

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 -0.05% return for the month and 1.81% over the last 3 months. The portfolio underperformed the S&P/ASX 100 index in August by 0.55% and 1.54% over the quarter.

Over the last year the portfolio has generated a 18.62% return pre-fees outperforming the ASX100 index by 3.89%.

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 31/08/2014



Trailing Returns

As of Date: 31/08/2014

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	Since Inception
VIP Australian Share Leaders	-0.05	1.81	6.04	18.62	21.06	15.37	11.66
VIP Aust Share Leaders Investment	-0.17	1.46	5.32	17.03	19.44	13.82	10.16
VIP Aust Share Leaders Super-Pension	-0.12	1.60	5.61	17.67	20.10	14.45	10.77
S&P/ASX 100 TR	0.50	3.35	6.44	14.73	19.96	15.36	10.31

Performance Contributors & Detractors

During August sector returns of the Australian share market were mixed.

The best performing sector was the Healthcare sector with a +6.58% return for the month followed by the Telecommunications and Energy sectors. The worst performing sectors were led by the Materials (Mining) sector with a -3.74% return for the month followed by the IT and Consumer Staples sectors. This is consistent with the Contributors and Detractors results below.

Over the last 3 months the higher allocation of the portfolio to the Healthcare, Consumer Discretionary, Telecommunications, and Energy sectors along with a lower allocation of the portfolio to Consumer Staples, Financial Services, and Utilities sectors **contributed** to performance; whereas, a higher allocation of the portfolio to the IT, Materials, and Industrials sectors **detracted** from performance.

The **Top 3 Contributors** for the month were Ramsay Healthcare +7.38%, Ansell Limited +5.81%, and Lend Lease Group +5.30%. The **Top 3 Detractors** for the month were James Hardie Industries -6.36%, BHP Billiton -5.20%, and Computershare -5.17%.

Month in Review - Economic & Market Commentary

Help Me, Help You...

Glen Stevens, the head of the Reserve Bank of Australia (RBA), had a Jerry Maguire moment (remember the 1996 movie starring Tom Cruise?) when he essentially said **Help Me, Help You** to the House of representatives Standing Committee on Economics on the 20th of August.

OK... he didn't say those exact words, but he was making the point that the RBA has done all it can in easing monetary conditions with low interest rates and now he is looking for Australian corporations to regain their "Animal Spirits" towards their attitude to investment.

He said "... the thing that is most needed now is something monetary policy can't directly cause: more of the sort of 'animal spirits' needed to support an expansion of the stock of existing assets (outside the mining sector), not just a repricing of existing assets". Essentially he is saying that businesses outside of the mining sector need to invest and add value to their asset bases and not just enjoy a rise in the price of their existing share (asset) prices.

He goes on to say "Nonetheless, if reports are to be believed, many businesses remain intent on sustaining a flow of dividends and returning capital to shareholders, and less focused on implementing plans for growth" as companies remain cautious about the future. He also made the statement recently that investors are going to start asking companies not about their cost cutting program, but about their investment and growth program.

The RBA Governor has been making these statement as capital expenditure and investment levels (outside of the mining sector) are at very low levels and will need to increase to support the continual rise in share prices.

What are companies doing with this cash? During the recent reporting season just passed CommSec analysis showed that 76% of companies that reported full year results announced to either maintain or increase dividends above the levels announced at interim or full-year reporting seasons over the last 5 years. This dividend increase equated to an 11.2% rise for ASX 200 companies that reported full-year earnings.

So companies are not sitting on the funds in cash (which is good), and not investing for the future (which is not so good), but are paying out in dividends to keep us shareholders happy.

All in all reporting season was positive with revenue for the ASX 200 companies that reported up 4.1% in total and expenses up 3.2%. Most importantly there was a 31.4% increase in net profit, and this was not confined to the largest companies (in terms of capitalisation) as when BHP, Telstra, Commonwealth Bank, Wesfarmers and News Corp is excluded from the figures the profit increase was 61.5% in aggregate.

So it will be interesting to see when these companies will start to fire-up their investment cycles and projects, which as Glen Stevens says is needed to drive the economy along with the loose monetary policy conditions. From an investors perspective this is also vital as this increased investment will result in better valuations for our Australian listed companies based on growing asset bases and not just growing share prices.

Source: ComSec, Business Insider.

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 (Qtr-End)	Dividend Yield % TTM
BHP Billiton Ltd	BHP	Materials	-5.20	-0.92	18.56	3.75
Lend Lease Group	LLC	Financials	5.30	6.64	62.04	4.89
Bendigo And Adelaide Bank Ltd	BEN	Financials	0.24	8.95	27.31	5.24
Woodside Petroleum Ltd	WPL	Energy	3.22	4.07	23.21	5.62
Telstra Corp Ltd	TLS	Telecommunication Services	4.01	6.93	15.20	5.42
Ansell Ltd	ANN	Health Care	5.81	4.60	14.76	2.12
Ramsay Health Care Ltd	RHC	Health Care	7.38	9.74	29.17	1.67
Wesfarmers Ltd	WES	Consumer Staples	1.00	2.54	9.07	4.40
Westpac Banking Corp	WBC	Financials	1.24	1.80	23.82	5.43
Australia and New Zealand Banking Group Ltd	ANZ	Financials	-1.59	-0.18	22.74	5.50
Computershare Ltd	CPU	Information Technology	-5.17	-2.04	24.25	2.36
Sonic Healthcare Ltd	SHL	Health Care	-2.97	-0.45	21.34	2.79
Macquarie Group Ltd.	MQG	Financials	-0.38	-2.88	47.21	1.80
James Hardie Industries PLC DR	JHX	Materials	-6.36	-6.73	57.53	3.57
Crown Resorts Ltd	CWN	Consumer Discretionary	-2.89	-2.83	27.13	1.89

Source: Morningstar Direct

Portfolio Adjustments

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

Portfolio Risk & Sector Exposure

Risk v Return

The VIP portfolios aim to reduce volatility, or risk, over the long term and achieve excess returns per unit of risk that is taken compared to benchmark index, the S&P/ASX 100 Index.

The chart on the right plots return on the vertical axis against risk (in the form of Standard Deviation) on the horizontal index. Basically the higher up the vertical axis (high return) and the more left on the horizontal axis (low risk) is the ideal position that we aim for over the long term.

The chart on the right shows that the VIP Australian Share Leaders portfolio (aqua triangle) has achieved a **higher return** and **lower risk** compared to the S&P/ASX 100 Index (black pentagon) since inception on 01/07/2011.

This is the outcome we aim to achieve for our investors.

Sector Exposure

The portfolios largest sector exposure is to the Financial Services sector closely followed by the Healthcare and Materials sectors.

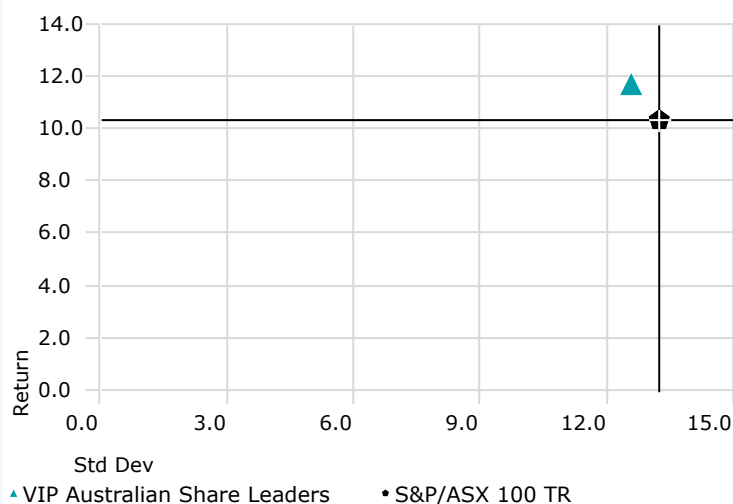
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

Risk-Reward

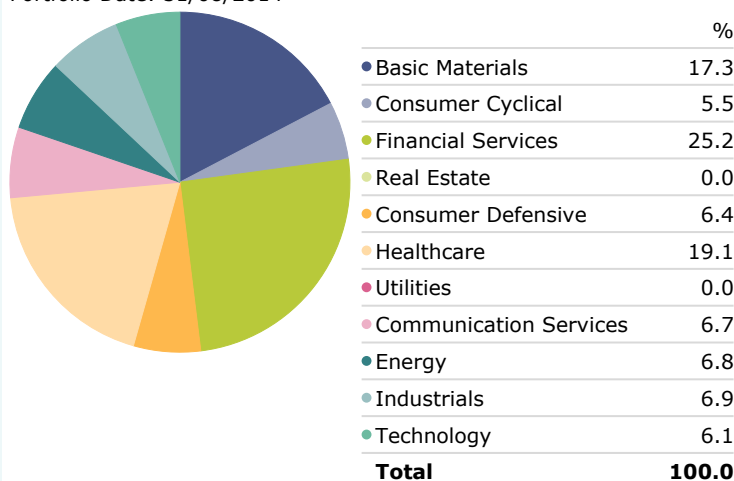
Time Period: Since Inception to 31/08/2014

Calculation Benchmark: S&P/ASX 100 TR



VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/08/2014



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