Manager Profile

Above the Index Asset Management

Who is ATI?

Above the Index Asset Management Pty Ltd (ATI) [ACN 111 239 591 / AFSL 295904] was established in September 2004 as a boutique Australian equity manager, specialising in the manufacturing of long only Australian equity portfolios. ATI's investment style utilises a relative value methodology.

ATI was appointed by Zurich Financial Services Australia Pty Ltd in September 2008 to manage its Australian Value Share Fund. ATI currently manages the Zurich Australian Value Share Fund and is a manager within the Zurich Balanced Fund.

OneVue Limited, formerly Direct Portfolio Services Ltd, appointed ATI as the manager of their in house portfolio mandates in 2005 making ATI responsible for the stock selection, portfolio management and performance of the OneVue Managed Account portfolio mandates (formerly DirectPortfolio and ShareInvest).

Advance Asset Management appointed ATI as the manager of their BT Partner Australian Shares Value Fund in May 2011.

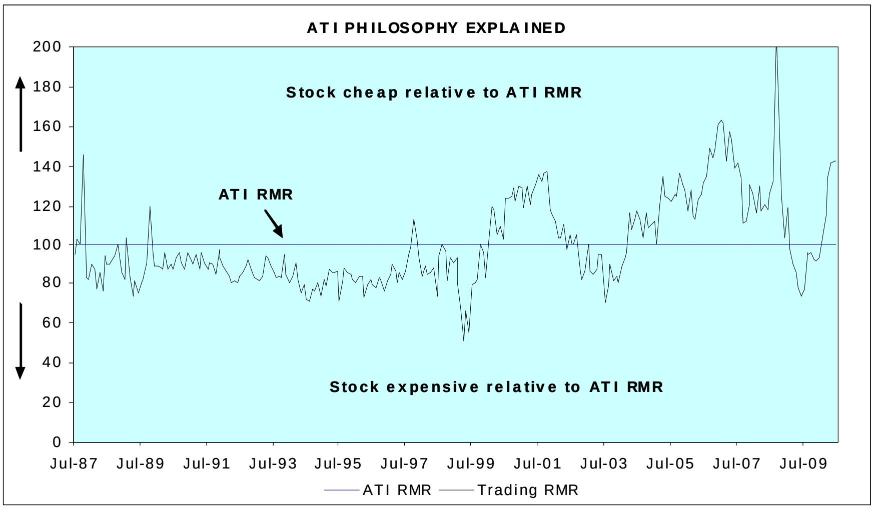
Ascalon Capital Managers Ltd (Ascalon) (100% owned by Westpac), is a boutique funds management incubator and a 33.3% shareholder in ATI. The remaining equity in ATI is held by the principals, directors and staff.

ATI's Investment Style

ATI's investment style is premised on a relative value methodology, meaning that investments are generally purchased and held as long as they represent relatively good value. In essence, ATI focuses on selecting those companies whose share prices appear cheap relative to the universe of stocks and the GICS industry sector that they are in. The ATI relative value approach applies at both the GICS sector level and the investment grade universe level.

ATI's investment philosophy is that stocks trade in a range that tends to mean revert around an average or through the cycle relative PE multiple. Implicit in this philosophy is the assumption that the market places a greater emphasis on nearer term earnings forecasts when pricing stocks.

The diagram below shows potential buying opportunities are provided when the black line is above the blue (straight) line and potential selling opportunities are provided when the black line is below the blue (straight) line. ATI seeks to capture these opportunities using its relative value investment framework.



The ATI investment philosophy reflects the extensive knowledge and experience of the principals who have managed portfolios using a similar approach to investing and company valuations for over 15 years. The ATI philosophy was developed to mitigate some of the potential shortcomings of the value style investment processes that the principals had observed through their careers.

These observed shortcomings encouraged the principals to develop a process that reflected:

- the desire to avoid value traps (often being too early into stocks) by placing a greater emphasis on nearer term EPS forecasts;
- an ability to reduce the extent of underperformance that may result from a value style process at certain stages of the market cycle (particularly during growth phases); and
- investment risks that can be identified and should be managed and controlled.

The ATI philosophy has been vindicated by the track record since December 2005, which places ATI in the top quartile of all Australian long only equity managers over this period. In addition, an independent back-test using ATI's valuation methodology and pre-set portfolio constraints confirms the capacity to generate consistent alpha using this framework.

This framework means ATI can generate alpha when:

- The market is not paying the through the cycle relative PE multiple (ATI RMR) – Even if the earnings forecasts used by ATI do not differ materially from market expectations (which ultimately prove to be correct), the tendency of stocks to trade in a range that mean reverts around an average or through the cycle RMR provides opportunities to capture alpha as re-ratings occur.
- ATI's earnings forecasts differ from the market – The earnings forecasts used by ATI may be materially different to consensus expectations. If the ATI forecasts prove to be correct then the stock is expected to be re-priced to reflect the market earnings revisions as they occur.

The ATI investment framework provides opportunities to generate alpha from stock price re-ratings that may occur from either or any combination of: mean reversion around ATI's RMR and predicted forecast market earnings revisions.

Investment Style

ATI's investment style is strongly based on the relationship between forecast earnings, relative market rating (RMR) and the current share price. The time horizon for forecast return calculations is three years.

ATI's investment style can be characterised as:

- Active with a relative value approach;
- Using fundamental company analysis focused on understanding the composition and drivers of our earnings forecasts;
- Assessing whether the market's forecasts are realistic and whether the rating (RMR) that is being paid for these earnings is appropriate;
- Using a capitalisation of earnings methodology for valuing all stocks in the investment universe to ensure consistency of approach;
- Placing a greater emphasis on near term earnings forecasts;
- Focused on buying stocks identified as relatively undervalued and selling stocks identified as relatively over valued;
- Producing concentrated stock portfolios with no specific bias targets towards large or small capitalisation stocks;
- Being tracking error and stock specific risk aware with a view to managing and controlling investment risk; and
- Process driven with a disciplined methodology in stock selection and risk management.

ATI's competitive advantage

ATI sees its competitive advantage as being able to add value for clients by portfolio out-performance that arises from adding alpha (expected benchmark out performance) subject to appropriate risk constraints. Given its disciplined investment process, in-built risk controls and client management systems, ATI can manage individual portfolios for clients. This could encompass changes with regard to levels of acceptable tracking error, portfolio concentration, specific risk and fund size profiles to complement other managers.

ATI believes that its proprietary process of disciplined investing and prudent risk management will lead to superior returns and lower volatility in the long-term. Its primary focus is to deliver consistently higher than benchmark returns over rolling three-year periods with absolute volatility at, or lower than, benchmark and competitors.

The ATI Investment Process

ATI has developed an investment framework to capture relative outperformance (alpha) throughout the investment cycle. The investment framework (known as the Equity Ranking System or ERS) makes it difficult for ATI to do anything other than buy stocks when they are relatively cheap and sell stocks when they are relatively expensive.

To achieve this, ATI produces an ordinal ranking of the most attractive to the least attractive stock investment opportunities based on expected return. The expected return for each stock (calculated as an internal rate of return or IRR), is the difference between ATI's target price and the current share price.

ATI's target price is calculated by multiplying (capitalising) a blended 3 year forecast EPS by a through the cycle or average relative PE multiple (which ATI refers to as a Relative Market Rating or RMR).

ATI utilises a four stage investment process that provides the framework for portfolio construction to be consistent with its investment philosophy. This process is summarised below:

Stage 1:		Stage 2:		Stage 3:		Stage 4:
ERS database collation and quant filtering (liquidity, and earnings profile)	→	Prospective stock universe modeled by analysts to produce EPS and RMR	→	Analytical /Qualitative (QAS) review. Ordinal ranking of investment grade universe	→	Portfolio Construction and Risk Management

Stage 1: ATI's stock universe initially comprises those companies in the S&P/ASX 300 index. These stocks are filtered by four quantitative factors (covering liquidity, market capitalisation and earnings profile) to arrive at a prospective grade universe (approximately 200 stocks).

Stage 2: Weighted 3-year earnings forecasts of all stocks in this prospective universe are produced by ATI analysts utilising a combination of internal, fundamental, bottom up stock analysis, in conjunction with market and broker information, allowing analysts to recommend to the Research Committee their best estimate of future earnings forecasts for a company. Analysts' also recommend an appropriate though the cycle rating (RMR) to be applied to these earnings forecasts. The Research Committee then ratifies the earnings forecasts and the RMR.

Stage 3: A 70 factor qualitative assessment score (known as the QAS) is used as a negative screen to identify stocks that have too high a risk profile to be considered investment grade. ATI currently has an investment grade universe of approximately investment grade 170 stocks.

Stage 4: From this investment grade universe, ATI construct a portfolio of between 25-40 stocks. The portfolio construction process aims to select the most attractive investment grade opportunities, subject to a risk overlay that includes pre-set constraints at the stock and sector level.

Research Effort Explained

Approximately 120 stocks are screened out due to liquidity; negative EPS; minimum earnings sources and minimum market capitalization. Each of the remaining ~180 “prospective grade” stocks are modeled by the ATI analysts to ratify the EPS, the RMR and the QAS score to be used within the ERS.

For each of these ~180 stocks a P&L, Cashflow statement and Balance sheet for the company are produced to which scenario analysis is conducted enabling the analyst to determine the impact on EPS when changing factors such as: composition of earnings impact on sales growth and EBIT margin. Other sensitivity is conducted on items such as Tax rate; D&A / Sales, Net capex / Sales; Inventory / Sales; Receivables/ Sales; Payables /Sales; net interest, Commodity price and FX assumptions.

More detailed analysis is conducted on companies that ATI feels there is a gap in the understanding by the market, are under researched or where the analysis conducted above is not (in ATI’s opinion) comprehensive enough. Analyst time is allocated to conduct more intensive analysis of these types of companies and involves further ‘modeling’ of the company that is more comprehensive than that above.

Analysts are also responsible for determining a qualitative assessment score (QAS) for each prospective grade stock. ATI utilises its proprietary QAS framework to assist analysts in determining some of the key drivers impacting a stocks valuation and the integrity of the earnings being used in the ERS.

The QAS involves an extensive qualitative analytical review that takes into account:

- Key industry drivers (Porter analysis);
- Key performance statistics obtained from financial data (ratio analysis);
- Balance sheet strength, gearing levels and interest cover capacity (debt analysis);
- Management ability and industry track record/experience (management analysis);
- Current valuation in absolute and relative measures (valuation analysis); and
- Key current issues (corporate analysis, ESG issues).

The QAS analysis is utilised in conjunction with company fundamental analysis enabling ATI analysts to identify the key issues that are relevant to the specific stock and assist them to determine whether or not a ‘prospective grade’ stock is ‘investment grade’. The overall review assists in screening out certain stocks that have a less attractive profile relative to other stocks in the same GICS sector and other stocks in the investment grade universe. The QAS enables stocks to be compared relative to the rest of the universe of stocks and also the specific GICS sector that the company is in. It assists in determining the relative attractiveness of the company in a disciplined manner.

The remaining stocks are considered the investment grade universe. An ordinal ranking of the investment grade stocks is subsequently produced by the ERS.

The research review process, conducted by the ATI investment team, includes an in-depth assessment of the prospective stock’s financial history, balance sheet strength, future earnings prospects, historical and implied relative market return (RMR), management ability and key valuation drivers.

A theoretical target price, taking into account capital and income components, is generated for each stock in the investment grade universe by capitalising the 3-year time weighted EPS by the RMR. The target price is then compared to the current share price to produce an internal rate of return (IRR).

The ERS then produces an ordinal ranking list of the investment grade stocks based on IRRs . The ERS allows ATI to direct its dedicated research effort to stocks of relative value as well as being a sell indicator tool for those stocks that show relative unattractive IRRs. This list forms the basis for the portfolio construction stage.

Portfolio Construction Explained

The ERS rankings provide the basis for the construction of robust, risk aware portfolios, sensitive to tracking error, stock positioning and client specific guideline considerations. The Portfolio Committee oversees the portfolio construction process and is responsible for the buy/sell decisions for each of the ATI portfolios.

ATI adopts a dedicated portfolio approach, selecting a theoretical model portfolio for each product from the most attractive of potential investments, wherever possible. The objective of the portfolio construction process is to create portfolios which conform to (and optimise) the conclusions of the previous three stages of the process. ATI's management of equity portfolios is based on a model concept so that a common weighting of stocks is consistently applied to all similar equity portfolios, subject to mandate restrictions. The typical pre-set constraints that ATI uses are:

Stock Index Weights (S&P/ASX 300)	**Max Target Weight (%)**
< 0.25%	1.00%
> 0.25% and < 1.00%	Zero absolute. Index + 2.0%
> 1.00% and < 5.00%	Zero absolute. Index + 2.5%
> 5.00%	Zero absolute. Index + 3.0%
GICS Sector Index Weights	**Allowable ranges (%)**
< 5%	Zero absolute. Index + 5%
> 5%	Zero absolute. Index + 8%
Portfolio stock holdings	**Allowable range (#)**
ASX listed from Investment Grade universe	25 – 40 stocks

Pre-trade and post-trade compliance checking and dealing are undertaken using IRESS, OzPort (in-house), and the custodians.

Who are the principals and staff of ATI?

A brief description of the ATI principals is as follows:

Simon Burge (Chief Investment Officer)
Simon chairs the ATI Portfolio Committee and has responsibility for portfolio construction and risk overlay analysis.

He has research responsibilities for the Financials sector.

Simon was a founding principal of ATI along with David and Tim. He was formerly a portfolio manager of Tyndall Australia Ltd where he worked from 1992 to 2003. Simon commenced his career as an investment analyst at Global Funds Management in 1989 and progressed to the portfolio manager role at Tyndall, having more than 20 years experience in investment markets in Australia. Simon brings a wealth of experience in the value investing style and portfolio construction that are integral to implementing the investment philosophy of ATI. Simon is heavily involved in stock selection, risk control procedures, portfolio construction, stock research, continual process improvement and daily portfolio management. Simon ensures ATI remains true to label in constructing portfolios that provide consistent returns based on ATI's disciplined relative value investment style.

Qualifications: BComm (Finance), MBus (Finance)

David Liu (Head of Research)
David is a member of the ATI Portfolio Committee and has responsibility for stock research and ERS process integrity.

He has research responsibilities for the Consumer Discretionary, Consumer Staples, Healthcare, Financials and Industrials sectors.

David was a founding principal of ATI along with Simon and Tim. He has been in the financial industry for 17 years in roles such as sell side research analyst at Deutsche Bank, ECM / Corporate finance Director at BBY, and investment analyst at Berren Asset Management / IWC. David is experienced in financial forecasting and modelling that forms the basis for ATI's qualitative review of investment grade stocks. This experience has been invaluable in contributing to ATI's process development and ongoing research capability. David has a CFA certification and is actively involved in the financial industry education process as a Fellow member of FINSIA (now Kaplan).

Qualifications: BComm (Accounting/Finance), LLB, CFA, FINSIA Fellow

Tim Phillips (Non-Executive Chairman)
Tim is a member of the ATI Portfolio Committee.

Tim is a founding principal of ATI along with Simon and David. Tim was extensively involved in the process development of the ATI ERS after a long working relationship with Simon. Formerly an investment director at Tyndall Australia Ltd, Tim has over 40 years experience in the finance industry and is an integral member of ATI's portfolio construction and review process. Tim brings an extensive background of experience to ATI at the board level whilst also mentoring the process integrity of the ATI investment team and style.

Peter Meichelboeck (Investment Analyst)
Peter is a member of ATI's Portfolio Committee.

He has research responsibility for the Consumer Discretionary, Industrials and Financials sectors.

Peter joined ATI in 2008 as an equity holder and investment team analyst. He has over 15 years stock research experience with various groups including Deutsche Bank, Goldman Sachs JBWere and Bankers Trust, including positions based in London and Frankfurt between 2001 and 2007. Peter is considered essential to the ATI research effort with responsibility for financial modelling, earnings data integrity and company interviews and visits. He also contributes to the ongoing discipline and efficiency of the ATI investment process.

Qualifications: BComm (Finance), LLB, FINSIA Fellow, Series #16

Chris Exall (Quantitative / Investment Analyst)
Chris is a member of the ATI Portfolio Committee.

He has research responsibility for the Consumer Staples and Utilities sectors. Chris also has quant analysis responsibilities for the team.

Chris is an equity holder in ATI and has over 10 years financial markets experience in Australia and the UK. Between 2005 and 2008, Chris was a director of an Australian market-neutral hedge fund ('Saltbush Amalg Fund') with responsibilities including quantitative modelling, portfolio optimisation, system development and risk analysis. From 2002 to 2005 he was a quantitative analyst in equity research for ABN AMRO Australia where he was involved in quantitative analysis as well as the development and marketing of quantitative equity research for institutional clients. Prior to this, Chris spent 4 years in the UK working as a systems engineer in the operations divisions of Deutsche Bank and Morgan Stanley.

Qualifications: BSc, FINSIA Associate

Ben Lyons (Investment Analyst)
Ben is a member of ATI's Portfolio Committee.

He has research responsibility for the Materials and Energy sectors.

Ben is an equity holder in ATI and has over ten years of experience in the finance markets and mining industry and gained in excess of eight years of experience as a highly rated sell-side equities analyst covering the resources sector with Macquarie Securities (as joint Head of Metals and Mining) and Citigroup. At Macquarie, in addition to his experience analysing the large capitalisation resources and gold companies, he was responsible for formulating and communicating investment strategy for investors across the broader resources sector.

Ben has travelled extensively to visit mining operations on most continents, and in 2008 Ben assisted the TSX-listed African mining company Katanga Mining Limited with their Business Development strategy, including responsibility for Investor Relations, spending several months based in Johannesburg and London.

Qualifications: BAcc, FINSIA Fellow, Series 7

Richard Kosmac (Dealer / Analyst)
Richard is a member of the ATI Portfolio Committee.

He has research responsibility for Telecommunications and Information Technology sectors.

Richard has worked for over 9 years as a portfolio manager/dealer at ATI and OneVue and is instrumental in the daily front office management and dealing of the SMA portfolios. Richard is also responsible for ensuring the tax-effective implementation of the investment decisions. He has worked with the ATI team since they began managing the OneVue mandates in December 2005.

Qualifications: Dip Financial Services, Dip Financial Markets

Daniel Deverich (Assistant Analyst)
Daniel is a member of the ATI Portfolio Committee.

He has recently joined the team on a part time basis, in the role as an assistant analyst. He is working with the ATI senior analysts.

Qualifications: BEc(Resource Economics) 4th year.

Details of ATI's Board of Directors

Tim Phillips – Chairman
See profile above

Simon Burge - Executive Director
See profile above

David Liu - Executive Director
See profile above

Michael Cole - Non-Executive Director
Michael Cole is Chairman of Platinum Asset Management, former Chairman and Director of SAS Trustee Corporation (State Super); Director NSW Treasury Corporation; Chairman of IMB Ltd and Chairman Ironbark Capital.

Michael has enjoyed an extremely successful career and has held many prominent positions within the wealth management industry. During his tenure at BT, from 1980 until 1997 he headed the following divisions; Fixed Interest/Capital Markets, Retail Funds Management, Capital Markets/Structured Finance, BT Stockbroking and Equities. In April 2008, Michael authored the Review of NSW Local Government Investments in CDO's (known as the Cole Report).

Harvey Carter - Non-Executive Director (Ascalon Nominee)
Harvey Carter is the Head of Mergers & Acquisitions at Westpac where he has worked since joining the bank in 2004. The M&A team are responsible for originating ideas and executing transactions on behalf of Westpac. The team works on larger strategic transactions and also on smaller opportunities that are considered at the division level. The M&A team works closely with senior executives who are responsible for the relevant business area and the bank's finance and treasury teams providing advice on valuation, negotiations, use of advisors and leading presentations to the Westpac Board.

Transactions advised on include the $18Bn Merger with St.George Bank in 2008, the IPO of BT Investment Management in 2007 (IPO valuation of $770m) and the acquisition of 49% of Hastings Funds Management in 2005 for $86m.Prior to joining Westpac Harvey had five years M&A experience working for Morgan Stanley in the Australian Investment Banking team (Melbourne), US Financial Institutions Group (New York) and Private Equity (Catalyst in Sydney) following the completion of a Bachelor of Arts and Bachelor of Commerce at Melbourne University in 1997.

Andrew Landman -Non-Executive Director (Ascalon Nominee)
Andrew is the CEO of Ascalon. Prior to Ascalon, Andrew worked at Challenger Financial Services Group as the CFO Funds Management and Director of numerous entities within the group. Throughout his time at Challenger he was responsible for various system selections, Unit Pricing, Performance & Attribution, Compliance, Settlements, Reconciliations, Financial Accounting, Legal and Compliance within Funds Management and the setup of Equity stakes in Boutique Partnership businesses.

Andrew joined Challenger from Principal Global Investors where he was Head of Investment Operations, responsible for a team managing the investment operations between Sydney, Chicago and Des Moines Iowa, USA. Prior to Principal, Andrew worked at BT as a Business Manager of Fixed Interest, and originally began managing the Investment Restrictions, Portfolio Accounting and managing the relationship with external custodians.