Fact Sheet

Above The Index Asset Management Pty Ltd

ATI Australian Equity Portfolio

Information as at 30 November 2015

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 November 2015)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Inception (% p.a.)
ATI Equity Portfolio (gross)	0.6	(0.3)	(1.4)	8.6	6.5	6.5
Benchmark Index	(0.7)	0.7	2.1	9.2	6.8	5.3
Relative Outperformance	1.3	(1.0)	(3.5)	(0.6)	(0.3)	1.2

*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 2015

Largest Holdings	Portfolio Weight (%)	Benchmark Weight (%)
Commonwealth Bank	11.0	9.9
ANZ Bank	8.0	5.7
Westpac	8.0	7.7
Telstra	7.0	4.8
National Australia Bank	7.0	5.6
CSL	5.0	3.3
Wesfarmers	4.0	3.1
AIO	3.0	0.6
Amcor	3.0	1.2
AMP	3.0	1.2

Sector Allocation	Portfolio Weight (%)	Benchmark Weight (%)
Financials	48.5	47.7
Telecommunications	10.2	6.8
Materials	9.2	12.5
Healthcare	10.2	6.8
Consumer Staples	4.9	6.8
Industrials	6.0	8.2
Energy	2.6	4.4
Consumer Discretionary	1.1	4.8
Utilities	2.0	2.3
Information Technology	1.6	1.1

Selected Portfolio Statistics as at 30 November 2015

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 0.6% in November compared with a fall of 0.7% in the benchmark index. Against this benchmark, ATI is producing excess returns on a monthly and since inception (Dec'05) basis.

The Best and Worst Performing Sectors

On a relative basis, the best performing sectors for the month were technology (+7.0%), health care (+5.3%) and banks (+3.5%) whilst the worst performers were materials (-12.4%), property trusts (-2.9%) and utilities (-1.7%).

From a sector perspective, the relative performance of the ATI portfolio was most positively impacted from being underweight materials (9.2% v benchmark of 12.5%) and overweight healthcare stocks (10.2% v benchmark of 6.8%) whilst it was most negatively impacted by being underweight consumer discretionary stocks (1.1% v benchmark of 4.8% stocks and underweight consumer staples stocks (4.9% v benchmark of 6.8%).

Attribution of Stocks

The portfolio performance during November was assisted by overweight positions in M2 Group (MTU), Mayne Pharma (MYX) and Asciano (AIO); and by not holding South 32 (S32), QBE Insurance (QBE) and Newcrest Mining (NCM). The three stocks in the portfolio that contributed most to its relative performance during November were:

M2 Group (MTU) (+3.6%) outperformed during the month as MTU & Vocus Communications (VOC) held their NZ Investor Day. Management highlighted that as the migration to NBN progresses MTU margins would remain the same, whereas other carriers would require a price increases to maintain margins. Late in November the NBN announced they will reduce access pricing for telco's by 12.5%, lowering the CVC charge (connectivity virtual circuit) from $20 per Mbps per month to $17.50per Mbps per month, which will benefit providers such as MTU. The expected upcoming events in relation to the VOC merger are: 1) December 4th – NZ Com regulatory approval, 2) late 2015 – Scheme booklet, 3) Early 2016 – Shareholders vote and implementation. We remain overweight MTU as we expect further synergy benefits to eventuate form the merger of the two groups.

Mayne Pharma (MYX) (+5.4%) outperformed during November following a positive update at its AGM. The company provided a sales update for the four months to October and the $84m run rate was above market expectations for FY16. The company appears to have successfully integrated the Doryx acquisition with market share being maintained since the acquisition from Actavis. Sales in the generic products division were up 40% on pcp and up 20% in the Metric Contract Services division. We continue to hold MYX due to its earnings growth profile and the fact that it is likely to be an ongoing beneficiary of a weaker Aussie dollar with its level of USD earnings exposure.

Asciano (AIO) (+0.2%) relatively outperformed during the month relatively outperformed during the month despite the ACCC rejecting the Brookfield Infrastructure Partners (BIP) undertakings in relation to Brookfield's rail terminal in WA (Brookfield Rail) and Dalrymple Bay Coal Terminal (DBCT) in central Queensland. The ACCC stated that a final decision would be made on 17 December. Brookfield advised AIO that it intends to continue to actively explore solutions with the ACCC. The ACCC also noted that it had begun preliminary reviews to the Qube Holdings (QUB) / Global Infrastructure Partners and Canada Pension Plan Investment Board consortium bid for AIO. The decision on this would be expected to be made by 11 February 2016. Despite AIO now trading in line with our fundamental valuation, we are maintaining our portfolio holding on the basis that there is still the opportunity for a competitive bid process between BIP and QUB to occur in the upcoming months.

Positions that detracted most from the portfolio's performance during the month were from being overweight Dick Smith Holdings (DSH), Scentre Group (SCG), and Sandfire Resources (SFR); and from not holding Caltex (CTX), Ramsay Healthcare (RHC) and Sonic Healthcare (SHL). Stocks in the portfolio that detracted most from relative performance during the month included:

Dick Smith Holdings (DSH) (-59.7%) underperformed during the month following a further profit downgrade and $60m write-down of inventory after downgrading earnings last month. DSH stated that it now cannot provide FY16 guidance. Previously it had stated that FY16 NPAT would be between $5 million and $8 million lower than its previous guidance of $45 million to $48 million. The company stated the poor sales trajectory since October had continued into November and with excess stock being held the company was facing a $60m write-down. The market has lost confidence with the company and management will require a few quarters of earnings improvement and evidence that excess inventory has been cleared before any significant multiple re-rating can occur. We have maintained our position in the stock and feel there will be some opportunity to recapture some of the losses.

Scentre Group (SCG) (-3.3%) underperformed the market in November despite reporting 3Q specialty sales that were up a healthy 5.4% on the same period last year and up 5.9% for the first 9 months of calendar 2015. In addition, SCG announced the sale of three New Zealand shopping malls for gross proceeds of NZ$549m which also allows the Group further sure up the balance sheet by repaying $280m in debt instruments. SCG is still considered to be an important portfolio holding, in what is expected to remain in a volatile equity market environment, given its extremely high quality book of assets, its high quality management and improving fundamentals in its niche retail operating space.

Sandfire Resources (SFR) (-17.0%) underperformed the market during November. ATI exited the portfolio position in SFR early in the month, accordingly there was minimal detraction from performance despite the significant fall in the equity price during the month. The timely decision to exit the position was made on the back of our fundamental research effort which noted the rising probability of a significant fall in the copper price, and the imminent delineation of the boundaries of the high grade Monty exploration discovery, closing off some of the short term exploration upside. Having progressively exited the portfolio position between $6.00-6.50/share we will continue to monitor the relative value of the company for future investment opportunities.

Portfolio Construction

The main portfolio weighting changes during November included: top-ups for our holdings in Amcor (AMC), Aurizon Holdings (AZJ), Brambles (BXB), Crown Resorts (CWN), Mayne Pharma (MYX), Telstra (TLS) and Virtus Health (VRT); the removal of our portfolio positions in Pact Group (PGH) and SFR; and some slight reductions for our holdings in AGL energy (AGL) and Commonwealth Bank (CBA).

Cash at the end of November was 4.2% and is below the 5% maximum threshold, similar to the 4.0% in October, 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 BXB, CSL (CSL) and Resmed (RMD) in combination with other opportunities that we feel have fundamental valuation support, such as Suncorp (SUN) Dick Smith (DSH), 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 recent additions of Santos (STO) and Origin Energy (ORG) in the portfolio. At present, the main sources of portfolio risk are from overweight positions in SFR, RMD, MTU, AIO and TLS.

General Market Commentary

The ASX300 accumulation index (-0.7%) was an underperformer relative to other developed equity markets in November, as the domestic index was dragged down by a slump in the materials sector which suffered its largest monthly decline since September 2011. At the other end of the spectrum, healthcare delivered strong gains, while bank stocks returned to favor with investors after several months of underperformance and industrials also outperformed the benchmark.

In some of the more material company announcements during November: BHP Billiton (BHP) lost over a fifth of its value across the month suffering at the hands of sliding commodity prices and escalating costs in the wake of the Samarco tailings dam failure; Brookfield raided the AIO register to reach 19.9% interest in response to the QUB-led consortium's near 20% raid; the Qube Logistics (QUB) consortium then made a counter proposal for AIO at $9.25 per share and was thereafter granted due diligence; the ACCC rejected Brookfield's behavioral undertakings, which saw Brookfield respond with an intention to continue exploring the structural undertakings it may offer.

The RBA decided to leave the cash rate unchanged at 2.0% in November and the front end of the forward rate curve sold off aggressively after the release of the Australian labor force survey, which was significantly better than consensus had expected. The strength in a wide range of indicators in November also suggest that prospects for firmer conditions in the non-mining economy are improving and clearly rebuts a rate cut in the near term. Indeed, in the RBA's annual Long Run address, the governor stated that, "market pricing is justified in treating December as a non-event". Looking at the longer run, governor Stevens noted the impending economic adjustment to the closing chapter of the very large and long-running terms of trade event. This coincides with a household sector, which no longer has a major role to play in leading growth by significantly increasing its leverage. With the likelihood of further near term rate cuts now unlikely, the Aussie dollar appreciated (+1.2%) against the greenback in November.

The strength of a wide range of economic indicators in November adds weight to the argument that conditions in the non-mining economy are slowly improving: the labor force survey was unambiguously strong as the economy added 58,600 (consensus 15,000) jobs in October, the largest one-month gain since 2012; the unemployment rate fell to 5.9% (consensus 6.2%) and the participation rate increased to 65.0% (consensus 64.9%); on the confidence readings, the NAB business confidence survey fell back to (+2); importantly, the business conditions measure, which has the strongest correlation with domestic activity, held on to the unusually high level reached last month (+9); the Westpac consumer confidence index rose for the second consecutive month (+3.9%); there has been more traction on the consumer front, with retail sales up +0.6% for the September quarter and 0.4% m/m; this follows a rise of +0.7% m/m in the June quarter and a rise of +0.6% in the March quarter as household goods retailing (-0.8%m/m) was the only drag in the otherwise firm result; the 3Q private capital expenditure survey revealed that Australian firms have substantially cut capex (-9.2% vs. consensus -2.9%) and most surprisingly, the fall was evenly distributed across the mining and non-mining sectors and the degree to which the fall feeds into the 3Q GDP result, will be an important marker.

Almost all major commodity prices fell during November, probably in part due to a strengthening U.S. dollar. The iron ore price fell -13.8%, compounding an 11.5% fall in the prior month as sentiment in China's steel industry continues to deteriorate, with the steel PMI falling from 42.2 to 37.0. In an Australian economic context, net service exports now contribute more to domestic GDP growth than iron ore, the first time in six years. Base metals remain mired in fundamental oversupply, with the LME metals Index down (-7.6%). Spot Brent crude fell -10.1% to US$42.82. A combination of warm weather and a muted response thus far from non-OPEC production to the collapse in prices, as well as the threat of further supply gains from Iran early next year continue to loosen balances. Spot gold declined (-6.8%) as price movements continue to be dominated by the timing of Federal Reserve lift off and the subsequent impact on the USD and global inflation.

Outlook

In what has become an ongoing monthly occurrence for the vast majority of the last two years, aggregate consensus growth expectations for the Australian equity market were revised down marginally again in November leaving FY16 now at -4.0% (-3.6% previous month), FY17 at 7.5% (8.0% previous month) and FY18 forecasts slightly lower at 9.2% (9.4% previous month). The reality is that the Australian equity market is somewhat out of sync with other developed market peers as Australia's economic cycle remains one facing weaker growth expectations and this continues to put pressure on earnings. Whilst no great surprise, the main drivers of the reduced domestic growth expectations have been lower earnings forecasts in the energy and materials sectors. The domestic challenge of sub-historic growth levels has now been further complicated by the global economic recovery uncertainty and this reduces the likelihood of potential earnings upgrades over the remainder of the financial year ahead.

With the US Fed expected to raise rates in December, the move is likely to support further US dollar strength and some global yield rotation amongst asset classes. It is difficult to argue that the USD can appreciate in a way that is positive for the Australian growth outlook, because Australia is more connected with China than it is with the US, and USD strength will probably be associated with some weakness in the Chinese economy and commodity prices. This means that any market expectation in a turnaround in current earnings expectations for resource stocks driven by higher commodity prices would seem unlikely, even more so given that most commodity markets remain in an excess supply position as global demand continues to drift lower. Hence the recent trend for consensus aggregate EPS and commodity price expectations for FY16 to keep heading lower may not yet have run its course and it is for this reason that we maintain our underweight position in resources at this stage.

In the years since the global financial crisis, and particularly the unwinding of the resources boom, domestic stocks offering compelling yields have been highly sought by investors. However, sustained outperformance has progressively brought yields down to or closer to those offered in other sectors, even as payout rates have edged higher and PE multiples have in turn expanded significantly. Despite the stretched valuations, the sectors have kept outperforming, given the persisting weak growth environment, the low yields still across the asset spectrum, and the earnings risk in other sectors, like resources and energy stocks. Yet, with the US Fed likely to start raising interest rates, there might be grounds at least for tapering positions as the Australian equity market's recent relative yield advantage to global markets may begin to come under some pressure. This essentially underpins our ongoing preference towards companies with pricing power in structurally attractive industries, sustainable yield and earnings diversification.

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 benefit 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.