Fact Sheet

Above The Index Asset Management Pty Ltd

ATI Australian Equity Portfolio

Information as at 30 September 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 September 2015)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Inception (% p.a.)
ATI Equity Portfolio (gross)	(4.0)	(7.7)	(3.1)	8.4	5.6	6.2
Benchmark Index	(2.9)	(6.5)	(0.7)	9.1	6.2	5.0
Relative Outperformance	(1.1)	(1.2)	(2.4)	(0.7)	(0.6)	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 September 2015

Largest Holdings	Portfolio Weight (%)	Benchmark Weight (%)
Commonwealth Bank	10.8	9.3
ANZ Bank	8.2	5.9
Telstra	8.2	5.2
Westpac	7.0	7.1
National Australia Bank	6.9	5.9
BHP Billiton	4.4	5.4
CSL	4.0	3.1
Wesfarmers	3.8	3.3
AIO	3.1	0.6
AMP	2.7	1.2

Sector Allocation	Portfolio Weight (%)	Benchmark Weight (%)
Financials	48.8	46.8
Telecommunications	10.1	5.7
Materials	8.8	13.9
Healthcare	9.0	6.4
Consumer Staples	5.3	7.1
Industrials	5.4	8.0
Energy	3.0	4.0
Consumer Discretionary	1.8	4.7
Utilities	2.2	2.3
Information Technology	1.5	1.1

Selected Portfolio Statistics as at 30 September 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 fell 4.0% in September compared with a fall of 2.9% in the benchmark index. Against this benchmark, ATI is producing excess returns on a since inception (Dec'05) basis.

The Best and Worst Performing Sectors

On a relative basis, the best performing sectors for the month were technology (+6.1%), industrials (+2.1%) and property trusts (-0.3%) whilst the worst performers were energy (-12.2%), materials (-4.9%), and financials (-3.8%).

From a sector perspective, the relative performance of the ATI portfolio was most positively impacted from being overweight telecommunications (10.1% v benchmark of 5.7%) and overweight healthcare stocks (9.0% v benchmark of 6.4%) whilst it was most negatively impacted by being overweight financial stocks (48.8% v benchmark of 46.8% stocks and underweight industrial stocks (5.4% v benchmark of 8.0%).

Attribution of Stocks

The portfolio performance during September was assisted by overweight positions in M2 Group (MTU), Virtus Health (VRT) and Car Sales (CAR); and by not holding Liquified Natural Gas (LNG), Sonic Healthcare (SHL) and South 32 (S32). The three stocks in the portfolio that contributed most to its relative performance during September were:

> **M2 Group (MTU) (+3.6%)** outperformed during the month as they announced a merger with Vocus Communications (VOC). Under the proposal MTU shareholders would receive 1.625 VOC shares for each MTU share held value MTU at $10.55 when announced. On completion MTU shareholders will hold 56% of the combined business. As part of the logic for the deal, M2 Group management have specifically highlighted the potential cost synergies of ~$40m that could be achieved by the merger of the two companies. Geoff Horth would be CEO, David Spencley to be Chairman and James Spencley & Vaughan Bowen to be on the board as executive directors. If the deal is completed, implementation is expected in early 2016 and at this stage we intend to hold our overweigh portfolio position as we await further clarity on the deal progressing.
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> **Virtus Health (VRT) (+5.4%)** provided some relative outperformance following a period of underperformance due to a profit downgrade in May and lacklustre monthly Medicare IVF volumes during FY15. During September, VRT announced the acquisition Independent Diagnostic Services (IDS) a general category pathology laboratory and the establishment of a pathology division within the VRT business. The market also reacted positively to the news that IVF cycles continued to improve in August following a strong July. Importantly, volume growth was driven by fresh cycles that carry a higher margin than frozen cycles. 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 in FY15 was cyclical rather than structural ii) it is the largest operator in an industry with rational market behaviour, high barriers to entry and government Medicare reimbursements and iii) it has 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.
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> **Car Sales (CAR) (+0.2%)** relatively outperformed during the month as they announced Jeffrey Browne as the new chairman. The former Nine Network managing director, will look to further build on Carsales.com as the top vehicle classifieds player in Australia by strengthening relationships with car dealers and manufacturers, and leveraging its recent investments in Stratton Finance, RateSetter and AutoInspect in the private market. Mr Browne rejoined the board of Carsales.com in late 2013, having stepped down in 2011 to focus on his work at Nine. He subsequently left Nine in 2013 and has taken the decision to spend more of his time on the Car Sales business which appears to have been well received well by the market given the relative share price performance and we remain overweight CAR.

Positions that detracted most from the portfolio's performance during the month were from being overweight Ansell (ANN), Myer Group (MYR), and Lend Lease (LLC); and from not holding TPG Telecom (TPM), Newcrest Mining (NCM) and being neutral weight in Oilsearch (OSH). Stocks in the portfolio that detracted most from relative performance during the month included:

> **Ansell (ANN) (-15.3%)** underperformed during the month as economic indicators such as global industrial production data were generally softer in August than had been expected. China's official manufacturing PMI was 49.7, down from 50.0 in July; the production index and new orders index decreased by 0.7pt and 0.2pt respectively (51.7 and 49.7). China's official non-manufacturing PMI also decreased in August, down to 53.4 versus 53.9 in July. The US ISM manufacturing index fell to 51.1 in August, versus 52.7 in July. In Europe, the final Euro area manufacturing PMI was 52.3, down 0.1pt on July. Manufacturing PMI fell in Italy (-1.5pt to 53.8), France (-1.3pt to 48.3), and Spain (-0.4pt to 53.2), whereas Germany printed positive results (+1.4pt to 53.3). The UK manufacturing PMI fell by 0.4pt to 51.5 in August. Late in August, Ansell announced an on market buyback to purchase US$100m of stock which represents ~3% eps accretion and we intend to retain the portfolios overweight position at this stage.
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> **Myer Group (MYR) (-22.3%)** underperformed the market in September, following the release of its FY15 result in conjunction with a $221M capital raising. MYR's FY15 NPAT of $77.5m was slightly above market expectations but no final dividend was declared. A new strategy was announced with $600m of investment aiming to drive 3% sales growth and improve EBITDA margins from FY17. The 'new Myer' strategy re-focusses on key customers to increase its share of spend in the $63bn addressable market. This includes having a customer led offer while improving in store experience and the omni-channel offerings. MYR provided FY16 NPAT guidance of $64-72m, excluding significant items; which are expected to be $35m to $45m (pre tax). The current intention to declare a dividend following 1H16 subject to performance, with no

intention to change the 70-80% of NPAT payout ratio. We reduced some of our position during the month, but still hold the stock based on the expectation that Myer's sales trends will improve because David Jones' unsustainable level of discounting over the last six months will ease. This may lead to some improvement in the returns from its concessions. If the profit guidance is achieved then a positive re-rating of the stock may occur.

Lend Lease (LLC) (-9.9%) underperformed during the month following its strong FY15 result as the market continues to place concerns on the Group's exposure to peaking property prices. Some sell side market research has focused on the fact that if LLC brings too many projects forward for early completion then this may well reduce the current expectations for gradual profit rises over the next few years. We still feel that LLC has a globally diversified work in hand book of ~$40bn that can be selectively rolled out as the company needs to ensure both project and cash flow optimization over the next few years. As such, we retain our overweight portfolio position and expect there will be further earnings growth in FY16 as LLC has confirmed at the FY15 result release that they are currently comfortable with the market consensus expectations.

Portfolio Construction

The main portfolio weighting changes during September included: top-ups for our holdings in Asciano (AIO), Brambles (BXB), CSR (CSR), Dick Smith Holdings (DSH), Telstra (TLS) and Virtus Health (VRT); and some slight reductions for our holdings in AGL energy (AGL) and Woodside Petroleum (WPL).

During the month we exited the position in REA Group (REA) and took a new position in Mayne Pharma (MYX). Cash at the end of September was 4.0% and is below the 5% maximum threshold, similar to the 3.9% in August, 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 the acceptance of the takeover bid from BIP.

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 Sandfire Resources (SFR), RMD, MTU, AIO and TLS.

General Market Commentary

More than mid-way through September the Australian equity market looked to be on track to finish the month at similar index levels to last month, but in a similar vein to the US market it succumbed to the pressures of a weakening China and an indecisive Fed. The Australian equity market has now given up all the gains made during the calendar year to close lower than 2014's year-end close after a -2.9% slide in the ASX300 accumulation index during the month. Energy and resources stocks continued to suffer whilst the outperformers included technology and industrials, the only sectors to finish in positive territory for September.

In some of the more material company announcements during September, Woodside Petroleum (WPL) launched an $11.6bn all-stock takeover bid for Oil Search (OSH), which was rejected by the OSH board. Under the terms of the deal, OSH shareholders would receive all scrip consideration of 0.25 WPL shares for every one OSH share and become shareholders in the combined entity representing a 31.7% shareholding. In other energy sector news, ORG entered in to a trading halt on the last day of the month as it sought to raise $2.5bn in fresh equity to ease it through the slump in oil prices.

The RBA left the cash rate unchanged at 2.0%, stating that at present the policy stance is "appropriate" given emerging positives they identified on the economic front and a better than expected labour market performance. The language on the currency, which is "adjusting to the significant declines in key commodity prices" is also unchanged from August, and much less panicked than the urgent call for further depreciation that had been flagged up to July. Not surprisingly, the new elements of the commentary included elaboration on the China/Asia data weakness, and on equity market gyrations. There was also a more explicit acknowledgment of shifting risks around the timing of Fed rate normalization. The Australian dollar generally sold off against most major currencies along with falling commodity prices, falling below US$0.70 for the first time since early 2009.

Regarding domestic economic releases in September: GDP growth decelerated to 0.2% q/q in 2Q15, down from 0.9% q/q in 1Q (consensus +0.3% q/q) with the slowdown in a sequential sense due to the traded sector, driven partly by port disruptions in exports and strength in consumer goods imports; the NAB business confidence index shed 3 points from +4 to +1, but the more important conditions index jumped from +6 to +11, its strongest level of the year; the Westpac-MI consumer confidence index declined 5.6% m/m in September to 95.3, unwinding roughly two thirds of the prior month's gain with equity market weakness stemming from concerns over growth prospects in EM Asia, particularly China, appears to have been the major drag on sentiment; the economy gained 17k jobs in the month of August (consensus +10k) compared to a gain of 38.5k in July and this led the unemployment rate to decrease as expected to 6.2%, compared to 6.3% in July; retail sales fell 0.1% m/m in July (consensus +0.4%) driven by weakness in household goods (-1.9% m/m), and "other" retailing (-0.7% m/m) whilst in the remainder of the groups, food was flat, clothing and footwear spending was strong (+2.9% m/m), as was department stores (+1.3% m/m), while sales at cafes / restaurants were up, but a little sluggish by the standards of recent years (+0.3% m/m).

Commodity prices generally drifted higher early in the month then drifted rapidly lower in the second half of the month to finish lower. Spot Brent crude didn't continue its strong upward trend experienced at the end of August and slumped a further -8.1% to US$47.13 / barrel, meaning that the commodity price has now lost -15.5% year to date. Benchmark Qingdao iron ore prices ended the month slightly higher by 0.2% at US$56.3/t. Despite the contract climbing to a high of US$59.0/t by mid-month, it parred gains following negative PMI releases out of China. Base metals, as measured by the LME index, ended the month down -2.9%. Zinc was the worst performer (-9.3%) followed by lead (-4.6%). Copper (-3.1%), aluminium (-2.3%), nickel (-1.9%) and Tin (+9.9%) were the best performers. Spot gold ended the month down by -1.7% despite ongoing uncertainty around the timing of the Fed rate rise and growing concerns about economic growth in China.

Outlook

FY16 aggregate consensus growth expectations were revised down again in September and have fallen below FY15 levels for the first time, now at -3.5% from -1.8% last month. Whilst no great surprise, the main drivers of the reduced growth expectations have been lower earnings forecasts in the energy and materials sectors. Along with this, FY17 earnings estimates have also had a material revision from last month, falling from +9.4% to +8.0%, which we expect could be at risk of further downgrades over the course of FY16. 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.

Despite the less than inspiring earnings expectations for the year ahead and the recent performance we continue to think that the Australian equity market's relative yield advantage, to both domestic interest rates and global equity markets, should continue to be a recipient of investor support. This in turn is expected to limit the extent of potential downside to further negative earnings revisions and global macro issues creating uncertainty. This essentially underpins our ongoing preference towards companies with pricing power in structurally attractive industries, sustainable yield and earnings diversification. We have also taken positions in companies with the potential to increase payout ratios, pay special dividends or undertake other capital management initiatives.

Regarding resources stocks, any turnaround in current earnings expectations will need to be driven by higher commodity prices and this would seem unlikely 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.

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.