

Investment Objective

The **VIP International Portfolio** aims to provide long term capital growth by investing in a diversified portfolio of International assets. The portfolio actively invests in 2 to 5 managed funds, Exchange Traded Funds (ETF's), or Listed Investment Companies (LIC's) that provide diversified exposure to international share markets.

Underlying managers are selected by the VIP Investment Committee by undergoing due diligence into the managers People, Investment Processes, and Investment Performance; and selecting managers that provide investment sector, style, and geographical diversification.

Performance Review

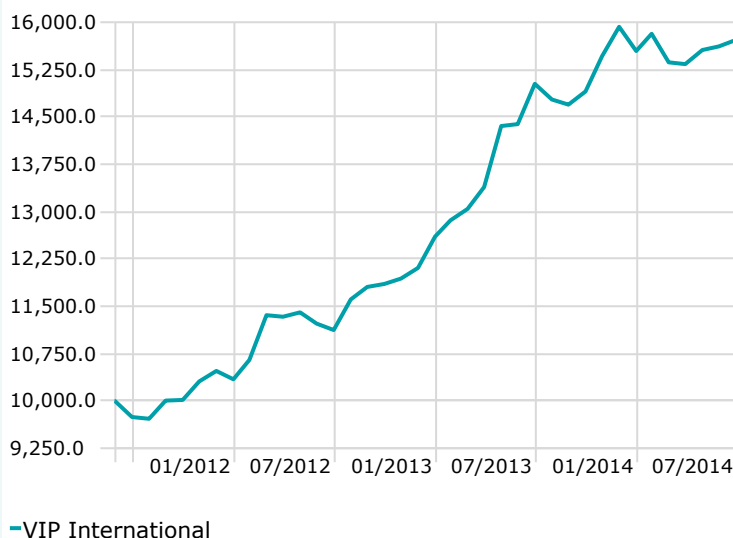
The VIP International share portfolio generated a 0.66% return for the month and 2.50% over the last 3 months. In doing so the portfolio outperformed the MSCI World Ex Aus (AUD) index in July by 0.91% and over the last 3 months by 0.77%.

Over the last year the portfolio has generated a 4.64% return and underperformed the index by 7.14%; however, since inception the portfolio has outperformed the index by 6.40%.

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

Investment Growth

Time Period: 30/06/2011 to 31/07/2014



Trailing Returns

As of Date: 31/07/2014

| | 1 Month | 3 Month | 6 Month | 1 Year | 2 Years | 3 Years | Since Inception |
|---------------------------------|---------|---------|---------|--------|---------|---------|-----------------|
| VIP International | 0.66 | 2.50 | 1.13 | 4.64 | 18.90 | 17.28 | 15.78 |
| VIP International Investment | 0.54 | 2.15 | 0.46 | 3.23 | 17.31 | 15.71 | 14.25 |
| VIP International Super-Pension | 0.59 | 2.29 | 0.73 | 3.80 | 17.96 | 16.35 | 14.88 |
| MSCI World Ex Australia NR AUD | -0.25 | 1.73 | 1.54 | 11.78 | 27.46 | 18.45 | 9.38 |

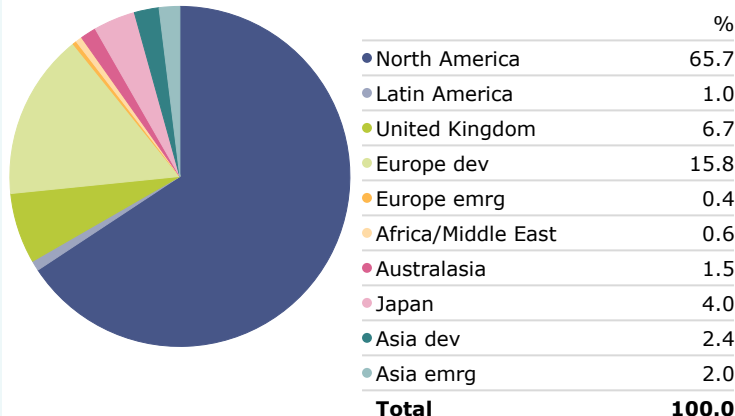
Portfolio Exposure

The portfolios regional exposure is dominated by North American and developed Europe holdings as these are the lower risk sectors of the international markets.

The portfolio also includes an allocation to emerging markets with exposure to developed and emerging Asian countries and South America. However, this exposure has recently been reduced due to the market and economic stress these emerging markets are experiencing at present.

VIP International - Equity Regional Exposure

Portfolio Date: 31/07/2014



July was a largely negative month for share markets amidst positive news from major economies.

In the US the S&P 500 fell -1.4% with most of the losses coming on the last day of the month upon fears of the Federal Reserve increasing rates sooner than expected based on positive economic news. The US jobless rate decreased in June and GDP for the second quarter rose by 4.0%. Consumer confidence data showed improvement to the highest levels since October 2007 and wages data showed an increase over the second quarter also.

Market concerns regarding interest rates stem from the Federal Reserve's announcement at the latest policy-setting meeting where they indicated the qualitative easing programme would end in October this year.

In contrast to the US news, the Eurozone situation was all negative dominated by geo-political concerns emanating from the Russian-Ukrainian conflict. From a financial situation Industrial Production data was weak from the 3 largest EU economies being Germany, France, and Italy. And banking crisis concerns in Portugal reared their ugly heads again with audit issues of one of Portugal's largest banks. UK data, on the other hand, was positive on the whole with improving manufacturing and construction activity data, and indications of labour demand and wage rises coming on-line.

In Asia the Japanese market rose in July although Industrial production and Retail Sales data was weak following from an increase in consumption tax in April. The rest of Asia was positive also off the back of good China data showing growth of 7.5% year-on-year and an increase in manufacturing activity for the first time in 6 months indicating that the Governments stimulus programmes are starting to boost activity and growth. Consequently Chinese, Hong Kong, and emerging Asia shares all had a positive July, and the same affect was felt in Australia as the S&P/ASX 100 rose by 4.37%.

As we have done for most of the year we are closely watching US Interest rate announcements, the effects of geo-political crises in Ukraine, Syria, and Iraq, and the release of economic data and Australian company reports to add to our view of share market movements with many companies trading at higher prices and questioning sustainability of current profits in a higher-interest rate world.

Source: This article was written with the help of data from Schroder's.

Portfolio Holdings & Adjustments

Trailing Returns

As of Date: 31/07/2014 Data Point: Return Source Data: Total Return

| | YTD | 1 Month | 3 Month | 6 Month | 1 Year |
|-------------------------------------|-------|---------|---------|---------|--------|
| Magellan Global | -3.29 | -0.26 | 0.02 | -1.27 | 5.69 |
| Vanguard All-World ex-US Shares ETF | -0.68 | 0.06 | 1.82 | 2.02 | 10.01 |
| Vanguard US Total Market Shares ETF | 0.90 | -0.46 | 2.39 | 1.55 | 12.26 |
| MSCI World Ex Australia NR AUD | 0.31 | -0.25 | 1.73 | 1.54 | 11.78 |

Performance Contributors & Detractors, and Portfolio Adjustments

The **Top Contributor** for the month was the Vanguard All World Ex-US ETF +0.06%; and the **Top Detractors** were the Vanguard US Total Market Shares ETF -0.46% and the Magellan Global Fund -0.26%.

The *VIP Investment Committee* did not make any changes to the International Shares portfolio in July.

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