

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 3.77% return for the month and -0.49% over the last 3 months. The portfolio underperformed the S&P/ASX 100 index in March by 0.93% and outperformed by 2.51% over the quarter.

Over the last year the portfolio has generated a -5.21% return pre-fees outperforming the ASX 100 index by 5.20%.

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 31/03/2016



—VIP Australian Share Leaders

Trailing Returns

As of Date: 31/03/2016

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	Since Inception
VIP Australian Share Leaders	3.77	-0.49	10.96	-5.21	5.93	9.96	12.15	10.18
VIP Australian Share Leaders Investment	3.65	-0.82	10.22	-6.48	4.51	8.48	10.65	8.70
VIP Australian Share Leaders Super-Pension	3.70	-0.69	10.52	-5.97	5.09	9.08	11.26	9.30
S&P/ASX 100 TR	4.70	-3.00	2.91	-10.41	1.49	5.58	9.40	9.56

Performance Contributors & Detractors

The strongest performing sector was the Information Technology sector 6.12% followed by the Materials and Energy sectors with 6.10% and 5.76% gains respectively. On the other hand, the Health Care sector 0.30% followed by Utilities 0.82%, and Consumer Staples 3.07% achieved the lowest returns over the month.

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

The **Top 3 Contributors** for the month were Bank of Queensland +14.88%, CIMIC Group +12.40%, and Bendigo and Adelaide Bank +9.30; and the **Top 3 Detractors** for the month were Ramsay Health Care -6.35%, DuluxGroup -3.83%, and Brambles -1.68%.

Emissions, Economic Growth, and Energy Sources

Contrary to what history has shown, the world has proven that economic growth and carbon emissions are able to be dissociated, with the global economy taking the first true steps towards developing the sustainable model for global growth that is becoming increasingly necessary. There are signs that carbon emissions do not necessarily need a positive correlation with GDP growth, and that decoupling (i.e. the dissociation of a rise in GDP and a rise in carbon emissions) is an achievable goal that must be strived after if the world is to approach a new era of sustainability.

2014 was the first time that there was global GDP growth while carbon emissions levelled off, with both metrics having been recorded for the last 40 years. While at the time experts acknowledged it could be an anomaly, the International Energy Agency (IEA) reported last month that "The new figures confirm last year's surprising but welcome news: we now have seen two straight years of greenhouse gas emissions decoupling from economic growth," said IEA Executive Director Fatih Birol. Previous to the last 2 years, the only periods in which carbon emissions had levelled or fell were in the early 1980s, 1992, and 2009 – each of these being periods of economic weakness, most recently the Global Financial Crisis. However, the fact that the most recent period included global GDP growth of 3.4% in 2014 and 3.1% in 2015 suggests that decoupling is indeed a realistic endeavour.

Not coincidentally, it has been found that since the beginning of the 21st century, 21 countries, including the USA, have decoupled their economic growth from carbon emission. This is according to researcher at the World Resources Institute Nathaniel Aden, who claims that the results "suggest that countries can sever the historic link between economic growth and greenhouse gas emissions." Of course, while 21 countries have achieved decoupling, the majority, including Australia, are still achieving growth via traditional means, which are directly connected to carbon pollution. While The Paris Agreement in December committed almost every country to confront climate change, it is understandable that, in the absence of major breakthroughs in climate change technology, governments are reluctant to aggressively tackle carbon emissions if the result is loss in economic growth.

The largest economy in the world, the United States, has achieved the decoupling of emissions and economic growth predominantly through the boom in domestic natural gas. When burned, the natural gas produces half the carbon pollution of coal, and as a result drove electric utilities away from coal and at the same time powered even more homes and factories. In Sweden, economic growth of 31% was achieved while reducing emissions by 8% and accordingly, half of Sweden's electricity is derived from nuclear power, an emissions-free source, and 36% is from renewable sources, particularly hydroelectric. While there is a valid argument that decoupling leads to de-industrialisation and therefore an inequality in income, the point made in the cases of the USA and Sweden is that the road to decoupling is via a cleaner energy source to power these industries, rather than moving the industries themselves as Britain did post Industrial Revolution as its financial and services sectors grew.

From an investment point of view, it is fair to say that the prospects of renewable sources and cleaner energy pose an unimaginably enormous opportunity for investors. Perhaps not in the next few years, perhaps not even in the next few decades, but it is inevitable that the world one day embraces these sources as legitimate and crucial factors to the sustainability of this Earth. While renewable energy sources such as wind, solar and hydropower have existed for decades, now more than ever are they becoming genuine sources of power, particularly with new technologies in energy storage being developed every day and as a result, presenting the next great investment opportunity of the future. Of course, today it is impossible to believe that resources such as crude oil will one day be obsolete. In response to this notion, it is convenient to note that whale blubber was once a viable and highly sought after source of energy.

Sources: Sydney Morning Herald, ABC News, IEA

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
CIMIC Group Ltd	CIM	Industrials	12.40	45.98	70.83	3.85
TPG Telecom Ltd	TPM	Telecommunication Services	8.00	14.66	25.46	1.48
Brambles Ltd	BXB	Industrials	-1.68	6.14	7.97	2.66
Spark Infrastructure Group	SKI	Utilities	1.91	10.94	11.82	5.91
Lendlease Group	LLC	Financials	6.45	-0.63	-13.08	4.56
Bank of Queensland Ltd	BOQ	Financials	14.88	-13.06	-4.44	9.73
James Hardie Industries PLC DR	JHX	Materials	-0.28	2.23	21.82	2.42
Bendigo and Adelaide Bank Ltd	BEN	Financials	9.30	-21.71	-21.70	11.45
Boral Ltd	BLD	Materials	5.82	7.23	1.46	4.63
Aristocrat Leisure Ltd	ALL	Consumer Discretionary	3.00	0.88	24.20	1.75
Macquarie Group Ltd	MQG	Financials	2.85	-20.15	-8.30	6.83
Ramsay Health Care Ltd	RHC	Health Care	-6.35	-8.70	-6.46	2.50
Westpac Banking Corp	WBC	Financials	5.57	-9.56	-15.60	9.37
Telstra Corp Ltd	TLS	Telecommunication Services	5.74	-1.04	-8.51	8.60
Australia and New Zealand Banking Group Ltd	ANZ	Financials	4.73	-16.00	-28.91	11.62
CSL Ltd	CSL	Health Care	-0.11	-2.57	12.36	2.06
DuluxGroup Ltd	DLX	Materials	-3.83	-5.56	2.61	4.76
RBA Bank accepted Bills 90 Days			0.19	0.57	2.22	

Portfolio Adjustments

In March the VIP Investment Committee made no adjustments 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.

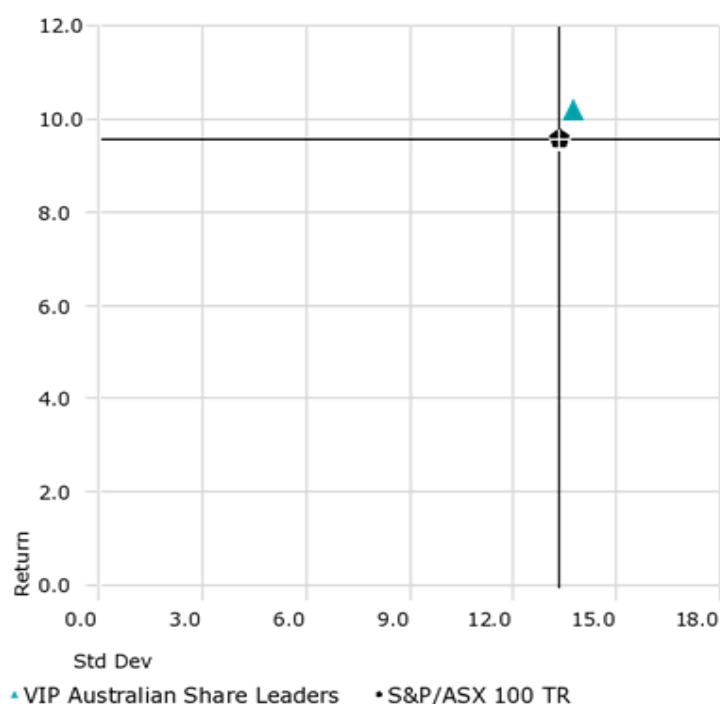
The chart on the right shows that the VIP Australian Share Leaders portfolio (aqua triangle) has achieved an **equal return** and **lower risk** compared to the S&P/ASX 100 Index (black pentagon) since inception on 01/07/2011.

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

Risk-Reward

Time Period: Since Inception to 31/03/2016

Calculation Benchmark: S&P/ASX 100 TR



Sector Exposure

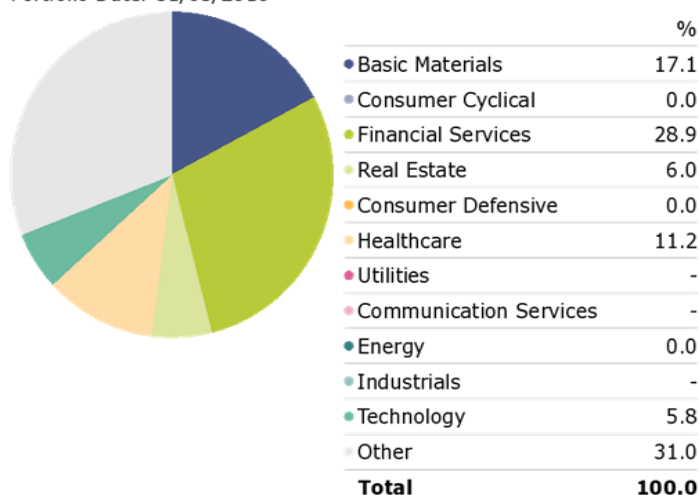
The portfolios largest sector exposure is to the Healthcare sector closely followed by the Financial Services and Materials sectors.

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: 31/03/2016



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