

### 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 3.31% **pre-fees** return for the month and 10.47% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in April by 2.20% and underperformed by 3.60% over the quarter.

Over the last year, the portfolio has generated a 17.16% return pre-fees underperforming the ASX 100 index by 1.21%.

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

### Investment Growth

Time Period: 1/07/2011 to 30/04/2017



### Trailing Returns

As of Date: 30/04/2017

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	5 Years	Since Inception
VIP Australian Share Leaders PRE-FEES	3.31	10.47	13.99	17.16	7.20	9.40	11.22	13.11	11.33
Net VIP Australian Share Leaders Investment	3.19	10.11	13.23	15.59	5.76	7.93	9.73	11.59	9.83
Net VIP Australian Share Leaders Super-Pension	3.24	10.26	13.54	16.23	6.35	8.53	10.33	12.21	10.44
S&P/ASX 100 TR	1.11	6.87	14.55	18.37	5.73	7.33	8.20	11.53	9.96

### Performance Contributors & Detractors

The strongest performing sector was the Information Technology sector 3.90% followed by the Health Care and Utilities sectors with 3.17% and 3.14% gains respectively. On the other hand, the Telecommunications sector -9.89% followed by Consumer Staples -2.58% and Energy sectors -0.63% achieved the lowest returns over the month.

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

The **Top Contributors** for the month were James Hardie Industries PLC DR +10.21%, Aristocrat Leisure Ltd +9.29%, & Seek Ltd +7.04%. The **Top Detractors** for the month were ResMed Inc -1.40%, Westpac Banking Corp 0.00%, and Oil Search Ltd 0.00%.

### Amazon and the Australian Retail Market

While many events, occurrences, and advancements have taken place in the last few decades, only a select few are able to rival the introduction of the internet into mainstream society. With the internet came infinite access to information and communication, and therefore possibility and change. Unimmune to one of the greatest advancements in technological history was the brick and mortar retail market, which was suddenly exposed to competition from around the world. Although Australia has now been accustomed to the likes of eBay and Amazon, the industry is due for its latest shakeup with Amazon announcing its imminent physical arrival in Australia.

the arrival of the US giant, which will feature a fulfillment centre with floor space of approximately 93,000 square metres (about 5 MCG's), comes at a time in which the Australian retail sector faces an uphill battle. Despite overall business conditions improving in the last year, the retail sector has worsened since July 2016 with a fall in gross operating profits over the year. What more, income from sales was up just 1.3% year on year in December – almost half the decade average. With a larger focus on spending towards services, retail lost more jobs last year than any other sector, and experienced over 2100 retail business collapses in the last 2 financial years.

All in all, the environment is perfect for a foreign retailer to successfully disrupt the Australian market. Australia, who lags in most things from technology to cultural adaptations, will finally be exposed to what countries such as Spain, Germany, and the UK have enjoyed for up several years now. In a market where prices are traditionally high and range is relatively scarce, Amazon aims to earn the business of Australian customers through 'low prices, vast selection, and fast delivery.' In fact, a subscription to the Amazon Prime Now service would make the concept of one-hour delivery a reality.

Known as the 'Country Killer' by analysts at Morgan Stanley, Amazon is renowned for its relentless efforts in earning market share in target countries. For example, Amazon's sales in non-food goods exceed all competing retailers in Germany and the UK. Furthermore, after 5 years in Spain, the retail conglomerate offers 175 million products, has 1000 employees and will hire 600 more in 2017. Despite having a physical presence in Australia, Amazon already has a \$1 billion sales revenue in the country through overseas shipping. Considering that total annual retail sales in Australia were \$300 billion and online retail sales were \$21 billion, Amazon's Australian play holds immense potential for the company.

This potential bodes poorly for the likes of JB Hi-Fi and Harvey Norman, given that Amazon's predominant focus in entering the market will be consumer and home electronics. To a lesser extent, Bunnings is also on Amazon's radar, although the customer experience is a large part of Bunnings' attraction. The long-term view will also place fresh food suppliers such as Woolworths and Coles in Amazon sights, with the service in the UK and US proving to be a viable alternative, particularly with a one-hour delivery timeframe. That said, Australians have been reluctant to embrace fresh food delivery and Amazon Fresh was only implemented after 12 years of Amazon existence in the UK.

With online retail sales growing at 14.2% in Australia and Amazon's proven track record, it leaves little doubt that their chance of success in the Australian market are extremely high. In fact, analysts at Credit Suisse predict the US retail giant will reach over 5% market share in many retail categories within 5 years of arriving in Australia. If other countries are any indication, it will be notable to look back in history before Amazon arrived on our shores and recognise its significance in changing the Australian retail landscape forever.

Source: SMH, ABS, Deloitte

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
S&P/ASX 100 TR			1.11	6.87	21.01	
James Hardie Industries PLC DR	JHX	Materials	10.21	9.62	17.73	2.06
Aristocrat Leisure Ltd	ALL	Consumer Discretionary	9.29	28.53	76.89	1.27
Seek Ltd	SEK	Industrials	7.04	20.28	3.96	3.36
CSL Ltd	CSL	Health Care	5.76	18.78	25.25	1.29
Challenger Ltd	CGF	Financials	5.34	22.17	55.29	3.67
Ramsay Health Care Ltd	RHC	Health Care	2.59	8.47	16.81	2.47
National Australia Bank Ltd	NAB	Financials	1.98	12.10	37.84	8.75
Bendigo and Adelaide Bank Ltd	BEN	Financials	1.48	2.04	47.82	8.01
South32 Ltd	S32	Materials	0.72	2.82	92.55	2.30
Spark Infrastructure Group	SKI	Utilities	5.06	9.51	21.50	5.66
APA Group	APA	Utilities	2.23	8.79	6.81	4.77
Australia and New Zealand Banking Group Ltd	ANZ	Financials	2.95	11.85	45.38	7.82
Westpac Banking Corp	WBC	Financials	0.00	10.56	24.37	8.25
Oil Search Ltd	OSH	Energy	0.00	5.51	7.41	0.57
ResMed Inc DR	RMD	Health Care	-1.40	2.58	25.03	0.49

Portfolio Adjustments

In April, the VIP Investment Committee made no 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.

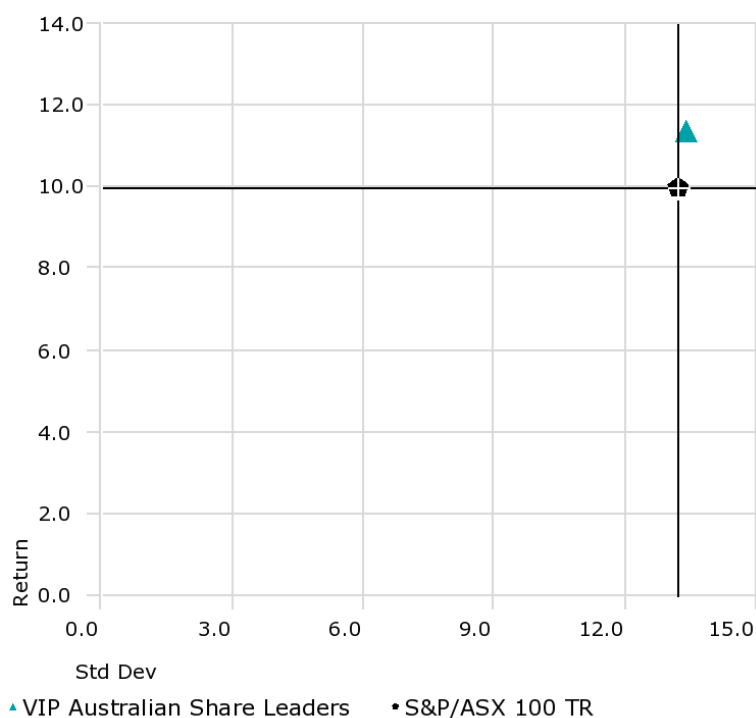
The *VIP Investment Committee* has positioned the portfolio to generate strong income yields in this current allocation while taking positions in more defensive sectors such as Healthcare and Financial Services within the current environment.

A complete Equity Sector chart is included on the right.

### Risk-Reward

Time Period: Since Inception to 30/04/2017

Calculation Benchmark: S&P/ASX 100 TR



### VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 30/04/2017

