

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 2.10% return for the month and 4.16% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in both periods by 1.41% and 1.17% respectively.

Over the last year the portfolio has generated a 23.67% return pre-fees outperforming the ASX100 index by 6.68%.

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 31/05/2014



Trailing Returns

As of Date: 31/05/2014

	1 Month	3 Month	6 Month	1 Year	2 Years	Since Inception
VIP Australian Share Leaders	2.10	4.16	7.75	23.67	21.76	12.03
VIP Aust Share Leaders Investment	1.98	3.80	7.03	22.01	20.12	10.53
VIP Aust Share Leaders Super-Pension	2.03	3.95	7.32	22.69	20.79	11.14
S&P/ASX 100 TR	0.69	2.99	5.50	16.99	22.55	10.27

Performance Contributors & Detractors

During May all of the sectors of the Australian share market posted positive returns apart from the Materials and Consumer Discretionary sectors.

The best performing sector was the Energy sector with a +2.95% return for the month followed by the Utilities and Healthcare sectors. The worst performing sectors were led by the Materials (mining) sector with a -2.81% return for the month followed by the Consumer Discretionary sector.

The **Top 3 Contributors** for the month were Ansell Limited +6.14%, Ramsay Healthcare +5.67%, and James Hardie Industries +4.45%.

The **Top 3 Detractors** for the month BHP Billiton -1.96%, ANZ Bank 0.44%, and Sonic Healthcare +0.06%.

Month in Review - Economic & Market Commentary

Last month we discussed the global market and economic performance of late and compared the situation to a "So-So" meal in a restaurant that promised so much, but delivered less. The report also discussed the outlook for share markets based on expectations of "So-So" economic growth and corporate profits.

In the last month we have learnt that the economic growth story is a little slower than has been forecast with the European Central Bank (ECB) announcing a package of reforms that are targeted to click-start the European economy towards its minimum inflation targets. Although we usually think of inflation as being bad, no or negative inflation (or deflation) is worse and is an indicator of poor economic activity and low business and consumer confidence. On the other hand, if we are all optimistic about the future and spend money in our businesses and homes this demand for these goods pushes up prices and causes inflation.

The ECB cut the benchmark interest rate in Europe to a record low 0.15% and reduced the deposit rate to less than 0% essentially charging banks a fee for parking excess cash. The ECB will also provide as much as 400 billion euros (or \$542 billion US dollars) to healthy EU banks on the condition that they on lend the funds to companies and households.

Similarly, the International Monetary Fund (IMF) cut its growth target for the US economy from its April forecast of 2.8% to 2%, and stated that they expect low inflation and less than full employment until the end of 2017. In making this forecast the IMF also stated that the US Federal Reserve (Fed) has the scope to keep interest rates at 0% for longer than the mid-2015 date that the market currently expects.

How does this affect us?

Although lower interest rates are good for shares the market could see these forecasts of weaker growth and low interest rates as an indicator that share prices have risen higher than the current economic environment can support remembering that a company's share price is an indication of the profits that it can generate for investors, and the weaker the environment the lower the future profits, which should lead to a re-valuation of a company's share price by the market.

This also means that Australian interest rates will need to stay low for longer unless the Reserve Bank want to see the Australian dollar back over parity with the US dollar, which will greatly hurt our exporters.

Only time will tell how the market reacts to these announcements and the next reporting season.

Source: Bloomberg

Portfolio Holdings & Adjustments

VIP Australian Share Leaders - Holdings

	Ticker	S&P Sector	Total Ret 1 Mo (Mo-End)	Total Ret 3 Mo (Mo-End)	Total Ret 1 Yr (Qtr-End)	Dividend Yield % TTM
BHP Billiton Ltd	BHP	Materials	-1.96	-1.88	15.27	3.54
Woodside Petroleum Ltd	WPL	Energy	3.36	11.12	16.41	4.98
Lend Lease Corp Ltd	LLC	Financials	3.55	20.83	20.29	3.10
Ansell Ltd	ANN	Health Care	6.41	6.06	17.11	2.05
Telstra Corp Ltd	TLS	Telecommunication Services	2.30	5.74	18.96	5.48
Bendigo And Adelaide Bank Ltd	BEN	Financials	1.91	5.39	16.85	5.03
Computershare Limited	CPU	Information Technology	3.08	7.25	21.37	2.26
Wesfarmers Ltd	WES	Consumer Staples	1.52	0.95	5.84	4.55
Macquarie Group Ltd.	MQG	Financials	4.04	6.68	64.62	3.93
Australia and New Zealand Banking Group Ltd	ANZ	Financials	-0.44	6.78	21.63	5.12
Westpac Banking Corp	WBC	Financials	0.57	5.53	18.66	5.18
Sonic Healthcare Ltd	SHL	Health Care	0.06	1.96	28.57	3.73
James Hardie Industries PLC DR	JHX	Materials	4.45	0.96	51.05	4.62
Ramsay Health Care Ltd	RHC	Health Care	5.67	-1.16	51.35	1.63
Crown Resorts Ltd	CWN	Consumer Discretionary	1.37	-4.86	37.44	1.82

Source: Morningstar Direct

Portfolio Adjustments

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

Sector Exposure

Sector Exposure

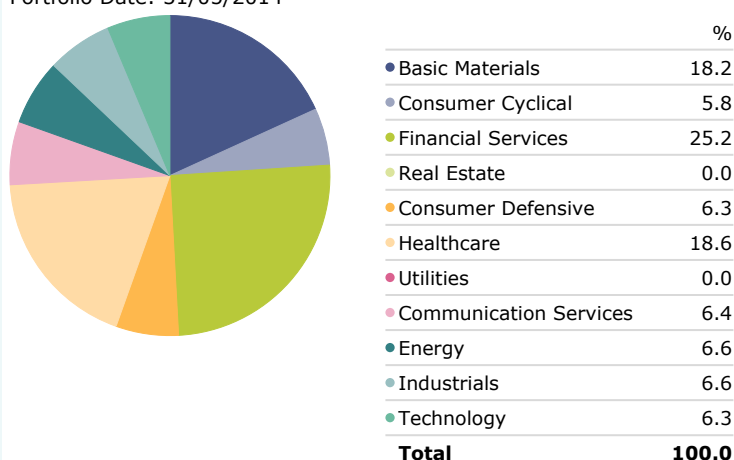
The portfolios largest sector exposure is to the Financial Services sector closely followed by the Healthcare and Materials sectors.

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: 31/05/2014



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