Above The Index Asset Management Pty Ltd

Fact Sheet

ATI Australian Equity Portfolio

Information as at 31 December 2014

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 2014)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Inception (% p.a.)
ATI Equity Portfolio (gross)	1.7	3.4	6.6	15.1	6.6	7.6
Benchmark Index	2.0	2.9	5.3	14.7	6.5	5.6
Relative Outperformance	**(0.3)**	**0.5**	**1.3**	**0.4**	**0.1**	**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 December 2014

Largest Holdings	Portfolio Weight (%)	Benchmark Weight (%)
Commonwealth Bank	9.0	10.1
ANZ Bank	8.1	6.4
Westpac Bank	7.8	7.5
National Australia Bank	7.5	5.9
Telstra	7.4	5.3
BHP Billiton	5.6	6.9
Rio Tinto	4.0	1.8
CSL	3.9	3.0
Wesfarmers	3.5	3.4
Insurance Aust. Group	2.9	1.1

Sector Allocation	Portfolio Weight (%)	Benchmark Weight (%)
Financials	47.6	46.5
Materials	11.7	15.0
Telecommunications	8.9	5.9
Healthcare	8.9	5.9
Consumer Staples	5.5	7.4
Energy	3.1	5.1
Consumer Discretionary	2.8	4.3
Utilities	2.3	1.9
Information Technology	2.5	1.0
Industrials	1.6	7.4

Selected Portfolio Statistics as at 31 December 2014

Inception Date	23-Dec-05
Number of Stocks	34
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 1.7% in December compared with a rise of 2.0% in the benchmark index. Against this benchmark, ATI is producing excess returns on a quarterly, 1 year, 3 year, 5 year and since inception (Dec'05) basis.

The Best and Worst Performing Sectors

The best performing sectors for the month were Industrials (+6.0%), Health Care (+5.6%), and Telecommunications (+4.3%), whilst the worst performers were Energy (-1.7%), Consumer Staples (-0.8%), and Materials (-0.3%).

From a sector perspective, the relative performance of the ATI portfolio was most positively impacted from being overweight Health Care stocks (8.9% v benchmark of 5.9%) and underweight Energy (3.1% v benchmark of 5.1%) stocks, whilst it was most negatively impacted by the fact that we had holdings in Materials (11.7% v benchmark of 15.0%) stocks which underperformed the market.

Attribution of Stocks

The portfolio performance during December was assisted by overweight positions in Resmed (RMD), Santos (STO), and Virtus Health (VRT); and by not holding Origin (ORG), Metcash (MTS), and Flight Centre (FGL). The three stocks in the portfolio that contributed most to its relative performance during December were:

Resmed (RMD) (+11.0%) continued to outperform the market and has now increased 25.5% compared with the market return of 2.8% since the start of this financial year. During the month RMD announced a victory in a patent infringement action against Chinese medical device manufacturer BMC Medical Co. In addition, researchers at Western University in London published a study indicating that using a nightly CPAP device could lessen symptoms of depression. The market is now awaiting the release of the 2Q15 result on 22nd January 2015 and will focus on the sales trajectory of the new S10 AirSense platform, which to date has been well received by patients and DME's. The market will also look for evidence that US sales have re-based following the disruptive period caused by the implementation of Competitive Bidding II. We continue to hold RMD as an overweight portfolio position on the thematic that: i) it has structural leadership, in an under-penetrated global market, with high barriers to entry ii) market growth and permanent cost reductions will offset current margin pressure iii) home sleep testing continues to drive market growth iv) there are potential longer term opportunities in new indications such as COPD and heart failure (SERVE HF trial) and v) short covering will continue to occur if the 2Q15 result in strong.

Santos (STO) (-18.3%) generated alpha as we did not hold a position at the start of the month but took a small holding subsequently. As we have recently mentioned, the energy sector has been very weak reflecting falling global oil prices and a negative reaction to the recent OPEC meeting where a decision was made not to curtail production levels by member states. Whilst all energy shares have been impacted, one of the worst performers was STO where concerns regarding its ability to service its debt were reinforced by management's decision to curtail a proposed hybrid capital raising. We were less concerned about this issue and considered the poor hybrid market a comment on the energy sector itself and not specifically STO; nevertheless, STO significantly underperformed its peer companies WPL and OSH. With this view in mind, we undertook a modest investment in STO shares at a time of particular weakness. As the month came to a close, STO shares rallied strongly by over 15% in less than a week. We subsequently exited most of the position which resulted in a positive attribution contribution for the month. Given our overweight core exposures to WPL and Beach Petroleum, we may seek further opportunities to increase our now underweight position in STO.

Virtus Healthcare (VRT) (+12.5%) outperformed during December after announcing two EPS positive acquisitions and the opening of the Virtus Fertility Clinic in Singapore. VRT announced the acquisition of a 70% interest in TasIVF for A$16m. TasIVF was established in 1983 and is Tasmania's largest fertility clinic. Three new fertility specialists join VRT, bringing the number of specialists working with VRT in Australia to 91 in total. Later in the month VRT announced that its 70% owned Irish subsidiary, Sims Clinic has agreed to acquire an Irish fertility centre, the HARI clinic from the Rotunda Hospital in Dublin for €6 million. VRT also announced the opening of the Virtus Fertility Centre in Singapore with the first patients expected to begin treatment in January 2015. The Singapore fertility specialists associated with the centre undertake about 350 cycles annually, which is anticipated to rise to 450 in FY16 through market expansion both locally and from within the region. 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 current slowdown in volumes is cyclical rather than structural ii) VRT is the largest operator in an industry with rational market behaviour, high barriers to entry and government Medicare reimbursements and iii) 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.

Positions that detracted most from the portfolio's performance during the month were from being overweight Seven West Media (SWM), Crown Resorts (CWN), and Insurance Australia Group (IAG); and from not holding Amcor (AMC), Qantas (QAN), and Sydney Airport (SYD). Stocks in the portfolio that detracted most from relative performance during the month included:

Seven West Media (SWM) (-14.6%) significantly underperformed during December with no material company announcements or news flow. The market continued to de-rate the stock following a cautious AGM update in November where the company cut its metro TV market growth forecast from "low single digits" to "flat to slightly negative", citing cyclical weakness and less government spend. Assuming a range of -1% to 0%, this implies growth of between 0.6% and 1.9% for the remainder of FY15 given 1Q15 growth of -5.1%. We are reviewing this position but continue to hold SWM based on i) valuation support relative to peers and the sector ii) an expectation that FTA TV will maintain or even grow share over

time with the introduction of addressable advertising and an increasing share of digital video revenues and iii) our expectation that the newspaper and magazine assets will be rationalised and restructured.

Crown Resorts (CWN) (-11.8%) underperformed during December due to a continued weak trading environment in Macau where December gross gaming revenue retreated a record 30.4% from a year ago to 23.285B Macau patacas (MOP) (or US$2.91B). For the year, gaming revenue declined 2.6% to $43.9B MOP, the first decline since 2004. The main reasons for the decline are due to anti-corruption measures from China's President Xi Jinping, increasingly stringent visa restrictions for Chinese visitors and a smoking ban on the main floors. CWN holds a 33% in MPEL and represents ~50% of CWN's earnings. During the month CWN also announced a 67%/33% JV with BetEasy, combining BetEasy's sports book business with the sports book business of Crown's 100% owned subsidiary, Betfair Pty Ltd. We continue to hold our overweight position in CWN on the basis that that i) Macau gaming revenues are expected to recover driven by supply as Galaxy and Studio City open assisting premium mass revenue and potential extension of credit by casinos should help VIP revenue increase as well ii) MPEL has the strongest Property EBITDA growth profile of Macau peers due to earlier capacity additions, i.e. the opening of Philippines in Dec 2014 and Studio City in September 2015 will drive +8%/+33% in C2015/16E iii) MPEL could also raise its dividend if overseas opportunities such as Japan are delayed and the restricted cash becomes available and iv) that the domestic operations (Crown Casino Melbourne and Burswood Casino will continue to show an increase in mass turnover and improvement in VIP volumes.

Insurance Australia group (IAG) (-1.9%) was weaker during the month after the company announced some material claims and cost data including: (i) That the net claim costs for damage caused by the violent storm in Brisbane during November would likely be between $140mand $170m. IAG said it had so far received about 15,300 claims, most of them for damage caused by hailstones falling on motor vehicles. The insurer has allocated a $700 million natural-disaster allowance for the FY15 year through to June, although it has separate reinsurance cover that provides an additional $150m protection if required; (ii) Late in the month IAG updated the market that it expects its final claim costs related to the series of earthquake losses affecting the Canterbury region in 2010 and 2011 to increase by between NZ$750 million and $NZ1bn. The re-assessment of expected final claim amounts follows an increase in forecast repair and rebuild costs, the continued notification of new household claims that have exceeded the Earthquake Commission's NZ$100,000 limit, and a series of adverse court judgements which have impacted the insurance industry over the past six months. At this stage IAG believes it will finalise claims for the 22 February 2011 event within its NZ$4 billion reinsurance limit with loss estimates for the other earthquake events expected to settle well below limits provided by its reinsurances. Despite these events, IAG was still able to confirm it is on track to deliver its full year insurance margin guidance of 13.5 - 15.5% and this provides some underlying support for us continuing to retain our over weight portfolio position.

Portfolio Construction

The main portfolio weighting changes during December included: adding new positions in Ooh Media (OML) and Santos (STO); top-ups for our portfolio holdings in Ansell (ANN), Commonwealth Bank (CBA), CSL (CSL), Fortescue Metals Group (FMG), Rio Tinto (RIO), and Virtus Health (VRT); the entire disposal of our portfolio holding in Worley Parsons (WOR); and slight portfolio reductions for our holdings in IAG, Lend Lease (LLC), Suncorp Group (SUN) and Telstra (TLS). Cash at the end of December was 3.9% and below the 5% maximum threshold, similar to the 4.0% in November, reflecting our view that we expect a pull back in equity markets may provide some rare opportunities as certain stocks have been sharply sold down over the latter part of calendar 2014.

The ATI portfolio, with regard to its market capitalisation exposures, is only slightly differentiated to the benchmark index with ~87% of the portfolio (excluding cash) in the top 50 stocks (benchmark ~83%), ~10% 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 ~53%), the dividend yield is 4.6% (benchmark 4.5%) and the portfolio's historic or trailing PE is 14.7x (benchmark of 15.9x).

Whilst the portfolio's market cap bias 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 material sectors and overweight the financial, healthcare and telecommunication sectors. We remain comfortable holding positions in some specific resource stocks, particularly BHP, FMG & RIO, and copper exposure, Sandfire Resources (SFR), whose expected return is sufficiently attractive to justify some additional portfolio risk at this stage.

We also continue to remain overweight in stocks we view as having industry structure advantages and/or the expected benefit of USD currency exposure from offshore earnings such as Brambles (BXB), Computershare (CPU), CSL, and RMD in combination with other opportunities that we feel have fundamental valuation support, such as CarSales.Com (CRZ), M2 Group (MTU), SUN, VRT and Wesfarmers (WES).

Portfolio Risk

The current forecast tracking error of ~2.2% is similar to last month (~2.2%). We are continuing to be presented with a number of stock opportunities in the financial, materials, industrial and consumer staples sectors as a result of some 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 forward earnings clarity and continued reductions in the expected mining capex spend of the larger mining companies over the next few years.

At present, the main sources of portfolio risk are from overweight positions in SFR, RMD, M2 Group (MTU), RIO, LLC, IAG, and TLS.

General Market Commentary

In mid-December the Australian equity market looked like posting negative returns for the month, quarter and year, but a 'Santa rally' pulled it into positive territory for all three periods. The S&P/ASX300 Accumulation Index recovered some of November's losses delivering +2.0% in December as global equities were been shaken by the collapse in oil prices which then reinforced some concerns about the overall strength of the global economy. Despite its higher commodity stock weighting, Australia was one of the better performing equity markets as a weaker Aussie dollar put the local bourse on a more even footing with its global peers.

In company specific news, December saw: the pressure on the energy sector highlighted by S&P's downgrade of STO's credit rating and the company's decision to defer a hybrid note issue and reduce its capex budget; BHP announce that the spin-off company holding non-core assets would be called South32 and is expected to trade from mid-2015; Telstra (TLS) reach a new set of agreements with the Government and NBN Co in relation to use of its assets in the NBN roll-out; Woodside Petroleum (WPL) purchase Apache Corp's portfolio of non-US assets for $2.75bn; Boral (BLD) sell its Western Landfill operations in Melbourne to Transpacific Industries for $150m; and the ACCC approve the BLD / CSR east coast brick joint venture.

The RBA kept the official cash rate on hold at the December board meeting, rounding off an entire calendar year of policy inactivity. The December minutes revealed little that was new, with the "period of stability" guidance retained. Board members did discuss factors influencing market pricing of rate cuts but the commentary also revealed that little has changed in latest economic conditions. Federal Treasurer Joe Hockey released the mid-year budget update, revealing that the Budget estimate for the FY15 fiscal deficit had proved too optimistic, with the revised estimate increasing by $10.6bn to $40.4bn. Collapsing commodity prices forced the Treasury to revise up its forecasts for the Federal deficit. RBA Governor Glenn Stevens said that an AUD exchange rate of US75c "probably…is better than 85c", reinforcing pressure on the Aussie dollar which saw out December at its lowest monthly close since June 2010 to finish at US$0.8166.

Regarding domestic economic releases in December: 3Q14 GDP grew 0.3% (consensus +0.7%) as net exports and household consumption contributed 0.8% and 0.3%respectively to growth, while fixed capital formation detracted -0.7%; the NAB business confidence index dropped to a post election low of +1, from a revised figure of +5 for October; the Westpac-MI consumer confidence index sank 5.7% m/m to 91, with respondents flagging particular concern over recent news relating to 'economic conditions', budget and taxation', 'international conditions' and 'employment'; the economy added 42.7k jobs (consensus +15k) in November; the jobless rate rose one tick to 6.3% (consensus 6.3%); retail sales firmed in October, rising 0.4% m/m (consensus 0.1%) as gains in October were fairly broad-based, with spending on household goods (+1.4% m/m), clothing (+1.1% m/m) and at department stores (+2% m/m) were the standout contributors; building approvals rose 11.4% in October m/m (consensus +5.0%), driven by the multi-family series rising 30.4% m/m whilst the single-family series eased by 0.3% m/m.

Spot Brent crude fell for a sixth straight month (-19.2%), finishing December at a post-crisis low. Unrest in Libya offered only brief respite. The International Energy Authority warned that supply growth could see the market 'bump up against storage capacity limits", and cut its demand forecast for 2015 – citing economic weakness in Russia and other oil-exporting countries. The benchmark spot iron ore price hit a post-crisis low of US$67/tonne in mid-December but then bounced back to finish the month roughly flat (-0.1%). The recovery was helped by reports that the PBOC will alter loan-to-deposit ratio calculations, leading to potential increases in lending activity in the coming year. Base metals turned lower (LME index -3.6%), notably aluminium (LME spot -10.1%), lead (-8.9%) and nickel (-7.1%). Spot gold firmed to mid-month, but a stronger USD pared the gains back to +1.4%.

Outlook

A relatively stable domestic outlook combined with low interest rates and a lower Australian dollar provides the platform for potential equity market upside over the course of calendar 2015. Based on the assumptions that we should have a an improving domestic economic backdrop and ongoing corporate cost cutting efficiency programs, the Australian consensus market EPS growth is now forecast to be ~3% in 2015 and then a much higher ~8% in 2016. With this in mind, sectors offering yield and relatively sustainable earnings growth, such as banks, telco's and utilities all performed relatively well in the last half of calendar 2014 and we expect this broad relative sector performance to continue into early 2015. We remain of the view that the major banks still remain attractive relative to many other sectors and are some of the only large cap stocks likely to see upgrades for FY15 - driven by lower funding costs, benign asset quality and reasonable asset growth. In addition, the pull-back in bank share prices in late 2014 meant valuations are not as stretched as many industrials and we remain overweight the banking sector and expect to generate out-performance during the coming months as we get some clarity regarding the potential for higher future capital requirements.

Whilst we are aware that higher yielding stocks remain susceptible to further increases in global interest rates, the current heightened levels of global geopolitical risk mean that we will remain overweight the financials sector in the near term as it continues to offer us a higher level of earnings certainty than many industrial and resource names as we head into the next reporting season in February. Our decision to remain underweight the materials sector still seems appropriate at this stage as consensus aggregate EPS expectations for FY15 have continued to trend lower with commodity prices and composite sector earnings growth expectations for FY15 still remain negative.

We also remain positioned with a number of stocks having USD earnings exposure that are likely to benefit from any 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), consumer staples and energy stocks. Outside of the financials, we also remain overweight the healthcare, telecommunications and utilities sectors.

PORTFOLIO RISK SUMMARY

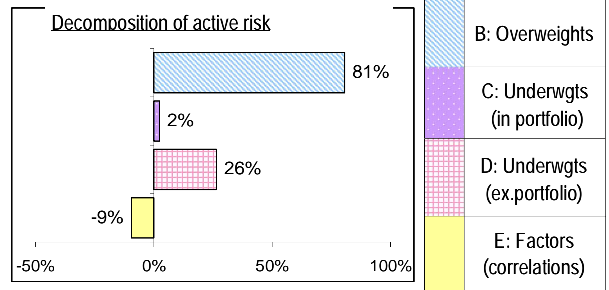
Goldman Sachs

Portfolio Name:	**MyPort**
Benchmark:	ASX300
Date of Data:	31-Dec-14
Sector Type:	GICS1

			Active Exposures:		%
Historic portfolio alpha	6.1%		Total:	72.3%	100.0%
Historic portfolio beta	0.96		Across sectors:	28.9%	40.0%
Raw return	11.3%		Within sectors:	43.4%	60.0%

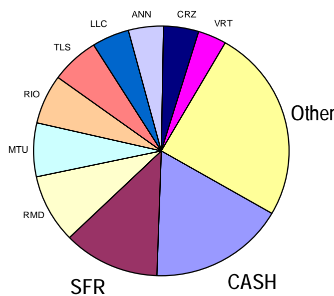
Forecast Tracking Error: **2.34 %** (active risk)

	Source of portfolio risk	contribution to active portfolio risk	standard deviation	variance / covar.
A	Stocks held in portfolio (B+C)	83%	2.1	4.5
B	Overweight positions	81%	2.1	4.4
C	Underweight positions	2%	0.4	0.1
D	Stocks not held in portfolio	26%	1.2	1.4
E	Factors (correlations between stocks)	-9%		(0.5)
F	Total (A + D + E)	100%	2.3	5.5



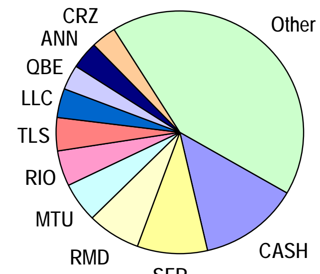
Top 10 sources of risk: Stocks held in the portfolio (A)

1	CASH	17%
2	SFR	12%
3	RMD	9%
4	MTU	7%
5	RIO	6%
6	TLS	6%
7	LLC	5%
8	ANN	5%
9	CRZ	4%
10	VRT	4%
	Other	25%



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

1	CASH	13%
2	SFR	9%
3	RMD	7%
4	MTU	5%
5	RIO	5%
6	TLS	5%
7	LLC	4%
8	QBE	4%
9	ANN	3%
10	CRZ	3%
	Other	42%



Active Weights