

# Fact Sheet

## ATI Australian Equity Portfolio

Information as at 30 November 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/ASX300 Accumulation Index by 3% p.a. over rolling three-year periods.

### Performance Update

(\*Returns to 30 November 2011)

|                                | 1 Month (%)  | 3 Months (%) | 1 Year (%)   | 3 Years (% p.a.) | 5 Years (% p.a.) | Inception (% p.a.) |
|--------------------------------|--------------|--------------|--------------|------------------|------------------|--------------------|
| ATI Equity Portfolio (gross)   | (3.5)        | (2.5)        | (7.2)        | 10.0             | 1.3              | 4.1                |
| S&P/ASX300 Accumulation Index  | (3.4)        | (3.0)        | (6.3)        | 8.1              | (1.4)            | 2.0                |
| <b>Relative Outperformance</b> | <b>(0.1)</b> | <b>0.5</b>   | <b>(0.9)</b> | <b>1.9</b>       | <b>2.7</b>       | <b>2.1</b>         |

\*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 November 2011

| <b>Largest Holdings</b> | <b>Portfolio Weight (%)</b> | <b>S&amp;P/ASX300 Weight (%)</b> | <b>Sector Allocation</b> | <b>Portfolio Weight (%)</b> | <b>S&amp;P/ASX300 Weight (%)</b> |
|-------------------------|-----------------------------|----------------------------------|--------------------------|-----------------------------|----------------------------------|
| BHP Billiton            | 9.5                         | 11.1                             | Financials               | 43.6                        | 37.2                             |
| Westpac Bank            | 8.3                         | 6.2                              | Materials                | 15.5                        | 25.4                             |
| ANZ Bank                | 8.3                         | 5.2                              | Consumer Staples         | 10.5                        | 8.9                              |
| National Australia Bank | 8.1                         | 5.1                              | Consumer Discretionary   | 7.2                         | 4.0                              |
| Commonwealth Bank       | 7.9                         | 7.4                              | Telecommunications       | 6.7                         | 4.2                              |
| Telstra                 | 6.7                         | 3.9                              | Healthcare               | 3.2                         | 3.5                              |
| Woolworths              | 5.0                         | 3.0                              | Industrials              | 3.1                         | 7.2                              |
| Wesfarmers              | 4.1                         | 3.5                              | Energy                   | 1.9                         | 7.4                              |
| CSL                     | 3.2                         | 1.6                              | Utilities                | 1.8                         | 1.5                              |
| News Corporation        | 3.1                         | 0.8                              | Information Technology   | 1.6                         | 0.7                              |

### Selected Portfolio Statistics as at 30 November 2011

|                                   |           |                                          |              |
|-----------------------------------|-----------|------------------------------------------|--------------|
| <b>Inception Date</b>             | 23-Dec-05 | <b>MER (est.)</b>                        | ~ 0.90% p.a. |
| <b>Number of Stocks</b>           | 29        | <b>Tracking Error (forward estimate)</b> | ~ 3.0% p.a.  |
| <b>ATI Funds Under Management</b> | ~ \$500m  |                                          |              |

## Portfolio Performance

The ATI Equity Portfolio fell 3.5% in November compared with a fall of 3.4% in the S&P/ASX300 Accumulation Index. Against this benchmark, ATI is producing excess returns on a 3 month, 3 year, 5 year and since inception (Dec-05) basis.

### The Best and Worst Performing Sectors

The best performing sectors in November were REITs (+2.6%), Healthcare (+2.2%) and Utilities (+1.9%); while the worst were Financials (-6.8%), Materials (-6.6%) and Energy (-4.3%).

### Attribution of Stocks

The portfolio performance during November was assisted by overweight positions in defensive stocks such as CSL Ltd (CSL), Telstra (TLS) and Woolworths (WOW); and by not holding Bluescope (BSL), OneSteel (OST) and Iluka (ILU). Stocks in the portfolio that contributed most to its relative performance during the month included:

**CSL Ltd (CSL) (+8.1%)** outperformed following the completion of a USD750m debt private placement which is now being used to fund the previously announced AUD900m buyback. In addition, the fall in the AUD/USD and AUD/CHF exchange rates during the month also assisted the mark-to-market on the translation impact of CSL's forecast FY12 P&L. Alpha generation was assisted by increasing the overweight position in CSL at the start of the month. CSL is relatively attractive in the healthcare sector and remains an overweight portfolio holding.

**Telstra (TLS) (+1.9%)** rose marginally during the month after holding its annual investor day where management reiterated guidance of: (i) low single digit revenue and EBITDA growth, (ii) a 28c dividend for 2012 and 2013, (iii) \$4.5-5bn free cash flow, and (iv) capex to sales of 14%. Although the company confirmed guidance it did state that the revenue mix had changed. Sensis revenue is expected to decline by *"high teens"* (previously *"mid single digit"*) and earnings are being impacted by margin compression due to the shift from print to online. To meet guidance TLS is seeing stronger growth in mobile, fixed broadband and NAS (network area storage). During November TLS resubmitted its SSU (structural separation undertaking) to the ACCC. It was expected that this would be approved by the end of the year although it now appears that this will be delayed until early 2012 with immaterial changes which will not require another shareholder vote.

**Woolworths (WOW) (+3.4%)** outperformed in November after underperforming during October. The defensive nature of its earnings stream, and a positive strategy day and AGM update resulted in relative share price outperformance. At the strategy day FY12 guidance was reiterated and a long term aspirational target of *"high single digit sales growth and 10% EPS growth"* was stated. Alpha generation was assisted by increasing the overweight position in WOW at the start of the month. WOW remains relatively attractive in the consumer staples sector and an overweight portfolio holding.

Positions that detracted most from the portfolio's performance during the month were from being overweight Insurance Australia Group (IAG), Pacific Brands (PBG) and Fairfax Media (FXJ); and from not holding Westfield Group (WDC) and Stockland (SGP). Stocks in the portfolio that detracted most from performance during the month included:

**Insurance Australia Group (IAG) (-8.6%)** announced that the Thai floods would cost it ~\$50m after reinsurance recoveries, including the use of the remaining \$25m in its aggregate reinsurance cover. The market was surprised by the size of this cost as it appears quite high relative to its annual Thai written premium of ~\$160m. In the UK motor insurance IAG competitor Admiral increased its reserves for personal injury claims - although it is difficult to know whether this reflects trends that IAG has already seen in recent halves, or whether the environment has worsened further. On a more positive note, IAG announced a successful NZ subordinated bond offer which was upped to NZD325m from NZD250m after strong investor demand. IAG remains attractively ranked in the ATI universe and is an overweight portfolio holding.

**Pacific Brands (PBG) (-12.5%)** was a detractor during the month following a weak trading update at its AGM in October where the company noted that market conditions were becoming more challenging. Management now expects underlying sales, EBIT and NPAT (before significant items) in FY12 to be below FY11, with earnings in 1H12 materially lower than pcp. PBG remains relatively attractive based on fundamentals and the share price should be supported by the buyback (~25% complete) and implied dividend yield (~9%).

**Fairfax Media (FXJ) (-11.3%)** fell during November after confirming at its AGM that it had seen a continuing of the trend that it reported at the release of its FY11 result of August of revenue being *"a little more than 4%"* below pcp. This is largely consistent with the monthly SMI data up to October, however we do not think that the comparisons with last year become significantly easier from November (as Nov-10 was when the newspaper ad market turned negative). November also saw the Fairfax family interests (Marinya Media) sell their remaining 9.7% stake in FXJ.

## Portfolio Construction

The ATI portfolio continues to maintain its large stock bias with regard to its market capitalisation exposures against the S&P/ASX300 index with 93% of the portfolio (excluding cash) in the top 50 stocks (compared to 81% of the S&P/ASX300 index), 5% in the next 100 (14% of the index), and 2% in the last 150 stocks (4% of the index). We expect the portfolio to remain overweight the larger cap stocks in these volatile markets and the number of holdings in coming months will only increase if those stocks that have become relatively attractive also improve the expected risk/return profile of the portfolio. Any new positions would be expected to compliment the overweight positions already held in the larger cap stocks which history has shown us is a relatively good place to be in these uncertain and erratic market conditions.

During November the number of stocks (29) in the portfolio increased by two with the addition of Flight Centre (FLT) and Brambles (BXB). Both stocks entered the portfolio after becoming relatively attractive within our investment grade universe. In addition, FLT allowed us to diversify some of our travel/transport exposure away from Qantas (QAN), while BXB also added further USD exposure to the portfolio as the USD continues to strengthen. These additions were funded by a further increase in our underweight positions in the major resource stocks (BHP and RIO).

## Portfolio Risk

The current forecast tracking error of ~3.5% (range of 2-8%) for the ATI portfolio has the potential to change in coming months as the risk/return benefit of taking on some relatively oversold stocks is assessed with reference to the global macro developments.

As present the main sources of portfolio risk are from overweight positions in Pacific Brands (PBG), Telstra (TLS), ANZ Bank (ANZ), News Corporation (NWS) and National Australia Bank (NAB); and having no holding in Origin Energy (ORG).

## General Market Commentary

Global macro forces and events continued to dictate the direction and performance of the Australian stock market during the month. Since the European sovereign debt crisis reignited in the middle of this year (along with the US debt ceiling issue), equity markets initially fell in both August and September, then rebounded strongly during October, before dropping again in November. These major market shifts have each time been driven by expectation and/or hope that the latest proposed package would resolve the European crisis, followed by subsequent doubts and then renewed concerns of a potential financial system meltdown. While the market continued to speculate one way and then another, November did see dramatically rising bond yields in Italy, the replacement of leaders in both Greece and Italy, sovereign rating downgrades for Belgium, Portugal and Hungary, and the failure of MF Global. In addition, the last day of the month saw a strong market rally after the coordinated move by six Central Banks to lower the cost of USD funding. The only certainty is uncertainty as investor visibility remains near zero. However, as we spoke about last month, some data out of the US is surprising the market on the upside (although expectations are low). Nevertheless, the global outlook appears to be deteriorating with China slowing, the US weak and the Euro Zone heading towards recession.

On the domestic front, the economic data continued to be mixed. The Australian Government's Mid Year Economic Review saw a significant deterioration in the FY12 budget deficit, however the commitment to a small surplus in FY13 was maintained (albeit with some reservations by the market). The other major development was the RBA cutting interest rates by 25bps to 4.50% - the first reduction in the current rate cycle. Driven by the market's shift towards risk aversion and the lowering of interest rates, the AUD ended the month 5.5c lower at 99.8c (after trading between 96.7c and \$1.05). Commodity prices were also mixed during November with oil higher (spot Brent +2.3%) and spot gold lower (-0.7%). However, iron ore was the standout, rising 10.6% (Tianjin 62% fines) following its sharp sell off in October.

## Outlook

ATI has responded to the recent market conditions with a series of active portfolio management decisions that have been implemented during this period of significant market instability. These decisions had the cumulative effect of concentrating and de-risking the portfolio into those large capitalisation stocks which provided the greatest expected return for the lowest level of expected risk. The recent sell-off in equity markets reflects the fact that a synchronised global earnings recovery is now some way off as both Europe and the US are attempting to deal with mounting debt problems. As a result of revised global growth expectations, the ongoing domestic earnings downgrade cycle for equities is likely to continue, and until we see some improvement in the global macro backdrop, investors are likely to remain somewhat wary.

ATI's relative value process is still identifying some attractive opportunities in conjunction with some more defensive holdings that we feel are appropriate for these market conditions. 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 coming year as signs of earnings growth are now required to drive the next upward phase in equity markets.

# PORTFOLIO RISK SUMMARY

|                 |               |
|-----------------|---------------|
| Portfolio Name: | <b>MyPort</b> |
| Benchmark:      | ASX300        |
| Date of Data:   | 30-Nov-11     |

|                        |                      |
|------------------------|----------------------|
| Model:                 | 48months - 5 factors |
| Factor Analysis:       | Multi-Factor         |
| Timestamp of Analysis: | 2/12/2011 3:05:42 PM |

Historic portfolio alpha **4.6%** **Active Exposures:**  
 Historic portfolio beta **0.88** Held: 42.7%  
 Raw return **-4.4%** Total: 78.7%

|                         |                 |               |
|-------------------------|-----------------|---------------|
| Forecast Tracking Error | <b>2.79 %</b>   | <b>3.50 %</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)                  | 39%                                   | 2.2                | 4.8               |
| B Overweight positions                            | 37%                                   | 2.1                | 4.6               |
| C Underweight positions                           | 2%                                    | 0.5                | 0.2               |
| D Stocks not held in portfolio                    | 14%                                   | 1.3                | 1.7               |
| E Factors (correlations between stocks)           | 47%                                   |                    | 5.7               |
| F Total (A + D + E)                               | 100%                                  | 3.5                | 12.3              |
| G Systematic risk (undiversifiable)               |                                       | 2.1                | 4.5               |
| H Residual risk definition tracking error (G - F) |                                       | 2.8                | 7.8               |

