

### 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 4.93% return for the month and 0.10% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in October by 0.23% and by 0.51% over the quarter.

Over the last year the portfolio has generated a 11.63% return pre-fees outperforming the ASX100 index by 4.71%.

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 31/10/2014



### Trailing Returns

As of Date: 31/10/2014

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	Since Inception
VIP Australian Share Leaders	4.93	0.10	4.17	11.63	18.38	14.28	11.12
VIP Aust Share Leaders Investment	4.81	-0.24	3.47	10.14	16.80	12.75	9.63
VIP Aust Share Leaders Super-Pension	4.86	-0.10	3.75	10.74	17.44	13.37	10.23
S&P/ASX 100 TR	4.70	-0.41	3.11	6.92	16.47	14.64	10.20

### Performance Contributors & Detractors

During October sector returns of the Australian share market were mainly positive with the top 200 companies by market capitalization (the S&P/ASX 200 index) rising by 4.43%.

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

The **Top 3 Contributors** for the month were Leighton Holdings +13.78%, Lend Lease Group +9.21%, and ANZ Bank +8.34%.

The **Top 3 Detractors** for the month were Woodside Petroleum -1.16%, Brambles Ltd +0.11%, and James Hardie Industries +0.42%.

### Australia-China Free Trade

The recent Free Trade Agreement (FTA) between Australia and China is expected to have some significant positive impacts on the Australian economy with the removal of tariffs in the agriculture, mining, and services sectors. The FTA will also have an impact on Chinese investment in Australia, which is critical for investors to understand as companies slowly become takeover targets by Chinese firms.

Australian exports to China are worth \$90 Billion to Australia and account for 1/3 of all goods sold abroad. Iron Ore exports account for 56% of these exports. In terms of agriculture Australia exports 23% of agriculture to China, our largest Agri export market, and this provides \$8.7 Billion (2013-14).

In terms of demand projections the US Department of Agriculture (USDA) projects that between 2013 and 2023 there will be a doubling of Chinese imports of cotton and beef, a 60% rise in pork and oilseed demand, and a 30% rise in barley demand. Similarly, Australian Dept of Agriculture Research Bureau ABARES project that between 2009 and 2050 sheep and goat meat demand by China will rise 20 fold or +1000%, Beef demand will rise 10 fold (500%), fruit demand will rise +200%, dairy +165%, Sugar +100%, and Cereals +50%.

So it is clear that this FTA has the potential to provide significant benefits for Australian agricultural exports. However, the agricultural sector is not the only winner in this FTA and not all parts of the agri sector are to be treated the same.

Tariffs on dairy, beef, sheep meat, wine, horticulture, seafood, and hides/skins/leathers are to be removed, whereas Rice, Cotton, and Sugar tariffs are not being removed as these are sensitive sectors in China. The Mining sector also wins with tariff removal on coal, alumina, and other mineral ores.

The Services sector is also a winner with improved market access for many service providers including the financial services, healthcare, legal services, construction, and mining services sectors. A look at the Healthcare sector can quickly show the benefits that this could have on the services sector. The FTA will allow healthcare companies to establish wholly owned hospitals and aged-care facilities in China. Ramsay Healthcare has already signed a memorandum of understanding to buy 50% of Jinxin Groups healthcare assets in Chengdu, mainland China's 4th most populated city.

One of the other effects the FTA will have is on Chinese investment in Australian assets. Currently Chinese investment in Australia reached \$20 billion in 2013. This is still a relatively small amount behind the Netherlands, Singapore, Japan, the UK, and the US (smallest to largest). To date most of this has been in the mining and property sectors. The main outcome in this area is the raising of the threshold at which investments in non-sensitive sectors by private sector entities from China are considered by the Foreign Investment Review Board (FIRB) from \$248 million to \$1,078 million.

However, the news is not all good as it would be expected that the FTA would be the final nail in the coffin for the Australian manufacturing sector that is already being affected by high labour costs in Australia and a high Australian dollar. It is expected that this will also throw fuel on the debate regarding foreign ownership of Australian assets.

As investors it is important to be informed of these developments as it shows us which sectors may benefit, and others be affected, by these changes. It will also help continue the shift of our focus on the mining sector as other sectors such as agriculture and services are also expected to benefit, and more so than the mining sector.

Source: Written with the assistance of the National Australia Bank.

## 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
Lend Lease Group	LLC	Financials	-2.11	10.63	48.13	4.63
Ramsay Health Care Ltd	RHC	Health Care	3.66	5.20	40.68	1.57
Leighton Holdings Ltd	LEI	Industrials	-8.33	-7.75	4.78	4.32
Australia and New Zealand Banking Group Ltd	ANZ	Financials	-1.88	-1.68	6.11	5.58
National Australia Bank Ltd	NAB	Financials	-4.00	-4.57	0.52	6.07
Westpac Banking Corp	WBC	Financials	-3.77	-4.48	3.94	5.59
Telstra Corp Ltd	TLS	Telecommunication Services	1.07	2.34	12.58	5.18
Wesfarmers Ltd	WES	Consumer Staples	-7.79	-6.02	6.04	4.67
Ansell Ltd	ANN	Health Care	4.83	4.77	-4.84	2.01
Bendigo And Adelaide Bank Ltd	BEN	Financials	2.82	2.57	25.35	5.01
Crown Resorts Ltd	CWN	Consumer Discretionary	-0.62	-7.78	-8.87	2.57
Brambles Ltd	BXB	Industrials	1.99	3.74	18.02	2.78
Rio Tinto Ltd	RIO	Materials	-2.17	-5.64	0.12	3.78
James Hardie Industries PLC DR	JHX	Materials	0.67	-5.54	21.00	3.56
Woodside Petroleum Ltd	WPL	Energy	-10.91	-16.28	12.08	6.54

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

## 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 an **equal 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 Industrials, Healthcare, and Materials sectors.

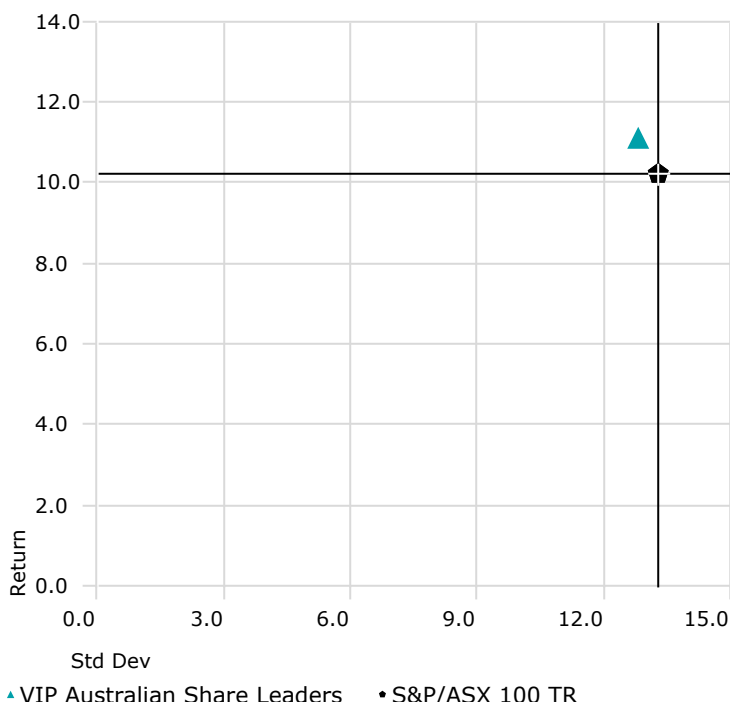
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

### Risk-Reward

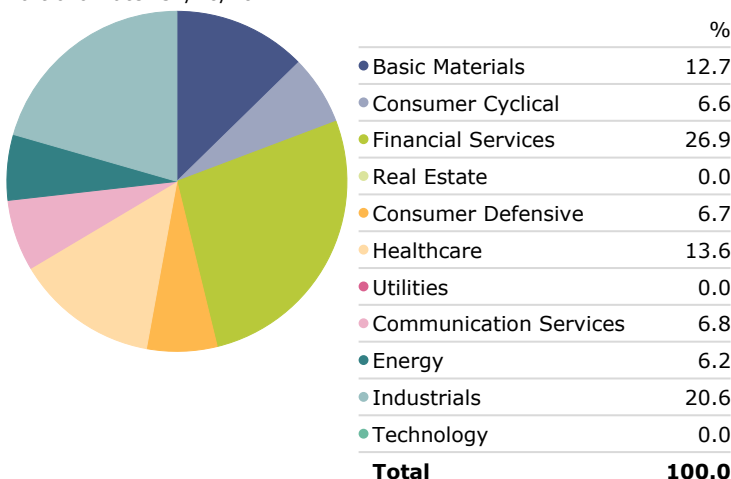
Time Period: Since Inception to 31/10/2014

Calculation Benchmark: S&P/ASX 100 TR



### VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/10/2014



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