Fact Sheet

Above The Index Asset Management Pty Ltd

ATI Australian Equity Portfolio

Information as at 31 July 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 July 2016)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Inception (% p.a.)
ATI Equity Portfolio (gross)	5.7	5.9	(0.4)	7.6	8.9	7.0
Benchmark Index	6.4	7.0	2.8	8.0	9.4	6.0
Relative Outperformance	(0.7)	(1.1)	(3.2)	(0.4)	(0.5)	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 July 2016

Largest Holdings	Portfolio Weight (%)	Benchmark Weight (%)
Commonwealth Bank	10.5	9.0
ANZ Bank	7.8	4.9
Westpac	7.2	6.9
Telstra	6.6	4.8
National Australia Bank	5.8	4.7
CSL	4.6	3.6
Wesfarmers	3.9	3.2
AGL	2.6	0.9
Vocus Comms	2.5	0.3
BHP Billiton	2.4	4.2

Sector Allocation	Portfolio Weight (%)	Benchmark Weight (%)
Financials	45.8	44.8
Healthcare	11.3	7.1
Telecommunications	9.0	5.6
Materials	9.5	14.2
Industrials	5.2	8.1
Consumer Staples	3.9	6.8
Energy	4.5	4.1
Utilities	2.6	2.7
Consumer Discretionary	3.4	5.3
Information Technology	1.5	1.2

Selected Portfolio Statistics as at 31 July 2016

Inception Date	23-Dec-05
Number of Stocks	39
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 5.7% in July compared with a rise of 6.4% in the benchmark index. Against this benchmark, ATI is producing excess returns on a since inception (Dec'05) basis.

The Best and Worst Performing Sectors

On a relative basis, the best performing sectors for the month were consumer discretionary (+8.8%), consumer staples (+8.5%) and materials (+7.8%), whilst the worst performers were info energy (+0.2%), technology (+3.1%) and telco's (+4.2%).

From a sector perspective, the relative performance of the ATI portfolio was most positively impacted from being overweight healthcare stocks (11.3% v benchmark of 7.1%) and underweight consumer staples stocks (3.9% v benchmark of 6.8%), whilst it was most negatively impacted by being underweight materials stocks (9.5% v benchmark of 14.2%) and underweight consumer discretionary stocks (3.4% v benchmark of 5.3%).

Attribution of Stocks

The portfolio performance during July was assisted by overweight positions in Virtus Health (VRT), Impedimed (IPD) and Western Areas (WSA); and by not holding Santos (STO), Computershare (CPU) and Asaleo Care (AHY). The three stocks in the portfolio that contributed most to its relative performance during the month were:

> **Virtus Health (VRT) (+12.5%)** outperformed during the month following strong MBS industry data. Headline cycles growth came in at +10.7% vs. pcp in June. The IVF industry continues its positive momentum with 3-month rolling growth now at +10.2% and 12-month rolling at +8.2%. June growth was driven by frozen cycles at +16.3% (vs. fresh at +7.4%) and with Victoria again the strongest performing state at +17.3% vs. pcp, ahead of NSW (+13.4%) and QLD (+3.5%). These are all states that VRT has a strong presence in. YTD growth remains strong across both fresh and frozen, with fresh now sitting at +7.0% and frozen at +10.2%. Despite the recent outperformance we continue to maintain our overweight position in VRT due to: i) strong YTD industry growth which will underpin domestic earnings expectations for FY17; ii) the uncertainty and caution following the MYFEO and budget has now abated; iii) VRT is the largest operator in an industry with rational market behaviour, high barriers to entry and government Medicare reimbursements; and iv) upside is expected from its offshore operations in in Ireland and Singaporean ARS businesses.
>
> **Impedimed (IPD) (+41.3%)** outperformed during the month following some positive announcements. The most important was the news that the US Centers for Medicare and Medicaid Services (CMS) had published the reimbursement rate for the code that uses the IPD's L-Dex procedure for the assessment of lymphedema. The rate of $US127.42 was an increase of 13.1%. Market expectations were for a flat outcome of a small reduction. This increases the revenue potential of the company as continues its commercial rollout. IPD also announced that Vanderbilt University will conduct patient and clinician human factors testing for its next generation bioimpedance spectroscopy (BIS) device. The significance is that human factors testing is typically conducted using the final commercial device and thus is one of the last studies conducted prior to filing a 510 (k) application. This could result in the next generation device having FDA approval by mid-2017. We retain our overweight position in the company due to the potential for the company to generate significant growth over the next 3 years. Under the leadership of ex-Medtronic executive Rick Carreon, IPD has built a strong business opportunity around its proprietary lymphoedema monitoring test, L-Dex. The company commenced full commercial launch of this test in the US in Dec 2015 and has already signed up over 25 leading US cancer centres. In 12 to 18 months, IPD potentially will have two unique products backed by Level-1 clinical evidence in market addressing key medical unmet needs.
>
> **Western Areas (WSA) (+27.0%)** delivered a very strong performance during July after being added to the portfolio in late June. The nickel price appreciated by approximately ~13% during the month to ~US$4.80/lb, after trading below US$4/lb earlier in the year, due to the threat of forced mine closures in the Philippines following the implementation of stronger environmental controls. Meanwhile the company delivered another consistent set of production statistics for the June quarter 2016, exceeding upgraded FY2016 guidance across all production metrics. We remain comfortable with WSA as a portfolio holding due to the high grade nature of the orebody, consistent operating performance, lowest quartile cost position, debt-free balance sheet, and relatively attractive valuation metrics.

Positions that detracted most from the portfolio's performance during the month were from being overweight Origin Energy (ORG), Incitec Pivot (IPL), and Woodside Petroleum (WPL); and from not holding Fortescue Metals Group (FMG), South 32 (S32) and Bluescope Steel (BSL). Stocks in the portfolio that detracted most from relative performance during the month included:

> **Origin Energy (ORG) (-4.4%)** underperformed following the release of its 4Q16 Production Report. While June 2016 quarter production and sales volumes were above estimates, lower-than-expected realised prices meant revenues were short of market expectations. Realised LNG pricing during the quarter decreased to US$5.23/mmbtu, down 15% from MarQ16 (US$6.17/mmbtu), given the ~3-month lag between LNG and oil pricing. Despite this, we expect significantly better prices going forward: LNG should benefit from higher oil prices (noting a three-month lag on contracts), and reduced QGC sales volumes should see APLNG realise higher gas prices. Origin may also be a beneficiary of the tightening domestic gas market due to the flexibility of its portfolio to sell gas to any state on the East Coast or export it through APLNG. Furthermore, a large component of gas procured at fixed prices should insulate Origin from much of the expected cost inflation. In addition, APLNG Train 1 operated at an annualized rate of ~4.2mmtpa during JunQ16. There were 16 LNG cargoes shipped from APLNG during the quarter, including the first LNG shipment to Kansai Electric. The APLNG Train 1 lenders test has commenced, and Origin indicated the release of the first tranche of the APLNG shareholder debt

guarantees (i.e. portion related to T1) is on track for DecQ16. We retain our overweight position in the company on the basis that: i) we expect realised prices to improve, given that benchmark oil prices have rebounded and the onerous QGC contract is rolling off; ii) there is valuation support with margins in the Energy Markets business expected to expand and higher oil prices likely to result in increased cash contribution from Integrated Gas and iii) balance sheet risks are reducing.

Incitec Pivot (IPL) (-3.4%) underperformed the market in July as the ongoing weakness in fertiliser and explosives markets (with Urea prices falling to 10-year lows and DAP prices significantly below 10-year averages), saw earnings downgrades for IPL by three brokers during the month. While market conditions remain particularly challenging, the imminent start-up of IPL's USD850m Louisiana ammonia plant this quarter should see the market focus more on the substantial improvement in free cash flow that the plant will provide (positive cash flow from earnings and the end of the capex), along with the probability of capital management in 2017 on the back of a strengthening balance sheet. The stock continues to benefit from valuation support, however longer-term earnings forecasts are based on an improvement in market conditions which remain elusive at this point.

Woodside Petroleum (WPL) (-1.2%) was a modest detractor from portfolio performance during July, as the energy sector significantly underperformed the broader indices. Oil prices dropped 13-14% during the month to around ~US$40/bbl due to a combination of relatively weak demand growth, robust supply, and building inventories. During the month, WPL acquired ConocoPhillips' interests in Senegal for US$350-430m, which include a 35% working interest in, and operatorship of two deep water oil discoveries, contained in three offshore exploration blocks. The company continues to judiciously deploy its strong balance sheet capacity, following the June 2016 approval of the Greater Enfield Project (~US$1.1bn WPL share of capital expenditure). WPL remains a relatively defensive holding in the energy sector, with relatively attractive investment metrics, and accordingly we retain a modestly overweight portfolio holding.

Portfolio Construction

The main portfolio weighting changes during July included: new, Sandfire Resources (SFR) and Western Areas (WSA); top-ups for our holdings in Ardent Leisure (AAD), Commonwealth Bank (CBA) and National Australia Bank (NAB); the removal of our holding in QBE Insurance (QBE); and some slight reductions for our holdings in Insurance Australia Group (IAG) and Suncorp Group (SUN).

Cash at the end of July was 4.3% and is below the 5% maximum threshold, similar to the 4.3% in June, 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 ~83%), ~9% 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 ~50%), the dividend yield is 4.8% (benchmark 4.6%) and the portfolio's historic or trailing PE is 14.5x (benchmark of 15.3x).

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, 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 Brambles (BXB), CSL (CSL) and Resmed (RMD) in combination with other opportunities that we feel have fundamental valuation support, such as Suncorp (SUN), and Virtus Health (VRT).

Portfolio Risk

The current forecast tracking error of ~2.5% is similar to last month (~2.6%). 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 industrials with the additions of QUB and AAD in the portfolio over the past few months.

General Market Commentary

Both domestic and global equity markets seem to have forgotten about the Brexit fears they held so firmly in June and collectively marched higher through July. Of the key global equity markets, the ASX300 accumulation index rose 6.4% and was only eclipsed by the Nikkei, which leapt 6.4% across the month. Gains during July were broad-based and all sectors ended the month in the green.

Some material company announcements during the month included: Metcash (MTS) received ACCC approval for the potential acquisition of Woolworths (WOW) owned Home Timber and Hardware; WOW announced $959m in pre-tax restructuring costs as part of its Operating Model review; Treasury Wine Estates (TWE) announced the divestment of its non-core commercial portfolio in the US; AGL Energy (AGL) announced that a safety issue from a key gas supplier in Queensland required additional spot purchases at higher prices; Fantastic Holdings (FAN) announced the closure of its Le Cornu Keswick store; Iluka Resources (ILU) announced the acquisition of Sierra Rutile (SRL) and therefore its rutile mining operations in Sierra Leone for approximately $375m; Woodside Petroleum (WPL) announced that it has entered a binding agreement with ConocoPhillips to acquire a 35% stake in Senegalese acreage for US$350m.

The Reserve Bank of Australia left the cash rate unchanged at 1.75% in July. The minutes of the RBA board meeting did not add much to the policy debate, plainly stating that following the reduction in the cash rate in May, the Board judged that leaving the stance of monetary policy unchanged in June would be consistent with returning inflation to target. Later in the month, 2Q16 CPI inflation printed at 0.4%, with the annual rate of inflation falling below the RBA's targeted threshold of 2-3% to be 1.0% p.a. With no rate cut in July, the AUD appreciated 1.9% against the Greenback.

On the consumer front: headline inflation for 2Q16 printed at 0.4%, with the annual rate of headline inflation falling to 1.0% p.a whilst the trimmed mean printed at 0.5%; the weighted median printed at 0.4% as the most significant offsetting price falls over the quarter were domestic holiday travel and accommodation (-3.7%), motor vehicles (-1.3%) and telecommunication equipment and services (-1.5%); retail sales increased 0.2% in May and this follows a rise of 0.1% (revised down from 0.2% to 0.1%) in April and a rise of 0.4% in March; notably cafes and restaurants (+1.4%) and food (+0.7%) sales increased, while clothing (-1.2%) and household goods sales decreased; the Westpac consumer confidence index fell from 102.2 to 99.1 and the sub-index that measures whether households think it is a good time to buy a home fell from 103.7 to 101.8; expectations of family finances over the next year fell from 105.2 to 102.3; building approvals fell 5.2% with the downward shift lead by a sharp contraction (-11.3%) in high density approvals; in the NAB business survey, confidence rose from +3 to +6 and conditions rose from +10 to +12; employment increased 7.9k positions and notably, the composition of employment was skewed to full-time workers (+38.4k positions) this month as part-time employment fell (-30.6k positions); the participation rate moved up one tenth to 64.9% and the unemployment rate moved up from 5.7% to 5.8%; Australian private sector credit rose 0.2% whilst the annual run rate for headline private credit now stands at 6.0% p.a., its lowest level since December 2014; owner occupier mortgage growth increased 0.5% (7.7% p.a) and business credit contracted 0.2%, the weakest print since January 2013.

Base metals rallied over the month, with the LME Metals Index rising 2.5%. Nickel (+12.6%), zinc (+6.7%), tin (+4.5%), copper (+1.6%) and lead (+1.5%) rose, while aluminum (-0.4%) fell. Iron ore traded up 5.3% to $58.6/mt as the iron ore price was supported by slightly lower than expected iron ore shipments from the major producers, high rates of steel production and largely positive Chinese economic data. Brent fell 14.5% to $42.5/bbl as the combination of weaker demand growth, a quicker than expected rebound in supply from Nigeria and stronger than anticipated output from Saudi Arabia, Russia and others led the decline. Gold rose 2.2% to $1351.0/oz, with the shift in investor expectation around the pace of US interest rate rises and concerns about unconventional monetary policies.

Outlook

After a rapid recovery in equity markets since the Brexit fears in June, we may well see some profit taking during the reporting season as ongoing macro risks and historically stretched domestic market multiples mean the recent burst of momentum is unlikely to continue. As the Australian equity market has basically experienced PE expansion since 2012 as both earnings and sales declined, the most obvious pillar of support for our market continues to be the dividend yield that provides a point of differentiation to all the other major global equity markets.

This time twelve months ago, consensus forecasts were for industrial EPS to grow by ~10% over FY16 and now with full year results season underway, expectations are now for a slight contraction in FY16 earnings. This 10% forecast error is the largest since 2011 when analysts, buoyed by the passing of the GFC, expected a period of above average profit growth of over 20%. While we have now witnessed six consecutive years of consensus forecasting growth that has failed to materialise to the level expected, as we look out into FY17 the consensus forecast recovery ranks as the most bullish improvement in growth since 2011 and we see few reasons to expect a sharp improvement in profitability next year. Whilst profit warnings have been relatively scarce in the lead in to reporting season by recent historical standards, earnings disappointments and the level of prevailing valuations remain the key risks for many stocks. The Australian dollar's recent recovery is also making prospects for FY17 earnings growth tougher for a large group of stocks, many with lofty valuations.

Whilst the dramatic move in iron ore prices since early Dec-15 has driven up earnings expectations for the resources sector as a whole, we expect the pace of upgrades to moderate and potentially flat-line as key commodity prices hover at or even fall from current spot levels. Interestingly, BHP has enjoyed sharper upgrades than RIO, which can largely be explained by the helping hand offered by rising oil prices. Despite the sharpness of the upgrades across the sector, the rate of EPS movement has failed to keep pace with share prices, which has seen the sector one-year forward P/E multiple expand into expensive territory we remain still retain our underweight resources positioning.

We have taken profits on some our exposure to a weaker AUD/USD but still hold a number of stocks with USD earnings exposure. We are focused on high quality domestic industrials and other specific active sector positioning includes being underweight the industrials (still holding no mining services stocks) and consumer staples stocks. We have begun to increase our weightings in non-resource material stocks. We also remain overweight the healthcare, telecommunications and utilities sectors.