

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 -4.55% return for the month and -1.20% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in September by 0.81%, and underperformed by 0.48% over the quarter.

Over the last year the portfolio has generated a 10.30% return pre-fees outperforming the ASX100 index by 4.05%.

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 30/09/2014



Trailing Returns

As of Date: 30/09/2014

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	Since Inception
VIP Australian Share Leaders	-4.55	-1.20	0.47	10.37	17.06	15.60	9.78
VIP Aust Share Leaders Investment	-4.66	-1.54	-0.21	8.89	15.49	14.05	8.31
VIP Aust Share Leaders Super-Pension	-4.61	-1.40	0.07	9.49	16.12	14.67	8.91
S&P/ASX 100 TR	-5.36	-0.72	0.40	6.25	15.56	15.54	10.04

Performance Contributors & Detractors

During September sector returns of the Australian share market were negative with the top 200 companies by market capitalization (the S&P/ASX 200 index) falling 5.38%.

The best performing sector was the Healthcare sector with a -0.01% return for the month followed by the IT and Utilities sectors. The worst performing sectors were led by the Financial Services sector with a -6.53% return for the month followed by the Materials (Mining) and Energy sectors.

Over the last 3 months the higher allocation of the portfolio to the Healthcare, Consumer Discretionary, Industrials, Telecommunications, Energy and IT sectors along with a lower allocation of the portfolio to the Financial Services and Utilities sectors **contributed** to performance; whereas, a higher allocation of the portfolio to the Materials sector along with a lower allocation of the portfolio to the Consumer Staples sector **detracted** from performance.

The **Top 3 Contributors** for the month were Lend Lease Group +3.71%, Brambles Limited +1.63%, and Ansell Limited -2.26%. The **Top 3 Detractors** for the month were Crown Resorts -11.46%, Leighton Holdings -11.45%, and Westpac Bank -8.28%.

Finally It's Over

It finally happened. The US Federal Reserve announced last night (our time) the end of its stimulus program – QE3. This brings to an end the \$US85 billion (yes, billion) a month that the US Fed was pumping into the financial system by buying Treasury bonds and mortgage-backed securities to hold interest rates down and boost the recovering US economy.

By buying bonds (Treasury bonds and mortgage-backed securities) the demand had drove up bond prices and effectively pushed down interest rates or yields remembering that the price of bonds moves in the opposite direction to the bond yield (interest rates) and vice versa... rising bond price = falling interest rates; and falling bond price = rising interest rates.

That produced a selloff in bond markets which saw a marketable rise in short term US Government bond yields. The 5-year US Treasury note yield jumped to a level where it is on track for its largest done-day increase since the middle of March.

The announcement also saw an increase in the US dollar (USD) against all major currencies as expected with the market starting to price in an increase in official interest rates sooner post the announcement.

Stocks suffered a losses during the trading session but recovered late in trading to close down only marginally on the day.

The US Fed also expressed confidence in the US recovery with a positive view on the US employment situation. They stated that the US unemployment and inflation targets remain on track even in light of a slowing global economy particularly in Europe. The US Fed also stated that although they announced the end of QE3 US interest rates would remain near 0% for a “*considerable time*”.

It was these comments that underpinned a recovery in the earlier market losses of the trading day.

In September markets were spooked by poor economic news from Germany and equally poor outlook from the International Monetary Fund (IMF). The IMF predicted only 3.3% global economic growth in 2014 and 3.8% in 2015, which were lower than the July forecasts. The forecasts highlighted 0.8% growth in from Europe in 2014 and 7.4% from China.

Commodity prices also fell in September with the RBA Index of Commodity prices down 3.1% in September taking the annual decline in prices to 18%. The large miners such as Rio Tinto came under fire for increasing iron-ore production in an environment of falling iron-ore process as more supply would lead to lower prices again.

This negative economic news along with the focus on the geo-political conflicts in the Middle East and Ukraine, and the Ebola epidemic in West Africa, led to a 5.38% fall in Australian shares (S&P/ASX 200 index) 5.35% fall in Australian Property Securities (S&P/ASX 200 A-REIT index) although international markets rose for the month.

These negative Australian results led a fall in global markets in October with the US market (S&P 500 index) falling by 5.4% by the middle of this month. At the time of writing the S&P 500 had made up all of this October loss while the Australian market (S&P/ASX 200) is still down approximately 200 points or 3.5% from the September highs.

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
Ramsay Health Care Ltd	RHC	Health Care	-2.62	11.21	40.68	1.65
Lend Lease Group	LLC	Financials	3.71	13.12	48.13	4.62
Ansell Ltd	ANN	Health Care	-2.26	-0.73	-4.84	2.12
Brambles Ltd	BXB	Industrials	1.63	5.06	18.02	2.88
Wesfarmers Ltd	WES	Consumer Staples	-2.66	3.51	6.04	4.38
Telstra Corp Ltd	TLS	Telecommunication Services	-4.68	4.61	12.58	5.32
Bendigo And Adelaide Bank Ltd	BEN	Financials	-4.26	0.41	25.35	5.26
Woodside Petroleum Ltd	WPL	Energy	-4.92	1.75	12.08	5.88
National Australia Bank Ltd	NAB	Financials	-7.56	-0.73	0.52	5.70
Rio Tinto Ltd	RIO	Materials	-4.87	2.19	0.12	3.74
James Hardie Industries PLC DR	JHX	Materials	-6.56	-13.51	21.00	3.59
Australia and New Zealand Banking Group Ltd	ANZ	Financials	-7.51	-7.26	6.11	5.28
Crown Resorts Ltd	CWN	Consumer Discretionary	-11.46	-7.47	-8.87	2.60
Westpac Banking Corp	WBC	Financials	-8.28	-5.14	3.94	5.21
Leighton Holdings Ltd	LEI	Industrials	-11.45	0.71	4.78	4.04

The *VIP Investment Committee* elected to make the portfolio more defensive in September by selling Computershare and Sonic Healthcare to take profits, selling Macquarie Bank as it has not experienced the merger and acquisition business contributions that were expected in this marketplace, and selling BHP Billiton as their decision to move away from a UK listing may result in indexes selling the stock which would push the price down with no consideration of the company's fundamentals.

To replace these holdings the *VIP Investment Committee* bought Brambles, Leighton Holdings, Rio Tinto, and the National Australia Bank.

Brambles is the world's largest provider of pallet and reusable plastic crate pooling services, which will benefit upon an increase in global consumption especially from developing economies. The global scope of brambles operations will provide USD exposure which will benefit profitability if the USD continues to strengthen against the AUD.

Leighton Holdings was previously in the portfolio and sold due to board concerns. It is Leighton's new streamlined structure that follows a more traditional business model and focuses on infrastructure projects away from resource-based work that sees it back into the portfolio. We believe this restructuring into four specialised divisions - engineering, construction, public private partnerships, and mining - and divestment of several non-core businesses will increase efficiencies and margins the dominant infrastructure construction and mining services company. Leighton holds AUD 43.1 billion work-in-hand and a reasonably positive outlook, supported by a solid pipeline of large-scale infrastructure projects, domestically and in Asia.

Rio Tinto has been added to the portfolio in light of the sale of BHP due to its UK listing decision. Rio's recent increase in iron-ore production is a good sign in an uncertain global economic environment of management's focus to meet demand and shows the profitability Rio generate off a low cost structure. Like BHP ggeographic and product diversification give the company relatively stable cash flow and lower operating risk than many of its mining peers. Most revenue comes from the relative safe havens of Australia, North America, and Europe, though operations span half a dozen continents.

National Australia Bank is Australia's biggest bank and is representing better value than its peers. NAB's aggressive retail banking marketing and pricing strategy is delivering strong uplift in new customers, loan growth and customer deposits. Lower retail banking margins are offset by improved performance in business and New Zealand.

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Portfolio Risk & Sector Exposure

Risk v Return

The VIP portfolios aim to reduce volatility, or risk, over the long term and achieve excess returns per unit of risk that is taken compared to benchmark index, the S&P/ASX 100 Index.

The chart on the right plots return on the vertical axis against risk (in the form of Standard Deviation) on the horizontal index. Basically the higher up the vertical axis (high return) and the more left on the horizontal axis (low risk) is the ideal position that we aim for over the long term.

The chart on the right shows that the VIP Australian Share Leaders portfolio (aqua triangle) has achieved an **equal return** and **lower risk** compared to the S&P/ASX 100 Index (black pentagon) since inception on 01/07/2011.

This is the outcome we aim to achieve for our investors.

Sector Exposure

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

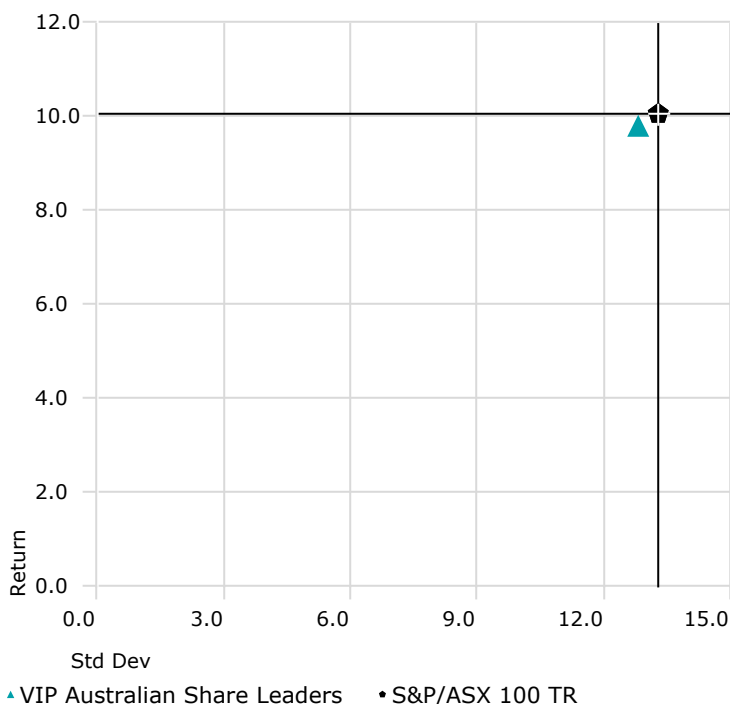
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

Risk-Reward

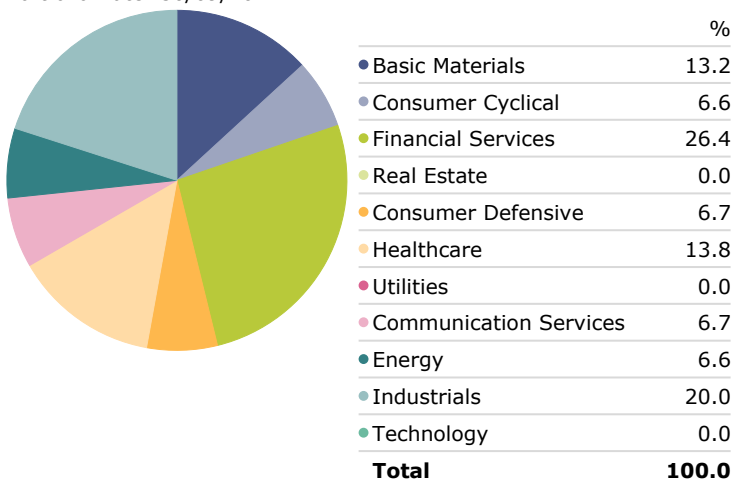
Time Period: Since Inception to 30/09/2014

Calculation Benchmark: S&P/ASX 100 TR



VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 30/09/2014



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