

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 -2.72% return for the month and 4.47% over the last 3 months. The portfolio underperformed the S&P/ASX 100 index in April by 0.79% and by 0.40% over the quarter.

Over the last year the portfolio has generated a 13.77% return pre-fees outperforming the ASX 100 index by 3.18%.

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 30/04/2015



Trailing Returns

As of Date: 30/04/2015

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	Since Inception
VIP Australian Share Leaders	-2.72	4.47	8.32	13.77	15.30	17.17	13.50
VIP Australian Share Leaders Investment	-2.83	4.13	7.60	12.24	13.76	15.60	11.98
VIP Australian Share Leaders Super-Pension	-2.78	4.27	7.89	12.86	14.38	16.24	12.59
S&P/ASX 100 TR	-1.93	4.87	7.25	10.59	10.72	15.58	10.29

Performance Contributors & Detractors

During April most of the sectors returns of the Australian share market were in negative territory with the top 200 companies by market capitalization (the S&P/ASX 200 index) falling by -1.70%.

The strongest performing sector was the Energy sector +8.52% followed by the Utilities and Materials sectors with 1.95% and 1.19% gains respectively. On the other hand, the Financial Services sector -4.69% followed by Information Technology -4.01%, and the Healthcare sectors -4.00% achieved the lowest returns over the month.

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

The **Top 3 Contributors** for the month were Origin Energy +12.64%, Rio Tinto -0.14%, and Wesfarmers -0.57%. And the **Top 3 Detractors** for the month Westpac -7.41%, ANZ Bank -7.23%, and Ramsay Health Care -6.92%.

The Great Disagreement by Magellan Asset Management

We have added this discussion from Magellan Asset Management's CEO and Lead Portfolio Manager, Hamish Douglass, that explains Magellan's view that the US Federal reserve (US Fed) and the markets have an entirely different view on the movement of US interest rates, and the affect that rising rates can have on growth asset markets.

Magellan's view is consistent with the VIP Investment Committees (IC) cautious view and asset allocation, and Magellan have themselves increased cash exposure in their flagship global equities fund to 15%. This consistency in our views is one of the drivers for the VIP IC decision to maintain the Magellan Global Equity fund in the VIP diversified portfolios. The discussion from Magellan Asset Management is below:

"Today there is a "Great Disagreement" as to where US monetary policy (and hence US interest rates) is headed over the next three years or so. In one corner is the Fed which is anticipating a normalisation of the US economy and US monetary policy (and hence higher interest rates) over the next three years or so. In the other corner is "the market" which is effectively pricing secular stagnation with prolonged lower inflation and growth (and hence lower interest rates).

In our view it is unusual to see such a fundamental and important disagreement between the market and policy setters. In our view, if the Fed is right, many assets are mispriced at the moment and a normalisation of US monetary policy could lead to material losses for investors.

The scale of this disagreement is staggering. At present, the market's forecast of overnight index swaps are pricing the Fed Funds Rate (FFR) at 1.7% by the end of 2017. This compares to the median forecast for the FFR by each Federal Reserve member at 3-3.25%. The gap between the market's and the Fed's forecast of short term interest rates in 2017 is almost 1.5%. The gap is even wider when you compare longer run forecasts of short term interest rates.

Worryingly, we believe that this translates into a large gap between the long term risk free interest rate assumed by equity investors and the implied long term risk free interest rate assumed by the Fed. As an illustration of the implications of this divergence, the difference between the value of 30 year bonds yielding 3.5% and 5.0% is approximately 25%.

If long term rates rise more than the market expects, there could be a similarly adverse impact on equity valuations. While we do not rule out the possibility of secular stagnation in the US, we believe that many of the near term economic forces (such as the collapse in the oil price) will prove to be transitory and the most likely outcome is that the Fed will need to neutralise monetary policy over the next three years or so. This will result in materially higher US interest rates than the market is currently anticipating.

Many investors have cited the current low inflation environment as a reason to doubt the necessity for the Fed to raise interest rates to levels anywhere near pre-crisis levels. However, as the oil price and the US dollar stabilise, and as wages growth returns, inflation is likely to head back towards the Fed's target of 2%.

We do not expect a break-out in US inflation; we believe normalising inflationary pressures, diminishing labour market slack and the size of the Fed's balance sheet (over US\$4.5 trillion in assets) will force the Fed to normalise monetary policy over the course of the next three years. We believe that the economic events of the last eight months or so (the dramatic fall in oil prices, the appreciation of the US dollar, falling Chinese growth, some poor economic data in the US in recent months) have clouded investors' judgment and increased confirmation bias regarding the case for secular stagnation. We would also add that there appears to be anchoring bias associated with such a prolonged period of low interest rates which makes a normalisation of monetary policy in the US almost seem radical and implausible.

We regard the current market environment as anything but normal. Yields and spreads across a range of credit markets are at or near historic extremes. We have witnessed a number of high quality corporates issue debt at negative interest rates, and many European sovereigns (including Switzerland, Denmark, Germany, the Netherlands and Belgium) are experiencing negative yields on debt of up to five years to maturity. Investors are now effectively paying European governments or certain corporates to borrow money. Furthermore, spreads between German Bunds and US Treasuries are at their highest levels since before the reunification of Germany. As investors we find this unprecedented and somewhat confronting."

Source: Magellan Asset Management Limited

Portfolio Holdings & Adjustments

VIP Australian Share Leaders - Holdings

	Ticker	Sector	Total Ret 1 Mo (Mo-End)	Total Ret 3 Mo (Mo-End)	Total Ret 1 Yr (Qtr-End)	Dividend Yield % TTM
Origin Energy Ltd	ORG	Energy	12.64	21.63	-17.35	3.83
Ansell Ltd	ANN	Health Care	-5.30	16.22	52.32	1.92
DuluxGroup Ltd	DLX	Materials	-1.09	5.85	16.80	2.29
Wesfarmers Ltd	WES	Consumer Staples	-0.57	3.19	12.84	6.54
CSL Ltd	CSL	Health Care	-1.24	4.29	34.43	1.56
Brambles Ltd	BXB	Industrials	-5.99	3.66	27.76	2.78
Telstra Corp Ltd	TLS	Telecommunication Services	-1.27	-0.86	32.65	6.91
James Hardie Industries PLC DR	JHX	Materials	-4.26	12.21	11.06	4.18
Westpac Banking Corp	WBC	Financials	-7.41	5.80	21.47	8.00
Australia and New Zealand Banking Group Ltd	ANZ	Financials	-7.23	3.00	18.52	7.81
Bendigo And Adelaide Bank Ltd	BEN	Financials	-3.67	-6.12	18.57	7.57
Ramsay Health Care Ltd	RHC	Health Care	-6.92	5.96	42.06	1.78
Lend Lease Group	LLC	Financials	-3.55	-2.16	46.84	4.61
Rio Tinto Ltd	RIO	Materials	-0.14	3.08	-4.19	6.30
Crown Resorts Ltd	CWN	Consumer Discretionary	-2.69	-2.80	-16.90	3.41

Portfolio Adjustments

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

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 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 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 Materials and Financial Services sectors.

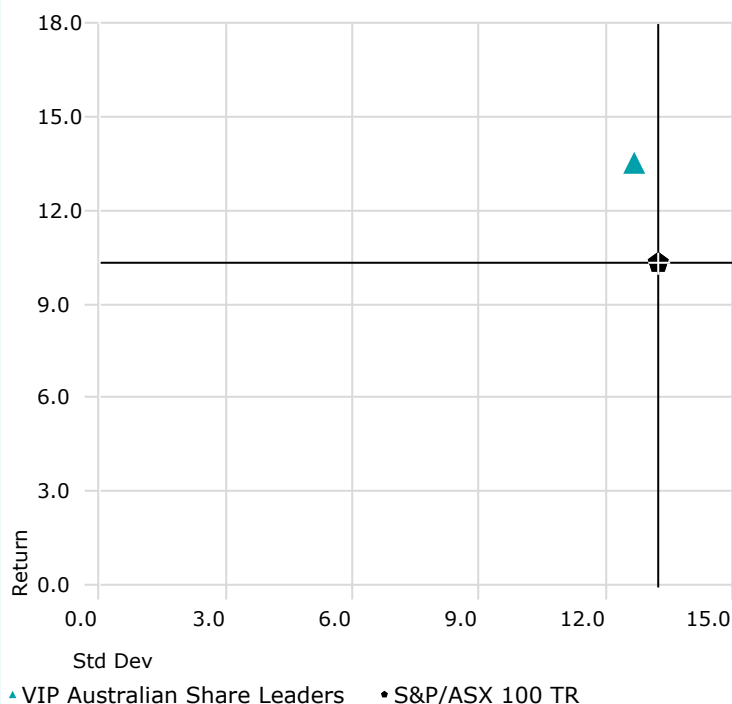
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

Risk-Reward

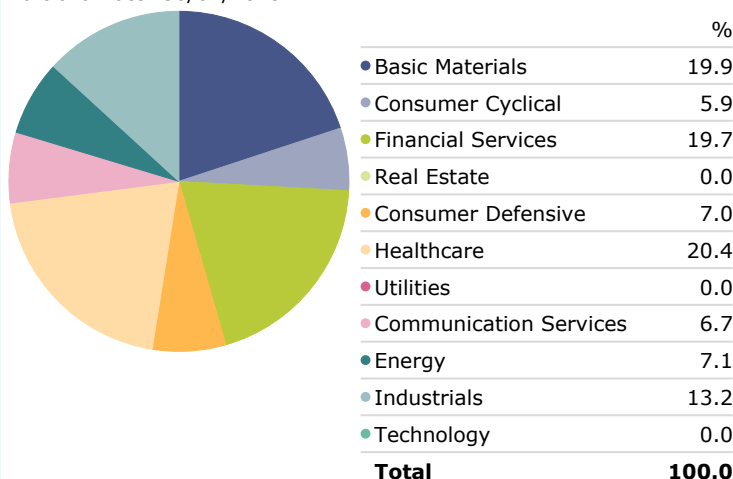
Time Period: Since Inception to 30/04/2015

Calculation Benchmark: S&P/ASX 100 TR



VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 30/04/2015



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