

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

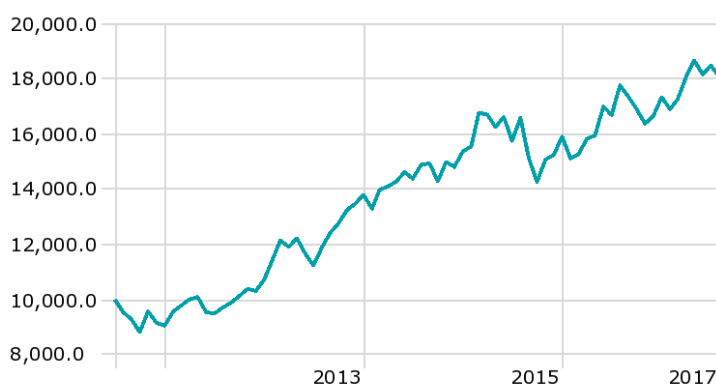
The VIP Australian Share Leaders portfolio generated a -2.28% **pre-fees** return for the month and -3.21% over the last 3 months. The portfolio underperformed the S&P/ASX 100 index in July by 2.24% and by 0.41% over the quarter.

Over the last year, the portfolio has generated a 1.70% return pre-fees underperforming the ASX 100 index by 6.28%.

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 31/07/2017



—VIP Australian Share Leaders

Trailing Returns

As of Date: 31/07/2017

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	5 Years	Since Inception
VIP Australian Share Leaders PRE-FEES	-2.28	-3.21	6.93	1.70	4.38	6.66	11.03	13.24	10.21
Net VIP Australian Share Leaders Investment	-2.39	-3.53	6.22	0.34	2.98	5.23	9.54	11.72	8.74
Net VIP Australian Share Leaders Super-Pension	-2.34	-3.40	6.51	0.89	3.55	5.81	10.15	12.34	9.34
S&P/ASX 100 TR	-0.02	-2.80	3.87	7.98	4.51	5.09	7.94	11.14	9.76

Performance Contributors & Detractors

The strongest performing sector was the Materials sector 3.57% followed by the Financial and Consumer Staples sectors with 1.25% and 1.06% gains respectively. On the other hand, the Health Care sector -7.47% followed by Utilities -5.33% and Telecommunications sectors -4.29% achieved the lowest returns over the month.

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

The **Top Contributors** for the month were South32 Ltd +8.58%, Westpac Banking Corp +4.29%, and Rio Tinto +3.98%. The **Top Detractors** for the month were Aristocrat Leisure Ltd -10.24%, CSL Ltd -8.72%, and CSR Ltd -7.33%.

A Respectable Reporting Season

With another earnings season all but wrapped up, it is intriguing to see how companies have performed amid a year of extraordinary volatility triggers, including a Trump victory in the US Election and heightened geopolitical tensions across the globe with North Korea demanding to be taken seriously.

Overall, it has been a respectable reporting season, although one would not classify it as great. Of the 119 companies that have reported full-year earnings, approximately 90% have reported a profit, exceeding the 87% long term average and excluding BHP, CBA, and Telstra, profits are up 40.9% over the year. However, the result was unable to beat the February 2017 reporting season of 94%, a figure that was considered a seriously strong result by all analysts. 91% of the full-year reporting companies elected to pay a dividend, and cash levels have been raised a significant amount with a 23.5% increase to cash holdings, indicating a cautious, more defensive approach for the ASX200 companies looking forward.

In narrowing it down to sectors, earnings season has revealed mining and energy companies benefitted from cost-cutting and favourable commodity prices. It is noted however that the rise of the Australian dollar has not furthered this sentiment, impacting negatively on exporters. Favourable demand and prices has also boded well for packaged foods and meats, and housing market-dependent companies have performed well off the back of more housing starts and purchases. Furthermore, Real Estate Investment Trusts (REITs) have been required to be proactive to changing dynamics in the economy to perform well. In contrast, consumer-based companies such as retailers have been negatively affected by low inflation, a cautious consumer sentiment, and disruption. Media has also been hit by changing times.

Notably, the retail sector finds itself at a crossroads in a market with low inflation and a low consumer sentiment. Traditional brick and mortar retailers are still struggling to find their place in an increasingly-online world, not to mention the imminent arrival of online conglomerate Amazon, which has the potential to disrupt the way Australians consume as we know it. Given the obvious and predominant advantage these retailers have is their physical presence, the companies and shopping centres involved have a seamless and impressive customer experience as their focal point moving forward and as a result, the companies that excel in this area are the companies that will succeed in the modern consumer era.

While dividends remain popular with investors, it is apparent over the last few reporting periods that companies have reassessed their policies of blindly paying out dividends at all costs. For example, Telstra, a company known for its steady share price and dividend yield, is in the process adjusting their payout ratios so as to put more money into company opportunities, given that their share price has steadily reduced over the course of the year. Furthermore, REITs such as Scentre Group and Westfield have reconfigured their payouts as the major focus for future success is improving customer experience and therefore their properties.

All in all, the corporate world of Australia remains in a strong position. With most companies raising profits, revenues, paying dividends, and reducing expenses, the earnings season has reported back in sound condition. Going forward, companies in general are well positioned to manage the challenges of disruption, global politics and low inflation, and are poised to capitalise on an economy that by most indications will grow at a faster pace.

Source: CBA

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
South32 Ltd	S32	Materials	8.58	4.68	77.98	2.01
Westpac Banking Corp	WBC	Financials	4.29	-5.41	12.91	8.21
Rio Tinto Ltd	RIO	Materials	3.98	8.85	46.05	6.77
Australia and New Zealand Banking Group Ltd	ANZ	Financials	3.17	-6.07	28.55	7.53
National Australia Bank Ltd	NAB	Financials	1.22	-7.75	27.48	9.04
Seek Ltd	SEK	Industrials	1.12	0.35	15.12	3.51
Challenger Ltd	CGF	Financials	-3.67	-2.80	60.12	4.03
ResMed Inc DR	RMD	Health Care	-3.78	5.95	21.50	0.80
Ramsay Health Care Ltd	RHC	Health Care	-4.10	-1.56	5.05	2.40
Spark Infrastructure Group	SKI	Utilities	-4.58	0.40	11.78	4.30
BT Investment Management Ltd	BTT	Financials	-5.45	-8.09	50.64	4.60
APA Group	APA	Utilities	-6.00	-3.38	4.17	5.48
James Hardie Industries PLC DR	JHX	Materials	-6.54	-15.48	0.92	0.72
CSR Ltd	CSR	Materials	-7.33	-17.35	23.35	6.28
CSL Ltd	CSL	Health Care	-8.72	-4.94	24.58	1.36
Aristocrat Leisure Ltd	ALL	Consumer Discretionary	-10.24	3.90	65.69	1.42
S&P/ASX 100 TR			-0.02	-2.80	14.62	

Portfolio Adjustments

In July, the VIP Investment Committee sold Bendigo and Adelaide Bank (BEN) to make room for BT Management (BTT), which we believe to have a sound revenue model. Furthermore, Oil Search (OSH) was replaced with Rio Tinto, which has a long-lived portfolio of assets with low operating costs.

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.

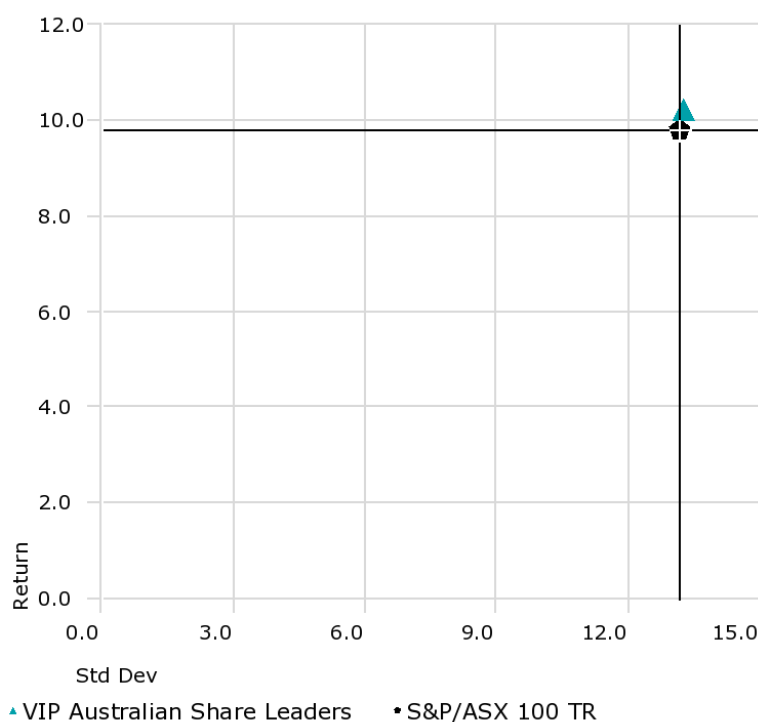
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

Risk-Reward

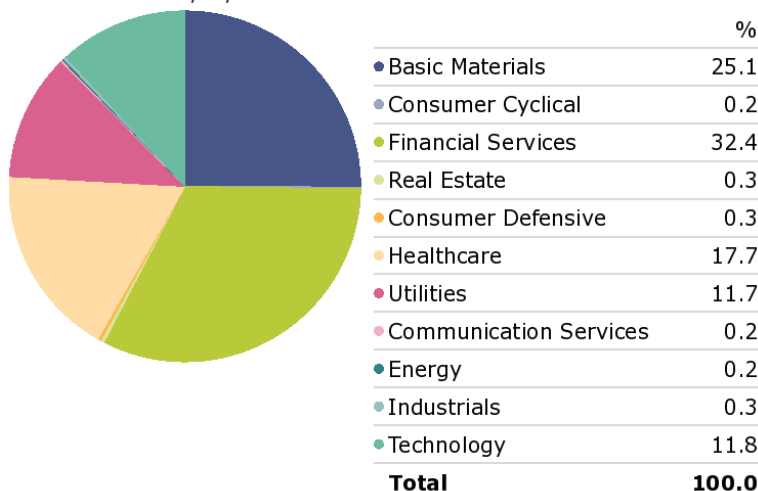
Time Period: Since Inception to 31/07/2017

Calculation Benchmark: S&P/ASX 100 TR



VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/07/2017



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