ATI·AM
Above The Index Asset Management Pty Ltd

Fact Sheet

ATI Australian Equity Portfolio

Information as at 31 August 2012

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 31 August 2012)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Inception (% p.a.)
ATI Equity Portfolio (gross)	2.4	6.2	5.6	2.7	(0.5)	5.0
Benchmark Index	2.1	7.0	5.0	3.0	[3.0]	3.0
Relative Outperformance	**0.3**	**(0.8)**	**0.6**	**(0.3)**	**2.5**	**2.0**

*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 31 August 2012

Largest Holdings	Portfolio Weight (%)	S&P/ASX300 Weight (%)
BHP Billiton	8.6	9.7
National Australia Bank	8.1	5.4
ANZ Bank	7.8	6.4
Westpac Bank	7.2	7.2
Telstra	5.7	4.5
Woolworths	4.9	3.4
Rio Tinto	4.8	2.0
Newcrest Mining	3.5	1.8
Wesfarmers	3.3	3.8
Newscorp	2.8	0.7

Sector Allocation	Portfolio Weight (%)	S&P/ASX300 Weight (%)
Financials	31.8	41.7
Materials	28.7	20.6
Consumer Staples	9.6	8.8
Consumer Discretionary	7.1	3.6
Telecommunications	5.7	4.8
Industrials	5.3	6.8
Healthcare	2.7	4.3
Energy	2.5	6.9
Information Technology	1.9	0.7
Utilities	1.8	1.8

Selected Portfolio Statistics as at 31 August 2012

Inception Date	23-Dec-05
Number of Stocks	33
ATI Funds Under Management	~ $400m

MER (est.)	~ 0.90% p.a.
Tracking Error (forward estimate)	~ 5% p.a.

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Portfolio Performance

The ATI Equity Portfolio rose 2.4% in August compared with a rise of 2.1% in the S&P/ASX300 Accumulation Index. Against this benchmark, ATI is producing excess returns on a monthly, 1 year, 5 year and since inception (Dec'05) basis.

The Best and Worst Performing Sectors

The best performing sectors for the month were Information Technology (+10.6%), Health Care (+6.1%) and Consumer Staples (+4.4%); while the worst were Materials (-1.4%), Property Trusts (-1.3%); and Consumer Discretionary (-0.1%).

Attribution of Stocks

The portfolio performance during August was assisted by overweight positions in Pacific Brands (PBG), Australia Infrastructure Fund (AIX) and an underweight position in Commonwealth Bank (CBA); and by not holding QBE Insurance (QBE), ALS (ALQ) and Stockland (SGP). Stocks in the portfolio that contributed most to its relative performance during the month included:

Pacific Brands (PBG) (+17.3%) PBG's share price rose during the month following the release of its FY12 result, which was in line with market expectations and showed the underlying businesses had coped reasonably well in a difficult trading environment. The company also announced that ex-Fosters CEO, John Pollaers, would replace Sue Morphett on 3 September 2012. In terms of outlook, the company noted that "market conditions are challenging and it is expected that this will continue throughout FY13 and that gross margins are expected to be broadly maintained in line with last year". This has been in interpreted to mean the business has stabilised. PBG remains relatively attractive on valuation, has yield support (9%+), generates good cash flow (cash conversion was 137% in FY12) and its debt metrics are strong (net debt of $189m with net debt/EBITDA of 1.4x and interest cover of 5.4x).

Australian Infrastructure Fund (AIX) (+18.9%) outperformed the market during August after it received a bid from the Future Fund and entered a non-binding sale proposal for all the assets contained within the trust for $2bn, or $3.22 per share. This represents a 7% premium to the last stated NAV of $3.01 and AIX has been trading at around a 29% discount to NAV over the past year. Shareholders will also receive any cash generated from the assets up until the sale. The Board has recommended the offer and there will be a shareholder vote at the AGM in October. The deal is expected to be finalised mid-2013. AIX also reported their 2012 full year result which was inline with our expectations. Perth continued showing strong passenger growth for domestic and international passengers with weakness at the Gold Coast and NT airports. We will wait to see if there are any higher offers before considering vending our shares into the bid.

Commonwealth Bank (CBA) (+1.4%) underperformed the market in August as the stock announced its FY12 result and went ex-dividend. CBA reported FY12 cash earnings of $7.1bn which was in-line with market expectations, although the net interest margin was down 6 basis points from a year ago at 2.06%. The final dividend of $1.97 was above market expectations and resulted in an increased payout ratio for the year to ~75%. The fact that the result failed to exceed market expectations and the 2H12 margin momentum was negative saw the stock underperforming the other major banks after going ex-dividend. This vindicated our portfolio positioning and view that the stock had become relatively unattractive after its recent share price performance. ATI's portfolio weighting was more than 6% below CBA's index weighting of ~8.3%, and added alpha as it underperformed the market. CBA remains relatively unattractive when compared to the other major banks, and we have maintained our underweight position.

Positions that detracted most from the portfolio's performance during the month were from being overweight Atlas Iron (AGO), Fortescue Metals Group (FMG) and Lynas Corp (LYC); and from not holding Suncorp Group (SUN), Macquarie Group (MQG) and Resmed Inc (RMD). Stocks in the portfolio that detracted most from performance during the month included:

Atlas Iron (AGO) (-21.7%) underperformed the market during August, once again impacted by the falling iron ore spot price and ongoing negative sentiment towards the resources sector. The spot iron ore price continued to fall sharply during August, driven by de-stocking by unprofitable Chinese steel mills. As a result of the buyers' strike, spot prices were trading around US$90/t (CFR China 62% Fe) at the end of August, at which level they are not only cutting deep into the Chinese domestic cost curve, but also rendering an increasing amount of seaborne iron ore unprofitable. We expect a commercial reaction to prevail, with the closure of high cost marginal Chinese "swing production" to increasingly bring the market back into equilibrium, and support prices. AGO reported a net loss of A$115m for FY2012, however after stripping out several NRI's largely related to the sale of two magnetite deposits (which generated cash consideration of A$57.5m), ATI calculated underlying NPAT of A$75m. Separately, during August, the Western Australian state government ratified the rights of North West Infrastructure (AGO 63% interest) to develop two berths in South West Creek at Port Hedland. Significantly, this 50mtpa export capacity was confirmed as all inner harbour capacity, and there is no requirement for NWI to move to the outer harbour at a later date. AGO remains relatively attractive, with a bulletproof balance sheet (A42¢/share cash backing!) and the portfolio weighting was increased late in August.

Fortescue Metals Group (FMG) (-14.3%) also underperformed the market during August, despite making significant progress in building a sustainable iron ore business three times the size of their current operations. Firstly, FMG reported a record FY2012 NPAT of US$1.56bn, and declared a final dividend of A4¢/share. Secondly, the company once again confirmed that the T155 expansion project, to lift export capacity to 155mtpa from 55mtpa, remains on track for completion by mid 2013. Thirdly, FMG secured an additional US$1.5bn of short term debt financing to complete the funding requirements for the T155 project. And finally, FMG received long-awaited approval to construct a fifth berth at Port Hedland. Unfortunately, two issues continue to pressure the company's share price - the falling spot iron ore price

described in detail above, and ongoing concerns over the capacity of the FMG balance sheet to both complete the T155 project, and service existing debt facilities. ATI have long adopted a conservative approach to modeling FMG, stress-testing at lower iron ore prices and lower production volumes. Despite the falling iron ore price, our confidence in the ablility of FMG management to deliver the enunciated expansion targets (and sell non-core assets if required) has increased following further recent meetings with the company. FMG remains a relatively attractive stock, and the portfolio weighting was increased late in August.

Lynas Corp (LYC) (-20.5%) underperformed the market in August due to ongoing regulatory uncertainty in Malaysia. Despite the governmental ***approval*** of its Temporary Operating Licence (TOL) for the Lynas Advanced Materials Plant (LAMP), the company continues to wait for the TOL to be ***issued***. Construction of the LAMP facility was completed during August. However no progress on the licence appears to have been made since June. Then, the latest review of the regulatory process regarding the LAMP, this time by a Parliamentary Select Committee, once again recommended that the TOL be ***issued*** to LYC, and noted the compliance with Malaysian and international standards. The issuance of the TOL is yet to occur, and until it does, the company is not permitted to import concentrate into Malaysia. The ongoing uncertainty continues to pressure the LYC share price, however we continue to view LYC as a relatively attractive investment. We note the Malaysian elections must be held by April 2013, and the strong likelihood that they will indeed be held in 2H 2012. With all indications pointing to the elections once again being won by the incumbent government, we remain confident that LYC will eventually receive its licence to operate, and finally be able to commence operations at the facility that it has invested over $600m building in Malaysia.

Portfolio Construction

The ATI portfolio, with regard to the market capitalisation exposures, remains similar to the benchmark index with ~83% of the portfolio (excluding cash) in the top 50 stocks (compared to 83% of the benchmark index), ~13% in the next 100 (~13% of the index), and ~4% in the last 150 stocks (~4% of the index).

Whilst the portfolio's market cap bias is similar to the benchmark index, its underlying sector positioning is not. ATI has continued to reposition the portfolio towards being overweight the materials and underweight financial sectors, even though we expect there to be ongoing market volatility driven by the unresolved European debt issues, slower Chinese growth and a sluggish US economy. We remain comfortable holding a number of smaller resource stocks with iron ore and copper exposure that have become attractive enough for their relatively high expected return profile to justify some additional portfolio risk. The current forecast tracking error of ~5% remains the similar to the level of last month.

The main portfolio weighting changes during August included top-up purchases for AGO, AMP (AMP), CSL (CSL), FMG, Lend Lease (LLC), PanAust (PNA) and Rio Tinto (RIO); disposal of our holdings in Medusa Mining (MML) and Suncorp Group (SUN); and some slight weighting reductions for Commonwealth Bank (CBA), Westpac Bank (WBC) and Wesfarmers (WES).

Portfolio Risk

The current forecast tracking error of ~5% (range of 2% to 8%) for the ATI portfolio is unlikely to change in coming months unless we feel that the risk/return benefit of taking on some relatively oversold material stocks requires some amendment with particular reference to a greater than expected deterioration in the global economic outlook. At present the main sources of portfolio risk are from overweight positions in Sandfire Resources (SFR), PBG, LYC, PanAust (PNA), AGO, FMG, Emeco Holdings (EHL) and Flight Centre (FLT); and an underweight position in (CBA).

General Market Commentary

With the Europeans on summer holidays we managed to begin the month blissfully devoid of the daily news coverage about the European debt problems and global equity markets maintained their positive momentum from July. Our equity market performance remained tied to the whims of offshore markets and obliged by following them higher. Oblivious to the mixed economic data releases, equity markets seemed to be rising on the hope that the never-ending speculation regarding potential monetary stimulus programs from global central banks would finally result in some form of action. As nothing of any substance actually occurred over the course of August, the novelty of this soon wore off. With a week to go in the month, the reality of slower European and Chinese growth expectations again dawned on equity markets and the impact of relentless commodity selling saw our market retreat about two per cent from its highs. Despite this rapid last week sell-off, our market still ended in positive territory with the ASX300 Accumulation Index up +2.1% for the month.

In stark contrast to their strong performance in previous months, some of the higher yield defensive sectors lagged in August although Banks maintained their recent strength by making it five out-performing months from the last six. This monthly outcome does not mean that we would feel comfortable with a portfolio without some defensive stocks as the global focus on defensive yield is expected to remain so long as we have further signs of recessionary conditions in Europe, a slowing Chinese economy and a 'lower for longer' Fed policy outlook.

The domestic earnings reporting season generally saw results being in line with market expectations, although many companies remained cautious in their outlook statements and pointed to tough trading conditions and limited earnings visibility. In some cases there were quite large downward revisions to future earnings guidance and overall we have seen reductions to next year's

consensus earnings estimates. Looking at the FY13 consensus earnings forecasts of our benchmark index sectors, only the Consumer Staples sector has had aggregate upgrades after reporting season (+0.1%) whilst the largest downgrades have been in the Materials (-10%), Energy (-4%) and Consumer Discretionary (-3%) sectors.

As a result of the heavy Materials weighting of the ASX index compared to global peers, our equity market performance remains more leveraged to the negative impact of both commodity price falls and downward earnings revisions. This was clearly the case in August as the iron ore and met coal prices fell materially in response to softer global steel demand and inventory de-stocking from the Chinese steel mills which appeared to have gone on a "buyers strike". The ripples can also go a long way with a resource centric equity market as the softer global economic growth and commodity price outlook saw many resource companies pull back and/or defer mining investment. A case in point is our market's largest stock, where the ramifications of lower commodity prices lead to BHP announcing a decision to postpone its Olympic Dam expansion capex plans and slow down some other projects that had been slated to start in FY13. With many other resource stocks following suit in order to try and preserve cash-flow and protect their balance sheets, the contract miners felt the brunt of these decisions with stocks in this area being sold off across the board as the capex deferral announcements became a recurring theme.

With the falling iron ore price being so topical, we have met with BHP, FMG, AGO, and the Port Hedland Port Authority in the past week and remain sanguine about the iron ore price outlook. We expect cost-curve support to remain a market focus in 2H12 and feel that the iron ore price will recover as fundamentals prevail and a large volume of unprofitable high cost production is withdrawn from the market. We are trying to ignore the daily noise by focusing on the inherent longer term value proposition and accordingly increased our weightings in AGO, FMG, and RIO during August as their share prices fell and their expected relative returns increased.

Domestic economic data was generally positive through August, with unemployment remaining unchanged at a relatively healthy level of 5.2%. The RBA left the cash rate unchanged for a third month in a row, stating that its monetary policy stance "remained appropriate" given that inflation was close to target. In its quarterly Statement of Monetary Policy the RBA upgraded its growth forecasts from 2.75% to 3.75% for the year to June 2012 and from 2.5% to 3% for the year to December 2012. The Aussie dollar reversed its recent upward trend, despite hitting a four-month high against the USD early in the month, closing the month lower at US$1.032 (-US1.8c) after coming under pressure from a falling iron ore price and some softer than expected economic survey data.

The benchmark spot iron ore contract (Tianjin 62% fines) had its worst month (-23.6%) since the 31% fall in October 2011, with only three trading days in the month showing gains. Factors cited included falling steel prices in China triggering production cuts and a preference for domestic supply with shorter delivery times as consumers tried to hedge against possible further weakness in steel prices. Spot Brent crude oil (+8.7%) continued its strong recovery from the 18-month low witnessed in June. With the demand picture mixed at best, the key seemed to be supply tightness and in particular disruption arising from sanctions on Iran. The IEA said that Iranian output had slipped below 3mbpd in July for the first time in 22 years. Base metal prices, as measured by the London Metals Exchange (LME), were generally softer in August (-1.9%) amid ongoing concerns over Chinese demand growth; and the index ended the month only 4.2% above its 2011-12 low. Spot gold (+4.8%) gained for a third consecutive month amid speculation about the potential for more aggressive central bank stimulus activity programs in both the US and Europe.

Outlook

The prospects of an equity market recovery lead by PE multiple expansion took a "back seat" by month end as the contagion fears about softer commodity prices and slower global growth took hold. It would now seem that the fear of further downward global growth revisions has reached a new level and the equity markets' recent reaction implies that this worse than expected outcome is not yet fully priced in. This means that there could quite possibly be further near term downside in equity markets and ensures ongoing volatility as we do not yet seem to have reached an inflection point for commodity prices such as iron ore and coal either. Whilst these recent commodity price declines have only validated the bleak outlook for global growth, we are still of the view that equity markets can turn rapidly when the downward trajectory for commodity prices abates and we want to be there for that event. With this in mind, we remain positioned for a market recovery that may come in advance of the cessation of bad news.

With consensus earnings expectations for FY13 having undergone some downgrades over the course of the recent reporting season, the outlook for the domestic economy would have to deteriorate quite rapidly before we were to see another round of material downward revisions. If the domestic economy maintains its current growth rate, or thereabouts, then the likelihood of companies meeting these lowered consensus earnings forecasts rises. This then opens the door for potential upgrades over the FY13 year if the economic backdrop manages to remain fairly stable and/or we see some improvement in the global economic picture. The implications of this for our equity market are that with earnings forecasts already revised down and global macro expectations very low, any sense of earnings upgrades is capable of providing positive market support – regardless of the reason.

PORTFOLIO RISK SUMMARY

Goldman Sachs

Portfolio Name:	**MyPort**
Benchmark:	ASX300
Date of Data:	31-Aug-12

Model:	48months - 5 factors
Factor Analysis:	Multi-Factor
Timestamp of Analysis:	3/09/2012 3:30:48 PM

Historic portfolio alpha	11.7%	**Active Exposures:**	
Historic portfolio beta	1.11	Held:	52.3%
Raw return	4.7%	Total:	87.8%

Forecast **Tracking Error**	**5.08 %**	**5.42 %**
	(residual risk)	(active risk)

	Source of portfolio risk	contribution to active portfolio risk	standard deviation	variance / covar.
A	Stocks held in portfolio (B+C)	60%	4.2	17.5
B	Overweight positions	54%	4.0	15.8
C	Underweight positions	6%	1.3	1.7
D	Stocks not held in portfolio	5%	1.2	1.5
E	Factors (correlations between stocks)	35%		10.4
F	Total (A + D + E)	100%	**5.4**	29.4
G	Systematic risk (undiversifiable)		1.9	3.6
H	Residual risk definition tracking error (G - F)		**5.1**	25.8