VIP Australian Share Leaders Portfolio

Monthly Review

February 2018

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 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

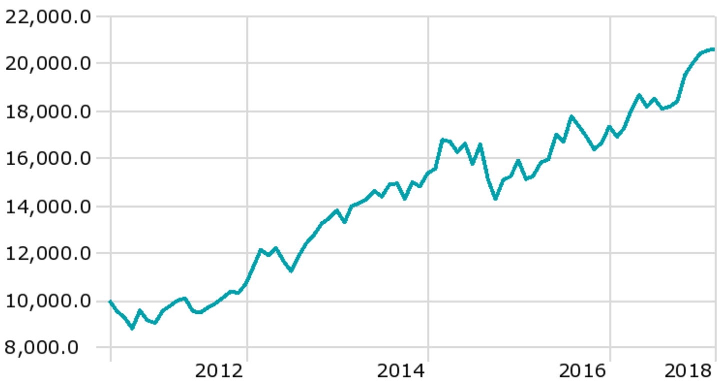
The VIP Australian Share Leaders portfolio generated a 0.28% **pre-fees** return for the month and 3.09% over the last 3 months. The portfolio underperformed the S&P/ASX 100 index in February by 0.09% and outperformed by 1.38% over the quarter.

Over the last year, the portfolio has generated an 19.38% return pre-fees outperforming the ASX 100 index by 10.16%.

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 28/02/2018



Trailing Returns

As of Date: 28/02/2018

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	5 Years	Since Inception
VIP Australian Share Leaders PRE-FEES	0.28	3.09	13.39	19.38	16.24	7.11	10.20	11.17	11.46
Net VIP Australian Share Leaders Investment	0.18	2.75	12.63	17.79	14.68	5.67	8.73	9.68	9.96
Net VIP Australian Share Leaders Super-Pension	0.22	2.89	12.94	18.43	15.31	6.25	9.33	10.28	10.57
S&P/ASX 100 TR	0.37	1.71	6.96	9.22	15.72	4.69	7.22	8.05	9.83

Performance Contributors & Detractors

The strongest performing sector was the Health Care sector 7.01% followed by the Consumer Staples and Information Technology sectors with 2.20% and 1.30% gains respectively. On the other hand, the Telecommunications sector -5.96% followed by sectors Energy -3.74%, and Utilities -1.73% 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, Energy and Financial sectors ***contributed*** to performance; whereas a higher allocation to the Utilities & Industrials sectors as well as a lower allocation to the Communication Services & Consumer Defensive sector ***detracted*** from performance.

The **Top Contributors** for the month were CSL +11.44%, Rio Tinto +5.61%, and James Hardie Industries +4.77%. The **Top Detractors** for the month were South32 -13.09%, Challenger -5.79%, and Brambles -3.03%.

The National Energy Guarantee Put Simply

With Jay Weatherill no longer the South Australian premier, the Turnbull government is now another step closer to bringing the National Energy Guarantee to fruition. After the signing of the Paris Agreement in 2016, in which world leaders pledged to respond to global climate change through reducing carbon emission, the timing is ripe for Australia to have a national energy strategy to adhere to after a decade of political infighting on energy and climate policy. This comes after last year's Finkel Review, an 'Independent Review into the Future Security of the National Electricity Market' by Dr Alan Finkel, in which he proposed a transition to low emission energy guided by the three pillars of a Clean Energy Target, system planning, and stronger governance.

Essentially, the National Energy Guarantee (NEG) is an obligation for energy retailers to meet a certain level of output from low-emissions sources, falling somewhat short of the Clean Energy Target proposed by Dr Finkel. Nonetheless, the NEG will aim to provide a structure for the country to build our future energy network. It is noted that the NEG will cover all states except Western Australia and the Northern Territory, and is launched by the Turnbull government in response to record high prices in recent times, not to mention rolling blackouts.

In regard to energy, the triad of factors to fulfil are security, reliability, and affordability – as in there is enough energy that is able to get to the people at a reasonable price. The way the NEG will work is by setting national levels for the combination of renewable energy and emission-producing sources. Although the policy at this stage is based on broad concepts with specific details pending discussion, the concept is that retailers will be required to establish a portfolio of contracts across both renewable and non-renewable energy sources. Furthermore, the NEG will require energy consumption to meet a set emissions intensity target for the electricity sector. As it stands, the government has indicated that it will set target of 26% reduction on 2005 levels of consumption by the year 2030.

Like anything in Australian politics, the opinions on the NEG are widely mixed. Given the fact that the proposed policy falls short of the Finkel Review's Clean Energy Target, naturally the NEG is opposed by environmental groups as well as the states of Victoria and South Australia. This is also because the NEG maintains the fact that the foundation of the energy network on the east coast remains dependent on coal-generated power, and does not include carbon trading.

On the other hand, the energy sector has voiced its support for the NEG as it enables the industry to plan for the future based on the guidelines provided in the policy. With guidelines set for emissions reductions, this gives the sector and its shareholders investment certainty as it aids businesses in determining the level of investment needed in low-emission technologies.

As the average citizen, what will matter most is usually the price of electricity. The Energy Security Board has projected that wholesale prices are expected to fall by 20-25% per year between 2020 and 2030. With investment into new technologies now absolutely necessary for retailers, whether this price drop will translate to cheaper electricity for the everyday Australian is not yet known. More will be known as the details of the NEG emerge over the next year – the Energy Security Board plans to release a draft NEG paper over the next month, and if supported by the state governments, could reach final approvals by July or August. Ambitious, but the Turnbull government aims for the NEG to legislated by the end of the year.

Source: SMH, The Guardian, The Conversation, Australian Financial Review

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
Rio Tinto Ltd	RIO	Materials	5.61	14.39	33.75	7.09
Aristocrat Leisure Ltd	ALL	Consumer Discretionary	3.14	13.40	55.75	1.78
CSL Ltd	CSL	Health Care	11.44	13.83	42.47	1.07
Treasury Wine Estates Ltd	TWE	Consumer Staples	2.22	11.25	52.13	2.02
BHP Billiton Ltd	BHP	Materials	0.99	11.72	24.05	6.17
ResMed Inc DR	RMD	Health Care	-1.01	9.93	29.50	1.31
Seek Ltd	SEK	Industrials	3.38	9.36	31.98	3.02
James Hardie Industries PLC DR	JHX	Materials	4.77	6.28	4.31	1.31
Macquarie Group Ltd	MQG	Financials	0.50	5.52	21.00	5.49
South32 Ltd	S32	Materials	-13.09	1.84	32.79	7.60
Australia and New Zealand Banking Group Ltd	ANZ	Financials	1.64	2.07	1.99	8.04
BT Investment Management Ltd	BTT	Financials	-3.90	-0.66	10.93	4.61
Westpac Banking Corp	WBC	Financials	-0.61	-2.22	4.40	8.93
Brambles Ltd	BXB	Industrials	-3.03	-6.07	-16.18	3.47
Spark Infrastructure Group	SKI	Utilities	4.33	-7.66	11.71	6.55
Challenger Ltd	CGF	Financials	-5.79	-8.15	29.21	4.02
CIMIC Group Ltd	CIM	Industrials	-0.72	-8.29	52.24	3.76
AGL Energy Ltd	AGL	Utilities	-3.65	-9.62	15.81	6.42
S&P/ASX 100 TR			0.37	1.71	11.04	

Portfolio Adjustments

In February, 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.

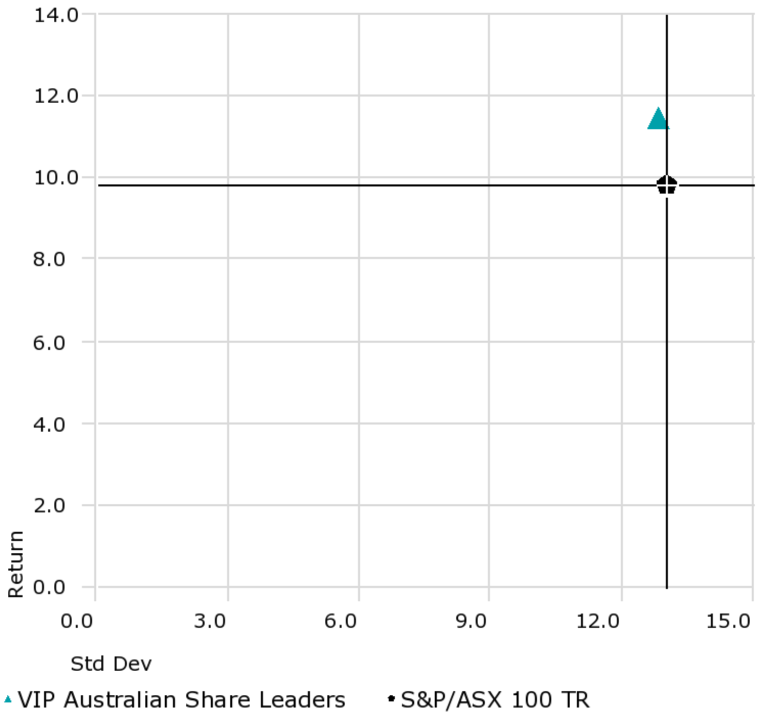
The chart on the right shows that the VIP Australian Share Leaders portfolio (aqua triangle) has achieved an ***equal return*** and ***lower risk*** compared to the S&P/ASX 100 Index (black pentagon) since inception on 01/07/2011.

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

Risk-Reward

Time Period: Since Inception to 28/02/2018

Calculation Benchmark: S&P/ASX 100 TR



Sector Exposure

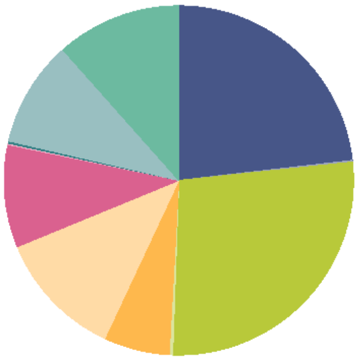
The portfolios largest sector exposure is to the Healthcare sector closely followed by the Financial Services and Materials sectors.

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.

VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 28/02/2018



	%
Basic Materials	23.2
Consumer Cyclical	0.2
Financial Services	27.2
Real Estate	0.3
Consumer Defensive	6.1
Healthcare	11.8
Utilities	9.5
Communication Services	0.1
Energy	0.2
Industrials	9.8
Technology	11.5
Total	**100.0**