Fact Sheet

Above The Index Asset Management Pty Ltd

ATI Australian Equity Portfolio

Information as at 31 December 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 December 2015)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	10 Years (% p.a.)
ATI Equity Portfolio (gross)	2.6	6.7	(0.5)	8.0	6.3	6.7
Benchmark Index	2.7	6.5	2.8	9.0	6.6	5.3
Relative Outperformance	(0.1)	0.2	(1.7)	(1.0)	(0.3)	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 December 2015

Largest Holdings	Portfolio Weight (%)	Benchmark Weight (%)
Commonwealth Bank	10.8	9.9
ANZ Bank	7.9	5.7
Westpac	7.6	7.7
Telstra	7.4	4.8
National Australia Bank	6.7	5.6
CSL	4.7	3.3
Wesfarmers	3.5	3.1
BHO Billiton	3.3	4.4
Insurance Aust.Group	2.8	1.0
AMP	2.7	1.2

Sector Allocation	Portfolio Weight (%)	Benchmark Weight (%)
Financials	48.5	47.7
Telecommunications	9.8	5.3
Materials	9.2	12.5
Healthcare	10.2	6.8
Consumer Staples	4.9	6.8
Industrials	6.0	8.2
Energy	2.6	4.4
Consumer Discretionary	1.1	4.8
Utilities	2.0	2.3
Information Technology	1.6	1.1

Selected Portfolio Statistics as at 31 December 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 ATI Equity Portfolio rose 2.6% in December compared with a rise of 2.7% in the benchmark index. Against this benchmark, ATI is producing excess returns on a quarterly and since inception (ten years to Dec'05) basis.

The Best and Worst Performing Sectors

On a relative basis, the best performing sectors for the month were consumer staples (+7.1%), consumer discretionary (+6.6%) and banks (+4.9%) whilst the worst performers were energy (-7.5%), industrials (-1.2%) and health care (+0.5%).

From a sector perspective, the relative performance of the ATI portfolio was most positively impacted from being underweight energy (2.6% v benchmark of 4.4%) and overweight info technology stocks (1.6% v benchmark of 1.1%) whilst it was most negatively impacted by being underweight industrial stocks (6.0% v benchmark of 8.2%) and underweight consumer staples stocks (4.9% v benchmark of 6.8%).

Attribution of Stocks

The portfolio performance during December was assisted by overweight positions in Lend Lease (LLC), Car Sales (CAR) and Mayne Pharma (MYX); and by not holding Spotless (SPO), Sonic Healthcare (SHL) and South 32 (S32). The three stocks in the portfolio that contributed most to its relative performance during December were:

> **Lend Lease (LLC) (+11.8%)** outperformed during the month after announcing that it had secured a strategic international co-investor for 25% of the Tower One project at South Barangaroo. This announcement went some of the way to allaying the market concerns that LLC was going to require all the capital spend and cash outflows required for the ongoing development works. The new strategic investor will now mean that LLC will receive additional cash-flows in FY16 and have a reduced share of the ongoing costs expected over the next two years as the project is completed. We remain overweight LLC as we expect further capital recycling and ongoing project starts from the massive work in hand book to deliver a more consistent earnings profile for company over the next few years.
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> **Car Sales (CAR) (+13.7%)** outperformed during December as new car sales in November showed strong improvement by growing 6% on pcp. At their AGM, CAR also confirmed that the domestic trading performance for the first quarter was solid and they expect this to continue throughout the first half assuming market conditions remain unchanged. During the month Fairfax which owns Drive.com.au, formed a 50/50 JV with themotorreport.com.au and the JV aims to capture themotorreport.com.au clients with publications such as The Sydney Morning Herald and The Age.
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> **Mayne Pharma (MYX) (+9.7%)** outperformed again during December despite the absence of announcements. The market appears to now be looking to the pipeline of contract manufacturing opportunities that will be available over the next few years. MYX provided a positive update at its AGM in November with sales for the four months to October and the $84m run rate was above market expectations for FY16. The company appears to have successfully integrated the Doryx acquisition with market share being maintained since the acquisition from Actavis. Sales in the generic products division were up 40% on pcp and up 20% in the Metric Contract Services division. We continue to hold MYX due to its earnings growth profile and evidence that the company has successfully integrated Doryx and has a pipeline of new product that will assist it growth profile. MYX is also a beneficiary of a weaker Aussie dollar via its US operations.

Positions that detracted most from the portfolio's performance during the month were from being overweight Aurizon Holdings (AZJ), Suncorp Group (SUN), and Resmed (RMD); and from not holding Newcrest (NCM), Qantas (QAN) and Caltex (CTX). Stocks in the portfolio that detracted most from relative performance during the month included:

> **Aurizon Holdings (AZJ) (-21.4%)** underperformed the market following a downgrade to earnings and write-down, announced late in the month. AZJ cut coal haulage guidance for FY16 down to 202-212mt from 210-220mt. 1H16 EBIT guidance of $390-410m (before impairments) implied a 15% downgrade from market expectations. AZJ also announced non-cash write-downs of $215-240mn related to Aquila (South Africa & QLD coal assets), Galilee Basin and rolling stock. A positive was the announcement that AZJ and partners had agreed to stop work on feasibility studies in West Pilbara. However, AZJ is considering a write-down of the investment (~$175mn book value). We have maintained our position in AZJ on premise that its cost out program is still on track and will assist in meeting the revised earnings expectations. Despite the write-downs the balance sheet remains strong and the below rail business is performing to expectations.
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> **Suncorp Group (SUN) (-9.3%)** underperformed the market in December after providing updated guidance on the general insurance division, with underlying margin trends in 1H16 in the range of 10%, down from 14.6% in 2H15 and 14.7% in FY15. The reasons for the downgrade were not just catastrophe or weather related and included spare parts procurement cost rises as a result of the falling Aussie dollar. We feel that some of the costs incurred in 1H16 are not likely to continue and we expect margins to improve during 2H16. With the banking and life divisions performing well, we remain comfortable with our overweight portfolio position despite the recent lowering of guidance in the insurance division.
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> **Resmed (RMD) (-10.7%)** underperformed the market in December due to concerns regarding the impact that Competitive Bidding III will have on sales, when implemented from 1 January 2016. Sales of masks and machines were impacted following CB1 (2011) and CB2 (2013), due to DME's being unable to transfer client information efficiently. In addition, RMD is rolling off large sales growth numbers following the successful launch of the AirSense 10 last year. We have reduced our position in RMD during the quarter, but still continue to hold a slightly overweight position due to valuation support at

current prices levels, USD exposure and expectations that the company (and the DME's) will be able to better manage CB III than in the past.

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Portfolio Construction

The main portfolio weighting changes during December included: a new portfolio position in Primary Healthcare (PRY); top-ups for our holdings in Amcor (AMC), Aurizon Holdings (AZJ), Incitec Pivot (IPL), Mayne Pharma (MYX) and Resmed Inc. (RMD); and some slight reductions for our holdings in BHP Billiton (BHP), Commonwealth Bank (CBA), M2 Group (MTU) and Woolworths (WOW).

Cash at the end of December was 4.2% and is below the 5% maximum threshold, similar to the 4.2% in November, 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 RMD in combination with other opportunities that we feel have fundamental valuation support, such as Suncorp (SUN), Virtus Health (VRT) and Wesfarmers (WES). We are maintaining our holding in AIO due to our expectation that one of the two bidders in the takeover battle, Nitro Corp and Qube Logistics (QUB), will be successful in their bid for AIO.

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 recent additions of Santos (STO) and Origin Energy (ORG) in the portfolio. At present, the main sources of portfolio risk are from overweight positions in AIO, RMD, MTU, and Telstra (TLS).

General Market Commentary

The ASX300 accumulation index hit a 12-month low on the eve of the US Federal Reserve's highly-anticipated interest rate decision, but a surge over the remainder of December saw the index finish up 2.7% for the month. Australia's outperformance provided welcome respite from a long period through which the domestic index has lagged its developed market peers.

In some of the more material company announcements during December: BHP endured another torrid month, falling 4.7% as expectations grew, including ours, that the company would revise its dividend policy as both the Financial Times and the UK's Sunday Times reported that the company would 'abandon' its progressive dividend policy in 2016; both Primary Healthcare (-28%) and Sonic Healthcare (-13%) slid sharply as the MYEFO, re-imbursement risk and the MBS taskforce review weighed heavily on investor sentiment; revised rail coal haulage volumes and profit guidance sent the AZJ share price plummeting (-22%).

The RBA kept the cash rate unchanged at 2.0%, noting weaker demand for key commodities and moderating growth in Melbourne and Sydney dwelling prices. The strength in a wide range of indicators in November also suggest that prospects for firmer conditions in the non-mining economy are improving and clearly rebuts a rate cut in the near term. Indeed, in the RBA's annual Long Run address, the governor stated that, "market pricing is justified in treating December as a non-event". Looking at the longer run, governor Stevens noted the impending economic adjustment to the closing chapter of the very large and long-running terms of trade event. This coincides with a household sector, which no longer has a major role to play in leading growth by significantly increasing its leverage. With the likelihood of further near term rate cuts now unlikely, the Aussie dollar appreciated (+0.8%) against the greenback in November.

The strength of a wide range of economic indicators in December adds weight to the argument that conditions in the non-mining economy are slowly improving: the labour force survey surprised on the upside again this month as the economy added +71,400 (consensus -10,000) jobs in November, the fifth largest gain since 1985; notably, the bounce was concentrated in full-time positions as the unemployment rate fell to 5.8% and the participation rate increased to 65.3%; the NAB business confidence survey improved (+4.8), with businesses feeling more chipper about firmer domestic activity and the reform agenda being discussed in Canberra; the business conditions measure, which has the strongest correlation with domestic activity, maintained the unusually high level reached over the last few months (+10.2); on the consumer front, the Westpac Consumer Confidence index fell (-0.8%) this month, however, the index is up almost 11% on last year's reading; family finances recovered (+5.8%) from the mortgage rate hike fall (-9.1%) in November; the household saving ratio is now (+9%); retail sales firmed (+0.5%m/m) with household goods were the key area of strength; real 3Q GDP surprised on the upside (0.9% q/q vs consensus 0.8% q/q) and the major contributor was exports, with mining activity up (+5.2%); however, net trade masked a sobering quarterly contraction in the domestic economy, with gross national expenditure down (-0.6%q/q); home loan lending volumes fell (-0.5%) this month and the fall is largely attributable to the additional supervisory measures implemented by APRA to reinforce sound housing lending standards; the share of new loans to investors now sits at 35% (vs. owner occupier 65%), the lowest proportion since 2012.

Crude Oil remained a key market mover during December, down ~9%, as OPEC agreed to keep its production ceiling unchanged at 30 million barrels per day. Brent crude fell (-16.5%) to US$35.75/bbl on the back of the muted supply response to the collapse in prices and unseasonably warm weather. Spot gold edged into negative territory (-0.3%). Iron ore had some respite this month increasing (+1.4%) to US$43.57 a tonne. Base metals turned up (LME Metals Index +2.7%). Notably lead (+9.1%), aluminium (+4.4%), zinc (+3.1%) and copper (+2.3%) rose, while tin (-3.4%) and nickel (-1.0%) fell.

Outlook

The prospect of a slowing China that cast such a long shadow across international equity markets last year has only darkened ominously at the outset of 2016. With equity markets opening the calendar year in a tailspin around the world, there are some obvious risks to our domestic equity market and these include a further slowing of the Chinese economy, the rising property market in Sydney / Melbourne areas and further APRA policy changes on capital requirements. On the support side there are positive sings from the resilience of the consumer and robust domestic economic forecasts. In addition, we believe that further A$ weakness will give additional support to US$ earners whilst the constructive case for banks remains stable NIM's, cost reductions and near-term capital certainty.

In the years since the global financial crisis, and particularly the unwinding of the resources boom, domestic stocks offering compelling yields have been highly sought by investors. However, sustained outperformance has progressively brought yields down to or closer to those offered in other sectors, even as payout rates have edged higher and PE multiples have in turn expanded significantly. Despite the stretched valuations, the sectors have kept outperforming, given the persisting weak growth environment, the low yields still across the asset spectrum, and the earnings risk in other sectors, like resources and energy stocks. Yet, with the US Fed having now started raising interest rates, there might be grounds at least for tapering positions as the Australian equity market's recent relative yield advantage to global markets may begin to come under some pressure. This essentially underpins our ongoing preference towards companies with pricing power in structurally attractive industries, sustainable yield and earnings diversification.

We also remain positioned to benefit from a weaker AUD/USD exchange rate if that eventuates by holding a number of stocks with USD earnings exposure that are likely to benefit from any further weakness in the Aussie dollar. In addition, we also expect that a strengthening 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.