

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

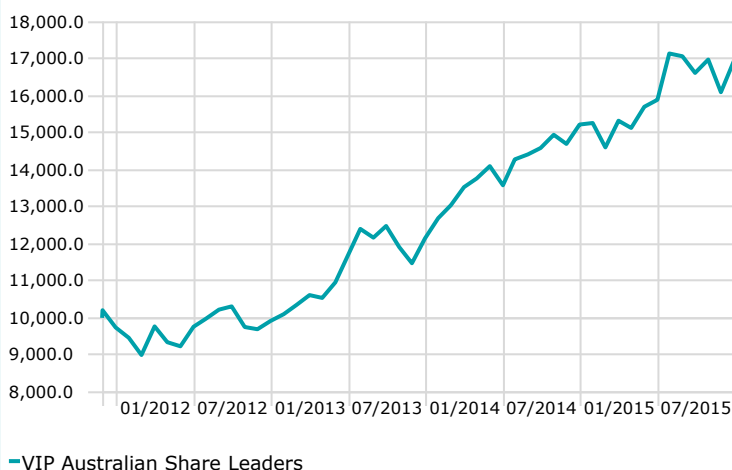
The VIP Australian Share Leaders portfolio generated a 5.30% return for the month and 2.00% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in July by 0.75% and outperformed by 2.53% over the quarter.

Over the last year the portfolio has generated a 11.34% return pre-fees outperforming the ASX 100 index by 5.09%.

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 31/07/2015



Trailing Returns

As of Date: 31/07/2015

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	Since Inception
VIP Australian Share Leaders	5.30	2.00	6.65	11.34	18.10	19.54	14.84	13.21
VIP Australian Share Leaders Investment	5.18	1.65	5.94	9.85	16.52	17.94	13.30	11.70
VIP Australian Share Leaders Super-Pension	5.23	1.79	6.23	10.45	17.16	18.59	13.92	12.31
S&P/ASX 100 TR	4.55	-0.53	4.32	6.25	11.49	15.80	12.32	10.16

Performance Contributors & Detractors

During July 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 +4.40% return.

The strongest performing sector was the Healthcare sector +9.59% followed by the Consumer Staples and Consumer Discretionary sectors with +7.51% and +6.41% gains respectively. On the other hand, the Materials sector -1.09% followed by Energy 0.25%, and the Financial Ex A-REIT 4.6% 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 Communications sectors along with a lower allocation of the portfolio to the Consumer Defensive sector **contributed** to performance; whereas, a higher allocation of the portfolio to the Materials and Energy sectors along with a lower allocation of the portfolio to the Financial Services, Consumer Cyclical, and Utilities Sectors **detracted** from performance.

The **Top 3 Contributors** for the month were CSL Ltd +14.44%, Aristocrat Leisure Ltd +12.03%, and ResMed Inc CDR +10.04%; and the **Top 3 Detractors** for the month were Origin Energy Ltd -5.26%, Harvey Norman Holdings Ltd -1.11%, RBA Bank accepted Bills 90 days +0.18%.

China: The Sequel

Much has been said recently about the falling Chinese market and as a result, questions arise as to what lies ahead for a slowing China. When any market takes a plunge, panic consequently follows concerning the state of the economy. Although this can be true in some cases, in China's case its stock market plays a small role in its economy, and even more so has few ties to the overall economy. Therefore, the potential for China's equity correction to spread a worldwide economic meltdown is rather limited. This is the true reality of the situation, which subsequently presents the question 'is China's economy being reflected in its market?'

In short, it is not. China's equity market predominantly consists of 'retail investors who make their investment decisions based on what they read in investor newsletters.' Additionally, the Chinese governments' efforts to boost liquidity in the market (through tools such as interest rate reductions and reserve ratio requirement cuts) were timed poorly with the Greece crisis pulling the plug on global risk. Combine this with the Chinese retail investor, and the result is a flurry of panic selling despite what the Chinese economy is doing.

Overall, the underlying concept is that regardless of what the Chinese stock market is doing, the Chinese economy itself is still growing (albeit slower), and even more so, transforming. China is moving away from being a low-cost producer and exporter, to becoming a consumer driven society. In this process mistakes and adjustments will be made which are possibly being reflected in the stock market. However, this does not necessarily reflect the state of the 2nd largest economy in the World.

It is true that China's growth is slowing down as we discussed in last month's report. This is largely due to the industrial and property sectors, with growth in real industrial output declining from 14% in mid-2011 to 5.9% in April. While slowdown is no doubt causing a stir in both the Chinese stock market and international markets alike, it must be noted that it would have been ridiculous to think for a second that China's rate of growth was ever sustainable. In contrast to being a slowing economy, China is instead simply beginning the 'necessary rebalance towards a more sustainable, consumption-led growth model,' as noted by chief economist at Standard Life Investments Jeremy Lawson.

Despite playing a huge role in the World's economy, the truth is that China is still an emerging market. Which means it hasn't yet reached its final form. Which means its economy will continue to grow and flourish. All this taken into consideration, it is ludicrous to think that the Chinese stock market is indicative of the well-being of its country. China as an economic organism is still in its infantile stages of development, with new markets continually building.

Take for example its environmental problem concerning the pollution and waste generated by the country, which opens up new markets in the quest to turn China green. Also take into account its ever-expanding middle class, the rising amount of billionaires, and that the Chinese population are earning more than ever.

The fact that Chinese banks are generally uninvolved in providing leverage and are not showing signs of stress is indicative of a sound economy, regardless of what the market is saying. Furthermore, 'there is very little evidence that the moves in the stock market will have a major impact on the real economy,' and even if there was, stocks only amount to 15% of total wealth. Even the average retail investor, who we previously mentioned to be highly reactive to what everyone else is doing, spends less of their wealth than other countries with a 49% savings rate.

While China's eventual transition to a consumer society will no doubt create volatility and weaken growth reflected in the market, these negatives are minor in terms of China's pursuit to their desired economy. As said by Jan Dehn, head of research at Ashmore in London, 'you need to break eggs to make an omelette.'

Source: Kenneth Rapoza, Forbes.

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	9.64	34.30	30.42	2.55
CSL Ltd	CSL	Health Care	14.44	8.77	32.02	1.50
Bendigo and Adelaide Bank Ltd	BEN	Financials	7.18	8.68	8.22	8.63
Telstra Corp Ltd	TLS	Telecommunication Services	5.70	4.17	26.08	7.39
Ramsay Health Care Ltd	RHC	Health Care	8.80	6.85	37.59	1.78
Ansell Ltd	ANN	Health Care	4.03	-3.95	23.97	2.63
Brambles Ltd	BXB	Industrials	2.64	0.46	18.72	3.09
DuluxGroup Ltd	DLX	Materials	6.29	-1.47	6.49	5.51
Origin Energy Ltd	ORG	Energy	-5.26	-10.99	-14.71	6.14
Australia and New Zealand Banking Group Ltd	ANZ	Financials	1.49	-0.24	4.34	9.05
Westpac Banking Corp	WBC	Financials	8.43	-0.74	2.69	8.35
Aristocrat Leisure Ltd	ALL	Consumer Discretionary	12.03	3.97	48.48	1.88
Lend Lease Group	LLC	Financials	3.73	-2.87	20.44	3.91
Harvey Norman Holdings Ltd	HVN	Consumer Discretionary	-1.11	1.36	62.00	5.34
RBA Bank accepted Bills 90 Days			0.18	0.54	2.51	

Portfolio Adjustments

The VIP Investment Committee sold Wesfarmers (WES), Rio Tinto (RIO), and ResMed (RMD) in July and purchased Harvey Norman (HVN).

WES was sold as it was trading above our fair value target and WES, along with its competitors, are finding it difficult to maintain margins in the highly competitive Consumer Staples sector. The recent weaknesses in China are slowing global growth, which is having a negative effect on the price of iron ore. For this reason RIO was sold and the portfolio currently has no Materials exposure even with the current low prices of companies within this sector. And RMD was sold as after the unfavourable results of a medical trial for patients with congestive heart failure with sleep disorder breathing pattern. Although this only affects 2% of RMD's sales the VIP IC elected to sell the share.

The VIP IC decided to buy HVN due to the forecasted sales increases expected from the Government's recent budget announcements for small business. In addition, HVN is benefiting from increased spending on electrical goods, furniture, floor coverings, and homewares off the back of a buoyant housing market and record low interest rates.

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 Financial Services and Materials sectors.

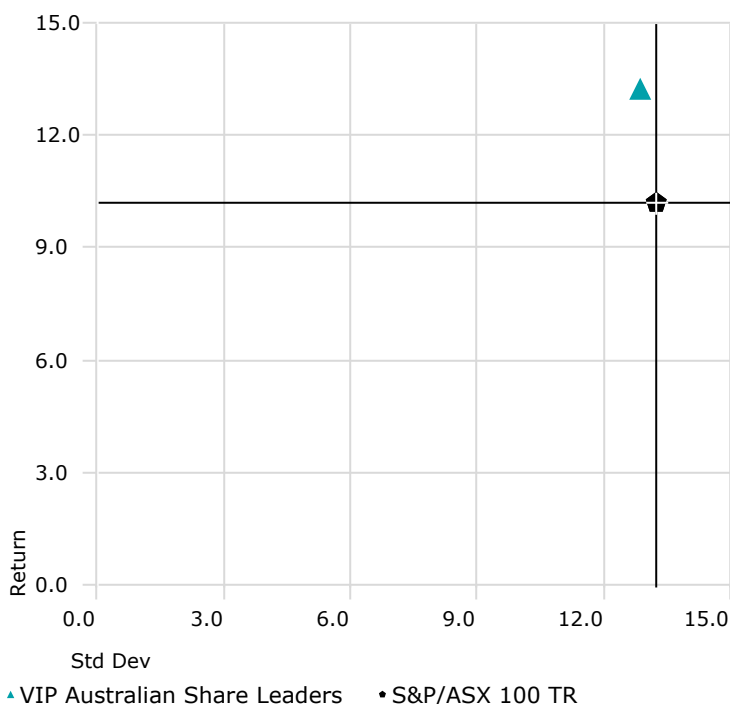
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

Risk-Reward

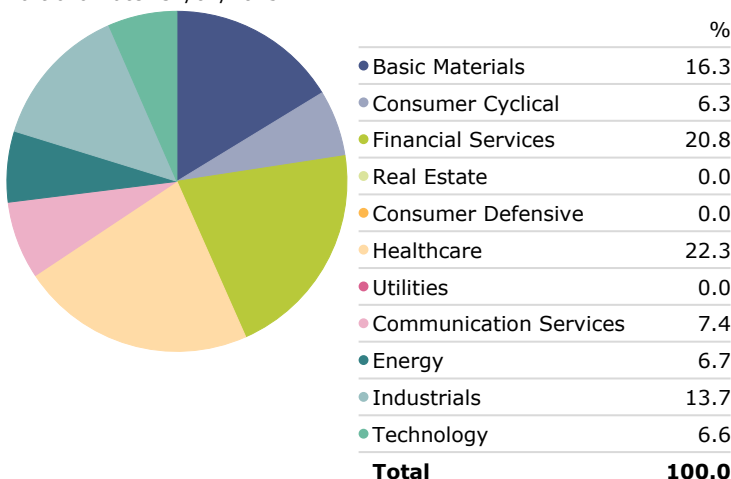
Time Period: Since Inception to 31/07/2015

Calculation Benchmark: S&P/ASX 100 TR



VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/07/2015



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