Fact Sheet

ATI Australian Equity Portfolio

Information as at 31 January 2016

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 January 2016)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	10 Years (% p.a.)
ATI Equity Portfolio (gross)	(4.8)	-1.6	(8.3)	4.7	5.2	6.2
Benchmark Index	(5.5)	-3.5	(5.8)	5.3	5.4	5.2
Relative Outperformance	0.7	1.9	(2.7)	(0.6)	(0.2)	1.0

*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 January 2016

Largest Holdings	Portfolio Weight (%)	Benchmark Weight (%)
Commonwealth Bank	10.6	10.0
Westpac	7.5	7.7
Telstra	7.4	5.1
ANZ Bank	7.2	5.3
National Australia Bank	6.5	5.5
CSL	4.8	3.6
Wesfarmers	4.2	3.5
Amcor	2.9	1.2
Asciano	2.9	0.6
AMP	2.7	1.2

Sector Allocation	Portfolio Weight (%)	Benchmark Weight (%)
Financials	47.0	47.2
Healthcare	11.6	7.0
Telecommunications	9.8	5.7
Materials	8.9	11.6
Industrials	5.8	8.1
Consumer Staples	5.2	7.6
Energy	2.3	3.9
Utilities	2.3	2.5
Information Technology	1.5	1.2
Consumer Discretionary	1.0	5.1

Selected Portfolio Statistics as at 31 January 2016

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 fell 4.8% in January compared with a fall of 5.5% in the benchmark index. Against this benchmark, ATI is producing excess returns on a monthly, quarterly, 10 year 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 property trusts (+1.1%), utilities (+0.7%) and telco's (+0.7%) whilst the worst performers were materials (-9.5%), financials (-9.1%) and energy (-6.2%).

From a sector perspective, the relative performance of the ATI portfolio was most positively impacted from being overweight telco's (9.8% v benchmark of 5.3%) and overweight healthcare stocks (10.2% v benchmark of 6.8%) whilst it was most negatively impacted by being underweight consumer discretionary stocks (6.0% v benchmark of 8.2%) and underweight industrial stocks (6.0% v benchmark of 8.2%).

Attribution of Stocks

The portfolio performance during January was assisted by overweight positions in M2 Group (MTU), Asciano (AIO) and Telstra (TLS); and by not holding Macquarie Group (MQG), QBE Insurance (QBE) and Healthscope (HSO). The three stocks in the portfolio that contributed most to its relative performance during December were:

> **M2 Group (MTU) (+10.0%)** outperformed the market as shareholders voted 98% in favour of the of the VOC/ MTU merger. In January Scott Carter (COO) commented on the merger stating that the combined company would now have over 70 business partners and a national fibre network with access to 3,500 buildings. M2's subsidiary, Commander, is focusing on growth and planning a campaign in the channel market in 2016 to take advantage of opportunities arising from the proposed merger and the NBN rollout. The company has enhanced its channel training program and plans to double the number of business partners particularly in the SME market this year.
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> **Asciano (AIO) (+1.8%)** outperformed the market over the month following the announcement on 28 January that Qube Holdings Limited (QUB), Global Infrastructure Partners (GIP), Canada Pension Plan Investment Board (CPPIB) and CIC Capital Corporation (CIC Capital) has lodged a proposal to acquire 100% of the issued capital of AIO offering $6.97 cash and one Qube share for every AIO share. This is an implied value of $9.17 per share. The bid also allows AIO to pay up to $0.90 fully franked dividend so as existing shareholders gain access to the available franking credits. This compare to the revised Brookfield Investment Partners (BIP) bid offering $6.94 in cash and 0.0387 of its listed units, which are traded in New York and Toronto which is currently valued at around $8.82. The Qube consortium has asked AIO to respond to its offer by February 5. The two proposals also require approval from the Australian Competition and Consumer Commission (ACCC), which is reviewing both offers and expects to make a decision by February 18. We continue to hold our overweight position on the key thematic that: 1) there are now two formal bids for the company and if the ACCC approves the QUB consortium transaction and the revised Brookfield terms and undertakings then a higher bid may eventuate 2) the bid situation provided the portfolio with defensive characteristics in a volatile market.
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> **Telstra (TLS) (+9.7%)** outperformed the market with its generally defensive nature. In January Telstra announced an MUA with NBN for the design and construction management of the nbn HFC footprint currently passed by the existing Telstra network. A contract is expected to be finalised early 2016. Telstra also invested in a leading Chinese cloud service provider called Qiniu to offer data hosting and processing for enterprises in China and across Asia. During the month Telstra also offered its mobile and broadband customers free access to its Telstra Air Network, providing uncapped and unlimited free wi-fi. We continue to retain our overweight portfolio position at this stage.

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

> **Dick Smith Holdings (DSH)** entered into voluntary administration on 4 January 2016. It was a current portfolio holding with a 0.34% weighting. The main thesis for entry into the position in March 2015 was based on primarily on valuation grounds. The relative valuation against key competitors was attractive with DSH trading at a 40% discount to JB Hi-Fi and Harvey Norman on a relative PE basis. A strong balance sheet and high payout ratio also provided basis to the investment thesis. DSH released its June 30 FY15 result in August 2015, which was in line with market expectations. However, the stock was sold off 20% following a July trading update where like-for-like sales were only 2% verses ~7% for JBH and HVN. The company provided NPAT guidance for FY16 of $45m - $48m for FY16 and re-iterated this guidance in September stating that sales were expected to improve in the September quarter. DSH then downgraded the earnings guidance in late October to be "$5m - $8m" below the previous guidance. The issue was excess inventory however management expressed confidence that they would be able to clear the inventory during the X'mas trading period. The share price had fallen about 60% since the result, so we were caught in a value trap situation but felt that if the company could clear the inventory, then the earnings profile should improve as the macro thematic was still intact. Management confirmed that that it still expected to pay a dividend so we felt that there was some yield support as well. Whilst we were concerned about the impact on margin we felt cash conversion should improve. The subsequent downgrade on 30 November and the statement that the company can no longer affirm FY16 guidance as well as a $60m write-down led to a review of the position. The investment team decided to reduce the position to mitigate further losses but unfortunately, we did not fully exit the position in fully.

ANZ Banking Group (ANZ) (-13.4%) underperformed the market in January after a number of brokers downgraded both their earnings and dividend expectations for the stock. The ongoing drag from the Asian operations combined with some potential for higher bad debt impairments in the resource related loan exposures were the main points raised and the market clearly reacted with trepidation. Despite the broker reports, we remain comfortable with our overweight portfolio position despite the recent lowering of consensus forecasts as ANZ should still remain the beneficiary of support for its above market yield from both domestic and offshore investors who now have the advantage of a materially lower Aussie dollar than we had at the same time a year ago.

Incitec Pivot (IPL) (-21.7%) underperformed following a train derailment in late December that saw a modest impact on profit, and two broker downgrades on the back of softer commodity prices. Nevertheless, we remain very positively disposed to the company expecting strong earnings growth as the Louisiana ammonia project commences production in H2 2016, and the strong free cash flow that should be created now that the project is largely complete. We anticipate IPL to remain a capital management positive story over the next few years and we retain the portfolio position.

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Portfolio Construction

The main portfolio weighting changes during January included: top-ups for our holdings in ASX (ASX), Incitec Pivot (IPL), Primary Healthcare (PRY) and Wesfarmers (WES); and some slight reductions for our holdings in Car Sales (CAR), CSL (CSL) and M2 Group (MTU) and Telstra (TLS).

Cash at the end of January 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

It was a traumatic start to calendar 2016, with all the major developed world equity indexes ending the month down. Escalating concerns surrounding the health of the Chinese economy coupled with their knee jerk efforts to manage falling markets and the currency served to deeply undermine global confidence. A surprisingly weak reading from the US economy further undermined the market's already brittle mind-set and the Australian market was not spared the rod as the ASX300 accumulation index slid 5.5% in the month. Not surprisingly, defensive sectors such as utilities, telco's and consumer staples outperformed the broader market whilst materials and financials were the worst performing sectors.

In some of the more material company announcements during January: Dick Smith Holdings (DSH) entered voluntary administration; Woolworths (WOW) announced that Lowes had exercised its put option in the home improvement JV, with the intention now to pursue a sale or wind up of the business; Wesfarmers (WES) announced the acquisition of UK retailer Homebase for £340m.

The Reserve Bank of Australia ended 2015 comfortably on hold, with the Governor telling the market to "chill out" as consensus market pricing remains of the view that the RBA will leave the cash rate on hold at the first policy gathering in February, but the declining oil price will likely prompt downward revisions to the RBA's inflation forecasts. The Aussie dollar depreciated (-2.8%) against the Greenback over the month as the US dollar strength against most currencies continued.

There was more of a mixed message feel to a number of the economic indicators in January that potentially tempers the argument that conditions in the non-mining economy are slowly improving: 4Q15 CPI came in stronger than expected with headline inflation for the quarter printed at 0.4%, overshooting consensus expectations by (+0.1%); the core inflation measures were also up (+0.55%) for the quarter as the trimmed mean rose (+0.3%) to 0.6%; Australia's terms of trade declined (-5.1%) in the December quarter and the weakness was attributable to export price growth, with iron ore (-9%), coal (-6%) and LNG (-4%) recording sizeable declines; the labour force survey was flat this month (-1,000 jobs), but the prior month was revised up to +74,900 jobs; the unemployment rate remained steady at 5.8% with the participation rate weakened slightly to 65.1%; the turmoil in global equity markets took its toll on business confidence this month; the NAB business confidence survey slipped from (+5) to (+3), but still sits well above average (+1); the NAB business conditions measure, which has the strongest correlation with domestic activity slipped from (+10) to (+7); the weakness in the conditions measure was concentrated in the retail sector; on the consumer front, the Westpac Consumer Confidence index fell below the break-even 100 mark; all but one of the major components in the headline index declined, notably, the family finances measure plunged (-9%); retail sales rose 0.4%, below 0.5% last month with the moderation driven by weakness in food as discretionary categories remained robust, particularly household goods; home loans approvals bounced unexpectedly (+1.8%); The rise runs contrary to other evidence that the housing market is cooling; private sector credit growth printed at 0.5% this month, while business credit bounced back to 0.5% after flat lining last month with the uptick is supportive of an improvement in the non-mining economy.

Crude oil plunged below US$30 per barrel for the first time since 2004 as the International Energy Agency warned the market could "drown in oversupply", a situation possibly exacerbated by the lifting of sanctions on Iran during the month. After the Brent price hit $26.39/bbl, however, the oil price subsequently rallied on headlines surrounding the potential for an agreement between OPEC and Russia to restrict output and eventually closed down (-7.1%) at $33.20/bbl. Iron ore closed at $41.72 a tonne, a (-4.2%) fall in a market, which remains severely oversupplied. Other commodities mostly fell during the month as most base metals declined including lead (-4.3%), copper (-2.9%) and nickel (-2.2%) fell, while aluminium (+1.2%), zinc (+2.2%) and tin (+2.2%) rose. Spot gold rose (+5.3%) as the sharp rally in the dollar reduced inflation and market-based Fed tightening expectations. The more positive view towards gold is evident in both gold ETF holdings and investor positioning.

Outlook

The prospect of a slowing Chinese economy 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.