

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

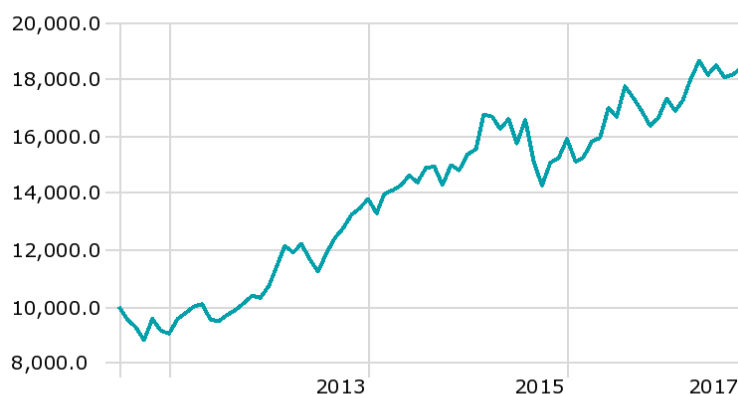
The VIP Australian Share Leaders portfolio generated a 1.21% **pre-fees** return for the month and -0.60% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in September by 1.31% and underperformed by 1.01% over the quarter.

Over the last year, the portfolio has generated an 8.84% return pre-fees underperforming the ASX 100 index by 0.88%.

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 30/09/2017



—VIP Australian Share Leaders

Trailing Returns

As of Date: 30/09/2017

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	5 Years	Since Inception
VIP Australian Share Leaders PRE-FEES	1.21	-0.60	1.80	8.84	13.56	8.80	9.57	12.69	10.24
Net VIP Australian Share Leaders Investment	1.10	-0.94	1.12	7.38	12.04	7.34	8.10	11.18	8.77
Net VIP Australian Share Leaders Super-Pension	1.15	-0.80	1.40	7.97	12.65	7.93	8.70	11.79	9.37
S&P/ASX 100 TR	-0.10	0.41	-1.29	9.72	10.87	7.01	6.82	10.35	9.72

Performance Contributors & Detractors

The strongest performing sector was the Health Care sector 2.19% followed by the Energy and Financial sectors with 1.15% and 1.11% gains respectively. On the other hand, the Telecommunications sector -4.55% followed by Utilities -3.65% and Consumer Staples sectors -1.91% 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 Financial 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 & Energy sector **detracted** from performance.

The **Top Contributors** for the month were South32 Ltd +15.89%, CIMIC Group Ltd +7.18%, and CSL Ltd +4.94%. The **Top Detractors** for the month were Ramsay Health Care -7.12%, APA Group -5.76%, and Treasury Wine Estates Ltd -5.46%.

Trump's US Stock Market

The Australian stock market no doubt finds significant influence from the US market and economy, given our close relations to the world's superpower. Notably for VIP investors, this influence not only takes shape in the form of movements on the ASX, but directly, due to the fact that the blended portfolios (VIP Growth, Balanced, and Conservative) hold a substantial weighting of US companies through the allocation to international equities. As a result, there is understandably a more vested interest in the movements of the US economy and moreover the adventures of Donald Trump.

While media coverage of the POTUS has justifiably been anything but positive, the fact stands that there is a disparity between his performance as president and the performance of the US stock market – that is, the market has been closing at all-time highs in recent times and overall has been undeniably impressive since the Trump administration stepped into office. Although it can't be said that his actions have directly had a positive effect on the economy, there is no doubt a certain correlation between his presence in the White House and the movement of the markets.

Firstly, Trump is better known for his words rather than his actions so far into his term. It is well known that the Republican Party has promised many things, much of which favoured upon by Wall Street, including factors such as investment in infrastructure, deregulation, and tax cuts. While we are yet to see any of this come to true fruition, the sentiment is that there is a considerable upside for US companies if the promises are kept.

On the other hand, there is the twisted logic that negative elements of Trump's agenda (from Wall Street's perspective), such as limiting immigration and raising tariffs, are sceptical promises at best and the market has therefore not overreacted. Investors understand the nature of the current president as well as the current environment of the US population, which leads to the conclusion that things such as 'building a wall' are more than likely just buzzwords to get the attention of a good segment of the country that feels they have been hard done by.

Although there is definitely truth to the above points, it must also be acknowledged that the rise of the US Stock Exchange cannot all be attributed to the oval office occupants. Despite the majority of the news coming out of the States being Trump-centric, it still stands that the US economy continues to rise from the record lows of the GFC. The recovery has been bolstered by a sixteen-year low unemployment rate of 4.3%, and has produced the highest earnings per share growth in the last six months since 2011.

Much of the thanks is owed to foreign markets. While US growth has been steady coming out of the ashes, economies elsewhere have picked up pace. In 2016, 43.2% of earnings in the S&P500 index were made overseas, and the experts consensus is that that percentage will be even higher this year with the Wall Street Journal and ETF.com reporting that the corporations with the highest foreign-earnings percentages are driving the market's gains.

With an Australian market making little waves relative to other economies, it is valuable to grasp an understanding of what is happening in the US market amidst all the noise coming from Washington. The Trump era cannot prove to be dependable to produce returns, given the volatile nature of the man himself, but it bodes well for our portfolios that the market has so far responded positively to his rhetoric, and that earnings in the US are otherwise made offshore.

Source: Fortune, 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
South32 Ltd	S32	Materials	15.89	26.27	42.40	4.95
CIMIC Group Ltd	CIM	Industrials	7.18	16.03	59.89	3.82
BT Investment Management Ltd	BTT	Financials	4.25	-2.90	29.81	4.37
National Australia Bank Ltd	NAB	Financials	4.30	6.45	23.17	8.92
CSL Ltd	CSL	Health Care	4.94	-2.29	26.83	1.28
Westpac Banking Corp	WBC	Financials	2.08	4.62	17.27	8.30
Seek Ltd	SEK	Industrials	0.96	0.00	10.79	3.69
James Hardie Industries PLC DR	JHX	Materials	0.17	-13.56	-10.66	2.40
Australia and New Zealand Banking Group Ltd	ANZ	Financials	0.68	3.06	15.40	7.70
Challenger Ltd	CGF	Financials	1.28	-4.80	27.27	4.00
ResMed Inc DR	RMD	Health Care	1.46	-2.68	15.75	0.75
Aristocrat Leisure Ltd	ALL	Consumer Discretionary	-0.80	-6.91	34.76	1.42
Rio Tinto Ltd	RIO	Materials	-1.93	8.26	37.25	6.22
Spark Infrastructure Group	SKI	Utilities	-3.84	-0.91	15.53	6.07
APA Group	APA	Utilities	-5.76	-8.94	3.58	5.85
Ramsay Health Care Ltd	RHC	Health Care	-7.12	-13.80	-18.86	3.05
Treasury Wine Estates Ltd	TWE	Consumer Staples	-5.46	5.23	26.61	2.03
S&P/ASX 100 TR			-0.10	0.41	9.72	

Portfolio Adjustments

In September, the VIP Investment Committee bought CIM and TWE after selling CSR, choosing to pursue more active growth in the form of CIM. TWE was bought in favour of their US strategy.

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.

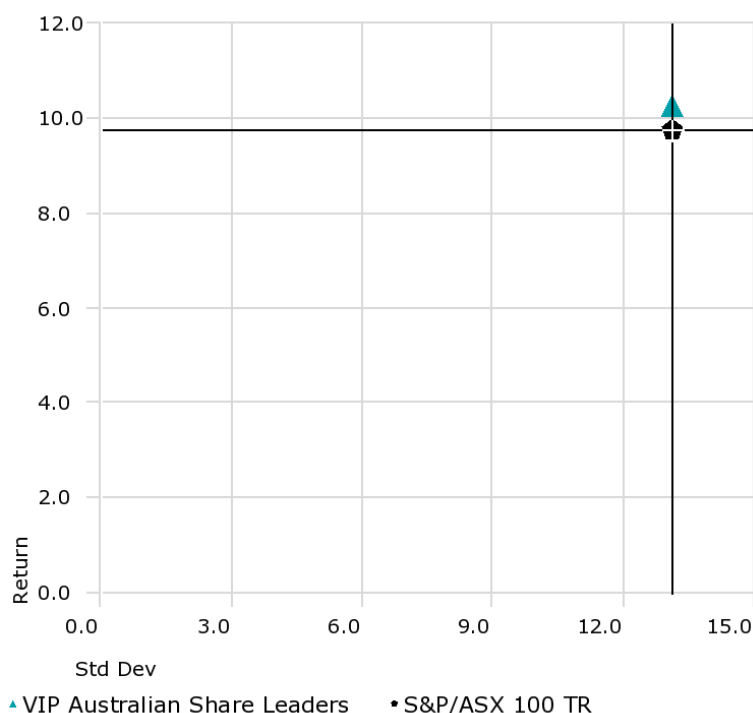
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

Risk-Reward

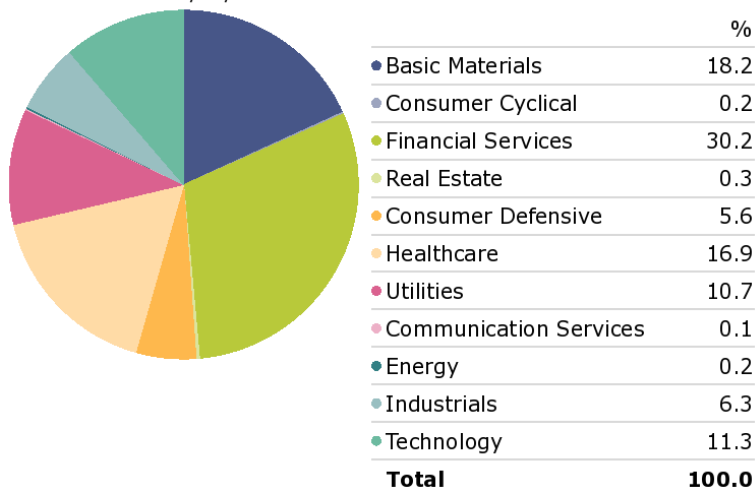
Time Period: Since Inception to 30/09/2017

Calculation Benchmark: S&P/ASX 100 TR



VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 30/09/2017



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