

# Fact Sheet

## ATI Australian Equity Portfolio

### Information as at 31 August 2010

#### 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/ASX 300 Accumulation Index by 3% p.a. over rolling three-year periods.

#### Performance Update

(\*Returns to 31 August 2010)

	1 Mth (%)	3 Mth (%)	1 Yr (%)	2 Yr (% pa)	3 Yr (% pa)	4 Yr (% pa)	Inception (% p.a.)
ATI Equity Portfolio (gross of fees)	(2.7)	0.0	2.5	3.1	(2.7)	4.2	5.8
S&P/ASX 300 Accumulation Index	(1.1)	0.7	2.1	(3.1)	(7.1)	0.5	2.8
Relative Outperformance	(1.6)	(0.7)	0.4	6.2	4.4	3.7	3.0

\*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 August 2010

Largest Holdings	Portfolio	S&P/ASX300	Sector Allocation	Portfolio	S&P/ASX300
	Weight (%)	Weight (%)		Weight (%)	Weight (%)
BHP Billiton	14.8	11.8	Financials	40.4	38.2
Westpac	7.1	6.2	Materials	26.9	25.5
Commonwealth Bank	6.8	7.4	Consumer Staples	5.3	9.3
NAB	6.7	4.7	Industrials	5.2	6.6
ANZ	6.1	5.5	Consumer Discretionary	5.0	4.2
Telstra	5.0	2.9	Telecommunications	5.0	3.3
Rio Tinto	4.6	2.9	Healthcare	3.7	3.6
Woolworths	3.7	3.3	Energy	2.3	7.2
QBE Insurance	3.5	1.6	Utilities	1.2	1.4
CSL	2.7	1.8	Information Technology	0.0	0.7

### Selected Portfolio Statistics as at 31 August 2010

Inception Date	23-Dec-05	MER (est.)	~ 0.90% p.a.
Number of Stocks	37	Tracking error (forward estimate)	~ 3.5% p.a.
ATI Funds under Management	~ \$470m		

### Relative Portfolio Performance

The ATI Equity Portfolio fell 2.7% in August compared with a fall of 1.1% by the ASX300 Accumulation Index. Against this benchmark, ATI is producing excess return on a 12mth, 2yr, 3yr, 4yr and since inception (December 2005) basis.

### The Best and Worst Performing Sectors

The better performing sectors during August were: Consumer Staples (+5.3%), Property trusts (+2.6%) and Industrials (+2.0%). The worst performing sectors were: Telecommunications (-13.2%), Financials (-4.6%), and Information Technology (-4.5%).

Our monthly performance was negatively impacted by slightly overweight positions in the Financials, Telecommunications and Materials sectors, relatively neutral positions in the Industrials and Consumer Discretionary sectors and an underweight position in the Energy and Consumer Staples sectors.

### Attribution of Stocks

The portfolio performance during August was assisted by overweight positions in Emeco Holdings (EHL), Pacific Brands (PBG) and OMH Holdings (OMH), and by not holding James Hardie Industries (JHX) and Bluescope Steel (BSL). Stocks in the portfolio that contributed to its relative performance during the month included:

**Emeco Holdings (+14.1%)** rose strongly during August after the company's FY10 result of \$41.1m NPAT (pre significant items) came in at the top of guidance (\$40-41m). Importantly, the 2H10 run-rate (NPAT \$27.5m v only \$13.6m in 1H), and the strong improvement in utilisation rates (from 68% average in 2H09, to 70% in 1H10, to 78% in 2H10, to 86% as at 30 June), provides us with a great deal of confidence in our FY11 forecasts of ~40% growth to \$58m. EHL also confirmed that its positively received strategic plan is well advanced with: (i) the US and European closures complete; (ii) significant fleet rationalisation already done with the sale of 245 small civil assets and the full deployment of 44 recently acquired large assets; and (iii) the announcement that EHL will also be exiting the low returning Victorian civil market.

**Pacific Brands (+7.7%)** rallied in August after the company reported a better than expected FY10 result. The key was managements 'Pacific Brands 2010' transformation program being 12 months ahead of plan with ~\$102m of gross benefits realised in FY10 and an expected \$150m of gross benefits to be realised in FY11. The higher Australian dollar also assisted PBG's purchasing power as 80% of its brands are sourced from China in \$US. Focus in FY11 will be on how the company will be able to grow top line sales and generate operating leverage. PBG remains a portfolio holding and is still the most attractive of the consumer discretionary stocks.

**OMH Holdings (+8.2%)** performed strongly in August. A recent increase in purchasing activity by still mills brightened the outlook for the October BHP manganese benchmark price. This coincided with positive developments in other key steel related indices, including higher steel and spot iron ore and a stronger than expected quarterly price settlements for October-December hard coking coal deliveries. Chinese crude steel production remained above 50m tons in July, a level OMH believe will produce strong Mn pricing outcomes. After a disappointing 1H operational performance at the company's Bootu Creek manganese mine, evidence of an expected improvement is awaited in the September production report. Improved yields and rectification of design issues in the secondary processing plant should allow improved production and allow unit costs to fall. Discussions with ConsMin over a potential consolidation of Woodie Woodie and Bootu Creek remain ongoing.

Positions that detracted most from the portfolio's performance during the month were from being overweight Telstra (TLS), BHP Billiton (BHP) and National Australia Bank (NAB), and from not holding Newcrest Mining (NCM) and Wesfarmers (WES) which both outperformed. Stocks in the portfolio that detracted from performance during the month included:

**Telstra (-10.3%)** fell during the month after the reported FY10 results on 12th August which were in line with guidance but shocked the market with FY11 guidance which was expected to be flat. Management guided to "high single digit EBITDA decline" for FY11. Another concern from the result was the acceleration of the loss of fixed line revenue with both a loss in subscribers and call volumes as people continue migrate to mobile only. PSTN revenue decline for FY10 was -5.6% (-3.4% FY09). Telstra has been losing market share due to uncompetitive pricing and poor customer service and to combat this management announced a new strategy to simplify the business with investment of \$800m -\$1bn over FY11. The investment would be for increased focus on customer service, an aggressive marketing plan (after recent price cuts to fixed broadband and mobile) and a revamp of some product lines including the Sensis and Yellow Pages websites. In August the unknown election outcome also caused strain on Telstra due to uncertainty surrounding regulation and the NBN rollout.

**BHP Billiton (-7.7%)** fell during August despite BHP Billiton reported a strong FY2010 profit result of US\$12.7bn, slightly ahead of consensus market expectations, and a 16% increase on underlying earnings in FY2009. The company continued to implement its progressive dividend policy, increasing the final dividend to US45¢/share, and taking the total full year dividends to US87¢/share, a 6% increase versus the US82¢/share of dividends in FY2009. The FY2010 result was underpinned by continued strength in the company's key businesses of iron ore, coking coal, copper, and petroleum, which collectively contributed ~85% of group earnings. However despite this strong result, and expectations of further strong earnings growth of ~60% in FY2011, BHP Billiton underperformed the market during August due to the company announcing a significant US\$40bn cash takeover offer for Potash Corporation of Saskatchewan, Canada. As the dominant global producer of potassium-based fertilizers, Potash Corp represents a key strategic interest in an industry with very attractive characteristics – a highly consolidated supply side, fragmented demand, and a long term growth profile driven by emerging economies which are short the commodity, a structure not dissimilar to the iron ore industry. However after announcing the takeover offer in late August, BHP Billiton underperformed the market due to investor concerns over the significant size of the potential transaction, which would increase BHP's gearing to ~30% over the next year, versus the alternative of implementing capital management initiatives and increasing returns to shareholders.

**National Australia Bank (-7.7%)** was weaker during the month after the release of its 3Q10 trading update with reported quarterly cash earnings of \$1,100m. This figure was weaker than the market had expected and was impacted by a drag on revenue from the mark-to-market of the synthetic collateralised debt obligations (SCDOs) in the specialized assets group. In addition, the Tier 1 capital ratio of 8.79% was 30bp lower than at 1H10. However, on a brighter note, impairment charges again fell in line with market consensus estimates and its net interest margin for the quarter edged up 1bp to 2.27%.

## Portfolio Construction

The ATI portfolio remains fairly neutral with regard to its market capitalisation exposures (vs the ASX300 index) with ~78% of the holdings in the top 50 stocks, ~15% in the next 100 and ~7% in the last 150 stocks. These exposures indicate that ATI does not currently see a great disparity in value between either the larger or smaller capitalisation stocks.

The number of stocks (37) in the portfolio is currently near our maximum of 40. The uncertainty over the Australian Federal election outcome, uncertainty over the revised Government Mining tax (MRRT) and a slower than previously expected global economic recovery have provided a number of potential investment opportunities. Several of these stocks have entered the portfolio in recent months after we had ratified the earnings forecasts and the volume/price assumptions particular to each stock.

## Portfolio Risk

The current forecast tracking error of ~3.1% (range of 2-8%) for the ATI portfolio also reflects the fact that our stock rankings do not currently indicate the need to take on additional risk and move above this forecast level.

As at 31 August, the main sources of portfolio risk are coming from a variety of overweight smaller capitalisation stock holdings including Pacific Brands (PBG), OMH Holdings (OMH), Emeco Holdings (EHL), Mount Gibson (MGX), Panoramic Resources (PAN), PanAust (PNA) and Equinox Minerals (EQN). Larger capitalisation stocks that provide a contribution to portfolio risk include having no holding in Wesfarmers (WES) and an overweight position in Rio Tinto (RIO).

## General Market Commentary

August was a negative month for global equity markets as some weak economic data from offshore again raised the prospect of a potential "double dip" recession emerging in the US later this year. Domestic investors were watching the reporting season which provided little insight from companies into the near-term trading conditions and generally resulted in slight reductions for FY11 earnings forecasts across the analytical community. Also, Australia was left with its first hung parliament for 60 years as the federal election saw neither of the major parties secure an absolute majority of seats, leaving the outcome in the hands of non-aligned MP's. The uncertainty of the result also contributed to the overall negative market sentiment with the ASX300 Accumulation Index finishing the month down 1.1%

The domestic reporting season dominated news flow during August. Headline numbers broadly met analysts' expectations but stock price reactions were muted by outlook statements which included conservative and often no FY11 guidance. Banks stocks reflected this as results and updates indicated margin pressures from funding and reduced growth prospects for the year ahead. Resource stocks fared a little better as the political deadlock appeared to lower the probability of the mining tax being passed and the energy sector outperformed after responding to positive news on a raft of LNG projects. Property trusts were relative out performers after generally releasing in-line results and providing clear guidance for FY11. Telecommunications was the worst-performing sector as Telstra guided earnings expectations for FY11 to be significantly lower.

M&A activity continued in August. BHP announced a US\$43bn (US\$130/share) cash offer for Potash Corporation of Saskatchewan in Canada, while Canadian firm Agrium Inc. (AGU) announced an all-cash offer of \$1.50 per share for AWB – gazumping the previously announced and director-approved merger with GNC.

The outcome of the Federal Election dominated domestic news flow during August. There was still no result at the end of the month with neither major party having sufficient votes in its own right to form a government and both having to negotiate with Independent members. Economic data during August continued to show signs of moderation, except employment growth which remained strong. The RBA left interest rates unchanged at 4.5%. After a brief rally, the AUD was weaker with the election uncertainty, finishing the month at 88.8¢ (-1.7¢). Surprisingly, a reduction of risk appetite tended to support the USD in spite of concerns over the speed of recovery in US economy.

Crude oil fell 8.9% in August, reflecting the weakening sentiment on the global economy and evidence of higher than expected US stockpiles. US inventories of petroleum products reached a new high of 1.14bn barrels during the month and distillate stocks rose to their highest level since 1983. As risk appetite reduced over the month, spot gold had its biggest monthly gain since April (+5.4%) and regained the \$1200 mark that it yielded in July. Gold held by recorded exchange-traded funds rose to a new all-time high of 66.85 million ounces. Spot iron ore continued the bounce that it began in July but faded towards the end of the month as BHP in its results statement said that "with global steel production running ahead of real demand in the quarter ended June 2010, we expect output to soften" and Chinese inventories fell back from their end-July high. Base metal prices in August were mixed with copper rising +2.1% and zinc up +1.8%, but aluminium was weaker and fell -3.9%.

## Outlook

ATI feels that there still exists the potential for some further downward earnings revisions for FY11 forecasts post the August reporting season. Stocks leveraged to an improving domestic economy and consumption are expected to have better outlooks than those stocks leveraged to the US and European economies. The number of potential investment opportunities ATI is identifying in the resource sector remains increasingly linked to sentiment towards the overall global recovery story and China (with any shift to a pro-stimulus policy setting expected to be viewed positively). Regarding financials, sentiment towards the banks will continue to be impacted by news on increased funding costs and limits to credit-growth that the major banks can achieve over the next few years.

ATI's relative value process is still identifying some attractive opportunities, particularly in stocks where operating leverage may emerge during our three year forecast period. Those stocks whose share prices have rallied excessively in anticipation of the expected simultaneous global economic recovery remain the standout risks over the course of the next quarter as signs of earnings growth are now required to provide the next upward phase in equity markets.

# PORTFOLIO RISK SUMMARY

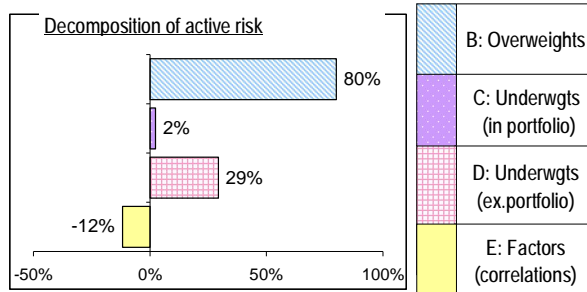
Portfolio Name:	<b>MyPort</b>
Benchmark:	ASX300
Date of Data:	31-Aug-10
Timestamp of analysis:	9/2/2010 10:15:24 AM

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

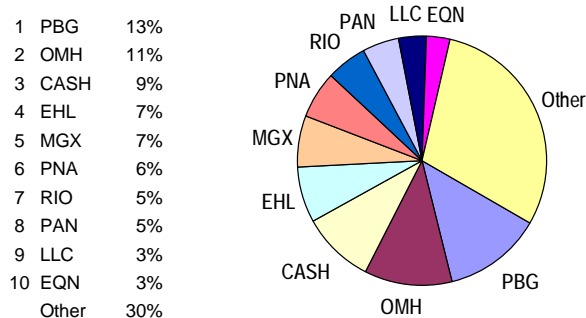
Historic portfolio alpha **8.5%** Active Exposures:  
 Historic portfolio beta **1.02** Held: 44.3%  
 Raw return **4.8%** Total: 82.7%

Forecast Tracking Error	<b>3.08 %</b>	<b>3.09 %</b>
	(residual risk)	(active risk)

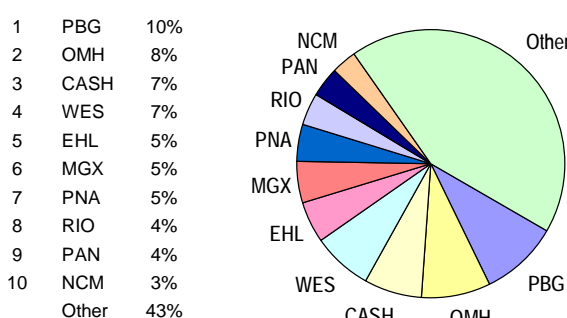
Source of portfolio risk	contribution to active portfolio risk	standard deviation	variance / covar.
A Stocks held in portfolio (B+C)	82%	2.8	7.9
B Overweight positions	80%	2.8	7.7
C Underweight positions	2%	0.5	0.2
D Stocks not held in portfolio	29%	1.7	2.8
E Factors (correlations between stocks)	-12%		(1.1)
F Total (A + D + E)	100%	3.1	9.6
G Systematic risk (undiversifiable)		0.3	0.1
H Residual risk definition tracking error (G - F)		3.1	9.5



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



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



Active Weights

