

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 -5.59% return for the month and -9.43% over the last 3 months. The portfolio underperformed the S&P/ASX 100 index in September by 2.52% and underperformed by 2.73% over the quarter.

Over the last year the portfolio has generated a -0.19% return pre-fees outperforming the ASX 100 index by 0.13%.

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 30/09/2015



Trailing Returns

As of Date: 30/09/2015

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	Since Inception
VIP Australian Share Leaders	-5.59	-9.43	-14.58	-0.19	5.71	12.09	12.81	8.74
VIP Australian Share Leaders Investment	-5.70	-9.74	-15.15	-1.53	4.30	10.59	11.30	7.28
VIP Australian Share Leaders Super-Pension	-5.65	-9.61	-14.92	-0.99	4.87	11.20	11.91	7.87
S&P/ASX 100 TR	-3.07	-6.70	-12.94	-0.32	2.91	10.00	11.35	9.63

Performance Contributors & Detractors

During September all of the sectors of the Australian share market except Information Technology were in negative territory with the top 200 companies by market capitalization (the S&P/ASX 200 index) was down -2.96%.

The strongest performing sector was the Information Technology sector 6.06% followed by the Consumer Discretionary and Consumer Staples sectors with -1.29% and -1.54% gains respectively. On the other hand, the Energy sector -12.16% followed by Materials -4.91%, and Health Care -3.62% achieved the lowest returns over the month.

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

The **Top 3 Contributors** for the month were Aristocrat Leisure Ltd 2.01%, Brambles Ltd 0.59%, and CSL Ltd -1.93%; and the **Top 3 Detractors** for the month were Origin Energy Ltd -26.15%, Lend Lease Group -9.97%, and Bendigo and Adelaide Bank Ltd -9.66%.

Housing: Start of the Slowdown

For the past 3 years, a week hasn't gone by without a mention of the Sydney housing bubble – 'how long will this growth be sustainable,' and moreover, 'how will this next generation of home buyers ever afford a house' are common queries in the largest city in Australia. The country's housing values have risen 24% in the last 3 years, with Sydney accounting for 46% of total price growth, much of which can be attributed to an undersupply of residential property as well as record low interest rates. However, it seems that the bubble is finally prime to pop, with numerous signs indicating that Sydney will be seeing a slowing down of growth in months to come. Naturally, with the slowing of the housing market comes the questions as to why it is happening, and perhaps more importantly, what the slow down means for investors.

It is important to note upfront that the extent to which this slowdown will occur is vastly opinionated. On one hand, a majority of property experts and research branches are yet to acknowledge any indication that the housing market will record a fall in prices in the near future. Conversely, other major financial institutions such as Macquarie Bank and Credit Suisse predict that 'national house prices would see a 7.5% decline from March next year.' Regardless of how substantial a slowdown this will be, all indicators point to the fact that there will indeed be a slowdown. For one, auction clearance rates have recently recorded below their usual highs, with Sydney dropping to 75% in September from the 80% it has held for much of the year, and again to 66% in October. Furthermore, as noted in the *Domain Group House Price Report*, Sydney has 'experienced the slowest rate of price growth since March 2014, at just 3.2%.'

There are many factors that attribute to the slowing down of the housing market, a major one being the simple economics of supply and demand. As mentioned previously, much of the growth was propelled by an undersupply of houses in comparison to demand. However, as a result of this surplus of demand what we are now witnessing is a construction boom, with approximately 720,000 new homes to be built in Australia by 2019. Investment bank Goldman Sachs predict this will lead to an oversupply of housing by 2017, and following the rules of supply/demand, lower the housing prices.

Also highlighted by Goldman is that this construction boom should derive from a growing economy, although this is not the case. Signs such as wage growth were at a low 2.3% this year, and the Australian economy's growth rate was 0.2% in the second quarter this being the lowest since 2013. Additionally, population growth in 2014 was only 1.4%, and is looking to fall even lower in 2015. All this taken into account, it's fairly noticeable that the housing growth we have experienced in the past few years isn't sustainable compared to economic growth, hence the overall consensus that a slowdown is inevitable.

Interest rates also have much to do with housing growth. With the cash rate at the historic low of 2%, lending has been high with the banks following suit and enabling a greater accessibility to mortgage loans, which of course boosts housing price growth. Recently however, there has been movement by banking regulator APRA to limit lending to property investors, and banks are expected to raise interest rates with Westpac already doing so. As stated by Domain Group senior economist Andrew Wilson, 'nothing will slow a market more than higher interest rates.' These factors accumulate to make it harder to obtain a mortgage, thus reducing demand and therefore housing price growth.

While it cannot be said to what extent the housing growth rate will reduce or if housing prices will fall, it is a safe observation to say that all market signals are largely indicative of a peaking housing bubble that is set for a slowdown. Whether this will be a resounding pop or a hissing deflation, only time will tell.

Source: Georgina Mitchell, Justine Parker, Mat Spasic, Jens Meyer

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
Westpac Banking Corp	WBC	Financials	-4.50	-7.62	0.63	8.24
Australia and New Zealand Banking Group Ltd	ANZ	Financials	-3.04	-15.90	-4.06	8.95
James Hardie Industries PLC DR	JHX	Materials	-3.02	-1.62	48.45	2.45
CSL Ltd	CSL	Health Care	-1.93	4.20	22.48	1.81
Aristocrat Leisure Ltd	ALL	Consumer Discretionary	2.01	12.55	50.17	1.76
Brambles Ltd	BXB	Industrials	0.59	-6.62	5.63	3.11
Telstra Corp Ltd	TLS	Telecommunication Services	-2.77	-5.03	14.07	7.91
Ramsay Health Care Ltd	RHC	Health Care	-5.00	-3.47	19.26	2.12
DuluxGroup Ltd	DLX	Materials	-4.97	-6.47	1.75	5.28
Bendigo and Adelaide Bank Ltd	BEN	Financials	-9.66	-15.32	-8.95	8.84
Spark Infrastructure Group	SKI	Utilities	-3.02	-1.28	8.02	5.98
Lend Lease Group	LLC	Financials	-9.97	-14.54	-8.55	4.44
BHP Billiton Ltd	BHP	Materials	-6.78	-13.22	-22.18	9.80
Origin Energy Ltd	ORG	Energy	-26.15	-46.95	-55.91	7.48
RBA Bank accepted Bills 90 Days			0.18	0.54	2.38	

Portfolio Adjustments

The VIP Investment Committee decided to buy BHP Billiton as we believe it to be a stock with a good yield that was able to be acquired at the bottom of the commodity cycle. The Committee also decided to buy Spark Infrastructure Group in order to add an infrastructure asset to the portfolio as well as the security's tax efficient cash flow. While Harvey Norman has benefitted from government announcements, we believe it is now fully priced and thus decided to sell the stock.

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.

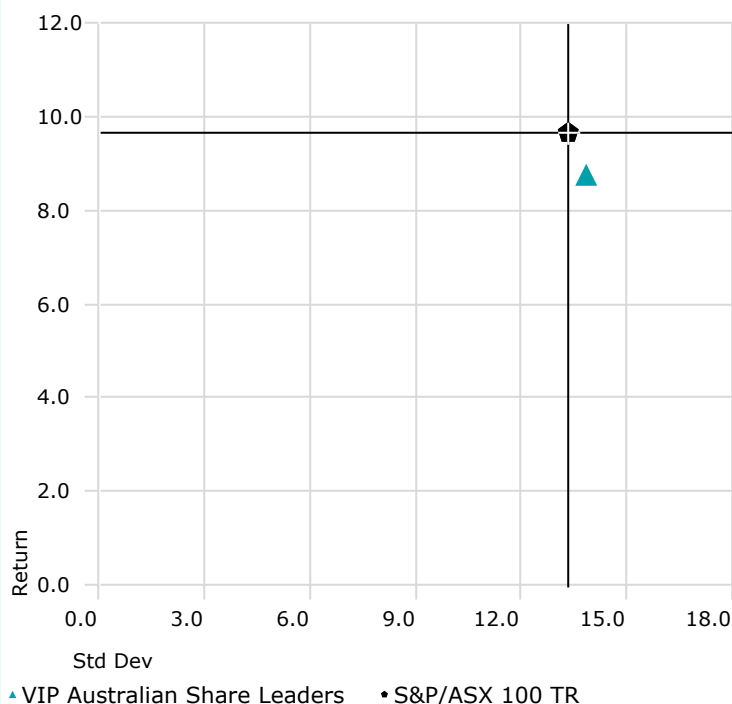
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

Risk-Reward

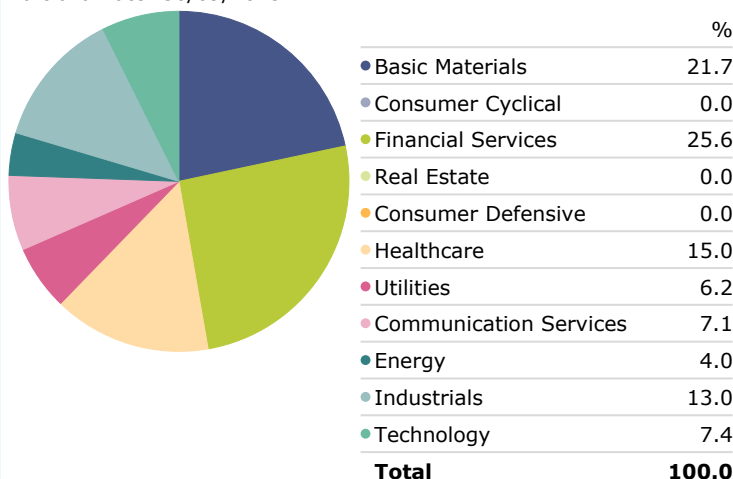
Time Period: Since Inception to 30/09/2015

Calculation Benchmark: S&P/ASX 100 TR



VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 30/09/2015



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