

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 0.50% **pre-fees** return for the month and -0.04% over the last 3 months. The portfolio underperformed the S&P/ASX 100 index in August by 0.04% and by 0.59% over the quarter.

Over the last year, the portfolio has generated a 4.66% return pre-fees underperforming the ASX 100 index by 5.62%.

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 31/08/2017



—VIP Australian Share Leaders

Trailing Returns

As of Date: 31/08/2017

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	5 Years	Since Inception
VIP Australian Share Leaders PRE-FEES	0.50	-0.04	5.19	4.66	9.62	6.74	9.96	12.94	10.16
Net VIP Australian Share Leaders Investment	0.38	-0.38	4.47	3.26	8.15	5.31	8.49	11.43	8.68
Net VIP Australian Share Leaders Super-Pension	0.43	-0.24	4.76	3.83	8.75	5.89	9.09	12.04	9.28
S&P/ASX 100 TR	0.54	0.55	2.11	10.28	9.21	5.10	7.43	10.81	9.75

Performance Contributors & Detractors

The strongest performing sector was the Energy sector 5.74% followed by the Consumer Staples and Materials sectors with 5.33% and 4.44% gains respectively. On the other hand, the Telecommunications sector -7.37% followed by Financials -2.19% and Consumer Discretionary sectors -1.47% achieved the lowest returns over the month.

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

The **Top Contributors** for the month were Spark Infrastructure Group +8.00%, Rio Tinto Ltd +6.11%, and Aristocrat Leisure Ltd +4.54%. The **Top Detractors** for the month were James Hardie Industries -7.67%, Ramsay Health Care -3.22%, and Challenger -2.41%.

Debt and Wages Growth: A Serious Imbalance

It is a commonly known fact that the Australian economy has found itself in a golden age of high house prices, low interest rates and therefore liberal borrowing. *Not* in conjunction with the rise in borrowing is the important economic factor of wages growth, which one could be forgiven to think to be concurrent with a rise in prices and lending. On the contrary, while houses are selling at historical amounts, the average weekly household income has only grown by \$27 since 2008. Essentially, the increase to average weekly household income has been \$3 per year for the last 9 years.

Compare this to the growth between 2004 and 2008, where the average weekly household income grew by a total of \$213. This period is defined by the mining boom spurred on by China's charge towards industrialisation, sending demand for iron ore and coal through the roof. Off the back of this, wages growth ran high to match the productivity gains of the economy, but since the slowdown of China, Australia has somewhat struggled to find where it's next windfall will come from and as a result, wages growth has suffered.

Despite low wages growth, the average household debt to disposable income ratio is sitting at a record high 189%, meaning Australians and their ability to service this debt is in a delicate predicament if anything was to cause their value of assets to take a turn for the worst. In fact, over a quarter of the relevant population has amassed debts equal to three times their income. Hypothetically, if enough borrowers found themselves incapable of paying off their debt and conceding to sell their house, an oversupply of houses on offer would send the housing market into a spiral if potential buyers didn't pick up the slack. Clearly, low wages growth coupled with high borrowing could have dire consequences to the economy if the right dominos were to fall.

Given the environment Australia finds itself in, the obvious question is 'what is the trigger for a rise in wages growth?' Essentially, Australia needs to see the unemployment rate decrease before expecting any significant movements in wages. Economist Saul Eslake notes that a rise in business investment is gradually gaining pace, and that 'strengthening conditions offshore may finally have encouraged local firms to spend.' More spending logically equates to more jobs, which in turn spurs on consumer confidence, and basic economics communicates that this all leads to lower unemployment and higher wages.

It is important to recognise that a higher employment rate doesn't necessarily translate to a lower rate of unemployment. Recently, the Australian Bureau of Statistics reported that the Australian economy experienced its largest jobs surge in two years, leaping by 54,200 jobs and drastically exceeding the 15,000-20,000 expected by economists. Despite this, unemployment was steady at 5.6% as a greater number of people looked for work, and as such, wage inflation remained stagnant. This is seen in that while 269,000 have been created this year, the labour force expanded by a similar 257,000 and therefore had little effect on the unemployment rate.

With the mining investment boom behind us, it is hard to say whether Australia will experience such a catalyst for change in the short to medium term – the China provided boom could be considered a historical period for our economy. That said, there will always be a 'next big thing,' and whatever that is will be spotted by the smart investor, felt by the economy, and seen in economic factors including wages growth.

Source: SMH, 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
Rio Tinto Ltd	RIO	Materials	6.11	11.14	46.05	6.19
South32 Ltd	S32	Materials	0.34	10.61	77.98	1.88
Spark Infrastructure Group	SKI	Utilities	8.00	0.00	11.78	5.86
Westpac Banking Corp	WBC	Financials	-1.73	2.52	12.91	8.47
Australia and New Zealand Banking Group Ltd	ANZ	Financials	-0.78	4.96	28.55	7.61
National Australia Bank Ltd	NAB	Financials	0.83	0.27	27.48	9.21
Seek Ltd	SEK	Industrials	-2.05	-0.83	15.12	3.54
APA Group	APA	Utilities	2.78	-4.91	4.38	5.53
ResMed Inc DR	RMD	Health Care	-0.30	2.34	21.50	0.74
CSR Ltd	CSR	Materials	3.06	0.00	23.35	5.90
Challenger Ltd	CGF	Financials	-2.41	-1.95	60.12	3.98
Aristocrat Leisure Ltd	ALL	Consumer Discretionary	4.54	-2.89	65.69	1.44
BT Investment Management Ltd	BTT	Financials	-1.49	-4.50	50.64	4.69
CSL Ltd	CSL	Health Care	2.00	-0.60	24.58	1.33
Ramsay Health Care Ltd	RHC	Health Care	-3.22	-0.90	5.05	2.96
James Hardie Industries PLC DR	JHX	Materials	-7.67	-9.65	0.92	0.71
S&P/ASX 100 TR			0.54	0.55	14.62	

Portfolio Adjustments

In August, 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.

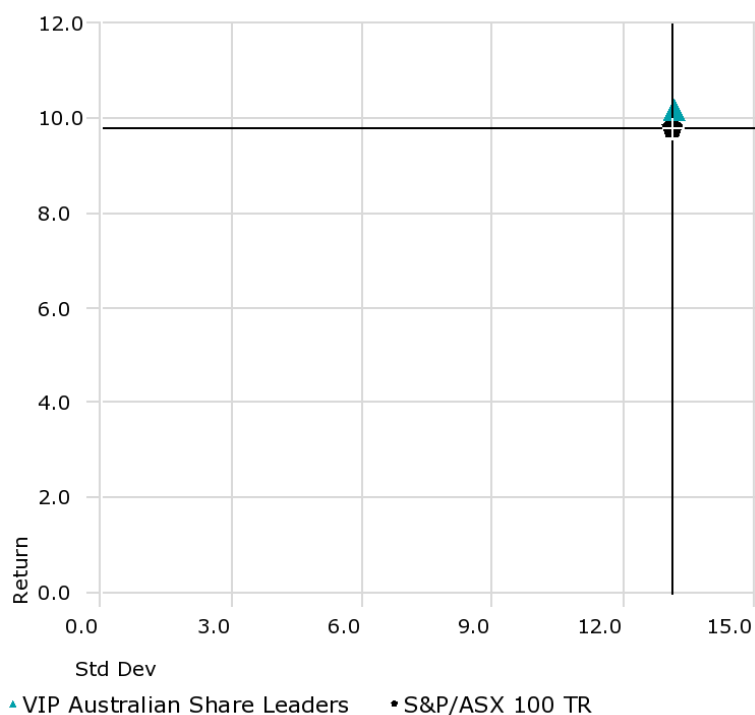
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

Risk-Reward

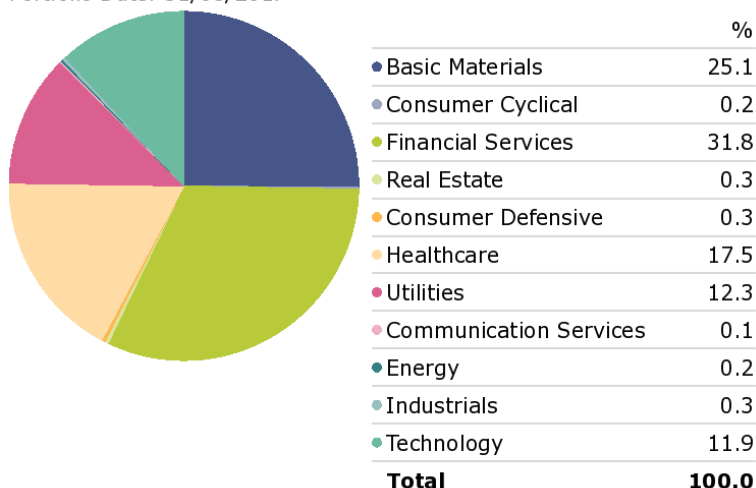
Time Period: Since Inception to 31/08/2017

Calculation Benchmark: S&P/ASX 100 TR



VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/08/2017



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