

### 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 -3.66% return for the month and 0.20% over the last 3 months.

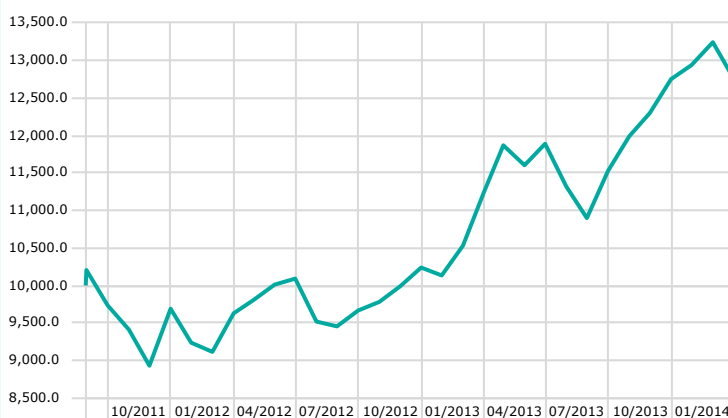
The portfolio underperformed the S&P/ASX 100 index in January by 0.64%, however, outperformed over the last 3 months by 3.57%.

Over the last year the portfolio has generated a 14.23% 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 31/01/2014



—VIP Aust Share Leaders Super-Pension

### Trailing Returns

As of Date: 31/01/2014

	1 Month	3 Month	6 Month	1 Year	2 Years	Since Inception
VIP Australian Share Leaders	-3.66	0.20	11.04	14.23	16.00	9.88
VIP Aust Share Leaders Investment	-3.77	-0.14	10.29	12.70	14.44	8.40
VIP Aust Share Leaders Super-Pension	-3.72	0.00	10.60	13.32	15.08	9.00
S&P/ASX 100 TR	-3.02	-3.37	5.30	12.21	16.62	10.07

### Performance Contributors & Detractors

During January all of the sectors of the Australian share market posted negative returns apart from the Health Care sector.

The Health Care sector post a +0.27% return for the month followed by the Telecommunications sector with a -1.92% return, Materials sector with a 1.99% return, Information Technology, Industrials, Consumer Staples, Energy, Consumer Discretionary, and finally the Financial Services sector with a -4.66% return for the month.

From a sector allocation perspective over the quarter the higher allocation of the portfolio to the Consumer Discretionary, Health Care, and Telecommunications sectors along with a lower allocation of the portfolio to Consumer Staples and Utilities sectors *contributed* to performance; whereas, a higher allocation of the portfolio to the Energy and Industrials sectors along with a lower allocation of the portfolio to Financial Services and technology *detracted* from performance.

From a stock perspective the **Top 3 Contributors** for the month were Ramsay Healthcare +1.39%, James Hardie Industries -0.31%, and Sonic Healthcare -0.42%; and the **Top 3 Detractors** for the month were Ansell Limited -7.26%, ANZ Bank -6.52%, and Lend Lease Corporation -5.48%.

### Two Sides to Every Story

Following from a volatile January markets have continued to rally upon a positive US and local reporting season even with continued reduction in US monthly stimulus, mixed economic data, and some negative local news regarding the car manufacturing sector in Australia and notable companies such as Qantas.

Investors are understandably confused and concerned about the trajectory of stock prices with many markets approaching and moving beyond 'fair-value' and entering the 'over-valued' range. If these returns are expected to continue over the course of the year the state of the Chinese economy is one of the most important factors we need to carefully watch.

However, as is usually the case there are always two sides to any China economic story....

#### So what's happening in China?

In a previous post we discussed the plan the Chinese Government has mapped out to boost internal consumption and reduce China's reliance on exports. In doing so Premier Li Keqiang is trying to maintain growth of the Chinese economy above a 7% baseline while reducing the growth of debt and increasing employment.

The challenge Premier Li has in achieving these targets is that Chinese manufacturing activity has slowed over the last month. The Purchasing Managers' Index figure has been above the figure that indicates growth of manufacturing, however, the February result was just above this benchmark and has been falling over recent months.

Bloomberg reports that this slowdown in manufacturing activity is due to the Government's stance in curbing the growth of debt (or credit) which is reducing the investment in infrastructure and real-estate development. However, commentators such as Louis Kuijs, chief China economist at Royal Bank of Scotland Plc in Hong Kong, say that this 7% growth target can be maintained amidst a slowdown in manufacturing activity as the Government has the ability to introduce pro-growth policy settings such as maintaining low interest rates.

#### Positive or Negative?

Although these pro-growth policy setting would push back the reforms the Chinese Government has targeted to transform the economy to a more sustainable economy not as reliant on the rest on the rest of the world, there are signs that these reforms have already had an effect.

Bloomberg reports that Chinese economic growth will slow to 7.5% this year down from 7.7% in 2013 and highlights that this is the lowest growth rate since 1990. Clearly the Governments work to reduce the growth of debt funding, curb overcapacity that could lead to inflation, and shift from an economy dependant on the rest of the world buying Chinese products to one where the Chinese consumer is king are working. And although these policies are slowing Chinese growth economic commentators believe these transformations are required to protect the Chinese economy from global shocks.

This is supported by news from BlueScope Steel, Australia's biggest steelmaker, that demand for industrial buildings and construction products in China is falling as steel shipments from BlueScope fell 7 percent in China in the six months to December compared to the previous year as reported by Bloomberg.

So yet again there are two sides to this story with initial concern that a slowdown in Chinese manufacturing is pointing to a reduction in economic growth for the world's second largest economy, while on the flip side this slowdown is a direct result of the Government's efforts to transform the economy to a more stable and self-sufficient China.

## Portfolio Holdings & Adjustments

### Australian Share Leaders - Holdings

As of Date: 31/01/2014

	Total Return 1 Mo (Mo-End)	Total Return 3 Mo (Mo-End)	Total Return 6 Mo (Mo-End)	Total Return 1 Yr
Ansell Limited	-7.26	-1.64	4.57	13.87
Australia and New Zealand Banking Group Limited	-6.52	-8.46	4.09	19.32
Bendigo And Adelaide Bank Ltd.	-1.28	6.42	11.86	33.53
BHP Billiton Ltd	-3.74	-2.89	7.48	0.93
Crown Resorts Ltd	-1.01	-1.13	31.11	46.64
James Hardie Industries PLC DR	-0.31	18.89	40.64	33.04
Lend Lease Corporation Limited	-5.48	-7.63	22.50	5.27
Myer Holdings Limited	-8.00	1.20	-2.75	8.20
Ramsay Health Care Limited	1.39	13.04	20.42	51.52
Sonic Healthcare Limited	-0.42	2.29	18.16	25.62
Telstra Corp Ltd	-2.10	-0.77	5.94	18.45
Twenty-First Century Fox Inc DR	-8.15	-1.48	7.64	30.90
Wesfarmers Ltd	-4.63	-3.47	4.93	15.41
Westpac Banking Corp	-4.66	-7.31	2.89	16.77
Woodside Petroleum Limited	-3.91	-3.71	1.85	11.57
S&P/ASX 100 TR	-3.02	-3.37	5.30	12.21

Source: Morningstar Direct

## Portfolio Adjustments

The *VIP Investment Committee* sold Myer in January to take profits ahead of a weak retail sales period and Twenty-First Century Fox ahead of its upcoming vote to delist the company from the ASX and list only on the US Nasdaq.

*VIP Investment Committee* bought mining giant Rio Tinto, Macquarie Bank to increase exposure to Financial Services and corporate activity, and share market registry company Computershare as it continues its expansion into the US and Europe and also benefits from corporate activity.

## Sector Exposure

### Sector Exposure

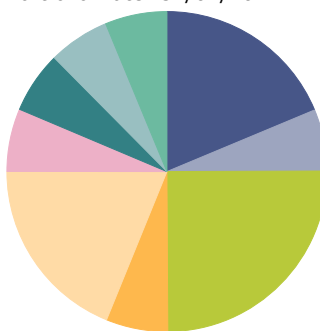
The portfolios largest sector exposure is to the Financial Services sector after adding of Macquarie Group to the portfolio in January. This is sector closely followed by the Healthcare and Consumer Discretionary sectors.

The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

### VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/01/2014



	%
Basic Materials	18.7
Consumer Cyclical	6.2
Financial Services	25.0
Real Estate	0.0
Consumer Defensive	6.2
Healthcare	18.9
Utilities	0.0
Communication Services	6.3
Energy	6.2
Industrials	6.2
Technology	6.2
<b>Total</b>	<b>100.0</b>

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