

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

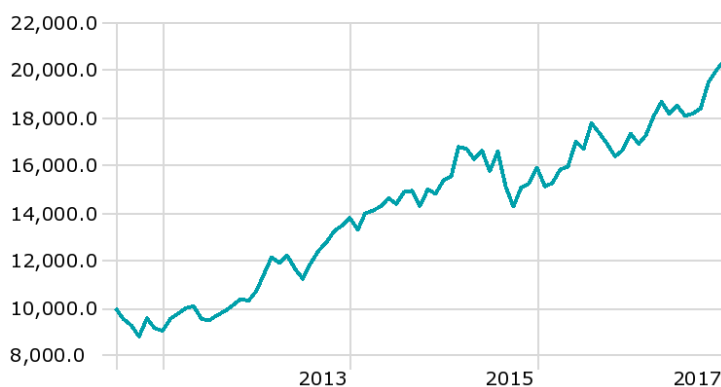
The VIP Australian Share Leaders portfolio generated a 2.11% **pre-fees** return for the month and 10.97% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in December by 0.40% and by 3.90% over the quarter.

Over the last year, the portfolio has generated an 17.74% return pre-fees outperforming the ASX 100 index by 6.70%.

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 31/12/2017



—VIP Australian Share Leaders

Trailing Returns

As of Date: 31/12/2017

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	5 Years	Since Inception
VIP Australian Share Leaders PRE-FEES	2.11	10.97	10.30	17.74	13.28	9.93	10.30	13.75	11.60
Net VIP Australian Share Leaders Investment	1.99	10.59	9.56	16.16	11.76	8.46	8.82	12.22	10.11
Net VIP Australian Share Leaders Super-Pension	2.04	10.74	9.86	16.80	12.38	9.06	9.42	12.84	10.71
S&P/ASX 100 TR	1.71	7.07	7.52	11.04	11.38	8.21	7.69	10.32	9.89

Performance Contributors & Detractors

The strongest performing sector was the Energy sector 6.39% followed by the Materials and Telecommunications Services sectors with 6.19% and 5.53% gains respectively. On the other hand, the Utilities sector -4.54% followed by Health Care -0.48% and Financial sectors 0.37% achieved the lowest returns over the month.

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

The **Top Contributors** for the month were Aristocrat Leisure Ltd +9.08%, BHP Biliton Ltd +8.32%, and South32 Ltd 7.06%. The **Top Detractors** for the month were Spark Infrastructure Group -3.83%, AGL Energy Ltd -2.52%, and ResMed Inc DR -2.14%.

Looking Ahead

2017 was a much needed year of steady growth and positivity around the world after a tumultuous 2016. Following the momentum of last year, 2018 is forecasted to outdo its predecessor in regard to the world's economy. In fact, analysts from Goldman Sachs have gone as far as labelling the forecast for 2018 'As Good As It Gets.' While bold, their statement may not be as farfetched as it seems with the global economy currently outperforming most predictions for the first time since 2010.

As of November last year, Goldman Sachs have predicted a 4% growth around the globe, which would be the strongest growth rate since 2011. Their 4% prediction exceeds their 3.7% forecast for 2017, a prediction that Barclays agrees with. What is significant is that unlike more recent years of high productivity, the world's economy isn't riding on the coattails of any particular economy or sector. As opposed to the years of the US housing bubble or China's gallop into the 21st century, this ongoing economic expansion "is not overly reliant on any single geographical region, industry, or source of demand – it does not seem to have generated economic or financial excesses that pose an immediate threat," as noted by Barclay analysts. While Morgan Stanley's forecasts are more moderate, the overall theme of 2018 seems to be healthy and stable growth collectively around the world.

Of course, some economies are more prevalent (at least from Australia's perspective) than others. The US economy holds great influence in how the entire world's year plays out, particularly Australia, such is the political and business relationship between the two countries. Already we see in 2018 how Trump's administration will affect the global economy. The decision to cut corporate tax in the US from 35% to 21% has enabled the world to enter 2018 with a sprinting start, causing the International Monetary Fund to upgrade their 2018 forecast to 3.9% from the 3.7% estimate given last October. While this 'sugar hit' tax cut will boost the world's economy in the short term, this will no doubt cause problems in the future (such as the next presidential administration) as the US works to reduce their gargantuan budget deficit.

On the other hand of the world's economy is China. China's future faces what its leaders call 'three years of critical battles' in which the country looks to tackle debt, poverty, and pollution. While China starts the year in a strong position, a debt-to-GDP ratio that looks to exceed 320% by 2022 puts the country in a precarious position and brings the controlling of financial risk to the forefront of China's priorities. This is in an environment where construction is one of the sectors leading the economy, and as such, curbing debt has to be a gradual process so as not to throw the system into shock.

Locally, we find ourselves in an economy that continues to turn the corner on non-mining investment. With the days of the mining boom in the rear view, Australia has yet to find its 'next big thing.' With residential property showing the signs of slowing in 2017, 2018 may finally be the year that Sydney and Melbourne in particular see something more than mild fluctuations. That said, those words have been said for the last 3 years. Nonetheless, the domestic economy is in good stead to follow the global economy into a prosperous year of growth, especially companies with significant US exposure, such as Aristocrat Leisure and James Hardie Industries. This is all said with the lessons of 2016 in the back of the mind – anything can happen.

Source: Bloomberg, SMH, The Australian, Goldman Sachs, Fortune

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	7.06	6.73	32.79	4.23
Aristocrat Leisure Ltd	ALL	Consumer Discretionary	9.08	14.22	55.75	1.90
BHP Billiton Ltd	BHP	Materials	8.32	14.70	24.05	4.93
Rio Tinto Ltd	RIO	Materials	6.85	13.95	33.75	5.46
James Hardie Industries PLC DR	JHX	Materials	5.21	27.65	4.31	1.99
BT Investment Management Ltd	BTT	Financials	5.73	4.78	10.93	4.40
Seek Ltd	SEK	Industrials	2.87	14.45	31.98	3.38
Treasury Wine Estates Ltd	TWE	Consumer Staples	1.46	16.58	52.13	1.91
Macquarie Group Ltd	MQG	Financials	1.43	12.27	21.00	5.66
Australia and New Zealand Banking Group Ltd	ANZ	Financials	0.98	0.96	1.99	8.01
Challenger Ltd	CGF	Financials	0.29	12.69	29.21	3.58
CIMIC Group Ltd	CIM	Industrials	0.82	16.38	52.24	3.54
Westpac Banking Corp	WBC	Financials	-0.38	2.42	4.40	8.68
Brambles Ltd	BXB	Industrials	-1.47	11.89	-16.18	3.28
ResMed Inc DR	RMD	Health Care	-2.14	13.30	29.50	1.09
CSL Ltd	CSL	Health Care	-1.42	5.48	42.47	1.23
AGL Energy Ltd	AGL	Utilities	-2.52	4.24	15.81	5.19
Spark Infrastructure Group	SKI	Utilities	-3.83	-0.40	11.71	6.15
S&P/ASX 100 TR			1.71	7.07	11.04	

Portfolio Adjustments

In December, the VIP Investment Committee sold APA Group and bought AGL Energy in order to reduce our exposure to the infrastructure in favour of an energy holding.

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.

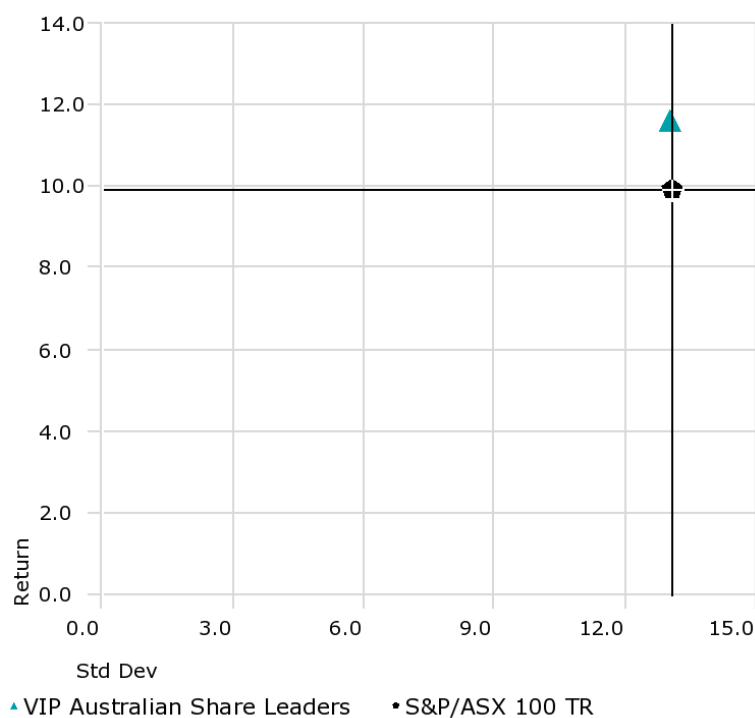
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

Risk-Reward

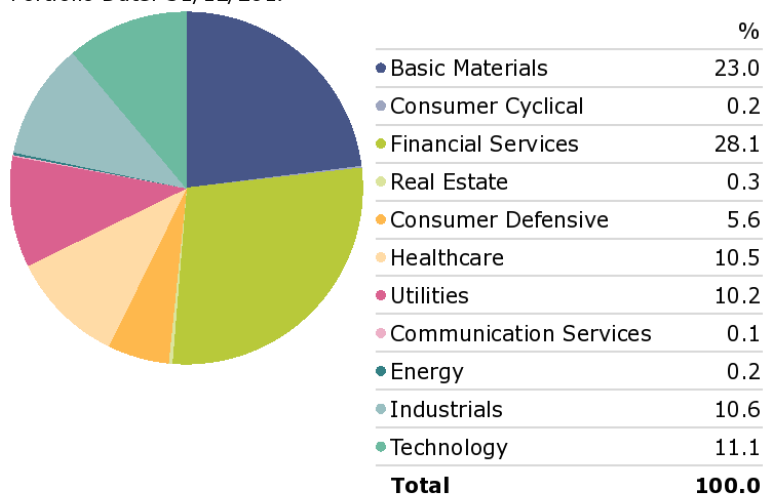
Time Period: Since Inception to 31/12/2017

Calculation Benchmark: S&P/ASX 100 TR



VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/12/2017



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