

### 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 4.07% return for the month and 6.14% over the last 3 months.

The portfolio outperformed the S&P/ASX 100 index in both periods by 1.59% and 0.75% respectively. This has been due to the low weighting to the Resources sector and the overall defensive allocation of the portfolio.

Over the last year the portfolio has generated a 23.56% return pre-fees.

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 31/08/2013



### Trailing Returns

As of Date: 31/08/2013

	1 Month	3 Month	6 Month	1 Year	2 Years	Since Inception
VIP Australian Share Leaders	4.07	6.14	1.43	23.56	13.78	8.59
VIP Aust Share Leaders Investment	3.95	5.78	0.74	21.91	12.25	7.13
VIP Aust Share Leaders Super-Pension	4.00	5.93	1.02	22.58	12.87	7.72
S&P/ASX 100 TR	2.48	5.39	3.36	25.43	15.67	10.13

### Performance Contributors & Detractors

During August all of the sectors of the Australian share market posted positive returns.

The best performing sector was the Consumer Discretionary sector with a +5.51% return for the month followed by the Energy sector with a +5.38% return. Telecommunications was the worst performing sector with a +0.83% return followed by the Financials sector with a +1.14% return.

The portfolios overweight position to the Consumer Discretionary and Energy sectors and underweight position to the Financial Services and Telecommunications sectors compared to the ASX 100 index contributed to performance, whilst the 0% weighting to the materials sector has not affected performance.

Within the portfolio the **Top 3 Contributors** for the month were Fairfax Media +13.54% Sonic Healthcare +10.55%, and Santos Ltd +10.24%.

Whereas the **Top 3 Detractors** for the month were Bendigo & Adelaide Bank -2.47%, ANZ Bank -0.24%, and Telstra +1.00%.

## Month in Review - Economic & Market Commentary

In a blog post written in June 2013, *More Soup Anyone?*, we discussed the reasons for the market volatility at the time based on the expectation by the market that the US Federal Reserve (US Fed) would pull back its stimulus (money-printing) program based on the underlying strength of the recovering US economy.

Right now we're at what many believe is the cusp of that decision by the US Fed as they meet Wednesday night our time to determine whether to start the first reduction in the pace of monthly money-printing and bond purchases (QE3) it introduced in September 2012.

*In past blog posts also discussed our concern with the effect that this tapering of QE3 could have on capital values of bonds and we have taken significant steps to ensure that we minimise and eliminate any losses that could occur in our bond portfolio by holding shorter term (duration) bonds. This is also the primary reason why there is a significant amount of cash within the portfolios.*

So the short-term strategy to protect the portfolios upon a tapering of the US Fed's stimulus (money-printing) program is in place, but if we take a step back and have a look at the broader global economy what effect could the current forces have on the global economy and global markets?

Currently there are both some significant positives and negative forces that could affect markets. The positive forces include a growing US economy, first signs of growth in the Eurozone (principally Germany and France), an apparent soft-landing for the Chinese economy at 7.5% growth, and solid growth and low debt to GDP data in Emerging Markets like Mexico, South America, and Korea. On the other hand, the negative ledger we have a cessation of US stimulus as discussed above, German elections this year, continued weakness in Italy, Spain, and Greece, and the continued geo-political situation in the Middle East.

**The BIG question is whether the tapering of the US Fed's stimulus (the most significant negative force) will take the wind out of the sails of the growing global economy and global markets.**

The US Fed's stimulus or money-printing program puts money (or liquidity) into the system. This is the same as the Bank of Japan's stimulus program or low interest rates in Europe, the UK, Australia, and many other countries. It is this liquidity that is used to fund growth and investment - exactly what's needed to kick start the global economy.

Many commentators believe that there won't be a liquidity issue upon the US slowing their stimulus program as monetary and fiscal policy around the world is very accommodating (i.e. stimulus in Japan and low interest rates everywhere else). In addition, many countries have built huge foreign currency reserves during this period of stimulus as reported by Franklin Templeton Investments. It is expected that over the short-term the decision to slow QE3 will lead to greater volatility, but over the medium-term this reduction in the money supply won't affect the momentum of global growth.

Our Investment Committee is also of this view; however, we are taking steps to reduce risk in our portfolios to cushion our investors upon short-term volatility. The first of these steps is by holding cash and shorter term (duration) bonds within the defensive asset classes. Step 2 includes selecting defensive Australian shares within the Australian share portfolio that are not directly linked to global growth and commodity price fluctuations - names like Westfarmers (Coles and Bunnings), ANZ, Westpac, Lend Lease, etc... And thirdly, our global share position is focused on large multi-national grand names and includes some emerging market and alternative asset exposure.

Our approach to portfolio construction has meant that our level of risk (measured by standard deviation) in the VIP growth, VIP Balanced, and VIP Conservative portfolios is 28 -30% less than our benchmark targets. In addition, the reward (or performance) for every unit of risk that we take is greater for our diversified portfolios compared to our benchmarks. In short, our portfolios are giving investors a smoother ride in these dynamic and volatile times.

## Portfolio Holdings & Adjustments

### VIP Australian Share Leaders - Holdings

	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	2.61	12.24	47.74	7.01
Sonic Healthcare Limited	SHL	Health Care	10.55	11.17	21.71	3.65
Twenty-First Century Fox Inc DR	FOX	Consumer Discretionary	6.97	5.03	55.71	0.54
Lend Lease Corporation Limited	LLC	Financials	9.24	-4.39	16.47	3.56
Wesfarmers Ltd	WES	Consumer Staples	2.79	6.24	23.00	4.33
Ansell Limited	ANN	Health Care	5.93	13.92	30.29	1.55
Westpac Banking Corp	WBC	Financials	1.62	10.37	33.99	5.23
Santos Ltd	STO	Energy	10.24	15.21	35.53	2.00
Woodside Petroleum Limited	WPL	Energy	4.01	8.63	17.60	4.02
Telstra Corp Ltd	TLS	Telecommunication Services	1.00	6.33	34.55	5.71
Ramsay Health Care Limited	RHC	Health Care	1.41	8.04	52.55	1.95
Australia and New Zealand Banking Group Limited	ANZ	Financials	-0.24	7.81	25.75	4.95
Bendigo And Adelaide Bank Ltd.	BEN	Financials	-2.43	5.47	41.42	5.97
UGL Ltd	UGL	Industrials	2.47	4.92	-25.70	4.15
RBA Bank accepted Bills 90 Days			0.22	0.68	3.00	
Fairfax Media Ltd.	FXJ	Consumer Discretionary	13.54	-12.10	34.52	3.60

Source: Morningstar Direct

## Portfolio Adjustments

The *VIP Investment Committee* did not make any changes to the portfolio in August.

## Sector Exposure

### Sector Exposure

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

The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current defensive allocation while taking positions in sectors that will benefit from global economic growth such as Energy, while maintaining a 0% weighting to the Materials (Resource) sector due to short-term fears on the effect that poor growth numbers or a tapering of US stimulus could have on commodity prices and the stock prices of companies within this sector.

A complete Equity Sector chart is included on the right.

### VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/08/2013



	%
● Basic Materials	0.0
● Consumer Cyclical	17.8
● Financial Services	20.4
● Real Estate	0.0
● Consumer Defensive	7.0
● Healthcare	20.8
● Utilities	0.0
● Communication Services	6.8
● Energy	13.8
● Industrials	13.3
● Technology	0.0
<b>Total</b>	<b>100.0</b>

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