ATI·AM
Above The Index Asset Management Pty Ltd

Fact Sheet

ATI Australian Equity Portfolio

Information as at 31December 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 31 December 2013)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Inception (% p.a.)
ATI Equity Portfolio (gross)	1.0	5.1	19.0	8.7	14.1	7.6
Benchmark Index	0.8	3.4	19.7	8.4	12.3	5.9
Relative Outperformance	**0.2**	**1.7**	**(0.7)**	**0.3**	**1.8**	**1.7**

*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 December 2013

Largest Holdings	Portfolio Weight (%)	Benchmark Weight (%)
BHP Billiton	10.4	9.1
ANZ Bank	8.8	6.6
National Australia Bank	8.4	6.1
Commonwealth Bank	8.3	9.3
Telstra	7.2	4.9
Westpac Bank	6.9	7.5
Rio Tinto	4.4	2.2
Wesfarmers	4.0	3.8
Insurance Aust. Group	3.4	1.0
CSL	3.4	2.5

Sector Allocation	Portfolio Weight (%)	Benchmark Weight (%)
Financials	45.1	44.1
Materials	18.3	17.9
Telecommunications	7.2	5.3
Healthcare	6.2	4.7
Consumer Staples	5.0	8.2
Consumer Discretionary	4.3	4.8
Energy	4.0	6.0
Industrials	2.3	6.6
Utilities	2.2	1.6
Information Technology	1.9	0.9

Selected Portfolio Statistics as at 31 December 2013

Inception Date	23-Dec-05
Number of Stocks	29
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 1.0% in December compared with a rise of 0.8% in the benchmark index. Against this benchmark, ATI is producing excess returns on a monthly, quarterly, 3 year, 5 year and since inception (Dec'05) basis.

The Best and Worst Performing Sectors

The best performing sectors for the month were Telco's (+4.3%), Energy (+3.3%), and Industrials (+2.5%); while the worst were Financials ex Property Trusts (+0.0%), Utilities (+1.2%), and Health Care (+1.2%).

From a sector perspective, the relative performance of the ATI portfolio was most positively impacted from being overweight Materials stocks (18.3% v benchmark of 17.9%) and underweight Consumer Discretionary stocks (4.3% v benchmark of 4.8%), whilst it was most negatively impacted by being underweight Industrial stocks (2.3% v benchmark of 6.6%).

Attribution of Stocks

The portfolio performance during December was assisted by overweight positions in Sandfire Resources (SFR), Twenty-First Century Fox Inc (FOX) and Telstra (TLS); and by not holding Westfield Holdings (WDC), Amcor (AMC) and Stockland (SGP). The three stocks in the portfolio that contributed most to its relative performance during December were:

Sandfire Resources (SFR) (+12.0%) outperformed the market during December as the copper price remained robust, operational statistics continued to improve, and the company continued its modest acquisition strategy by accumulating some tenements surrounding the DeGrussa operation. As we recently noted, SFR maintains only a minimal exposure to the gold price, with less than 10% of revenue generated from gold by-product credits, substantially less than Australian peers Oz Minerals (~20% from precious metals) and PanAust (~40% from precious metals). Accordingly, and as expected, SFR was less impacted by news surrounding the US Fed tapering program than its peers. SFR remains attractively ranked in the ATI equity ranking system, and remains an overweight portfolio holding.

Twenty First Century FOX Inc (FOX) (+7.1%) outperformed relative to the market after being an underperformer in November. There were no material earnings releases by the Company during the month but we note that: i) it announced that it had sold all the advertising for the upcoming Superbowl with some 30 second ads fetching $4m; ii) it reported that it had sold its minority stake in Star China TV as part of a strategy to divest businesses in which it cannot gain majority ownership in; and iii) FOX continued to buy back stock during December as part of its ongoing capital management program. We continue to remain overweight in FOX on the basis of: i) valuation support underpinned by the growth trajectory of the company with FY16 EBITDA guidance of US$9Bn previously provided; and ii) ongoing leverage to a US economic recovery and a falling AUD/USD.

Telstra (TLS) (+3.8%) outperformed in December as it announced the listing of Autohome on the NYSE as well as announcing that it had signed an agreement to sell its HK-based mobile business CSL to HKT Limited for US$2.525bn. The Autohome IPO performed strongly, listing at US$17 and closing at US$30, of which Telstra had a 71.5% stake prior and 66.2% after the IPO valuing Telstra's stake at US$2.1b. TLS has a 76.4% stake in the CSL mobile business, valuing it at ~A$2bn at month end. We retain an overweight portfolio holding in TLS as it remains relatively attractively ranked in the ATI universe with an attractive underlying running yield and offers the comfort of significant earnings certainty compared to many other stocks covered in the universe.

Positions that detracted most from the portfolio's performance during the month were from being overweight Insurance Australia Group (IAG), AMP (AMP), and Brambles (BXB); and from not holding Ramsay Healthcare (RHC), Santos (STO), and Macquarie Group (MQG). Stocks in the portfolio that detracted most from relative performance during the month included:

Insurance Australia Group (IAG) (-3.8%) underperformed the market during December after announcing a discounted equity placement to fund part of its acquisition of the insurance underwriting business from Wesfarmers (WES). IAG agreed to buy the WES operations in Australia and New Zealand for $1.845bn, subject to regulatory approvals. IAG subsequently raised $1.2bn in a fully underwritten institutional placement, and plans to fund the rest via a non-underwritten share purchase plan (capped at $200mn), Tier 2 subordinated debt ($300mn) and internal funds. IAG expects the proposed acquisition to deliver "modest" EPS accretion in its first full year of ownership and "at least 5%" accretion in the second year, excluding integration costs and amortisation of identified intangibles. IAG said that it expects the proposed acquisition to be completed in the second quarter of calendar year 2014. We view the acquisition as a positive move by IAG as it provides incremental growth opportunities in a constrained domestic market, removes a competitor from the market and provides them access to the Coles insurance rollout offerings. IAG remains attractively ranked in the ATI equity ranking system, and remains an overweight portfolio holding.

AMP (AMP) (-5.8%) fell during the month despite there being very little in the way of company specific news-flow. One thing that continues to weigh on investor sentiment is the ongoing expectation that we will continue to see further loses on the legacy books of income protection policies that have dogged AMP over the last couple of years now. As these industry wide issues seem to relate to recent claim trends deteriorating compared to historical experience, we will be able to get a feel for AMP's approach to controlling the losses when the full year result is released in February. Despite their exposure to the income protection business, we continue to hold an overweight portfolio position in AMP on the basis that its valuation support is attributed to the majority of the company earnings that are still a beneficiary and will be positively impacted by the recent strong performance of domestic and global equity markets.

Brambles (BXB) (-3.8%) In early December, Brambles provided an update to the market at its investor day. In addition, the de-merger of its document handling business, Recall (REC), also occurred during the month. At its investor day, held in Sydney, FY14 guidance was reiterated, albeit skewed to 1H14, implying continuing tough conditions into 2H14. The company also provided longer term FY19 aspirational guidance for 7% to 9% CAGR revenue growth and a ROIC target of over 20%. The REC business was also spun-off during the month, existing BXB shareholders receiving 1 REC share for every 5 BXB shares held. We continue to hold an overweight position in BXB on the basis of valuation support based on an improving FY15 earnings profile in its US and emerging European operations. We are presently reviewing our position in REC as we only have a minor portfolio holding as part of the de-merger exercise.

Portfolio Construction

The main portfolio weighting changes during December included: the allocation of an initial position in REC from the BXB de-merger; portfolio top-ups for our holdings in Ansell (ANN), Commonwealth Banking of Australia (CBA), IAG, Resmed (RMD) and Worley Parsons (WOR); the complete disposal of our index weight only position in QBE Insurance (QBE) after they announced yet another profit downgrade, being three in three years, that ensures we have now lost all faith in the future guidance metrics provided to the market by management. Cash at the end of December was 3.2% (November 3.8%).

The ATI portfolio, with regard to the market capitalisation exposures, remains differentiated to the benchmark index with ~93% of the portfolio (excluding cash) in the top 50 stocks (benchmark ~84%), ~5% in the next 100 (benchmark ~13%), and ~2% in the last 150 stocks (benchmark ~3%). The 10 largest holdings constitute ~67% of the portfolio (benchmark ~55%), the dividend yield is 4.1% (benchmark 4.1%) and the portfolio's historic PE is 16.2x (benchmark of 17.4x).

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. After the performance of some resource stocks over the last half of 2013, ATI took advantage of that strength and reduced the extent to which the portfolio is overweight the materials sector and has now moved to a slightly overweight position in the financials sector. We remain comfortable holding a number of resource stocks with iron ore exposure, particularly Rio Tinto (RIO) & Fortescue Metals Group (FMG), and copper exposure, SFR, whose expected return is sufficiently attractive to justify some additional portfolio risk. We continue to also remain overweight in stocks we view as having industry structure advantages and/or USD currency exposure from offshore earnings such as BXB, CSL (CSL), FOX, RMD and Wesfarmers (WES) in combination with other opportunities that we feel have fundamental valuation support, such as ASX (ASX).

Portfolio Risk

The current forecast tracking error of ~2.5% is similar to last month (~2.5%). We are continuing to be presented with a number of stock opportunities in the industrial and property trust sectors as a result of their recent market 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 ongoing profit warnings and earnings downgrades, minimal earnings clarity and continued reductions in the expected mining capex spend of the larger mining companies over the next few years. That said, the portfolio has benefited from some materials stocks in the iron ore and copper space that have outperformed the broader market with the recent spot prices of these commodities remaining above those of the current consensus forecasts.

At present, the main sources of portfolio risk are from overweight positions in SFR, Lend Lease (LLC), FOX, Telstra (TLS), RIO, RMD, IAG and Ardent Leisure (AAD).

General Market Commentary

The Australian equity market sagged to a four-month low mid-month under the weight of profit warnings by a number of large companies and heavy new issuance amid a flood of fresh equity raisings. However, the Christmas catch-up rally began in the latter half of the month, seeing equities rebound off their mid-month lows (-5.5%) to finish December higher with the benchmark ASX300 Accumulation Index finally ending the month up 0.8%. Commodity sectors had a good month as energy bounced back after three months of underperformance and the materials sector also outperformed the broader market.

In domestic company specific news: Qantas (QAN) and QBE (QBE) delivered profit downgrades with both stocks falling sharply on the news; Amcor (AMC) de-merged its Australasia business Orora (ORA) and Brambles (BXB) its document handling business Recall (REC); Westfield Group (WDC) and Retail Trust (WRT) proposed a restructuring to create two internally managed property trusts, separating the domestic and international assets; Telstra agreed to sell its majority stake in Hong Kong mobile business CSL for $2bn; APA Group (APA) renewed its bid for Envestra (ENV); IAG made a $1.2bn placement to fund part of its acquisition of the insurance underwriting business from Wesfarmers (WES). As a result of the renewed corporate activity, December was the best month since November 2010 for new listings with $3.9bn in equity raised by over 20 companies.

There was also an array of government / regulatory announcements over the month that impacted investors, such as: the Federal Government announced it had blocked the Graincorp (GNC) takeover bid by Archer Daniels Midland; the Victorian Government proposed an electronic gaming machine levy at Crown casino in Melbourne; the ACCC signed an undertaking with Coles and Woolworths to limit their discounted petrol offerings; APRA released details around its framework for dealing with domestic

systemically important banks (D-SIB's) which basically requires the major banks to hold an additional capital buffer of 1%; and the Australian Treasury released its mid-year economic outlook revealing some further deterioration in the budget position.

The RBA unsurprisingly left the cash rate target on hold at 2.5% in December's meeting but made some interesting comments on matters such as public spending which was referred to as being "quite weak", and the rise in the jobless rate is "likely to persist in the near term". In reference to the currency, the RBA remarks were identical to those in November, with the Australian dollar still seen as "uncomfortably high". In a wide ranging interview given to the Australian Financial Review newspaper, the RBA Governor took the opportunity to continue the RBA's orchestrated verbal intervention efforts on the AUD/USD. Some of the quotes by RBA Governor Glenn Stevens included his opinion that "I think it's unlikely we're going to face the need to do what the Swiss have done. But we certainly didn't ever want to rule out conventional intervention." As the RBA would no doubt have liked, the Aussie dollar fell 2% against the USD in December, adding to November's fall of 4.3% and hitting a three-year low during the month to finish at $0.8940. We still expect the broader trend in recent months of US dollar strength will continue in the year ahead given the backdrop of slower domestic growth, lower overall mining investment, slightly higher unemployment and local interest rates not expected to be moving higher in the nearer term.

The domestic economic data released in December was generally a little more upbeat and indicated that both housing and consumer spending are finally beginning to respond to monetary policy actions. Some of the data released during December included: 3Q13 GDP grew at a modest +0.6% q/q (consensus +0.7%) and a below-trend 2.3% y/y; net exports delivered the lion's share of the growth as domestic spending remained soft (+0.4% q/q); the NAB business confidence survey slipped a point in November (after revisions) to +5, and has retraced around half of the bounce that occurred around the election; the Westpac-MI consumer confidence index slumped in December to the lowest level since July, down 4.8% m/m; the unemployment rate rose to 5.8% (consensus 5.8%) in November despite the addition of 21k jobs (consensus 10k); building approvals rose 23.1% y/y in October (consensus +17.0%), driven by a 47.7% rise in multi-family approvals; housing finance commitments rose 1.0% m/m in October (consensus 1.1%) following a revised increase of 3.5% m/m in September; private sector credit increased 0.3% m/m (consensus 0.4%); October retail sales rose 0.5% m/m (consensus +0.4%), after an upwardly revised +0.9% in September, whilst the cafes and restaurants category was strongest (+1.2% m/m) and the department stores were the weakest category (-0.3% m/m).

With the US economic recovery story continuing to gain more traction with investors and the Fed announcing the start of tapering for its asset repurchase program, precious metals generally lost ground during the month. Supply concerns including unrest in South Sudan, news that Libyan rebels refused to hand over control of three oil ports to the government and US data showing larger-than-expected draw downs in inventory were all possible reasons for oil prices recovering during the month as the WTI oil price was much stronger (spot +6.15%) and spot Brent crude oil also rose 0.2%. The WTI price rise also reflected US domestic oil production hitting 8.11mbpd during the month, the highest rate since 1988; the implication is that final demand in the US remains robust. The benchmark spot iron ore contract, Tianjin 62% fines, fell 1.6% and according to a news article, Reuters Dec 20, steel mills in China restricted purchases on tight cash flows and weak steel prices, a spike in interbank lending may also have curbed lending to steel mills. The spot gold price completed a dismal year – its first annual decline since 2000 – with a 3.8% drop in December and including a 2.5% fall on December 19 alone as the US Fed announced it will start reducing the quantum of the asset repurchase programs. Conversely, base metals responded positively to stronger economic data out of the US and Europe with the LME index gaining 4.0% over the month.

Outlook

Whilst calendar year 2013 was a great one for investors, with the benchmark index ending almost 20% higher, it was the second consecutive year now where the equity market has been driven by PE expansion with limited earnings growth. This outcome probably reduces the scope for further increases in the market PE multiple to drive markets and we feel that the ability to deliver improved earnings will be the key driver of individual stocks and the overall market performance for the year ahead. With earnings certainty a key feature in our thinking about portfolio holdings, we continue to be positioned with a bias to large cap global and domestic stocks (financial, mining, industrials). The major banks are still our preferred means of exposure to the higher yielding opportunities due to our confidence in their ability to meet or exceed their current market consensus earnings estimates. We also remain positioned with a number of stocks having USD earnings exposure that are likely to benefit from a weaker AUD and we expect a stronger US economic outlook will continue to put pressure on the gold price and we still have no direct exposure to gold.

The portfolio's historically low active risk level (tracking error) has resulted from a combination of 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 also be somewhat macro driven in the lead up to reporting season, we feel this positioning suits the current environment as the performance impact of 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 remain overweight the materials, financial, healthcare and telecommunications sectors.

PORTFOLIO RISK SUMMARY

Portfolio Name:	**MyPort**
Benchmark:	ASX300
Date of Data:	31-Dec-13
Sector Type:	BGICS

		Active Exposures:		%
Historic portfolio alpha	8.4%	Total:	75.5%	100.0%
Historic portfolio beta	0.97	Across sectors:	36.6%	48.5%
Raw return	18.1%	Within sectors:	38.9%	51.5%

Forecast **Tracking Error**	**2.34 %**	**2.38 %**
	(residual risk)	(active risk)

	Source of portfolio risk	contribution to active portfolio risk	standard deviation	variance / covar.
A	Stocks held in portfolio (B+C)	93%	2.3	5.2
B	Overweight positions	90%	2.3	5.1
C	Underweight positions	3%	0.4	0.2
D	Stocks not held in portfolio	21%	1.1	1.2
E	Factors (correlations between stocks)	-14%		(0.8)
F	Total (A + D + E)	100%	**2.4**	5.6
G	Systematic risk (undiversifiable)		0.4	0.2
H	Residual risk definition tracking error (F - G)		**2.3**	5.5