

### 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 -2.50% return for the month and 1.37% over the last 3 months. The portfolio underperformed the S&P/ASX 100 index in September by 2.91% and by 3.53% over the quarter.

Over the last year the portfolio has generated a 18.61% return pre-fees outperforming the ASX 100 index by 6.58%.

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 30/09/2016



—VIP Australian Share Leaders

### Trailing Returns

As of Date: 30/09/2016

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	5 Years	Since Inception
VIP Australian Share Leaders	-2.50	1.37	6.89	18.61	8.80	9.84	13.68	13.93	10.54
VIP Australian Share Leaders Investment	-2.61	1.02	6.17	17.02	7.34	8.36	12.15	12.40	9.06
VIP Australian Share Leaders Super-Pension	-2.57	1.16	6.46	17.66	7.94	8.96	12.77	13.02	9.66
S&P/ASX 100 TR	0.41	4.90	8.87	12.03	5.68	5.87	10.51	11.49	9.72

### Performance Contributors & Detractors

The strongest performing sector was the Materials sector 5.64% followed by the Consumer Staples and Information Technology sectors with 1.70% and 0.79% gains respectively. On the other hand, the Telecommunications Services sector -4.01% followed by Utilities -3.32% and Industrials -0.45% achieved the lowest returns over the month.

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

The **Top 3 Contributors** for the month Aristocrat Leisure Ltd +4.70%, DuluxGroup Ltd +2.96%, and Australian and New Zealand Banking Group +2.71%; and the **Top 3 Detractors** for the month were TPG Telecom -29.29%, James Hardie Industries PLC DR -6.32%, and Spark Infrastructure Group -6.20%.

### Big Banks, Small Solutions

Australia's big 4 banks have recently completed a government requested bank inquiry, with the chief executives of each company experiencing a 3-hour grilling from a select group of members of parliament. While the notion behind the inquiry was legitimate and valid, the general consensus is that in large, the inquiry was unsuccessfully executed and fell well short of the banking royal commission that was called for by the Labor Party.

The bank inquiry was induced by the Turnbull government as a result of an unsavoury concoction of behavioural issues, scandals, and debatably unjustifiable bonuses and incentives given to the bank executives. A major reason for the inquiry was the well-publicised issue of the big 4's unwillingness to pass on Reserve Bank rate cuts to their customers despite notching record-breaking profits for the financial year. To further this sentiment, bank executives 'continue to be rewarded eye-watering bonuses' disregarding ongoing scandals that have occurred in their banks, which has led many to question the incentive structure of the big 4.

In regards to ongoing scandals, this refers to incidents such as the Commonwealth Bank (CBA) using outdated medical definitions to deny insurance payouts while being fully aware of the current definitions and practices. Such acts have led to families being cheated out of legitimate life insurance payouts. Furthermore, 2014 brought the revelation of financial planning scandals among the banks. The scandal consisted of financial planners providing poor advice, as well as forged signatures, unreliable compensation schemes, and as a result has been a highly influential motivator for a banking royal commission. Not only was Commonwealth involved, but NAB as well as Macquarie Bank. NAB has since paid over 750 customers between \$10-15 million in total, while CBA reports that the bank has worked through 91% of its files. However, the question remains as to why it has taken so long to compensate the victims of the financial planning scandal.

The bank inquiry, occurring between the 4<sup>th</sup> and the 6<sup>th</sup> of October, could be said to have had no clear outcome despite 720 minutes of question-and-answer between both Liberal and Labor MP's and the 4 chief executives. While there are no doubt numerous reasons for the inquiry, it failed to reach any proper conclusions or solutions. Instead, it can be said the executives beat the politicians at their own game, employing the use of non-answers, apologies, and promises to do better. What was essentially non-existent was scope to investigate further into the banks actions, nor the opportunity to 'forensically pull apart the "we have market costs" arguments.' There was also a lack of specific accountability, with only Westpac's CEO Brian Hartzer admitting that as a result of a scandal in their finance business Capital Finance Australia, the senior executive in charge was no longer a Westpac employee.

What was evident was a common theme in the problems concerning the banks. Analysts of the inquiry found that behind the blaming of rogue employees and poor enforcement was a notion not addressed by the executives – bad incentives. Incentives for employees of the big banks are aligned with the banks success – this means the bottom line and the banks share price, so that employees will strive towards these goals through any appropriate means available. Unfortunately, the pursuit of profit will almost always contradict the best interests of the customer and therein lies the larger problem and catalyst for scandalous behaviour if incentives are so purely based on the bottom line.

In a bad year for banks overall on the stock market, the bank enquiry could have proved particularly significant for VIP, which holds 3 of 4 of the major banks (CBA is not held). However, each stock value increased on Thursday the 6<sup>th</sup>, perhaps indicative of the insufficient ability of the government to reach any proper solution or conclusion, or perhaps indicative of the confirmation that the banks interests are very much aligned with their own return and thus the shareholders.

Source: SMH, ABC

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	2.51	17.25	18.48	8.75
Australia and New Zealand Banking Group Ltd	ANZ	Financials	2.71	14.55	11.26	9.08
National Australia Bank Ltd	NAB	Financials	1.94	9.59	7.57	10.19
Ramsay Health Care Ltd	RHC	Health Care	-3.40	11.69	38.22	2.17
Aristocrat Leisure Ltd	ALL	Consumer Discretionary	4.70	14.57	85.83	1.18
DuluxGroup Ltd	DLX	Materials	2.96	4.43	28.86	4.51
Westpac Banking Corp	WBC	Financials	0.17	0.37	9.14	8.88
Telstra Corp Ltd	TLS	Telecommunication Services	-1.52	-2.85	0.23	8.72
James Hardie Industries PLC DR	JHX	Materials	-6.32	-0.64	21.70	2.06
DUET Group	DUE	Utilities	-4.56	0.40	24.54	7.50
Sydney Airport	SYD	Industrials	-4.26	0.43	21.64	4.26
CSL Ltd	CSL	Health Care	-0.20	-3.83	22.25	1.94
Reliance Worldwide Corp Ltd	RWC	Industrials	-0.32	0.32		
Brambles Ltd	BXB	Industrials	-1.46	-2.01	26.29	2.66
Spark Infrastructure Group	SKI	Utilities	-6.20	-2.36	32.09	5.89
RBA Bank accepted Bills 90 Days			0.14	0.45	2.11	
TPG Telecom Ltd	TPM	Telecommunication Services	-29.29	-27.56	-18.92	2.39

Portfolio Adjustments

In September, 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.

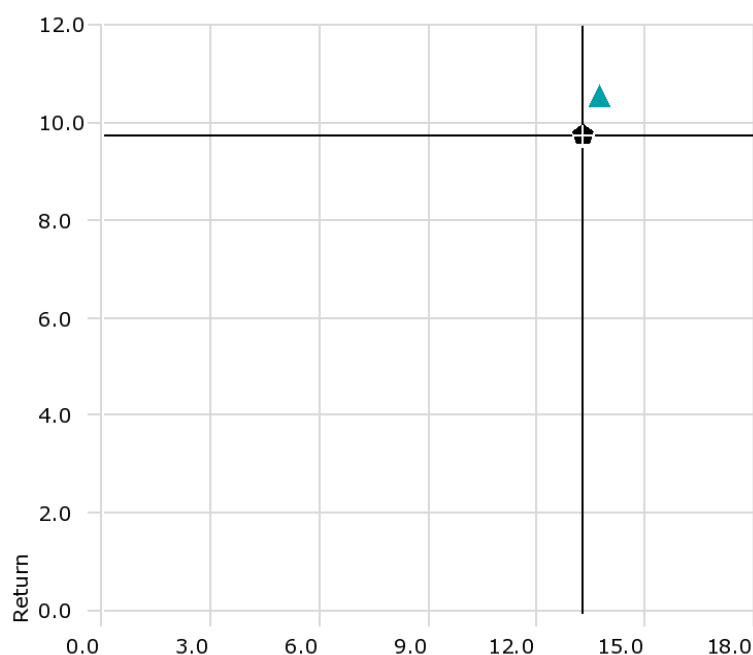
The chart on the right shows that the VIP Australian Share Leaders portfolio (aqua triangle) has achieved an **equal return** and **lower risk** compared to the S&P/ASX 100 Index (black pentagon) since inception on 01/07/2011.

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

### Risk-Reward

Time Period: Since Inception to 30/09/2016

Calculation Benchmark: S&P/ASX 100 TR



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

### Sector Exposure

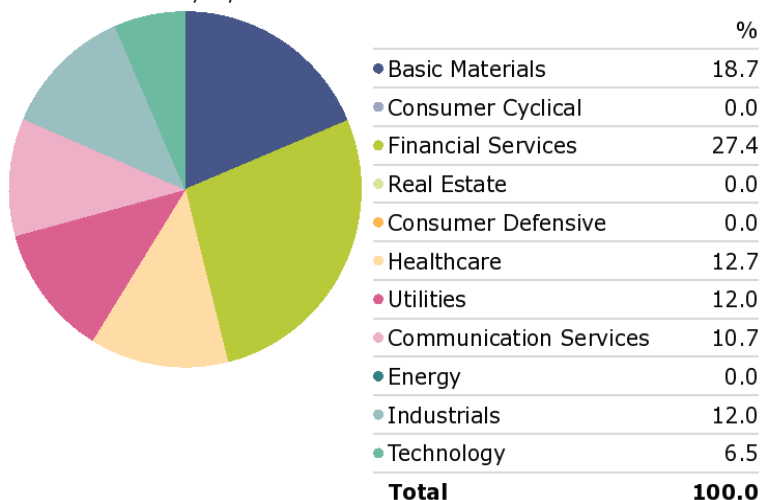
The portfolios largest sector exposure is to the Healthcare sector closely followed by the Financial Services and Materials sectors.

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: 30/09/2016



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