

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 -4.09% return for the month and -6.36% over the June quarter.

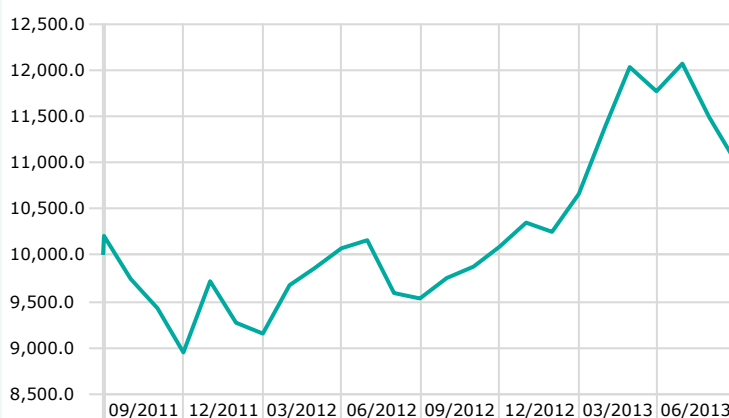
The portfolio underperformed the S&P/ASX 100 index in both periods by 2.06% and 4.57% respectively. This has been due to the continued weakness in the Resources and Energy sectors within which the portfolio held 17.3% and 14.2% sector weightings respectively.

Over the last year the portfolio has generated a 15.61% return 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 30/06/2013



—VIP Australian Share Leaders

Trailing Returns

As of Date: 30/06/2013

	1 Month	3 Month	6 Month	1 Year	Since Inception
VIP Australian Share Leaders	-4.09	-6.36	3.38	15.61	4.96
VIP Aust Share Leaders Investment	-4.19	-6.67	2.70	14.06	3.56
VIP Aust Share Leaders Super-Pension	-4.15	-6.54	2.98	14.69	4.13
S&P/ASX 100 TR	-2.03	-1.79	6.65	24.48	9.88

Performance Contributors & Detractors

During June most of the sectors of the Australian share market posted negative returns apart from the Healthcare, Financial, and Telecommunications sectors.

The worst performing sector was the Materials (or mining) sector with a -10.24% return for the month followed by the Energy sector with a -5.77% return. Healthcare was the best performing sector with a +1.37% return for June followed by the Telecommunications sector with a +0.85% return.

The **Top 3 Contributors** for the month were Sonic Healthcare +4.08%, ANZ Bank +3.78%, and Bendigo & Adelaide Bank +1.92%. And the **Top 3 Detractors** for the month were Fairfax Media -20.16%, Lend Lease -16.67%, and Leighton Holdings -12.17%.

Over the June quarter the **Top 3 Contributors** for the month were Iluka Resources +6.84%, Sonic Healthcare +6.32%, ANZ Bank +2.73%; and the **Top 3 Detractors** for the month were UGL Limited -32.42%, Leighton Holdings -24.78%, and Fairfax Media -21.43%.

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

Global share markets had a difficult time in June with the top 200 Australian shares by market capitalisation down 2.32%, property securities index down 0.84% and the global share index (in AUD) up 2.31%. The volatile market conditions were caused by several issues. There was an expectation that the US Fed will slow down its quantitative easing program, and the fact that stocks that had already risen over recent months could not sustain current prices in the absence of the US Fed's help. Other issues in the mixing pot were concerns over the Japanese stimulus program, a potential slowdown of Chinese growth, and continued weakness in Europe.

Many commentators see the recent volatility as a short term reaction to negative data and announcements in an environment where longer term growth economic growth news and prospects are positive. And this is also our view. However, the same cannot be said about bond markets.

Bonds, or fixed interest investments (such as Government bonds), have for a long time been considered as *defensive assets* that do not lose value. The Global Financial Crisis (GFC) showed us that this is not true with US Government bonds and a speculative pool of mortgages effectively being classed under the same asset class even though they display a huge difference in investment risk. Luckily since the GFC these high-risk fixed interest vehicles are not as mainstream as was the cases before the GFC, however, challenges still remain in the bond markets due to the US Fed's stimulus program.

OK, we know that the US Fed has been printing money for some time, but how is this actually done? The US Fed is using quantitative easing to reduce long term interest rates and thereby supporting the close to zero short term interests rates that exists in the US today. This makes longer term borrowing cheaper for companies and households to kick-start corporate and household investment and spending.

By buying \$85 billion worth of bonds each month bond prices go up (remember supply, demand, and the upward effect that high demand has on prices). And bond yields (or long-term interest rates) have an inverse relationship with bond prices – therefore as bond prices go up with continued purchases by the US fed, bond yields go down!

The issue is that the opposite is also true, and this is what can affect investors. As the US Fed stops its stimulus program when they feel the US economy has recovered to an appropriate level of growth and ceases purchasing \$85 billion in bonds on a monthly basis bond prices will fall (as there is less demand) and bond yields will go up; and this means that the capital value of a bond investment will fall with the investor experiencing a loss in the value of their defensive asset.

To negate this risk the VIP Investment Committee has been selling down the portfolio's bond exposure, particularly in international bonds, and holding these funds in cash. We have earmarked to sell down the remaining international bond exposure over the coming period when conditions are suitable.

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

Portfolio Date: 30/06/2013

	Ticker	S&P Sector	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	-10.06	-4.24	3.31	3.37
Sonic Healthcare Limited	SHL	Health Care	4.08	6.32	20.56	3.46
Bendigo And Adelaide Bank Ltd.	BEN	Financials	1.92	-1.95	43.99	5.73
Santos Ltd	STO	Energy	-4.20	0.80	20.47	2.15
Australia and New Zealand Banking Group Limited	ANZ	Financials	3.78	2.73	36.63	5.25
Wesfarmers Ltd	WES	Consumer Staples	0.92	-1.49	38.19	4.41
Westpac Banking Corp	WBC	Financials	1.55	-2.99	45.20	5.79
Woodside Petroleum Limited	WPL	Energy	-2.72	-0.55	18.90	3.36
Myer Holdings Limited	MYR	Consumer Discretionary	-2.86	-19.32	59.13	7.72
Telstra Corp Ltd	TLS	Telecommunication Services	0.63	5.76	36.86	5.80
Lend Lease Corporation Limited	LLC	Financials	-16.67	-18.14	20.25	3.36
Leighton Holdings Limited	LEI	Industrials	-12.17	-24.78	-1.04	3.55
UGL Ltd	UGL	Industrials	-2.67	-32.42	-39.01	8.55
Iluka Resources Limited	ILU	Materials	-11.12	6.84	-8.66	3.36
Fairfax Media Ltd.	FXJ	Consumer Discretionary	-20.16	-21.43	-7.21	3.67



Portfolio Adjustments

In June the *VIP Investment Committee* elected to add more defensive holdings to the portfolio, and replaced **AGL Energy (AGK)** and **Rio Tinto (RIO)** due to low dividend yield and to reduce resources and energy exposure in the portfolio.

Prior to the changes the portfolio was dominated by the Materials and Energy sectors. The attractive prices of these shares has not resulted in higher buying volumes and resulting price rises as were expected due to weakness in the global economy that impacts commodity prices and energy demand. In addition these stocks provide lower dividend income yields.

These stocks were replaced with more defensive holdings in **Telstra (TLS)** and **Myer Holdings (MYR)**. These companies are in more defensive sectors and they offer investors dividend income yields of 5.8% and 7.7% respectively which are fully franked.

It is expected that the Materials and Energy sectors will improve over time, and the portfolio still retains exposure through companies such as BHP Billiton, Santos, and Woodside Petroleum.

Sector Exposure

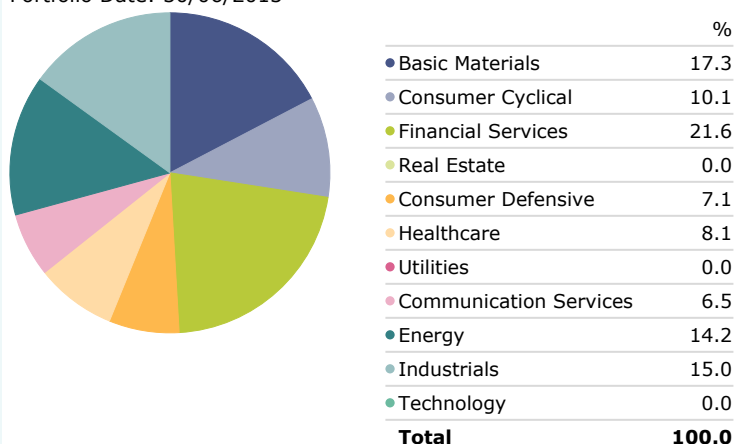
The portfolios largest sector exposure is to Financial Services, followed by Materials, Industrials, and Energy.

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: 30/06/2013



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