VIP Conservative Portfolio

Monthly Review

December 2013

Investment Objective

The aim of the ***VIP Conservative Portfolio*** is to provide investors with a reliable income stream with the potential for moderate capital growth over the medium to long term from investment within a diversified portfolio heavily weighted to defensive assets (70% allocation to fixed interest and cash) and holding some growth assets (30% allocation to Australian shares, International shares, and property securities).

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 Conservative portfolio generated a 1.00% return pre-fees in December, and 3.12% return pre-fees in the quarter.

Over the last year the portfolio has generated a 9.89% return pre-fees.

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

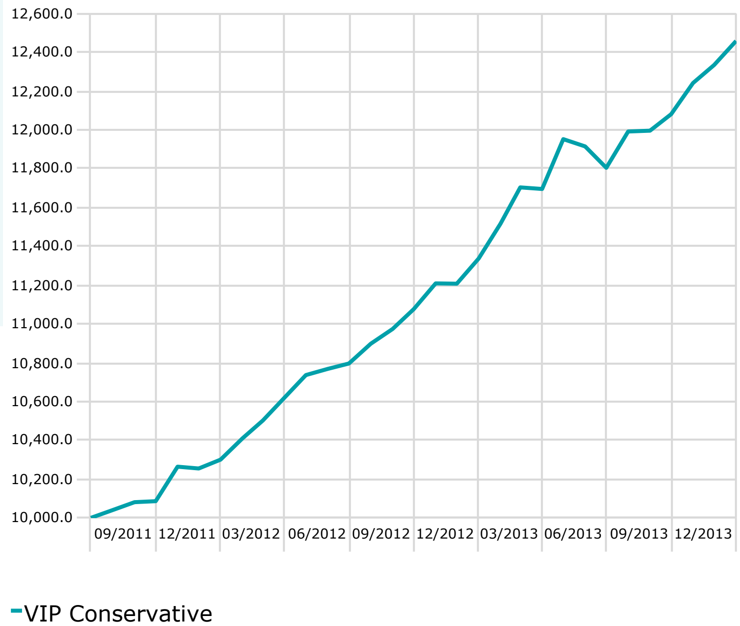
Trailing Returns

As of Date: 31/12/2013

	1 Month	3 Month	6 Month	1 Year	2 Years	Since Inception
VIP Conservative	1.00	3.12	5.54	9.89	9.98	9.19
VIP Conservative Investment	0.89	2.77	4.82	8.42		8.54
VIP Conservative Super-Pension	0.93	2.91	5.11	9.02	9.10	8.32

Investment Growth

Time Period: 1/07/2011 to 31/12/2013



Tactical Asset Allocation

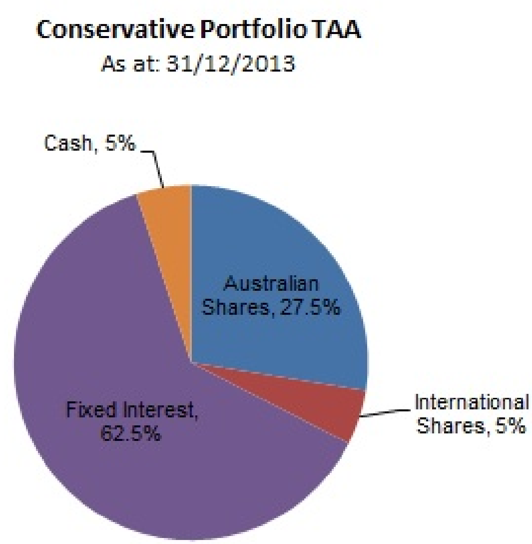
The VIP Conservative portfolios asset allocation as at 31/12/2013 was as follows:

- Australian Shares 27.5%
- International Shares 5%
- Property Securities 0%
- Fixed Interest 62.5%
- Cash 5%

The Growth asset allocation (Shares and Property Securities) is currently at the target level.

In terms of these Growth assets, Australian shares are held at over-benchmark (target) levels and International shares are held at benchmark levels. This allocation towards Australian Shares from International Shares is due to our belief that there is less risk and greater dividend yields in the domestic share market while maintaining the potential return from a fall in the Australian dollar vs the US dollar as many of the stocks in the portfolio also have global operations.

The *VIP Investment Committee's* has maintained the 0% exposure to Property Securities due to the fully priced nature of Property Securities in a difficult rental environment, and this decision has been rewarded over the last few months.



Source: Morningstar Direct

Month in Review - Economic & Market Commentary

The recent market volatility since the US Fed's announcement of the reduction of its monthly stimulus program from this month has caused many to question whether we are approaching a down market cycle based on how well markets have risen since September 2011.

Since the Eurozone debt crisis of September 2011 Australian shares as measured by the ASX 100 have risen by 36% and global shares as measure by the largest 100 multi-national companies have risen by over 60%.

However the markets are concerned that the US economy is not strong enough at this stage to sustain current economic growth and recovery with tapering and (ultimately) removal of the US Fed's stimulus program. And the markets are using the current US profit reporting season as an indicator of the strength of the US economy.

And the results have been mixed with negative results from the likes of Morgan Stanley with lower profit due to increased costs, IBM with weak sales due to reduced Chinese sales of server and storage infrastructure, and Samsung quarterly profit drop due to slower sales of smartphones.

On the other hand, Delta Airlines posted profit rises on revenue gains and lower fuel costs, Microsoft posted profit rise off the back off Office application sales, LG Electronics doubled quarterly profit off the back of TV sales, and Amazon posted a profit in 2013 on a jump in revenue.

If reporting season is not a good indicator of the markets then something can possibly be draw from economic developments.

From an economic perspective the growth and recovery story in developed markets remains strong with mainly positive data coming out of the US, Europe, and Japan. Emerging markets, on the other hand, are a concern as commentators are worried that a reduction of US Stimulus will stop the flow of capital that is flowing from the developed to the emerging economies such as China, Brazil, Russia, and other developing Asian nations. Commentators are looking closely at these economies to see if there are any similarities to the state of these economies just prior to the 1997-98 Asian Crisis where large flows of money out of Asian markets led to the collapse of the Thai currency and contributed to the Russian debt default in 1998. This is important as any vulnerability that is sensed by the market could lead to a sell-off in shares off the back of the strong gains that have been achieved over the last 2 years.

Luckily, emerging markets are stronger today with these economies largely having less debt (as a % of GDP), higher foreign currency reserves, lower inflation, and mainly floating (not fixed) and lower currencies. Of these economies China, South Korea, Taiwan, and Russia are less of a concern compared to Brazil, India, Indonesia, Ukraine, Turkey, and South Africa.

This all points to an environment of increased short-term volatility where negative economic or company news will send markets down on a day-to-day basis. However, from a fundamental point of view company reporting and economic data is mainly positive and supporting of current share prices that seem fair value based on Price to earnings ratios.

Source: AMP Capital

Portfolio Commentary - Australian Shares Portfolio

The Australian share portfolio generated a 2.42% return for the month and 7.89% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in both periods by 1.74% and 4.23% respectively.

The **Top 3 Contributors** for the month were Ramsay Healthcare +11.67% Twenty-First Century Fox +7.06%, and Bendigo & Adelaide Bank +4.35%.

The **Top 3 Detractors** for the month were Myer Holdings -3.51%, Westpac Bank -1.52%, and Crown Resorts -0.30%.

The *VIP Investment Committee* did not make any changes to the portfolio in December.

VIP Australian Share Leaders - Holdings

Portfolio Date: 31/12/2013

	Ticker	Dividend Yield % TTM
James Hardie Industries PLC DR	JHX	1.73
Lend Lease Corporation Limited	LLC	3.36
Ramsay Health Care Limited	RHC	1.61
Twenty-First Century Fox Inc DR	FOX	0.53
Australia and New Zealand Banking Group Limited	ANZ	5.44
Bendigo And Adelaide Bank Ltd.	BEN	5.26
Crown Resorts Ltd	CWN	1.49
Sonic Healthcare Limited	SHL	3.51
Westpac Banking Corp	WBC	5.64
Ansell Limited	ANN	1.73
Wesfarmers Ltd	WES	4.34
Myer Holdings Limited	MYR	7.11
BHP Billiton Ltd	BHP	3.32
Telstra Corp Ltd	TLS	5.45
Woodside Petroleum Limited	WPL	4.13

Source: Morningstar Direct

International Shares Portfolio

The International share portfolio generated a 3.02% return for the month and 8.40% over the last 3 months. In doing so the portfolio underperformed the MSCI World Ex Aus (AUD) index in December by 1.42% and over the last 3 months by 4.80%.

Over the last year the portfolio has generated a 31.57% return and underperformed the index by 16.46%.

The **Top Contributor** for the month was the Magellan Global Fund +4.64%; and the **Top Detractors** were the BlueSky Global Macro Fund -1.26%, Aberdeen Emerging Opportunities +0.03% and Aberdeen International Equity +3.15%.

The portfolios holdings and the total regional exposure are included below.

Property Securities Portfolio

The Property Securities portfolio generated a -0.32% return for the month and 1.98% over the last 3 months. The portfolio outperformed the S&P/ASX 200 A-REIT index during the month by 1.01%, however, outperformed the index over the quarter by 3.50%.

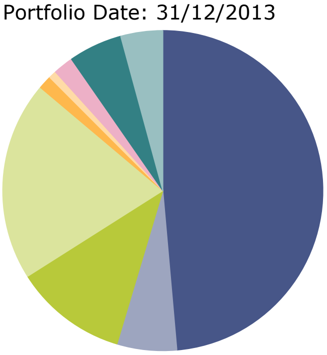
Over the last year the portfolio has generated a 13.67% return and outperformed the index by 6.56%.

The **Top Contributors** for the month were Investa Office Fund +3.29%, Cromwell Property Group +1.92%, and Commonwealth Office Property Trust 0.79%; and the **Top Detractors** were Stockland Corporation -3.12%, BWP Trust -1.40%, and SPDR S&P/ASX200 Listed Property ETF -1.35%.

The portfolios holdings and dividend yields are included below.

VIP International - Equity Regional Exposure

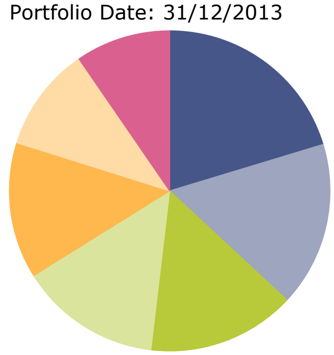
Portfolio Date: 31/12/2013



	%
North America	48.6
Latin America	6.0
United Kingdom	11.4
Europe dev	20.1
Europe emrg	1.4
Africa/Middle East	0.8
Australasia	0.0
Japan	2.0
Asia dev	5.4
Asia emrg	4.2
Total	**100.0**

VIP Property Securities - Portfolio Holdings

Portfolio Date: 31/12/2013



	%
SPDR S&P/ASX 200 Listed Property Fund	20.3
Cromwell Property Group	16.6
Commonwealth Property Office Fund	14.9
BWP Trust	14.3
Stockland Corporation Limited	13.7
Investa Office Fund	10.6
Charter Hall Group	9.6
Total	**100.0**

VIP International - Holdings

Portfolio Date: 31/12/2013

	Portfolio Weighting %
Magellan Global	42.16
Aberdeen International Equity	38.55
Aberdeen Emerging Opportunities	9.88
Blue Sky Apeiron Global Macro A	9.41

VIP Property Securities - Holdings

Portfolio Date: 31/12/2013

	Ticker	Dividend Yield % TTM
SPDR S&P/ASX 200 Listed Property Fund	SLF	
Cromwell Property Group	CMW	7.06
Commonwealth Property Office Fund	CPA	5.57
BWP Trust	BWP	6.28
Stockland Corporation Limited	SGP	6.61
Investa Office Fund	IOF	5.89
Charter Hall Group	CHC	5.77

International Portfolio Adjustments:

The *VIP Investment Committee* did not make any changes to the portfolio in December.

Property Securities Portfolio Adjustments:

The *VIP Investment Committee* did not make any changes to the portfolio in December.

Source: Morningstar Direct

Fixed Interest Portfolio

The Fixed Interest portfolio generated a 0.26% return for the month and 0.84% over the last 3 months. This was against the UBS Composite 0+Yr Bond index return of 0.53% and 0.37% over the month and last 3 months respectively.

The **Top Contributors** for the month were the Realm High Income Fund +0.94%, and the Aberdeen Floating Rate Income Fund +0.46%; and the **Top Detractors** were the PIMCO Diversified Fixed Interest Fund -0.12%, and Cash +0.22%.

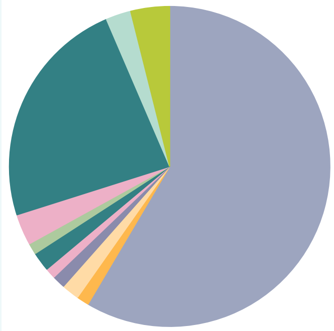
The portfolios country exposure is included below.

Fixed Interest Portfolio Adjustments:

The *VIP Investment Committee* did not make any changes to the Fixed Interest portfolio in December.

VIP Fixed Interest - Country Exposure

Portfolio Date: 31/12/2013



	%
Australia	58.5
Brazil	1.2
Canada	1.8
Germany	1.3
Mexico	1.1
Netherlands	1.9
Singapore	1.1
United Kingdom	3.1
United States	23.4
Other Countries	2.5
Other	3.9
Total	**100.0**

VIP Fixed Interest Portfolio - Income Yield

Portfolio Date: 31/12/2013

	Income Return 1 Yr (Mo-End)
PIMCO EQT WS Diversified Fixed Interest	2.94
Aberdeen Australian Floating Rt Inc	3.43
Realm High Income	6.33
RBA Bank accepted Bills 90 Days	

Source: Morningstar Direct