

### 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 4.67% **pre-fees** return for the month and 4.22% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in March by 1.33% and underperformed by 0.84% over the quarter.

Over the last year, the portfolio has generated a 14.27% return pre-fees underperforming the ASX 100 index by 6.74%.

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 31/03/2017



—VIP Australian Share Leaders

### Trailing Returns

As of Date: 31/03/2017

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	5 Years	Since Inception
VIP Australian Share Leaders PRE-FEES	4.67	4.22	6.91	14.27	4.08	8.65	11.02	12.57	10.87
Net VIP Australian Share Leaders Investment	4.55	3.88	6.19	12.74	2.68	7.19	9.53	11.06	9.38
Net VIP Australian Share Leaders Super-Pension	4.60	4.02	6.48	13.36	3.25	7.78	10.14	11.67	9.99
S&P/ASX 100 TR	3.34	5.06	11.16	21.01	4.12	7.62	9.24	11.63	9.95

### Performance Contributors & Detractors

The strongest performing sector was the Utilities sector 6.28% followed by the Health Care and Consumer Staples sectors with 5.53% and 5.39% gains respectively. On the other hand, the Telecommunications sector 0.22% followed by Materials 0.36% and Industrial Sectors 3.84% 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 a lower allocation of the portfolio to the Financial Services, Consumer Defensive, and Energy sectors **detracted** from performance.

The **Top Contributors** for the month were South32 Ltd +12.76%, Challenger Ltd +9.70%, and Aristocrat Leisure Ltd +8.25% and the **Top Detractors** for the month were ResMed Inc -0.75%, Ramsay Health Care Ltd +1.24%, and Australia and New Zealand Banking Group Ltd +2.68%.

### Technology of Tomorrow, Today

It has always been said that necessity is the mother of invention – the human pursuit of making day-to-day living easier, more comfortable, and more efficient has forever spurred the continual innovation in areas such as communication, information, and travel. In fact, in this day and age, it is fair to wonder what else we could possibly need, although it is important to note that almost everyone during their existence in history has lived at the height of technological innovation. At present, the face of innovation is largely looking towards artificial intelligence, automation, and better integration as the basis of technologies that may not yet be in the common household, but are progressively pressing towards the forefront of everyday society.

While having existed for decades, artificial intelligence or AI is a phrase that has increasingly been used in the last 2 years, despite many people unbeknownst to its true meaning or effect on our way of life. AI is defined as the ability for devices to perceive its environment and takes actions that maximise its chance of success at a goal. To take it a step further, AI has extended to machine learning i.e. the ability for a machine to learn, and has developed to a stage where intelligent personal assistant devices are readily available such as Amazon's Alexa and Google's AI technology. Together, artificial intelligence and machine learning will change everyday living predominantly through the automation of manual processes.

Automation is the future of the modern world, pushed by AI. One of the most astounding technologies the world has been witnessing over the last few years is the development of the driverless car, which has gone as far as Uber rolling out a fleet of autonomous cars in Pittsburgh and San Francisco last year. Automation in relation to the household seeks to eliminate menial tasks such as constructing shopping lists, watering the garden, and feeding pets. While some of these technologies have existed for a long time, the rise of AI and machine learning will enhance the ability for automation to do amazing things in years to come.

The concept of the 'Internet of Everything' brings automation and AI into an integrated state in which a whole life or household can be connected between its devices. Imagine this. Your FitBit has recognised that you have more than reached your fitness goals for the week, and your iPhone has seen that you plan to host on Friday night. This all has been communicated to your smart fridge, which understands it is missing something and communicates this to your Amazon Alexa, which promptly orders a case of your favourite beer to be delivered by Friday. It may seem farfetched but the technology is a reality, albeit unavailable or unaffordable to the common man at this point.

Somewhat separate although still connected to the above technologies is virtual reality. While once upon a time virtual reality was a novelty, it has been developed to a stage where it not only presents itself as a great gift as it was last Christmas season, but a genuine option for marketing and communication. Perceive this as a step further than a skype call, where one day in the future it will be commonplace to talk to a distant loved one as if you were sitting in their living room, all through technology that is available today and continues to develop.

While it is exciting to see where this technology will take our lives in the future, it is just as intriguing to wonder what opportunity such disruptive innovation will bring to the market. While many stocks in such companies exist as speculative and high risk, history says that one of many will one day rise to be the next greatest thing, much like the technology they produce.

## 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			3.34	5.06	21.01	
Ramsay Health Care Ltd	RHC	Health Care	1.24	3.44	16.81	2.56
South32 Ltd	S32	Materials	12.76	2.10	92.55	2.04
CSL Ltd	CSL	Health Care	7.05	25.65	25.25	1.34
James Hardie Industries PLC DR	JHX	Materials	5.49	-6.37	17.73	2.13
Challenger Ltd	CGF	Financials	9.70	13.82	55.29	3.75
Bendigo and Adelaide Bank Ltd	BEN	Financials	3.32	-0.66	47.82	8.04
National Australia Bank Ltd	NAB	Financials	4.22	8.71	37.84	8.57
Aristocrat Leisure Ltd	ALL	Consumer Discretionary	8.25	15.94	76.89	1.30
Seek Ltd	SEK	Industrials	3.56	9.20	3.96	3.69
Westpac Banking Corp	WBC	Financials	4.04	7.55	24.37	7.70
Oil Search Ltd	OSH	Energy	3.84	1.09	7.41	0.55
APA Group	APA	Utilities	5.91	4.55	6.81	4.97
Australia and New Zealand Banking Group Ltd	ANZ	Financials	2.98	4.60	45.38	7.19
ResMed Inc DR	RMD	Health Care	-0.75	8.28	25.03	
Spark Infrastructure Group	SKI	Utilities	5.28	2.63	21.50	6.17

### Portfolio Adjustments

In March, the VIP Investment Committee sold Telstra given the increased competition in the telecommunications space and a decline in reported revenue and profit, as well as a downgrade in forecast over the coming year. To replace this holding, APA Group was bought to increase the portfolios weighting towards resources.

## 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.

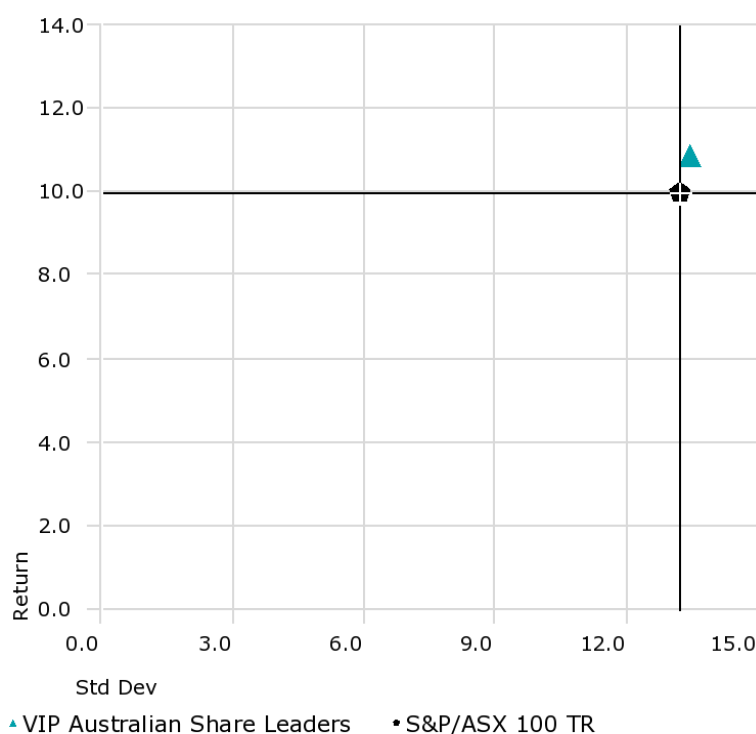
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

### Risk-Reward

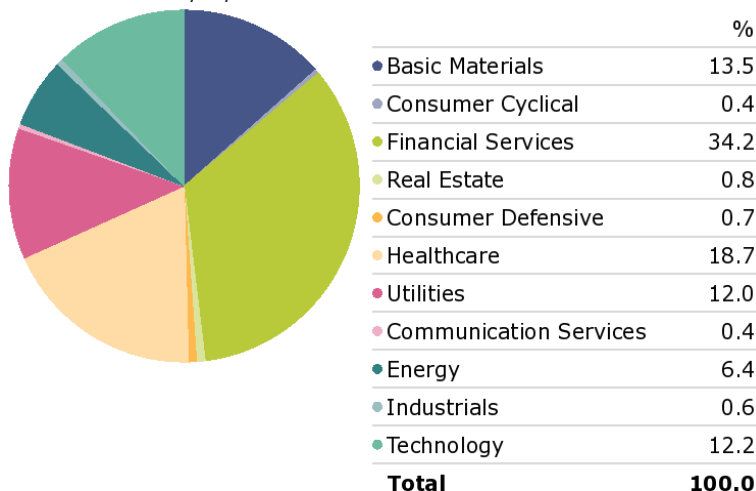
Time Period: Since Inception to 31/03/2017

Calculation Benchmark: S&P/ASX 100 TR



### VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/03/2017



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