

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 2.42% return for the month and 7.89% over the last 3 months.

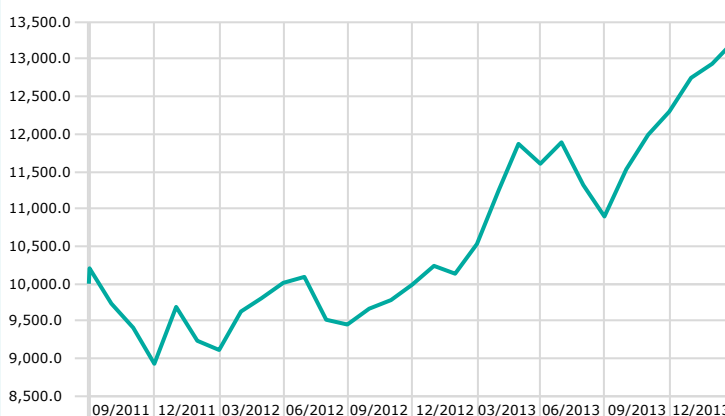
The portfolio outperformed the S&P/ASX 100 index in both periods by 1.74% and 4.23% respectively. This has been due to the low weighting to the Resources sector and the overall defensive allocation of the portfolio.

Over the last year the portfolio has generated a 26.77% 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 31/12/2013



—VIP Aust Share Leaders Super-Pension

Trailing Returns

As of Date: 31/12/2013

	1 Month	3 Month	6 Month	1 Year	2 Years	Since Inception
VIP Australian Share Leaders	2.42	7.89	22.00	26.77	21.51	11.88
VIP Aust Share Leaders Investment	2.30	7.53	21.18	25.07	19.88	10.37
VIP Aust Share Leaders Super-Pension	2.35	7.68	21.51	25.76	20.54	10.98
S&P/ASX 100 TR	0.68	3.66	13.96	21.54	21.27	10.24

Performance Contributors & Detractors

During December all of the sectors of the Australian share market posted positive returns apart from the Financial Services sector.

The best performing sector was the Telecommunications sector with a +4.28% return for the month followed by the Materials (mining) sector with a +2.35% return. The Financial Services sector detracted by -0.98% followed by the Industrials sector that posted a positive 0.34% return for the month, but still underperformed the broader index.

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%.

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.

Portfolio Holdings & Adjustments

VIP Australian Share Leaders - Holdings

	Ticker	S&P Sector	Total Ret 1 Mo (Qtr-End)	Total Ret 3 Mo (Qtr-End)	Total Ret 1 Yr (Qtr-End)	Dividend Yield % TTM
James Hardie Industries PLC DR	JHX	Materials	3.89	21.98	47.17	1.73
Lend Lease Corporation Limited	LLC	Financials	0.81	9.65	23.86	3.36
Ramsay Health Care Limited	RHC	Health Care	11.67	19.47	61.16	1.61
Twenty-First Century Fox Inc DR	FOX	Consumer Discretionary	7.06	9.12	58.08	0.53
Australia and New Zealand Banking Group Limited	ANZ	Financials	1.03	7.67	35.21	5.44
Bendigo And Adelaide Bank Ltd.	BEN	Financials	4.35	17.27	45.41	5.26
Crown Resorts Ltd	CWN	Consumer Discretionary	-0.30	8.36	60.24	1.49
Sonic Healthcare Limited	SHL	Health Care	-0.06	2.41	28.72	3.51
Westpac Banking Corp	WBC	Financials	-1.52	1.92	31.80	5.64
Ansell Limited	ANN	Health Care	1.77	-1.01	37.00	1.73
Wesfarmers Ltd	WES	Consumer Staples	2.61	5.75	22.91	4.34
Myer Holdings Limited	MYR	Consumer Discretionary	-3.51	5.36	35.65	7.11
BHP Billiton Ltd	BHP	Materials	1.60	6.30	5.67	3.32
Telstra Corp Ltd	TLS	Telecommunication Services	3.75	5.63	26.54	5.45
Woodside Petroleum Limited	WPL	Energy	4.01	1.54	21.19	4.13

Source: Morningstar Direct

Portfolio Adjustments

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

Sector Exposure

Sector Exposure

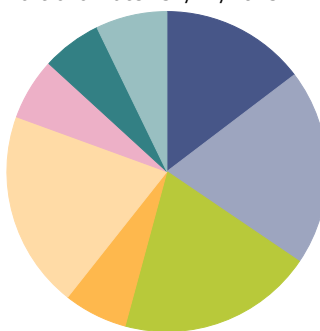
The portfolios largest sector exposure is to the Healthcare sector closely followed by the Consumer Discretionary and Financial Services sectors.

The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/12/2013



	%
● Basic Materials	14.7
● Consumer Cyclical	19.8
● Financial Services	19.7
● Real Estate	0.0
● Consumer Defensive	6.4
● Healthcare	19.9
● Utilities	0.0
● Communication Services	6.2
● Energy	6.0
● Industrials	7.2
● Technology	0.0
Total	100.0

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