

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 0.68% **pre-fees** return for the month and 5.36% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in January by 1.05% and by 2.58% over the quarter.

Over the last year, the portfolio has generated an 21.62% return pre-fees outperforming the ASX 100 index by 10.33%.

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 31/01/2018



—VIP Australian Share Leaders

Trailing Returns

As of Date: 31/01/2018

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	5 Years	Since Inception
VIP Australian Share Leaders PRE-FEES	0.68	5.36	13.64	21.62	16.60	9.74	11.52	12.39	11.56
Net VIP Australian Share Leaders Investment	0.56	5.01	12.87	20.00	15.04	8.27	10.02	10.88	10.07
Net VIP Australian Share Leaders Super-Pension	0.61	5.15	13.18	20.66	15.67	8.87	10.63	11.49	10.67
S&P/ASX 100 TR	-0.37	2.78	7.14	11.29	14.35	6.87	8.41	9.16	9.84

Performance Contributors & Detractors

The strongest performing sector was the Health Care sector 3.16% followed by the Information Technology and Telecommunications Services sectors with 1.96% and 0.77% gains respectively. On the other hand, the Utilities sector - 4.47% followed by Financial sectors -0.76%, and Industrials -0.74% 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 Consumer Cyclical and Financial sectors **contributed** to performance; whereas a higher allocation to the Utilities & Industrials sectors as well as a lower allocation to the Energy, Communication Services, & Consumer Defensive sector **detracted** from performance.

The **Top Contributors** for the month were ResMed Inc +13.47%, South32 Ltd +9.46%, and Treasury Wine Estates +7.27%. The **Top Detractors** for the month were CIMIC Group -8.38%, Spark Infrastructure Group -7.97%, AGL Energy Ltd -3.78%.

Driving into the Future

While the concept has been around for decades, it has been in recent times, particularly the last 5 years, that electric vehicles have become a more legitimate option rather than a novelty reserved for the truly environmentally savvy driver. Elon Musk, already a trailblazer in the business world, has emerged to become a household name as the poster-boy genius paving the way into the future through his companies, mainly Tesla in regard to the average consumer. Electric vehicles will no doubt continue to experience a rise as the years go on, such is the nature of the earth's environment. As they become more prominent in society, the question is how will they affect the economy?

As it stands, the sale of electric vehicles remains as a small percentage of total car sales – a mere 0.1% in 2016. However, the simple fact is that fossil fuels are a non-renewable energy source that are detrimental to the world's environment, and therefore the preservation of mankind and the earth inevitably depends on the progression into clean energy if we are to continue living life to the futuristic standard developed countries have come to expect. Whether it be in 1000 years or 10,000, there will be a day where either the earth is simply exhausted of all fossil fuels, or it cannot bear its use anymore. Clearly, this is why the electric vehicle is the next logical step in the car industry as the world works towards a sustainable future.

While the rise of the electric vehicle is a positive in reducing harmful carbon emissions, it could also reduce jobs. Electric vehicles, particularly their batteries, generally require less manufacturing labour than ones that run on petrol. Last year saw announcements from numerous countries to ban the production of emission-producing cars from between 2030-40. As such, research from Germany's Ifo Economic Institute has reported that the approach towards phasing out combustion engines (petrol cars) could lead to the reduction of 600,000 jobs across Germany.

Moreover, an electric vehicle world will severely disrupt the oil industry. In the next couple of decades as countries aim to be purely electric-producing, budgetary stress will be put on major oil-producing companies as well as changing the geopolitical map for countries that have built their wealth on the oil reserves in the borders. Possibly a bold prediction, but Stanford economist Tony Seba predicts that the electric vehicle revolution will cause disruption before the production bans come into effect. Seba and his team argue that oil demand will 'peak at 100 million barrels per day by 2020 and shift to 70 million barrels per day by 2030.' Completing their study in 2017, they report that net exporting countries including Nigeria, Venezuela, Saudi Arabia, and Russia will be the most affected.

In contrast, other resources will experience a boost, albeit not as strong as oil did with the introduction of the petrol car. Key to the electric vehicle is lithium, nickel, cobalt, and cadmium, and while their demand will rise with the rise of electric vehicle production, these materials would only be used once (i.e. to make the car) as opposed to oil, which is used to operate the vehicle.

The public sector will also feel the squeeze of the electric vehicle, as revenues from petrol taxes would reduce as the electric car becomes more prevalent in the next several decades. Research from Seba reveals that up to \$50USD billion from petrol taxes could be lost from the US economy. Ultimately, this could lead to governments shifting to road pricing such as charging per kilometre of travel or congestion charging in order to replace this revenue stream. Locally, petrol tax contributes \$11.03AUD billion of the total \$28.7 AUD billion of road related revenue, a large percentage.

There is a long way before electric vehicles become the norm. For one, the infrastructure is not yet appropriate in Australia – there are only 50 charging stations across the country and only 11 in NSW, essentially making it impossible for electric vehicle owners to travel long distances. With the NRMA announcing a rollout of at least 40 new charging stations across NSW, the foundations are being laid for an electric car-friendly Australia.

Around the world, countries are preparing to end the production of petrol and diesel cars – the Netherlands and India want new cars to be emissions-free by 2030, the UK and France will stop production in 2040, and Germany aims to ban the internal combustion engine by 2030. Furthermore, China is working towards ending production, an important goal given their poor air quality. While we are yet to see its true effects, the electric vehicle is no doubt an invention that will change the world.

Source: SMH, ABC, WeForum, TheConversation

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	9.46	13.35	32.79	4.37
ResMed Inc DR	RMD	Health Care	13.47	15.56	29.50	1.43
BHP Billiton Ltd	BHP	Materials	2.13	13.79	24.05	5.05
Treasury Wine Estates Ltd	TWE	Consumer Staples	7.27	9.39	52.13	1.69
Aristocrat Leisure Ltd	ALL	Consumer Discretionary	0.84	2.70	55.75	1.87
Rio Tinto Ltd	RIO	Materials	1.37	10.66	33.75	5.46
Seek Ltd	SEK	Industrials	2.84	6.42	31.98	3.16
Macquarie Group Ltd	MQG	Financials	3.51	7.35	21.00	5.67
BT Investment Management Ltd	BTT	Financials	-2.39	4.90	10.93	4.89
James Hardie Industries PLC DR	JHX	Materials	-3.58	9.65	4.31	1.30
CSL Ltd	CSL	Health Care	3.62	5.39	42.47	1.17
Australia and New Zealand Banking Group Ltd	ANZ	Financials	-0.56	-0.66	1.99	8.27
Westpac Banking Corp	WBC	Financials	-1.24	-2.08	4.40	8.90
Challenger Ltd	CGF	Financials	-2.78	2.56	29.21	4.01
Brambles Ltd	BXB	Industrials	-1.69	4.65	-16.18	3.38
AGL Energy Ltd	AGL	Utilities	-3.78	-7.24	15.81	5.61
CIMIC Group Ltd	CIM	Industrials	-8.38	-2.50	52.24	3.91
Spark Infrastructure Group	SKI	Utilities	-7.97	-9.06	11.71	6.67
S&P/ASX 100 TR			-0.37	2.78	11.04	

Portfolio Adjustments

In January, 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.

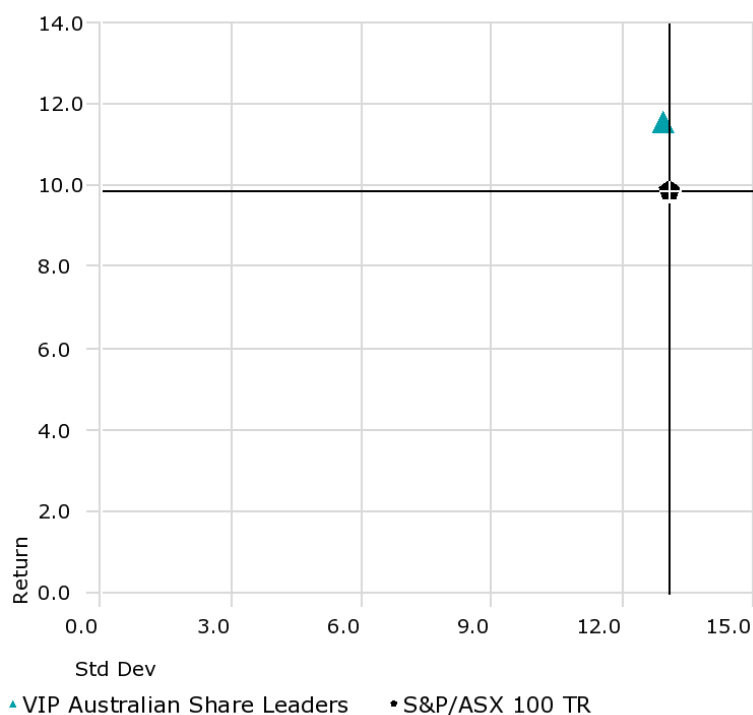
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

Risk-Reward

Time Period: Since Inception to 31/01/2018

Calculation Benchmark: S&P/ASX 100 TR



VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/01/2018

