

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

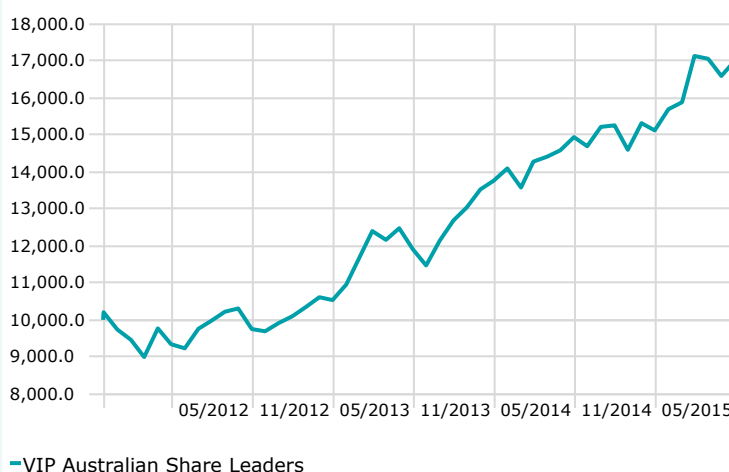
The VIP Australian Share Leaders portfolio generated a -2.72% return for the month and 4.47% over the last 3 months. The portfolio underperformed the S&P/ASX 100 index in April by 0.79% and by 0.40% over the quarter.

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 31/05/2015



Trailing Returns

As of Date: 31/05/2015

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	Since Inception
VIP Australian Share Leaders	2.52	-0.71	12.49	13.85	19.50	20.36	13.91
VIP Australian Share Leaders Investment	2.41	-1.04	11.74	12.33	17.90	18.74	12.39
VIP Australian Share Leaders Super-Pension	2.45	-0.91	12.04	12.95	18.55	19.40	13.01
S&P/ASX 100 TR	0.26	-1.56	11.09	10.11	13.50	18.26	10.26

Performance Contributors & Detractors

During May returns were mixed across the sectors of the Australian share market with the top 200 companies by market capitalization (the S&P/ASX 200 index) trading water with a -0.06% return.

The strongest performing sector was the Information Technology sector +3.24% followed by the Healthcare and Financial Services sectors with 2.12% and 1.97% gains respectively. On the other hand, the Energy sector -5.65% followed by Materials -4.51%, and the Utilities sectors -0.65% achieved the lowest returns over the month.

Over the last 3 months the higher allocation of the portfolio to the Industrials, Healthcare, Energy, Technology, and Consumer Discretionary sectors along with a lower allocation of the portfolio to the Consumer Staples and Financial Services sectors **contributed** to performance; whereas, a higher allocation of the portfolio to the Materials 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 James Hardie Industries +20.88%, Brambles +5.63%, and Origin Energy +4.47%. The **Top 3 Detractors** for the month were Dulux Group -4.78%, Westpac Bank -4.31%, and Telstra -0.16%.

Greece & the Fed.... A cocktail for volatility

With the recent volatility caused firstly by rumours of a Fed Interest rate increase and now by Greek Debt Crisis negotiations this article below from Bloomberg, written by Craig Torres, explains how the Greek event can affect the Fed's decision on interest rates later this year, which we believe will be the next correction:

A Greek exit from the euro zone could give Federal Reserve policy makers reason to put off an interest-rate increase. Some investors are already betting on a delay. Federal funds futures traders reduced the probability of a September increase to 35 percent on Monday in New York from 45 percent Friday. The yield on the 10-year Treasury note dropped by the most since October.

Whether those bets are correct will depend on how turmoil in the euro zone plays into Fed officials' forecasts for growth, employment and interest-rate increases this year.

Chair Janet Yellen made it clear in her June 17 press conference that she needed to see "more decisive evidence" of sustainable economic momentum that supports labor markets and gradually firming prices.

While economic data have improved since then, New York Fed President William C. Dudley called Greece a "huge wildcard" for the U.S. outlook in an interview with the Financial Times published Sunday.

Here's what Fed officials will be watching in the weeks ahead:

Contagion: One immediate risk is a slump in business and consumer confidence in the euro zone that undermines the region's economic recovery and increases risk-aversion elsewhere. "The Fed is concerned because they see these problems in Europe and in the world economy as basically a drag," said Joseph Gagnon, a former Fed economist and now a senior fellow at the Peterson Institute for International Economics in Washington. "The current turmoil in Greece may make people around the world even more reluctant to spend."

Dollar Drag - The exchange rate: One of the biggest surprises for economists in and outside the central bank was how swiftly the 18 percent rise in the dollar against major currencies for the year ending March sapped U.S. gross domestic product. A stronger dollar cuts into exports by making U.S. goods more expensive abroad, while making imports cheaper. A ballooning trade deficit cut 1.9 percentage points from GDP in the first quarter of this year and about 1 percent in the fourth quarter of 2014, the biggest back-to-back drag since the first half of 1998.

Greece's impact "will depend on the market reaction, especially the dollar," said Mark Spindel, chief investment officer at Potomac River Capital, a hedge fund in Washington with \$750 million under management. "We know how sensitive the Fed committee is to dollar strength." Spindel added that the Fed's September meeting is months away, and the Greece situation "could change in heartbeat."

Borrowing Costs - Financial conditions: Fed stimulus works through financial markets by lowering financing costs on everything from cars to homes.

The question is whether mortgage and corporate financing become more expensive relative to Treasury yields as lenders grow more risk averse. Fed officials "need to see where mortgage-backed security spreads and corporate spreads are to Treasuries" and what happens to stocks, which influence consumer confidence and spending, said Michael Gapen, chief U.S. economist at Barclays Capital Inc. "Those are your primary starting points" as a policy maker, Gapen added.

Source: Bloomberg

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
James Hardie Industries PLC DR	JHX	Materials	20.88	16.64	11.06	2.58
Origin Energy Ltd	ORG	Energy	4.47	9.01	-17.35	4.43
Ansell Ltd	ANN	Health Care	2.53	6.32	52.32	2.07
Brambles Ltd	BXB	Industrials	5.63	4.49	27.76	2.96
CSL Ltd	CSL	Health Care	2.77	2.17	34.43	1.62
Wesfarmers Ltd	WES	Consumer Staples	-0.11	-0.43	12.84	7.60
Telstra Corp Ltd	TLS	Telecommunication Services	-0.16	-2.35	32.65	7.06
DuluxGroup Ltd	DLX	Materials	-4.78	-2.47	16.80	5.37
Australia and New Zealand Banking Group Ltd	ANZ	Financials	1.26	-2.61	18.52	8.06
Bendigo And Adelaide Bank Ltd	BEN	Financials	1.65	-4.13	18.57	7.72
Lend Lease Group	LLC	Financials	3.80	-3.98	46.84	5.04
Ramsay Health Care Ltd	RHC	Health Care	1.49	-4.45	42.06	1.87
Rio Tinto Ltd	RIO	Materials	1.84	-6.25	-4.19	6.86
Westpac Banking Corp	WBC	Financials	-4.31	-8.19	21.47	8.25
Crown Resorts Ltd	CWN	Consumer Discretionary	0.61	-13.02	-16.90	3.75

Portfolio Adjustments

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

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

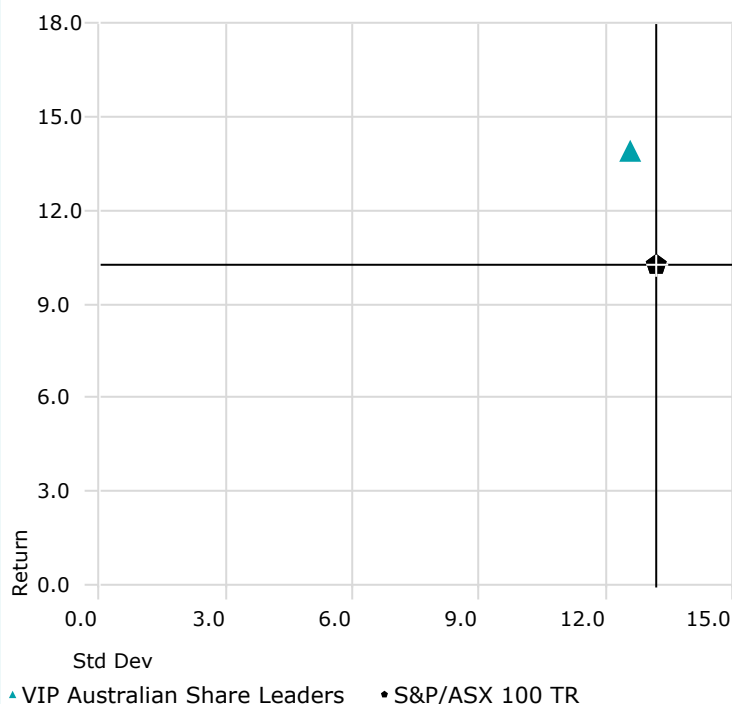
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

Risk-Reward

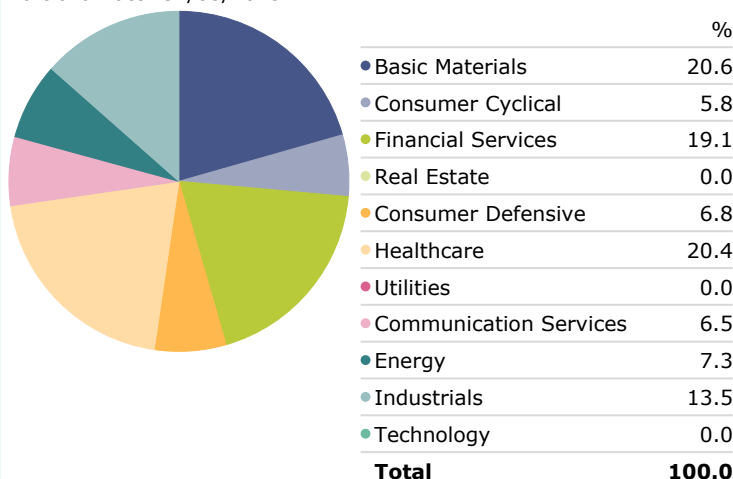
Time Period: Since Inception to 31/05/2015

Calculation Benchmark: S&P/ASX 100 TR



VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/05/2015



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