

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 4.43% return for the month and 11.51% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in December by 1.82% and by 5.42% over the quarter.

Over the last year the portfolio has generated a 3.53% return pre-fees outperforming the ASX 100 index by 1.39%.

The post-fees returns for the *Investment* and *Superannuation & Pension* portfolios are shown in the table below.

Investment Growth

Time Period: 1/07/2011 to 31/12/2015



Trailing Returns

As of Date: 31/12/2015

| | 1 Month | 3 Month | 6 Month | 1 Year | 2 Years | 3 Years | 4 Years | Since Inception |
|--|---------|---------|---------|--------|---------|---------|---------|-----------------|
| VIP Australian Share Leaders | 4.43 | 11.51 | 0.99 | 3.53 | 7.37 | 14.03 | 15.18 | 10.89 |
| VIP Australian Share Leaders Investment | 4.31 | 11.13 | 0.31 | 2.14 | 5.94 | 12.51 | 13.63 | 9.40 |
| VIP Australian Share Leaders Super-Pension | 4.36 | 11.28 | 0.59 | 2.70 | 6.52 | 13.13 | 14.26 | 10.00 |
| S&P/ASX 100 TR | 2.61 | 6.09 | -1.01 | 2.14 | 4.11 | 9.62 | 12.36 | 9.78 |

Performance Contributors & Detractors

The strongest performing sector was the Consumer Staples sector 7.11% followed by the Consumer Discretionary 6.65% and Telecommunications Services sectors with 6.65% and 4.20% gains respectively. On the other hand, the Energy sector -7.49% followed by Health Care 0.52%, and -1.15% achieved the lowest returns over the month.

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

The **Top 3 Contributors** for the month were Lend Lease Group 11.84%, Aristocrat Leisure Ltd 7.59%, and James Hardie Industries 7.39%; and the **Top 3 Detractors** for the month were CIMIC Group -2.99%, Spark Infrastructure Group 1.05%, and Ramsay Health Care Ltd 1.33%

The Lucky Country

From almost any standpoint, it is easy to understand why Australia is fondly referred to (albeit mostly by Australians) as 'The Lucky Country.' With another Australia Day just passed, we Australians were once again offered the chance to experience and reflect on what makes this country great – the sun, the surf, the beach, the barbeques. Whilst these distinctive factors of our nation's character are no doubt great, they are admittedly accessible in other areas of the globe. So what makes us so lucky? Beyond the obvious, the answer lies within the fundamental components of Australia, such as our current government, interest rates, the low Australian dollar, as well as current prices in oil and energy. Given the recent volatility in the market, from an investors perspective it is easy to forget that we are in fact a privileged bunch.

In the Spring of 2015 the Australian public witnessed the demise of Tony Abbott's time at the helm, and emerging victorious was a leader that oozed success, and had a resume to back it up. Mr Malcolm Turnbull took the prime minister's office after an illustrious career in investment banking as a partner for Goldman Sachs as well as his own firm 'Whitlam Turnbull & Co Ltd, and historically has proven to be an expert at mastering policy detail. As was mentioned in the VIP August Report, Turnbull's success resulted in a boost in consumer and business confidence, a feat considering China's correction in August had thrown global markets into disarray, and fear was a widespread theme across the world's economy. Almost five months ahead we see stability in the government, a tell-tale sign to the everyday Australian being that the coalition is rarely making a headline in today's newspapers.

Australia is also experiencing historically low interest rates, with a cash rate of 2.00%. effectively, the point of lowering a cash rate is to promote growth by encouraging spending and reducing the cost of borrowing, each of which stimulate the economy. As a result, the nation is currently recording inflation at an increase of 2% in 2016, a rate that although slightly higher than expected, is well under control. Compare this to other economies such as Europe, Japan, and China, where, as put by AFR's Phil Baker "fears that inflation is so low that central banks will, sooner than later, be forced to cut interest rates to stave off a bout of potential deflation." Consequently, Australia finds itself the 'envy of the world,' with inflation a welcomed relief if the alternative is the potential of deflation derived from a lethargic rate of growth.

Noticeable of recent times is the severe decrease in both oil and energy prices. Essentially, these prices are a by-product of the slowdown of China's economy. Among other market factors, it is a simple case of the supply/demand concept in that while supply has more or less remained stable, China's slowdown has largely decreased the demand for these sectors and as a result the prices have fallen. While this may upset shareholders in oil or energy (of which the VIP Portfolios hold neither), the Australian general public is happy to benefit from cheaper fuel and a slighter energy bill.

Finally, it is common knowledge that the Australian dollar now resides at a lowly \$0.70 after peaking at \$1.10 in 2011, and although this obviously impacts overseas travel plans there is the other, indispensably valuable side of the coin. A low Australian dollar, whilst meaning a holiday abroad will be more expensive, encourages Australian's to travel within Australia, thus putting money back into our businesses. Subsequently, a pickup in business leads to a greater demand for employees and a greater need for marketing campaigns all of which promote the growth of our economy. Our exports, including tourism, become more attractive and locally produced goods are able to compete more effectively against imported products. All in all, the Australian dollar at \$0.70 is doing far more good than damage.

One must ponder what the motherland was thinking when it sent convicts (of all people) from damp, grey England to one of the most spectacular landscapes the earth has to offer. Over 200 years later, to live in such a land seems to be a birthright. However, regardless of all the perks Australians enjoy on a daily basis, when considering the Australian economy relative to the developed world as well as its incomparability to the developing countries, to be standing on this golden soil we are, in every sense of the word, lucky.

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 |
|---|--------|----------------------------|-------------------------|-------------------------|--------------------------|----------------------|
| Lendlease Group | LLC | Financials | 11.84 | 13.63 | -9.61 | 4.33 |
| CSL Ltd | CSL | Health Care | 5.19 | 18.06 | 23.39 | 1.55 |
| Aristocrat Leisure Ltd | ALL | Consumer Discretionary | 7.59 | 19.63 | 58.23 | 1.69 |
| James Hardie Industries PLC DR | JHX | Materials | 7.39 | 3.11 | 37.88 | 2.80 |
| Brambles Ltd | BXB | Industrials | 6.24 | 18.79 | 11.82 | 2.87 |
| DuluxGroup Ltd | DLX | Materials | 6.23 | 26.73 | 19.60 | 4.38 |
| Bendigo and Adelaide Bank Ltd | BEN | Financials | 7.08 | 20.59 | 0.65 | 8.92 |
| Boral Ltd | BLD | Materials | 4.23 | 12.14 | 16.36 | 4.69 |
| Ramsay Health Care Ltd | RHC | Health Care | 1.33 | 16.20 | 21.21 | 2.08 |
| Bank of Queensland Ltd | BOQ | Financials | 2.05 | 24.75 | 23.13 | 8.11 |
| Westpac Banking Corp | WBC | Financials | 4.39 | 18.32 | 9.98 | 8.78 |
| Telstra Corp Ltd | TLS | Telecommunication Services | 4.66 | 0.00 | 1.27 | 7.88 |
| Australia and New Zealand Banking Group Ltd | ANZ | Financials | 2.87 | 8.15 | -4.91 | 10.92 |
| Spark Infrastructure Group | SKI | Utilities | 1.05 | 3.84 | -3.32 | 5.91 |
| CIMIC Group Ltd | CIM | Industrials | -2.99 | 3.40 | 16.19 | 6.77 |
| RBA Bank accepted Bills 90 Days | | | 0.20 | 0.56 | 2.25 | |

Portfolio Adjustments

In December the *VIP Investment Committee* decided to sell BHP Billiton after the company experienced a disaster in a Brazilian dam and its stock price suffered accordingly. CIMIC Group was bought in its place to capitalise on the industrials sector.

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.

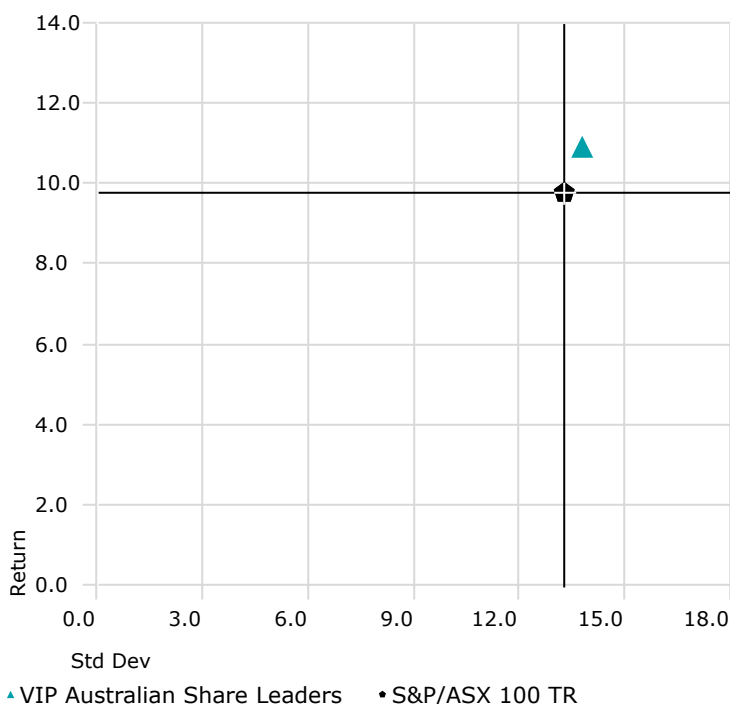
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

Risk-Reward

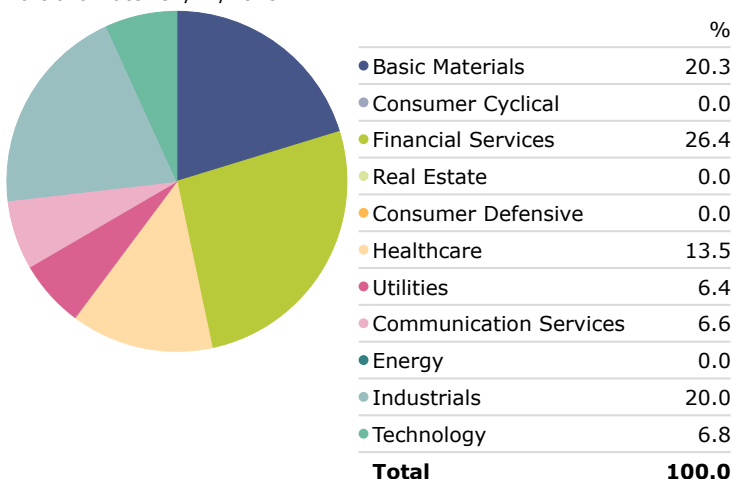
Time Period: Since Inception to 31/12/2015

Calculation Benchmark: S&P/ASX 100 TR



VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/12/2015



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