

### 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 -4.78% return pre-fees in May, and a -4.70% return pre-fees for the 3 months to 31/05/2013.

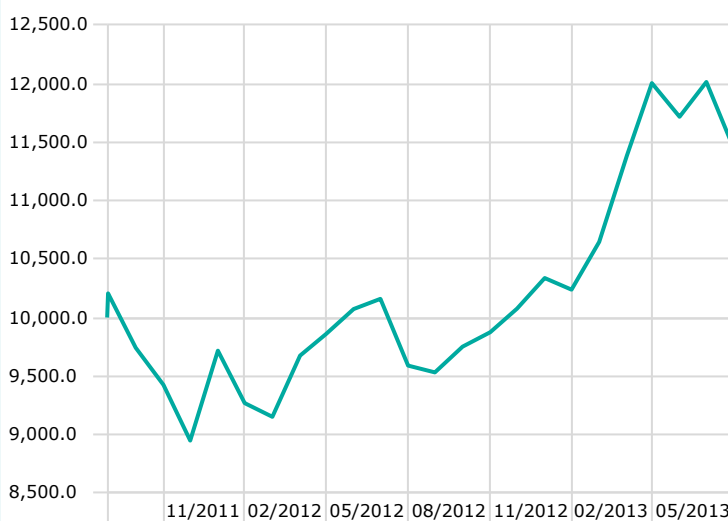
Over these periods the S&P/ASX 100 index generated -4.59% and -1.92% respectively.

Over the last year the portfolio has generated a 19.28% gain.

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 31/05/2013



—VIP Australian Share Leaders

### Trailing Returns

As of Date: 31/05/2013

	1 Month	3 Month	6 Month	1 Year	Since Inception
VIP Australian Share Leaders	-4.78	-4.70	11.72	19.28	7.24
VIP Aust Share Leaders Investment	-4.89	-5.03	10.97	17.68	5.80
VIP Aust Share Leaders Super-Pension	-4.84	-4.90	11.27	18.33	6.39
S&P/ASX 100 TR	-4.59	-1.92	12.50	28.38	10.00

### Performance Contributors & Detractors

During May most sectors of the market posted negative returns apart from the IT and Materials sectors. The largest losses were in the Consumer Staples sector followed by Financials, Industrials, and Telecommunications.

The portfolio reflected this with the **Top 3 Contributors** being Iluka Resources +25.59% (Materials sector), Sonic Healthcare +7.32% (Healthcare), and BHP Billiton +6.67% (Materials).

The **Top 3 Detractors** were UGL Limited -29.32% (Industrials sector), Westpac Bank -13.02% (Financials), ANZ Bank -11.21% (Financials).

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

In a recent blog post on our website [www.vipim.com.au](http://www.vipim.com.au) we discuss the recent market volatility and highlighted the fact that the market is falling upon any announcement, expectation, or rumour that the US Federal Reserve (US Fed) will stop printing money.

The reasons, we explained, that the US Fed would stop the Quantitative Easing program were due to an improvement of the US economy based on the rationale that a stronger US economy will not require the support of the central bank.

**Is the US Economy improving?** As we've reported over recent months US economic trends are all positive. In May we again saw increases in house prices, mortgage applications, pending home sales, consumer confidence and improved manufacturing conditions. And many other major economies followed the suit with increases in European business and consumer confidence, Japanese household spending, industrial and manufacturing activity, Chinese manufacturing activity, and Korean industrial production and exports.

The Australian economy, on the other hand, is not seeing these same improvements with weak business investment and construction activity and subdued private credit growth. If Australian households don't spend and borrow businesses won't invest, ramp up production, and hire more staff. Hopefully some political stability, certainty, and vision post the September election will help our economy strengthen from this position.

So it seems that the volatility may be here to stay until there is some certainty around the US Fed's timetable to slow, and eventually stop, stimulus. However, although the current volatility will re-rate the markets prices for a post-US money printing world the engine rooms of the global economy seem to be heading in the right direction to support strengthening company profits and share prices going forward.

In the meantime the VIP Investment Committee is taking defensive positions by allocating to greater dividend paying blue-chip companies, by significantly selling bond exposure due to the continued global government bond crash concerns, and by allocating the portfolio for an expected fall in the Australian dollar as we are seeing at present.

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

Portfolio Date: 31/05/2013

	Ticker	S&P Sector	Portfolio Weighting %	Total Ret 1 Mo (Mo-End)	Total Ret 3 Mo (Mo-End)	Total Ret 1 Yr (Mo-End)	Dividend Yield % TTM
BHP Billiton Ltd	BHP	Materials	14.59	6.67	-4.37	12.61	3.45
Sonic Healthcare Limited	SHL	Health Care	7.47	7.32	5.96	17.01	0.31
Santos Ltd	STO	Energy	7.32	5.91	-1.34	11.59	2.37
Bendigo And Adelaide Bank Ltd.	BEN	Financials	6.93	-10.67	-0.50	43.76	6.13
Australia and New Zealand Banking Group Limited	ANZ	Financials	6.89	-11.21	-1.57	39.04	5.55
Woodside Petroleum Limited	WPL	Energy	6.75	-4.18	-2.39	17.70	3.55
Wesfarmers Ltd	WES	Consumer Staples	6.72	-9.52	-4.36	40.27	4.50
Westpac Banking Corp	WBC	Financials	6.71	-13.02	-4.45	49.04	6.13
AGL Energy Limited	AGK	Utilities	6.68	-9.26	-7.78	-1.12	4.41
Lend Lease Corporation Limited	LLC	Financials	6.45	-7.05	-5.53	39.17	2.32
Rio Tinto Ltd	RIO	Materials	5.80	-1.11	-16.34	-0.14	3.04
Leighton Holdings Limited	LEI	Industrials	5.26	-12.01	-24.73	1.37	2.13
UGL Ltd	UGL	Industrials	4.49	-29.32	-28.58	-36.66	8.03
Fairfax Media Ltd.	FXJ	Consumer Discretionary	4.06	-4.62	7.83	-3.76	4.00
Iluka Resources Limited	ILU	Materials	3.88	25.59	7.79	-13.51	3.59



## Portfolio Adjustments

The *VIP Investment Committee* elected to use the cash holdings allocated from a previous months share sale to increase the allocation of BHP Billiton due to its attractive share price from a value perspective and the prospect that BHP could increase its dividend payout ratio as a means to utilise its cash held on balance sheet in the absence of new investments or acquisitions.

### Sector Exposure

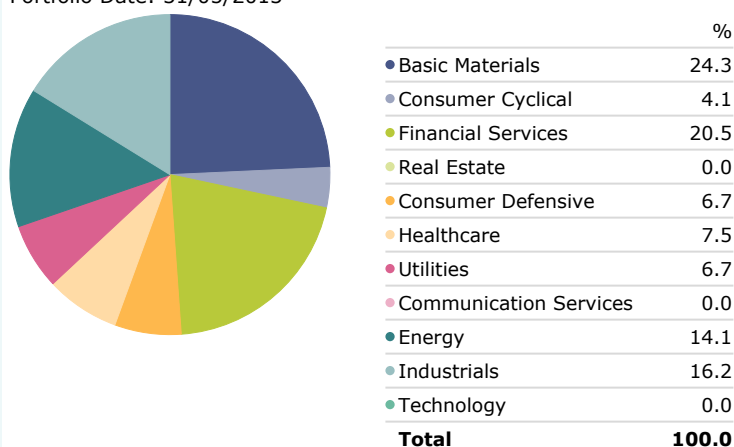
The portfolios largest sector exposure is to Materials, followed by Financial Services, Industrials, and Energy.

The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation via defensive blue-chip companies.

A complete Equity Sector chart is included on the right.

### VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/05/2013



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