

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

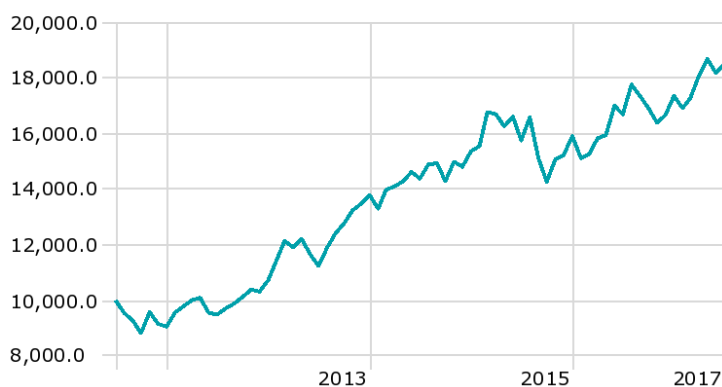
The VIP Australian Share Leaders portfolio generated a 1.77% **pre-fees** return for the month and 2.31% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in June by 1.74% and by 4.01% over the quarter.

Over the last year, the portfolio has generated a 10.88% return pre-fees underperforming the ASX 100 index by 3.74%.

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 30/06/2017



—VIP Australian Share Leaders

Trailing Returns

As of Date: 30/06/2017

| | 1 Month | 3 Month | 6 Month | 1 Year | 2 Years | 3 Years | 4 Years | 5 Years | Since Inception |
|--|---------|---------|---------|--------|---------|---------|---------|---------|-----------------|
| VIP Australian Share Leaders PRE-FEES | 1.77 | 2.31 | 6.63 | 10.88 | 8.40 | 8.77 | 13.30 | 14.30 | 10.80 |
| Net VIP Australian Share Leaders Investment | 1.66 | 1.97 | 5.92 | 9.39 | 6.94 | 7.32 | 11.78 | 12.77 | 9.32 |
| Net VIP Australian Share Leaders Super-Pension | 1.70 | 2.11 | 6.21 | 9.99 | 7.53 | 7.91 | 12.40 | 13.39 | 9.92 |
| S&P/ASX 100 TR | 0.03 | -1.70 | 3.28 | 14.62 | 6.87 | 6.60 | 9.26 | 12.15 | 9.79 |

Performance Contributors & Detractors

The strongest performing sector was the Healthcare sector 6.10% followed by the Financial and Information Technology sectors with 1.63% and 1.36% gains respectively. On the other hand, the Energy sector -6.93% followed by Utilities -2.69% and Consumer Staples sectors -2.62% achieved the lowest returns over the month.

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

The **Top Contributors** for the month were Ramsay Healthcare +6.77%, CSL +6.76%, and ResMed Inc DR +6.70%. The **Top Detractors** for the month were Oil Search -4.08%, Spark Infrastructure Group -2.96%, and APA Group -1.88%.

US Housing and James Hardie

Established in 1888, James Hardie Industries has been a mainstay of the VIP portfolio, approximately doubling its value since acquiring the security in 2013. James Hardie or 'JHX' is an industrial building materials company in the business of manufacturing and developing technologies, materials, and processes for the production of building materials, specialising in fibre cement products. While the company has since relocated its headquarters to Ireland from Australia, JHX has a strong presence in the US housing market and is a predominant reason the security has performed so strongly during its time in the VIP portfolios, and a major reason the company is still held by VIP.

The US housing market has found itself in a predicament in which there is a significant shortage of housing inventory on the lower end, with builders opting to allocate efforts towards higher end luxury homes. As a result of high construction costs, including regulatory, land, labour, and financing costs, a housing start is only deemed feasible if the house can be sold at a higher end price. With a high cost to build and preference towards building luxury homes, housing inventory has fallen year-over-year for the last 28 consecutive months, with over 9% fewer homes on the market than last year. Interestingly, the last time such a reduction in inventory occurred was August 2013, one month prior to JHX's acquisition in our portfolios.

The amount of demand is no doubt an exacerbator of the shortage of inventory, with homes on sale being bought at record pace – in April a house in the US had an average of 77 days before taking on a new owner, 77 being the lowest number recorded by Zillow, an online real estate database company. The fundamental laws of economics mean that a low supply of houses and a high demand results in an ever-growing housing price, with prices rising 7.4% year-over-year in May. With a national average of \$200,000 USD or \$250,000 AUD per house (a pipedream to any Sydneysider), rising prices despite record low interest rates are keeping young American buyers out of the market.

Although housing inventory is scarce, it is noted that homebuilding bounced back in June after 3 consecutive months of decline, with housing starts jumping 8.3% to the highest since February. In an environment where buyers are crowding the sidelines waiting for an opportunity, any increase in housing starts bodes well for companies such as James Hardie.

It is also noted that housing starts are being hampered by high lumber prices as well as a shortage of building lots and labour. These are factors that are no doubt taken into consideration when analysing a stock such as James Hardie, but the fact still remains that despite these obstacles, the demand in place is impossible to ignore.

The VIP investment comes to the simple conclusion that a high demand for housing coupled with a shortage of houses means that the US housing construction industry demands a place in our portfolios, hence the holding of James Hardie Industries.

Source: BBN, CNBC, Bloomberg

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 | 3.49 | 26.41 | 65.69 | 1.45 |
| ResMed Inc DR | RMD | Health Care | 6.70 | 8.55 | 21.50 | 0.44 |
| CSL Ltd | CSL | Health Care | 6.76 | 10.13 | 24.58 | 1.34 |
| Ramsay Health Care Ltd | RHC | Health Care | 6.77 | 5.31 | 5.05 | 2.50 |
| CSR Ltd | CSR | Materials | 4.56 | -3.33 | 23.35 | 6.30 |
| Challenger Ltd | CGF | Financials | 4.30 | 6.29 | 60.12 | 3.70 |
| James Hardie Industries PLC DR | JHX | Materials | 4.70 | -0.34 | 0.92 | 2.32 |
| Australia and New Zealand Banking Group Ltd | ANZ | Financials | 2.53 | -6.15 | 28.55 | 8.05 |
| South32 Ltd | S32 | Materials | 1.52 | -2.90 | 77.98 | 2.20 |
| APA Group | APA | Utilities | -1.88 | 4.91 | 4.17 | 5.20 |
| Westpac Banking Corp | WBC | Financials | 0.03 | -9.15 | 12.91 | 8.74 |
| National Australia Bank Ltd | NAB | Financials | -1.76 | -7.01 | 27.48 | 9.52 |
| Spark Infrastructure Group | SKI | Utilities | -2.96 | 10.55 | 13.32 | 5.75 |
| Seek Ltd | SEK | Industrials | 0.12 | 6.22 | 15.12 | 3.57 |
| Bendigo and Adelaide Bank Ltd | BEN | Financials | -1.69 | -8.73 | 25.54 | 8.60 |
| Oil Search Ltd | OSH | Energy | -4.08 | -5.54 | 2.87 | 0.63 |
| S&P/ASX 100 TR | | | 0.03 | -1.70 | 14.62 | |

Portfolio Adjustments

In June, 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.

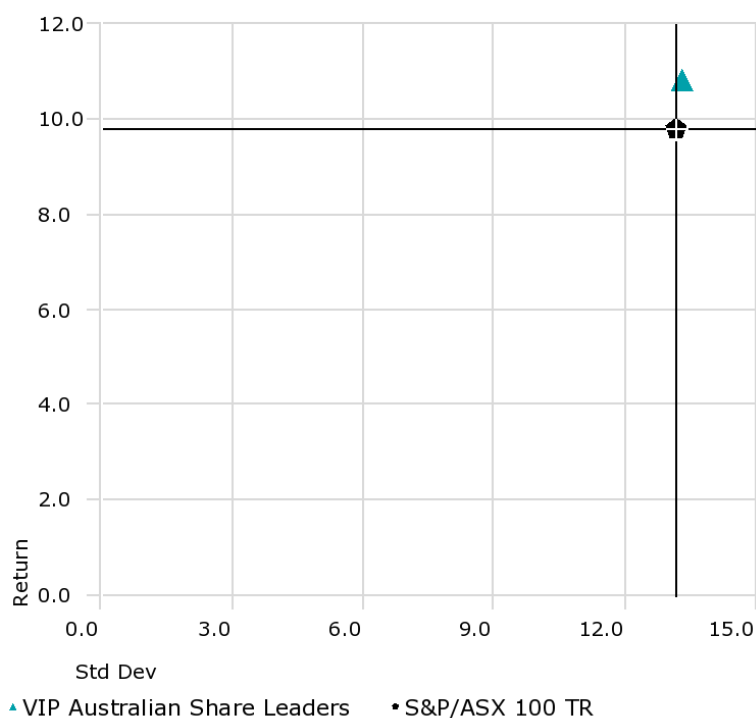
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

Risk-Reward

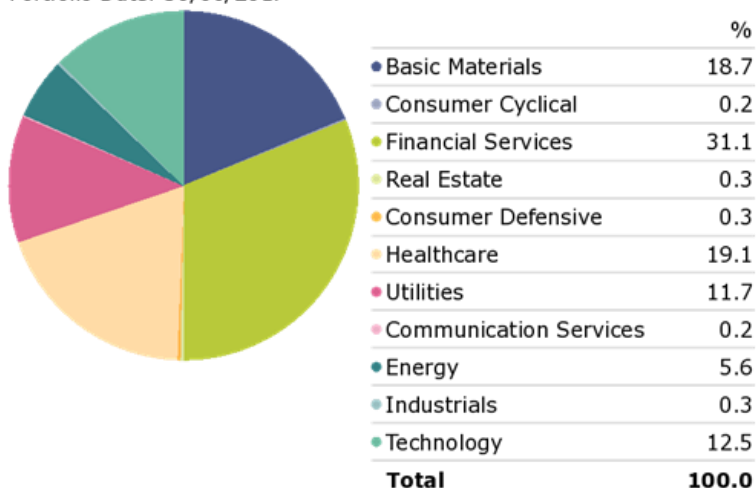
Time Period: Since Inception to 30/06/2017

Calculation Benchmark: S&P/ASX 100 TR



VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 30/06/2017



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