Above The Index Asset Management Pty Ltd

Fact Sheet

ATI Australian Equity Portfolio

Information as at 31 July 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 July 2013)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Inception (% p.a.)
ATI Equity Portfolio (gross)	5.8	(1.3)	22.4	7.0	6.8	6.7
Benchmark Index	5.3	(1.9)	23.2	8.5	4.8	5.2
Relative Outperformance	**0.5**	**0.6**	**(0.8)**	**(1.5)**	**2.0**	**1.5**

*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 July 2013

Largest Holdings	Portfolio Weight (%)	Benchmark Weight (%)
BHP Billiton	10.6	8.9
ANZ Bank	8.0	6.5
National Australia Bank	7.9	5.8
Commonwealth Bank	7.4	9.5
Telstra	7.1	5.0
Westpac Bank	7.2	7.6
Rio Tinto	4.3	2.0
Wesfarmers	3.7	3.7
Woodside Petroleum	3.6	1.9
News Corporation	3.2	0.7

Sector Allocation	Portfolio Weight (%)	Benchmark Weight (%)
Financials	40.8	44.8
Materials	21.0	17.3
Telecommunications	7.4	5.3
Consumer Staples	6.1	8.4
Consumer Discretionary	5.9	4.4
Industrials	2.5	6.4
Energy	3.6	6.2
Healthcare	3.5	4.7
Utilities	2.4	1.7
Information Technology	2.3	0.7

Selected Portfolio Statistics as at 31 July 2013

Inception Date	23-Dec-05
Number of Stocks	31
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 5.8% in July compared with a rise of 5.3% in the benchmark index. Against this benchmark, ATI is producing excess returns on a one month, quarterly, 5 year and since inception (Dec'05) basis.

The Best and Worst Performing Sectors

The best performing sectors for the month were Materials (9.3%), Financials ex-Property (+6.3%), and Energy (+6.0%); while the worst were Information Technology (-0.1%), Consumer Staples (+1.1%), and Industrials (+1.5%).

From a sector perspective, the relative performance of the ATI portfolio was most positively impacted from being overweight Materials stocks (21.0% v benchmark of 17.3%) and being underweight Financials (40.8% v benchmark of 44.8%) & Consumer Staples (6.1% v benchmark of 8.4%) stocks; but was negatively impacted from being overweight Information Technology (2.3% v benchmark of 0.7%) and Utilities stocks (2.4% v benchmark of 1.7%).

Attribution of Stocks

The portfolio performance during July was assisted by overweight positions in Fortescue Metals Group (FMG), Atlas Iron (AGO), and Pacific Brands (PBG); and by not holding Westfield Holdings (WDC), Origin Energy (ORG) and Treasury Wine Estate (TWE). The three stocks in the portfolio that contributed most to its relative performance during July were:

Fortescue Metals Group (FMG) (+20.4%) outperformed during July as the company continues to expand production volumes at lower unit costs, into a stronger market, and continues the process of balance sheet repair. Indeed, the ongoing strength in the iron ore price continues to undermine the consensus view of the stockbroking community that iron ore prices are about to retrace to levels below US$100/t due to what are variously described as "waves", "rafts", or "surges" of new iron ore supply coming to market. The spot iron ore price (62% Fe, CFR North China) appreciated during July by ~US$10/t to ~US$130/t, however notably the A$ denominated iron ore price increased to ~A$145/t by the end of July due to ongoing A$ depreciation. During the month FMG reported production statistics for the June quarter 2013, with quarterly shipments reaching the 100mtpa rate for the first time, and the company shipping at an annualised rate of 120mtpa during the month of June. Unit cash costs dropped to US$36/wmt (~US$39/dmt), whilst the company received a price of US$113/dmt, to finish FY2013 with a cash balance of US$2.2bn. Negotiations regarding the sale of a minority interest in the company's port and rail infrastructure continue, however appear both less likely and less necessary to succeed given the resilient strength in the iron ore price, and falling currency. FMG remains relatively attractive in the ATI rankings and an overweight portfolio holding.

Atlas Iron (AGO) (+9.4%) similarly outperformed during July on the back of rising iron ore prices, the falling A$/US$ exchange rate, and robust production and sales statistics. AGO shipped a record 2.2mwt during the June quarter 2013, taking FY2013 shipments to 7.4mwt. AGO received an average price of US$105/t (CFR) across the company's two products for the June quarter 2013, compared to a cash operating cost (FOB, pre royalties) of A$49-50/t. Accordingly the company generated net cash flows of A$62m during the quarter, subject to some final working capital adjustments, and holds A$417m of cash at 30 June 2013. AGO continues to assess opportunities for a rail solution to unlock the value of the Horizon Two assets, with potential solutions including an agreement with FMG to rail and ship AGO product, an agreement with Hancock Prospecting to access the proposed Roy Hill railway, or an independent rail solution provided by Aurizon. Finally, during July, AGO announced the decision to develop Mt Webber at an initial rate of 3mtpa. This will be the company's fifth mine development within the past five years. AGO remains an overweight portfolio holding.

Pacific Brands (PBG) (+17.9%) outperformed the market after retracing in May and June (due predominantly to the fall in the AUD/USD). CEO John Pollaers has outlined strategic priorities for the business which include addressing channel mix, geographic expansion, investment in brands, and an improved product and customer offer. PBG has stated that it expects 2H13 gross margin % and cost of doing business (CODB) dollars to be broadly in line with 1H13. PBG remains a portfolio holding based on relative value within the consumer discretionary sector, yield support (~5.5%ff), cash flow generation capacity and strong debt metrics (Net Debt/EBITDA < 1.5x and interest cover > 5.5x).

Positions that detracted most from the portfolio's performance during the month were from being overweight Computershare (CPU), Orica (ORI) and Brambles (BXB); and from not holding Newcrest Mining (NCM), Santos (STO) and Worley Parsons (WOR). Stocks in the portfolio that detracted most from relative performance during the month included:

Computershare (CPU) (-4.8%) underperformed during the month as analysts expressed concerns over consensus FY14 EPS growth forecasts, the low level of global corporate actions / M&A and a large portion of their hedge book to be rolled in January 2014. This lower FY14 eps growth expectation is now factored into market expectations and we have seen more supportive recent data trends along with the tailwind of a lower AUD/USD. CPU remains attractive in the ATI rankings and is still an overweight portfolio holding.

Orica (ORI) (-12.5%) underperformed the market in July after it issued a profit downgrade and revised FY13 guidance, citing weaker-than-expected global economic conditions and higher-than expected Minova integration costs. The company stated group NPAT pre individually material items was now expected to be around 10% lower than the previous year ($650.2m), subject to global economic conditions. ATI's portfolio position in ORI was reduced following the downgrade.

Brambles (BXB) (-2.8%) underperformed during the month after announcing that it would demerge its document management business Recall, subject to regulatory and shareholder approvals. BXB shareholders will receive shares in the new separately listed Recall holding company proportionate to their existing BXB shareholding, and BXB will not retain any shareholding in Recall post the demerger. The company reaffirmed FY13 guidance of US$1030-1060m, however it noted a deterioration in the performance of Recall with EBIT expected to be down -10% on pcp on a constant currency basis, due to reduced transaction customer activity and the impact of weaker selling prices for destroyed paper. BXB remains an overweight portfolio position due to its exposure to a recovery in the European markets, margin growth in its US Pallets business and leverage to a falling Australian dollar.

Portfolio Construction

The main portfolio weighting changes during July included: the purchase of Metcash (MTS) and Resmed (RMD); portfolio top-ups for our holdings in Commonwealth Bank (CBA), Fortescue Metals Group (FMG), and Telstra (TLS); the sale of New News Corp (NNC) and Toll holdings (TOL); and a slight portfolio weighting reduction for AGO, Lynas Corp (LYC), Incitec Pivot (IPL), Orica (ORI), PBG and Woolworths (WOW). Cash at the end of July was 4.3% (June 3.6%).

The ATI portfolio, with regard to the market capitalisation exposures, remains differentiated to the benchmark index with ~92% of the portfolio (excluding cash) in the top 50 stocks (benchmark ~84%), ~6% in the next 100 (benchmark ~13%), and ~2% in the last 150 stocks (benchmark ~3%). ATI's 10 largest holdings make up ~66% of the portfolio (benchmark 55%), the dividend yield is 4.2% (benchmark 4.3%) and the portfolio's historic PE is 14.9x (benchmark of 15.8x).

Whilst the portfolio's market cap bias is broadly similar to the benchmark index, its underlying sector positioning is not. ATI has maintained its portfolio position of being overweight the Materials and underweight Financials sectors. We remain comfortable holding a number of smaller resource stocks with iron ore and copper exposure that have become sufficiently attractive for their relatively high expected return profile to justify some additional portfolio risk. These stocks include AGO, FMG and SFR. We continue to remain overweight in consumer discretionary stocks we view as having structural advantages such as Twenty-First Century FOX Inc (FOX) and Resmed or value opportunities with fundamental value support such as PBG and Fairfax Media (FXJ).

Portfolio Risk

The current forecast tracking error of ~2.3% is slightly below last month (~2.8%). We are continuing to be presented with a number of stock opportunities in the materials and industrial sectors as a result of their recent underperformance. At this stage we still feel that any further additional risk is unlikely to be justified in an environment with minimal earnings clarity and continued reductions in the expected mining capex spend over 2013 and beyond. That said, we also feel that the negative reaction of some materials stocks in the iron ore and copper space has been overdone in the last few months as recent commodity pricing levels remain well above the lower levels that we saw the second half of 2012 and during the GFC.

At present the main sources of portfolio risk are from overweight positions in Sandfire Resources (SFR), FMG, Twenty-First FOX Inc (FOX), Telstra (TLS), AGO, Rio Tinto (RIO), Lend Lease (LLC) and CPU.

General Market Commentary

Domestic equities rallied strongly ahead of the August reporting season despite a seemingly brutal raft of profit warnings and the weakness in the news flow from China as equity markets globally managed to recoup most of their May-June losses. Despite some negative market commentary speculating about the future Chinese growth outlook, the weakening Australian dollar helped the Australian equity market during the month with mining companies outperforming the broader market after a general improvement in many commodity prices. The ASX300 Accumulation Index posted its strongest start to a financial year since 2009 and ended July up 5.3%, boosted by the mining-heavy Materials sector which recorded its best monthly performance since January 2012.

Pre-result company trading updates remained a feature of the domestic equity market in July as Ausenco (AAX), Boart Longyear (BLY), Orica (ORI), Santos (STO), Treasury Wine Estate (TWE) and Woodside Petroleum (WPL) all downgraded their FY13 earnings guidance whilst Flight Centre (FLT) and Insurance Australia Group (IAG) upgraded theirs. There were also some significant corporate announcements during the month, including: ANZ raising $1bn in new debt via a hybrid notes issue; APA Group (APA) looking to merge with Envestra (ENV); Brambles (BXB) announcing the demerger of its Recall business; and Commonwealth Bank (CBA) proposing to relinquish their control and internalise the management rights of Commonwealth Property Office Fund (CPA) and CFS Retail Property Trust Group (CFX). Meanwhile, the auto industry was thrown into confusion with the Federal Government proposing changes to the fringe benefits tax rules for novated leases whilst it was separately announced by the Federal Government that there would be a transition from a fixed to floating carbon price in July 2014, a year earlier than previously proposed.

Whilst the RBA left the cash rate on hold at 2.75% in July the RBA Governor delivered his clearest statement yet, in a speech on "economic policy after the boom", that low interest rates are likely to be part of the economic landscape over the coming year. The market interpreted these comments as indicating an ongoing easing bias by the RBA and dragged the Aussie dollar down with it. The Australian dollar continued its recent slide and actually dipped below US$0.90 for the first time since August 2010, finishing the month lower at US$0.8982 compared to the previous month-end close of US$0.9138. The recent trajectory of the Australian dollar

versus the US dollar only looks set to continue with a backdrop of domestic growth getting weaker, the peak in mining investment coming to an end, the unemployment rate picking up and short term interest rates possibly still to move lower. Given the current outlook for the domestic economy continues to look worse, at least the RBA has some more capacity to try and support growth as our interest rates remain some of the highest in the developed world.

The domestic economic data released in July was generally disappointing and continues to point to signs of deterioration in the level of economic growth. The unemployment rate rose from an initially published 5.5% to 5.7% (vs consensus of 5.6%), and the retail spending slowdown during March and April continued during May with growth of only 0.1% in the month compared to consensus market expectations of a 0.3% gain. Whilst the housing recovery had appeared to be gaining momentum in the first five months of the year, this seemed to unwind in June with an unexpectedly large (6%) fall in building approvals during the month (vs consensus of +2%) and these approvals are now down 13.0% on an annual basis. Further, credit growth remains historically soft and the June NAB Business Survey pointed to retail conditions being at their weakest since the survey started back in 1997. In summary, at this stage we see no sign that the current low level of interest rates is providing an environment to offset a slowdown in the mining sector investment spending that many may have expected by now. Indeed, the Q2 inflation data released this month was low enough for the RBA Governor to mention in a recent speech that the RBA would not stand in the way of further interest rate cuts.

With the US Fed indicating a longer delay in tapering of their asset purchasing program than markets were anticipating, precious metals managed to finish the month on a positive note. The standout commodity during the month was iron ore, which rose 12% to US$131/Mt despite soft macro data releases from China. Firmer steel prices appeared to have encouraged Chinese mills to restock, pushing ore to a peak of $132.10 per metric ton before it stumbled slightly at months end, still finishing the month up 11.5%. The LME index of base metals managed to eke out a gain of 1.7%. Copper (2.1%) made ground during the month before giving some of it back on a weaker Chinese manufacturing data release late in July. Aluminium (+0.1%) suffered a similar fate, rising early in the month only to lose ground in the final week. Despite continuing ETF liquidation (holdings down 3.7% in the month on consensus estimates), spot gold broke its losing streak (+7.3%) amid evidence of falling scrap supply. Oil (+5.3%) posted its largest monthly gain since August 2012 with some supportive data for April and May pointing to rising European demand.

Outlook

With the annual domestic reporting season about to start in earnest, the results and outlook statements will provide us with some insight into the achievability of our earnings expectations for the year ahead. With the market consensus currently expecting ~10% earnings growth for FY14, it would seem unlikely that this sort of outcome will eventuate given the deterioration we are currently seeing in the domestic economy. Whilst it is expected that further rate cuts and cost cutting measures will improve the ability of companies to keep their expenses under control, any expectation for a significant improvement in the top-line revenue would seem questionable. Overall, we still expect there to be some downgrades for FY14 consensus earnings expectations over the course of the year as any domestic economic recovery needs to based on some broad based industry traction that is clearly not apparent at this stage. But even allowing for some downgrades, there should continue to be some market support as at least single digit levels of earnings growth could be achieved in FY14.

Reflecting our view of the domestic earnings profile in conjunction with the ongoing recent impact of thematic drivers on equity market performance, the portfolio has actually increased its level of exposure to offshore earnings during the month. This will ensure we are positioned to get some benefit from the global recovery and we see no reason to change tact at this stage given the ongoing improving momentum in the US / European economic data and our expectation that the downward trajectory of the Australian dollar may well continue over the year ahead. As we have noted previously, the falling Australian dollar may also enhance the prospects for many materials stocks as commodity prices are generally denominated in US dollars, meaning the potential currency translation benefit would only help their cause.

Whilst predicated on a more fundamental basis, we have also maintained our overweight materials sector positioning as we continue to expect that there will be an improvement in the global economic picture with ongoing signs of recovery in the US economy, an expanding Chinese economy and better than expected data releases across many European nations. This improving global backdrop is at odds with the domestic economic predictions and only confirms our belief that the current environment will be supportive of an outcome where the materials stocks can continue to outperform the broader market. Further support for our portfolio positioning also comes from our view that the Chinese economic growth rate will remain around current levels and is not expected to deteriorate to the extent that much of the recent media and analytical coverage is suggesting. With market consensus expectations now forecasting some pick-up for both US & European growth prospects in the year ahead, this may well lead to an ongoing increase in demand for Chinese exports during 2H13 and this would clearly be positive for many of the materials stocks.

The ATI portfolio remains balanced with a mix of high yielding, large capitalisation financial, telco and consumer staples stocks combined with an overweight exposure to the materials sector via the two large diversified miners and some smaller commodity specific positions. The portfolio is also balanced by a mix of strategic consumer discretionary and industrial stocks that we feel are capable of improving our expected return over the coming year.

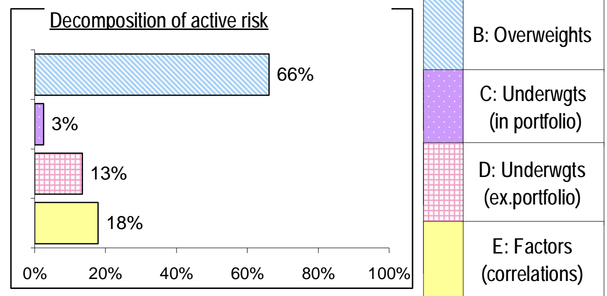
PORTFOLIO RISK SUMMARY

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

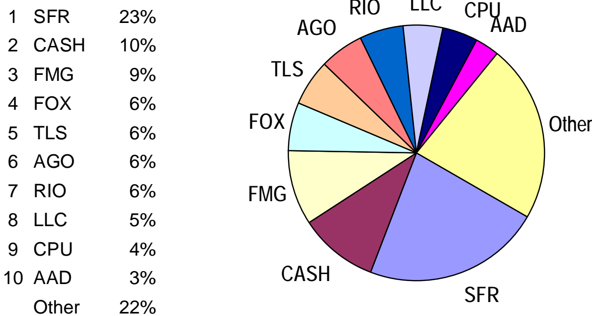
		Active Exposures:		%
Historic portfolio alpha	4.0%	Total:	74.6%	100.0%
Historic portfolio beta	0.98	Across sectors:	38.3%	51.3%
Raw return	11.2%	Within sectors:	36.3%	48.7%

Forecast **Tracking Error**	**2.23 %**	**2.25 %**
	(residual risk)	(active risk)

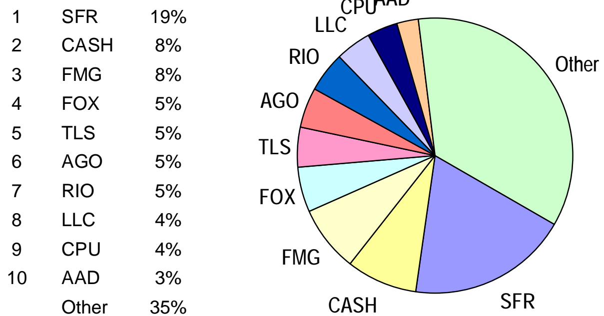
	Source of portfolio risk	contribution to active portfolio risk	standard deviation	variance / covar.
A	Stocks held in portfolio (B+C)	69%	1.9	3.5
B	Overweight positions	66%	1.8	3.3
C	Underweight positions	3%	0.4	0.1
D	Stocks not held in portfolio	13%	0.8	0.7
E	Factors (correlations between stocks)	18%		0.9
F	Total (A + D + E)	100%	2.2	5.1
G	Systematic risk (undiversifiable)		0.3	0.1
H	Residual risk definition tracking error (F - G)		2.2	5.0



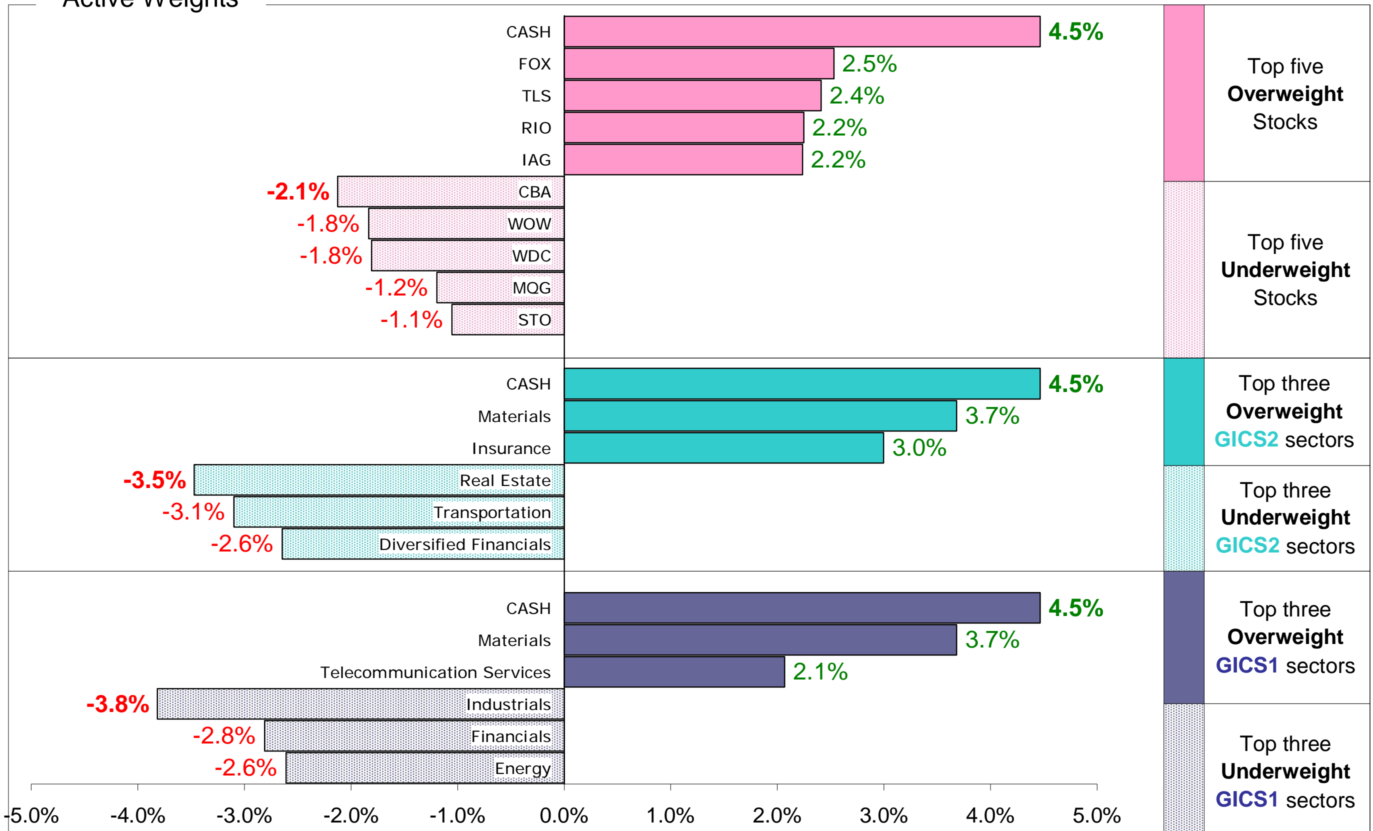
Top 10 sources of risk: Stocks held in the portfolio (A)



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



Active Weights



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