ATI·AM
Above The Index Asset Management Pty Ltd

Fact Sheet

ATI Australian Equity Portfolio

Information as at 31 August 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 31 August 2015)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Inception (% p.a.)
ATI Equity Portfolio (gross)	(8.3)	(8.2)	(4.2)	11.1	7.7	6.7
Benchmark Index	(7.7)	(8.8)	(3.2)	10.9	7.9	5.3
Relative Outperformance	(0.6)	0.6	(1.0)	0.2	(0.2)	1.4

*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 2015

Largest Holdings	Portfolio Weight (%)	Benchmark Weight (%)
Commonwealth Bank	10.7	9.4
ANZ Bank	8.0	5.7
Telstra	7.9	5.2
Westpac	7.1	7.3
National Australia Bank	7.0	6.0
BHP Billiton	4.8	5.9
CSL	4.1	3.2
Wesfarmers	3.8	3.4
AIO	2.8	0.6
AMP	2.7	1.3

Sector Allocation	Portfolio Weight (%)	Benchmark Weight (%)
Financials	48.3	46.7
Telecommunications	9.7	5.7
Materials	9.1	14.4
Healthcare	8.6	6.5
Consumer Staples	5.5	6.9
Industrials	4.3	7.6
Energy	3.4	4.5
Consumer Discretionary	2.6	4.6
Utilities	2.4	2.3
Information Technology	1.6	1.0

Selected Portfolio Statistics as at 31 August 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 ASX200 delivered its worst monthly return since the GFC in Oct 2008. The ATI Equity Portfolio lost 8.3% in August compared with a fall of 7.6% in the benchmark index. Against this benchmark, ATI is producing excess returns on a quarterly, three year and since inception (Dec'05) basis.

The Best and Worst Performing Sectors

All sectors were negative for the month. On a relative basis, the best performing sectors for the month were Utilities (-0.2%), A-REITS (-4.1%) and Consumer staples (-4.1%) whilst the worst performers were Energy (-13.8%), Banks (-11.7%), and Telcos (-8.3%).

From a sector perspective, the relative performance of the ATI portfolio was most positively impacted from being underweight Energy (3.4% v benchmark of 4.5%) and overweight Utility stocks (2.4% v benchmark of 2.3%) whilst it was most negatively impacted by being overweight financial stocks (48.3% v benchmark of 46.7% stocks and underweight consumer discretionary (2.6% v benchmark of 4.6%).

Attribution of Stocks

The portfolio performance during August was assisted by overweight positions in Asciano (AIO), AGL Energy (AGL) and Sandfire Resources (SFR); and by initially not holding Origin Energy (ORG), and Santos (STO), although positions were subsequently taken in these two stocks towards the end of the month. The three stocks in the portfolio that contributed most to its relative performance during June were:

Asciano (AIO) (+4.3%) outperformed the market over the month when it reported is FY15 result and in conjunction with this announced it had agreed to a $9.15 bid from Brookfield Infrastructure Partners (BIP) made up of $6.94 in cash and $2.21 in BIP Units. Asciano also expects to pay a fully franked special dividend of up to $0.90 per share (franking benefit $0.39 per share) before the Scheme Implementation Date, expected in mid-December.
FY15 EBIT of A$790m grew 10% on FY14 and was in line with mkt expectations, although assisted by another property transaction. Revenues declined 4% highlighting the challenging operating environment, however as expected $144m in cost savings provided an offset to deliver the earnings growth. Guidance for FY16 of "flat to low single digit" growth in EBIT was below expectations, reflecting management's expectation for the flat revenue environment to continue.
Despite AIO now trading in line with our fundamental valuation, we are maintaining our holding and are currently assessing the merits of the BIP business with a view to making a decision on portfolio positioning after the scheme meeting.

AGL Energy (AGL) (+1.3%) outperformed the market in August following its FY15 result which reported underlying profit of $630M being 2% above market expectations. This NPAT had already been confirmed in May and was driven by a strong result from the Macquarie Generation assets being successfully integrated into the business as well as higher gas wholesale margins and volume. The stock also relatively outperformed due to the perceived defensive nature of its businesses, a poor result from its key competitor Origin and the potential for future capital management. We reduced some of our overweight position in AGL during the month to take a position in ORG, but continue to hold an overweight position in AGL on the basis of expected further benefit from Mac Gen, future asset sales providing balance sheet flexibility and its undemanding capex profile. AGL will provide FY16 guidance and a business update at its AGM in November.

Sandfire Resources (SFR) (-6.4%) SFR relatively outperformed the market during August following the release of its FY15 result and further drilling updates from its Monty copper-gold prospect. Its FY15 NPAT of $69m was slightly below market forecasts but operating guidance was reiterated at 65-68kt of copper, 35-40koz gold, at a C1 cash cost of US$0.95-1.05/lb. A final dividend of $0.10 per share was declared and the company held cash of $107m at year end, with gross debt of $120m, and is likely to move into a net cash position during the current reporting period. We continue to maintain our overweight position in the stock on the basis that 1) SFR continues to rank attractively and remains one of the few Resource equities that we consider to be investment grade in the current low growth and volatile macroeconomic environment and 2) recent exploration success at Monty (SFR 70% interest) should lead to several months of regular positive news flow. At this early stage, the results are highly encouraging, and suggest that a commercial orebody is increasingly likely to be delineated, adding to the mine life of DeGrussa.

Positions that detracted most from the portfolio's performance during the month were from being overweight M2 Group (MTU), ANZ Banking Group (ANZ), and Dick Smith Holdings (DSH); and from not holding Medibank Private (MPL), Sydney Airports (SYD) and Transurban (TCL). Stocks in the portfolio that detracted most from relative performance during the month included:

M2 Group (MTU) (-17%) MTU underperformed the market despite reporting an in-line FY15 result. M2 reported revenue growth of 9% on pcp and NPAT growth of 17% (both in line with guidance of 8-9% and 15-20% respectfully). The result was assisted by one month of revenue from the NZ Call Plus acquisition. Excluding the Call plus acquisition the result was revenue growth of ~7% slightly below guidance. M2 have guided for revenue growth of 24-26%, NPAT growth of 30-35% and CAPEX to revenue of 2.5%. We remain overweight the stock on the basis of valuation support and confidence in management achieving its guidance. Although competition is intensifying in the industry we feel the growth is still achievable via the recent Call Plus acquisition.

ANZ Banking Group (ANZ) (-14.5%) ANZ underperformed that market following a combination of events initially caused by the announcement of an A$3b capital raising ($2.5b placement and $500m SPP) in early August. The purpose was to allow ZNZ to achieve a CET1 capital ratio above 9% following the introduction of APRA's revised risk weightings. In addition,

a weak performance in 3Q15 highlighted by a deteriorating credit quality outlook left the market concerned. Specifically this was due to ANZ's overweight exposure to the agricultural and resources sectors. Later in the month, CBA then announced that it would conduct its own equity raising of ~A$5b, and despite a solid FY15 result negatively towards the banking sector weighed on the performance of all the banks.
We maintain an overweight position in ANZ on the basis of relative valuation and we believe the credit risk is adequately reflected in its relative discount to peers and the general market. In the longer term we continue to expect to see upside from an improvement in ANZ's returns when management optimises its Asian operations and disposes of non-core assets.

Dick Smith Holdings (DSH) (-24.7%) underperformed during the month following its FY15 result, which despite meeting consensus expectations with NPAT of A$43m, was sharply sold off. The result contained three weaknesses 1) the continued softness in sales and earnings from NZ, 2) weak cashflows, and 3) softer LFL sales in Q4 that continued into 1Q16. DSH management provided FY16 guidance of $45–$48m NPAT and expect to open 15–20 new stores in FY16.
We have increased our position in DSH on the basis that DSH ranks the most attractive of the consumer discretionary stocks. We expect cash flow conversion and comp sales to improve during 1H16 and DSH should be able to achieve FY16 guidance from store rollout and cost out initiatives. The cash flow issue was a result on opportunistic purchases prior to a currency related price increase from suppliers and management attributed much of the slower sales growth to the decision to reduce the frequency of Apple promotions, which can be reversed. DSH maintains a strong balance sheet with manageable debt levels. The current dividend yield is > 7% and is, in our opinion, sustainable.

Portfolio Construction

The main portfolio weighting changes during August included: top-ups for our holdings in AIO, Commonwealth Bank (CBA), ANZ, CSR Ltd (CSR) and Telstra (TLS); and reductions for our holdings in Brambles (BXB), Westpac (WBC), and AGL.

During the month we exited positions in Investa Office Fund (IOF) and Computershare (CPU) and took new positions in STO and ORG. Cash at the end of August was 3.9% and is below the 5% maximum threshold, similar to the 4.0% in July, 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 additional of ATO and ORG in the portfolio. At present, the main sources of portfolio risk are from overweight positions in SFR, RMD, MTU, AIO and Telstra (TLS).

General Market Commentary

The ASX200 delivered its worst monthly return since the GFC in October 2008 driven mainly by global macro-economic concerns. The key issues centered around slowing economic activity in China, and a share market that exhibited sharps declines, the expectation of the US Fed raising interest rates and a slowing growth profile in the Euro region. In additional Australia's reliance on China via our large trade relationships, soft reporting season outlooks and large bank capital raisings by ANZ and CBA contributed to the overall market decline.

International markets also reacted to the sell-off in Chinese stocks (-11.8% for the month) with the Euro Stoxx 50 (-9.0%), the Nikkei (-8.2%) and the S&P500 (-5.5%) reflecting negative market sentiment. The RBA kept its policy rate on hold, with commentary from the Board suggesting that the current policy is well positioned given emerging positives on the economic front and a better than expected labour market. The RBA acknowledged the concerns regarding China in its September statement and the bond markets are now pricing in the increased probability of a further rate cut in November.

The PBOC announced policy adjustments aimed at stimulating growth in China. The measures included a 25bps cut to benchmark interest rates and also announced was a universal RRR cut of 50bp, effective September 6, 2015 which will inject CNY670bn into the banking system. This was the fifth policy rate cut, and third universal RRR cut by the PBOC since last November. The market reacted negatively to this news as these measures were perceived as confirmation of a slowing growth profile.

Capital management was again a prominent theme during reporting season with Rio Tinto, CSL, Fairfax and Ansell all announcing share buyback programs. Capital raisings from ANZ ($3bn), CBA ($5bn) followed on from NAB's capital raising in May ($5.5bn). On the M&A front, and as mentioned above Asciano agreed to an A$8.9bn takeover offer from BIP.

Regarding domestic economic releases in August: The NAB business confidence index declined 4-points to +4, while the NAB business conditions index also slid four points to +6. The economy added a much stronger than expected 38.5k jobs in July (exp. +5.0k), but the participation rate jumped 0.3% higher than expectations to a new high of 69.3%. This pushed the unemployment rate up 0.1% to 5.9% (exp. 5.6%). Retail sales rose 0.7% m/m (exp. +0.4%). Ex-food sales were particularly impressive, jumping 1.2%m/m and continuing the trend in discretionary spending increases. Investment spending dropped another 4% in 2Q for private businesses, which represents the fourth straight quarterly decline.

The soft outlook for the Australian economy and uncertainty in the global economy, particularly surrounding China saw the AUD fall against most of the other major global currencies. The Aussie fell against the USD (-2.4%), the Euro (-4.3%), the Pound (-1.1%) and the Yen (-4.4%). Spot Brent crude bucked its downward trend; after bottoming at US$40.74 on August 24th the contract rebounded sharply to close up 1.4% to US$51.28/barrel. However prices continue to be volatile in September trading. The benchmark spot iron ore price dropped sharply during the last week of the month before rebounding just as quickly to finish up 5.2% for the month at US$56.21/t. Base metals as measured by the LME index declined 2.5% in August. Of the six primary index members, Lead (+1.7%) and Aluminium (+0.4%) were the metals to post a gain, while Copper (-1.4%), Zinc (-5.5%), Nickel (- 8.7%) and Tin (-12.1%) lost ground. Spot gold rose 3.3% over August, bottoming at a more than 5-year low on August 8 before increasing again to close the month in positive territory.

Outlook

During the month the ASX market hit two years lows and down was as much as 18% below the levels it reached in April earlier this year. The impact of a slowing Chinese economy on our own economic growth profile played out during the month and this was in the backdrop of a reporting season where outlook statements were cautious and growth expectations were revised downwards by analysts. In addition, the global macro-economic concerns regarding rising US interest rates, slowing Euro Zone growth and falling commodity prices also weighed on sentiment.

The June 30 reporting season confirmed the view that the market is still lacking in top-line growth with much of the earnings growth continuing to be generated by cost-out. Whilst this highlights the extent of inefficiencies that had crept into corporate cost structures, we suspect that most of the low hanging fruit has been taken. It was a reporting season where earnings misses were punished by the market however even companies that met expectations were sold down due to soft outlook commentary.

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 and this in turn is expected to limit the potential downside. 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.

For resources, the June 30 reporting season showed significant cost-out initiatives however this has been insufficient to offset large revenue declines. Any turnaround will be driven by higher commodity prices which is driven by the supply demand dynamics and most commodity markets are reflecting ongoing excess supply. It is for this reason that we maintain our underweight position in resources. We note that consensus aggregate EPS and commodity price expectations for FY16 have continued to trend lower with commodity prices and composite sector earnings growth expectations for resources in FY16 still negative.

We remain positioned for a weak AUD/USD exchange rate. We continue to hold a number of stocks having USD earnings exposure that are likely to benefit from any further weakness in the Aussie dollar and we also expect a stronger 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.

PORTFOLIO RISK SUMMARY

Portfolio Name:	**MyPort**
Benchmark:	ASX300
Date of Data:	31-Aug-15
Sector Type:	GICS1

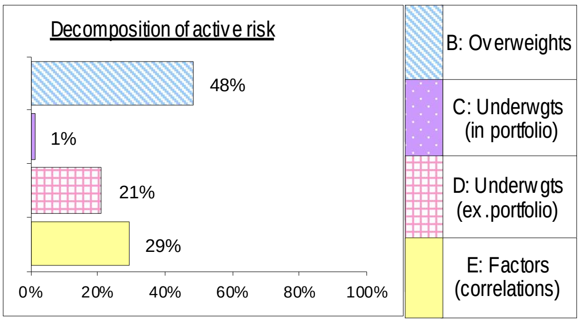
Model:	AE_PCA48M
Factor Analysis:	Multi-Factor
Timestamp of Analysis:	10/09/2015 9:48:39 AM

			Active Exposures:		%
Historic portfolio alpha	6.6%		Total:	74.7%	100.0%
Historic portfolio beta	0.97		Across sectors:	25.9%	34.7%
Raw return	14.7%		Within sectors:	48.8%	65.3%

Forecast **Tracking Error**

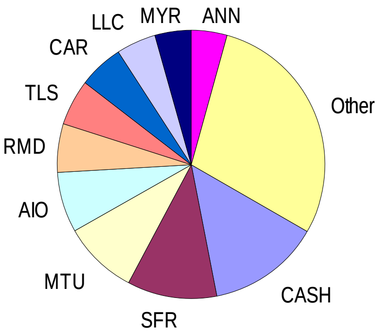
2.26 %
(active risk)

	Source of portfolio risk	contribution to active portfolio risk	standard deviation	variance / covar.
A	Stocks held in portfolio (B+C)	50%	1.6	2.5
B	Overweight positions	48%	1.6	2.5
C	Underweight positions	1%	0.3	0.1
D	Stocks not held in portfolio	21%	1.0	1.1
E	Factors (correlations between stocks)	29%		1.5
F	Total (A + D + E)	100%	2.3	5.1



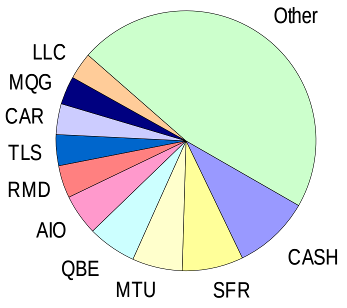
Top 10 sources of risk: Stocks held in the portfolio (A)

1	CASH	14%
2	SFR	11%
3	MTU	9%
4	AIO	7%
5	RMD	6%
6	TLS	6%
7	CAR	5%
8	LLC	5%
9	MYR	4%
10	ANN	4%
	Other	29%

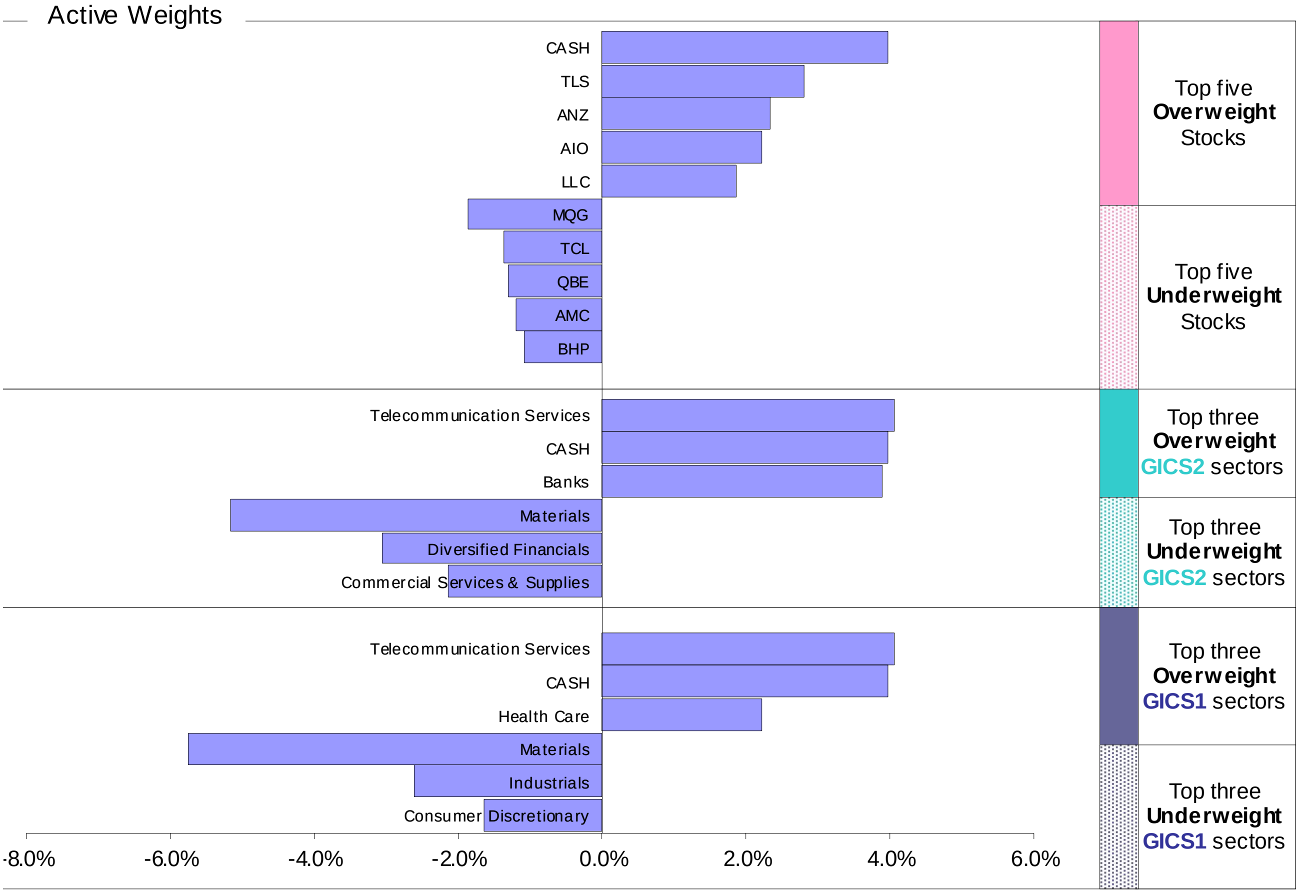


Top 10 sources of risk: All stocks in benchmark (B+C+D)

1	CASH	10%
2	SFR	8%
3	MTU	6%
4	QBE	6%
5	AIO	5%
6	RMD	4%
7	TLS	4%
8	CAR	4%
9	MQG	4%
10	LLC	3%
	Other	47%



Active Weights


CASH
TLS
ANZ
AIO
LLC
MQG
TCL
QBE
AMC
BHP
Telecommunication Services
CASH
Banks
Materials
Diversified Financials
Commercial Services & Supplies
Telecommunication Services
CASH
Health Care
Materials
Industrials
Consumer Discretionary
-8.0%
-6.0%
-4.0%
-2.0%
0.0%
2.0%
4.0%
6.0%
Top five Overweight Stocks
Top five Underweight Stocks
Top three Overweight GICS2 sectors
Top three Underweight GICS2 sectors
Top three Overweight GICS1 sectors
Top three Underweight GICS1 sectors