

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 1.21% return for the month and 3.69% over the last 3 months.

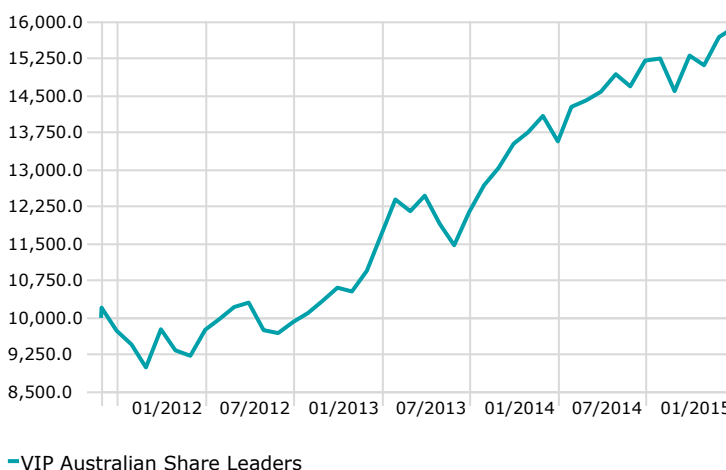
The portfolio outperformed the S&P/ASX 100 index in January by 2.20% and by 1.42% over the quarter.

Over the last year the portfolio has generated a 16.95% return pre-fees outperforming the ASX100 index by 3.79%.

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 31/01/2015



Trailing Returns

As of Date: 31/01/2015

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	Since Inception
VIP Australian Share Leaders	1.21	3.69	4.37	16.95	16.42	17.60	13.12
VIP Aust Share Leaders Investment	1.09	3.34	3.67	15.39	14.86	16.02	11.60
VIP Aust Share Leaders Super-Pension	1.14	3.48	3.95	16.02	15.49	16.66	12.21
S&P/ASX 100 TR	3.41	2.27	1.85	13.16	12.69	15.45	10.19

Performance Contributors & Detractors

During January most of the sectors of the Australian share market generated positive returns.

The Telecommunications sector led the market posting a +8.33% return for the month followed by the Consumer Discretionary and Utilities sectors with +6.22% and +6.10% returns respectively. The Energy sector followed by the Information Technology and Materials (Mining) sectors were the top detractors for the month with -6.46%, -1.34%, and +0.81% 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 and Consumer Staples 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, Utilities, and Information Technology *detracted* from performance.

The **Top 3 Contributors** for the month were Telstra Corp +8.88%, Crown Resorts +7.25%, and Wesfarmers Ltd +4.48%. The **Top 3 Detractors** for the month were Woodside Petroleum -9.81%, Leighton Holdings -8.31%, and James Hardie Industries -1.36%.

What's in store for 2015?

2014 saw an interesting period for global economies and markets, and at this point it seems that 2015 will be serving up a similar menu. And it seems that this menu is going to continue to be defined by low interest rates and rising growth asset prices as investors search for yield and income growth.

The size of the money printing programs in the US, Japan, and stimulus measures in China not only indicated the continuation of low interest rates for some time to come, but also acted to drive up growth asset prices (shares and property) forcing investors to take greater risk to achieve returns in excess of low cash and short-term bond returns.

These growth asset prices are the main focus now as investors ask whether the underlying economies are strong enough to sustain these prices and help these companies (in the case of shares) achieve greater profits and dividend growth. Market shocks as we experienced last September and October were due to these types of questions as commodity and oil price falls signalled weak global growth that was not sufficient to support share prices at those levels.

In reply to this, developed economies have confirmed their commitment to keep interest rates low as a means to drive economic growth, and there is no better example of this than the Reserve Bank of Australia (RBA) cutting rates in February and talk of more cuts to come. Even the US Federal Reserve (US Fed) has signalled to the market that although rates are expected to rise in 2015 these rises will be small and will take some time.

In theory lower interest rates in Australia will help consumers spend as their confidence levels rise with the rise of their house prices and surplus cash flows. This increased confidence and demand will help business drive revenue growth and profitability in an environment where the interest bill on their loans is at very low levels. And, Australian companies that export goods or generate profits in US dollars will also see a rise in profits as low interest rates are expected to lower the value of the Australian Dollar (AUD) making exports more competitive.

The problem is that this theory does depend on where we're starting from, and the current position of the Australian economy is that of low economic growth (actually close to zero growth when you factor in inflation), low consumer demand, almost no wage growth, and rising unemployment. Luckily we have great political leaders from all sides that divert our attention from reality with leadership spills, a focus on international affairs that we all agree on (such as our non-approval of the death penalty) and searching for political point scoring when a potentially important report (such as the inter-generational report this week) is presented by the opposing side.

The reality is that some sectors will perform well in this environment and others will not, and therefore companies in those sectors will find it a little easier, than their peers, to generate profits. These would include companies with US dollar earnings, defensive companies that sell necessities and not discretionary items, and companies in sectors where global demand is depleting global supply such as Energy.

The US also has pressures even though the US economy is performing well with rising economic growth, stronger business investment, and falling unemployment. From a US perspective investors must consider the effect of increasing interest rates and a higher US dollar (making US exports less-competitive) on US consumers, businesses, and ultimately the US economy. This would also have an effect on the prices of US companies.

And finally, there is China and its impact on global asset prices. China, as in all economies, has its own pressures with one of the main being the large amount of reported un-used construction stock that will likely see a continuation of soft construction activity in China in 2015. Chinese authorities are expected to set fiscal and monetary policy to help ensure the economy can grow with an uplift in exports and consumer driven consumption with growth from consumption outpacing growth from investment and development. Commentators are projecting 7.1% GDP growth in 2015 for China, which will help support asset prices into the year.

The continuation of this expansionary interest policy from the world's major economies in 2015, in an attempt to lead to an increase in economic growth, is expected to sustain growth asset prices by driving company profit growth, driving export activity, and (as seen on the east coast of Australia) maintaining strong housing market activity. However, with the current stagnant position (weak in Europe) of most economies this profit growth will most likely be enjoyed by some and not all sectors of the economy.

Source: This article has been written with the help of our research partners Morningstar.

Portfolio Holdings & Adjustments

Trailing Returns

As of Date: 31/01/2015

	YTD	1 Month	3 Month	6 Month	1 Year
Ansell Ltd	0.67	0.67	13.98	20.54	20.85
Australia and New Zealand Banking Group Ltd	2.84	2.84	2.57	1.15	18.18
Bendigo And Adelaide Bank Ltd	4.45	4.45	7.73	8.86	24.35
Crown Resorts Ltd	7.25	7.25	-5.94	-14.98	-15.99
James Hardie Industries PLC DR	-1.36	-1.36	9.14	-4.10	7.99
Lend Lease Group	1.71	1.71	6.51	27.17	67.26
Ramsay Health Care Ltd	4.12	4.12	13.80	24.58	38.84
Telstra Corp Ltd	8.88	8.88	15.45	22.98	36.67
Wesfarmers Ltd	4.48	4.48	-2.38	1.92	9.85
Westpac Banking Corp	3.92	3.92	2.97	3.48	20.37
Woodside Petroleum Ltd	-9.81	-9.81	-14.58	-16.19	-0.55
Brambles Ltd	-0.28	-0.28	11.23	14.22	21.43
Rio Tinto Ltd	-0.76	-0.76	-4.72	-11.34	-7.97
Leighton Holdings Ltd	-8.31	-8.31	-6.06	-3.84	33.75
CSL Ltd	1.47	1.47	9.68	30.89	27.33
S&P/ASX 100 TR	3.41	3.41	2.27	1.85	13.16

Source: Morningstar Direct

Portfolio Adjustments

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

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.

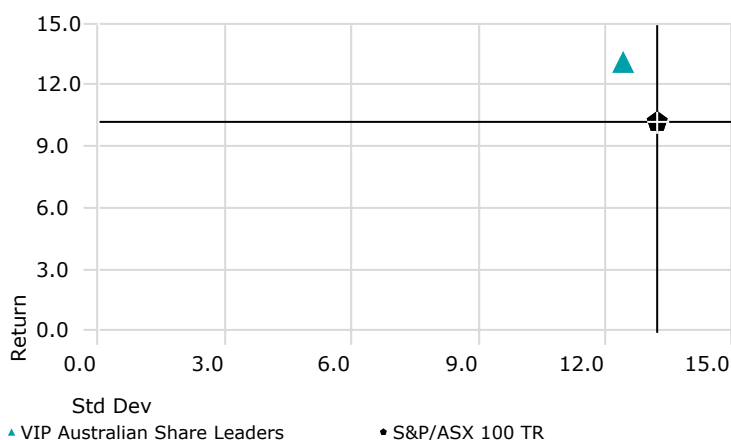
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in defensive sectors.

A complete Equity Sector chart is included on the right.

Risk-Reward

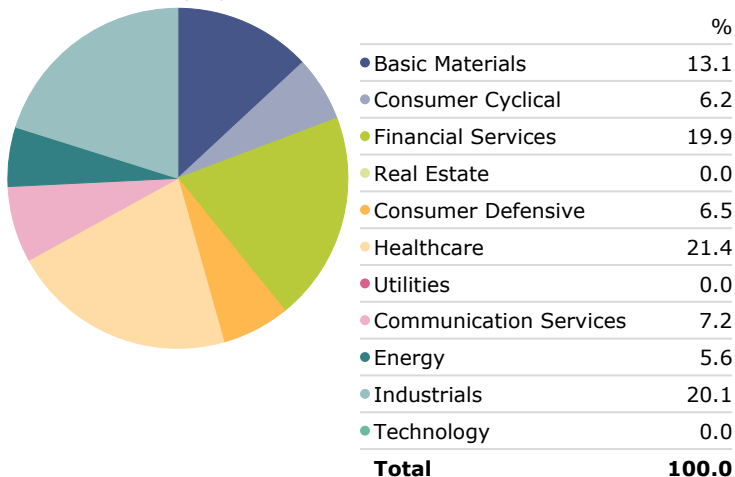
Time Period: Since Inception to 31/01/2015

Calculation Benchmark: S&P/ASX 100 TR



VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/01/2015



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