VIP Australian Share Leaders Portfolio

Monthly Review
March 2015

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 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 -0.44% return for the month and 8.68% over the last 3 months.

The portfolio underperformed the S&P/ASX 100 index in March by 0.56% and over the quarter by 1.90%.

Over the last year the portfolio has generated a 18.35% return pre-fees outperforming the ASX100 index by 3.39%.

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 31/03/2015

Trailing Returns

As of Date: 31/03/2015

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	Since Inception
VIP Australian Share Leaders	-0.44	8.68	16.84	18.35	18.40	18.59	14.66
VIP Aust Share Leaders Investment	-0.56	8.32	16.06	16.76	16.81	17.00	13.12
VIP Aust Share Leaders Super-Pension	-0.51	8.47	16.37	17.40	17.46	17.65	13.74
S&P/ASX 100 TR	0.12	10.58	14.50	14.96	14.61	16.93	10.40

Performance Contributors & Detractors

During March returns across the sectors of the Australian share market were mixed.

The Information Technology sector led the market posting a +3.24% return for the month followed by the Health Care and Financial Services sectors with +2.12% and +1.97% returns respectively. The Energy sector followed by the Materials (Mining) and Utilities sectors were the top detractors for the month with -5.65%, -4.51%, and -0.65% returns for the month respectively.

From a sector allocation perspective over the quarter the higher allocation of the portfolio to the Healthcare and Consumer Discretionary sectors, along with a lower allocation of the portfolio to Consumer Staples and Technology sectors *contributed* to performance; whereas, a higher allocation of the portfolio to the Materials, Energy, Industrials, and Telecommunications sectors, along with a lower allocation of the portfolio to Financial Services and Utilities *detracted* from performance.

The **Top 3 Contributors** for the month were Ansell Limited +9.50%, Brambles Limited +5.21%, and ANZ Bank +3.68%. The **Top 3 Detractors** for the month were Crown Resorts -11.19%, Rio Tinto -7.75%, and Origin Energy -7.37%.

Source: Morningstar Direct

Month in Review - Economic & Market Commentary

Where are we in the cycle now? I think we may have to wait and see…..

Market commentators have been struggling with the question of the future of growth asset performance based on the strong results that have been achieved since the global financial crisis ended with the 2009 lows. Since then AMP Capital reports that global shares are up 159% and Australian shares are up 91% with the higher Australian dollar, mining boom slowdown, and higher interest rates being the main reasons for the difference in performance between Australian and global shares.

Some commentators look to cycle lengths to try to determine how long the current market run will go and argue that since World War 2 the current bull market has seen US shares rise by 212% over 73 months, which compared to the average of a 177% gain over 64 months points to an ending of this bull market cycle. However, it is argued that in 2011 during the start of the Greek crisis shares did enter a bear market, which reduces the current bull market performance and period to a 92% gain over 42 months pointing to more of the same strong returns to continue (AMP Capital).

Other commentators look to the way investment cycles work with an economic slowdown reducing performance from shares and seeing Government bonds perform well followed by low interest rates to kick start the economy, economic recovery, and strong share market performance until shares look over priced again, the economy runs too hard, inflation rises, and interest rates are raised to control inflation and the economy to stop it from overheating.

In reviewing our current position in this cycle we can firstly look at valuation. For instance, when Price to Earnings (PE) ratios are compared against past periods the US and Australian markets look cheaper than where they reached in 1999 – 2000; and when share dividend yields are considered against bond yields shares actually look cheap.

Others are considering the state of the global economy stating that as the global economy is not over heating interest rates will stay low for longer, and both investor and consumer confidence will drive the economy and markets higher to the point in the cycle where interest rates will rise and slow things down.

So all commentators are pointing to good things to come.

However, there does seem to be a few issues that these commentators are forgetting that may be pointing to somewhat uncharted territory.

Firstly, Governments have been borrowing a large amount of money since the global financial crisis as they initially nationalised banks and mortgage originators and then started the printing presses. This huge amount of money has hit the economy, but has not really led to the type of economic prosperity that the architects of these programs envisaged. So what happens to this debt if Governments can't raise enough money in taxes whilst the costs of essential services (such as Heathcare) continues to rise?

Secondly, interest rates are at historic lows with the US at close to 0%, the EU and Japan at negative interest rates, and Australia hitting a 2% cash rate. You would expect that historic low interest rates would be driving spending and investment by households and businesses, but all the consumer and business confidence surveys point to uncertainty and weakness. Some of this uncertainty and weakness will result in unemployment which will only exacerbate the problem with lower tax revenue hitting Government coffers with which to reduce debt.
These issues or anomalies don't seem to fit the pattern of cycles or support the notion that the underlying economy led by businesses and consumers is strong enough to support current company profitability and share prices.

The only way to see where this leaves us is to watch, wait, and take a cautious approach to investing.

Source: this article was written with the help of AMP Capital.

Portfolio Holdings & Adjustments

Trailing Returns

As of Date: 31/03/2015

	YTD	1 Month	3 Month	6 Month	1 Year
Ansell Ltd	23.63	9.50	23.63	43.15	53.03
Australia and New Zealand Banking Group Ltd	14.18	3.68	14.18	23.39	19.59
Bendigo And Adelaide Bank Ltd	1.53	-2.11	1.53	9.11	18.56
Crown Resorts Ltd	7.12	-11.15	7.12	-1.50	-16.92
James Hardie Industries PLC DR	15.61	0.79	15.61	28.45	11.53
Lend Lease Group	3.04	-4.09	3.04	17.84	47.65
Ramsay Health Care Ltd	18.45	1.10	18.45	35.03	42.50
Telstra Corp Ltd	9.20	-0.94	9.20	23.01	33.31
Wesfarmers Ltd	8.32	0.25	8.32	5.95	12.92
Westpac Banking Corp	18.76	3.63	18.76	27.34	22.87
Brambles Ltd	9.90	5.24	9.90	22.71	28.19
Rio Tinto Ltd	2.13	-8.04	2.13	-0.58	-4.70
CSL Ltd	7.14	0.68	7.14	25.21	34.71
DuluxGroup Ltd	10.34	3.56	10.34	18.15	17.59
Origin Energy Ltd	-1.05	-7.37	-1.05	-22.86	-17.84
S&P/ASX 100 TR	10.58	0.12	10.58	14.50	14.96

Source: Morningstar Direct

Portfolio Adjustments

The *VIP Investment Committee* elected to sell Leighton Holdings and Woodside Petroleum, and replace them with Dulux Group and Origin Energy in March.

Leighton's new majority owners are implementing a strategy of selling off many of the parts of the business in an attempt to realise value on their investment, and the weak oil price off the back of sluggish global economic growth will not help Woodside Petroleum perform over the medium term.

On the other hand, Dulux Group was purchased to take advantage of property market activity as sellers and buyers look to renovate pre and post-sale. And Origin Energy was purchased to maintain Energy sector exposure (i.e. to oil and gas) without having too large an exposure to oil.

Sector Exposure

Risk vs 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 our 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.

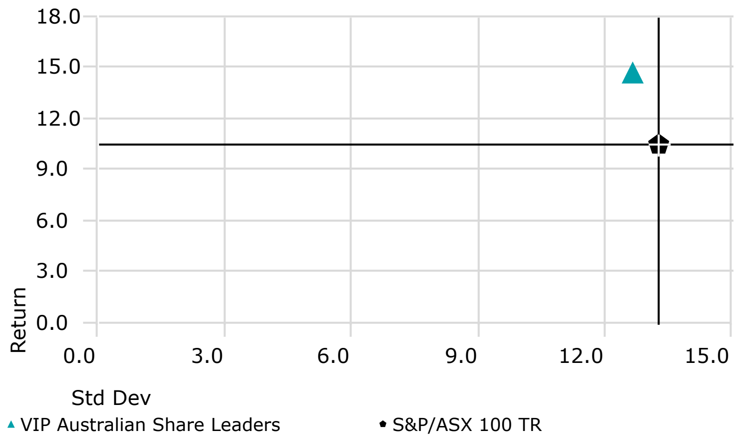
The chart on the right shows that the VIP Australian Share Leaders portfolio (aqua triangle) has achieved a ***higher return*** and ***lower risk*** compared to the S&P/ASX 100 Index (black pentagon) since inception on 01/07/2011.

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

Risk-Reward

Time Period: Since Inception to 31/03/2015

Calculation Benchmark: S&P/ASX 100 TR



Sector Exposure

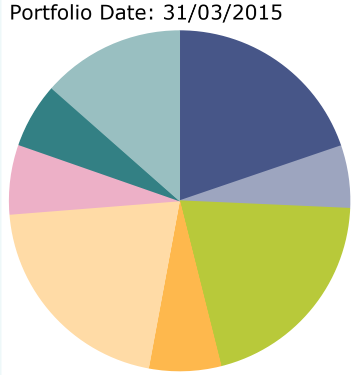
The portfolios largest sector exposure is to Healthcare, followed by Financial Services and Materials.

The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in defensive sectors.

A complete Equity Sector chart is included on the right.

VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/03/2015



	%
Basic Materials	19.8
Consumer Cyclical	5.9
Financial Services	20.4
Real Estate	0.0
Consumer Defensive	6.8
Healthcare	20.8
Utilities	0.0
Communication Services	6.6
Energy	6.2
Industrials	13.5
Technology	0.0
Total	**100.0**

Source: Morningstar Direct