VIP Fixed Interest Portfolio

Monthly Review

May 2015

Investment Objective

The ***VIP Fixed Interest Portfolio*** aims to provide a high level of income over the medium to long term through investment in a diversified portfolio of Australian fixed income securities including Government and Semi Government Bonds, Managed Funds, Term Deposits and Cash.

The portfolio invests in 4 to 10 fixed income securities including Government and Semi Government Bonds, Managed Funds, Term Deposits and Cash that are managed with a bottom up approach while taking top down economic considerations into consideration.

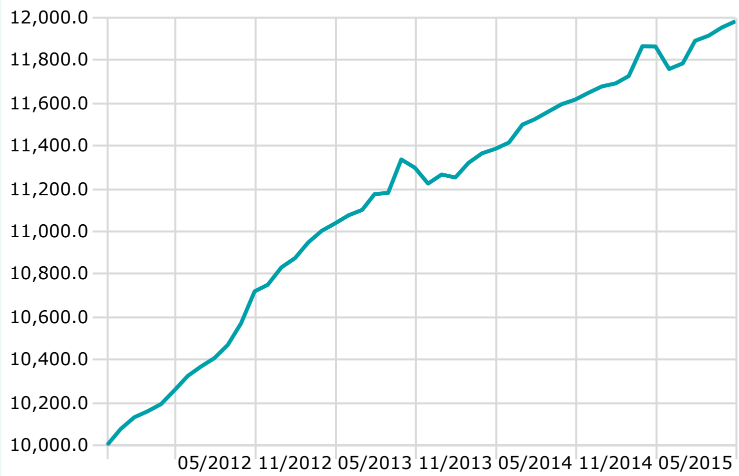
Performance Review

The VIP Fixed Interest portfolio generated a 0.24% return for the month and 0.77% over the last 3 months. This was against the Bloomberg AusBond Composite index return of 0.04% and -0.32% over the month and last 3 months respectively.

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 31/05/2015



VIP Fixed Interest

Trailing Returns

As of Date: 31/05/2015

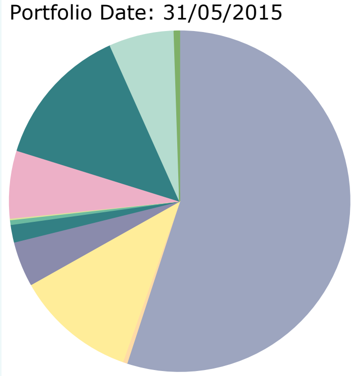
	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	Since Inception
VIP Fixed Interest	0.24	0.77	1.00	3.16	2.99	3.79	4.72
VIP Fixed Interest Investment	0.13	0.43	0.32	1.77	1.61	2.40	3.32
VIP Fixed Interest Super-Pension	0.17	0.56	0.59	2.33	2.17	2.96	3.89
Bloomberg AusBond Composite 0+Y TR AUD	0.04	-0.32	3.28	7.47	5.80	5.09	8.68

Portfolio Exposure

The portfolio is allocated across Australian and International fixed interest sectors as capital loss fears from the Quantitative Easing Tapering program have ceased.

VIP Fixed Interest - Fixed-Inc Country Exposure

Portfolio Date: 31/05/2015



	%
Australia	55.0
Canada	0.4
France	11.4
Germany	4.3
Netherlands	1.7
Norway	0.4
Switzerland	0.1
United Kingdom	6.4
United States	13.5
Other Countries	6.2
Other	0.5
Total	**100.0**

Source: Morningstar Direct

Greece & the Fed…. A cocktail for volatility

With the recent volatility caused firstly by rumours of a Fed Interest rate increase and now by Greek Debt Crisis negotiations this article below from Bloomberg, written by Craig Torres, explains how the Greek event can affect the Fed's decision on interest rates later this year, which we believe will be the next correction:

A Greek exit from the euro zone could give Federal Reserve policy makers reason to put off an interest-rate increase. Some investors are already betting on a delay. Federal funds futures traders reduced the probability of a September increase to 35 percent on Monday in New York from 45 percent Friday. The yield on the 10-year Treasury note dropped by the most since October.

Whether those bets are correct will depend on how turmoil in the euro zone plays into Fed officials' forecasts for growth, employment and interest-rate increases this year.
Chair Janet Yellen made it clear in her June 17 press conference that she needed to see "more decisive evidence" of sustainable economic momentum that supports labor markets and gradually firming prices.

While economic data have improved since then, New York Fed President William C. Dudley called Greece a "huge wildcard" for the U.S. outlook in an interview with the Financial Times published Sunday.

Here's what Fed officials will be watching in the weeks ahead:

Contagion: One immediate risk is a slump in business and consumer confidence in the euro zone that undermines the region's economic recovery and increases risk-aversion elsewhere. "The Fed is concerned because they see these problems in Europe and in the world economy as basically a drag," said Joseph Gagnon, a former Fed economist and now a senior fellow at the Peterson Institute for International Economics in Washington. "The current turmoil in Greece may make people around the world even more reluctant to spend."

Dollar Drag - The exchange rate: One of the biggest surprises for economists in and outside the central bank was how swiftly the 18 percent rise in the dollar against major currencies for the year ending March sapped U.S. gross domestic product. A stronger dollar cuts into exports by making U.S. goods more expensive abroad, while making imports cheaper. A ballooning trade deficit cut 1.9 percentage points from GDP in the first quarter of this year and about 1 percent in the fourth quarter of 2014, the biggest back-to-back drag since the first half of 1998.

Greece's impact "will depend on the market reaction, especially the dollar," said Mark Spindel, chief investment officer at Potomac River Capital, a hedge fund in Washington with $750 million under management. "We know how sensitive the Fed committee is to dollar strength." Spindel added that the Fed's September meeting is months away, and the Greece situation "could change in heartbeat."

Borrowing Costs - Financial conditions: Fed stimulus works through financial markets by lowering financing costs on everything from cars to homes.

The question is whether mortgage and corporate financing become more expensive relative to Treasury yields as lenders grow more risk averse. Fed officials "need to see where mortgage-backed security spreads and corporate spreads are to Treasuries" and what happens to stocks, which influence consumer confidence and spending, said Michael Gapen, chief U.S. economist at Barclays Capital Inc. "Those are your primary starting points" as a policy maker, Gapen added.

Source: Bloomberg

Portfolio Holdings & Adjustments

VIP Fixed Interest - Holdings

Portfolio Date: 31/05/2015

	Portfolio Weighting %	Total Ret 1 Mo (Mo-End)	Total Ret 3 Mo (Mo-End)	Total Ret 6 Mo (Mo-End)	Total Ret 1 Yr (Mo-End)
RBA Bank accepted Bills 30 Days	31.84	0.17	0.55	1.17	2.50
iShares Composite Bond	31.80	0.01	-0.38	3.19	7.28
Bentham Wholesale Global Income	21.39	0.50	1.69	3.18	3.95
Realm High Income	14.97	0.21	0.67	1.81	4.14

Performance Contributors & Detractors, and Portfolio Adjustments

The **Top Contributors** were Bentham Global Income Fund +0.50%, Realm High Income Fund +0.21%, and cash +0.17%; and the **Top Detractor** for the month was the iShares Composite Bond ETF +0.01%.

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

Source: Morningstar Direct