

### 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 3.78% return for the month and 7.25% over the last 3 months.

The portfolio outperformed the S&P/ASX 100 index in December by 1.61% and by 3.71% over the quarter.

Over the last year the portfolio has generated a 9.71% return pre-fees outperforming the ASX100 index by 6.01%.

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 31/12/2014



### Trailing Returns

As of Date: 31/12/2014

|                                      | 1 Month | 3 Month | 6 Month | 1 Year | 2 Years | 3 Years | Since Inception |
|--------------------------------------|---------|---------|---------|--------|---------|---------|-----------------|
| VIP Australian Share Leaders         | 3.78    | 7.25    | 5.96    | 9.71   | 17.93   | 17.44   | 11.25           |
| VIP Aust Share Leaders Investment    | 3.66    | 6.90    | 5.54    | 8.86   | 16.96   | 16.45   | 10.28           |
| VIP Aust Share Leaders Super-Pension | 3.71    | 7.05    | 5.83    | 9.46   | 17.60   | 17.09   | 10.89           |
| S&P/ASX 100 TR                       | 2.17    | 3.54    | 2.79    | 6.13   | 13.57   | 16.00   | 10.08           |

### Performance Contributors & Detractors

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

The Healthcare sector led the market posting a +5.61% return for the month followed by the Telecommunications and Industrial sectors with +4.32% and +3.04% returns respectively. The Consumer Discretionary sector followed by the Energy and Consumer Staples sectors were the top detractors for the month with -2.38%, -1.73%, and -0.82% returns for the month respectively.

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

From a stock perspective the **Top 3 Contributors** for the month were Leighton Holdings +11.77%, James Hardie +9.91%, Brambles Ltd +9.36%; and the **Top 3 Detractors** for the month were Crown Resorts -11.75%, Rio Tinto -1.86%, and Wesfarmers +0.72%.

### Santa Never Misses Christmas

As expected the 'Santa-Rally' we were eagerly waiting for did occur in December.

The top 200 Australian shares by market capitalisation (S&P/ASX 200) was up 2.06% for the month and International shares measured by the MSCI World Ex Australia index were up 2.63% for the month.

As a summary of the calendar year Australian shares did not have a great year with a 5.61% return, whereas International shares were up 15.01% for the year in Australian dollar terms. This International share result was largely driven by the US as the S&P 500 (largest 500 US stocks) and the Nasdaq Composite (US technology stocks) rose by 13.69% and 14.75% respectively in US dollar terms. In comparison the UK (FTSE 100) rose by 0.74%, Germany (FSE DAX) rose by 2.65%, France (Euronext Paris CAC 40) rose by 1.73% Japan (Nikkei 225) rose by 7.12%, while the whole of Europe as measured by the NSCI Europe Ex UK fell by 6.55% all in the respective currencies.

It was definitely not a year for the faint hearted with fears of interest rate rises, concerns over the US ceasing the money printing (Quantitative Easing), fears over bad news from China, a realisation that Europe is in bad shape, and continuing geopolitical issues (Russia, Ukraine, Iraq, Syria, ISIS, and Ebola just to name a few...). If it wasn't enough commodity prices and the price of oil also had to plunge late in the year.

The concerns that hit the markets in September and October relating to high equity and property prices amidst poor global growth that sparked a global sell-off were somewhat forgotten as Santa delivered our expected Santa-Rally... albeit later than we normally expect.

Looking forward at this early stage it seems that low interest rates may be here for some time as growth is low to stagnant, the consumer is not spending, wages growth seems to be on hold, and unemployment may slowly rise this year. Commentators are starting to talk about an interest rate cut, however, you would expect that the lower price of oil may do the stimulatory job of a rate cut if these prices continue.

This all points to another year of positive, but not strong returns, and continued volatility. We would expect lower returns from the US in the absence of Quantitative Easing and with a rising US dollar that loses competitiveness against other currencies. Similarly, Europe will continue to have its woes with Greece concerns re-surfacing recently and the unpegging of the Swiss franc and the Euro causing Eastern European mortgages to become much more expensive.

This leaves the all-important Chinese economy which is expected to grow at its 7% target level supported by stimulatory fiscal and monetary policy from the Chinese Government. The lower oil price, if maintained, will help as oil imports will be cheaper and these savings at the pump by Chinese households and businesses can help drive more consumption.

## Portfolio Holdings & Adjustments

### Trailing Returns

As of Date: 31/12/2014

|   | YTD    | 1 Month | 3 Month | 6 Month | 1 Year |
|---|--------|---------|---------|---------|--------|
| Ansell Ltd                                  | 11.34  | 8.01    | 15.78   | 14.91   | 11.34  |
| Australia and New Zealand Banking Group Ltd | 7.43   | 0.53    | 8.07    | 0.22    | 7.43   |
| Bendigo And Adelaide Bank Ltd               | 17.53  | 0.31    | 7.47    | 8.93    | 17.53  |
| BHP Billiton Ltd                            | -19.91 | -5.01   | -13.29  | -16.69  | -19.91 |
| Crown Resorts Ltd                           | -22.86 | -11.75  | -8.04   | -14.94  | -22.86 |
| James Hardie Industries PLC DR              | 9.14   | 9.92    | 11.11   | -3.90   | 9.14   |
| Lend Lease Group                            | 55.45  | 6.98    | 14.37   | 29.52   | 55.45  |
| Ramsay Health Care Ltd                      | 35.20  | 5.45    | 13.99   | 27.26   | 35.20  |
| Sonic Healthcare Ltd                        | 16.90  | 6.02    | 5.47    | 9.80    | 16.90  |
| Telstra Corp Ltd                            | 22.90  | 4.92    | 12.64   | 19.03   | 22.90  |
| Wesfarmers Ltd                              | -1.96  | 0.72    | -2.18   | 1.19    | -1.96  |
| Westpac Banking Corp                        | 7.99   | 1.87    | 6.01    | 0.57    | 7.99   |
| Woodside Petroleum Ltd                      | 3.45   | 6.32    | -6.38   | -4.89   | 3.45   |
| Macquarie Group Ltd.                        | 12.17  | -0.24   | 3.78    | 0.23    | 12.17  |
| Computershare Ltd                           | 6.43   | 2.16    | -2.96   | -4.18   | 6.43   |
| S&P/ASX 100 TR                              | 6.13   | 2.17    | 3.54    | 2.79    | 6.13   |

Source: Morningstar Direct

## Portfolio Adjustments

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

## Sector Exposure

### Risk vs 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 our 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 axis. 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 Healthcare, followed by the Industrials and Financial Services.

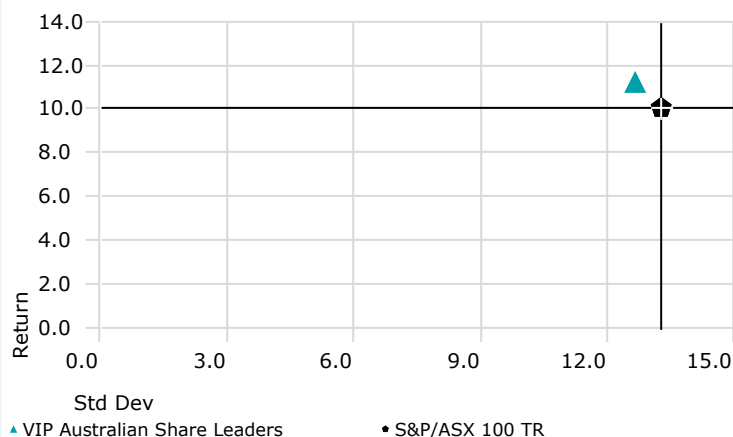
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in defensive sectors.

A complete Equity Sector chart is included on the right.

### Risk-Reward

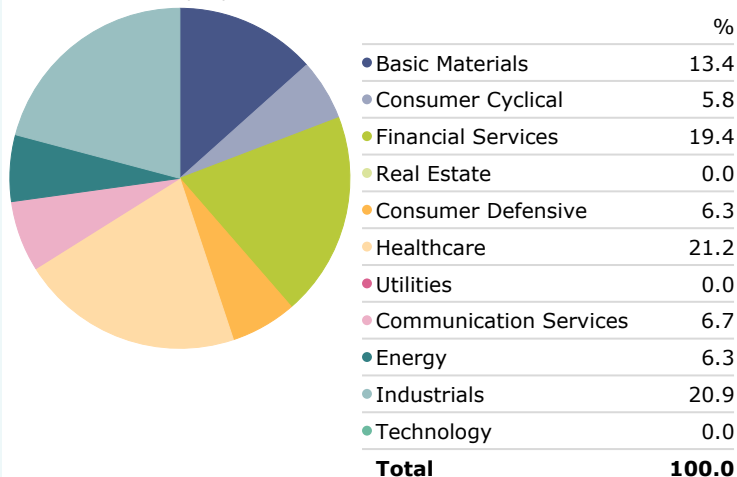
Time Period: Since Inception to 31/12/2014

Calculation Benchmark: S&P/ASX 100 TR



### VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/12/2014



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