ATI·AM
Above The Index Asset Management Pty Ltd

Fact Sheet

ATI Australian Equity Portfolio

Information as at 30 September 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 September 2013)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Inception (% p.a.)
ATI Equity Portfolio (gross)	2.4	11.2	22.0	8.0	8.9	7.1
Benchmark Index	2.2	10.3	23.6	8.9	7.1	5.7
Relative Outperformance	**0.2**	**0.9**	**(1.6)**	**(0.9)**	**1.8**	**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 September 2013

Largest Holdings	Portfolio Weight (%)	Benchmark Weight (%)
BHP Billiton	10.3	8.8
ANZ Bank	8.5	6.5
National Australia Bank	8.2	6.2
Westpac Bank	7.3	7.8
Telstra	7.2	4.7
Commonwealth Bank	7.0	8.8
Rio Tinto	4.1	2.1
Wesfarmers	4.0	3.7
Woodside Petroleum	3.6	1.8
CSL	3.3	2.4

Sector Allocation	Portfolio Weight (%)	Benchmark Weight (%)
Financials	43.7	44.1
Materials	18.4	17.4
Telecommunications	7.2	5.2
Consumer Staples	5.5	8.3
Consumer Discretionary	5.1	4.8
Industrials	2.8	6.8
Healthcare	5.0	4.6
Energy	3.6	6.3
Utilities	2.4	1.7
Information Technology	2.0	0.8

Selected Portfolio Statistics as at 30 September 2013

Inception Date	23-Dec-05
Number of Stocks	28
ATI Funds Under Management	~ $400m

MER (est.)	~ 0.90% p.a.
Tracking Error (forward estimate)	~ 2% p.a.

Portfolio Performance

The ATI Equity Portfolio rose 2.4% in September compared with a rise of 2.2% in the benchmark index. Against this benchmark, ATI is producing excess returns on a monthly, quarterly, 5 year and since inception (Dec'05) basis.

The Best and Worst Performing Sectors

The best performing sectors for the month were Industrials (+4.7%), Information Technology (+2.7%), and Financials ex Property Trusts (+2.4%); while the worst were Health Care (-2.4%), Consumer Staples (-0.6%), and Materials (+1.2%).

From a sector perspective, the relative performance of the ATI portfolio was most positively impacted from being overweight Materials stocks (18.4% v benchmark of 17.4%) & Consumer Discretionary stocks (5.1% v benchmark of 4.8%) and being underweight Financials (43.7% v benchmark of 44.1%); but was negatively impacted from being underweight Industrial stocks (2.8% v benchmark of 6.8%).

Attribution of Stocks

The portfolio performance during September was assisted by overweight positions in Fortescue Metals Group (FMG) and Lend Lease (LLC); and by not holding Newcrest Mining (NCM), Westfield Group (WDC) and GPT Group (GPT). The three stocks in the portfolio that contributed most to its relative performance during September were:

Fortescue Metals Group (FMG) (+9.7%) was once again a strong outperformer during September, and the share price has now increased by 56% over the past three months (versus 10% for the S&P/ASX 300 Accumulation Index). The recent strong performance vindicates our contrarian decision to back the fundamental ATI research effort and the process and build a material position on FMG share price weakness. We have written at length in recent reports about the fundamental bottom-up research that we have conducted on the global iron ore industry which culminated in our view that the ubiquitous sell-side research proclaiming an imminent collapse in iron ore prices was misguided. We note that the spot iron ore price (62% Fe, CFR North China) held steady during September above US$130/t, although the ~4% A$/US$ appreciation during the month marginally eroded the A$ iron ore price received. During the month FMG continued the process of balance sheet repair, by calling for redemption the US$140m of redeemable preference shares which represented their highest cost debt, at a fixed coupon of 9%. We remain of the view that FMG will rapidly de-gear the balance sheet during FY2014, and retain an overweight portfolio holding in the company.

Lend Lease (LLC) (+6.1%) outperformed the market again in September as the share price recovers from the large declines it experienced in May and June subsequent to providing updated earnings guidance to the market. We continue to have an overweight portfolio position in LLC as we feel that the stock is relatively cheap based on our forecast earnings numbers for the next few years. In order to meet or beat these estimates, we feel that the diversified earnings base provides exposure to the improving economic prospects of the US and Europe whilst the Australian construction business is expected to be supported by the massive work in hand backlog that the Group has built over the last few years. In addition, LLC management recently stated that only around 5% of construction work was mining related and this gives us some comfort that the division will not be materially affected from the ongoing capex reductions we are seeing across the mining industry and the resultant flow on effects for many contract mining companies that are materially exposed to this dynamic. The recent signs that indicate an improvement in the domestic residential housing market are also a positive catalyst for LLC as it still remains one of Australia's largest suppliers of residential apartment dwellings.

Newcrest Mining (NCM) (-11.8%) resumed its underperformance during September, assisting the portfolio performance by virtue of not owning this ASX top 20 market weight stock (~0.7% of the benchmark Index). We note that once again this performance was generated as a result of the fundamental ATI research effort, which back in February 2013 identified the potential for a significant correction in the gold price at the macro level, and the potential for a substantial equity raising from NCM at the micro level. This research drove the decision to exit an existing portfolio holding in NCM. Subsequently the gold price has fallen by over US$400/oz, and the NCM share price has halved. ATI continue to view NCM as a likely candidate for a substantial equity raising, due to a lack of free cash flow, an uncomfortably high level of gearing, and the 2015 maturity of US$1.6bn of debt. As a consequence, ATI currently hold no NCM shares.

Positions that detracted most from the portfolio's performance during the month were from being overweight Twenty-First Century FOX Inc (FOX), Fairfax (FXJ), and CSL (CSL); and from not holding Macquarie Group (MQG), Origin Energy (ORG), and Qantas Airways (QAN). Stocks in the portfolio that detracted most from relative performance during the month included:

Twenty-First Century FOX (FOX) (+0.1%) underperformed relative to the market during the month, after lower than expected ratings in cable during the September quarter and a disappointing result at the box office for "Percy Jackson". We note though that FOX was up +7% in August, following a positive outlook statement at its US Investor day where management stated that it expects "high single digit sales growth to FY16 and EBITDA growth in the low teens". We continue to remain overweight in FOX on the basis of i) valuation support underpinned by the growth profile of the company ii) a strong balance sheet supported by ongoing capital management and iii) ongoing leverage to a US economic recovery and an expectation for a falling AUD/USD.

Fairfax Media (FXJ) (+0.0%) underperformed the broader market following an unchanged share price over the month and very little in the way of stock specific news-flow. Market data releases did include the SMI data for August that indicated that whilst advertising spend was up +6% mom, on an "Election" and "London Olympics" adjusted basis this figure was

+1%. Additionally, newspaper circulations volumes for FXJ papers continued to report high teen percentage declines. We continue to hold FXJ on the basis of valuation support and confidence that management will transition the business to an online revenue model adapting to the structural change that is occurring in the industry. We expect the overall revenue decline to show signs of stabilisation whilst costs continue to be extracted from the business and in radio, Nielsen released its Radio Ratings Survey for August which showed that FXJ's Melbourne station 3AW had held its share steady and maintained its #1 market position.

CSL (CSL) (-5.9%) underperformed during September following the latest Plasma Protein Therapeutic Association (PPTA) data for May that showed that IG volumes sold into the US distribution channel grew 6% from January below the 10% run rate that had been expected. We also note that the 2012 $900m buyback is now complete and CSL did announce the approval of Hizentra, in Japan, late in the month. We maintain our slight overweight position in CSL on the basis of i) our expectation for continued market share gains, ii) balance sheet support (including ongoing capital management expected to be announced at its October AGM), and iii) its low cost producer status in a rational oligopoly industry structure.

Portfolio Construction

The main portfolio weighting changes during September included: the purchase of ASX (ASX); portfolio top-ups for our holdings in AMP (AMP), ANZ Banking Group (ANZ), Brambles (BXB), CSL (CSL), ResMed Inc (RMD), Suncorp Group (SUN), and Wesfarmers (WES); the disposal of holdings in Atlas Iron (AGO), Metcash (MTS) and Orica (ORI); and slight portfolio weighting reductions for FMG, FXJ, Pacific Brands (PBG) and QBE Insurance (QBE). Cash at the end of September was 3.8% (August 3.9%).

The ATI portfolio, with regard to the market capitalisation exposures, remains differentiated to the benchmark index with ~94% of the portfolio (excluding cash) in the top 50 stocks (benchmark ~83%), ~4% in the next 100 (benchmark ~13%), and ~2% in the last 150 stocks (benchmark ~4%). ATI's 10 largest holdings make up ~66% of the portfolio (benchmark ~54%), the dividend yield is 4.2% (benchmark 4.2%) and the portfolio's historic PE is 15.6x (benchmark of 16.8x).

Whilst the portfolio's market cap bias is currently tilted to the larger stocks compared to the benchmark index, its underlying sector positioning is not too dissimilar to that of the benchmark. With the recent performance of some resource stocks, ATI has reduced the extent to which the portfolio is overweight the materials and underweight the financials sectors. We remain comfortable holding a number of resource stocks with iron ore, RIO & FMG, and copper exposure, Sandfire Resources (SFR), whose expected returns are sufficiently attractive to justify some additional portfolio risk. We continue to also remain overweight in stocks we view as having industry structure advantages such as BXB, CSL, FOX, RMD and WES in combination with other opportunities that we feel have fundamental valuation support, such as ASX and FXJ.

Portfolio Risk

The current forecast tracking error of ~2% is similar to last month (~2%). We are continuing to be presented with a number of stock opportunities in the materials, industrial and property trust sectors as a result of their recent underperformance. At this stage we still feel that any further additional risk in the mining contractor stocks 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 have recently been the beneficiary of some materials stocks in the iron ore and copper space that have outperformed the broader market in the last few months as the recent pricing of these commodities remains well above those lower levels that we saw in the second half of 2012 and above those of the current market consensus forecasts.

At present the main sources of portfolio risk are from overweight positions in SFR, FMG, FOX, TLS, Rio Tinto (RIO), LLC, Computershare (CPU), Insurance Australia Group (IAG) and BXB.

General Market Commentary

September saw the Australian equity market extend on the rally of the previous two months and hit a five-year closing high in the month's penultimate trading day as hopes of improving domestic growth prospects were boosted by positive confidence sentiment surveys and housing data releases. The benchmark ASX300 Accumulation Index ended September up 2.2% with out-performance skewed to the more cyclical sectors such as industrials, banks, consumer discretionary, energy and materials with the laggards being the more defensive health care, consumer staples and property trusts.

In domestic company specific news, the listed department stores provided their contribution to the ongoing evidence of softer consumer conditions with David Jones (DJS) delivering on cost reduction rather than revenue gains while the Myer (MYR) result fell short of analyst expectations as poor growth trends seem set to continue. Treasury Wine Estates (TWE) announced the departure of CEO David Dearie with immediate effect following a significant write-down of inventory in the US business earlier in the year.

As expected by most economic forecasters, the RBA left the cash rate unchanged at 2.50% in September. Of note, the RBA Board minutes indicated that the recent strength in housing data and the improved growth trends of Australia's major trading partners were enough to keep the economy on track. However, the potential for future moves was left open as the RBA noted that "members agreed that the Bank should again neither close off the possibility of reducing rates further nor signal an imminent intention to reduce them". Some improving local and Chinese data and the RBA's decision to keep rates on hold helped the Aussie dollar to

rally off its August closing level. It posted a 4.7% rise against the USD in September, briefly cracking the 95 cent mark before giving back some of the gains and ending the month at US$0.9317 (-0.042c) as the USD weakened after the Fed delayed the expected tapering of their bond purchase plans. Despite the intra-month strength of the Aussie dollar, we still expect the broader trend in recent months of US dollar strength will continue in the year ahead given the backdrop of weaker domestic growth, lower mining investment, higher unemployment and local interest rates unlikely to be moving higher in the near term.

The domestic economic data released in September was quite mixed and did little to alter the consensus expectations for some deterioration in the level of economic growth in the year ahead. Some of the data released during September included: July nominal retail sales which came in below consensus for the fifth consecutive month (July +0.1% m/m vs consensus +0.4% m/m); the unemployment rate for August which rose 10bp to 5.8% to record the highest level since June 2009 despite the participation rate declining 10bp to 65.0%; general confidence indicator surveys which were stronger for both consumer and business confidence in September; July data which saw positive signs for the housing sector with finance approvals increasing 2.4% m/m (consensus +2.0%) and building approvals rising by 10.8% m/m (consensus +4.0%); private sector credit growth rates that continued to grind higher in August (+0.3% m/m after 0.4% in July); and housing credit growth rates which rose by 0.4% m/m and represented the eighth consecutive month of rises in this series of data.

Commodity markets were generally better in September as tensions over Syria eased as Russia led an initiative to resolve the chemical weapons crisis, and US relations with Iran showed positive signs with the first formal contact between Iranian and US Presidents in several decades. With an improved global political backdrop, spot Brent crude retreated from its August spike to retreat 6.0% over September. The benchmark spot iron ore contract, Tianjin 62% fines, tailed away in September (-4.6%) after two strong months, despite generally positive Chinese data. Base metals were up slightly for the month as measured by the LME index (+2.4%). After two months of gains, spot gold fell -4.1% in September as the easing tensions in the Middle East encouraged selling in the first half of the month before the Fed's no-taper announcement and concerns about US fiscal deadlock provided some support towards month end.

Outlook

The concerns around developments in the US and the inability for their politicians to achieve bipartisan agreement on how to manage their debt ceiling problems is just another geopolitical macro issue that equity markets will be forced to keep an eye on. As we enter the next few months where there will be somewhat of an earnings reporting vacuum, it should be expected that those global macro events that grab media headlines will more than likely be the short term drivers of our equity market. Given that we have seen the US entangled in this political budget posturing before, it would seem reactionary to move the portfolio to a position of maximum defensive sector positioning as we expect this particular issue will be long forgotten by the time our market starts focusing on the next set of earnings results due out in early 2014. This event more serves as a reminder that caution is always warranted and encourages us to ensure the portfolio is appropriately positioned for further volatility over the next few months.

As timing would have it, we have actually been taking advantage of the recent strong performance of some materials stocks by selling down some of our active positions and this has reduced the extent to which the portfolio remains overweight the materials sector. As a result of this overweight positioning change we have also redeployed the funds and this has lead to a reduction in the quantum of the underweight financials sector exposure that we previously had. The net result of these trades has been to lower the portfolio's overall expected risk level from a combination of now being more overweight the larger cap stocks and being less actively positioned at the specific sector level exposures. Given our expectation that equity markets will most likely remain macro driven in the near term, we feel this positioning suits the current environment as the performance impact of geopolitical risks and resultant market volatility is usually best mitigated by being overweight in larger cap stocks.

Other specific active sector positioning includes being underweight the industrials, including holding no mining services stocks, consumer staples and energy stocks. We also remain intentionally overweight the telecommunications sector as we feel Telstra is a stock that offers more relative earnings and yield certainty in an environment where the ongoing equity market volatility is expected to continue for the remainder of the calendar year. So, in conjunction with some stocks that have $US based earnings exposure, the ATI portfolio is also balanced with a mix of high yielding, large capitalisation financial, telco and consumer staples stocks that compliment the reduced, but still overweight, materials sector weighting.

PORTFOLIO RISK SUMMARY

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

		Active Exposures:		%
Historic portfolio alpha	4.6%	Total:	75.6%	100.0%
Historic portfolio beta	0.99	Across sectors:	37.8%	50.0%
Raw return	10.1%	Within sectors:	37.8%	50.0%

Forecast **Tracking Error**	**1.49 %**	**1.50 %**
	(residual risk)	(active risk)

	Source of portfolio risk	contribution to active portfolio risk	standard deviation	variance / covar.
A	Stocks held in portfolio (B+C)	114%	1.6	2.6
B	Overweight positions	109%	1.6	2.5
C	Underweight positions	5%	0.3	0.1
D	Stocks not held in portfolio	28%	0.8	0.6
E	Factors (correlations between stocks)	-43%		(1.0)
F	Total (A + D + E)	100%	1.5	2.3
G	Systematic risk (undiversifiable)		0.2	0.0
H	Residual risk definition tracking error (F - G)		1.5	2.2