

Investment Objective

The aim of the **VIP Australian Shares Leaders Portfolio** is to provide investors with investment income and capital growth in excess of the S&P/ASX 100 Index over the long term from investment in a portfolio of large capitalisation (cap) Australian shares.

The portfolio invests in 15 to 30 Australian shares within the S&P/ASX 100 index that have been selected via a Quantitative and Qualitative screening process. This process aims to short list companies that are transparent and easy to understand, run by good management, priced below their valuation, &, display attractive growth prospects.

Performance Review

The VIP Australian Share Leaders portfolio generated a 5.86% return for the month and -2.84% over the quarter to 31/07/13.

The portfolio outperformed the S&P/ASX 100 index over the month by 0.90%, but underperformed over the quarter by 0.95%.

Over the last year the portfolio has generated a 20.24% return pre-fees against the index return of 24.95% over this period.

The post-fees returns for the *Investment* and *Superannuation & Pension* portfolios are shown in the table below.

Investment Growth

Time Period: 30/06/2011 to 31/07/2013



—VIP Australian Share Leaders

Trailing Returns

As of Date: 07/31/2013

	1 Month	3 Month	6 Month	1 Year	2 Years	Since Inception
VIP Australian Share Leaders	5.86	-2.84	2.87	20.24	9.70	7.91
VIP Aust Share Leaders Investment	5.73	-3.17	2.19	18.63	8.22	6.46
VIP Aust Share Leaders Super-Pension	5.78	-3.03	2.47	19.28	8.82	7.05
S&P/ASX 100 TR	4.96	-1.89	6.57	24.95	13.16	10.06

Performance Contributors & Detractors

During July all of the sectors of the Australian share market posted positive returns apart from the Telecommunications sector.

The worst performing sector was the Information Technology sector with a -0.13% return for the month followed by the Consumer Staples +1.10% and Utilities +2.67% sectors. Materials were the best performing sector with a +9.32% return for July followed by the Financials +6.35% and Energy 5.95% sectors.

The **Top 3 Contributors** for the month were Myer Holdings +12.61%, Santos Ltd +9.10%, and Woodside Petroleum +7.37%.

Whereas the **Top 3 Detractors** for the month were Sonic Healthcare -3.38%, Fairfax Media -3.03%, and Wesfarmers Ltd +2.42%.

**Month in Review - Economic & Market Commentary**

Economic news in July was again dominated by speculation of when the US Federal Reserve will cut or taper stimulus, however, the markets took this speculation in their stride in July as Australian share market rose 5.4% and the index measuring global share market growth (ex Australia) also rose by 7.4% in Australian dollar terms.

These movements are possible hinting that the markets are focusing on the fundamentals and are starting to see that a tapering of stimulus in the US means the US economy is improving.

AMP Capital have reported US economic data to support this recovery view including a rebound on manufacturing activity in the US, a reduction in Unemployment claims, and increases in US house prices that help boost household wealth and consumer confidence. At the same time household and corporate debt levels have also fallen adding to this confidence.

This recovery is not only occurring in US households as corporate profits have also increased not only in the US, but also in Europe and Japan. AMP Capital have reported that 74% of US corporates have exceeded analysts' profit expectations. Europe and Japan have recorded similar results with 72% and 56% of corporates in these respective countries also exceeding analysts' profit expectations. Looking at these numbers the cynic may say that profit has been increased by measures such as cost reduction that are not related to increasing activity or output, however, in each of these economies over 50% of companies have exceeded analysts' sales revenue estimates illustrating that a major reason for these profit increases have been new sales – a positive signal for consumer and business confidence within these economies.

Looking more closely at Europe we can see an increase in the manufacturing activity for the first time in 2 years. Similarly there was an increase in services business activity in July all pointing towards a positive European economic growth result in the current quarter.

In a recent blog post on our website we discussed the stimulus measures in Japan and finished by posing 2 scenarios for Japan whether the stimulus measures work or fail. A recent report by AMP Capital has shown that these measures are starting to work with profit growth among Japanese businesses reaching 8% compared to 7% in Europe and 3% in the US. *Could 'Abenomics' (coined after Japanese PM Shinzo Abe) be working in Japan?*

All this data points to a continued recovery and growth picture for 2013 and heading into 2014. This period of growth won't be without its speed-bumps, such as when the US Fed announces a stimulus tapering plan, however, can be sustained with a continued improvement in economic, corporate, and confidence fundamentals.

Portfolio Holdings & Adjustments**VIP Australian Share Leaders - Holdings**

Portfolio Date: 31/07/2013

	Ticker	S&P Sector	Total Ret 1 Mo (Mo-End)	Total Ret 3 Mo (Mo-End)	Total Ret 1 Yr (Mo-End)	Dividend Yield % TTM
Myer Holdings Limited	MYR	Consumer Discretionary	12.61	-16.51	56.83	6.91
Westpac Banking Corp	WBC	Financials	6.96	-5.77	40.91	5.38
Bendigo And Adelaide Bank Ltd.	BEN	Financials	6.06	-3.44	37.56	5.92
Wesfarmers Ltd	WES	Consumer Staples	2.42	-6.48	29.73	4.49
Australia and New Zealand Banking Group Limited	ANZ	Financials	4.13	-4.24	32.88	5.09
Telstra Corp Ltd	TLS	Telecommunication Services	4.61	0.20	31.75	5.74
Ramsay Health Care Limited	RHC	Health Care	2.85	15.13	57.95	1.86
Twenty-First Century Fox Inc DR	FOX	Consumer Discretionary	4.86	9.16	48.61	0.43
Woodside Petroleum Limited	WPL	Energy	7.37	0.08	16.93	4.08
Ansell Limited	ANN	Health Care	5.16	17.34	41.64	1.32
Sonic Healthcare Limited	SHL	Health Care	-3.38	7.92	17.08	3.15
Lend Lease Corporation Limited	LLC	Financials	5.03	-18.65	12.07	3.19
Santos Ltd	STO	Energy	9.10	10.69	29.95	2.04
UGL Ltd	UGL	Industrials	5.20	-27.63	-39.19	4.66
RBA Bank accepted Bills 90 Days			0.23	0.70	3.08	
Fairfax Media Ltd.	FXJ	Consumer Discretionary	-3.03	-26.15	-4.76	3.54

Source: Morningstar Direct



Portfolio Adjustments

In July the *VIP Investment Committee* elected to add further defensive holdings to the portfolio by selling BHP Billiton and Leighton Holdings, and adding Twenty-First Century Fox (the pay TV and movie arm of the old News Corp), Ramsay Healthcare, and Ansell Limited.

This further reduces resource sector exposure, and adds exposure to companies that are not dependant on global economic growth to maintain and grow earnings.

Sector Exposure

The portfolios largest sector exposure is to Financial Services, followed by Healthcare, Consumer Discretionary, and Energy.

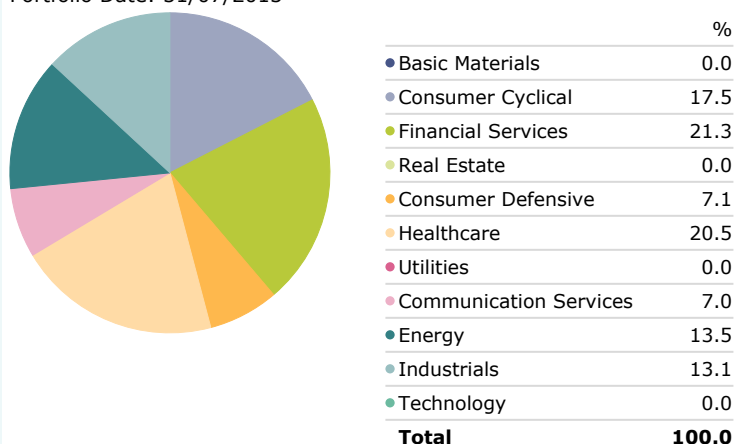
Although the portfolios sector exposure to Materials is 0.0% there is some mining exposure that has been maintained via other companies that have some mining or mining services operations.

The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while defending the portfolio against global economic shocks or surprises that can affect commodity prices and returns of sectors such as the Materials sector.

A complete Equity Sector chart is included on the right.

VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/07/2013



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