

### 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 2.16% **pre-fees** return for the month and 3.71% over the last 3 months. The portfolio underperformed the S&P/ASX 100 index in February by 0.12% and by 2.45% over the quarter.

Over the last year the portfolio has generated a 13.29% return pre-fees underperforming the ASX 100 index by 9.32%.

The post-fees returns for the *Investment* and *Superannuation & Pension* portfolios are shown in **blue** in the table below.

### Investment Growth

Time Period: 1/07/2011 to 28/02/2017



—VIP Australian Share Leaders

### Trailing Returns

As of Date: 28/02/2017

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	5 Years	Since Inception
VIP Australian Share Leaders PRE-FEES	2.16	3.71	-0.42	13.29	1.50	7.34	9.23	12.09	10.15
Net VIP Australian Share Leaders Investment	2.06	3.36	-1.08	11.78	0.14	5.90	7.77	10.59	8.67
Net VIP Australian Share Leaders Super-Pension	2.10	3.50	-0.81	12.39	0.69	6.48	8.36	11.20	9.27
S&P/ASX 100 TR	2.28	6.16	8.00	22.61	2.49	6.56	7.75	11.19	9.85

### Performance Contributors & Detractors

The strongest performing sector was the Consumer Staples sector 6.17% followed by the Financial and Health Care sectors with 4.11% and 3.91% gains respectively. On the other hand, the Materials sector -3.18% followed by Telecommunications -3.13% and Energy Sectors -2.06% achieved the lowest returns over the month.

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

The **Top Contributors** for the month were Seek Ltd +8.66%, Aristocrat Leisure Ltd +8.64%, and Westpac Banking Corp +6.28% and the **Top Detractors** for the month were South32 Ltd -9.45%, James Hardie Industries PLC DR -5.71%, and Telstra Corp -3.60%.

### Green Gold: Medical Marijuana

For decades, the subject of medical marijuana has long been a contentious topic. However, after years of campaigning from patients who have received relief from the drug despite obtaining it on the black market, the Federal Government has made legal the cultivation and manufacturing of medical marijuana in Australia in November 2016. Although now legal to produce for medicinal purposes, distribution of the cannabis plant is regulated by each state.

For example, Queensland has from this month allowed specialists to prescribe dosage to patients of diseases including MS, epilepsy, cancer, and HIV/AIDS given that they can prove marijuana could be beneficial. NSW will only prescribe for life-ending illnesses, although not to children. Victoria on the other hand will be able to give access to children with severe epilepsy, while the ACT aims to increase education sources for doctors through legislation that is expected later this year. Tasmania is still developing legislation, but Western Australia has fully embraced federal legislation, meaning doctors in the state are able to prescribe medical marijuana under strict conditions.

What this all means is that the seedlings of change have been sowed for the dynamic of the healthcare sector. It is important to note first that medical marijuana doesn't necessarily define as the stereotype of the drug – much of the remedial properties are achieved via the extraction of oil as opposed to smoking, meaning that recipients can relieve pain without getting high. As this becomes more apparent to the wider public, negative connotations will decrease and a greater level of research will be conducted across the sector. If proven effective and non-harmful, which early studies from the USA suggest, medical marijuana will continue its rise in society and could very possibly one day reside next to more artificial painkillers such as opioids in the pharmaceutical market.

Going by this logic, one would assume that not only would current medical marijuana companies continue to gain traction in the industry, but mainstay pharmaceutical giants would also take a vested interest in the drug given that it could not only become its competitor, but also a potential product one day. This concept is very much based on the fact that research will now vastly increase now that marijuana is legal in some form. While the common consensus would suggest that for a pharma giant to release a product in the near term would be detrimental to their name given that there still exists a stigma in society, it wouldn't be ridiculous to think that one day in the future, a medical marijuana product is offered by the larger pharmaceutical companies.

There is also the train of thought that pharmaceutical companies would widely oppose such developments in legislation. This concept is boosted by the findings of a research conducted in the USA released last year in the journal 'Health Affairs,' which found that in the 17 medical marijuana states in 2013, *"the average doctor prescribed 265 fewer doses of antidepressants each year, 486 fewer doses of seizure medication, 541 fewer anti-nausea doses and 562 fewer doses of anti-anxiety medication."* From this information, one would conclude that the medication not only works, but is a viable substitute for more harmful and addicting opioid-based painkillers.

Of course, since the legislation was passed by the federal government, Medical Marijuana companies listed on the ASX enjoyed a significant rise. In announcing last month that the government planned to increase supply and relax importation laws, medical marijuana companies' stock rose up to 24% in one day's trading. To think where the industry is in a decade is truly one of speculation and wonder.

Sources: SMH, Washington Post, 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
S&P/ASX 100 TR			2.28	6.16	11.73	
Aristocrat Leisure Ltd	ALL	Consumer Discretionary	8.64	11.67	54.26	1.47
James Hardie Industries PLC DR	JHX	Materials	-5.71	-5.68	28.37	2.25
South32 Ltd	S32	Materials	-9.45	-8.12	159.46	0.47
ResMed Inc DR	RMD	Health Care	4.82	12.77	15.32	
Ramsay Health Care Ltd	RHC	Health Care	4.46	-1.45	3.03	2.62
National Australia Bank Ltd	NAB	Financials	5.47	10.58	16.05	8.72
CSL Ltd	CSL	Health Care	4.95	20.27	-2.71	1.69
Australia and New Zealand Banking Group Ltd	ANZ	Financials	5.50	8.76	17.10	7.28
Bendigo and Adelaide Bank Ltd	BEN	Financials	-2.63	1.41	14.49	8.16
Seek Ltd	SEK	Industrials	8.66	5.94	0.46	3.78
Challenger Ltd	CGF	Financials	6.02	9.70	34.22	4.03
Westpac Banking Corp	WBC	Financials	6.28	7.77	5.14	7.80
Spark Infrastructure Group	SKI	Utilities	-0.85	3.11	30.86	6.47
Oil Search Ltd	OSH	Energy	1.60	8.22	8.01	0.58
Telstra Corp Ltd	TLS	Telecommunication Services	-3.60	-4.55	-1.20	9.54

Portfolio Adjustments

In February, the VIP Investment Committee sold Brambles after the company issued a profit downgrade. Reliance was also sold due to inactivity. Instead, South32 was bought to increase our holdings in the resources sector.

## 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.

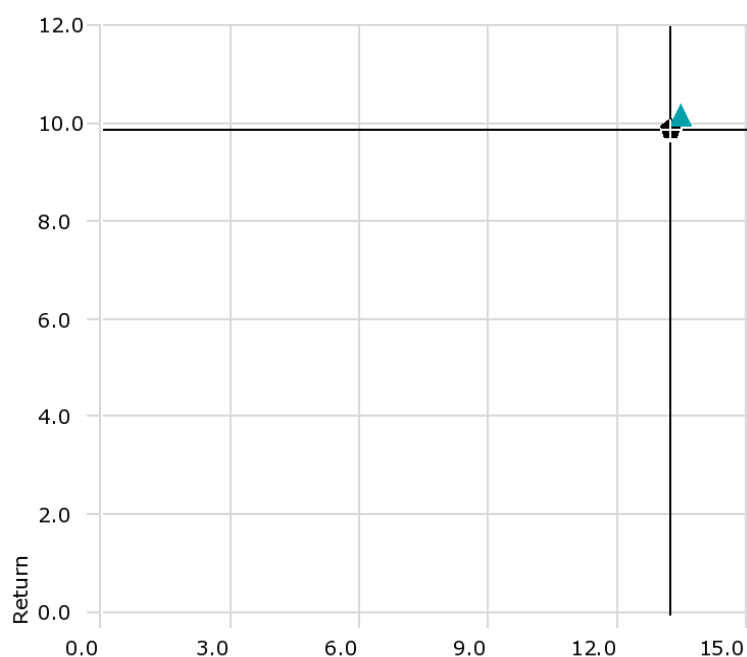
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

### Risk-Reward

Time Period: Since Inception to 28/02/2017

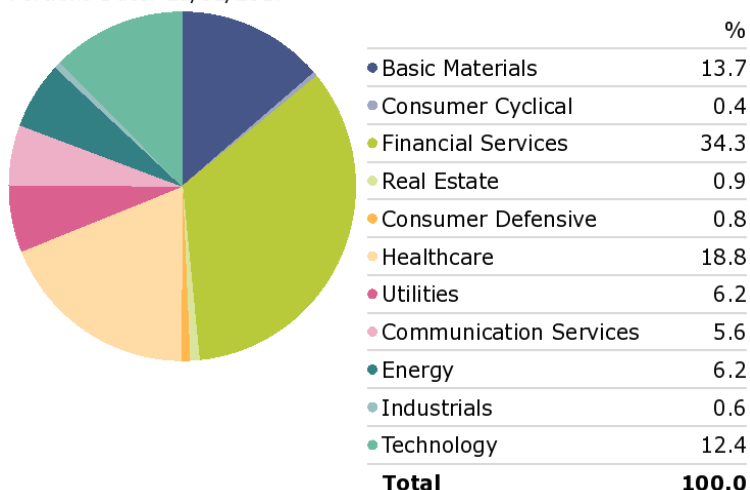
Calculation Benchmark: S&P/ASX 100 TR



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

### VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 28/02/2017



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