

### 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 6.03% **pre-fees** return for the month and 7.85% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in October by 2.24% and by 3.61% over the quarter.

Over the last year, the portfolio has generated an 3.05% 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 31/10/2017



### Trailing Returns

As of Date: 31/10/2017

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	5 Years	Since Inception
VIP Australian Share Leaders PRE-FEES	6.03	7.85	4.49	19.11	13.74	9.18	10.17	13.44	11.13
Net VIP Australian Share Leaders Investment	5.91	7.49	3.78	17.52	12.22	7.71	8.69	11.92	9.64
Net VIP Australian Share Leaders Super-Pension	5.96	7.64	4.07	18.16	12.84	8.31	9.29	12.53	10.24
S&P/ASX 100 TR	3.79	4.24	1.32	16.06	10.67	6.70	6.75	10.50	9.83

### Performance Contributors & Detractors

The strongest performing sector was the Information Technology sector 8.75% followed by the Energy and Consumer Discretionary sectors with 6.50% and 6.18% gains respectively. On the other hand, the Telecommunications sector 2.37% followed by Financials 3.24% and Industrials sectors 3.89% achieved the lowest returns over the month.

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

The **Top Contributors** for the month were Treasury Wine Estates Ltd -5.46%, James Hardie Industries +12.25%, and Aristocrat Leisure Ltd +12.14%. The **Top Detractors** for the month were BT Investment Management Ltd -2.44%, Spark Infrastructure Group +0.79%, and Australia and New Zealand Banking Group Ltd +1.08%.

### Looking at ETFs

Almost in their 25<sup>th</sup> year of existence now, the Exchange Traded Fund, or ETF as it is widely known, has exponentially grown into prominence in the investment world since the first of its kind was created in 1993. More and more, the ETF has become a viable investment option for Ma and Pa investors who would otherwise simply invest in bank or resources stocks of their choice. The rise of ETFs can also be attributed to institutional investment firms, who's large financial backing of these funds has shone legitimacy on their operations and their place in the market. Value Investment Partners itself has benefitted from the use of ETFs since inception, allowing them to provide us with a cost-effective way to expose our portfolios to a number of assets. As more investors foray into the world of ETFs, it's worthwhile looking at as to why the Exchange Traded Fund has become so popular.

Firstly, it's important to understand exactly what the ETF is, and it is exactly what its name entails – it is a fund that is traded on the stock exchange. Essentially, it is a security with a ticker bought on the stock exchange that once invested in, gives access to all the assets and their returns chosen by the ETF manager. An ETF usually aims to replicate and beat an index or a modification of an index. ETFs can also be sector or region specific, have particular goals such as high growth or high dividend, and be hedged or unhedged to currency fluctuations.

A main component of the ETF that makes it so popular is its accessibility. Like any Australian equity, it trades as easily on the ASX as any other security would, which leads on to the following benefit of ETFs – its liquidity. As an asset class, it provides a similar function as a managed fund, but is able to be sold to cash if needed with the cash settled and received in T+2 business days. Compare this to a managed fund, which can take over a week to be transferred into cash.

Given its accessibility and liquidity, it makes it a highly efficient method of diversifying ones' portfolio. Through a single trade, an investor is exposed to any number of securities that the ETF manager deems appropriate, which would be particularly high if the aim was to replicate an index. With this concept in mind, it enables investors to effectively diversify into a number of asset classes, significantly international equities, with a minimal amount of trades.

In relation to its efficiency as a diversifier, this also stands true in terms of cost. Because its management fees on average are lower relative to its managed fund equivalent, ETFs as a result are an incredibly cost-efficient way to diversify. Furthermore, there is the factor of cost-saving in terms of minimising brokerage fees as the amount of trades for one ETF stock will obviously be lower than individually building a portfolio stock by stock.

As touched on previously, ETFs offer a gateway to international equities. While there are ways in which international equities can be acquired through the creation of an international brokerage account, this method includes somewhat arduous processes that can make international trading a time-consuming exercise. Alternatively, the investment into an international ETF on the ASX is as simple as trading any Australian security.

Despite all the benefits an ETF brings to one's portfolio, it must be noted that the concept also brings a lack of transparency in exactly what is held in the fund. While most ETFs will disclose the top 10 or 20 holdings, the entire fund isn't made public for fear of being replicated. In this sense, the research on ETFs is therefore more towards the management process and track record in order to gain trust in the fund being invested in.

All in all, the ETF concept can bring many benefits to one's portfolio, as it has done for VIP for many years now.

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
Treasury Wine Estates Ltd	TWE	Consumer Staples	14.32	29.79	26.61	1.81
James Hardie Industries PLC DR	JHX	Materials	12.25	3.81	-10.66	2.22
Aristocrat Leisure Ltd	ALL	Consumer Discretionary	12.14	16.30	34.76	1.27
ResMed Inc DR	RMD	Health Care	11.19	12.43	15.75	0.68
Seek Ltd	SEK	Industrials	10.60	9.18	10.79	3.35
CIMIC Group Ltd	CIM	Industrials	9.36	18.80	59.89	3.46
Macquarie Group Ltd	MQG	Financials	8.17	14.59	17.80	5.91
Challenger Ltd	CGF	Financials	6.83	5.45	27.27	3.60
Rio Tinto Ltd	RIO	Materials	4.39	8.55	37.25	5.76
CSL Ltd	CSL	Health Care	3.71	10.99	26.83	1.21
Westpac Banking Corp	WBC	Financials	3.35	3.68	17.27	8.23
South32 Ltd	S32	Materials	3.06	19.73	42.40	4.61
BHP Billiton Ltd	BHP	Materials	2.95	5.60	21.97	5.27
APA Group	APA	Utilities	2.51	-0.70	3.58	5.27
Australia and New Zealand Banking Group Ltd	ANZ	Financials	1.08	0.98	15.40	7.61
Spark Infrastructure Group	SKI	Utilities	0.79	4.65	15.53	5.59
BT Investment Management Ltd	BTT	Financials	-2.44	0.19	29.81	4.49
S&P/ASX 100 TR			3.79	4.24	9.72	

Portfolio Adjustments

In October, the VIP Investment sold NAB and RHC, and bought MQG and BHP. MQG was acquired given its healthy growth prospects, and BHP was bought to increase the exposure to the resources sector.

## 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.

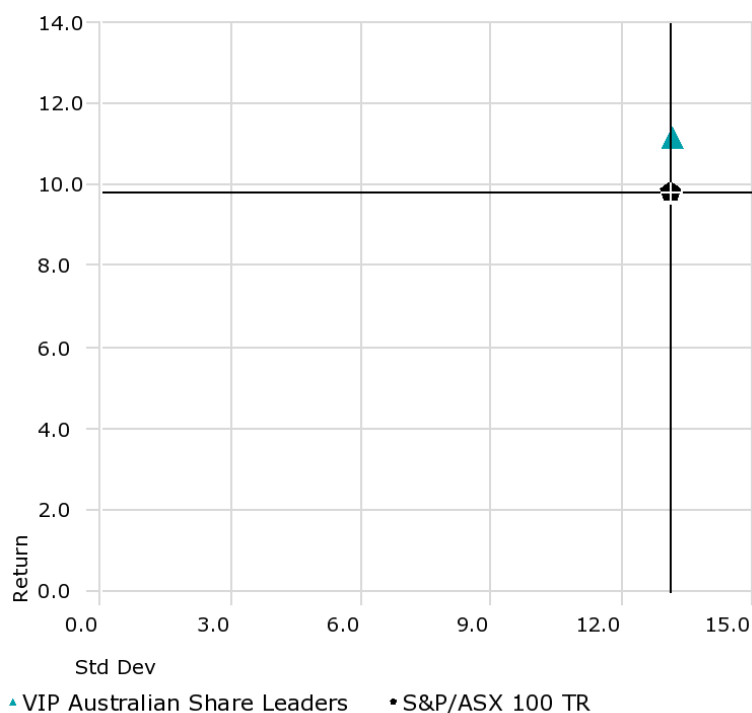
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

### Risk-Reward

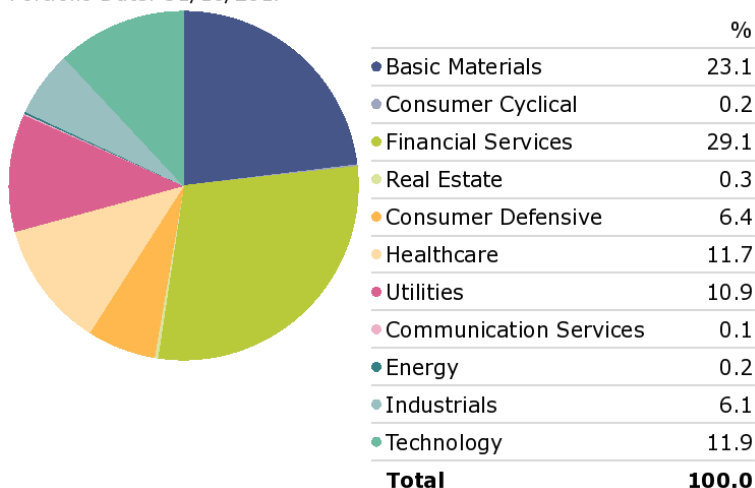
Time Period: Since Inception to 31/10/2017

Calculation Benchmark: S&P/ASX 100 TR



### VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/10/2017



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