

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 0.91% return for the month and 0.14% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in February by 2.89% and by 5.08% over the quarter.

Over the last year the portfolio has generated a -9.06% return pre-fees outperforming the ASX 100 index by 5.27%.

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 29/02/2016



—VIP Australian Share Leaders

Trailing Returns

As of Date: 29/02/2016

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	Since Inception
VIP Australian Share Leaders	0.91	0.14	0.95	-9.06	4.48	7.91	11.80	9.49
VIP Australian Share Leaders Investment	0.80	-0.19	0.27	-10.28	3.07	6.47	10.30	8.03
VIP Australian Share Leaders Super-Pension	0.85	-0.06	0.55	-9.79	3.64	7.05	10.91	8.62
S&P/ASX 100 TR	-1.98	-4.94	-4.73	-14.33	-0.65	3.21	8.50	9.41

Performance Contributors & Detractors

The strongest performing sector was the Materials sector 8.96% followed by the Utilities and Health Care sectors with 1.96% and 0.74% gains respectively. On the other hand, the Telecommunications Services sector -5.53% followed by Information Technology -5.09%, and Consumer Staples -4.55% achieved the lowest returns over the month.

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

The **Top 3 Contributors** for the month were CIMIC Group Ltd +31.12%, Brambles Ltd +12.22%, and James Hardie Industries PLC DR +12.01%; and the **Top 3 Detractors** for the month were Bendigo and Adelaide Bank Ltd -20.30%, Bank of Queensland Ltd -19.40%, and Macquarie Group Ltd -10.23%.

Election Year and the United States of Uncertainty

With the US Election Day approximately 8 months away, the USA and moreover the world stares down the barrel of the very possible reality that is President Trump. What began as a side story to the marathon that is the US election has quickly turned into the focal point of the whole matter, with billionaire Donald Trump emerging as the heavy frontrunner for the Republican nomination. On the other hand, Hilary Clinton faces competition from socialist Bernie Sanders in the race for the Democratic nomination, although it is acknowledged Clinton is very much the primary candidate for the position. While many things can change between now and the election day on the 8th of November, what is certain is that the US presidential elections have the ability to throw absolute uncertainty into the markets, pending on who will emerge victorious as the 45th president of the United States of America.

Historically, markets have revolved around both terms of presidency as well as the election, with the 8th year of presidency (of which the USA is experiencing now) ranking last in terms of equity returns, and often the first half of the election year providing even worse returns. In fact, according to Ned Davis Research, the Dow Jones Industrial Average falls an average 1.8% through May. Given the state of the markets of late, it is conceivable to say that with the uncertainty that accompanies an election year, a return to the stability experienced throughout 2012-2015 is still beyond the foreseeable horizon.

Of course, even if we did know who the next president was, the prediction on what that would do to markets is still purely speculative given the history of politicians and their 'promises.' However, based on the policy Trump has outlined, one can see benefits for defence and homeland security companies, consumer discretionary companies, and infrastructure builders if he were to carry out his pledge to reduce taxes on low and middle income workers. Much of this derives from his stances on immigration reform and domestic job creation, all of which are based on the mantra 'make America great again.' Alternatively, a Sanders presidency could potentially bring about the breaking up of banks deemed too big to fail, reverse the North American Free Trade Agreement, and create a single-payer healthcare system.

Another factor that could further increase uncertainty risk is the introduction of a third-party candidate entering the fray, effectively turning the traditional Republican/Democrat rivalry into a three-way race. It is known that Mike Bloomberg, the former mayor of New York as well as the founder of financial news service and terminal provider 'Bloomberg' is considering a third-party bid. Furthermore, if Trump is unsuccessful in winning the Republican nomination, there still lies the possibility that he continues his presidential campaign as an independent.

As noted by James Abate, CIO of Centre Funds in New York, "what the election cycle is doing with regard to the introduction of third-party candidates and disarray in both parties is pushing peoples' perception of risk up." This level of unease is reflected in the gold market, which is up more than 17% this year. As stated by Aurion Capital Management fund manager Greg Taylor, "you're seeing massive inflows into gold stocks and that's a sign something might be different, whether that's the fear trade from politics or negative rates, that's the biggest trade."

While Trump is frontrunner for the Republican bid, it is widely recognised that he is strongly opposed by senior Republicans, with some party donors already fundraising for an anti-Trump campaign, according to the New York Times. Many veteran Republican politicians believe Trump to be controversial given that the Republican orthodoxy is vastly contradicted by his stance on immigration, and believe Trump as the Party's nominee would lose to Hilary Clinton. This may lead to influential Republicans putting their best efforts behind another candidate, leaving the door open for more twists and turns in the US election theatre.

All in all, the US election will no doubt hold surprises up until election day – the fact that Trump is still standing is a surprise in itself.

Source: Sydney Morning Herald, New York Times, BBC

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
Brambles Ltd	BXB	Industrials	12.22	14.69	11.82	2.53
Ramsay Health Care Ltd	RHC	Health Care	9.34	-1.21	21.21	2.34
Spark Infrastructure Group	SKI	Utilities	5.82	10.00	-3.32	5.85
James Hardie Industries PLC DR	JHX	Materials	12.01	10.08	37.88	2.55
CIMIC Group Ltd	CIM	Industrials	31.12	25.99	16.19	4.89
TPG Telecom Ltd	TPM	Telecommunication Services	4.48	1.65	48.95	1.60
Lendlease Group	LLC	Financials	2.62	4.55	-9.61	4.24
Aristocrat Leisure Ltd	ALL	Consumer Discretionary	-2.44	5.37	58.23	1.76
Boral Ltd	BLD	Materials	7.09	5.77	16.36	4.89
Macquarie Group Ltd	MQG	Financials	-10.23	-21.07	49.23	6.39
CSL Ltd	CSL	Health Care	-1.23	2.61	23.39	1.60
DuluxGroup Ltd	DLX	Materials	0.93	4.31	19.60	4.60
Bendigo and Adelaide Bank Ltd	BEN	Financials	-20.30	-23.30	0.65	10.73
Westpac Banking Corp	WBC	Financials	-6.81	-10.58	9.98	8.37
Telstra Corp Ltd	TLS	Telecommunication Services	-6.75	-2.05	1.27	8.68
Australia and New Zealand Banking Group Ltd	ANZ	Financials	-7.36	-17.50	-4.91	10.35
Bank of Queensland Ltd	BOQ	Financials	-19.40	-22.77	23.13	8.90
RBA Bank accepted Bills 90 Days			0.18	0.57	2.25	

Portfolio Adjustments

In February the VIP Investment Committee added Macquarie Group and TPG Telecom to the Australian Share Leaders Portfolio, two stocks that have been in the blended portfolios since December.

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.

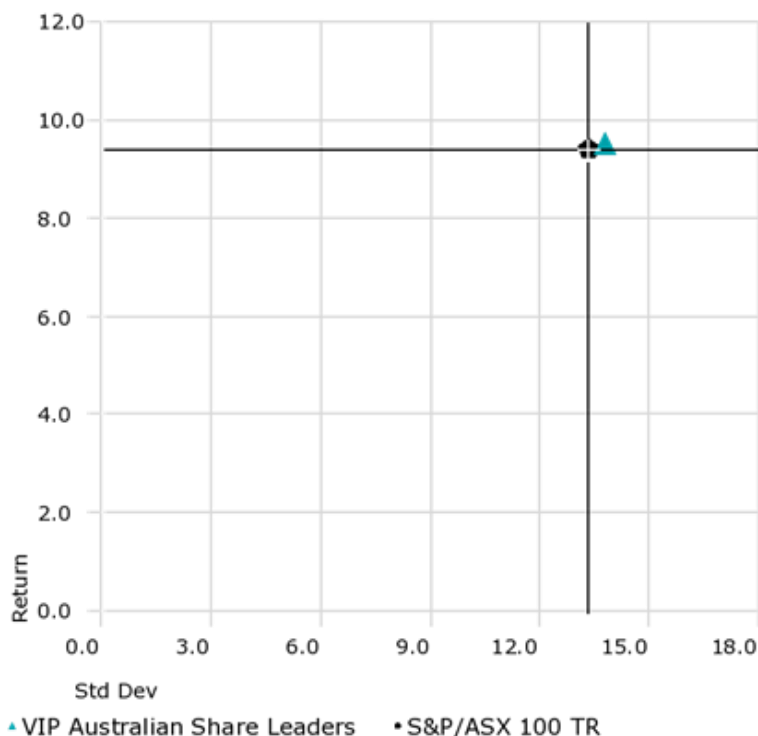
The chart on the right shows that the VIP Australian Share Leaders portfolio (aqua triangle) has achieved an **equal return** and **lower risk** compared to the S&P/ASX 100 Index (black pentagon) since inception on 01/07/2011.

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

Risk-Reward

Time Period: Since Inception to 29/02/2016

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: 29/02/2016

