ATI·AM
Above The Index Asset Management Pty Ltd

Fact Sheet

ATI Australian Equity Portfolio

Information as at 31 March 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 March 2015)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Inception (% p.a.)
ATI Equity Portfolio (gross)	0.1	9.1	15.3	15.8	8.2	8.4
Benchmark Index	(0.1)	10.3	13.9	15.3	8.3	6.8
Relative Outperformance	**0.2**	**(1.2)**	**1.4**	**0.5**	**(0.1)**	**1.6**

*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 March 2015

Largest Holdings	Portfolio Weight (%)	Benchmark Weight (%)
Commonwealth Bank	8.9	10.0
ANZ Bank	8.7	6.7
Westpac Bank	8.5	8.1
National Australia Bank	7.6	6.1
Telstra	7.4	5.1
BHP Billiton	5.4	6.6
Rio Tinto	3.6	1.6
Wesfarmers	3.6	3.3
CSL	3.1	2.9
Insurance Aust. Group	3.1	0.9

Sector Allocation	Portfolio Weight (%)	Benchmark Weight (%)
Financials	49.0	48.1
Materials	10.9	14.4
Telecommunications	8.8	5.7
Healthcare	8.7	6.1
Consumer Staples	5.7	6.8
Energy	3.1	4.4
Consumer Discretionary	3.1	4.3
Utilities	2.6	2.0
Information Technology	2.6	1.0
Industrials	1.6	7.3

Selected Portfolio Statistics as at 31 March 2015

Inception Date	23-Dec-05
Number of Stocks	37
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 0.1% in March compared with a fall of 0.1% in the benchmark index. Against this benchmark, ATI is producing excess returns on a monthly, 1 year, 3 year and since inception (Dec'05) basis.

The Best and Worst Performing Sectors

The best performing sectors for the month were Information Technology (+3.2%), Financials (+2.5%), and Health Care (+2.1%) whilst the worst performers were Energy (-5.7%), Materials (-4.5%), and Utilities (-0.6%).

From a sector perspective, the relative performance of the ATI portfolio was most positively impacted from being overweight health care (8.7% v benchmark of 6.1%) and underweight energy stocks (3.1% v benchmark of 4.4%) whilst it was most negatively impacted by being underweight consumer discretionary (3.1% v benchmark of 4.3%) and underweight materials (10.9% v benchmark of 14.4%) stocks which both underperformed the market.

Attribution of Stocks

The portfolio performance during March was assisted by overweight positions in Resmed (RMD), Ansell (ANN), and being underweight BHP Billiton (BHP); and by not holding Oilsearch (OSH), Origin Energy (ORG), and Newcrest Mining (NCM). The three stocks in the portfolio that contributed most to its relative performance during March were:

Resmed (RMD) (+13.0%) continued to outperform the market despite minimal news flow during the month. In general, the market has reacted positively following good sales growth in the US market, following a period of re-basing post competitive bidding. The stock is still heavily shorted in the US line (15%) with covering continuing. The release of the new S10 AirSense platform has been well received by patients and DME's and the market. However, the key focus is now on the RMD Serve-HF trial which is seeking to establish whether treating HF patients with CSA improves patient mortality and morbidity, thereby potentially opening up a significant market for its Adaptive Servo Ventilation (ASV) device. The results are expected within the next 12 months. If successful there would be a material market opportunity for the company. We continue to hold RMD as an overweight portfolio position on the thematic that: i) there are potential longer term opportunities in new indications such as COPD and heart failure (SERVE HF trial); ii) short cover continues to drive the share price higher iii) it has structural leadership, in an underpenetrated global market, with high barriers to entry iv) market growth and permanent cost reductions will offset current margin pressure; and v) home sleep testing continues to drive market growth.

Ansell (ANN) (+9.5%) outperformed over the month as they sold its Shah Alam property in Malaysia. The net sale price was MYR84.0m (approximately US$22.7m) and the after tax profit on sale was MYR65.6m (approximately US$17.7m), which was above expectations. During the month they also acquired Microguard, a UK manufacturer and supplier of chemical protective clothing, for $113m. The deal is expected to be marginally dilutive in FY15 but accretive in FY16. Despite the recent share price rally, ANN's current ranking in the ATI universe still justifies our overweight position.

BHP Billiton (BHP) (-7.8%) materially underperformed the market during March, giving back a large proportion of the outperformance delivered during February. Accordingly the underweight portfolio position in BHP contributed to fund outperformance during the month. The major focus for BHP at present remains the demerger of the South32 assets, with a vast amount of demerger material released during March. We remain sceptical on the company view that the demerger will create value. We note the estimated ~US$738m cost of the demerger, the declining production and increasing capital expenditure profile of the South32 assets, South African regulatory risk, and performance of previous BHP spin-offs BSL and ARI. Aside from the demerger process, we note that global macroeconomic demand remains weak, and oversupply is impacting the price of the majority of commodities produced by BHP (and South32). Cost reductions and falling producer currencies are flattening cost curves, creating ideal conditions for prices to drop further into the cost curve and disincentivise production. In such an environment we expect continued negative earnings revisions for BHP, and we are closely watching the ability of the company to cover progressive dividend commitments from free cash flow projections.

Positions that detracted most from the portfolio's performance during the month were from being overweight RIO Tinto (RIO), Crown Resorts (CWN), and Fortescue Metals Group (FMG); and from not holding Macquarie Group (MQG), Transurban (TCL), and Aristocrat Leisure (ALL). Stocks in the portfolio that detracted most from relative performance during the month included:

Rio Tinto (RIO) (-11.2%) underperformed both the resources sector and the broader market during March notwithstanding the ongoing on-market buyback of UK scrip, giving back the vast majority of the outperformance delivered during February. Notably the iron ore price fell to six year lows below US$50/t (CFR 62% Fe) late in the month, reflecting the weak state of steel demand growth, particularly in China, combined with the rapid increase in iron ore supply. RIO of course is one of the major contributors to global supply growth, guiding to 2015 production of ~330mt, an increase of ~12% over 2014 production of 295mt. This strategy, consistent with that of BHP and Vale, appears destined to result in the iron ore price trading deep into the cost curve for an extended period before higher cost producers are finally induced to exit the industry. With regard to portfolio positioning, we remain concerned about weak global macroeconomic growth, and hence underweight Materials. Our relative overweight position in RIO and underweight in BHP is based on our expectation that recent weakness in oil prices will penalise BHP earnings projections relative to RIO and our scepticism over BHP's view that the South32 demerger will create value.

Crown Resorts (CWN) (-12.6%) underperformed the market due to a significant fall in the Macau's gross gaming revenue for March, which slumped 39.4% YoY. This is the second-worst monthly figure ever (Feb'15: negative-49%) and the tenth consecutive negative month. CWN has exposure to Macau via its 34% shareholding in Melco Crown which owns City of Dreams and the soon to be opened Studio City. The fall has been caused primarily due to VIP slowdown due to junket illiquidity, China anti-corruption measures and transit visa restrictions. Whilst this is concerning we continue to maintain our position in Crown on the basis that i) CWN's Australian operations will provide a hedge to the Macau slowdown by growing Asian VIP market share ii) the YoY hurdle will become easier once the declines are cycled in June and iii) new property openings will begin to contribute to earnings..

Fortescue Metals Group (FMG) (-21.3%) was also impacted during the month by lower iron ore prices. At prices below ~US$50/t (CFR 62% Fe) we believe FMG is in a materially loss-making position, with breakeven closer to US$55/t. Prices have simply fallen faster than the company's commendable efforts to cut operating costs. The most significant corporate development for FMG during the month was the aborted attempt to refinance and extend the maturity of a significant proportion of their debt facilities, and lower their interest costs. The company subsequently stated that their refinancing cost objectives were not met and the refinancing program was cancelled. Following the aborted refinancing attempt, the first US$1bn component of FMG debt comes to maturity in April 2017, whilst the largest US$4.9bn Senior Secured Credit Facility matures in 2019. If spot prices prevail, it is difficult to envisage a scenario in which FMG can meet the required repayments without the sale of an equity interest in the business, straight asset sales, or an equity raising. The very modest FMG portfolio weighting was being reassessed at the end of March.

Portfolio Construction

The main portfolio weighting changes during March included: new portfolio positions for Dick Smith Holdings (DSH) and REA Group (REA); top-ups for our portfolio holdings in Crown Resorts (CWN), Virtus Health (VRT) and Westfield Corp (WFD); the removal of our holding in Ooh!Media (OML); and slight portfolio reductions for our holdings in Ardent Leisure (AAD), M2 Group (MTU) and Telstra (TLS). Cash at the end of February was 4.5% and is just below the 5% maximum threshold, similar to the 4.3% in February, reflecting our view that equity markets are not exactly cheap at these levels.

The ATI portfolio, with regard to its market capitalisation exposures, is only slightly 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 ~3%). The 10 largest holdings constitute ~63% of the portfolio (benchmark ~53%), the dividend yield is 4.3% (benchmark 4.2%) and the portfolio's historic or trailing PE is 15.5x (benchmark of 17.1x).

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.Com (CRZ), Insurance Australia Group (IAG), MTU, REA, Suncorp Group (SUN), Virtus Health (VRT) and Wesfarmers (WES).

Portfolio Risk

The current forecast tracking error of ~2.3% is similar to last month (~2.3%). 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, Lend Lease (LLC), IAG, and TLS.

General Market Commentary

The Australian equity market declined at the start of March in response to offshore macro issues including renewed fears Greece may default on its debt, a flare up of tensions in the middle-east and speculation around an imminent rate hike in the US rising. Subsequent Fed commentary suggesting a slower pace of rate increases saw a relief rally in mid-March resulting in our equity market reclaiming the initial lost ground. The S&P/ASX300 Accumulation Index eventually ended the month largely unchanged (-0.1%) whilst at the sector level energy and materials were the key laggards whereas financials and healthcare outperformed.

Corporate activity picked up during March, with capital management, takeovers and equity raisings all featuring. Orica (ORI) and Boral (BLD) announced on-market buybacks; iiNet (IIN) and PanAust (PNA) received takeover bids from TPG and Guangdong Rising H.K. respectively; and Macquarie Bank raised $500m to partially fund the acquisition of a US$4bn aircraft leasing portfolio. In

addition, BHP introduced details of spin-off, South 32, to the market. Management changes also featured with CEO departures from ORI, AAD and Myer (MYR).

The RBA left the cash rate unchanged at 2.25% during its March monetary policy meeting. Governor Glenn Stevens commented on domestic growth continuing at a "below-trend pace, with domestic demand growth overall quite weak" and that "further easing of policy may be appropriate over the period ahead". The RBA did, however, show some concern for risks that could arise from the strong housing market in Sydney. The Australian dollar fell 2.6% against the strengthening USD in March, further dragged down by falling commodity prices and finished the month at US$0.7606 compared to the previous month's close of US$0.78098.

Regarding domestic economic releases in March: the NAB business confidence index declined to 0 (consensus +5) from +3 in January, despite the RBA trimming interest rates by 25 bps in February; the Westpac-MI consumer confidence index also disappointed with sentiment falling 1.2% m/m (exp. +2.0% m/m) despite an increase of 8% in the month prior; the economy added 15.6k jobs in February on a seasonally adjusted basis (consensus +15k) for an unemployment rate of 6.3%, which printed in line with expectations and compared to last January's rate of 6.4%; the participation ratio fell a touch to 64.6% (consensus 64.8%), a touch lower than January's 64.7%; retail sales rose 0.4% m/m (consensus +0.4%) in January and food was a significant drag, falling 0.7% m/m with retail ex-food up 1.1% m/m; among the categories, household goods and department store sales were up 0.7% m/m and +2.2% m/m respectively; building approvals increased 7.9% m/m in Jan-15 (consensus -2.0%), driven by NSW and QLD where approvals trended towards apartments rather than larger dwellings; the volume of new housing finance commitments to owner occupiers fell 3.5% m/m on a seasonally adjusted basis in and the value of such loans fell 1.0% m/m for the same month; separately, the value of housing loans to investors fell by less at -0.1% m/m.

Spot Brent crude continued its downward trajectory at the start of March as oil production continued to reach record levels in the US. Whilst it reclaimed some ground after Saudi Arabia conducted air strikes on Yemen's capital, raising concerns around possible supply disruptions in the surrounding oil-producing region, spot Brent nevertheless ended the month down 13.7%. The benchmark spot iron ore price continued its decline for five consecutive weeks of losses and reached its low for the month of US$51.40/t on the final trading day. Declines total 28% this calendar year as Chinese demand continues to weaken whilst BHP Billiton, Rio Tinto and Vale push ahead with plans to increase production. Base metals as measured by the LME index were largely unchanged (-0.1%). Of the six primary index metals, lead, copper and zinc all posted gains (+6.9%, +2.4% and +1.2% respectively) whilst Aluminium, Nickel and Tin (-1.1%, -12.1% and -7.7% respectively) lost ground. Copper was one of the few commodities to buck the downward trend, rising after floods closed mines in the world's top producer - Chile. Spot gold fell 5.2% to a mid-month low before posting a one-day gain of nearly 2% following the FOMC's March 18 meeting where Janet Yellen made it clear that interest rates would not be raised until inflation lifted. The precious metal ended the month up 2.4%.

Outlook

The one year forward market PE ratio continues to trade above 16 times, despite modestly de-rating from the mid-month highs of 16.5 times. During March, FY15 aggregate consensus earnings had initially edged slightly up after some upgrades in the financials sector early in the month. This was subsequently more than offset by earnings downgrades in the industrials, consumer staples and materials sectors and by month end the FY16 aggregate consensus earnings estimates had moved lower by -1.5%. The consensus market estimates are now forecasting negative earnings growth for FY15 at -0.5%, with FY16 forecasts cut significantly from 4.8% at the start of the month to now stand at just 2.7%.

Despite the less than inspiring earnings expectations for the year ahead we continue to think that the Australian equity market's superior relative yield advantage, to both domestic interest rates and global equity markets, should continue to be get 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 in 2015. In an environment of historically low interest rates and minimal domestic earnings growth, we feel that the major banks still remain attractive relative to many other sectors and are some of the only large cap stocks likely to see upgrades for FY15 - driven by lower funding costs, benign asset quality and reasonable asset growth.

Whilst we are aware that higher yielding stocks remain susceptible to further increases in global interest rates, the historically low domestic interest rate levels mean that we will remain overweight the financials sector in the near term and it continues to offer us a higher level of earnings certainty than many industrial and resource names. Our decision to remain underweight the materials sector still seems appropriate at this stage as consensus aggregate EPS expectations for FY15 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.

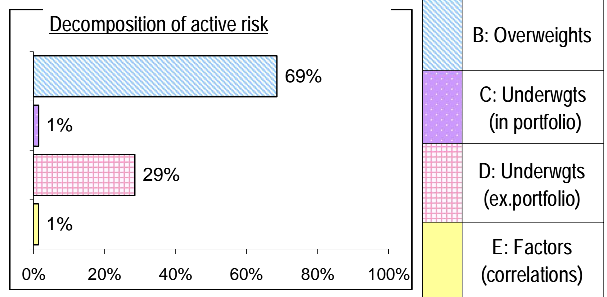
Goldman Sachs

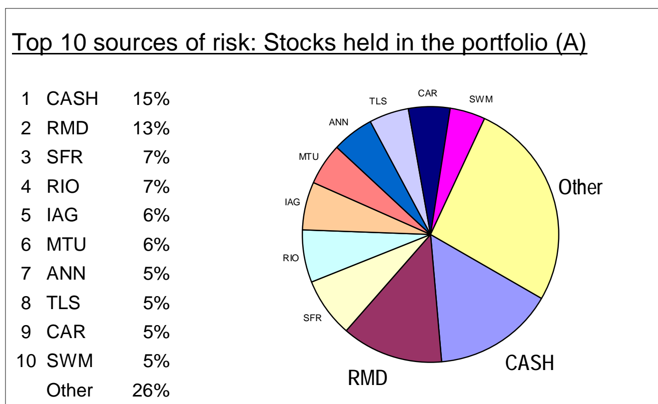
PORTFOLIO RISK SUMMARY

		Active Exposures:		%
Historic portfolio alpha	7.2%	Total:	71.6%	100.0%
Historic portfolio beta	0.95	Across sectors:	25.8%	36.0%
Raw return	15.3%	Within sectors:	45.8%	64.0%

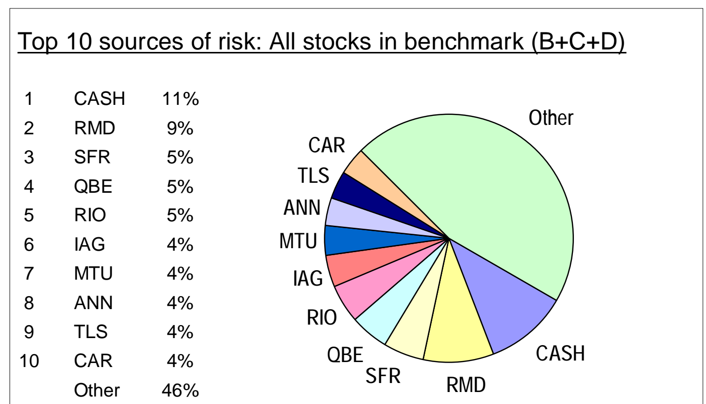
Forecast Tracking Error: 2.26 % (active risk)

	Source of portfolio risk	contribution to active portfolio risk	standard deviation	variance / covar.
A	Stocks held in portfolio (B+C)	70%	1.9	3.6
B	Overweight positions	69%	1.9	3.5
C	Underweight positions	1%	0.3	0.1
D	Stocks not held in portfolio	29%	1.2	1.5
E	Factors (correlations between stocks)	1%		0.1
F	Total (A + D + E)	100%	2.3	5.1





1	CASH	15%
2	RMD	13%
3	SFR	7%
4	RIO	7%
5	IAG	6%
6	MTU	6%
7	ANN	5%
8	TLS	5%
9	CAR	5%
10	SWM	5%
	Other	26%



1	CASH	11%
2	RMD	9%
3	SFR	5%
4	QBE	5%
5	RIO	5%
6	IAG	4%
7	MTU	4%
8	ANN	4%
9	TLS	4%
10	CAR	4%
	Other	46%