

### 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

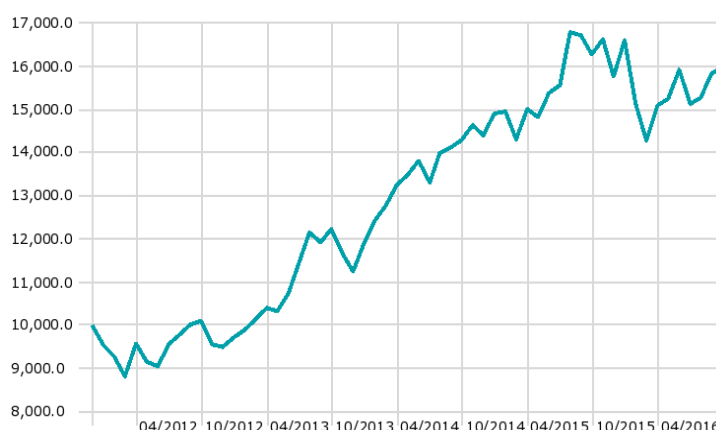
The VIP Australian Share Leaders portfolio generated a 0.76% return for the month and 5.51% over the last 3 months. The portfolio underperformed the S&P/ASX 100 index in April by 2.61% and underperformed by 0.58% over the quarter.

Over the last year the portfolio has generated a -1.91% return pre-fees outperforming the ASX 100 index by 3.66%.

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 30/04/2016



—VIP Australian Share Leaders

### Trailing Returns

As of Date: 30/04/2016

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	Since Inception
VIP Australian Share Leaders	0.76	5.51	5.79	-1.91	5.70	9.30	12.12	10.16
VIP Australian Share Leaders Investment	0.65	5.16	5.08	-3.23	4.28	7.84	10.62	8.69
VIP Australian Share Leaders Super-Pension	0.69	5.31	5.37	-2.69	4.86	8.43	11.23	9.29
S&P/ASX 100 TR	3.37	6.09	2.12	-5.57	2.19	5.00	9.89	9.66

### Performance Contributors & Detractors

The strongest performing sector was the Materials sector 14.19% followed by the Energy and Health Care sectors with 7.65% and 3.33% gains respectively. On the other hand, the Consumer Discretionary sector -1.45% followed by Utilities -0.39%, and Telecommunications Services 0.50% achieved the lowest returns over the month.

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

The **Top 3 Contributors** for the month were Ramsay Health Care Ltd +5.85%, Bendigo and Adelaide Bank Ltd +5.07%, and Boral Ltd +4.21%; and the **Top 3 Detractors** for the month were TPG Telecom -4.67%, Aristocrat Leisure Ltd -2.91%, Bank of Queensland Ltd -2.70%.

### The Budget and Superannuation

As the 2016 federal election approaches, one predominant factor that will have a large say in swaying voters is the federal budget recently announced on Tuesday the 3<sup>rd</sup> of May. Deemed by many as unsurprising and somewhat conservative, Treasurer Scott Morrison's budget has been criticised particularly for not making changes to the governments' current negative gearing policy, as well as not allocating enough to health and education. Of course, many of these criticisms are derived from The Labor Party and its supporters, but whatever your perspective on the budget, one thing for certain is that it affects everyone, because everyone needs super. In the coming paragraphs we will detail how the budget has impacted the country's policies on superannuation, and how it could affect our investors.

In regards to superannuation, the budget can be considered to be bittersweet. On the bitter side, there is the '\$500,000 lifetime limit on non-concessional after-tax contributions and the \$1.6 million limit on superannuation pension accounts.' Essentially, what this means is that after the \$500,000 of after-tax contributions, any other monies will then be able to be taxed. Obviously, the governments motive behind this decision is to cap the limit in which taxpayers are able to put their earnings in a tax-free environment, a motive that also carries into the reasoning behind the \$1.6 million limit on superannuation pension accounts. The budget also proposes a reduction of concessional (before-tax) contributions from the current \$30,000 a year to \$25,000.

However, there are positives in the budget in relation to superannuation which will help employees make salary sacrifice contributions more effectively. Currently, tax-deductible super contribution can only be made if a person doesn't receive employer superannuation contributions, or their employment income is less than 10% of their total employment related income (e.g. someone who earns predominantly off commissions). The 2016 budget policies now allow anyone to make a tax-deductible super contribution until the age of 75. Furthermore, the budget has eradicated the work test, which previously required a person between ages 65 and 75 to work 40 hours in 30 consecutive working days if they wanted to make a tax-deductible super contribution.

While these developments may not initially appear to be so significant, the effect they can have on not only a person's super but their overall earnings are substantial. As the superannuation system stands, an employer's Super Guarantee Contribution is 9.5% of an employee's taxable salary. If an employee was to make a salary sacrifice super contribution, the employer is legally allowed to contribute 9.5% of the salary *after* this salary sacrifice has been made, effectively contributing less than usual had there been no salary sacrificed at all. As a result of the 2016 budget, employees are now able to make tax-deductible super contributions from after-tax income regardless of their terms of employment, as opposed to making salary sacrifice contributions which have the potential to lessen their 9.5% Super Guarantee contribution.

Obviously, the removal of the work tests will hugely increase the ease in which a retiree of the age of under 75 will be able to contribute to their superannuation through tax deductible personal super contributions. Additionally, there is the possibility of reduced tax payable on income received outside of superannuation, particularly in the event of the sale of an investment or a property. The income from the sale would be considered a taxable capital gain, but by making tax-deductible contributions from the income of the sale, one could reduce their tax payable.

While the caps on super contributions and pension accounts will no doubt pose a hindrance to many taxpayers, the upside is seen in the ability for all taxpayers under the age of 75 to make tax-deductible super contributions, and benefit from this accordingly.

Source: Sydney Morning Herald, The Australian, Colonial First Estate

# 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
RBA Bank accepted Bills 90 Days			0.18	0.56	2.22	
Aristocrat Leisure Ltd	ALL	Consumer Discretionary	-2.91	-2.44	24.20	1.62
Australia and New Zealand Banking Group Ltd	ANZ	Financials	3.45	0.37	-28.91	10.23
Bank of Queensland Ltd	BOQ	Financials	-2.70	-9.91	-4.44	9.52
Bendigo and Adelaide Bank Ltd	BEN	Financials	5.07	-8.70	-21.70	9.94
Boral Ltd	BLD	Materials	4.21	17.81	1.46	4.25
Brambles Ltd	BXB	Industrials	2.97	13.57	7.97	2.44
CSL Ltd	CSL	Health Care	3.69	2.25	12.36	1.88
DuluxGroup Ltd	DLX	Materials	1.91	-1.08	2.61	4.42
Flight Centre Travel Group Ltd	FLT	Consumer Discretionary	-9.07	2.78	14.69	5.73
James Hardie Industries PLC DR	JHX	Materials	3.75	15.88	21.82	2.27
Ramsay Health Care Ltd	RHC	Health Care	5.85	8.32	-6.46	2.21
Spark Infrastructure Group	SKI	Utilities	0.00	7.85	11.82	5.35
Sydney Airport	SYD	Industrials	1.79	3.50	34.07	3.49
Telstra Corp Ltd	TLS	Telecommunication Services	0.56	-0.86	-8.51	7.76
TPG Telecom Ltd	TPM	Telecommunication Services	-4.67	7.56	25.46	1.61
Westpac Banking Corp	WBC	Financials	2.31	0.65	-15.60	8.50

## Portfolio Adjustments

In April, the VIP Investment Committee decided to sell Macquarie Group Ltd (MQG), Lend Lease Group (LLC), and CIMIC Group (CIM). MQG was sold to reduce VIP's exposure to the banks, it being the best option given its lower dividends. The Committee also believed LLC has had its run, as had CIM where we sold out at what we believed to be fair value.

MQG and LLC were replaced with Flight Centre (FLT) and Sydney Airport (SYD). FLT provides investors with exposure to a powerful travel brand that underpins a consistently successful growth culture as Australia's leading travel agent. SYD was acquired for its strong cash flow and notable efforts to improve its management and administration in the pursuit of higher profits.

## 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.

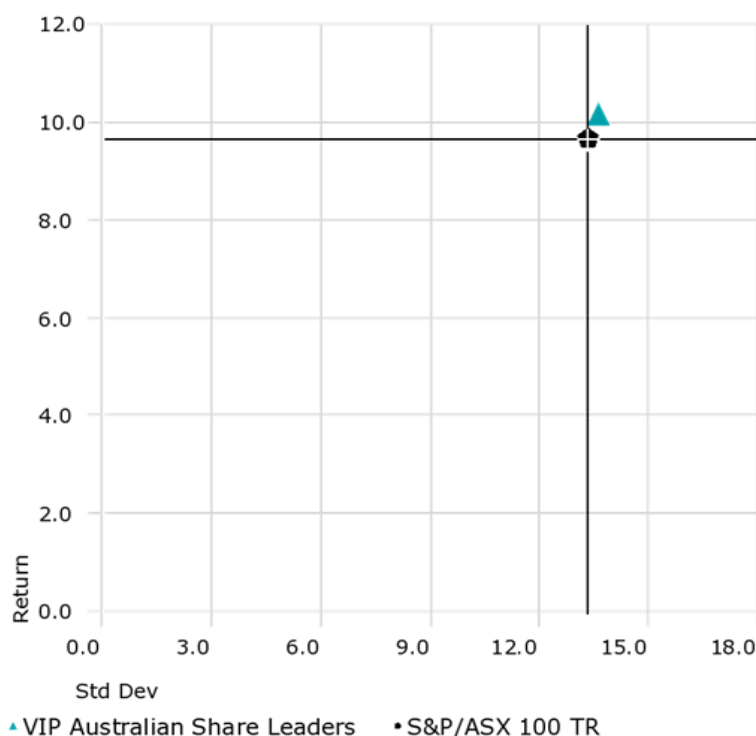
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

### Risk-Reward

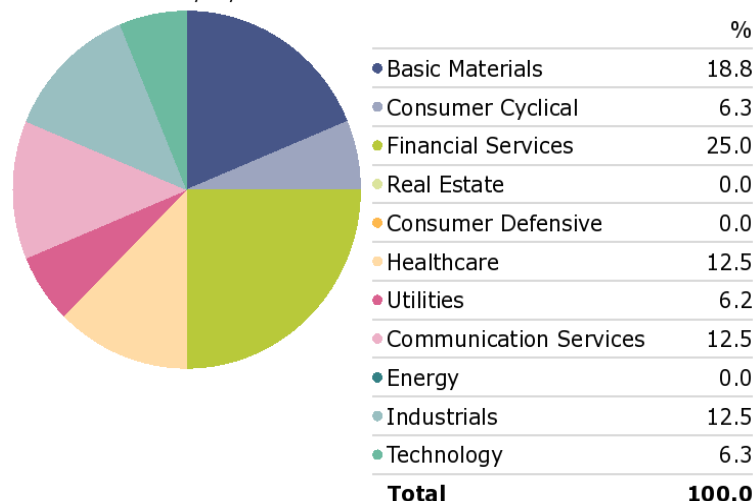
Time Period: Since Inception to 30/04/2016

Calculation Benchmark: S&P/ASX 100 TR



### VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 30/04/2016



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