30-Jun-13
Sector Type:	BGICS

		Active Exposures:		%
Historic portfolio alpha	4.0%	Total:	77.0%	100.0%
Historic portfolio beta	1.02	Across sectors:	38.4%	49.8%
Raw return	11.8%	Within sectors:	38.6%	50.2%

Forecast Tracking Error

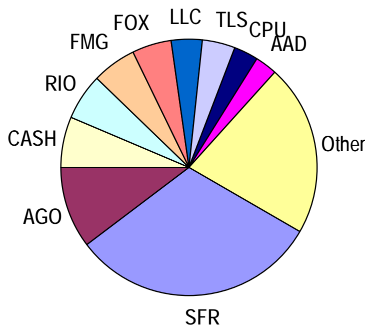
2.76 %	2.77 %
(residual risk)	(active risk)

	Source of portfolio risk	contribution to active portfolio risk	standard deviation	variance / covar.
A	Stocks held in portfolio (B+C)	56%	2.1	4.3
B	Overweight positions	55%	2.1	4.2
C	Underweight positions	2%	0.4	0.1
D	Stocks not held in portfolio	9%	0.8	0.7
E	Factors (correlations between stocks)	34%		2.7
F	Total (A + D + E)	100%	**2.8**	7.7
G	Systematic risk (undiversifiable)		0.3	0.1
H	Residual risk definition tracking error (F - G)		**2.8**	7.6



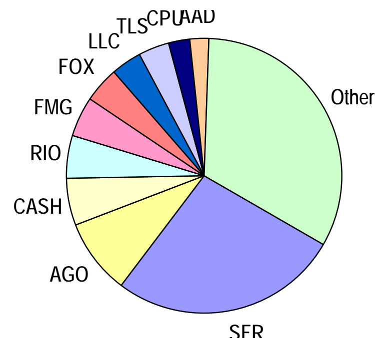
Top 10 sources of risk: Stocks held in the portfolio (A)

1	SFR	31%
2	AGO	10%
3	CASH	6%
4	RIO	6%
5	FMG	5%
6	FOX	5%
7	LLC	4%
8	TLS	4%
9	CPU	3%
10	AAD	3%
	Other	22%



Top 10 sources of risk: All stocks in benchmark (B+C+D)

1	SFR	27%
2	AGO	9%
3	CASH	5%
4	RIO	5%
5	FMG	5%
6	FOX	4%
7	LLC	3%
8	TLS	3%
9	CPU	3%
10	AAD	2%
	Other	33%



Active Weights