Above The Index Asset Management Pty Ltd

Fact Sheet

ATI Australian Equity Portfolio

Information as at 31 July 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 July 2015)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Inception (% p.a.)
ATI Equity Portfolio (gross)	5.0	0.2	5.3	15.2	8.9	7.8
Benchmark Index	4.3	(0.8)	5.5	14.7	9.4	6.3
Relative Outperformance	**0.7**	**1.0**	**(0.2)**	**0.5**	**(0.5)**	**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 2015

Largest Holdings	Portfolio Weight (%)	Benchmark Weight (%)
Commonwealth Bank	9.7	9.7
ANZ Bank	8.2	6.2
Westpac Bank	7.9	7.5
Telstra	7.2	5.1
National Australia Bank	7.2	6.1
BHP Billiton	4.6	5.9
CSL	4.0	3.0
Wesfarmers	3.5	3.2
AMP	3.1	1.3
AGL Energy	2.6	0.8

Sector Allocation	Portfolio Weight (%)	Benchmark Weight (%)
Financials	50.2	47.5
Materials	10.6	13.9
Telecommunications	9.2	5.9
Healthcare	8.7	6.3
Consumer Staples	5.3	6.7
Consumer Discretionary	2.7	4.4
Energy	2.2	4.8
Utilities	2.7	2.1
Industrials	3.9	7.4
Information Technology	2.7	1.0

Selected Portfolio Statistics as at 31 July 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 gained 5.0% in July compared with a rise of 4.3% in the benchmark index. Against this benchmark, ATI is producing excess returns on a monthly, quarterly, three year and since inception (Dec'05) basis.

The Best and Worst Performing Sectors

The best performing sectors for the month were Health Care (+9.6%), Consumer staples (+7.5%) and Industrials (+6.5%) whilst the worst performers were Materials (-1.1%), Energy (+0.3%), and Financials (+4.3%).

From a sector perspective, the relative performance of the ATI portfolio was most positively impacted from being underweight materials (10.6% v benchmark of 13.9%) and energy stocks (2.2% v benchmark of 4.8%) whilst it was most negatively impacted by being underweight consumer discretionary (2.7% v benchmark of 4.4%) and consumer staples stocks (5.3% v benchmark of 6.7%) stocks which both outperformed the market.

Attribution of Stocks

The portfolio performance during July was assisted by overweight positions in CSL (CSL), Asciano (AIO), and AMP (AMP); and by not holding Newcrest Mining (NCM), Origin Energy (ORG), and Orica (ORI). The three stocks in the portfolio that contributed most to its relative performance during June were:

CSL (CSL) (+14.4%) outperformed during the month following two positive announcements. The first was that the US FDA had accepted the submission of its Haemophilia A treatment rVIII-SingleChain following positive trial results. The submission is based on the Affinity clinical development program, which showed the treatment met all primary endpoints. This means the drug could be launched in late 2016. CSL also announced that it has closed the Novartis deal. CSL had agreed to acquire the Novartis Vaccine business in October 2014. The acquisition value of US$275m will be funded from surplus cash. The combination with bioCSL will create the #2 global player with c30% share in the US$4bn global influenza vaccine industry. CSL expects the combined business will have a strong growth profile and forecasts sales to ramp up to cUS$1b pa over the next 3 to 5 years with synergies of US$75m pa by FY20. We continue to hold CSL as a core overweight portfolio position on the thesis that i) it is the market leader in a growth market with high barriers to entry and rational market participants ii) it is the low cost producer, providing it with a significant competitive advantage iii) its R&D pipeline is strong and continues to provide growth options; iv) The Novartis deal whilst having minimal earnings impact initially is priced below book value and consolidates the market – somewhat similar to CSL's 2004 acquisition of Aventis Behring. CSL forecasts synergies of US$75m pa by FY20 and v) CSL has a strong balance sheet with a continuation of the buyback expected to be announced at the FY15 result.

Asciano (AIO) (+22.2%) outperformed the market over the month following the announcement on 1 July, that it had received an indicative non-binding proposal from Brookfield Asset Management Inc. for a cash and scrip deal which values AIO at $9.05 per share. An exclusive 8 week due diligence period has been granted to Brookfield infrastructure Partners (BIP) a subsidiary of Brookfield Asset Management. BIP LP owns and operates utility, transport and energy businesses in North and South America, Australasia, and Europe and employs over 9,000 staff. AIO has not provided any further updates but is expected to do so when its releases it FY15 result on 18 August 2015. The company re-affirmed FY15 guidance following investor sites visits in May. We continue to hold our overweight position on the key thematic that: 1) the cost out and rationalisation are on track which will lead to margin improvement and balance sheet flexibility and an underpinning of FY16 earnings; and 2) The Brookfield bid has underpinned the fundamental value of the business and a more formal takeover may eventuate.

AMP (AMP) (+9.8%) outperformed during July as stronger equity markets encouraged investors to seek market leveraged stocks such as AMP. In addition, AMP responded to the recent APRA requests to Australian lending institutions to cool the growth in home investor loans by raising the rates on their book of investor loans and declaring that they will not write any more investor loans for the remainder of calendar 2015. The effects of this appear twofold to us as APRA gets to see that the lending institutions are taking the investor lending constraints seriously and AMP get to move inti FY16 with a repriced investor loan book that will be accretive to earnings in the year ahead. Despite the recent share price rally, AMP is still relatively attractive in the ATI ranking system and we have maintained our overweight portfolio position.

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 Pact Group (PGH); and from not holding Qantas (QAN), Sydney Airports (SYD) and Transurban (TCL). Stocks in the portfolio that detracted most from relative performance during the month included:

Dick Smith Holdings (DSH) (-3.9%) underperformed during the month despite any official news releases. The stock did react to market rumours published in the AFR that the concession arrangement with David Jones was about to end. DSH provides the "Powered by Dick Smith" electronics offering within 29 David Jones stores. The AFR reported that David Jones's new owners, South African retailer Woolworths Holdings and Dick Smith were about to end the arrangement before the agreement expired in October 2016. Despite this, we are comfortable that DSH's other initiatives including MOVE stores and rollout will underpin earnings. Following a solid 1H15 result, an announcement regarding cost saving initiatives and the reiteration of FY15 guidance, DSH is currently the most attractive of the consumer discretionary stocks in the ATI rankings. The sector has received positive sentiment following budget initiatives assisting small business and improved consumer sentiment due to housing price increases, low interest rates and relatively stable employment levels.

The business has low gearing and this offers flexibility to expand the business (with another 65 stores in Australia and New Zealand already touted by FY17) or undertake capital management initiatives.

ANZ Banking Group (ANZ) (+1.5%) underperformed the broader market in July after ongoing market concerns related to the recent APRA changes that will require a higher level of capital to meet the higher risk weighted asset charge on the mortgage books of the big four local banks. The month started looking like it may prove harder for ANZ than the other major banks to meet the new requirements in the year ahead, although over the course of the month it became clearer that ANZ should be able to meet the higher capital levels with the sale of its Esanda finance business for ~$8bn and issuing some fresh equity. Given we feel that ANZ, like the other majors, will be able to comply with APRA's increased capital charges by July 2016 we remain overweight the stock. We also expect that the clarity over the new capital requirements will assist the major banks prepare for the capital build stage with a mixture of fresh capital and asset sales expected over the year ahead.

Pact group (PGH) (-3.4%) underperformed in July after having contributed positively to the portfolio performance over recent months. The most likely cause of the underperformance in July was the fact that resin prices, a major input into the processing stage, increased rapidly and market traders appeared to be taking profits after the strong price increases. We had already started to exit our position before this due to the stock's recent rally with a view to reinstating a position if more attractive resin prices prevail again over the next few months.

Portfolio Construction

The main portfolio weighting changes during July included: top-ups for our portfolio holdings in AIO, Lend Lease (LLC), Resmed (RMD), and Suncorp Group (SUN); and slight portfolio reductions for our holdings in Brambles (BXB), Pact Group (PGH), and Sandfire Resources (SFR). Cash at the end of July was 4.0% and is below the 5% maximum threshold, similar to the 4.1% in June, reflecting our view that the equity market has become a little cheaper over the course of the last few months and having the maximum cash is not currently our intention.

The ATI portfolio, with regard to its market capitalisation exposures, is only slightly differentiated to the benchmark index with ~86% of the portfolio (excluding cash) in the top 50 stocks (benchmark ~82%), ~11% in the next 100 (benchmark ~14%), and ~3% in the last 150 stocks (benchmark ~4%). The 10 largest holdings constitute ~61% of the portfolio (benchmark ~51%), the dividend yield is 4.7% (benchmark 4.5%) and the portfolio's historic or trailing PE is 14.9x (benchmark of 15.6x).

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 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 BXB, Computershare (CPU), CSL (CSL) and RMD in combination with other opportunities that we feel have fundamental valuation support, such as CarSales (CAR), Insurance Australia Group (IAG), M2 Group (MTU), REA Group (REA), SUN, Virtus Health (VRT) and Wesfarmers (WES).

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 financial, materials, industrial and consumer staples 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. At present, the main sources of portfolio risk are from overweight positions in SFR, RMD, MTU, RIO Tinto (RIO), LLC, IAG, and Telstra (TLS).

General Market Commentary

Despite falling commodity prices, the Australian equity market rallied strongly in July with the S&P/ASX300 Accumulation Index ending the month up 4.3%. The market was buoyed by investor relief on Greece, as a last minute deal between the Tsipras-led joint parliament and the European troika likely averted a "Grexit", saving the region from further political uncertainty. A sharp fall in long-term domestic interest rate expectations supported the market as defensive sectors performed strongly with a 5% fall in the Aussie dollar also likely to have been a contributing factor. Despite the July rally, the local equity market remains below where it was three months ago, as weakening commodity prices again caused resources stocks to weigh on index levels.

On a sector level, health care posted the best outperformance, with most of its constituents benefitting from another 5% fall in the Australian dollar in July. Other industry groups that outperformed strongly include transportation, likely benefiting from a lower crude price driven by potential Iran supply, and consumer services whilst materials, energy and capital goods fared the worst.

In company specific news: reporting season kicked off with results from Resmed (RMD), GUD Holdings (GUD) and Navitas (NVT); on the M&A front, AIO received a confidential, indicative, non-binding and conditional proposal from Brookfield Infrastructure group

implying a value of $9.05 per share. DUET Group (DUE) announced a proposal to acquire 100% of Energy Developments (ENE) shares on issue, to be funded via a Placement ($550m) and 1-for-2.69 entitlement offer (~$1.2bn); and TPG's cash and scrip acquisition of Iinet (IIN) was approved by IIN shareholders.

The RBA kept the cash rate on hold at 2.0%. The main changes in the commentary in the RBA's statement, relevant to that of a month earlier, were the passing references to recent events in Greece and China, alongside the restated desire for AUD to be even lower, despite it already having fallen to a six-year low. The Aussie dollar fell 4.8% against the USD, the largest monthly decline since Jan-15.

Regarding domestic economic releases in July: the June NAB business confidence index rose 2pts to +8, while business conditions rose 5pts to +11; in contrast, the Westpac-MI consumer confidence index, eased 3.1pts to 92.2; the economy gained 24.5k full-time jobs in June, and the unemployment rate was unchanged at 6% (consensus 6.1%) as the participation rate rose 0.1ppt to 64.8%; retail sales rose 0.3% in May (consensus +0.5%) and there were healthy gains from household goods retailing (+0.8%) and the food category (+0.7%) whilst department store sales fell 1.4%; according to the RBA, credit growth rose 0.4% m/m in June (consensus +0.5%); credit for housing expanded 0.6% m/m, while personal and business credit growth rose 0.1% and 0.0%, respectively; building approvals for June plunged 8.2% m/m (consensus +2%), underpinned by a 19.5% decline in the multifamily series.

Record oil exports from southern Iraq, coupled with concerns around demand from China and a firmer USD acted to send oil prices sharply lower in July as spot Brent crude recorded its largest drop in 2015 year-to-date (-17.6%). In the US, the West Texas Intermediate price recorded its biggest monthly decline in seven years (-20.8%). Spot iron ore prices fell 10.0%, coinciding with a sharp slump in the June PMI, which dipped to 37.4 (May: 42.4). Subsequently, the July reading recovered to 41 but the index remains firmly in contractionary territory. Base metals as measured by the LME index fell 6.2%, dipping to the lowest level since Jun-09. Among the constituents, copper declined 9.3%, while Nickel (-7.9%) and aluminium (-4.2%) also suffered sharp price declines. Spot gold declined 6.5% in July, with the commodity price falling for six consecutive weeks to the lowest level since Mar-10.

Outlook

Most recently, the local equity market has watched as world growth estimates are continuously revised down thanks to a combination of concern about Greece exiting the Euro, the impact of falling share prices and a slowing economy in China, sharply lower raw material prices and concerns about the timing of the Fed hiking US interest rates. Attention now turns to the Australian reporting season where earnings growth expectations remain meagre at best. Heading into this, consensus earnings downgrades in July were muted at -1.2%, as analysts, particularly for non-resources stocks, took a wait-and-see approach. Nevertheless, consensus growth expectations remain the most cautious since the GFC period, with growth in both FY15 and FY16 now expected to be negative (-2.0% and -0.5%, respectively).

Consensus earnings estimates have highlighted for some time that the Australian equity market is lacking in top-line growth and much of the earnings growth actually being generated in the last couple of years has often been driven by cost-outs. Whilst this highlights that inefficiencies had crept into corporate cost structures during the good years, there are now a number of companies who have this year either instituted new efficiency programs or up-sized existing programs for further cost reductions in the years ahead. The end result is that companies have still been generally able to meet consensus earnings expectations with the assistance of the cost reductions whilst revenue growth remains quite a rare commodity for many businesses in this environment.

Despite the less than inspiring earnings expectations for the year ahead and the recent performance we continue to think that the Australian equity market's relative yield advantage, to both domestic interest rates and global equity markets, should continue to be a recipient of investor support and this in turn is expected to limit the potential downside. This essentially underpins our ongoing preference towards greater earnings certainty, sustainable yield and some growth opportunities outside domestic sources as we feel that domestic EPS growth will be hard to achieve for many stocks as we head into the 2015 year end reporting season. In an environment of historically low interest rates and minimal domestic earnings growth, we feel that the major banks have actually become relatively more attractive as a result of the recent sell off by the market and we remain slightly overweight. Our decision to remain underweight the materials sector still seems appropriate at this stage as consensus aggregate EPS expectations for FY15 & FY16 have continued to trend lower with commodity prices and composite sector earnings growth expectations for resources in FY15 still remain negative.

We also remain positioned with a number of stocks having USD earnings exposure that are likely to benefit from any further 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

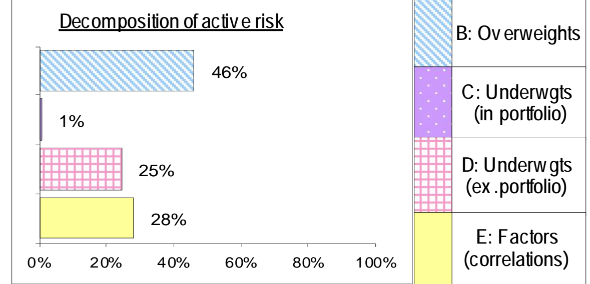
Portfolio Name:	MyPort
Benchmark:	ASX200
Date of Data:	31-Jul-15
Sector Type:	GICS1

Historic portfolio alpha	8.6%
Historic portfolio beta	0.94
Raw return	18.1%

Active Exposures:		%
Total:	70.0%	100.0%
Across sectors:	6.4%	9.2%
Within sectors:	63.6%	90.8%

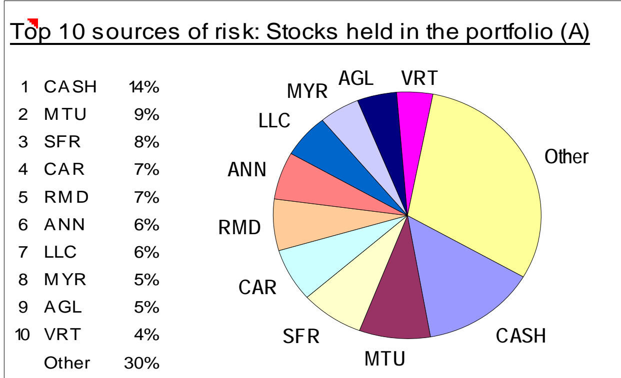
Forecast Tracking Error: **2.38 %** (active risk)

	Source of portfolio risk	contribution to active portfolio risk	standard deviation	variance / covar.
A	Stocks held in portfolio (B+C)	47%	1.6	2.7
B	Overweight positions	46%	1.6	2.6
C	Underweight positions	1%	0.3	0.1
D	Stocks not held in portfolio	25%	1.2	1.4
E	Factors (correlations between stocks)	28%		1.6
F	Total (A + D + E)	100%	2.4	5.7



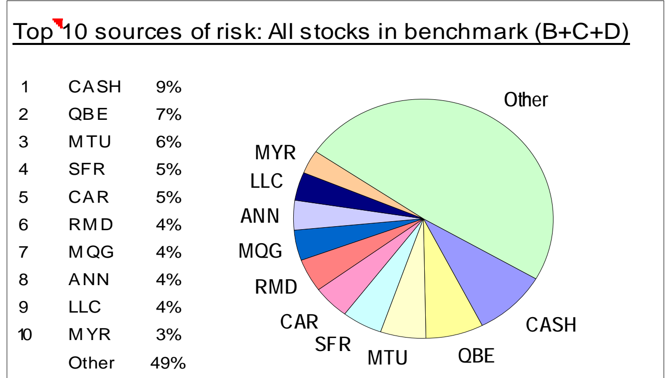
Top 10 sources of risk: Stocks held in the portfolio (A)

1	CASH	14%
2	MTU	9%
3	SFR	8%
4	CAR	7%
5	RMD	7%
6	ANN	6%
7	LLC	6%
8	MYR	5%
9	AGL	5%
10	VRT	4%
	Other	30%



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

1	CASH	9%
2	QBE	7%
3	MTU	6%
4	SFR	5%
5	CAR	5%
6	RMD	4%
7	MQG	4%
8	ANN	4%
9	LLC	4%
10	MYR	3%
	Other	49%



Active Weights