

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 -3.11% return for the month and -7.75% over the last 3 months. The portfolio underperformed the S&P/ASX 100 index in October by 1.23% and by 4.74% over the quarter.

Over the last year the portfolio has generated an 8.73% return pre-fees underperforming the ASX 100 index by 3.20%.

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 31/10/2016



—VIP Australian Share Leaders

Trailing Returns

As of Date: 31/10/2016

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	5 Years	Since Inception
VIP Australian Share Leaders	-3.11	-7.75	2.78	8.73	4.55	7.36	12.06	11.36	9.71
VIP Australian Share Leaders Investment	-3.23	-8.06	2.08	7.27	3.15	5.92	10.56	9.87	8.24
VIP Australian Share Leaders Super-Pension	-3.18	-7.94	2.36	7.86	3.72	6.50	11.17	10.47	8.84
S&P/ASX 100 TR	-1.88	-3.01	3.34	5.53	2.31	3.82	9.16	9.54	9.61

Performance Contributors & Detractors

The strongest performing sector was the Materials sector 1.29% followed by the Financial Services and Energy sectors with 0.74% and -2.28% gains respectively. On the other hand, the Healthcare sector -8.26% followed by Information Technology -6.51% and Consumer Discretionary -5.84% 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 Consumer Cyclical 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 & Energy sectors **detracted** from performance.

The **Top 3 Contributors** for the month Bendigo and Adelaide Bank Ltd 3.34%, Westpac Banking Corp 3.25%, and Australian and New Zealand Banking Group 0.80%; and the **Top 3 Detractors** for the month were TPG Telecom -11.05%, Sydney Airport -10.19%, and Ramsay Health Care -7.28%.

The Voice of 2016

A protest vote is traditionally considered a vote for a 3rd party that has a slim-to-none chance of getting anywhere in an election or referendum – it is a chance for the voter to express his or her dissatisfaction for the frontrunners, or their refusal of the current political system. While it may detract from the total votes each campaign receives, overall it does not directly influence the final outcome. However, 2016 has redefined the term 'protest vote.'

This year, the world has watched in shock as the history of humanity took drastic steps in a completely unpredicted direction, firstly with Great Britain voting to leave the EU in June in the event famously known as 'Brexit,' and of course with an underdog victory for Republican nominee Donald Trump in the US presidential election. While of course both the 'Leave' decision and Trump had their supporters, it is well known that each received votes that they weren't expected to win, simply because they represented everything that wasn't the current political system. Such votes can be considered protest votes, protesting against present government conditions and the overall status quo.

What is significant here is the belief that while a protest vote would make the result closer in both cases, much of this was to vent frustration at the frontrunner of the referendum or election, rather than to support a 'Leave' decision or a Trump presidency. In line with the traditional definition of a protest vote, the vote itself in many cases was not intended to alter the outcome – Britain was largely anticipated to remain in the EU, and Hilary Clinton was predicted as a shoo-in to be the first female president of the United States, at a stage paying \$1.36 at major betting companies. In fact, a pro-Brexit voter was quoted by the BBC in stating "I'm shocked that we voted for Leave, I didn't think that was going to happen. I didn't think my vote was going to matter too much because I thought we were just going to remain." This quote in a nutshell defines the beginnings of the protest vote of 2016.

Accoladed documentary maker Michael Moore has been a very clear-eyed commentator of the US election, and correctly predicted a Trump victory. Among numerous reasons, Moore attributes a Trump presidency to the voters that the government have 'forgotten' about, taking their perspective of the struggling working class by saying 'Donald Trump, has arrived to clean house! You don't have to agree with him! You don't even have to like him! He is your personal Molotov cocktail to throw right into the center of the bastards who did this to you!' This ideal also encapsulates the modern-day protest vote, a concept he defines as the Jesse Ventura effect in which the people of Minnesota once elected professional wrestler Jesse Ventura in the 90's as 'their version of a good practical joke on a sick political system.'

The modern-day protest vote is a vote for change; for anything other than what has been, for what has been has not worked. This is evident in the upcoming French election. For one, candidate Marine Le Pen, leader of the far-right National Front party vows to hold a referendum concerning whether France stays in the EU, much like the Brexit situation. While polls show she will most likely make it to the French presidential final round runoff next May, she is unlikely to win the presidency. Polls also had Clinton as a 90% chance of winning the US election days before it, proving that polls are merely are figure. Moreover, Angela Merkel, Germany's current chancellor faces competition in her bid for a fourth term as commander-in-chief. Germany is currently posed with the refugee issue much like the rest of Europe is, and as a result the far-right, ultra conservative anti-immigrant Alternative for Germany (AfD) party is gaining traction in one of the most influential countries of the EU.

The world finds itself in a fascinatingly significant period in its history, rife with uncertainty and volatility. With approaching French and German elections in 2017, and given what we have witnessed in 2016, any return to normality in the short term may just be the eye of the storm.

Source: The Independent, The Guardian

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	3.34	14.44	18.48	8.48
Australia and New Zealand Banking Group Ltd	ANZ	Financials	0.80	7.78	11.26	8.23
National Australia Bank Ltd	NAB	Financials	0.47	5.50	7.57	10.06
Westpac Banking Corp	WBC	Financials	3.25	-1.99	9.14	8.67
DuluxGroup Ltd	DLX	Materials	-2.42	-3.01	28.86	4.88
Aristocrat Leisure Ltd	ALL	Consumer Discretionary	-2.97	-3.76	85.83	1.32
Ramsay Health Care Ltd	RHC	Health Care	-7.28	-5.59	38.22	2.38
Telstra Corp Ltd	TLS	Telecommunication Services	-3.86	-9.85	0.23	9.40
James Hardie Industries PLC DR	JHX	Materials	-3.40	-9.95	21.70	2.14
DUET Group	DUE	Utilities	-5.18	-11.52	24.54	8.37
Reliance Worldwide Corp Ltd	RWC	Industrials	-4.52	-10.30		
Brambles Ltd	BXB	Industrials	-3.76	-13.08	26.29	2.74
CSL Ltd	CSL	Health Care	-6.07	-14.07	22.25	2.02
Spark Infrastructure Group	SKI	Utilities	-3.90	-12.50	32.09	6.79
Sydney Airport	SYD	Industrials	-10.19	-17.20	21.64	4.74
RBA Bank accepted Bills 90 Days			0.15	0.44	2.11	
TPG Telecom Ltd	TPM	Telecommunication Services	-11.05	-40.24	-18.92	2.94

Portfolio Adjustments

In October, 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.

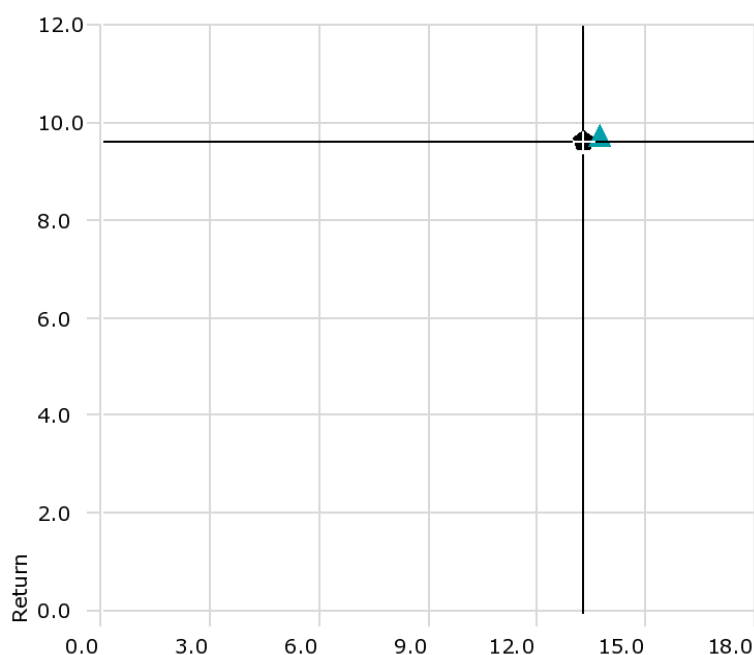
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

Risk-Reward

Time Period: Since Inception to 31/10/2016

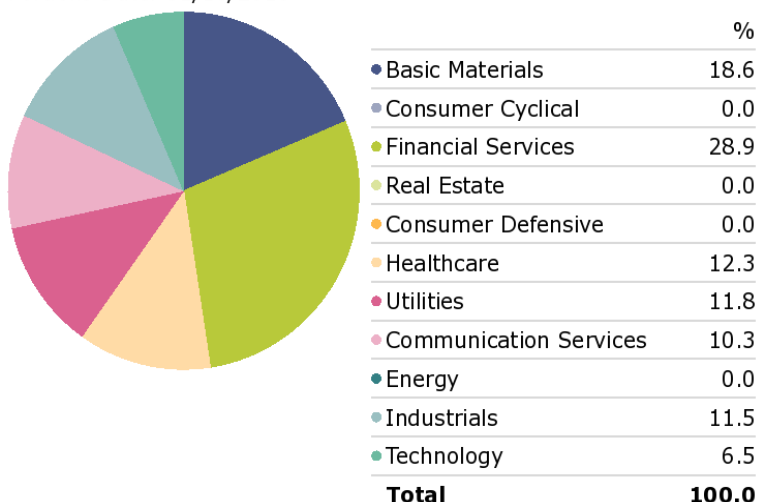
Calculation Benchmark: S&P/ASX 100 TR



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

VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/10/2016



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