



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).

Ascalon Capital Managers Ltd (Ascalon) (100% owned by Westpac), is a boutique funds management incubator and a 37% 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 broad investment philosophy is that structured and disciplined active management of its portfolios is the key to consistent and risk controlled outperformance. 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 broadly be characterised as:

- § Active with a contrarian approach
- § Bottom up using conservative assumptions
- § Long term investment horizon
- § Low turnover
- § Focused on buying stocks identified as relatively undervalued
- § Broad coverage – large to small capitalisation stocks
- § High targeted alpha from benchmark out-performance
- § Process driven, disciplined methodology in stock selection and risk management
- § Intensive use of technology to identify specific areas for value-add research

ATI's competitive advantage

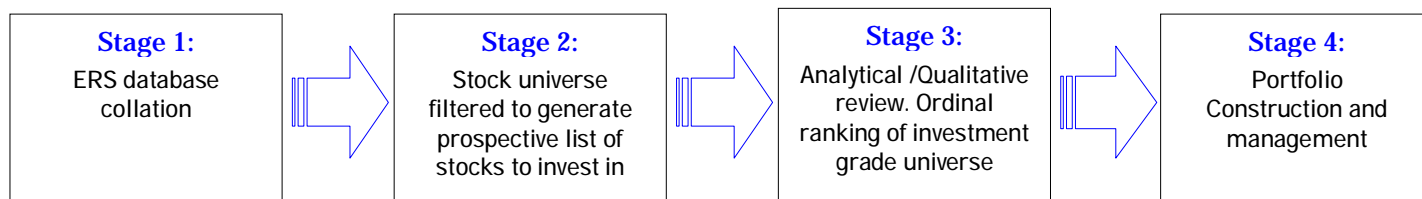
ATI sees its competitive advantage as being able to add value for clients by portfolio out-performance that arises from adding alpha (expected benchmark out performance) subject to appropriate risk constraints. Given its disciplined investment process, in-built risk controls and client management systems, 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

The ATI investment process utilises relative value in the selection of the most attractive ranked stocks combined with an analytical portfolio overlay to ensure adequate diversification and risk control. ATI's proprietary Equity Ranking System (ERS) produces an ordinal ranking of a universe of investment grade stocks available for portfolio inclusion.

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, (a more detailed IFSA questionnaire is available upon request).



Stage 1: ERS Data Collation

The data collation stage involves updating individual stock data held within the ERS. The data comes from the following sources:

- § **ATI research models:** provide internal forecast earnings, dividend and valuation data on companies researched by the ATI analysts.
- § **Thompson Financial Data:** provides updated consensus earnings and broker history databases (IBES).
- § **Stock broker databases:** A panel of 14 stockbrokers provides ATI their research databases in electronic form on a weekly basis.
- § **IRESS:** provides the live ASX pricing feed, historical market and company data, and GICS sector and stock index weightings.

Stage 2: Universe Filtered

ATI's initial universe is the S&P/ASX 300 Index, and other companies added by the investment team in specific circumstances (eg. new floats). Stage 2 filters the initial universe to derive a prospective grade stock universe based on:

Minimum Liquidity Test

A liquidity test filter (based on turnover and target weighting) is applied to all stocks in the initial universe to ensure a stock has sufficiently liquidity in order to be considered investment grade.

Minimum Market Capitalisation Test

ATI removes all those stocks from the initial universe where the market capitalisation is less than \$100m. Stocks below this minimum threshold can only be considered investment grade by the investment team if ATI has an internal financial model that supports the forecast return.

Minimum Earnings Test

ATI removes all those stocks from the initial universe where there is more than one negative EPS year in the forecast period (3 years) used for valuation purposes.

Minimum Earnings Source Test

ATI removes all those stocks from the initial universe where there are less than three earnings data sources. Three data sources (including ATI models) provide ATI analysts with an indication of the earnings dispersion of the earnings forecasts for the company.

Stage 3: Stocks ranked using the ERS

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 reviewed 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 based on the chosen earnings source (consensus, broker or ATI) from which scenario analysis is conducted enabling the analyst to determine the impact on EPS when changing factors such as: Sales growth; EBIT margin; Tax rate; D&A / Sales, Net capex / Sales; Inventory / Sales; Receivables/ Sales; Payables /Sales; net interest, Commodity price and FX assumptions. An example of this model template for Corporate Express (CXP) has been included as an attachment.

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.

Stage 4: Portfolio Construction

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

Andrew Davidson (Analyst)

Andrew joined the ATI investment team in August 2007 as an assistant analyst. His role includes financial modelling and sector analysis for the Portfolio Committee.

He has assistant research sector responsibility for Materials and Energy sectors.

Qualifications: BComm (3rd yr)

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.

Nelson Lam - Alternate Ascalon Director

Nelson is an Alternate Director of ATI Asset Management Limited. Nelson has over 15 years experience in Corporate Finance, Private Equity, Venture Capital and Marketing. Since 2005, Nelson have started up, commercialise and grown numerous boutiques fund management businesses. He previously worked for the Commonwealth Bank of Australia (where he implemented Asian Private Banking), BOC Gases and SingTel Optus as the Group Marketing Manager for IP Convergence. His experience includes a successful track record in mergers and acquisitions, developing new businesses and launching financial and telecommunication products.

Nelson is also a Director of Continuum Capital Management, TPC Services Australia Pty Limited and an Alternate Director of H3 Global Advisors Pty Limited, Direct Portfolio Group Limited, MillhouseIAG Pty Limited, Alleron Investment Management Limited and Direct Portfolio Pty Limited.

Nelson's qualifications include a Bachelor of Economics, majoring in Corporate Finance from Macquarie University, Masters of Commerce from the University of New South Wales and a Graduate Diploma in Applied Finance and Investments. He is Senior Associate of Financial Services Institute of Australasia (SA Fin) and a member of the Australian Institute of Company Directors (MAICD).

Research Responsibilities and Contact List

GICS Sector	GICS Industry	Analyst	Back-up
Consumer Discretionary	Automobiles and Components	DL	PM
	Consumer Durables and Apparel	DL	PM
	Consumer Services	PM	RK
	Media	PM	DL
	Retailing	DL	PM
Consumer Staples	Food and Staples Retailing	DL	CE
	Food Beverage and Tobacco	CE	DL
Energy	Energy	BL	AD
Financials	Banks	SB	DL
	Diversified Financials	DL	SB
	Insurance	PM	SB
	Real Estate	SB	PM
Health Care	Health Care Equipment and Services	DL	CE
	Pharmaceuticals and Biotechnology	DL	CE
Industrials	Capital Goods	PM	DL
	Commercial and Professional Services	PM	DL
	Transportation	DL	PM
Information Technology	Semiconductors and Semiconductor Equipment	RK	CE
	Software and Services	RK	CE
Materials	Materials	BL	AD
Telecommunication Services	Telecommunication Services	RK	PM
Utilities	Utilities	CE	AD

SB	Simon Burge	Chief Investment Officer	(02) 8259-7505	simon.b@atiam.com.au
DL	David Liu	Head of Research	(02) 8259-7555	david.l@atiam.com.au
PM	Peter Meichelboeck	Investment Analyst	(02) 8259-7599	peter.m@atiam.com.au
CE	Chris Exall	Quantitative / Investment Analyst	(02) 8259-7522	chris.e@atiam.com.au
BL	Ben Lyons	Investment Analyst	(02) 8259-7515	ben.l@atiam.com.au
RK	Richard Kosmac	Dealing and Implementation / Investment Analyst	(02) 8259-7570	richard.k@atiam.com.au
AD	Andrew Davidson	Assistant Analyst	(02) 8259-7577	andrew.d@atiam.com.au

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