

### 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

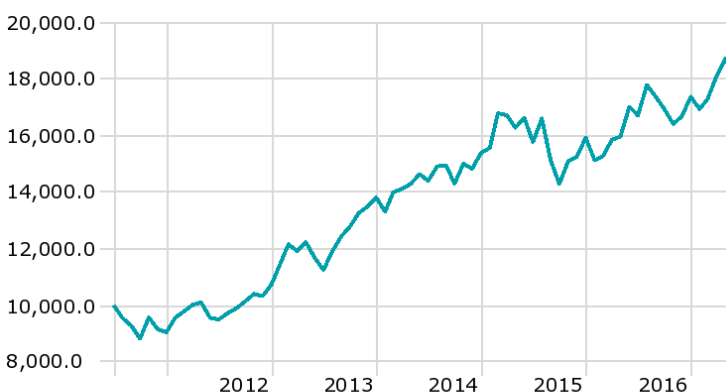
The VIP Australian Share Leaders portfolio generated a -2.69% **pre-fees** return for the month and 5.23% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in May by 0.12% and by 3.68% over the quarter.

Over the last year, the portfolio has generated a 6.96% return pre-fees underperforming the ASX 100 index by 4.69%.

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 31/05/2017



—VIP Australian Share Leaders

### Trailing Returns

As of Date: 31/05/2017

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	5 Years	Since Inception
VIP Australian Share Leaders PRE-FEES	-2.69	5.23	9.13	6.96	4.62	7.54	11.76	13.76	10.66
Net VIP Australian Share Leaders Investment	-2.80	4.87	8.40	5.52	3.22	6.10	10.26	12.24	9.17
Net VIP Australian Share Leaders Super-Pension	-2.75	5.01	8.69	6.11	3.79	6.68	10.87	12.86	9.78
S&P/ASX 100 TR	-2.81	1.55	7.81	11.65	4.10	6.06	8.70	12.38	9.82

### Performance Contributors & Detractors

The strongest performing sector was the Telecommunication Services 3.37% followed by the Energy and Utilities sectors with 2.02% and 1.01% gains respectively. On the other hand, the Financial sector -7.74% followed by Industrials -3.48% and Health Care sectors -2.05% achieved the lowest returns over the month.

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

The **Top Contributors** for the month were Aristocrat Leisure Ltd +11.79%, Spark Infrastructure Group +8.43%, & APA Group +4.59%. The **Top Detractors** for the month were CSR Ltd -14.90%, James Hardie Industries PLC DR -13.63%, and Australia and New Zealand Banking Group Ltd -11.01%.

### May, June, and the Influence of Capital Gains and Losses

Each year, the months of May and June bring excitement and anticipation, a time where the smallest detail can make the biggest difference in a result that has endured a full year's build up. This refers not to State of Origin, but tax time of course. As the end of financial year 2017 approaches, anyone with a vested interest in the world of investment has their eyes turned to capital gains tax, and what this entails for their returns and performance for the financial year. This is particularly true for investment firms, who exist in a world where capital gains tax is a vital facet to perfect in terms of displaying proficiency in funds management.

A capital gain defines as the profit from the sale of an investment, and capital gains tax is therefore the tax levied on such a profit. In understanding this, it is clearly of utmost importance to managers to use such concepts to their advantage in presenting a successful performance regardless of how the fund has actually performed. This refers to investors receiving realised capital gains despite the fund having performed poorly or have had a flat year. Such a technique could possibly be attributed to managers selling stocks that have performed well in order to earn the capital gain and present a 'façade' of success despite the fund overall having a less than ideal year.

Similarly, the same can be said for capital losses. Given that a realized gain will obviously bring with it a capital gains tax, the sale of underperforming stocks is commonly used in order to offset the capital gains and therefore lessening the tax burden. When all taken into account, capital loss selling coupled with selling for capital gains all before June 30<sup>th</sup> makes for a huge amount of selling in the months of May and June, a predominant reason markets have traditionally performed badly in these months. Essentially, much of the selling is to crystallise gains or losses before the tax man comes knocking.

With the gears of the global economy working overtime to cater for movements and incidents throughout the world, it would be a sensible assumption that volatility in the markets derives from the likes of the rumbles of unrest in Europe, the continual and constant rise of terrorism, and the rollercoaster that is the Trump administration. While of course these factors hold substance and do effect markets to some extent, the true influence on the market are fund managers and their significant holdings. As a result, May and June are traditionally down months on the stock market as managers look to crystallise capital gains and losses before the conclusion of the financial year. In fact, it is noted by Michael Browne, fund manager at Martin Currie, that eight of the last ten Junes have been negative months.

That said, the flipside to this is the bargain prices that result from the need to offload stock. Just because certain stocks have tracked badly doesn't necessarily mean they have no value, and managers could therefore be buying back these securities after crystallising the capital losses, potentially at a cheaper price given that many others would be seeking to realise the loss as well. In regard to smaller, more illiquid stock, the need to sell is exacerbated by a low trade offering, and as a result magnifies the effect of selling at discounted prices. Managers therefore seek to sell early and buy closer to June 30<sup>th</sup> to capitalise on cheap stock that they believe to have value.

Although Value Investment Partners does not partake in these concepts given our focus on long-term growth and value, tax time overall is a hectic period in which everyone strives to reduce their tax paid, a large part of this being capital gains tax in the investment world. Due to large fund managers having such a dominant holding in the market, there is no doubt as to why stocks can suffer May and June as investors rush to crystallise capital gains and losses alike.

Source: SMH, CNBC, AFR

## 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
Aristocrat Leisure Ltd	ALL	Consumer Discretionary	11.79	32.26	76.89	1.36
ResMed Inc DR	RMD	Health Care	3.22	1.01	25.03	0.46
APA Group	APA	Utilities	4.59	13.24	6.81	4.86
Spark Infrastructure Group	SKI	Utilities	8.43	19.50	21.50	5.27
National Australia Bank Ltd	NAB	Financials	-7.25	-1.42	37.84	9.64
Challenger Ltd	CGF	Financials	-3.25	11.80	55.29	3.84
CSR Ltd	CSR	Materials	-14.90	-0.24	44.24	6.48
Westpac Banking Corp	WBC	Financials	-9.18	-5.51	24.37	9.04
Australia and New Zealand Banking Group Ltd	ANZ	Financials	-11.01	-5.65	45.38	8.30
James Hardie Industries PLC DR	JHX	Materials	-13.63	0.41	17.73	2.29
CSL Ltd	CSL	Health Care	-2.46	10.41	25.25	1.31
Ramsay Health Care Ltd	RHC	Health Care	-3.86	-0.13	16.81	2.60
South32 Ltd	S32	Materials	-5.04	7.94	92.55	2.29
Seek Ltd	SEK	Industrials	-0.88	9.74	3.96	3.61
Bendigo and Adelaide Bank Ltd	BEN	Financials	-8.52	-3.80	47.82	9.39
Oil Search Ltd	OSH	Energy	-1.52	2.27	7.41	0.59
S&P/ASX 100 TR			-2.81	1.55	21.01	

### Portfolio Adjustments

In May, the VIP Investment Committee bought CSR Ltd to boost the portfolio’s holdings in industrials at what we believe to be discount prices.

## 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.

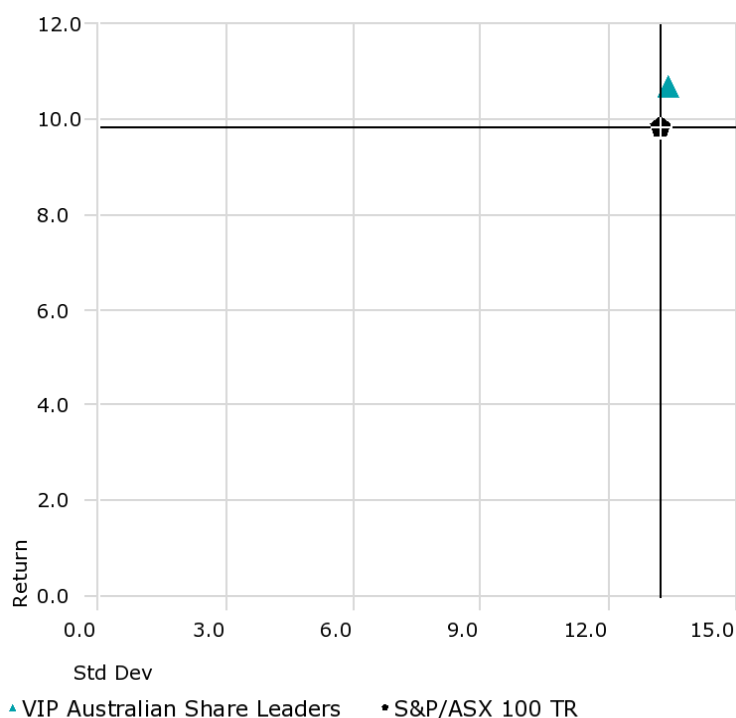
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

### Risk-Reward

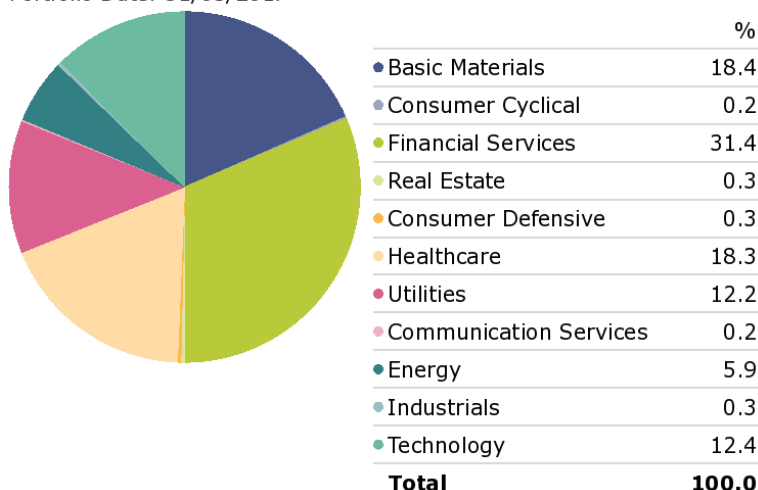
Time Period: Since Inception to 31/05/2017

Calculation Benchmark: S&P/ASX 100 TR



### VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/05/2017



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