Fact Sheet

ATI Australian Equity Portfolio

Information as at 30 September 2016

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 2016)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Inception (% p.a.)
ATI Equity Portfolio (gross)	0.3	3.8	11.3	5.1	10.2	6.7
Benchmark Index	0.5	5.2	13.5	6.0	11.0	5.7
Relative Outperformance	(0.2)	(1.4)	(2.2)	(0.9)	(0.8)	1.0

*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 2016

Largest Holdings	Portfolio Weight (%)	Benchmark Weight (%)
Commonwealth Bank	9.2	8.5
ANZ Bank	9.0	5.5
Westpac	7.8	6.7
National Australia Bank	6.9	5.0
Telstra	5.8	4.3
CSL	4.9	3.3
Wesfarmers	3.8	3.4
AGL	2.4	0.9
Lend Lease	2.3	0.5
AMP	2.2	1.1

Sector Allocation	Portfolio Weight (%)	Benchmark Weight (%)
Financials	46.6	44.6
Healthcare	12.3	7.1
Telecommunications	7.8	4.9
Materials	10.1	15.6
Industrials	3.6	7.3
Consumer Staples	3.8	7.2
Energy	4.2	4.0
Utilities	2.4	2.5
Consumer Discretionary	2.9	5.5
Information Technology	1.6	1.5

Selected Portfolio Statistics as at 30 September 2016

Inception Date	23-Dec-05
Number of Stocks	39
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 0.3% in September compared with a rise of 0.5% 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 materials (+4.9%), financials (+1.2%), and consumer staples (+1.1%), whilst the worst performers were property trusts (-4.4%), telco's (-4.1%), and utilities (-3.6%).

From a sector perspective, the relative performance of the ATI portfolio was most positively impacted from being overweight financial stocks (46.6% v benchmark of 44.6%) and underweight consumer discretionary stocks (2.9% v benchmark of 5.5%), whilst it was most negatively impacted by being overweight telco stocks (7.8% v benchmark of 4.9%) and underweight materials stocks (10.1% v benchmark of 15.6%).

Attribution of Stocks

The portfolio performance during September was assisted by overweight positions in Western Areas (WSA), Mayne Pharma (MYX) and Ardent Leisure (AAD); and by not holding TPG Telecom (TPM), Santos (STO) and QBE Insurance (QBE). The three stocks in the portfolio that contributed most to its relative performance during the month were:

Western Areas (WSA) (+16.6%) outperformed during September on the back of the ~8% appreciation in the nickel price, and despite some modest director selling late in the month. The nickel price continues to be heavily influenced by news flow regarding a potentially significant supply interruption from the Philippines. Late in the month several nickel laterite miners were ordered to suspend operations due to environmental breaches, unless they could convince the regulators otherwise within one week. The impacted mines represent approximately 50% of Filipino contained nickel-in-ore supply, or approximately 10% of global supply. The supply disruption is shaping up to potentially represent a materially positive event for a market where the commodity price is cutting deep into the cost curve. However as with all forecasts that rely heavily on regulatory influence, we remain sceptical of the medium term impact, and continue to actively monitor the portfolio holding in Western Areas.

Mayne Pharma (MYX) (MYX) (+8.9%) outperformed the market in September despite any formal announcements. We note there were some positive broker reports incorporating earnings from the Teva transaction where MYX has acquired 37 products approved by the US Federal Drug Administration and five products with filings for approval before the FDA. MYX also acquired a portfolio of dermatology foam products from GlaxoSmithKline in August which will contribute to earnings in FY17. We continue to maintain an overweight position in the stock based on valuation support and confidence in a growth strategy that involves a pipeline of generic drug opportunities, utlising a platform that is able to develop and produce molecules that competitors are finding difficult to manufacture. MYX has demonstrated a capacity to grow earnings through a combination of acquisitions, organic initiatives, pricing and the internalisation of key franchises to secure additional margin. MYX's product pipeline is full, with four products (including Doryx MPC) expected to launch in 1H17 (with target market gross sales > US$600mn) and 19 products filed and pending with the FDA.

Ardent Leisure (AAD) (+9.5%) outperformed in September after surprising the market with the announcement of the sale of the Goodlife health clubs and Hypoxi weight loss businesses, with the AAD share price opening 9% higher on the day of announcement. The gyms had been seen as a headache with business transformation underway to cope with the increasing prevalence of 24-hour gyms and the sale was seen as representing a fair price. The annual result was announced a few days later with solid performances across all divisions; particularly in bowling which is benefiting from a number of initiatives introduced from the US Main Event business. In meetings with management, we had a number of discussions about exiting some businesses such as marinas and health clubs and redeploying that capital into the Main Event roll-out in the US. As AAD has executed an unexpectedly strong outcome with the sale of the health clubs, the sale of the marinas business is still tracking to schedule, leaving the company in a strong position to accelerate the roll-out of Main Event businesses in the US.

Positions that detracted most from the portfolio's performance during the month were from being overweight Vocus Comms (VOC), Virtus Health (VRT), and Car Sales (CAR); and from not holding South 32 (S32), Challenger (CGF) and Evolution Mining (EVN). Stocks in the portfolio that detracted most from relative performance during the month included:

Vocus Comms (VOC) (-19.0%) underperformed over the past month as director James Spenceley sold his 4.2m shares to launch a new investment fund, combined with Wednesday the CFO, Rick Correll resigned, causing uncertainty. Key competitor TPM reported earlier this week and a key thematic was that margins would be under pressure as the migration to NBN accelerated. This has led to earnings downgrades and significant share price underperformance. VOC's FY16 result was reported one month ago, in which management provided a positive update on the company. We are always cautious of management change but would be surprised if there was significant negative newsflow to come through within one month of the result and the recent capital raising. Furthermore, we note the Chairman has indicated Vocus is "well positioned to continue to generate excellent returns to shareholders", and the ACCC today stated that it would not oppose the acquisition of Nextgen networks. Vocus is well positioned for growth as the synergies from recent acquisitions are realised. The company is in the process of integrating it recent acquisitions and whilst this takes time we expect Amcom, M2 & Nextgen synergies to support EBITDA growth in FY17 and in the longer term. We note that the company recently raised $652m to fund the acquisition of Nextgen at $7.55 per share so we feel the current share price level offers a good entry point. In addition, the recent share price decline has meant VOC's ranks in our top 15 stocks based on our below market forecast and it is supported by a 3.5% dividend yield.

Virtus Health (VRT) (-5.4%) underperformed the market during the month following softer cycle growth in July and August. Australian year on year comparables are tough and management expects some moderation toward 4-5% noting but NSW has continued to grow, and VIC showed growth at 4Q16, while QLD growth is 2-4% and still subdued. We continue to hold the stock as the continued social driven shift in age of fertility for Australian women underpins a solid market together with favourable Government support. Affordable access supports high utilisation vs offshore peers, & allows VRT annual price increases. The industry is a rational oligopoly and the participants are rational. The barriers to entry are the fertility specialist of which VRT has 100. Price increases in FY17 of 3-4% are expected to underpin earnings growth.

Car Sales (CAR) (-10.2%) underperformed over the month as the stock pulled back from its recent rise in August after a solid FY16 result and the stock went ex-dividend. New vehicle sales for August grew by a solid 4.6%. During the month it became apparent threat the global leader COX automotive (part of the US$70b Cox media Group) would merge with Carsguide. Cox "leads the online automotive market in the USA with the top 2 sites, Auto Trader and Kelley Blue Book with a combined audience of over 18 million UA per month. Cox Australia also owns other wholesale and retail automotive brands, including Manheim and the recently acquired Dealer Solutions. (Dealer Solutions is a competitor to CAR's Autogate.) Cox will own 70% and car dealers owning the balance 30% with News Corp exiting.

Portfolio Construction

The main portfolio weighting changes during September included: a new position in Flight Centre (FLT); top-ups for our holdings in Amcor (AMC), CSL (CSL) and Resmed (RMD); and some slight reductions for our holdings in AAD and Lend Lease (LLC).

Cash at the end of September was 4.3% and is below the 5% maximum threshold, similar to the 4.3% 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 ~83%), ~9% in the next 100 (benchmark ~14%), and ~3% in the last 150 stocks (benchmark ~4%). The 10 largest holdings constitute ~63% of the portfolio (benchmark ~50%), the dividend yield is 4.8% (benchmark 4.6%) and the portfolio's historic or trailing PE is 14.5x (benchmark of 16.0x).

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, 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 Brambles (BXB), CSL (CSL) and Resmed (RMD) in combination with other opportunities that we feel have fundamental valuation support, such as Suncorp (SUN), and VRT.

Portfolio Risk

The current forecast tracking error of ~2.5% is similar to last month (~2.6%). 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 industrials with the additions of QUB and AAD in the portfolio over the past few months.

General Market Commentary

The ASX300 accumulation rose 0.2% during September as the equity market recovered from some early month bond market lead wobbles. The resources sector was yet again the stand-out as materials, banks and consumer staples sectors also beat the index. The surprise decision late in the month by OPEC to agree to an 'in principle' production cut failed to lift energy out of the red, with the sector falling over the month.

In some material company announcements: Woodside Petroleum (WPL) entered into binding sale and purchase agreements to acquire half of BHP's Scarborough Area Assets; JB Hi-Fi (JBH) announced the acquisition of The Good Guys; AGL Energy (AGL) announced a change to its dividend policy and an on-market share buy-back; Amcor (AMC) acquired Sonoco's North American rigid plastics blow molding operations; APA Group (APA) announced the construction of the Reedy Creek Wallumbilla Pipeline for APLNG; Boral (BLD) obtained merger clearance from the US Federal Trade Commission for the North American Brick JV with Forterra Brick; Credit Corp (CCP) announced the acquisition of receivables management company National Credit Management.

The Reserve Bank of Australia decided to leave the cash rate unchanged at 1.50% in September after cutting rates by 25 basis points last month. The accompanying statement offered no new information, reiterating that inflation remains “quite low” and labour market indicators appear mixed. Having already eased 50bps this year, the RBA is widely expected to remain on hold for the remainder of 2016. The A$ appreciated 2% against the $US as the Fed decided not raise rates in September and this saw some downward pressure on its currency.

On the consumer front: the Westpac consumer confidence index increased 0.4% from 101.0 to 101.4, building on the prior month’s rate-cut induced improvement; in the NAB business survey confidence rose to +6, but a decline in conditions dampened the positive reading; employment unexpectedly contracted 3.9k positions as the composition of employment was skewed to full-time workers (+11.5k positions) whilst part-time employment fell (-15.4k positions); the unemployment rate fell from 5.7% to 5.6% and the participation rate fell from 64.9% to 64.7%; 2Q16 GDP growth slowed to 0.5% and 1Q16 GDP growth was also revised down to 1.0%, from 1.1% previously; company profits increased 6.9% over the quarter, which was led by gains in mining profits (+14%); the 3Q house price index rose 2.0% over the quarter but the gains were far from uniform, with Sydney and Melbourne outperforming as house prices continue to trend backwards in Perth, with slowing population growth and weak domestic demand the obvious headwinds; seasonally adjusted retail sales were flat, for the second time this year and the trend estimate rose 0.1%;.among the industries clothing, footwear and personal accessory retailing (0.6%) and cafes, restaurants and takeaway food services (0.5%) witnessed a rise in sales whilst household goods retailing (-0.4%) and department stores (-0.9%) posted losses; private sector credit growth rose 0.4%, but fell short of consensus expectations due to tighter conditions in construction and developer finance and on a year on year basis, credit growth slowed to 5.8%.

Base metal spot prices turned up sharply in September, with the LME Metals Index rising 5.3%. The Philippines widened a crackdown on mines over environmental concerns, boosting nickel prices +8.5%. Lead (+11.8%), tin (+6.8%), copper (+5.3%), aluminium (+4.4%) and zinc also rose over the month. Iron ore traded down 5.3% to US$55.9/mt, with the seasonal slowdown into year-end although iron ore demand indicators remain robust. The OPEC agreement in Algiers to change OPEC’s production strategy and cap production at between 32.5-33.0 mbd supported oil prices in September. WTI and Brent rose 7.9% to US$48.2bbl and 4.3% to $49.1/bbl respectively. Gold inched up 0.5% to US$1315.8/oz. Gold rallied close to US$30/oz briefly breaching $1340/oz post-FOMC, but remained range bound in the last week before giving back most of the rally in the last couple of days.

Outlook

The equity market has been supported by the return of investor support for resource stocks. Indeed, much of the positive recent revision cycle in consensus market earnings forecasts has been driven by resources, given the large swings in commodity prices and the leveraged impact that has on earnings. June half resource earnings were down ~25% year-on-year, which is not as bad as the December half. Whilst current spot commodity prices may imply some upgrades to consensus forecasts for the first time in years, we’re not especially confident that spot pricing holds but this still highlights the reduced downside risk to earnings so at least the market revisions over FY17 may be less than last year.

Despite the absence of strong growth expectations, the market PE at ~16x has nonetheless moved back up, to around the top of its range over recent decades (outside of the tech boom of the early 2000s), with the impetus of the increasingly low interest rates in place. Whilst further rate cuts could provide some of the possible answer to supporting current stretched market valuations a little more, we are relatively sanguine about expectations for the market in the next 12 months given our doubts about current earnings growth expectations.

We have taken profits on some our exposure to a weaker AUD/USD but still hold a number of stocks with USD earnings exposure. We are focused on high quality domestic industrials and other specific active sector positioning includes being underweight the industrials (still holding no mining services stocks) and consumer staples stocks. We have begun to increase our weightings in some specific resource stocks whilst also remaining overweight the healthcare, telecommunications and utilities sectors.