# Fact Sheet

Above The Index Asset Management Pty Ltd

# ATI Australian Equity Portfolio

## Information as at 31 December 2009

### Portfolio Objective

The ATI Australian Equity Portfolio seeks to achieve total returns (includes income and capital appreciation and before the deduction of fees and taxes) that exceed those on the S&P/ASX 300 Accumulation Index by 3% per annum over rolling three-year periods.

### Performance Update

(*Returns to 31 December 2009)

| | 1 Mth (%) | 3 Mth (%) | 1 Year (%) | 2 Yr (% pa) | 3 Yr (% pa) | 4 Yr (% pa) | Inception (% p.a.) |
|---|---|---|---|---|---|---|---|
| ATI Equity Portfolio (gross of fees) | 4.2 | 3.7 | 49.6 | (1.7) | 4.9 | 8.8 | 8.8 |
| S&P/ASX 300 Accumulation Index | 3.7 | 3.4 | 37.6 | (8.3) | (0.8) | 5.0 | 5.1 |
| Relative Outperformance | 0.5 | 0.3 | 12.0 | 6.6 | 5.7 | 3.8 | 3.7 |

*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 Share Invest SMA product. Performance assumes reinvestment of all income. Inception date is 23 December 2005.

### Portfolio Details as at 31 December 2009

| Largest Holdings | Portfolio Weight (%) | S&P/ASX300 Weight (%) |
|---|---|---|
| BHP Billiton | 13.0 | 12.5 |
| Commonwealth Bank | 7.4 | 7.3 |
| Westpac | 6.4 | 6.5 |
| NAB | 6.0 | 5.0 |
| ANZ | 5.5 | 5.0 |
| Telstra | 5.5 | 3.3 |
| QBE Insurance | 4.0 | 2.3 |
| Woolworths | 3.7 | 3.0 |
| Rio Tinto | 3.4 | 2.8 |
| CSL | 3.0 | 1.7 |

| Sector Allocation | Portfolio Weight (%) | S&P/ASX300 Weight (%) |
|---|---|---|
| Financials | 38.7 | 38.9 |
| Materials | 21.3 | 25.2 |
| Consumer Staples | 7.7 | 8.4 |
| Consumer Discretionary | 7.3 | 3.9 |
| Telecommunications | 6.5 | 3.7 |
| Industrials | 6.0 | 6.8 |
| Healthcare | 5.0 | 3.4 |
| Energy | 2.2 | 7.5 |
| Utilities | 1.2 | 1.3 |
| Information Technology | 0.0 | 0.8 |

### Selected Portfolio Statistics as at 31 December 2009

| | |
|---|---|
| Inception Date | 23-Dec-05 |
| Number of Stocks | 38 |
| ATI Funds under Management | ~ $500m |

| | |
|---|---|
| MER (est.) | ~ 0.90% p.a. |
| Tracking error (forward estimate) | ~ 3.5% p.a. |

### General Market Commentary

**Australia's Market Performance**

The ASX 300 finished the month up 3.7%, bringing the total return for calendar year 2009 to +37.6%. After declining ~50% from its peak in November 2007 and reaching a low in March 2009, the subsequent rally has reflected the impact of global fiscal and monetary government stimulus and financial system support. Whilst the economic indicators show that a global economic recovery has commenced, the market as at 31 December 2009, was still trading ~22% below the November 2007 high. Sectors most leveraged to the economy led the market higher while the defensive sectors which had outperformed during 2008 lagged the recovery. As such, Banks, Materials and Consumer Discretionary were the best performing sectors in 2009, whilst Telecoms, REIT and Utilities underperformed.

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The market traded in a tight range on relatively low turnover in December, before rallying into the Christmas season and closing at its high for the year. Some of ATI's portfolio holdings were impacted by corporate activity and profit revisions: National Australia Bank announced a surprise bid for AXA, exceeding an increased (and final) offer from AMP, and including an all cash component. Woodside Petroleum successfully completed a $2.5b capital raising to strengthen its balance sheet and increase liquidity ahead of further LNG development ambitions. Telstra downgraded its FY10 revenue guidance and announced the formalisation of its terms of engagement on the NBN with the Government. Bank shares were pressured by concerns over funding costs, highlighted by Westpac's decision to raise its mortgage rate by 45bp – above the 25bp hike by the RBA.

The Australian economic data during December was generally positive with employment and housing data remaining strong. However, other releases such as consumer confidence and loan growth gave a softer picture and Q3 GDP was flat. Notwithstanding this, the RBA increased the cash rate by an additional 25bp to 3.75%, making it the third rate rise in a row.

In the US a strong employment report prompted the FOMC to acknowledge that labour market weakness was abating. This led to a rally in the USD. After reaching a high of 93.2¢ the AUD traded below 88¢ before finishing the month at 89.6¢. Stocks with USD earnings (such as Newscorp and Ansell) began to outperform as investors reduced underweight positions exposed to a reversal in the long established trend of USD weakness.

Whilst commodity prices were softer at the start of the month as the USD appreciated, growing confidence in economic recovery over 2010 provided support throughout the month. Spot oil saw a sharp correction during December as inventory levels rose, falling below the US$70 level before recovering to post a 2.7% gain for the month. Spot gold continued its momentum at the start of the month, setting a new record of US$1,216 before finally succumbing to profit-taking after a four-month rise and ended the month down 5.8%. Base metal prices generally increased with copper up +6.4% after a year in which the price has increased ~141%. Aluminium was up 10% in December despite concerns of a capacity and inventory overhang. Spot iron ore prices continued to be firm in December as Chinese import levels rose and India decided to raise taxes on its ore exports which helped push up an already firm market.

Notwithstanding the strong market performance over the past 12 months, ATI's relative value process is still identifying some attractive opportunities, particularly in stocks where there is earnings leverage forecast to emerge in our three year forecast period. The key catalysts in the upcoming month will be news flow leading into the reporting season that commences in mid-January. The quarterly sales from the retailers and productions reports from the miners will be closely monitored to determine if there has been underlying EPS improvement. There is also the potential for profit downgrades from companies where earnings recovery has been impacted by lower than expected sales or higher than expected costs.

Investors remain focused on the length and duration of the economic recovery phase with a specific focus on how much earnings leverage will emerge in FY11. The recent out-performance of the cyclical and resources stocks has resulted in many now trading at a premium to the market and history, suggesting current forecasts will need to surprise on the upside to justify any further out-performance.

### The Best and Worst Performing Sectors

The better performing sectors during December were: Information Technology (+7.3%); Industrials (+7.0%); and Health Care (+4.3%). The worst performing sectors were; Telecommunications (+1.0%); Consumer Staples (+2.0%); and Property Trusts (+2.0%).

## Relative Portfolio Performance

The ATI Equity Portfolio rose 4.2% compared with a rise of 3.7% by the ASX300 Accumulation Index. The relative out-performance was due to sector overweight position in financial stocks and an underweight position in the Materials sector.

The better performing stocks were overweight holdings in Incitec Pivot, Newscorp and QBE Insurance and not holding Newcrest Mining and Lihir Gold.

Stocks in the portfolio that contributed to its relative performance during the month were:

**Incitec Pivot – IPL (+24.6%)** held its AGM in December and was a strong performer after confirming earnings guidance for FY10. Global phosphate fertiliser prices also rallied in December, a month which is a seasonally strong period leading into the US and European inventory build. The recovery in the US economy also assisted sentiment towards the US Dyno business.

**Newscorp – NWS (+18.4%)** was the best performer in the media sector for the month. In the US, investor confidence improved and the stock was re-rated with its US entertainment peers. In addition, NWS benefited from: (1) the strong debut of James Cameron's 3D 'Avatar' which took US$242.5m in global ticket sales across its opening weekend and reached US$1b after 17 days; and (2) comments from all TV broadcasters that the scatter market rates were currently trading 20-30% ahead of the upfront levels. In Australia, the AUD denominated stock also benefited from the weaker AUD during the period.

**QBE Insurance – QBE (+15.1%)** recovered it losses from November to be higher this month after the weaker $AUD implied there would be less translation impact on earnings in the 1H10 result due in February. QBE has a large proportion of its earnings coming from offshore and the strength of the AUD in recent months had been affecting the markets pricing of the stock. In addition, there was anecdotal evidence of improving gross written premium in the US businesses.

Stocks that detracted most from the Portfolio's relative performance during the month were from not holding Alumina and Qantas which outperformed the market and being overweight Pacific Brands, Tabcorp and Telstra.

Stocks in the portfolio that detracted from relative performance were:

**Pacific Brands – PBG (-13.4%)** was lower during December on limited news-flow. Sentiment towards PBG was impacted by investor concerns regarding the impact of FX movements on 1H10 profit and the subsequent moderation in the AUD/USD FX rate. End of year profit taking also occurred following the stocks recovery from a low of $0.12 in March 2009.

**Tabcorp – TAH (-3.2%)** shares traded lower during December as concerns regarding the future earnings base and potential legislative impact on the company. During the month, media speculation continued on TAH potentially bidding for pub operator National Leisure and Gaming. In addition, the uncertainty around Victorian gaming, Star City refurbishment, potential tax increases and the resignation of Managing Director of Wagering, Robert Nason also weighed on the stock.

**Telstra – TLS (+0.6%)** ended the month marginally higher despite it revising its FY10 sales growth guidance from 'low single digit growth' to 'flattish'. All other guidance measures (EBITDA, EBIT, FCF) remain unchanged. Separately, TLS and NBNCo announced they had reached Terms of Engagement on NBN. Highlights of the Terms of Engagement include: (1) confirmation that NBNCo intends to use TLS's duct network; and (2) agreement between the parties that would see a progressive transition from TLS's copper access network to an FTTP NBN. The 4 areas that are key to determining the impact of the NBN on TLS are: (1) the NBN access price which will impact the fixed line margins; (2) TLS' capex requirements; (3) Compensation for TLS' current network; (4) the access to future LTE spectrum and the ownership of Foxtel and HFC.

## Outlook

Looking ahead, ATI will continue to search for opportunities to invest in companies that, subject to our disciplined investment process, trade at a discount to our assessment of their intrinsic fair value. ATI believes that a combination of bottom-up fundamental analysis of intrinsic value and use of select earnings data, together with a sound risk management overlay, will continue to add value for our investors over the medium to long-term.

# PORTFOLIO RISK SUMMARY

| | |
|---|---|
| Portfolio Name: | **MyPort** |
| Benchmark: | ASX300 |
| Date of Data: | 31-Dec-09 |
| Timestamp of analysis: | 1/6/2010 8:41:47 AM |

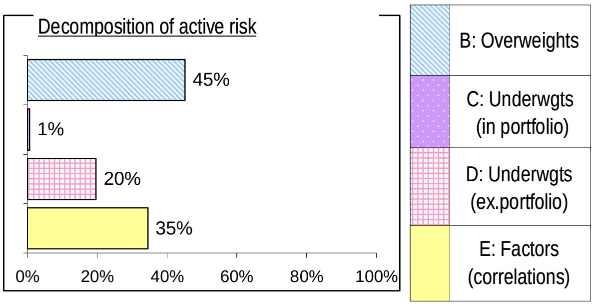
| | |
|---|---|
| Data Frequency: | Monthly |
| No. of Periods: | 48 |
| Price or Accumulation: | Accumulation |
| Factor Analysis: | Multi-Factor |

| | | | |
|---|---|---|---|
| Historic portfolio alpha | 7.5% | **Active Exposures:** | |
| Historic portfolio beta | 0.94 | Held: | 35.8% |
| Raw return | 8.4% | Total: | 69.5% |

| Forecast Tracking Error | 3.03 % | 3.19 % |
|---|---|---|
| | (residual risk) | (active risk) |

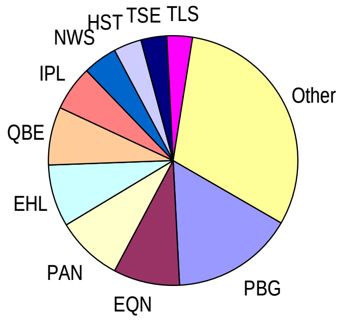
| | Source of portfolio risk | contribution to active portfolio risk | standard deviation | variance / covar. |
|---|---|---|---|---|
| A | Stocks held in portfolio (B+C) | 46% | 2.2 | 4.6 |
| B | Overweight positions | 45% | 2.1 | 4.6 |
| C | Underweight positions | 1% | 0.3 | 0.1 |
| D | Stocks not held in portfolio | 20% | 1.4 | 2.0 |
| E | Factors (correlations between stocks) | 35% | | 3.5 |
| F | Total (A + D + E) | 100% | **3.2** | 10.2 |
| G | Systematic risk (undiversifiable) | | 1.0 | 1.0 |
| H | Residual risk definition tracking error (G - F) | | **3.0** | 9.2 |

Decomposition of active risk



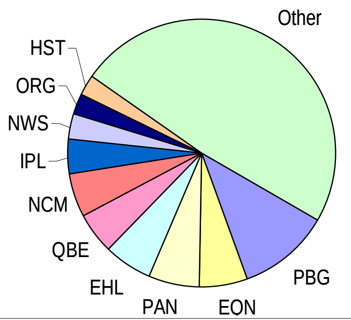

## Top 10 sources of risk: Stocks held in the portfolio (A)

| | | |
|---|---|---|
| 1 | PBG | 16% |
| 2 | EQN | 9% |
| 3 | PAN | 9% |
| 4 | EHL | 8% |
| 5 | QBE | 7% |
| 6 | IPL | 6% |
| 7 | NWS | 4% |
| 8 | HST | 4% |
| 9 | TSE | 4% |
| 10 | TLS | 3% |
| | Other | 31% |




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

| | | |
|---|---|---|
| 1 | PBG | 11% |
| 2 | EQN | 6% |
| 3 | PAN | 6% |
| 4 | EHL | 6% |
| 5 | QBE | 5% |
| 6 | NCM | 5% |
| 7 | IPL | 4% |
| 8 | NWS | 3% |
| 9 | ORG | 3% |
| 10 | HST | 3% |
| | Other | 49% |




## Active Weights