

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 -2.08% return pre-fees in March, and a 10.50% return pre-fees for the 3 months to 31/03/2013.

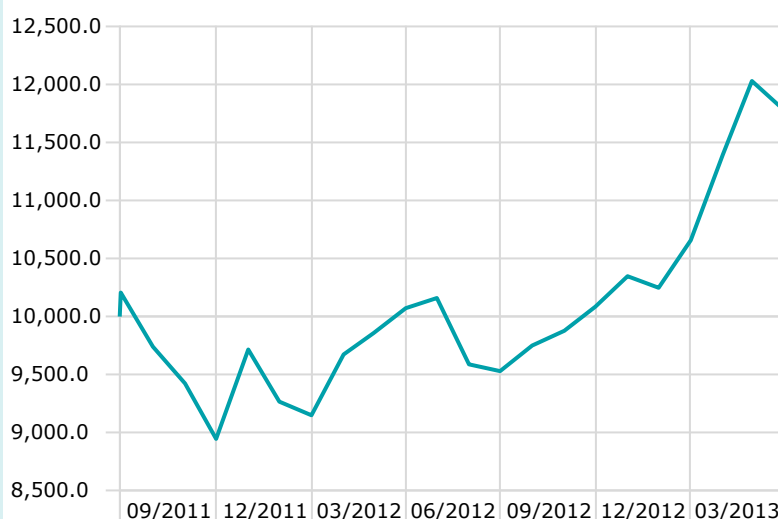
Over these periods the S&P/ASX 100 index generated -2.17% and 8.59% respectively.

Over the last year the portfolio has generated a 16.90% return and 9.76% since inception pre-fees.

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 31/03/2013



—VIP Australian Share Leaders

Trailing Returns

As of Date: 03/31/2013

| | 1 Month | 3 Month | 6 Month | 1 Year | Since Inception |
|--------------------------------------|---------|---------|---------|--------|-----------------|
| VIP Australian Share Leaders | -2.08 | 10.50 | 16.75 | 16.90 | 9.76 |
| VIP Aust Share Leaders Investment | -2.19 | 10.13 | 15.97 | 15.34 | 8.29 |
| VIP Aust Share Leaders Super-Pension | -2.14 | 10.28 | 16.29 | 15.97 | 8.88 |
| S&P/ASX 100 TR | -2.17 | 8.59 | 16.40 | 21.71 | 10.06 |

Performance Contributors & Detractors

During March the boarder market (S&P/ASX 200) fell by -2.21% dragged down by the Mining sector. The ASX 200 Materials index fell by -9.57% whereas most of the other market sectors finished the month in positive territory. The best performing sector was the Consumer Discretionary sector with a 2.44% return during March.

The **Top 3 Contributors** of the portfolio for the month were Fairfax Media +9.57%, Origin Energy +9.12%, and Sonic Healthcare +3.72%. And the **Top 3 Detractors** for the month were Rio Tinto -13.32%, Leighton Holdings -10.46%, and Iluka Resources -10.17%.

Similarly, the **Top 3 Contributors** of the portfolio for the quarter were Seek Limited +45.71%, Fairfax Media +25.49%, Bendigo & Adelaide bank +24.35%; whereas, the **Top 3 Detractors** for the quarter were Rio Tinto -11.96%, BHP Billiton -10.16%, and UGL Limited -2.76% - all mining or mining related companies.

**Month in Review - Economic & Market Commentary**

Growth assets have continued their good performance in March albeit with interruptions from Europe in terms of the Italian election and Cyprus debt fears. Share markets have continued to rise during the month off the back of positive economic news.

The US economy continues to improve with positive jobs data announced in February and a larger fall in the unemployment rate than expected. Retail sales have also been stronger as the US consumer is more confident and therefore happy to spend.

Europe continues to be the thorn in the side of the global economic recovery story with the mis-managed Cyprus debt situation causing short term losses in share markets globally. One of the fears of the Cyprus recovery plan to tax high bank deposits is that it could cause a Europe wide run on banks and stretch the financial stability of many intertwined EU banks. Luckily this has not eventuated.

Chinese economic news has also been mixed with the authority's concerned about speculation in the housing sector. They are introducing measures such as capital gains taxes to slow down the property sector, and the concern is that stronger initiatives to slow the property sector could have an impact on other related industries such as manufacturing. Chinese businesses, however, are not concerned with the latest business sentiment figures pointing to a positive 2013-14.

Similarly, the Australian economy is grappling with the absence of the mining sector to fuel the nation's economy. The S&P/ASX 300 Materials index has fallen over the year to date whereas the Industrials, Financials, Consumer Staples, Consumer Discretionary, and IT sector indices are all in positive territory. It seems, however, that the economy is taking the mining sector weakness in its stride with surprising jobs growth data announced in February and consequently positive consumer sentiment figures off the back of this jobs growth.

Australian businesses do not share this positive sentiment, however, as shown by the February NAB business survey. It seems the high AUD, inactivity of the Reserve Bank to cut interest rates, and the noise our politicians are making in an election year is taking its toll.

Portfolio Holdings & Adjustments**VIP Australian Share Leaders - Holdings**

Portfolio Date: 31/03/2013

| | Ticker | Total Ret 1 Mo (Mo-End) | Total Ret 3 Mo (Mo-End) | Total Ret 6 Mo (Qtr-End) | Total Ret 1 Yr (Mo-End) |
|---|--------|----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| RBA Bank accepted Bills 90 Days | | 0.24 | 0.72 | 1.53 | 3.28 |
| AGL Energy Limited | AGK | 0.06 | 5.00 | 7.95 | 10.08 |
| Sonic Healthcare Limited | SHL | -4.81 | -2.18 | 3.63 | 7.30 |
| Bendigo And Adelaide Bank Ltd. | BEN | 7.69 | 23.21 | 37.63 | 54.85 |
| Westpac Banking Corp | WBC | 9.88 | 20.54 | 27.16 | 56.01 |
| Australia and New Zealand Banking Group Limited | ANZ | 11.60 | 19.79 | 18.46 | 39.23 |
| Santos Ltd | STO | -0.64 | 4.52 | 10.74 | -9.77 |
| Wesfarmers Ltd | WES | 7.89 | 17.39 | 19.59 | 48.91 |
| Woodside Petroleum Limited | WPL | 6.57 | 9.39 | 9.99 | 12.92 |
| Lend Lease Corporation Limited | LLC | 5.69 | 6.17 | 32.73 | 49.71 |
| UGL Ltd | UGL | -1.76 | -6.56 | 1.05 | -17.74 |
| BHP Billiton Ltd | BHP | -0.18 | -11.23 | 0.88 | -4.86 |
| Leighton Holdings Limited | LEI | -2.68 | -0.44 | 27.20 | 0.68 |
| Rio Tinto Ltd | RIO | -2.45 | -14.53 | 8.91 | -13.49 |
| Fairfax Media Ltd. | FXJ | 3.17 | 22.22 | 54.22 | -2.90 |
| Iluka Resources Limited | ILU | -4.28 | -6.89 | -4.83 | -45.29 |
| Origin Energy Limited | ORG | -7.23 | -0.16 | 19.52 | -3.32 |
| Seek Limited | SEK | 10.69 | 34.45 | 49.34 | 58.80 |



Portfolio Adjustments

In March the *VIP Investment Committee* decided to replace **Origin Energy (ORG)** with **AGL Limited (AGL)** in order to reduce exposure to the Healthcare sector, thereby taking profits, and by investing in the Energy sector which will experience further gains as demand for energy increases with greater economic growth.

AGL Limited is the second largest retailer of electricity and gas in Australia, behind Origin Energy; and has a 27% market share of the eastern and southern Australian states. Although the companies share many similarities AGL is trading at a more attractive valuation relative to its earnings and paying a higher dividend. AGL's higher dividend and dividends-per-share forecasts have also attracted much demand from the market which has helped AGL's share price more closely track the market over the last 2 years while Origin Energy's share price has underperformed the market over this period. The VIP Investment Committees value and high dividend focus has highlighted AGL as a more attractive company in the Energy sector.

The Investment Committee also decided to take profits in **Seek Limited (SEK)** that has provided strong returns over the last 6 - 12 months.

Sector Exposure

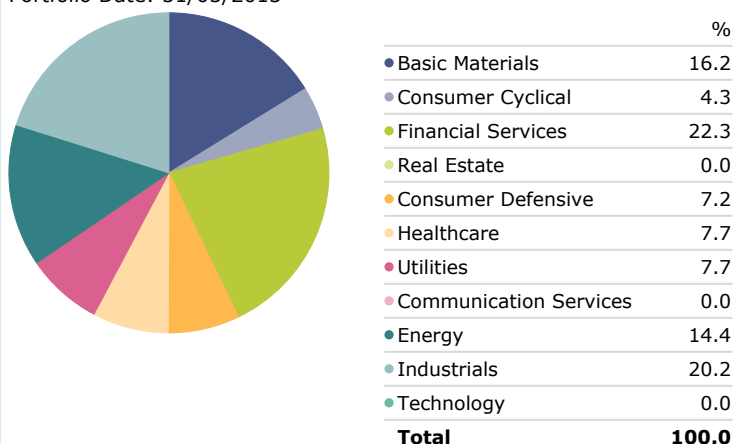
The portfolio's largest sector exposure is to Financial Services, followed by Industrials, Materials, and Energy.

The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in sectors that will benefit from global economic growth such as materials and Energy.

A complete Equity Sector chart is included on the right.

VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/03/2013



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