

### 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 7.87% return for the month and 13.29% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in February by 1.07% and over the quarter by 0.45%.

Over the last year the portfolio has generated a 19.98% return pre-fees outperforming the ASX100 index by 4.78%.

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 28/02/2015



### Trailing Returns

As of Date: 28/02/2015

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	Since Inception
VIP Australian Share Leaders	7.87	13.29	12.28	19.98	17.52	19.74	15.15
VIP Aust Share Leaders Investment	7.75	12.92	11.53	18.37	15.95	18.13	13.61
VIP Aust Share Leaders Super-Pension	7.80	13.07	11.83	19.02	16.59	18.79	14.24
S&P/ASX 100 TR	6.80	12.84	8.23	15.20	13.29	17.39	10.43

### Performance Contributors & Detractors

During February the sector returns of the Australian share market were all in negative territory with the top 200 companies by market capitalization (the S&P/ASX 200 index) rising by +6.89%.

The strongest performing sectors was the Materials sector +11.88% followed by the Energy and Utilities sectors with +9.15% and 7.84% gains respectively. On the other hand, the Telecommunications sector +0.58% followed by Consumer Staples +1.04%, and the Information Technology sectors +5.19% achieved the lowest returns over the month.

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

The **Top 3 Contributors** for the month were James Hardie Industries +16.28%, Ramsay Health Care +12.53%, and Crown Resorts +12.42%. The **Top 3 Detractors** for the month were Bendigo & Adelaide Bank -0.66%, Telstra Corp +1.30%, and Wesfarmers Ltd +3.51%.

### **‘Whatever it takes’ is not enough**

In 2012 the European Central Banks (ECB) President Mario Draghi famously pledged that the ECB would do “whatever it takes” to breathe life into the European economy. Almost 3 years from that pledge and it seems the ECB is now doing something. Like the US and Japan the ECB is going down the path of a Quantitative Easing programme to boost growth in the Eurozone.

However, in looking at the major European economies it is evident that without specific reforms targeted in boosting investment, spending, and growth the printing presses alone won't help the EU dig themselves out of their current predicament.

The German economy, the largest in the Eurozone, is a perfect example of this with low debt, and a balanced budget in 2014 for the first time since 1969. The German economy will gain further momentum this year with German companies benefiting from a weaker euro and cheaper energy prices. This export focused model delivered a record trade surplus in 2014 (here a country's exports exceeds its imports) while German unemployment is at a multi-decade low, and remains around only half the eurozone average. The only criticism of Chancellor Angela Merkel's leadership has been the little progress in areas including increasing competition in services or improving the tax system.

On the other hand the French are in no hurry to address the size of the French public sector and the continued increase of the French government's budget deficit. Some forecasts predict the country's budget deficit will reach 4.7% of GDP in 2015, compared with the official eurozone limit of 3%. With the French economy stagnant since 2012, even allowing for the benefits of a weak euro, lower energy costs and the introduction of QE the budget deficit is not expected to improve anytime soon especially in an environment of high unemployment at around 10%.

Recent cuts in public spending have not been of the magnitude to convince markets that the Government is on the right track and reforms such as the 35-hour working week and regulations that discourage companies from employing more than 50 employees must be addressed.

However, Italy is moving the right direction with the passage of a labour market reforms in late 2014 that aim to encourage private sector employment and positive signs of reforms to the troubled banking sector which will aim to restrict banks from accumulating high levels of bad loans.

Italy's main challenge is its level of debt with the eurozone's second-highest debt levels after Greece, and high interest payments on state debt that stand at nearly 5% of GDP. To combat this Prime Minister Matteo Renzi, who came to power in early 2014, has outlined a large-scale privatisation program, and an approach of trying to fix the government before tackling the economy as Italian politics usually gets in the way of economic enhancement.

The Spanish economy is one of the positive signs of EU recovery with growth accelerating since Spain emerged from recession in late 2013. This improvement have been largely attributed to labour market reforms in 2012 that give Spanish businesses more flexibility in hiring and firing and setting wages with the OECD estimating that more than half of a 3.2% decline in labour costs in the business sector between 2011 and 2013 was due to these reforms.

The lower euro has also helped by increasing the competitiveness of Spanish exports as has the stabilising of the banking system by the Spanish government forcing many banks to raise capital to cover bad loans that they had carried since the bursting of a property-market boom at the time of the GFC.

But the Spanish still have a long way to go with unemployment still at extremely high levels even though it has fallen over the last 18 months. To stimulate the economy further, the government is planning sizable cuts in personal and corporate taxes, though uncertainty about how these cuts will be funded has raised concerns about a deterioration of public finances.

There is still much that needs to be done in Eurozone economies and this will require political will to introduce reforms that aim to strengthen sectors such as the banking sector; provide flexibility to businesses to set wages, employ more staff, and grow; and a focus on public finances that aim to reduce the size (and cost) of Government. Unfortunately the structure of the EU means that Mr Draghi's “whatever it takes” pledge alone will not be enough.

Source: Written with help from Franklin Templeton Investments.

## 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
Ramsay Health Care Ltd	RHC	Health Care	12.53	23.55	34.80	1.68
Ansell Ltd	ANN	Health Care	12.12	21.90	10.98	1.77
James Hardie Industries PLC DR	JHX	Materials	16.28	25.94	9.46	4.25
CSL Ltd	CSL	Health Care	4.88	11.71	27.49	1.47
Westpac Banking Corp	WBC	Financials	10.27	16.74	10.44	6.57
Telstra Corp Ltd	TLS	Telecommunication Services	1.30	15.72	21.74	6.72
Lend Lease Group	LLC	Financials	5.64	14.94	53.59	4.65
Rio Tinto Ltd	RIO	Materials	11.90	8.98	-10.25	5.23
Brambles Ltd	BXB	Industrials	4.72	14.20	19.51	2.68
Australia and New Zealand Banking Group Ltd	ANZ	Financials	7.09	10.71	7.46	6.89
Crown Resorts Ltd	CWN	Consumer Discretionary	12.42	6.40	-22.02	3.42
Leighton Holdings Ltd	LEI	Industrials	6.79	9.44	48.10	7.35
Wesfarmers Ltd	WES	Consumer Staples	3.51	8.94	0.46	6.66
Bendigo And Adelaide Bank Ltd	BEN	Financials	-0.66	4.08	16.80	7.25
Woodside Petroleum Ltd	WPL	Energy	10.31	5.77	6.30	12.23

### Portfolio Adjustments

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

## 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 Healthcare sector closely followed by the Industrials, Financial Services, and Materials sectors.

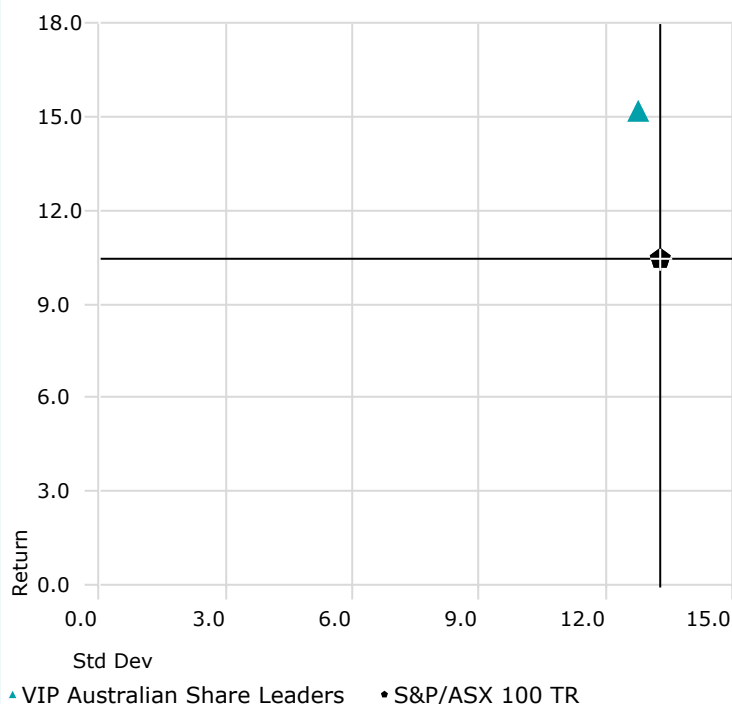
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

### Risk-Reward

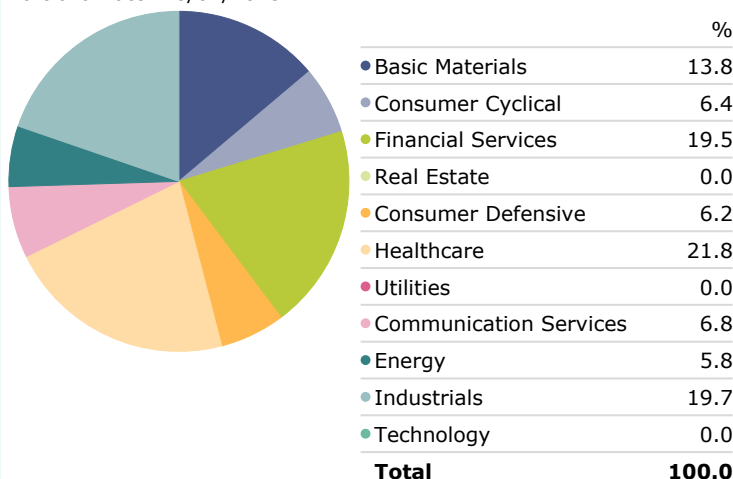
Time Period: Since Inception to 28/02/2015

Calculation Benchmark: S&P/ASX 100 TR



### VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 28/02/2015



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