

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 6.60% return for the month and 11.46% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in May by 3.56% and underperformed by 0.06% over the quarter.

Over the last year the portfolio has generated a 2.34% return pre-fees outperforming the ASX 100 index by 5.29%.

The post-fees returns for the *Investment* and *Superannuation & Pension* portfolios are shown in the table below.

Investment Growth

Time Period: 1/07/2011 to 31/05/2016



—VIP Australian Share Leaders

Trailing Returns

As of Date: 31/05/2016

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	Since Inception
VIP Australian Share Leaders	6.60	11.46	11.62	2.34	7.82	13.41	15.52	11.42
VIP Australian Share Leaders Investment	6.48	11.08	10.87	0.97	6.38	11.88	13.97	9.93
VIP Australian Share Leaders Super-Pension	6.53	11.23	11.17	1.53	6.96	12.50	14.60	10.53
S&P/ASX 100 TR	3.04	11.52	6.02	-2.95	3.38	7.73	12.56	9.75

Performance Contributors & Detractors

The strongest performing sector was the Health Care sector 9.46% followed by the Information Technology and Consumer Discretionary sectors with 6.48% and 5.78% gains respectively. On the other hand, the Materials sector -3.23% followed by Energy -1.84%, and Consumer Staples -0.85% achieved the lowest returns over the month.

Over the last 3 months the higher allocation of the portfolio to the Basic Materials, Health Care and Technology along with a lower allocation to the Consumer Defensive, Consumer Cyclical, and Energy sector **contributed** to performance; whereas a higher allocation to Industrials, Utilities, and Communication Services, and a lower allocation of the portfolio to the Financial Services sectors **detracted** from performance.

The **Top 3 Contributors** for the month were Aristocrat Leisure Ltd +28.60%, TPG Telecom Ltd +15.03%, and James Hardie Industries PLC DR +13.76%; and the **Top 3 Detractors** for the month were Flight Centre travel Group Ltd -19.59%, Brambles Ltd +2.96%, and Dulux Group Ltd +3.19%.

The Brexit Debate

Here in the land of Oz the headlines have been all-dominated by the country's looming election, and while we fast grow tired of our politicians' generic routines (make promise, slander opposition, carry stranger's child), there are headlines making much larger waves in the global economy. The possible withdrawal of Britain from the European Union has the potential to have notable effects near and far – far being Australia. Then again, there is also a case to be argued that Britain's exit or 'Brexit' will induce short-term complications, but in the greater scheme of things will not be a telling factor in the global markets.

It must be noted that a withdrawal from the EU is highly unlikely – the 'Stay' vote is currently paying \$1.29 as opposed to a \$3.50 for the 'Leave vote' in betting company SportsBet. However, in the case of a triumphant 'Leave' vote, to decide whether or not the stock market will feel the brunt of Brexit, one must first understand the reasons behind a desire to leave to EU. In a nutshell, supporters of Brexit believe leaving would stem the immigration crisis for Britain, enable Britain to focus on emerging markets such as India and China, and facilitate a greater control over the country's laws. Furthermore, there is belief that economic integration is likely to increase after the euro crisis, and that it is best to cut ties before the relationship deepens.

For discussion's sake, let's assume a Brexit. There are believers of a near-painless separation in the long-term, a concept boosted by the argument that the UK stock market is predominantly occupied by multinational companies whose performance is global-based rather than linked to domestic issues. Of course, short-term pain is to be expected as Britain 'will have to renegotiate trade deals not only with EU countries but with other countries where we (Britain) rely on EU trade deals,' as noted by Peter O'Flanagan, head of foreign exchange at specialist risk firm Clear Treasury. Observers also note that stock markets have not been severely affected since the announcement of the referendum held on the 23rd of June. However, this is most likely due to the belief that a change is improbable as opposed to a change already being priced in.

Alternatively, there are many supporters of the opinion that Brexit would bring about widespread consequences, and of these supporters is the British Treasury. The Treasury believes Brexit would impact via a three step process. A 'transition effect' where company's adjust for growth without the EU, then an 'uncertainty effect' because of the wide range of possible outcomes of the negotiations needed to establish Britain's future trading relations with the EU and other economies. A 'financial conditions' effect then comes into play as the uncertainty leads to increased market volatility. It becomes increasingly clear that the most major factor in play is the effect Brexit would have on trade agreements. Full access to the European market allows Britain to spread its specialised products and services to readily established markets giving it a comparative advantage. In reducing the access to this market, the scope of specialisation is also reduced, and while the extent of the repercussions of Brexit are widely unknown, an almost certain fact is that an exit would increase the cost of trading with Europe.

It is well known that London is recognised as the financial hub of the modern world. While Wall St. caters for the largest economy, London still holds resonance given its larger scope. If Brexit was to occur, the question asked is that in the long-term, would Britain maintain this standing if it were to sever ties with the Union? It could be argued that countries such as the US, China and India would have less reason to do business with London if it no longer served as a Europe's gateway. This would no doubt have dire consequences for the country's multinational companies.

While the outcomes of Brexit are murky, the repercussions for Australia is even murkier still. However, it is known that Australian companies operating out of Britain currently benefit from a 'passporting system' in which 'financial services companies are able to set up base in a European Economic area without needing to comply with each member state's individual regulations.' With the withdrawal of Britain from the EU, these Australian companies would more than likely lose this privilege.

Whichever way you perceive the issue, it is evident that a majority 'Leave' vote would result in severe movements in the short-term, if not the long-term. That said, all the effects of Brexit are simply speculation, and at that, speculations that the majority believe won't come to fruition anyway.

Source: The Telegraph, Sydney Morning Herald, The Economist

Portfolio Holdings & Adjustments

VIP Australian Share Leaders - Holdings

	Ticker	Sector	Total Ret 1 Mo (Mo-End)	Total Ret 3 Mo (Mo-End)	Total Ret 1 Yr (Qtr-End)	Dividend Yield % TTM
RBA Bank accepted Bills 90 Days			0.17	0.55	2.22	
Aristocrat Leisure Ltd	ALL	Consumer Discretionary	28.60	28.60	24.20	1.44
TPG Telecom Ltd	TPM	Telecommunication Services	15.03	18.29	25.46	1.54
James Hardie Industries PLC DR	JHX	Materials	13.76	17.70	21.82	2.01
Ramsay Health Care Ltd	RHC	Health Care	12.01	10.84	-6.46	2.10
Spark Infrastructure Group	SKI	Utilities	11.11	12.92	11.82	5.19
CSL Ltd	CSL	Health Care	10.06	13.83	12.36	1.76
Australia and New Zealand Banking Group Ltd	ANZ	Financials	9.69	18.85	-28.91	10.11
Bendigo and Adelaide Bank Ltd	BEN	Financials	9.87	25.30	-21.70	10.21
Boral Ltd	BLD	Materials	5.59	16.44	1.46	4.47
Telstra Corp Ltd	TLS	Telecommunication Services	4.29	10.69	-8.51	8.04
Sydney Airport	SYD	Industrials	3.96	9.77	34.07	3.60
Bank of Queensland Ltd	BOQ	Financials	3.38	15.38	-4.44	9.86
DuluxGroup Ltd	DLX	Materials	3.19	1.14	2.61	4.67
Westpac Banking Corp	WBC	Financials	3.20	11.45	-15.60	8.78
Brambles Ltd	BXB	Industrials	2.96	4.17	7.97	2.50
Flight Centre Travel Group Ltd	FLT	Consumer Discretionary	-19.59	-21.58	14.69	6.95

Portfolio Adjustments

In May, the VIP Investment Committee did not make any changes to the portfolio.

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 Healthcare sector closely followed by the Financial Services and Materials sectors.

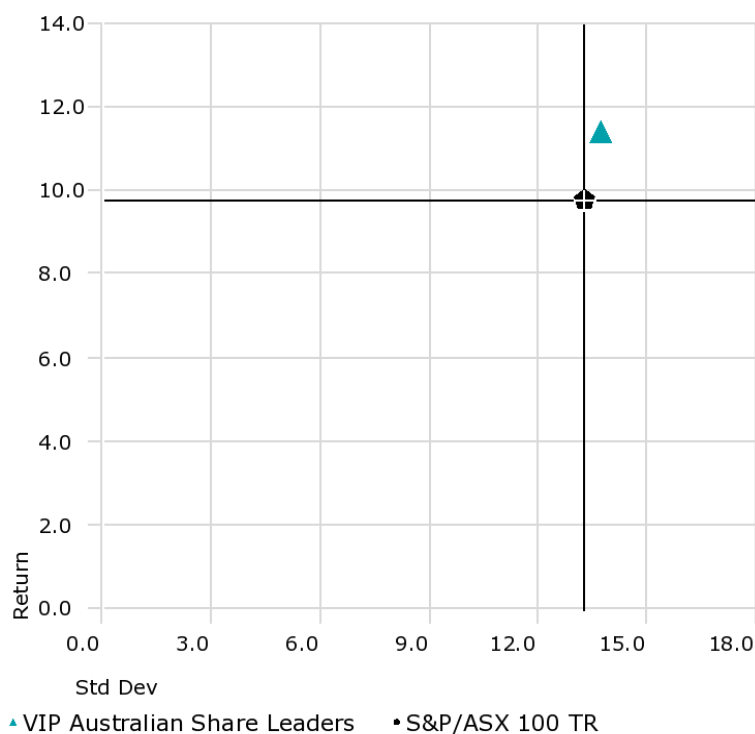
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

Risk-Reward

Time Period: Since Inception to 31/05/2016

Calculation Benchmark: S&P/ASX 100 TR



VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/05/2016

