

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

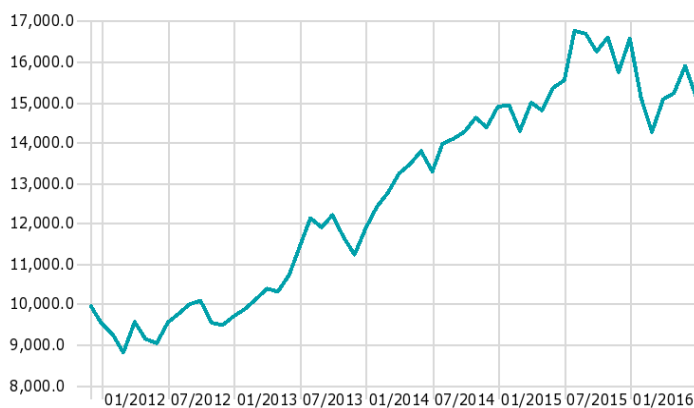
The VIP Australian Share Leaders portfolio generated a -4.97% return for the month and 0.26% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in January by 0.51% and by 4.00% over the quarter.

Over the last year the portfolio has generated a -2.79% return pre-fees outperforming the ASX 100 index by 9.44%.

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 31/01/2016



—VIP Australian Share Leaders

Trailing Returns

As of Date: 31/01/2016

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	Since Inception
VIP Australian Share Leaders	-4.97	0.26	-8.85	-2.79	6.65	9.65	12.15	9.46
VIP Australian Share Leaders Investment	-5.08	-0.08	-9.47	-4.09	5.22	8.18	10.65	7.99
VIP Australian Share Leaders Super-Pension	-5.03	0.06	-9.22	-3.57	5.80	8.77	11.26	8.58
S&P/ASX 100 TR	-5.48	-3.74	-10.51	-6.65	2.78	5.83	9.48	9.52

Performance Contributors & Detractors

The strongest performing sector was the Utilities sector 0.75% followed by the Telecommunication Services and Consumer Staples sectors with 0.74% and -0.16% gains respectively. On the other hand, the Materials sector -9.50% followed by Energy -6.22%, and Information Technology -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, Communication Services & Utilities sectors along with a lower allocation of the portfolio to the Energy sector **contributed** to performance; whereas, a higher allocation of the portfolio to the Basic Materials and a lower allocation of the portfolio to the Financial Services, Consumer Cyclical, and Consumer Defensive sectors **detracted** from performance.

The **Top 3 Contributors** for the month were Spark Infrastructure Group 2.86%, Aristocrat Leisure Ltd 0.39%, and Telstra Corp Ltd 0.36%; and the **Top 3 Detractors** for the month were Australia and New Zealand Banking Group Ltd -13.43%, Ramsay Health Care Ltd -10.83%, and Bendigo and Adelaide Bank Ltd -10.13%.

Stock Profile: TPG Telecom

While our investors are regularly notified of changes to the VIP Portfolios and the reasons behind them in our monthly reports, much of this can leave a sense of curiosity as to what the company we have invested in actually does. Our monthly review for January will highlight TPG Telecom, an Australian telecommunications and IT company that specialises in consumer and business internet services as well as mobile telephone services. It is a recent acquisition of our portfolios and as such is held in the VIP Growth, Balanced, and Conservative portfolios, as well as the Australian Share Leaders Portfolio.

Total Peripherals Group or TPG was established in 1986 by David Teoh, and later executed a reverse takeover (the takeover of a public company by a smaller company) of SP Telemedia Limited in 2008. From there on, the company became known as TPG Telecom and has since risen to become Australia's second largest internet provider among offering other products and services including networking, OEM services, mobile phone services, and accounting software. Since 2008, the company has made several acquisitions, major ones including the purchasing of AAPT Ltd from Telecom New Zealand in 2013, a move that has allowed TPG to gain access to AAPT's fibre-optic network of which we'll discuss in due course. The acquisition of iiNet (Australia's 3rd largest internet provider) was also significant, as it enabled TPG to become the second largest provider after Telstra.

In terms of business strategy, TPG is the price leader of the industry and as a result has earned 'strong organic market share gains over several years,' as noted by adviser research centre Morningstar. The price leading strategy is well supported by the fact that owning AAPT as well as PIPE Networks, both of which provide TPG with control of fibre-optic infrastructure, has enabled the company to reduce both international and domestic backhaul expenses (backhaul – the infrastructure required to connect new developments to the wider telecommunications network). Significantly, this also puts TPG in a comfortable position to adjust to the structural changes that will come with the National Broadband Network (NBN) rollout.

This leads on to one of the most predominant reasons the VIP Investment Committee decided to invest in TPG Telecom. Last December at the company's annual general meeting, Teoh announced TPG was going after Telstra's share of the telecommunications market by speeding up TPG's fibre rollout, as well as "launching products and services at prices he claims the incumbent cannot match." By targeting Telstra (which is also held in our portfolios), TPG increases pressure on the incumbent number 1, which is strategically aiming to reduce costs and increase profits through overseas investments.

Teoh believes one of their key advantages lies in pricing, stating that "when we price something we look very long term and we want to ensure that Telstra can't follow us." The other key advantage is found in their fibre infrastructure. Fibre-optic systems are the most essential facet of any digital communications system, and are therefore the key to succeeding in a time where the country is in the process of embracing the National Broadband Network, as TPG is effectively competing against the NBN in the wholesale market by 'connecting lucrative apartment buildings to NBN-like broadband services known as fibre-to-the-basement.' While both Telstra and Optus have negotiated multimillion deals with streaming video giants such as Netflix and Stan as well as sporting codes, Teoh is largely focussed on the fibre-optic side of the business, stating that "we have the fibre infrastructure, this is our core business – we are not going to stop."

Given the strong acquisitions made throughout the years, not to mention a well-placed fibre infrastructure and business strategy, TPG Telecom is set for strong potential in our portfolios.

Source: David Ramli, Morningstar

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
Aristocrat Leisure Ltd	ALL	Consumer Discretionary	0.39	10.94	58.23	1.71
CSL Ltd	CSL	Health Care	-1.24	10.89	23.39	1.62
Telstra Corp Ltd	TLS	Telecommunication Services	0.36	4.26	1.27	8.43
DuluxGroup Ltd	DLX	Materials	-2.71	11.86	19.60	4.41
Spark Infrastructure Group	SKI	Utilities	2.86	-3.97	-3.32	5.97
Brambles Ltd	BXB	Industrials	-3.80	7.23	11.82	2.68
Lendlease Group	LLC	Financials	-8.91	-0.08	-9.61	4.57
Boral Ltd	BLD	Materials	-5.25	3.90	16.36	5.01
James Hardie Industries PLC DR	JHX	Materials	-8.47	-12.08	37.88	2.57
Bank of Queensland Ltd	BOQ	Financials	-6.10	0.15	23.13	9.56
CIMIC Group Ltd	CIM	Industrials	-0.95	-13.17	16.19	5.35
Bendigo and Adelaide Bank Ltd	BEN	Financials	-10.13	0.37	0.65	10.86
Westpac Banking Corp	WBC	Financials	-8.08	2.59	9.98	8.98
Ramsay Health Care Ltd	RHC	Health Care	-10.83	-2.31	21.21	2.05
Australia and New Zealand Banking Group Ltd	ANZ	Financials	-13.43	-6.15	-4.91	11.18
RBA Bank accepted Bills 90 Days			0.19	0.57	2.25	

Portfolio Adjustments

In January the VIP Investment Committee made no adjustment to the portfolio.

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.

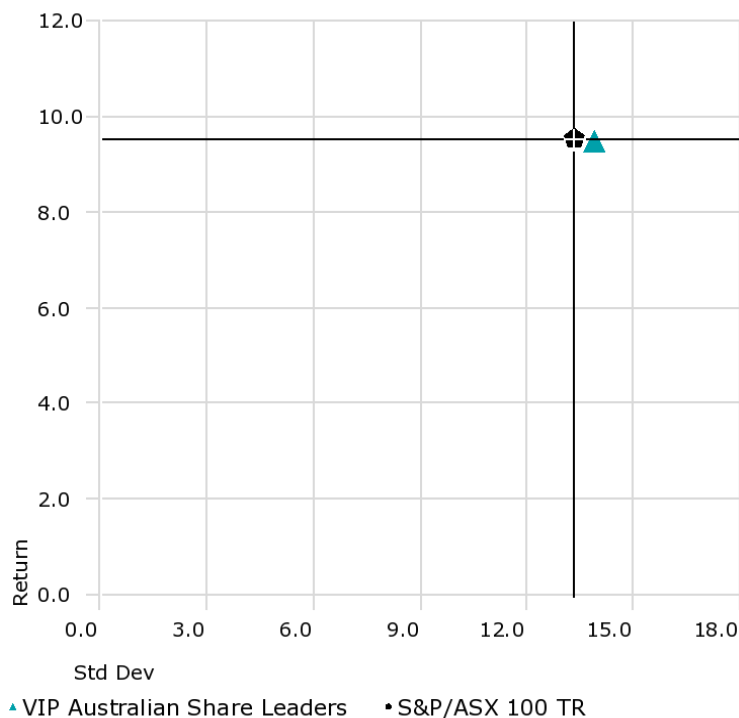
The chart on the right shows that the VIP Australian Share Leaders portfolio (aqua triangle) has achieved an **equal return** and **lower risk** compared to the S&P/ASX 100 Index (black pentagon) since inception on 01/07/2011.

This is the outcome we aim to achieve for our investors.

Risk-Reward

Time Period: Since Inception to 31/01/2016

Calculation Benchmark: S&P/ASX 100 TR



Sector Exposure

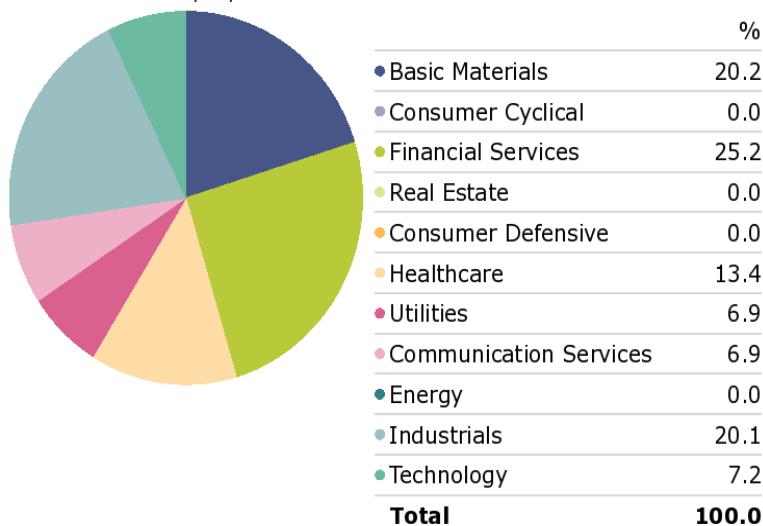
The portfolios largest sector exposure is to the Healthcare sector closely followed by the Financial Services and Materials sectors.

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.

VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/01/2016



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