

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

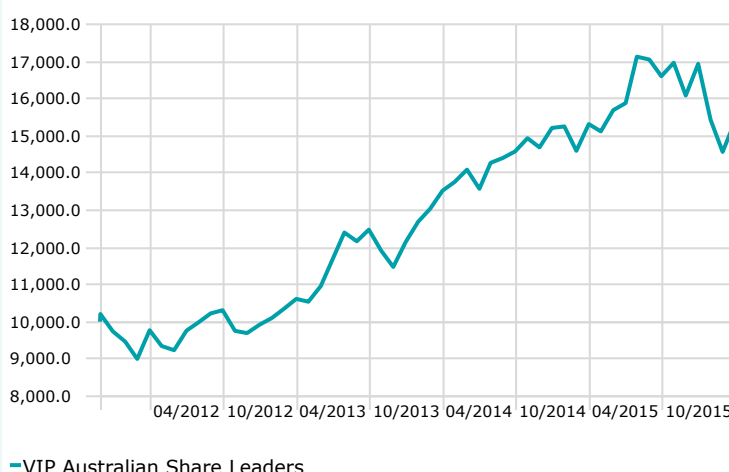
The VIP Australian Share Leaders portfolio generated a 5.69% return for the month and -9.09% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in October by 1.52% and underperformed by 2.05% over the quarter.

Over the last year the portfolio has generated a 0.53% return pre-fees outperforming the ASX 100 index by 1.35%.

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 31/10/2015



Trailing Returns

As of Date: 31/10/2015

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	Since Inception
VIP Australian Share Leaders	5.69	-9.09	-7.28	0.53	6.70	13.21	12.05	9.96
VIP Australian Share Leaders Investment	5.57	-9.40	-7.90	-0.82	5.27	11.69	10.55	8.49
VIP Australian Share Leaders Super-Pension	5.62	-9.28	-7.65	-0.27	5.85	12.31	11.16	9.08
S&P/ASX 100 TR	4.17	-7.04	-7.53	-0.82	2.98	10.39	10.56	9.77

Performance Contributors & Detractors

During October all of the sectors of the Australian share market except Information Telecommunications Services were in positive territory with the top 200 companies by market capitalization (the S&P/ASX 200 index) was up 4.37%.

The strongest performing sector was the Energy sector 8.02% followed by the Utilities and Health Care sectors with 6.98% and 6.14% gains respectively. On the other hand, the Telecommunications sector -2.86% followed by Consumer Staples 0.38%, and Information Technology 0.58% achieved the lowest returns over the month.

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

The **Top 3 Contributors** for the month were Bank of Queensland +17.25%, Spark Infrastructure Group +11.23%, and Dulux Group 10.28%; and the **Top 3 Detractors** for the month were Telstra Corp -3.74%, Australia and New Zealand Banking Group Ltd 0.48%, and Boral Ltd 2.28%.

A Tax Reform for the Future

A couple months in office, and Malcolm Turnbull's government faces its first major assessment as the leader of this country – the much anticipated tax reforms have made news headlines for the last few weeks and with Prime Minister popularity rating at an all-time high as of late, the Australian public is very keen to hear what Mr. Turnbull and treasurer Scott Morrison have in store for us. Much has been said about a potential GST hike and changes to superannuation taxes, but until the release of the tax discussion paper in 2016 we can only speculate while following the clues dropped by the government.

What we do know is that a change is vital for the continual growth of Australia. The OECD (Organisation for Economic Cooperation and Development) has warned that annual Australian growth is unlikely to recover to 3% until 2017, assuming that Australia maintains the existing tax structure. The tax system currently in place was designed in a different era, when the economy was very different. It was not designed to deal with multinational trade, increasing global competition for investment, the internet and the digital economy.

The last major reform, referred to back then as the 'New Tax System' was in 2000, and introduced the Goods and Services Tax (GST). This tax system was considered both efficient and fair for several years afterwards, and met the Government's wider policy objectives. As noted by Greg Smith of Melbourne Law School and teacher of Tax Policy, 'Australia's tax reforms have had one key theme. They have broadened tax bases so as to lower tax rates.' This is what the country has required in the past, and what it needs now particularly given Australia's aging population.

Now more than ever, a tax reform is necessary to encourage growth and investment in the Australian economy. In the last 15 years, there has been a gradual decrease in overall revenue robustness, and as a result, the current tax system is collecting a lesser amount than in the several years after 2000. A changing landscape has seen a fall in spending in recent years, thus effecting the GST share, as has a shift towards spending on exempt items such as education, health, and overseas purchases. Furthermore, the increasing globalisation of the world has seen import taxes reduced as part of trade reform. An effective tax reform would provide tax incentives for businesses to grow, for growth requires spending, which subsequently puts money back into both the economy and the government, effectively boosting Australia's overall growth.

On a more individual front, fairness of saving and investment taxes has been challenged as more taxpayers exploit the margins, and there has been an increase in concerns over the cost and distribution of the concessions for capital gains and superannuation. A tax reform would aim to adjust the system so as to balance out the distribution of these concessions.

As a result of an aging population, the work force of Australia could find themselves supporting the country's tax obligation despite the majority of the population being in the retiree bracket and thus able to access a number of tax offsets. As mentioned previously, broadening tax bases so as to lower tax rates is essential in order to spread the tax burden more fairly among Australian citizens, while encouraging the growth of our economy.

All in all, Australia, and for that matter the world, is a changed place to what it was 15 years ago. We need a tax reform that has adapted to these changes and is able to get us back on track in terms of growth, and provide Australian's from all walks of life with a system that is fair. While it is fair to say that this will come with pain in the short term, it is a necessary step for the good of our country going forward.

Source: Greg Smith, Lisa Cox, Peter Martin, Louise Yaxley, Dan Conifer

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
Spark Infrastructure Group	SKI	Utilities	11.23	10.59	8.02	5.85
DuluxGroup Ltd	DLX	Materials	10.28	-2.96	1.75	5.05
CSL Ltd	CSL	Health Care	5.15	-4.31	22.48	1.71
Bank of Queensland Ltd	BOQ	Financials	17.25	-1.00	8.33	7.86
Lend Lease Group	LLC	Financials	3.59	-14.73	-8.55	4.63
Bendigo and Adelaide Bank Ltd	BEN	Financials	7.97	-14.98	-8.95	8.80
Brambles Ltd	BXB	Industrials	6.57	-3.14	5.63	2.99
Aristocrat Leisure Ltd	ALL	Consumer Discretionary	8.25	8.75	50.17	1.71
Ramsay Health Care Ltd	RHC	Health Care	6.05	-5.99	19.26	1.99
James Hardie Industries PLC DR	JHX	Materials	7.39	-3.63	48.45	2.54
Westpac Banking Corp	WBC	Financials	6.38	-9.37	0.63	8.83
Boral Ltd	BLD	Materials	2.28	-16.78	11.21	4.62
Telstra Corp Ltd	TLS	Telecommunication Services	-3.74	-13.38	14.07	8.24
Australia and New Zealand Banking Group Ltd	ANZ	Financials	0.48	-16.74	-4.06	9.86
BHP Billiton Ltd	BHP	Materials	3.60	-8.23	-22.18	11.50
RBA Bank accepted Bills 90 Days			0.18	0.54	2.38	

Portfolio Adjustments

Origin Energy was sold after consecutive months of poor performance, and we believe the energy sector has a long way to go before recovery. Boral Ltd was bought to replace Origin and to capitalise on the construction boom of Australia, having had James Hardie perform consistently well for our portfolio for some time now.

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.

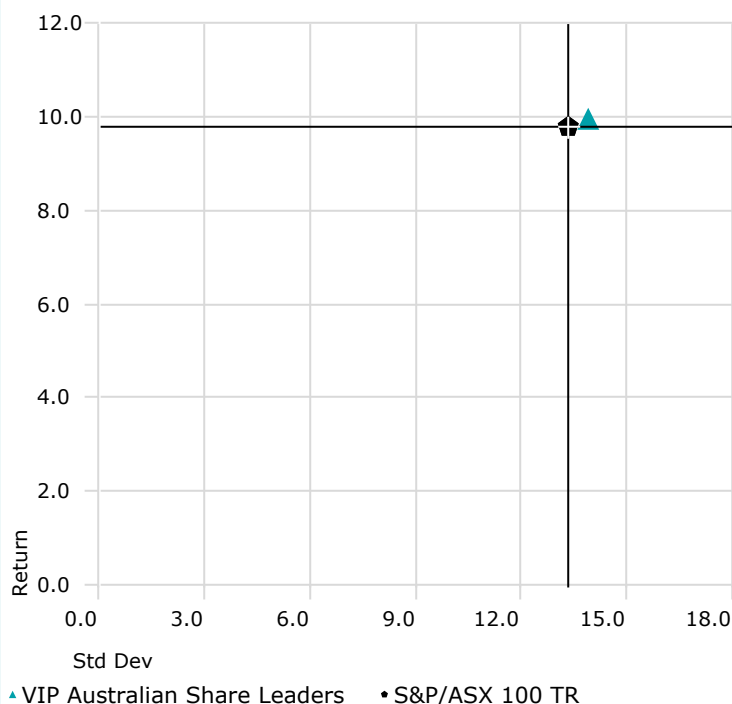
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

Risk-Reward

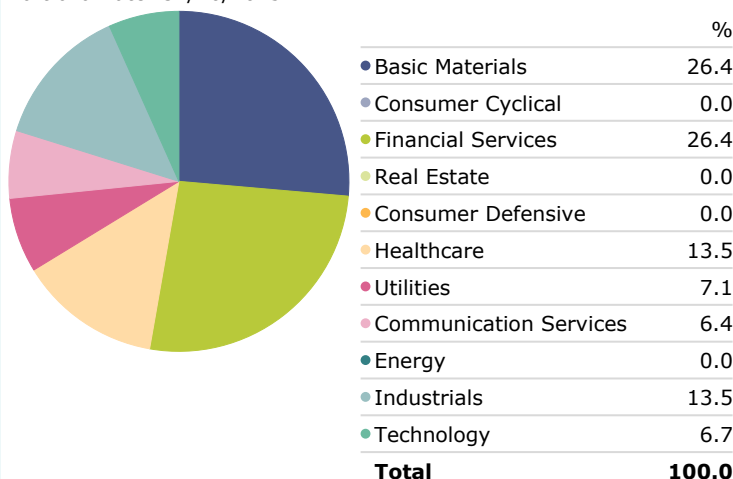
Time Period: Since Inception to 31/10/2015

Calculation Benchmark: S&P/ASX 100 TR



VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/10/2015



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