

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

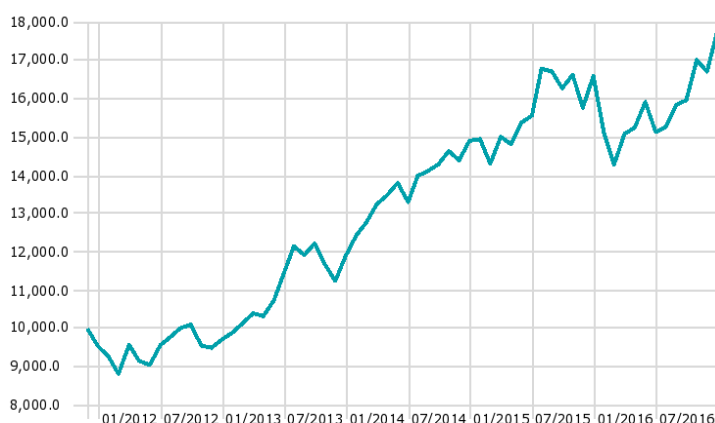
The VIP Australian Share Leaders portfolio generated a 6.46% return for the month and 11.41% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in July by 0.34% and outperformed by 4.86% over the quarter.

Over the last year the portfolio has generated a 7.15% return pre-fees outperforming the ASX 100 index by 6.00%.

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 31/07/2016



—VIP Australian Share Leaders

Trailing Returns

As of Date: 31/07/2016

| | 1 Month | 3 Month | 6 Month | 1 Year | 2 Years | 3 Years | 4 Years | Since Inception |
|--|---------|---------|---------|--------|---------|---------|---------|-----------------|
| VIP Australian Share Leaders | 6.46 | 11.41 | 17.55 | 7.15 | 9.23 | 14.33 | 16.32 | 12.00 |
| VIP Australian Share Leaders Investment | 6.34 | 11.03 | 16.77 | 5.71 | 7.76 | 12.80 | 14.76 | 10.49 |
| VIP Australian Share Leaders Super-Pension | 6.39 | 11.19 | 17.09 | 6.29 | 8.36 | 13.42 | 15.39 | 11.10 |
| S&P/ASX 100 TR | 6.12 | 6.55 | 13.03 | 1.15 | 3.67 | 7.93 | 11.95 | 9.82 |

Performance Contributors & Detractors

The strongest performing sector was the Consumer Discretionary sector 8.84% followed by the Consumer Staples and Materials sectors with 8.52% and 7.78% gains respectively. On the other hand, the Energy sector 0.15% followed by Information Technology 3.12% and Telecommunication Services 4.19% achieved the lowest returns over the month.

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

The **Top 3 Contributors** for the month were Aristocrat Leisure Ltd +15.51%, Boral Ltd 10.45%, and Ramsay Health Care Ltd 9.80%; and the **Top 3 Detractors** for the month were Bank of Queensland -0.28%, Telstra Corp Ltd +3.78%, and DuluxGroup Ltd 5.06%.

Race to the White House

While it may seem like the US Election has been dragged out for longer than anyone can remember, it can be said that the race is at last heading into its (relatively) final stages, with a 3-month sprint to the oval office ending on the 8th of November. The candidates of the respective parties are very much polar opposites, both in their stance and beliefs as well as their expectance to be candidates in the first place. For the Democrats, former Secretary of State and First Lady Hillary Clinton leads the party as the potential first female president, as was largely expected by political analysts. On the other hand, what was first perceived as a publicity stunt unfolded as a more than serious matter as Donald Trump, business tycoon and former reality show host, claimed the Republican nomination in his bid to 'Make America Great Again.'

Such a matchup makes for a very interesting race, one which will divide and force America's hand in nominating a president who, at the end of the day, will upset a large percentage of the population. Clinton has been deemed untrustworthy and largely unpopular even among Democrat circles, citing the use of a private email account during her time as Secretary of State. Conversely, Trump looms as a dangerous man with dangerous ideals. Furthermore, he has zero political experience and has ridden the wave of citizens angry at the establishment. On this note, gaining the support of certain demographics becomes the main game in the election, with certain groups up for grabs, and others well and truly wrapped around their respective nominees' finger.

It has been recognised by Clinton's party that this race may be won or lost in the white women sector, in particularly the white, suburban, married woman. While some of this sector believe Clinton to be untrustworthy, Clinton will be hoping for a percentage of their vote due to an indifference towards her opposed to a repulsion of Trump. Part of Clinton's "winning white women" strategy must include reaching out to Republican women who are disenchanted with their Republican nominee. As it stands, she has a 2% lead in white females according to Gallup.

On the contrary, the white male population is largely in Trump's corner, with a 24% lead on Clinton. She, according to Gallup's poll, is disliked by 25% of white males, whereas 49% of white males are favourable of Trump. It is known that this is the group most likely to hurt Clinton in her bid to the White House, particularly the group that includes white males without a college degree. It is common knowledge that Trump appeals to average working class man who feels he has been hard done by, with a Washington Post analysis concluding that Trump's support skewed male, white, and poor.

Mentioning college degrees, it is important to note that this also becomes a predominant factor in determining votes. Trump's support by white non-college graduates exceeds Clinton's by 21%, a number that is highly correlated to the white male lead previously mentioned. This can be attributed to the 'battler' Trump appeals to, and it is obvious as to why. Trump's campaign promises to bring jobs back to the American people, a significant promise given that The Hamilton Project has found that the full-time, full-year employment rate of men without a bachelor's degree fell from 76% in 1990 to 68% in 2013. Moreover, while real wages have grown for men and women with a four-year degree or better in the last 25 years, they have fallen for non-college men. Clinton leads Trump by 9% in college graduates.

For obvious reasons, groups classified as minorities (i.e. African American, Hispanic, Asian, Muslim, Jewish) are all very much in favour of Clinton, simply because Trump has said enough to lose their vote, and generally appears to be racially insensitive, according to Republican campaign veterans. Furthermore, Clinton has the support of the LGBT community with a 36% lead on Trump in this area.

From an investment perspective, each nominee would make for a turbulent time on the share markets. With Clinton wanting to raise the company tax rate, Wall St and those alike may be forced into voting for Trump. In contrast, the difference between what Trump says and what he will actually do is the unknown, and that in itself is a scary thought. Either way, the next 3 months will no doubt hold more than a few surprises on the road to the White House.

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 | | | 0.16 | 0.49 | 2.20 | |
| Aristocrat Leisure Ltd | ALL | Consumer Discretionary | 15.51 | 60.40 | 82.88 | 1.25 |
| Boral Ltd | BLD | Materials | 10.45 | 6.68 | 11.33 | 4.26 |
| Ramsay Health Care Ltd | RHC | Health Care | 9.80 | 21.31 | 19.24 | 2.04 |
| Brambles Ltd | BXB | Industrials | 8.56 | 7.77 | 19.89 | 2.45 |
| James Hardie Industries PLC DR | JHX | Materials | 6.60 | 19.37 | 20.49 | 2.00 |
| Sydney Airport | SYD | Industrials | 8.93 | 13.22 | 44.98 | 3.79 |
| TPG Telecom Ltd | TPM | Telecommunication Services | 7.82 | 19.79 | 34.73 | 1.47 |
| Australia and New Zealand Banking Group Ltd | ANZ | Financials | 7.13 | 11.18 | -17.33 | 9.35 |
| CSL Ltd | CSL | Health Care | 5.19 | 12.19 | 32.12 | 1.79 |
| Westpac Banking Corp | WBC | Financials | 5.75 | 4.45 | 0.48 | 8.72 |
| Spark Infrastructure Group | SKI | Utilities | 7.38 | 26.57 | 32.40 | 4.70 |
| Bendigo and Adelaide Bank Ltd | BEN | Financials | 5.73 | 8.91 | -13.89 | 9.06 |
| DuluxGroup Ltd | DLX | Materials | 5.06 | 6.32 | 15.63 | 4.58 |
| Telstra Corp Ltd | TLS | Telecommunication Services | 3.78 | 7.65 | -2.23 | 7.91 |
| Bank of Queensland Ltd | BOQ | Financials | -0.28 | -6.13 | -8.57 | 10.15 |

Portfolio Adjustments

In July, the VIP Investment Committee made no changes 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.

Sector Exposure

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

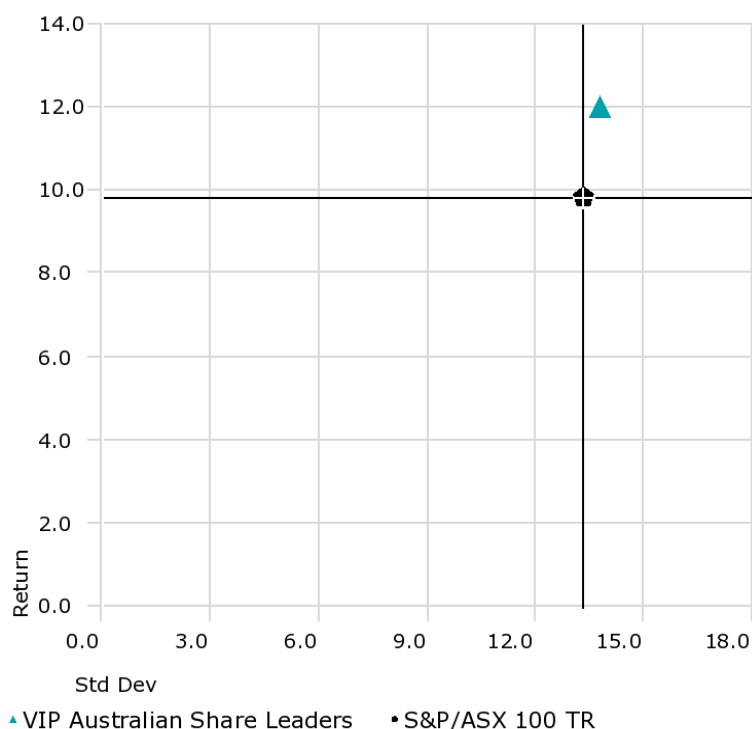
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

Risk-Reward

Time Period: Since Inception to 31/07/2016

Calculation Benchmark: S&P/ASX 100 TR



VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/07/2016

