ATI·AM
Above The Index Asset Management Pty Ltd

Fact Sheet

ATI Australian Equity Portfolio

Information as at 31 October 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 October 2016)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Inception (% p.a.)
ATI Equity Portfolio (gross)	(2.2)	(3.9)	5.4	2.8	8.1	6.4
Benchmark Index	(2.2)	(3.2)	6.3	3.9	9.0	5.5
Relative Outperformance	**(0.0)**	**(0.7)**	**(0.9)**	**(1.1)**	**(0.7)**	**0.9**

*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 2016

Largest Holdings	Portfolio Weight (%)	Benchmark Weight (%)
Commonwealth Bank	9.2	8.5
ANZ Bank	9.1	5.5
Westpac	7.8	6.7
National Australia Bank	6.9	5.0
Telstra	5.8	4.3
CSL	4.9	3.3
Wesfarmers	3.8	3.4
AGL	2.4	0.9
Lend Lease	2.3	0.5
AMP	2.2	1.1

Sector Allocation	Portfolio Weight (%)	Benchmark Weight (%)
Financials	40.6	36.5
Healthcare	11.4	6.7
Telecommunications	7.8	4.8
Materials	12.2	16.1
Industrials	3.6	7.0
Consumer Staples	3.5	7.1
Energy	4.2	4.1
Utilities	2.6	2.4
Consumer Discretionary	3.0	5.3
Information Technology	1.4	1.4

Selected Portfolio Statistics as at 31 October 2016

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 fell 2.2% in October compared with a fall of 2.2% 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 financials (+1.5%), materials (+1.3%), and energy (-2.3%), whilst the worst performers were health care (-8.3%), property trusts (-7.9%), and technology (-6.6%).

From a sector perspective, the relative performance of the ATI portfolio was most positively impacted from being overweight financial stocks (46.6% v benchmark of 44.6%) and underweight industrial stocks (3.6% v benchmark of 7.0%), whilst it was most negatively impacted by being overweight health care stocks (11.4% v benchmark of 6.7%) and underweight materials stocks (12.2% v benchmark of 16.1%).

Attribution of Stocks

The portfolio performance during Octomber was assisted by overweight positions in ANZ Bank (ANZ), Incitec Pivot (IPL) and CSR (CSR); and by not holding Healthscope (HSO), Transurban (TCL) and Sydney Airports (SYD). The three stocks in the portfolio that contributed most to its relative performance during the month were:

ANZ Bank (ANZ) (+0.8%) outperformed the market in October after providing more information on how it was moving rapidly in the reduce the capital intensive nature of its Asian operations which have been a market concern for many years now. In a bid to progress on simplification and rationalization of their Asian business, ANZ announced it is exiting retail and wealth operations in 5 Asian countries (Taiwan, China, Hong Kong, Singapore, and Indonesia) with the sale of part of its Asia retail and wealth business to Singapore's DBS Bank. The sale price provided is ~$110m above book value of its lending and deposit books and proceeds will be largely re-invested in integration related expenses. The transaction demonstrates management's continued focus on balance sheet optimisation and simplification of the business and the market has continued to support the new CEO's approach. We remain overweight ANZ as we expect the ongoing recall of capital from the Asian operations will be better redeployed in the Aust / NZ operations at better returns.

Incitec Pivot (IPL) (+4.6%) outperformed during October, rising as the market fell. This comes after a couple of months where the stock underperformed in the face of difficult market conditions in both fertilisers and explosives which led to earnings downgrades from several brokers as they marked-to-market weak commodity prices. October also saw the successful completion of testing and handover of the Waggaman Louisiana ammonia plant. While this was slightly later than the September quarter due date, the market reacted positively and viewed it as a significant de-risking event given the project was delivered and remained within the original USD850m budget. While the stock remained attractive from a valuation perspective, and while there are some small signs of market stabilization emerging, conditions remain difficult. IPL is due to release its FY17 result on 8 November.

CSR (CSR) (+1.1%) edged higher over the month as it continued to benefit from the continued strength of the housing cycle, particularly on the east coast where CSR is relatively overexposed. This was subsequently confirmed on 2 November when the stock rallied further after the company released a stronger than expected interim result and management confirmed FY17 guidance at the top of current broker forecasts. CSR also bought out Boral from their brick JV at the end of October which should lead to some operational efficiencies and help support CSR's property development pipeline for the next 10-15 years. Earnings upgrades following the 1H17 result has seen the stock remain relative attractive, however with some signs of a slowing in housing approvals and completions, particularly in multi-dwellings in Melbourne and Brisbane, we remain focused on carefully monitoring CSR's longer-term earnings outlook for FY18 and beyond.

Positions that detracted most from the portfolio's performance during the month were from being overweight Mayne Pharma (MYX), Virtus Health (VRT), and AMP (AMP); and from not holding South 32 (S32), QBE Insurance (QBE) and Woolworths (WOW). Stocks in the portfolio that detracted most from relative performance during the month included:

Mayne Pharma (MYX) (-18.0%) underperformed the market in October after outperforming (+8.9%) in September. The stock was weaker on account of the likelihood of a Clinton US election win and a Whitehouse that might 'get tough on drug pricing'. We assess that risk as benign, but do see generic manufacturers becoming more conservative with respect to price rises over the next few years. We note during the month that the company announced that it had launched generic Entocort EC from the drug pipeline they acquired as part of the TEVAGAN portfolio. The product forms part of the revenue and earnings guidance provided at the time of acquisition. In addition, we note that in was announced in early November that it had launched morphine sulfate extended-release (MSER) tablets (15mg, 30mg, 60mg and 100mg) in the United States. MYX received approval from the US Food and Drug Administration for its Abbreviated New Drug Application (ANDA), which is a generic version of MS Contin an opioid analgesic for moderate to severe pain management. We continue to maintain an overweight position in the stock based on valuation support and confidence in a growth strategy that involves a pipeline of generic drug opportunities, utlising a platform that is able to develop and produce molecules that competitors are finding difficult to manufacture. MYX has demonstrated a capacity to grow earnings through a combination of acquisitions, organic initiatives, pricing and the internalisation of key franchises to secure additional margin. MYX's product pipeline is full, with four products (including Doryx MPC) expected to launch in 1H17 (with target market gross sales > US$600mn) and 19 products filed and pending with the FDA.

Virtus Health (VRT) (-5.4%) underperformed the market during the month following benign Medicare statistics for September. Total cycle growth in IVF was -1.7% vs. pcp, cycling another tough comp of +9.9% from September 2015. This has seen three-month rolling growth decline to -0.4% and 12-month rolling growth decline to +5.3%. With 1Q17 industry growth flat vs. pcp, VRT is under pressure to deliver cycles growth in line with the long-run targets stated at FY16 results (VRT targeting ~3% growth). After posting ~12% average cycle growth over the last three months, VIC moderated significantly in September with -1.9% growth vs. pcp. This level of drop-off is surprising given the ongoing uptake of PRY's bulk-billing offering in Melbourne. Industry weakness was broad based, with QLD the strongest performer at +2.0%, NSW at -2.4% and SA at -2.1%. We continue to hold the stock as the continued social driven shift in age of fertility for Australian women underpins a solid market together with favourable Government support. Affordable access supports high utilisation vs offshore peers, & allows VRT annual price increases. The industry is a rational oligopoly and the participants are rational. The barriers to entry are the fertility specialist of which VRT has 100. Price increases in FY17 of 3-4% are expected to underpin earnings growth. In addition VRT's offshore operations especially Ireland are performing well and Singapore is expected to now be EBITDA positive.

AMP (AMP) (-13.4%) underperformed over the month as the shares fell after it announced plans to book a $668 million impairment charge this year against the goodwill attributed to its Australian wealth-protection business. Whilst the write-down won't impact full-year underlying profit, the business has struggled over the last three years and something had to give. AMP says the business losses have been accentuated in 2016 by the deterioration and poor claim trends across the insurance sector. AMP is of the view the trends are structural in nature, which lead them to record a reduction in the embedded value of its wealth-protection unit overall. In addition, AMP has moved to sharply reduce the capital intensity of its wealth-protection business in Australia through a deal with Germany's Munich Re AG to reinsure half of the 750 million Australian dollars (US$574 million) in annual premium income of its AMP Life retail portfolio. Further tranches of reinsurance would be sought when time and conditions allowed and we feel that the reduction in capital and risk exposure to this life business is good for the company as a whole going forward and remain overweight.

Portfolio Construction

The main portfolio weighting changes during October included: top-ups for our holdings in BHP Billiton (BHP) and Western Areas (WSA) and the removal of our holdings in Ardent Leisure (AAD).

Cash at the end of October was 4.3% and is below the 5% maximum threshold, similar to the 4.3% in September, 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 16.0x).

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 Insurance Australia Group (IAG) and Suncorp (SUN).

Portfolio Risk

The current forecast tracking error of ~2.8% 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 commodity price volatility, minimal forward earnings clarity and continued reductions in the expected mining capex spend of the larger mining companies over the next few years.

General Market Commentary

A dreadful month for the healthcare and property trust sectors saw the ASX300 accumulation fall -2.2% and endure another month at the bottom of global league tables. The resources sector managed another positive month after a couple of years going backwards whilst banks and consumer staples sectors also beat the index.

In some material company announcements: an admission that September had been 'horrendous' saw Healthscope (HSO) tumble by 28% in October, which left the company as the worst performer in the index; AMP endured a sharp sell-off at the end of the month (-

13.4%) as wealth protection trends disappointed again; the rise and rise of coal prices saw Whitehaven Coal (WHC) rise 23.7% and take out top performer spot in the index.

The Reserve Bank of Australia left the cash rate unchanged at 1.50% in October. The meeting marked Phil Lowe's first meeting as RBA Governor. Forward guidance was unchanged from last month, signaling that inflation would have to overshoot by a significant margin to warrant easing in November. The statement reflected new themes such as higher commodity prices, GDP growing at "a moderate rate" and the unfavorable composition of the employment data. The AUD slipped 0.7% against the Greenback in October.

On the consumer front: The 3Q CPI data was a mixed bag. headline inflation came in above expectations at 1.3% oya, but this was mainly due to a spike in fruit and vegetable prices; core inflation came in at 1.5%oya, one of the weakest prints since the early 1980s; building approvals for the month of August slipped 1.8% as against +12.0% in the month prior; retail sales in August rose 0.4% from a pick-up in department stores sales (+3.5%), after a subdued July reading, contributed to the rise; Australia's trade deficit narrowed from A$2.1bn to A$2.0bn in August, notably, metal ore and mineral shipments increased 6.0%; the Westpac consumer confidence index rose 1.1% in October as against the previous print of 0.3% and this print represents three consecutive increases in sentiment this year;.favorable labor market conditions were reflected in the unemployment expectations index, which fell two-tenths; NAB business conditions increased from +7 to +8, while business confidence held steady at +6; employment contracted 9.8k positions and the composition of employment was skewed to part-time workers (+43.2k positions); full-time employment fell (-53.0k positions), the unemployment rate fell to 5.6% and the participation rate fell from 64.7% to 64.5%..

The LME Metals Index inched up +1.1% over the month. Aluminum (+4.2%), tin (+3.6%) and zinc (+3.2%) rose, while lead (-3.4%), nickel (-0.9%) and copper (-0.1%) fell. Iron ore traded up 15.3% to US$64.4/mt as the lead indicators for iron ore remain positive. Oil prices softened over the month, with the oil market caught in the cross currents of rebalancing and OPEC negotiations. Brent fell 4.2% to $48.61/bbl. Gold traded down 2.9% to $1277.3/oz, with the rising short-term negative risks for gold and net long CME managed money positioning halved over the month.

Outlook

The October AGM season continued the poor consensus earnings revision trends of late, particularly among the higher PE firms. Consensus earnings forecasts for FY17 EPS were cut by more than 5% for 25 ASX 300 firms during October, with only 12 firms seeing a greater than 5% upgrade, 9 of which were mining firms assisted by the rally in commodity prices. Consistent with the trend from the FY16 result season, the recent Q1 trading updates have also resulted in more downgrades to stocks in supposedly higher growth / more defensive industries.

With earnings expectations hardly being the catalyst to drive our equity market higher, it would appear that the continuation of the historically low interest rate environment and some room for multiple expansion are the most likely drivers of any near term market gains. An in-line bank results season has just begun and this should at least pave the way for some market support as dividends of the major banks have not been cut as many analysts had suggested over the last month or so. We remain slightly overweight the major banks and these results are unlikely to see us changing that portfolio position over the next few months.

We still remain underweight the materials sector as a whole as we feel that the recent recovery in many base metal commodity prices may well be unsustainable given the very subdued expectations for global growth in the year ahead.

PORTFOLIO RISK SUMMARY

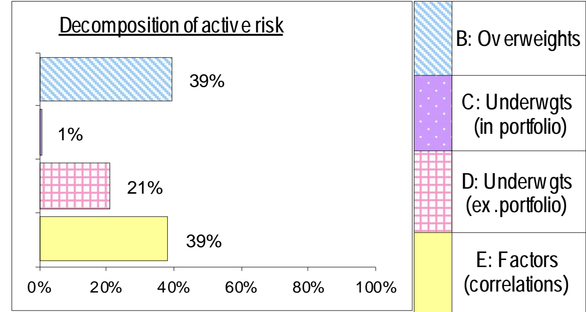
Goldman Sachs

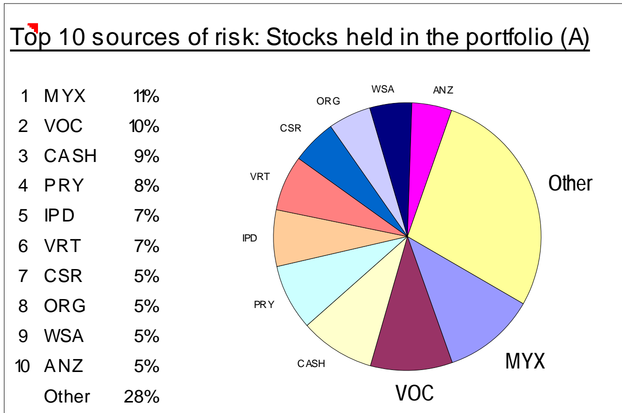
Portfolio Name:	MyPort
Benchmark:	ASX300
Date of Data:	31-Oct-16
Sector Type:	1DEFCYC

		Active Exposures:		%
Historic portfolio alpha	4.7%	Total:	91.1%	100.0%
Historic portfolio beta	1.00	Across sectors:	9.4%	10.4%
Raw return	11.7%	Within sectors:	81.7%	89.6%

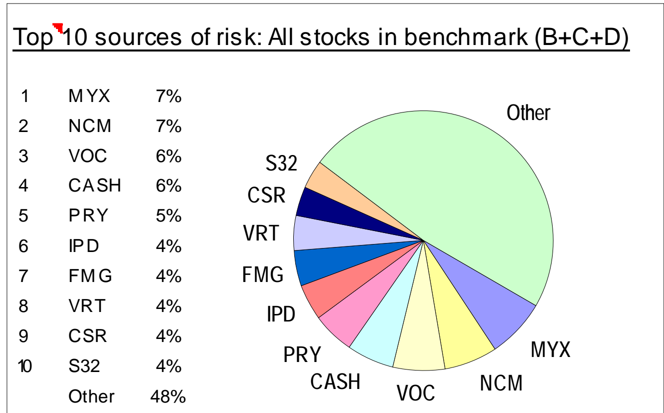
Forecast Tracking Error **2.80 %** (active risk)

	Source of portfolio risk	contribution to active portfolio risk	standard deviation	variance / covar.
A	Stocks held in portfolio (B+C)	40%	1.8	3.2
B	Overweight positions	39%	1.8	3.1
C	Underweight positions	1%	0.2	0.1
D	Stocks not held in portfolio	21%	1.3	1.7
E	Factors (correlations between stocks)	39%		3.0
F	Total (A + D + E)	100%	2.8	7.9





1	MYX	11%
2	VOC	10%
3	CASH	9%
4	PRY	8%
5	IPD	7%
6	VRT	7%
7	CSR	5%
8	ORG	5%
9	WSA	5%
10	ANZ	5%
	Other	28%



1	MYX	7%
2	NCM	7%
3	VOC	6%
4	CASH	6%
5	PRY	5%
6	IPD	4%
7	FMG	4%
8	VRT	4%
9	CSR	4%
10	S32	4%
	Other	48%

Active Weights