Fact Sheet

ATI Australian Equity Portfolio

Information as at 31 May 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 May 2015)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Inception (% p.a.)
ATI Equity Portfolio (gross)	0.0	(2.8)	8.2	16.5	9.4	7.9
Benchmark Index	0.4	(1.3)	9.9	17.0	10.0	6.5
Relative Outperformance	(0.4)	(1.5)	(1.7)	(0.5)	(0.6)	1.4

*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 May 2015

Largest Holdings	Portfolio Weight (%)	Benchmark Weight (%)
Commonwealth Bank	8.3	9.2
ANZ Bank	8.1	6.1
Westpac Bank	7.6	7.0
Telstra	7.2	5.1
National Australia Bank	7.1	6.0
BHP Billiton	5.3	6.3
Wesfarmers	3.8	3.3
CSL	3.8	3.0
AMP	3.0	1.3
AGL Energy	2.7	0.7

Sector Allocation	Portfolio Weight (%)	Benchmark Weight (%)
Financials	47.5	46.0
Materials	10.0	15.4
Telecommunications	8.8	5.6
Healthcare	8.5	6.1
Consumer Staples	5.6	6.7
Consumer Discretionary	3.7	4.6
Energy	2.8	5.1
Utilities	2.7	2.1
Industrials	2.6	7.5
Information Technology	2.4	1.0

Selected Portfolio Statistics as at 31 May 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 return was flat in May compared with a rise of 0.4% 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

The best performing sectors for the month were Industrials (+5.6%), Information Technology (+5.5%), and Health Care (+2.4%) whilst the worst performers were Financials (-3.2%), Consumer Staples (-2.2%) and Telco's (-0.2%).

From a sector perspective, the relative performance of the ATI portfolio was most positively impacted from being overweight info technology (2.6% v benchmark of 1.0%) and utilities stocks (2.7% v benchmark of 2.1%) whilst it was most negatively impacted by being overweight health care (8.5% v benchmark of 6.1%) and underweight industrial stocks (3.4% v benchmark of 7.5%) stocks which both underperformed and outperformed the market respectively.

Attribution of Stocks

The portfolio performance during May was assisted by overweight positions in Car Sales (CAR), AGL Energy (AGK), and Sandfire Resources (SFR); and by not holding Oilsearch (OSH), Caltex (CTX), and APA Pipeline (APA). The three stocks in the portfolio that contributed most to its relative performance during May were:

Car Sales (CAR) (+10.7%) outperformed during the month of May as dealer and demo listings spiked in contrast to the main competitior, CarsGuide's, which have deteriorated over recent periods. The improvement in Carsales listings is also against a backdrop of a 3.75% lead increase achieved earlier this calendar year. The budget accelerated depreciation initiative for small business (up to $20k) is also expected to drive activity in the auto sector for the remainder of the financial year at least. CAR is still relatively attractive in the ATI ranking system and we have maintained our overweight portfolio position.

AGL Energy (AGL) (+6.9%) outperformed during the month after providing a two day strategy briefing presented by new CEO Andrew Vessey and senior management. The key announcement was an uplift in FY15 earnings expectations to the 'upper end' of the prior $575m to $635m underlying NPAT range, predominantly driven by the contribution of MacGen. In addition the company also provided detail regarding a potential $1b of sales in 'non-strategic and under-performing assets' and identified $170m in efficiencies via headcount reduction and reduction in maintenance capex. The market reacted positively to the announcement and we continue to hold an overweight position AGL based on the fundamental business model which appears to have successfully integrated the Mac gen acquisition in to the business. The announcements regarding asset sales and improvement in efficiencies provide some scope for future capital management.

Sandfire Resources (SFR) (+8.5%) continued its recent out-performance during May despite a softening in copper prices during the month from ~US$2.90/lb to ~US$2.70/lb. The fundamental outlook for the copper price remains robust relative to most other commodities, with a supply deficit expected to re-emerge over the medium term. During the month major shareholder POSCO divested its 15.2% interest in SFR to institutional shareholders through a block trade. This followed the similar 19.1% block trade from OZL in March, with SFR now having a 100% free float and no major corporate shareholders. SFR remains a relatively attractive portfolio holding, with earnings and cash flows relatively insulated from commodity price volatility due to the high grade (and subsequently high margin) nature of the orebody.

Positions that detracted most from the portfolio's performance during the month were from being overweight Resmed (RMD), REA Group (REA), and national Australia Bank (NAB); and from not holding Macquarie Bank (MQG), James Hardie (JHX), and QBE Insurance (QBE). Stocks in the portfolio that detracted most from relative performance during the month included:

Resmed Inc. (RMD) (-4.6%) uunderperformed the market again when it announced that its Phase III SERVE-HF trial had failed to reach its primary endpoint. Simply, SERVE-HF was designed to assess whether the treatment of moderate to severe predominant central sleep apnoea with RMD's Adapative Servoventilation (ASV, a high-end Bilevel machine) therapy could reduce mortality and morbidity in patients with symptomatic chronic heart failure (CHF). This announcement followed a poor 3Q15 result where RMD cut its prior gross profit margin guidance by 150bp to 59-60% for 4Q15. During the month we reduced some of the overweight position in the stock but continue to hold RMD as an overweight portfolio position on the key thematic that: i) the share price re-rating now provides fundamental valuation support for business that has structural leadership, in an underpenetrated global market, with high barriers to entry. The market continues to exhibit growth with more home sleep testing utilising RMD's new platform. In addition, permanent cost reductions will assist in offsetting current margin pressure.

REA Group (REA) (-17.3%) underperformed the market in May as their nine-month trading update results showed a slow down in growth which resulted in a PE de-rating for the stock. Total listings across the market where down 7%, which we understand is more than double the decline experienced in 1H15. Revenue growth was 21% whilst expenses increased 12%. EBITDA was up 30%. This implied a material slowdown in 3Q15 revenue growth (+14%, vs Domain c.25%) with REA's expenses up 8% and EBITDA up 20%. The strong housing market, with very high clearance rates and lack of supply across the country is resulting in minimal time on site for listings which has a negative impact on REA margins. We still feel the recent sell-off provides an opportunity and have maintained the overweight portfolio holding.

National Australia Bank (NAB) (-5.3%) underperformed during the month of May after releasing the 1H15 result and the companies intentions to exit their UK business through a de-merger and IPO. The big announcement by NAB was that that it intends to de-merge 70-80% of its UK operations into a separately listed entity (Listco) and raise $5.5 billion via a 2 for 25 rights entitlement issue. The exit will consume £1.7bn of capital required by the UK regulators for protection against any future potential redress liabilities. This paves the way for NAB to finally exit the UK business and we expect the market will react positively to this over the year ahead as the divestment of poorly returning assets continues at a much faster than expected pace by the market. The 1H result itself was in line with market expectations and combined with the offshore exit, paves the way for a cleaner business model going forward. We took up our rights entitlement as NAB is still relatively attractive in the ATI ranking system and we have maintained our overweight portfolio position.

Portfolio Construction

The main portfolio weighting changes during May included: top-ups for our portfolio holdings in Asciano (AIO), Aurizon Holdings (AZJ), the 2:25 NAB rights entitlement, Lend Lease (LLC) and Suncorp Group (SUN); the total removal of our holdings in Ardent Leisure (AAD) and Medibank Private (MPL); and slight portfolio reductions for our holdings in Brambles (BXB), RMD and Telstra (TLS). Cash at the end of May was 4.1% and is just below the 5% maximum threshold, lower than the 4.5% in April, reflecting our view that the equity market has become a little cheaper over the course of the last two months.

The ATI portfolio, with regard to its market capitalisation exposures, is only slightly differentiated to the benchmark index with ~87% of the portfolio (excluding cash) in the top 50 stocks (benchmark ~82%), ~9% in the next 100 (benchmark ~14%), and ~4% in the last 150 stocks (benchmark ~4%). The 10 largest holdings constitute ~62% of the portfolio (benchmark ~53%), the dividend yield is 4.5% (benchmark 4.3%) and the portfolio's historic or trailing PE is 15.6x (benchmark of 16.6x).

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

Portfolio Risk

The current forecast tracking error of ~2.2% 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 Tinto (RIO), Lend Lease (LLC), IAG, and TLS.

General Market Commentary

The S&P/ASX300 Accumulation Index rose 0.4% in May as investors sold off the banks on the back of increased capital concerns that again raised their head in the press and some further market caution was also driven by the current high market multiples and falling forward earnings expectations. Resources outperformed industrials across all style and size-based indices spurred by a rebound in the iron ore and oil prices, in conjunction with some short covering in large short-interest positions held in these stocks.

Banks were the worst performing sub-sector during the month as several major banks announced equity raisings in the face of growing regulatory pressure to bolster capital ratios. Australian banks also began to heed public warnings from regulatory authorities about "less than prudent" lending practices, with some announcing changes to investment loans including capping loan-to-value ratios and reducing discount offers for investor only loans.

The Australian Federal Budget released in May forecast a deficit of $41.1 billion (2.6% of GDP) for FY15 and a deficit of $35.1 billion (2.1% of GDP) for FY16. One of the highlights of the Budget was tax cuts and accelerated tax write-offs for small businesses, prompting a minor rally in some retail stocks that were perceived to be beneficiaries of a predicted boom in sales of computers and office equipment. As a result, discretionary retail was the best performing domestic sub-sector during the month.

In company specific news: TPG Telecom (TPM) presented an upwardly revised offer to iiNet (IIN) shareholders of $9.55 cash per share (previously $8.60) as well as a script offer; banks earnings season also got off to a rocky start with Westpac (WBC) announcing a partially underwritten DRP to increase capital buffers and Commonwealt Banks (CBA's) 3Q15 earnings coming in below consensus; Woolworths (WOW) and Wesfarmers (WES) both held investor days with the former acknowledging that investment in both price and in-stores service was required.

The Reserve Bank reduced the official policy rate by 25 bps to a record low of 2.0% in May. The Australian dollar lost ground against the greenback during May with the currency hitting a six-week low after disappointing business investment numbers were released, fuelling speculation regarding another potential rate cut by the country's central bank. The Aussie dollar ended the month down 3.3% and finished the month at US$0.7646 compared to the previous month's close of US$0.7905.

Regarding domestic economic releases in May: the NAB business confidence index was unchanged in April at +3 despite the RBA's cash rate reduction in February; the Westpac-MI consumer confidence index rose by 6.4% in May from 96.2 in April to 102.4 in May as the survey was conducted shortly after the RBA's May cash rate announcement; the economy lost 2.9k jobs in April after adding an upwardly revised 48k in March (consensus +4.0k) for largely unchanged from March; the participation rate also held steady at 64.8% (consensus 64.8%); retail sales increased 0.3% m/m in March (consensus +0.4%) or 0.7% q/q (consensus +0.8%) with spending at cafes and restaurants (-1.1% m/m) and on household goods (-1.0% m/m) being the main drags; by contrast, department store sales recorded their strongest monthly increase since mid-2013 whilst spending on clothing and footwear gained 0.2% m/m; total volumes of new housing finance commitments for March grew 1.6% m/m (consensus +1.0%) after February's +1.2% m/m; private sector credit decelerated to 0.3% m/m (consensus +0.5% m/m) with business credit a key drag; investors continue to drive the credit cycle with the annual growth rate remaining stable at 10.4% m/m roughly double the run rate of owner occupiers.

Spot Brent crude was weaker in May, down 1.5% after April's gain of nearly 22%. The strength in the US dollar and some excess supply from Nigeria were likely to have been the key drivers behind the weakness. Supply has also increased as oil bought for storage last year for "contango" trades continues to be liquidated into the market. Benchmark spot iron ore prices posted another month of gains, ending May up 10.1% with declining stockpiles at major Chinese ports. The solid performance from iron ore also comes off the back of optimism over the potential for some further stimulus from the Chinese government. Base metals as measured by the LME index ended the month down 6.9% and aluminium led the decline (-12.0%) whilst nickel (-9.5%) and lead (-8.9%) also underperformed. Zinc (-7.8%), copper (-5.6%) and tin (-2.7%) fared better but still ended the month in the red. Spot gold ended the month largely unchanged (+0.5%) as the strengthening US dollar, prospect of higher interest rates and uncertainty over the Greek debt crisis saw the relatively safe haven commodity trade in a range-bound pattern over the course of May.

Outlook

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 are still 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.