

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 -5.47% return for the month and -5.72% over the last 3 months. The portfolio underperformed the S&P/ASX 100 index in June by 0.37% and outperformed by 0.97% over the quarter.

Over the last year the portfolio has generated a 9.17% return pre-fees outperforming the ASX 100 index by 3.10%.

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 30/06/2015



Trailing Returns

As of Date: 30/06/2015

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	Since Inception
VIP Australian Share Leaders	-5.47	-5.72	2.47	9.45	18.39	18.39	12.04
VIP Australian Share Leaders Investment	-5.58	-6.04	1.78	7.99	16.80	16.80	10.54
VIP Australian Share Leaders Super-Pension	-5.53	-5.91	2.06	8.58	17.45	17.44	11.15
S&P/ASX 100 TR	-5.10	-6.69	3.18	6.07	11.71	15.81	10.01

Performance Contributors & Detractors

During June all of the sectors of the Australian share market were in negative territory with the top 200 companies by market capitalization (the S&P/ASX 200 index) trading water with a -5.30% return.

The strongest performing sector was the Telecommunications sector -1.34% followed by the Financial Services and Industrials sectors with -2.91% and -4.56% gains respectively. On the other hand, the Consumer Discretionary sector -11.24% followed by Materials -8.34%, and the Consumer Staples -7.80% 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 +1.65%, Bendigo & Adelaide Bank -0.24%, and Telstra -1.29%. The **Top 3 Detractors** for the month were Wesfarmers Limited -10.60%, Origin Energy -10.07%, and Ansell Limited -9.94%.

The (current) China Story

For years we have been hearing and talking about the China Story. The huge opportunity that comes from a large population that is rising up the class ranks and westernising their diets, material wants, and day-to-day habits off the back of economic gains that have transformed the economy to one of the largest in the world.

Stories of selling woodchip for paper production, wine for consumption, iron ore for steel production, and the opening of KFC's all over mainland China had us all jumping over any type of asset from soft commodities to US stocks.

We saw it first hand with the rise and rise of our mining sector where BHP, Rio Tinto, Fortescue Minerals, et al. couldn't get the ore out of the ground quick enough. We've also seen it with European car manufacturers such as Mercedes Benz, BMW & VW whom as the ABC Business Editor, Ian Verrender, reports derive 50 to over 70% of profits from Chinese sales.

It seems the Shanghai and Shenzhen stock markets have painted the picture well. After being up approximately 150% over the last 12 months the inevitable happened and the market has plunged more than 23% since over the last month.... Yes, 1 month.

This market rally has been fuelled by debt and even though a small proportion of the Chinese population have margin loans and invest in the markets, this trend paints a picture of what we may be walking into... a slowing China.

China pundits are arguing that although the market has crashed in the last month it is still up 94% over the last year. They also suggest that only a small amount of investors have used leverage to enter the market. However, Chinese authorities had to suspend almost all the shares on the index and threaten those engaging in short selling with arrest in order to 'stabilise' the market. Extreme measures when only 15% of household incomes are invested in the stock market.

When the economic growth figures of an annualised 7% GDP growth are considered, again there is no cause for alarm, but what if we consider official trade numbers.

The ABC reports that Imports have slowed by 6% in June and 17.6% the previous month signalling that an overcapacity is not being utilised by internal consumption, which has been the aim of Chinese authorities.

This overcapacity is then being exported resulting in better export figures, but then leading to weakness in different markets around the world as this supply floods these markets. For instance, steel mills in China are still producing record amounts of steel; however, as this supply is not being utilised domestically excess supply is being exported and has led to a halving in steel prices over the last 5 years. Ian Verrender reports that the price of Chinese cabbages per tonne is more expensive than a tonne of steel.

Soft commodities such as dairy products are following a similar trend to hard commodities such as Iron ore. The western style diets with high dairy content were one of the reasons behind the success of the New Zealand (NZ) economy, which has been one of the only economies to raise interest rates over the last few years to slow their economy as the rest of the world has been cutting rates to stimulate their economies. The ABC reports that last week global dairy prices fell to a 12½ year low pushing the Kiwi dollar off a cliff, and forcing Fonterra, NZ's biggest exporter to cut more than 500 jobs. Some commentators believe the NZ Central Bank may need to now cut interest rates.

These are just some examples of trends that are occurring in different markets that are highly leveraged to China and the China story. Official GDP growth results indicate that the economy is in healthy territory; however, trade data and the movement of Chinese share markets are telling a different story.

Source: ABC, The Drum, Ian Verrender

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 CDR	JHX	Materials	1.65	17.63	30.42	2.35
Brambles Ltd	BXB	Industrials	-7.34	-7.99	18.72	2.73
Origin Energy Ltd	ORG	Energy	-10.07	5.84	-14.71	4.44
Telstra Corp Ltd	TLS	Telecommunication Services	-1.29	-2.69	26.08	6.68
Bendigo And Adelaide Bank Ltd	BEN	Financials	-0.24	-2.31	8.22	7.25
CSL Ltd	CSL	Health Care	-7.52	-6.13	32.02	1.46
Ansell Ltd	ANN	Health Care	-9.94	-12.56	23.97	1.95
DuluxGroup Ltd	DLX	Materials	-2.56	-8.17	6.49	5.30
Australia and New Zealand Banking Group Ltd	ANZ	Financials	-2.98	-8.76	4.34	7.87
Ramsay Health Care Ltd	RHC	Health Care	-3.23	-8.58	37.59	1.74
Wesfarmers Ltd	WES	Consumer Staples	-10.60	-11.21	-0.49	7.02
Westpac Banking Corp	WBC	Financials	-4.20	-14.99	2.69	7.64
Lend Lease Group	LLC	Financials	-9.78	-9.68	20.44	4.81
Rio Tinto Ltd	RIO	Materials	-7.65	-6.08	-3.21	6.79
Crown Resorts Ltd	CWN	Consumer Discretionary	-6.80	-8.75	-16.34	3.36

Portfolio Adjustments

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

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

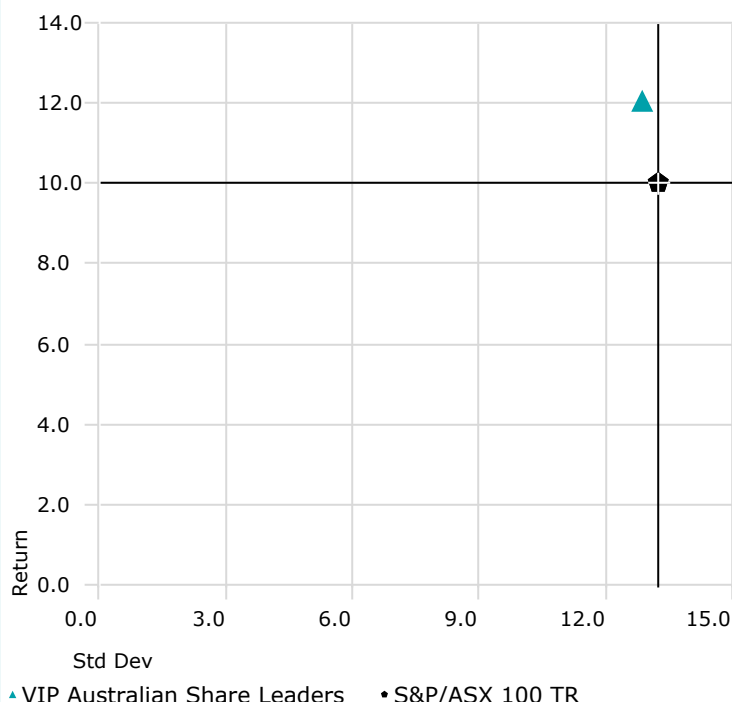
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

Risk-Reward

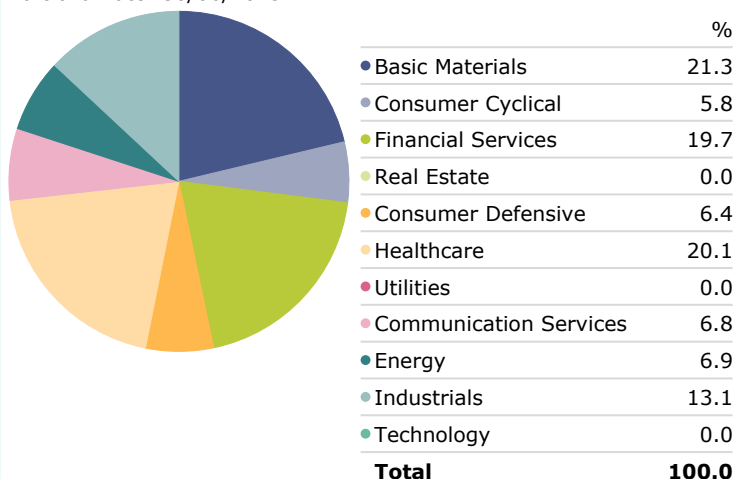
Time Period: Since Inception to 30/06/2015

Calculation Benchmark: S&P/ASX 100 TR



VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 30/06/2015



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