Above The Index Asset Management Pty Ltd

Fact Sheet

ATI Australian Equity Portfolio

Information as at 31 October 2014

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 October 2014)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Inception (% p.a.)
ATI Equity Portfolio (gross)	4.7	0.5	8.4	14.2	8.0	7.9
Benchmark Index	4.3	(0.7)	6.0	13.3	7.9	6.1
Relative Outperformance	**0.4**	**1.2**	**2.4**	**0.9**	**0.1**	**1.8**

*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 October 2014

Largest Holdings	Portfolio Weight (%)	Benchmark Weight (%)
Westpac Bank	8.2	7.7
ANZ Bank	8.1	6.6
Commonwealth Bank	8.1	9.3
National Australia Bank	7.3	5.9
Telstra	7.0	5.0
BHP Billiton	6.8	7.8
Rio Tinto	4.0	1.9
Wesfarmers	3.8	3.6
Insurance Aust. Group	3.5	1.1
CSL	3.4	2.7

Sector Allocation	Portfolio Weight (%)	Benchmark Weight (%)
Financials	48.0	45.7
Materials	13.6	15.7
Telecommunications	8.5	5.5
Healthcare	8.0	5.2
Consumer Staples	6.1	8.0
Energy	4.2	5.9
Consumer Discretionary	2.7	4.2
Utilities	2.4	1.7
Information Technology	2.4	0.9
Industrials	1.6	7.1

Selected Portfolio Statistics as at 31 October 2014

Inception Date	23-Dec-05
Number of Stocks	36
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 4.7% in October compared with a rise of 4.3% in the benchmark index. Against this benchmark, ATI is producing excess returns on a monthly, quarterly, 1 year, 3 year, 5 year and since inception (Dec'05) basis.

The Best and Worst Performing Sectors

The best performing sectors for the month were Financials ex-property (+6.9%), Health Care (+6.4%) and Telecommunications (+6.0%), whilst the worst performers were Energy (-3.6%), Materials (-0.0%), and Utilities (+2.3%).

From a sector perspective, the relative performance of the ATI portfolio was most positively impacted from being overweight Financial (48.0% v benchmark of 45.7%) stocks and underweight Materials (13.6% v benchmark of 15.7%) and Energy (4.2% v benchmark of 5.9%) stocks, whilst it was most negatively impacted by being overweight Health Care stocks (8.0% v benchmark of 5.2%).

Attribution of Stocks

The portfolio performance during October was assisted by overweight positions in Lend Lease (LLC), ANZ Banking Group (ANZ), and Insurance Australia Group (IAG); and by not holding Origin Energy (ORG), Santos (STO), and Newcrest Mining (NCM). The three stocks in the portfolio that contributed most to its relative performance during October were:

> **Lend Lease (LLC) (+9.2%)** outperformed the market in October after making several material company announcements to the market. Some of these announcements from LLC were: a clarification of the record level of residential apartment sales it has achieved in the early stages of FY15; during its annual investor day, the FY15 consensus earnings level guidance was confirmed along with discussions of how it was the appropriate time to reinvigorate the growth of the US business as the Australian cycle peaks; and confirmation of the final details for their successful tender to build the $5.3bn East West Link in Victoria. We feel that LLC continues to provide investors with an opportunity to get exposure to both the robust domestic market and improving prospects for the US construction operations and as such we remain overweight LLC at current prices and continue to see it as relatively attractive in the ATI investment universe.
>
> **ANZ Bank (ANZ) (+8.3%)** outperformed during the month after reporting FY14 cash earnings of $7,117m (+9.6% on pcp). The result was ahead of consensus, with overall business momentum being solid. After adjusting for FX and the sale of ANZ Trustees and Saigon Securities, FY14 revenue rose +4.0% (headline +6.0%) with the expenses up +1.8% and NPAT rose +8%. ANZ's asset quality has continued to improve with the bad debt expense of $461m (~18bp / gross loans) down 17% year on year versus the initial guidance of 12%. Capital was a highlight, with ANZ's capital shortfall relative to peers narrowing in the last half. Net interest margin of 2.12% for 2H14 was down 3bps relative to 1H14. We continue to remain overweight ANZ and expect out-performance to continue as the current market concerns about additional regulatory capital requirements should become clearer in the months ahead.
>
> **Insurance Australia Group (IAG) (+6.5%)** relatively outperformed the market during October after hosting an upbeat AGM that confirmed the markets positive outlook for the year ahead. Some quotes by the CEO at the AGM included, "In the opening months of the 2015 financial year, we have seen a continuation of the Group's strong operating performance and we believe we are well-placed to deliver on our full year guidance. We anticipate GWP growth in the range of 17–20%, with the vast majority of this sourced from the addition of the former Wesfarmers commercial insurance business. We also expect to deliver a reported insurance margin in the range of 13.5–15.5%." Our premium growth and margin assumptions for FY15 sit within the ranges of guidance provided by IAG and we feel comfortable that IAG will meet and /or exceed the current guidance levels as they have repeatedly under-promised and over-delivered for the last few years. If we have a lower than budgeted catastrophe period over the summer then we would expect IAG to receive further market upgrades to earnings and this would possibly further assist the out-performance we have recently generated from holding an overweight portfolio position.

Positions that detracted most from the portfolio's performance during the month were from being overweight Worley Parsons (WOR), Sandfire Resources (SFR), and Virtus Health (VRT); and from not holding Qantas (QAN), Macquarie Bank (MCQ), and Echo Entertainment (EGP). Stocks in the portfolio that detracted most from relative performance during the month included:

> **Worley Parsons (WOR) (-11.6%)** underperformed during the month of October as the global oil and gas sector followed the Brent and Crude Oil prices to new 4yr lows. This was largely driven by soaring US output which has driven Key Middle Eastern nations such as Saudi Arabia to cut prices for all grades exported to the US. The return of Libyan production and reduced demand from the Chinese has also been putting pressure the oil markets YTD which have seen prices down ~20%. The month of October saw WTI Crude oil prices down ~12% which was more or less inline with the WOR share price. WOR held their AGM during the month with limited new news. The company has still not provided any form of quantitative guidance for the year. Commentary was focused around the fact that they expect a similar 1H:2H skew as FY14 (40:60). This was largely expected however as a larger portion of revenues now come from North America where the shutdown season coincides with our 1H reporting season. WOR announced the win of one contract worth $167m with Conoco Phillips to do EPCI work on the Ekofisk platform. We feel WOR continues to have valuation support at these prices as we expect the longer term oil price to recover and we already have below market earnings expectations for the next three years.
>
> **Sandfire Resources (SFR) (-3.9%)** underperformed during October after reporting a quarterly production result that was impacted by a change to the underground mining contractor and led to a 9% qoq production reduction. This news was not

unexpected, nor the fact that mill upgrades will also impact the December quarter. The combination of higher grades partially offset the lower mill throughput and the mill upgrades have allowed management to maintain output guidance for the year. Despite the disruptions, costs remained low at about $1.20/lb and cash reserves are building despite increased levels of drilling on existing projects and the new Misima project in PNG. SFR is also benefiting from the lower AUD as revenues are priced in USD and most costs incurred in AUD. Dividend payments have also commenced as of October 2014. SFR remains one of the few top quartile-ranked resources stocks as the company moves into a period of earnings growth as a result of higher planned head grades at DeGrussa. Sensible low cost (but high potential impact) options on future growth have been accumulated over the past twelve months, adding to the attractive existing attributes of exploration upside and corporate appeal. However, despite these positive attributes we also recognise that the 18% interest in SFR held by OZ Minerals is now regarded as an overhang and accordingly, we continue to maintain a below maximum weighting allowing capacity to increase the position if the OZL stake was to come to market.

Virtus Health (VRT) (-4.1%) was weaker during the month after its main competitor, listed IVF provider Monash Group (MVF), provided a 1QFY15 trading update stating that 1Q15A revenues and EBITDA were down due to: 1) volumes in its state markets contracting by -3.7% in July and August compared with its prospect forecast for growth of +4% and 2) patient treatment mix shift in favour of frozen (from fresh) due to improved Frozen Embryo Transfer (FET) pregnancy success rates. MVF was down 11.9% during the month and change in sentiment shift impacted the VRT share price. We continue to maintain an overweight position in VRT based on 1) confidence in the industry demand drivers for Assisted Reproductive Services and the view that the current slowdown in volumes is cyclical rather than structural 2) VRT is the largest operator in an industry with rational market behaviour, high barriers to entry and government Medicare reimbursements 3) valuation support underpinned by a normalisation of industry growth and a positive contribution expected from its acquisitions in Ireland and Brownfield Singaporean ARS businesses in the next few years.

Portfolio Construction

The main portfolio weighting changes during October included: adding a new position in Beach Energy (BPT); top-ups for our portfolio holdings in Ansell (ANN), BHP Billiton Plc (BHP), CarSales.com (CRZ), CSL (CSL), Fortescue Metals Group (FMG), Rio Tinto (RIO), Virtus Health (VRT), Westpac Bank (WBC) and WOR; the entire disposal of our portfolio holdings in Challenger (CGF) and Pacific Brands (PBG); and slight portfolio reductions for our holdings in Ardent Leisure (AAD), Brambles (BXB), Orica (ORI), Telstra (TLS) and Westfield Group (WFD). Cash at the end of October was 2.5% and below the 5% maximum threshold, similar to the 2.5% in September, reflecting our view that the overall equity market valuation has become more attractive after the pull back over the last month.

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 ~83%), ~11% in the next 100 (benchmark ~13%), and ~3% in the last 150 stocks (benchmark ~4%). The 10 largest holdings constitute ~62% of the portfolio (benchmark ~54%), the dividend yield is 4.5% (benchmark 4.3%) and the portfolio's historic or trailing PE is 15.1x (benchmark of 16.5x).

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 remain comfortable holding positions in some specific resource stocks, particularly BHP, FMG & RIO, and copper exposure, SFR, whose expected return is sufficiently attractive to justify some additional portfolio risk at this stage.

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, and Resmed (RMD) in combination with other opportunities that we feel have fundamental valuation support, such as CRZ, M2 Group (MTU), Suncorp Group (SUN), VRT and Wesfarmers (WES).

Portfolio Risk

The current forecast tracking error of ~2.2% is similar to last month (~2.2%). 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 market underperformance. At this stage we still feel that any further additional risk in the mining contractor stocks is unlikely to be justified in an environment with ongoing profit warnings and 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, LLC, IAG, and TLS.

General Market Commentary

The Australian equity market started October in a downtrend that looked set to continue on from September and at its lowest closing level of the month, the market was almost 10% off its early-September high. A sharp rally then saw the domestic market move into positive territory for the month with the S&P/ASX300 Accumulation Index eventually rising 4.3% in October. The rebound was enough to make Australia one of the best performing major markets for October, albeit after a poor showing in September.

The domestic equity market during October was highlighted by the return of demand for defensive-yield stocks and bank stocks led the way after three straight months of market underperformance. Bond yields remained largely unchanged near record lows, supporting a charge back into high yielding assets. Market concerns around the banks in September included about a sooner-than-expected rise in US rates, the potential introduction of domestic macro-prudential controls, and the risk of capital raisings. These concerns seem to have taken a back seat for now, with the bank sector now only 1% off recent highs and still up 16.5% for the calendar year. Further highlighting the return of the 'defensive bull market' was the underperformance of small caps and resources, with energy continuing to play catch-up with the recent falls in the oil price (-25% ytd).

AGM season and quarterly updates saw a number of companies announce updated guidance for FY15 including AGL Energy (AGK), Echo Entertainment (EGP) and Woodside Petroleum (WPL). The iron ore majors (RIO, BHP and FMG) announced record iron ore exports for the September quarter. Bank reporting season kicked off with in-line results from NAB and ANZ. RIO also said that it had been approached by Glencore about a merger but that discussions had ceased.

As expected, the RBA kept the cash rate on hold for a 13th consecutive month and the guidance language was unchanged from previous months: "the most prudent course is likely to be a period of stability in interest rates". Governor Glenn Stevens also stated that "the labour market has a degree of spare capacity and it will probably be some time yet before unemployment declines consistently". In the statement following October's policy meeting, governor Glenn Stevens continued the line of previous months and noted that the AUD looks "high by historical standards", and particularly so against commodity prices. Despite the further weakness in commodity prices and RBA comments, the Australian dollar finished the month basically flat at US$0.8798, compared to the previous month's close of US$0.8747.

Regarding domestic economic releases in October: headline CPI inflation for 3Q14 met expectations at 2.3% y/y (consensus 2.3% y/y) and was down sharply from 3.0% y/y for the June quarter, helped by a big fall in electricity prices (-5% q/q) following the repeal of the carbon tax; the NAB business confidence survey for September slipped 3pts to +5, recording the lowest level since before the 2013 federal election; the Westpac-MI consumer confidence index nudged 0.9% m/m higher in October, however the index measuring expectations for economic activity over the year ahead sank a further 5% m/m; the Australian economy lost 29.7k jobs in September (consensus +15.5k) as the survey included heavy revisions to figures for July and August due to a change in the seasonal adjustment factor used by the ABS; the jobless rate held steady at 6.1% (consensus 6.1%) whilst the participation rate slumped to a seven year low of 64.5% (consensus 64.8%); retail sales increased 0.1% m/m in August (consensus +0.4%), department stores disappointed (-2.9% m/m), as did household goods which declined by 0.8% m/m; building approvals for August rose 3.0% m/m (consensus +1.0%) with all the growth being in multi-family (+9.6% m/m) whilst single-family approvals fell 1.8% m/m.

Despite continued geo-political tension in the middle-east region, increasing oil production from the US saw continued weakness in oil prices during the month. Spot Brent crude plunged 9.0%, with all of the weakness coming in the first half of the month before prices then stabilised, helped by US inventory building. However at month end Brent was still 26.3% off its high for the year. The benchmark spot iron ore contract (Tianjin 62% fines) was little changed in October after sharp losses in the previous two months. Low port inventory in China – weekly data printed at a seven-month low – may have lent some support but this still left the iron prices price down 41% for the calendar year to date. Base metals as measured by the LME index firmed (+1.0%), underpinned by a sharply higher aluminium price (+6.6%). Spot gold began October on a positive note, helped by the increasing volatility in risk assets, but a firmer USD and recovering equity markets saw the gold price give back previous gains to finish the month lower (-2.9%) – and still at a four-year low.

Outlook

As we head towards calendar year end, it seems the banking sector may be the catalyst to lead the Australian share market higher following the release of better than the market had expected FY14 earnings results from the major banks. With the Australian banks having reported broadly above market expectation results and now running into the dividend payout dates, the Australian equity market reversed the previous months performance and managed to outperform most of its US and European counterparts. Our view is that the major banks remain attractive relative to most other major sectors and banks are one of the only major sectors likely to see upgrades for FY15 - driven by lower funding costs, benign asset quality and reasonable asset growth. In addition, after the recent pull-back in bank share prices, valuations are also not as stretched as many industrials and we remain overweight the banking sector and expect to generate out-performance during the coming months as we get some more clarity regarding the market concerns about higher future capital requirements.

Whilst we are aware that higher yielding stocks remain susceptible to further increases in global interest rates, the current heightened levels of global geopolitical risk mean that we will remain overweight the financials sector in the near term as it continues to offer us a higher level of earnings certainty than many industrial and resource names as we head into the next reporting season in February. 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 FY15 still remain negative.

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

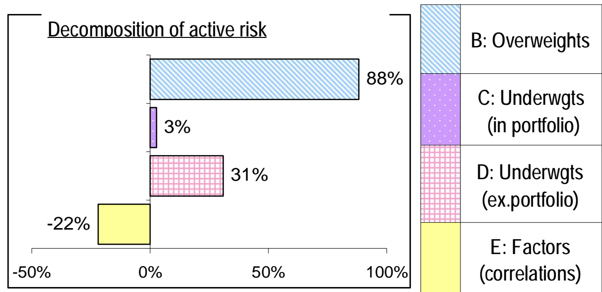
PORTFOLIO RISK SUMMARY

Portfolio Name:	**MyPort**
Benchmark:	ASX300
Date of Data:	31-Oct-14
Sector Type:	GICS1

		Active Exposures:		%
Historic portfolio alpha	5.3%	Total:	71.0%	100.0%
Historic portfolio beta	0.99	Across sectors:	25.3%	35.6%
Raw return	12.0%	Within sectors:	45.7%	64.4%

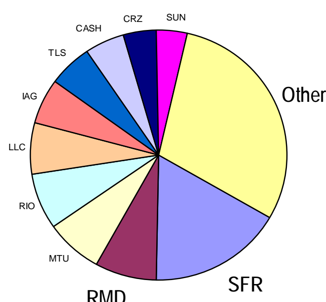
Forecast Tracking Error: **2.23 %** (active risk)

	Source of portfolio risk	contribution to active portfolio risk	standard deviation	variance / covar.
A	Stocks held in portfolio (B+C)	91%	2.1	4.5
B	Overweight positions	88%	2.1	4.4
C	Underweight positions	3%	0.4	0.1
D	Stocks not held in portfolio	31%	1.2	1.5
E	Factors (correlations between stocks)	-22%		(1.1)
F	Total (A + D + E)	100%	**2.2**	5.0



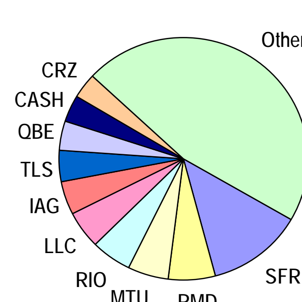
Top 10 sources of risk: Stocks held in the portfolio (A)

1	SFR	17%
2	RMD	8%
3	MTU	7%
4	RIO	7%
5	LLC	7%
6	IAG	6%
7	TLS	6%
8	CASH	5%
9	CRZ	4%
10	SUN	4%
	Other	30%

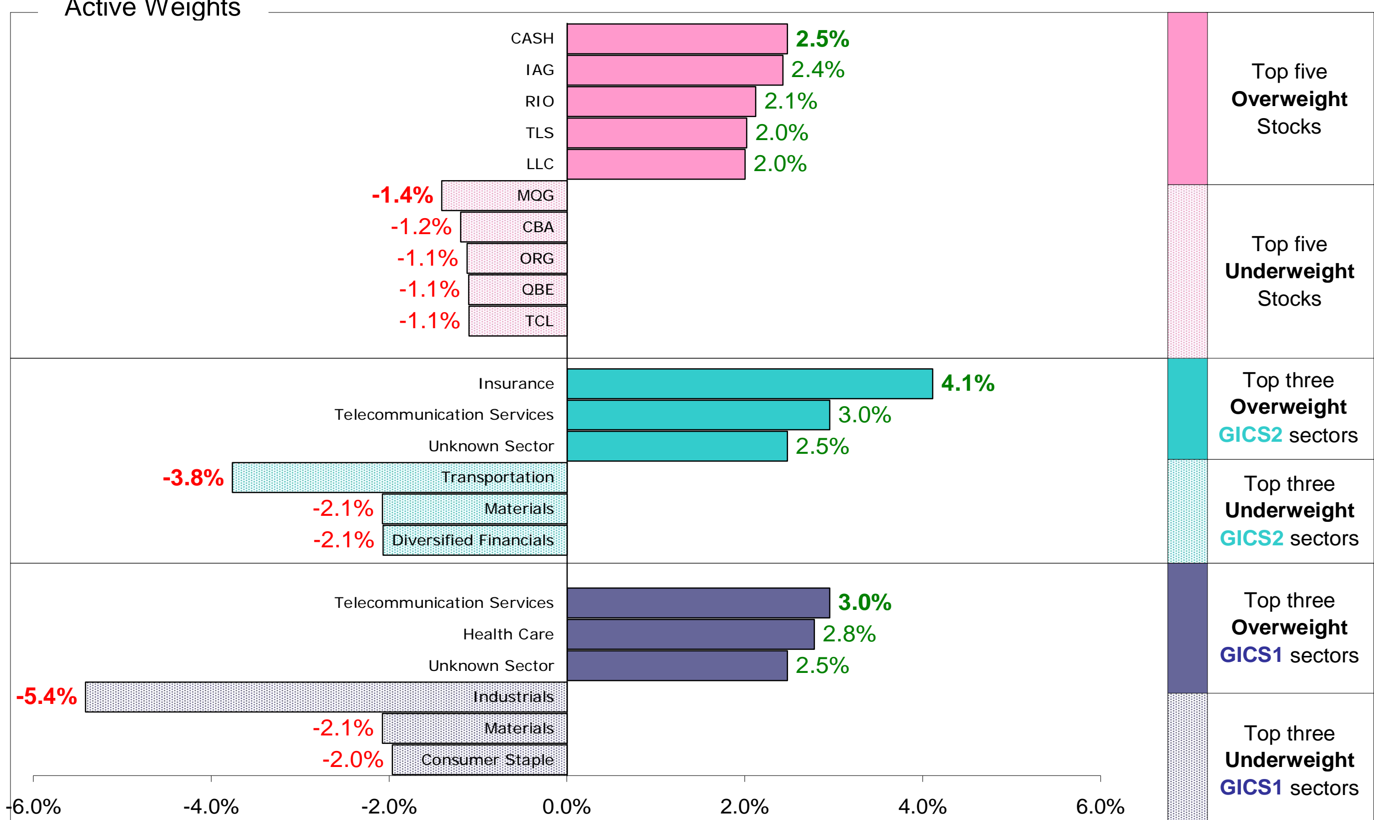


Top 10 sources of risk: All stocks in benchmark (B+C+D)

1	SFR	13%
2	RMD	6%
3	MTU	5%
4	RIO	5%
5	LLC	5%
6	IAG	4%
7	TLS	4%
8	QBE	4%
9	CASH	4%
10	CRZ	3%
	Other	46%



Active Weights



Suite 1202, Level 12, 135 Macquarie St, Sydney NSW 2000 | T: 8259 7500 | F: 02 9251 7499 | E: info@atiam.com.au | www.atiam.com.au