

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 3.97% return for the month and 2.38% over the last 3 months. The portfolio underperformed the S&P/ASX 100 index in December by 0.45% and by 3.42% over the quarter.

Over the last year the portfolio has generated a 8.90% return pre-fees underperforming the ASX 100 index by 2.83%.

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 31/12/2016



—VIP Australian Share Leaders

Trailing Returns

As of Date: 31/12/2016

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	5 Years	Since Inception
VIP Australian Share Leaders	3.97	2.38	3.78	8.90	6.18	7.89	12.73	13.89	10.52
VIP Australian Share Leaders Investment	3.85	2.03	3.08	7.44	4.75	6.44	11.22	12.36	9.03
VIP Australian Share Leaders Super-Pension	3.90	2.17	3.36	8.03	5.33	7.03	11.83	12.98	9.64
S&P/ASX 100 TR	4.42	5.80	10.98	11.73	6.82	6.59	10.15	12.24	9.85

Performance Contributors & Detractors

The strongest performing sector was the Utilities sector 8.70% followed by the Energy and Financial sectors with 6.09% and 5.52% gains respectively. On the other hand, the Telecommunications Services sector 0.43% followed by Healthcare 0.88% and Consumer Staples 1.79% achieved the lowest returns over the month.

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

The **Top 3 Contributors** for the month were Oil Search 11.16%, Australia and New Zealand Bank 7.07%, and James Hardie Industries PLC DR 6.19%; and the **Top 3 Detractors** for the month were Ramsay Health Care -3.54%, Seek 0.47%, and Telstra Corp 0.99%.

What if France or Germany left the EU?

Given that 2016 featured two major underdogs that have changed the balance of the world, these being Brexit and President Trump, it is logical to ask what major political and economic movements could occur in 2017 that will have a severe impact on the global economy. Events that immediately come to the forefront of the mind are the French election occurring in April, and the German election in September. With a rising of anti-European Union rhetoric sweeping both nations, it makes one wonder what could happen if either were to follow the United Kingdom's lead and leave the Union, particularly as the French and German contributions comparatively dwarfs the UK's.

The ideal of a 'Frexit' is led by Marine Le Pen, the leader of far-right wing party Front National who promotes a nationalistic, economically protectionist policy. As France currently holds a population that is to an extent anti-EU (given that its contributions largely exceed EU spending in France, and the immigration problem has severely affected the country), the prospect of Frexit is more likely than Brexit was. A study by Pew Research Center reports that over 60% of French citizens negatively view the EU, compared to Britain's 48% of the same survey, and If Le Pen we're to be elected, she has vowed to hold a referendum.

While the specific consequences of France seceding from EU are largely unknown (even the repercussions of Brexit are mostly unrealised), there is no doubt such an event would send ripples throughout Europe if not the world. Particularly now the UK has seceded, the weight of the EU's needs would fall on the shoulders of other European countries. Given that France's contribution of €19.013 billion is the second largest only to Germany's massive €24.283 billion, this would obviously remove a relatively substantial portion of the EU's funding that is used to better the needier parts of Europe. Furthermore, France is geographically the largest of all EU countries. To secede would mean to eliminate the EU's biggest land mass, which would put immense pressure on the rest of Europe to take in the world's refugees.

Germany on the other hand would leave the EU in complete tatters if it were to secede, such is its involvement and contribution to the Union. Led by Leif-Erik Holm, the right wing populist party Alternative für Deutschland voices concerns over the refugee crisis and has received much support from likeminded Germans.

Firstly, a seceding Germany would almost definitely create their own currency, probably returning to the Deutsche Mark of the old days. In pulling off a 'Gexit,' the new German currency would appreciate to the extent of 40% according to UBS, which would no doubt negatively affect the export markets of Germany. While the general consensus is that without Germany there is no EU, there is also the train of thought that without the might of Germany in the Union, the Euro would depreciate so as to cater for the weaker economies of Europe and therefore make their exports more attractive. However, given that Europe is important for Germany's exports, it is unlikely that the European heavyweight would secede as the country would suffer a double hit through a less attractive exchange rate and a renegotiation of trade deals.

the consequences of either France or Germany seceding would send much larger economic quakes throughout the world than Brexit and are therefore more unlikely, though if 2016 has taught the world anything it is that anything is possible.

Source: The Economist, UBS

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
James Hardie Industries PLC DR	JHX	Materials	6.19	8.80	28.37	2.23
ResMed Inc DR	RMD	Health Care	3.37	1.18	15.32	
Spark Infrastructure Group	SKI	Utilities	5.78	3.03	30.86	5.66
Australia and New Zealand Banking Group Ltd	ANZ	Financials	7.07	14.23	17.10	7.65
Bendigo and Adelaide Bank Ltd	BEN	Financials	5.48	18.01	14.49	7.69
Reliance Worldwide Corp Ltd	RWC	Industrials	2.24	3.23		
National Australia Bank Ltd	NAB	Financials	6.01	15.12	16.05	9.30
Aristocrat Leisure Ltd	ALL	Consumer Discretionary	4.33	-1.01	54.26	1.62
Challenger Ltd	CGF	Financials	5.54	10.52	34.22	4.21
Westpac Banking Corp	WBC	Financials	4.25	15.02	5.14	8.31
Brambles Ltd	BXB	Industrials	5.26	3.51	9.95	2.60
CSL Ltd	CSL	Health Care	2.46	-6.16	-2.71	1.84
Seek Ltd	SEK	Industrials	0.47	-4.37	0.46	3.88
Oil Search Ltd	OSH	Energy	11.16	1.13	8.01	0.93
Ramsay Health Care Ltd	RHC	Health Care	-3.54	-13.68	3.03	2.45
RBA Bank accepted Bills 90 Days			0.15	0.44	1.99	
Telstra Corp Ltd	TLS	Telecommunication Services	0.99	-1.54	-1.20	8.62

Portfolio Adjustments

In December, 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 axis. 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.

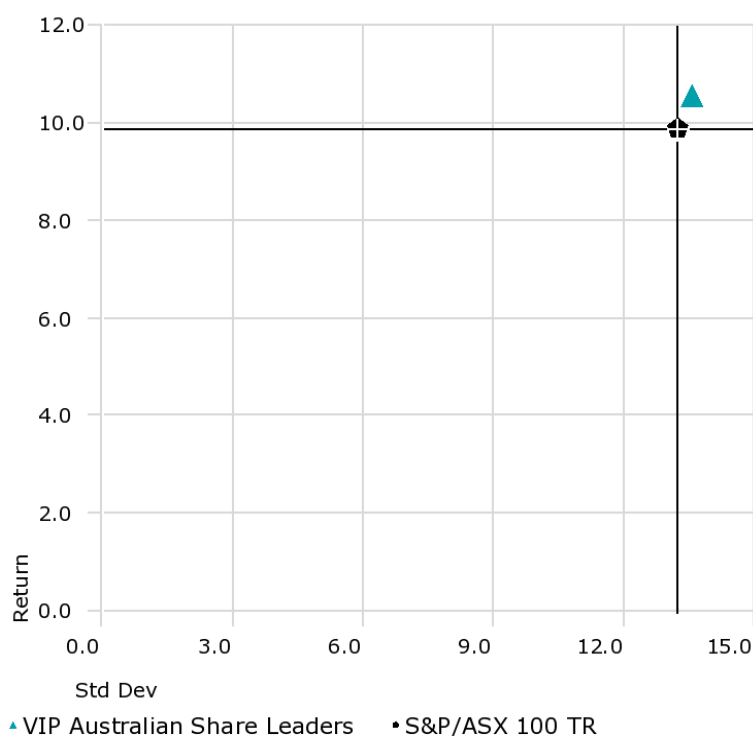
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

Risk-Reward

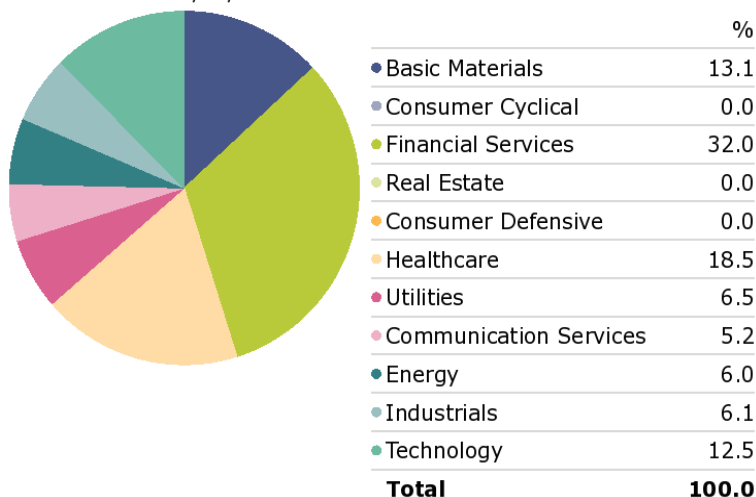
Time Period: Since Inception to 31/12/2016

Calculation Benchmark: S&P/ASX 100 TR



VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/12/2016



Value Investment Partners Pty Ltd is a Corporate Authorised Representative (Representative No.: 409849) ABN 72 149 815 707 of Sterling Managed Investments Pty Ltd, Australian Financial Services Licensee (AFSL 340744). This document has been prepared for general information purposes only and not as specific advice to any particular person. Any advice contained in this document is General Advice and does not take into account any person's investment objectives, financial situation and particular needs. Before making any investment decision based on this advice, you should consider, with or without the assistance of a securities adviser, whether it is appropriate to your particular investment needs, objectives and financial circumstances. A Product Disclosure Statement and/or Investment Options Document on any financial product mentioned in this document should also be obtained and read prior to proceeding with an investment decision. Futuro Financial Services and its representatives may have an interest or associations with the product providers detailed in this report, and will be entitled to receive remuneration for the provision of personal financial product advice by means of commissions and/or fees and other benefits. If you proceed with personal advice, details of remuneration and associations will be detailed in full within a Financial Services Guide and Statement of Advice. Although every effort has been made to verify the accuracy of the information contained in this document, Futuro Financial Services Pty Ltd, its officers, employees and agents disclaim all liability (except for any liability which by law cannot be excluded), for any error, inaccuracy in, or omission from the information contained in this document or any loss or damage suffered by any person directly or indirectly through relying on this information.