

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

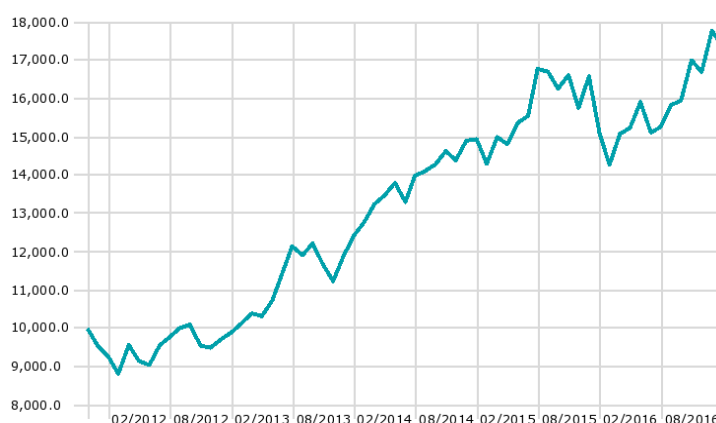
The VIP Australian Share Leaders portfolio generated a -2.34% return for the month and 2.07% over the last 3 months. The portfolio underperformed the S&P/ASX 100 index in August by 0.78% and outperformed by 0.27% over the quarter.

Over the last year the portfolio has generated a 14.85% return pre-fees outperforming the ASX 100 index by 6.7%.

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 31/08/2016



—VIP Australian Share Leaders

Trailing Returns

As of Date: 31/08/2016

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	5 Years	Since Inception
VIP Australian Share Leaders	-2.34	2.07	13.77	14.85	7.78	11.78	15.08	13.36	11.26
VIP Australian Share Leaders Investment	-2.45	1.72	12.99	13.31	6.33	10.28	13.54	11.84	9.77
VIP Australian Share Leaders Super-Pension	-2.41	1.86	13.31	13.93	6.92	10.89	14.17	12.46	10.37
S&P/ASX 100 TR	-1.56	1.80	13.52	8.15	2.60	6.49	10.94	10.07	9.73

Performance Contributors & Detractors

The strongest performing sector was the Information Technology sector 5.11% followed by the Consumer Staples and Energy sectors with 1.96% and 2.89% gains respectively. On the other hand, the Telecommunications Services sector -6.59% followed by Utilities -5.22% and Healthcare -3.40% achieved the lowest returns over the month.

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

The **Top 3 Contributors** for the month were Bendigo and Adelaide Bank Ltd 8.18%, Ramsay Health Care Ltd +5.31%, and Australian and New Zealand Banking Group +4.10%; and the **Top 3 Detractors** for the month were Brambles Ltd -8.40%, CSL Ltd -8.39%, and Reliance Worldwide Corp Ltd -5.76%.

Australia and its Overseas Owners

It is a common perception, largely media-driven, that the Chinese are slowly but surely planting their flag across Australia, particularly in the agricultural sector where foreign ownership of Australian land has come under scrutiny in recent years. While Chinese investors and companies are indeed acquiring Australian agricultural land (AAL) at a steady pace, their ownership percentage has been revealed as a comparative side act with the release of The Register of Foreign Ownership of Agricultural Land compiled by the Australian Tax Office.

The results have shown that the United Kingdom leads the ownership percentage with a 7.2% ownership of total Australian agricultural land. notably, this equates to 52.7% of foreign-owned agricultural land, meaning that of the 13.6% total foreign-owned agricultural land, the UK contributes to over half of the sum. Coming in second is the USA with a 2% hold in AAL, the Netherlands at 0.8%, Singapore at 0.5%, and finally China with an 0.38% ownership of AAL. Ironically, one of the more pressing drivers of the development of the register was concerns over China's increasing stake in Australian land.

That said, the ranking order would have been significantly different had treasurer Scott Morrison not blocked the sale of Australia's largest cattle business, S. Kidman and Co., who's land mass totals 2.5% AAL. The proposed sale for \$370 million was to Dakang Australia, who's largest shareholder is China's Shanghai Pengxin Group and would have therefore moved China to the 2nd ranking in the Register.

At rank 5, concerns over China's takeover may seem misplaced. However, reasoning behind the hype may be deduced from the notion that while they may not be owners of as much physical land as the four countries before them, China's acquisitions could be better placed in the smaller but more lucrative properties of the south as opposed to the large lands of the Top End used for grazing.

While the Register's stocktake was done between the 1st of July 2015 and February 29th 2016, there have been notable acquisitions this year. Included in the Register is the \$280 million sale of the Van Diemen's Land Company, Australia's largest dairy farm to Chinese firm Moon Lake Investments. Furthermore, Westchester Group of Australia (US-owned) paid \$35 million in April for three properties totalling 5000ha and 7500 mega litres of water licences at Goondiwindi, on the QLD-NSW border. China's Union Agriculture also has been active recently, paying \$11 million for the 5260ha Kyabra Station at Tamworth to add to its NSW portfolio. These are just some examples of the acquisitions of AAL that continue to occur, with an increase over the last two years of foreign ownership that had 11% of agricultural land being foreign owned in 2014 compared to the 13.6% in 2016.

Complaints of foreign ownership have derived largely from a combination of a misunderstanding of the situation and a resulting rise in patriotism. As stated by Victorian Farmers Federation vice president David Jochinke, "sometimes we get tripped up on the word 'foreign'... and it really detracts from the real game of agriculture and what agriculture needs." In fact, foreign investment is essentially a necessary factor in almost any economy as noted by Alan Bowman, chairman of Australian superannuation fund Prime Super, maintaining that "generally speaking to grow this country we need to external investment in every field."

Misunderstood by opposition to foreign investment is the fact that it contributes to the growth of the economy, productivity and creates jobs. Whether a supporter or opposed to foreign investment in agricultural land, it is safe to say Australia will never again see a country that is 100% Australian owned and simply from an economic standpoint, it can be summed up by Scott Morrison's comment that "we cannot afford to risk our economic future by engaging in protectionism."

Source: Business Insider, News.com.au, ABC, Weekly Times

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
Bendigo and Adelaide Bank Ltd	BEN	Financials	8.18	7.23	-13.89	9.11
Ramsay Health Care Ltd	RHC	Health Care	5.31	14.05	19.24	2.11
Australia and New Zealand Banking Group Ltd	ANZ	Financials	4.10	5.57	-17.33	9.13
National Australia Bank Ltd	NAB	Financials	3.01	0.70	-10.51	10.17
James Hardie Industries PLC DR	JHX	Materials	-0.50	4.41	20.49	1.98
TPG Telecom Ltd	TPM	Telecommunication Services	-4.99	-1.06	34.73	1.53
DUET Group	DUE	Utilities	-2.23	15.74	20.98	7.00
Sydney Airport	SYD	Industrials	-3.70	4.94	44.98	3.97
DuluxGroup Ltd	DLX	Materials	-3.46	-0.47	15.63	4.69
Telstra Corp Ltd	TLS	Telecommunication Services	-5.00	-1.94	-2.23	8.62
Spark Infrastructure Group	SKI	Utilities	-3.05	10.43	32.40	5.52
Westpac Banking Corp	WBC	Financials	-5.24	-4.04	0.48	8.93
Aristocrat Leisure Ltd	ALL	Consumer Discretionary	-5.27	18.20	82.88	1.26
CSL Ltd	CSL	Health Care	-8.39	-6.62	32.12	2.00
Brambles Ltd	BXB	Industrials	-8.40	-4.12	19.89	2.67
Reliance Worldwide Corp Ltd	RWC	Industrials	-5.76	-0.64		
RBA Bank accepted Bills 90 Days			0.15	0.47	2.20	

Portfolio Adjustments

In August, the VIP Investment Committee decided to sell Bank of Queensland (BOQ) in order to replace it with National Australian Bank (NAB). We believe NAB to have better growth opportunities than BOQ, particularly now that NAB has diversified away from Europe via a demerger from Clydesdale Bank. Boral Ltd (BLD) was also sold as the Committee lacks confidence in the company's management, shown in BLD's underperformance. However, VIP still likes the construction industry and as a result replaced BLD with DUET Group (DUE), and Reliance Group (RWC).

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.

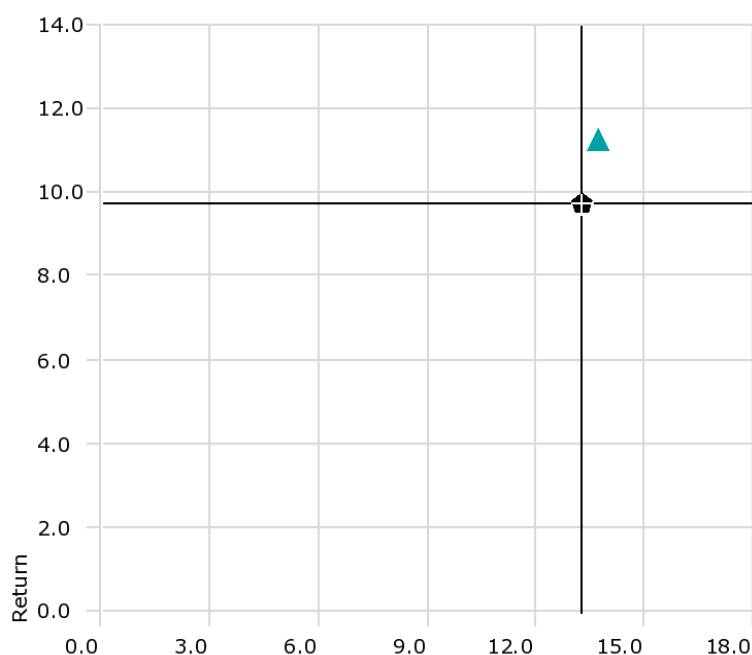
The chart on the right shows that the VIP Australian Share Leaders portfolio (aqua triangle) has achieved an **equal return** and **lower risk** compared to the S&P/ASX 100 Index (black pentagon) since inception on 01/07/2011.

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

Risk-Reward

Time Period: Since Inception to 31/08/2016

Calculation Benchmark: S&P/ASX 100 TR



▲ VIP Australian Share Leaders • S&P/ASX 100 TR

Sector Exposure

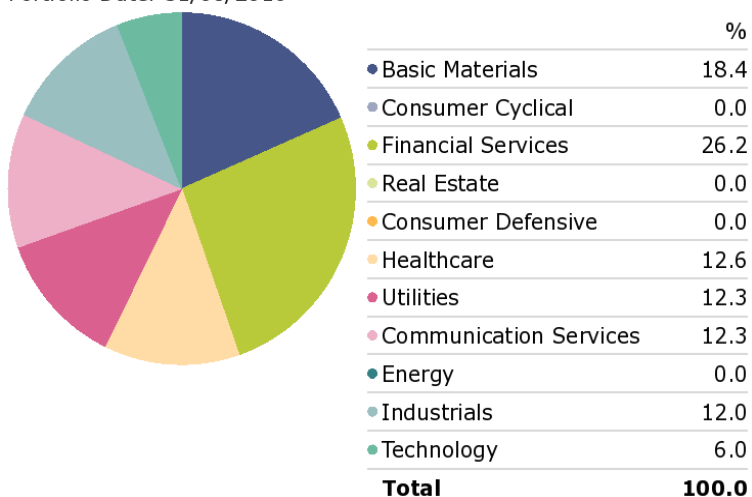
The portfolios largest sector exposure is to the Healthcare sector closely followed by the Financial Services and Materials sectors.

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: 31/08/2016



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