

### Investment Objective

The aim of the **VIP Balanced Portfolio** is to provide investors with a combination of capital growth and income over the medium to long term from investment within a diversified portfolio of growth assets (60% allocation to Australian shares, International shares, and property securities) and defensive assets (40% allocation to fixed interest and cash).

The portfolio is composed of 30 – 60 securities and consists of ASX listed securities, Exchange Traded Funds (ETFs), Listed Investment Companies (LICs), Managed Funds, Government and Semi Government Bonds, Term Deposits and Cash.

### Performance Review

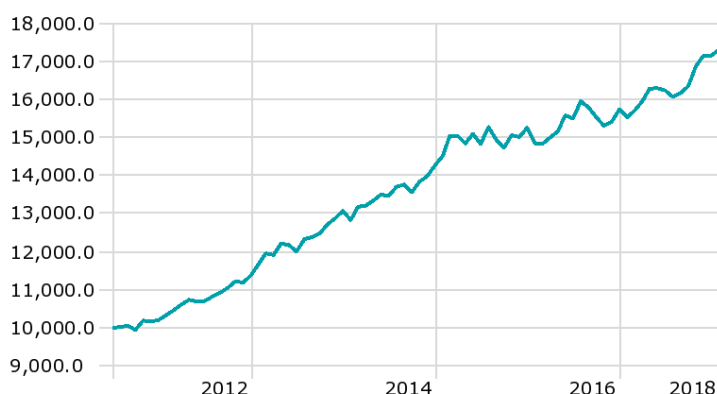
The VIP Balanced portfolio generated a 1.00% return **pre-fees** in January, and 2.87% return pre-fees over the quarter.

Over the last year the portfolio has generated a 12.95% return pre-fees and over 3 years 7.48%.

The post-fees returns for the *Investment* and *Superannuation & Pension* portfolios are shown **in blue** in the table below.

### Investment Growth

Time Period: 2/07/2011 to 31/01/2018



—VIP Balanced Investment

### 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 Balanced PRE-FEES	1.00	2.87	8.47	12.95	9.44	7.48	9.23	9.66	10.24
Net VIP Balanced Investment	0.88	2.52	7.74	11.44	7.97	6.03	7.77	8.19	8.76
Net VIP Balanced Super-Pension	0.87	2.47	7.64	11.23	7.77	5.83	7.57	7.98	8.56
VIP Balanced Composite Index	-0.26	1.75	5.30	8.47	8.84	5.96	8.07	8.76	9.54

### Tactical Asset Allocation

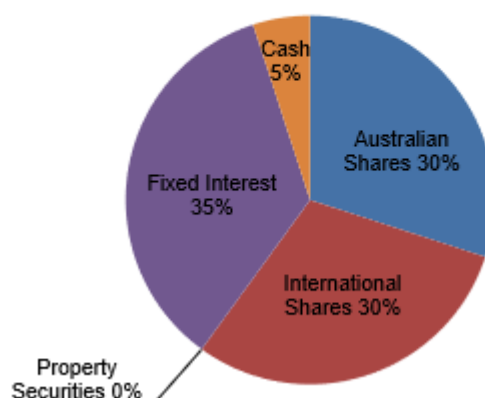
The VIP Balanced portfolios asset allocation as at 31/01/2018 was as follows:

- Australian Shares 30%
- International Shares 30%
- Property Securities 0%
- Fixed Interest 35%
- Cash 5%

The Growth asset allocation (Shares and Property Securities) is currently residing at its target level of 60%.

### Balanced Portfolio TAA

As at: 31/01/2018



## Risk vs Return

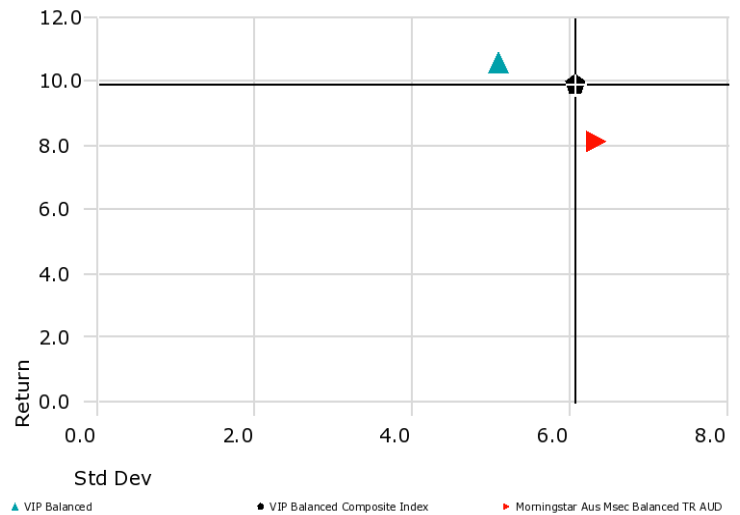
The VIP portfolios aim to reduce volatility, or risk, over the long term and achieve excess returns per unit of risk that is taken compared to our Balanced Composite Index and the Morningstar Multi-sector Balanced Index.

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 Balanced portfolio (aqua triangle) has achieved a **higher return** and **lower risk** compared to the Balanced Composite Index (black pentagon) and our peers represented by the Morningstar Multi-sector Balanced index (red triangle) since inception on 01/07/2011.

This is the outcome we aim to achieve for our investors.

## Risk-Reward



## Month in Review - Economic & Market Commentary

### 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

## Australian Shares Portfolio

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%.

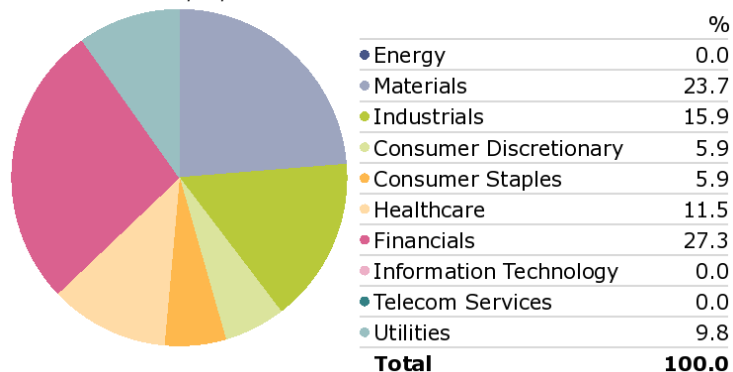
The **Top Contributors** for the month were ResMed Inc +13.47%, South32 Ltd +9.46%, and Treasury Wine Estates +7.27%. The **Top Detractors** for the month were CIMIC Group -8.38%, Spark Infrastructure Group -7.97%, AGL Energy Ltd -3.78%.

### VIP Australian Share Leaders - Holdings

	Ticker	Dividend Yield % TTM
South32 Ltd	S32	4.37
ResMed Inc DR	RMD	1.43
BHP Billiton Ltd	BHP	5.05
Aristocrat Leisure Ltd	ALL	1.87
Treasury Wine Estates Ltd	TWE	1.69
Rio Tinto Ltd	RIO	5.46
Macquarie Group Ltd	MQG	5.67
Seek Ltd	SEK	3.16
BT Investment Management Ltd	BTT	4.89
James Hardie Industries PLC DR	JHX	1.30
CSL Ltd	CSL	1.17
Australia and New Zealand Banking Group Ltd	ANZ	8.27
Westpac Banking Corp	WBC	8.90
Challenger Ltd	CGF	4.01
Brambles Ltd	BXB	3.38
AGL Energy Ltd	AGL	5.61
CIMIC Group Ltd	CIM	3.91
Spark Infrastructure Group	SKI	6.67

### VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/01/2018



### Australian Shares Portfolio Adjustments:

In January, the Investment Committee made no changes to the portfolio.

## International Shares Portfolio

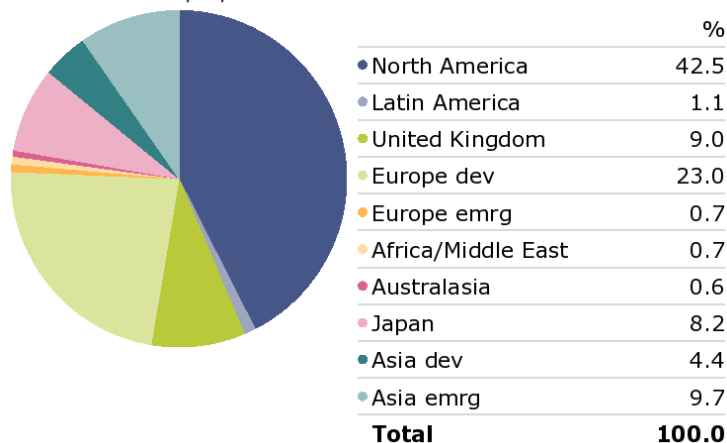
The VIP International share portfolio generated a 2.40% **pre-fees** return for the month and 3.34% over the last 3 months. In doing so the portfolio outperformed the MSCI World Ex Aus (AUD) index by 0.65% and by 0.10%.

Over the last year, the portfolio has generated a 18.69% return and outperformed the index by 0.54%.

The **Top Contributors** were AB Global Equities 3.17%, Platinum International Fund 2.83%, and Morpich Global Opportunities 1.92%. The **Top Detractors** was iShares Europe ETF (AU) 1.74%.

### VIP International - Equity Regional Exposure

Portfolio Date: 31/01/2018



### VIP International - Holdings

Portfolio Date: 31/01/2018

	Global Category
Platinum International Fund	Global Equity Large Cap
Magellan Global	Global Equity Large Cap
AB Global Equities	Global Equity Large Cap
Morpich Global Opportunities	Global Equity Large Cap
iShares Europe ETF (AU)	Europe Equity Large Cap
RBA Bank accepted Bills 90 Days	

### International Portfolio Adjustments:

In January, the Investment Committee made no changes to the portfolio.

## Property Securities Portfolio

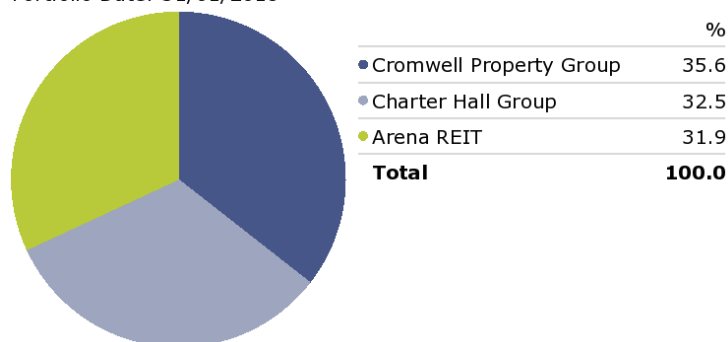
The VIP Property Securities portfolio generated a -0.95% return for the month **pre-fees** and 3.06% over the last 3 months. The portfolio outperformed the S&P/ASX 200 A-REIT index during the month by 2.33%, and over the quarter by 1.00%.

Over the last year, the portfolio has generated a 17.18% return and outperformed the index by 9.72%.

The **Top Contributors** was Arena REIT 1.33%. The **Top Detractors** were Charter Hall Group -1.99%, and Cromwell Property Group -1.98%.

### VIP Property Securities - Portfolio Holdings

Portfolio Date: 31/01/2018



### VIP Property Securities - Holdings

Portfolio Date: 31/01/2018

	Ticker	Dividend Yield % TTM
Cromwell Property Group	CMW	8.69
Charter Hall Group	CHC	5.99
Arena REIT	ARF	5.53

## Fixed Interest Portfolio

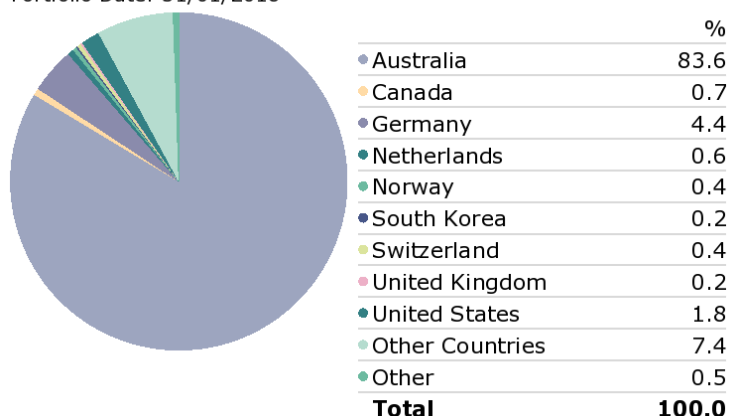
The VIP Fixed Interest portfolio generated a -0.13% return for the month **pre-fees** and 0.23% over the last 3 months. This was against the Bloomberg AusBond Composite index return of -0.27% over the month and 0.08% over the quarter.

The portfolio outperformed the index by 0.14% over the month, and by 0.15% over the last 3 months.

The **Top Contributor** was Realm High Income 0.29%, and the **Top Detractor** was and iShares Core Composite Bond (AU) -0.26%.

### VIP Fixed Interest - Country Exposure

Portfolio Date: 31/01/2018



### VIP Fixed Interest Portfolio - Income Yield

Portfolio Date: 31/01/2018

	Income Return 1 Yr (Mo-End)
iShares Core Composite Bond ETF	2.33
Realm High Income	2.99

### Property Securities Portfolio Adjustments:

In January, the Investment Committee made no changes to the portfolio.

### Fixed Interest Portfolio Adjustments:

In January, the Investment Committee made no changes to the portfolio.

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