VIP Conservative Portfolio

Monthly Review
March 2016

Investment Objective

The aim of the ***VIP Conservative Portfolio*** is to provide investors with a reliable income stream with the potential for moderate capital growth over the medium to long term from investment within a diversified portfolio heavily weighted to defensive assets (70% allocation to fixed interest and cash) and holding some growth assets (30% allocation to Australian shares, International shares, and property securities).

The portfolio is composed of 30 – 60 securities and consists of ASX listed securities, Exchange Traded Funds (ETFs), Listed Investment Companies (LICs), Managed Funds, Government and Semi Government Bonds, Term Deposits and Cash.

Performance Review

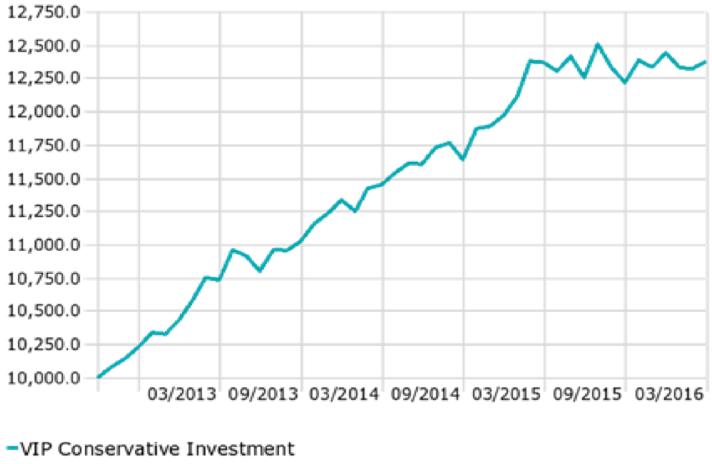
The VIP Conservative portfolio generated a 0.56% return pre-fees in March, and -0.17% return pre-fees in the quarter.

Over the last year the portfolio has generated a 1.44% return pre-fees and over 3 years 6.29%. Over 1 to 4 years and since Inception the portfolio has achieved performance above our Conservative Composite Index.

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

Investment Growth

Time Period: 1/07/2012 to 31/03/2016



Trailing Returns

As of Date: 31/03/2016

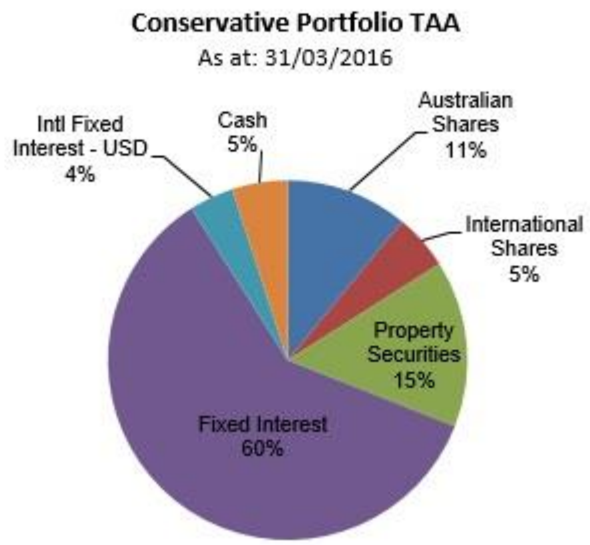
	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	Since Inception
VIP Conservative	0.56	-0.17	2.00	1.44	5.40	6.29	7.28	7.52
VIP Conservative Investment	0.45	-0.51	1.31	0.08	3.98	4.87		5.87
VIP Conservative Super-Pension	0.50	-0.37	1.59	0.63	4.56	5.45	6.43	6.67
VIP Conservative Composite Index	1.08	1.40	3.18	0.66	6.83	6.45	7.79	7.87

Tactical Asset Allocation

The VIP Conservative portfolios asset allocation as at 31/03/2016 was as follows:

- Australian Shares 11%
- International Shares 5%
- Property Securities 15%
- Fixed Interest 60%
- International Fixed Interest - US dollars 4%
- Cash 5%

In March the Growth asset allocation (Shares and Property Securities) is currently at 31% due to the *VIP Investment Committee's* decision to sell a percentage of the holdings of the US dollar in December given the US Federal Reserves' decision to raise interest rates in America.



Risk vs Return

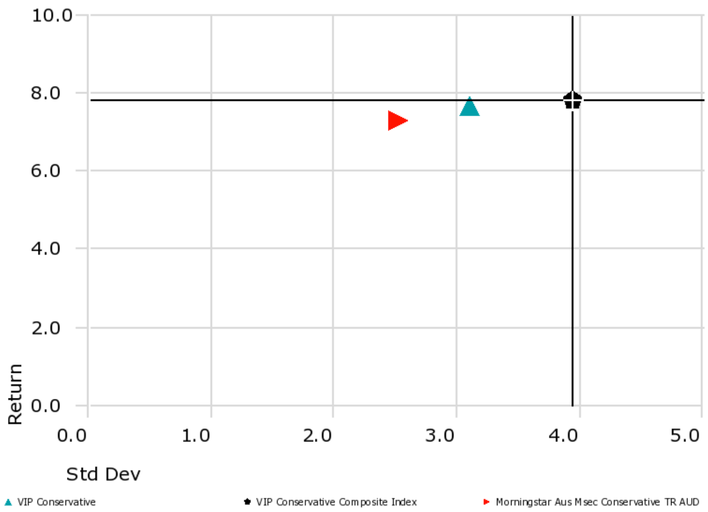
The VIP portfolios aim to reduce volatility, or risk, over the long term and achieve excess returns per unit of risk that is taken compared to our Conservative Composite Index and the Morningstar Multi-Sector Conservative Index.

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 Conservative portfolio (aqua triangle) has achieved ***lower risk*** compared to the Conservative Composite Index (black pentagon) and ***higher return*** and ***lower risk*** than our peers represented by the Morningstar Multi-Sector Conservative index (red triangle) and since inception on 01/07/2011.

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

Risk-Reward



Month in Review - Economic & Market Commentary

Emissions, Economic Growth, and Energy Sources

Contrary to what history has shown, the world has proven that economic growth and carbon emissions are able to be dissociated, with the global economy taking the first true steps towards developing the sustainable model for global growth that is becoming increasingly necessary. There are signs that carbon emissions do not necessarily need a positive correlation with GDP growth, and that decoupling (i.e. the dissociation of a rise in GDP and a rise in carbon emissions) is an achievable goal that must be strived after if the world is to approach a new era of sustainability.

2014 was the first time that there was global GDP growth while carbon emissions levelled off, with both metrics having been recorded for the last 40 years. While at the time experts acknowledged it could be an anomaly, the International Energy Agency (IEA) reported last month that "The new figures confirm last year's surprising but welcome news: we now have seen two straight years of greenhouse gas emissions decoupling from economic growth," said IEA Executive Director Fatih Birol. Previous to the last 2 years, the only periods in which carbon emissions had levelled or fell were in the early 1980s, 1992, and 2009 – each of these being periods of economic weakness, most recently the Global Financial Crisis. However, the fact that the most recent period included global GDP growth of 3.4% in 2014 and 3.1% in 2015 suggests that decoupling is indeed a realistic endeavour.

Not coincidentally, it has been found that since the beginning of the 21st century, 21 countries, including the USA, have decoupled their economic growth from carbon emission. This is according to researcher at the World Resources Institute Nathaniel Aden, who claims that the results "suggest that countries can sever the historic link between economic growth and greenhouse gas emissions." Of course, while 21 countries have achieved decoupling, the majority, including Australia, are still achieving growth via traditional means, which are directly connected to carbon pollution. While The Paris Agreement in December committed almost every country to confront climate change, it is understandable that, in the absence of major breakthroughs in climate change technology, governments are reluctant to aggressively tackle carbon emissions if the result is loss in economic growth.

The largest economy in the world, the United States, has achieved the decoupling of emissions and economic growth predominantly through the boom in domestic natural gas. When burned, the natural gas produces half the carbon pollution of coal, and as a result drove electric utilities away from coal and at the same time powered even more homes and factories. In Sweden, economic growth of 31% was achieved while reducing emissions by 8% and accordingly, half of Sweden's electricity is derived from nuclear power, an emissions-free source, and 36% is from renewable sources, particularly hydroelectric. While there is a valid argument that decoupling leads to de-industrialisation and therefore an inequality in income, the point made in the cases of the USA and Sweden is that the road to decoupling is via a cleaner energy source to power these industries, rather than moving the industries themselves as Britain did post Industrial Revolution as its financial and services sectors grew.

From an investment point of view, it is fair to say that the prospects of renewable sources and cleaner energy pose an unimaginably enormous opportunity for investors. Perhaps not in the next few years, perhaps not even in the next few decades, but it is inevitable that the world one day embraces these sources as legitimate and crucial factors to the sustainability of this Earth. While renewable energy sources such as wind, solar and hydropower have existed for decades, now more than ever are they becoming genuine sources of power, particularly with new technologies in energy storage being developed every day and as a result, presenting the next great investment opportunity of the future. Of course, today it is impossible to believe that resources such as crude oil will one day be obsolete. In response to this notion, it is convenient to note that whale blubber was once a viable and highly sought after source of energy.

Sources: Sydney Morning Herald, ABC News, IEA

Australian Shares Portfolio

The VIP Australian Share Leaders portfolio generated a 3.77% return for the month and -0.49% over the last 3 months. The portfolio underperformed the S&P/ASX 100 index in March by 0.93% and outperformed by 2.51% over the quarter.

Over the last year the portfolio has generated a -5.21% return pre-fees outperforming the ASX 100 index by 5.20%.

The **Top 3 Contributors** for the month were Bank of Queensland +14.88%, CIMIC Group +12.40%, and Bendigo and Adelaide Bank +9.30; and the **Top 3 Detractors** for the month were Ramsay Health Care -6.35%, DuluxGroup -3.83%, and Brambles -1.68%.

VIP Australian Share Leaders - Holdings

	Ticker	Dividend Yield % TTM
CIMIC Group Ltd	CIM	3.81
TPG Telecom Ltd	TPM	1.48
Brambles Ltd	BXB	2.64
Spark Infrastructure Group	SKI	5.94
Lendlease Group	LLC	4.56
Bank of Queensland Ltd	BOQ	9.36
James Hardie Industries PLC DR	JHX	2.37
Bendigo and Adelaide Bank Ltd	BEN	10.63
Boral Ltd	BLD	4.60
Aristocrat Leisure Ltd	ALL	1.68
Macquarie Group Ltd	MQG	6.43
Ramsay Health Care Ltd	RHC	2.49
Westpac Banking Corp	WBC	8.62
Telstra Corp Ltd	TLS	8.45
Australia and New Zealand Banking Group Ltd	ANZ	10.84
CSL Ltd	CSL	2.03
DuluxGroup Ltd	DLX	4.74
RBA Bank accepted Bills 90 Days		

VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/03/2016

	%
Energy	0.0
Materials	17.1
Industrials	12.9
Consumer Discretionary	5.8
Consumer Staples	0.0
Healthcare	11.2
Financials	34.9
Information Technology	0.0
Telecom Services	11.9
Utilities	6.2
Total	**100.0**

Australian Shares Portfolio Adjustments:

In March the VIP Investment Committee made no adjustment to the portfolio.

International Shares Portfolio

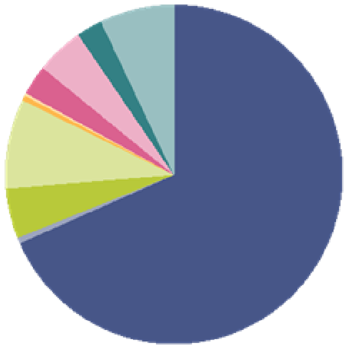
The VIP International share portfolio generated a -0.76% return for the month and -4.83% over the last 3 months. In doing so the portfolio outperformed the MSCI World Ex Aus (AUD) index in March by 0.23% and outperformed over the last 3 months by 0.98%.

Over the last year the portfolio has generated a -4.07% return and underperformed the index by 0.17%.

The **Top Contributor** was Platinum International Fund +0.86%, and Morphic Global Opportunities -0.41%. The **Top Detractors** were Magellan Global -1.90%, and Vanguard US Total Market Shares ETF -1.08%.

VIP International - Equity Regional Exposure

Portfolio Date: 31/03/2016



	%
North America	68.4
Latin America	0.5
United Kingdom	4.8
Europe dev	8.5
Europe emrg	0.5
Africa/Middle East	0.3
Australasia	2.9
Japan	4.6
Asia dev	2.5
Asia emrg	7.1
Total	**100.0**

VIP International - Holdings

Portfolio Date: 31/03/2016

	Global Category
Magellan Global	Global Equity Large Cap
Platinum International Fund	Global Equity Large Cap
Vanguard US Total Market Shares ETF	US Equity Large Cap Blend
Morphic Global Opportunities	Global Equity Large Cap
RBA Bank accepted Bills 90 Days	

International Portfolio Adjustments:

In March the VIP Investment Committee made no adjustment to the portfolio.

Property Securities Portfolio

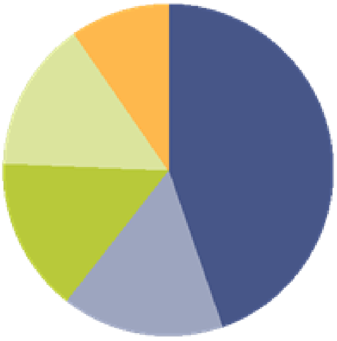
The VIP Property Securities portfolio generated a 2.51% return for the month and 3.86% over the last 3 months. The portfolio outperformed the S&P/ASX 200 A-REIT index during the month by 0.12%, and underperformed over the quarter by 2.58%.

Over the last year the portfolio has generated a 6.09% return and underperformed the index by 5.17%.

The **Top Contributors** were BWP Trust +5.56%, SPDR S&P/ASX 200 Listed Property ETF +2.80%, and Goodman Group +2.77%; the **Top Detractors** were Stockland Corp +2.40%, and Scentre Group +2.77%.

VIP Property Securities - Portfolio Holdings

Portfolio Date: 31/03/2016



	%
SPDR® S&P/ASX 200 Listed Property ETF	44.7
BWP Trust	15.9
Goodman Group	15.1
Stockland Corp Ltd	14.7
Scentre Group	9.6
Total	**100.0**

VIP Property Securities - Holdings

Portfolio Date: 31/03/2016

	Ticker	Dividend Yield % TTM
SPDR® S&P/ASX 200 Listed Property ETF	SLF	
BWP Trust	BWP	4.86
Goodman Group	GMG	3.42
Stockland Corp Ltd	SGP	5.63
Scentre Group	SCG	4.59

Fixed Interest Portfolio

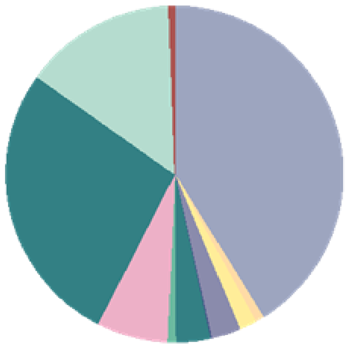
The VIP Fixed Interest portfolio generated a 0.20% return for the month and -0.34% over the last 3 months. This was against the Bloomberg AusBond Composite index return of -0.21% over the month and 2.05% over the quarter.

The portfolio outperformed the index by 0.41% over the month, and underperformed the index 2.39% over the last 3 months.

The **Top Contributor** was Bentham Wholesale Global Income +2.38%, Realm High Income +0.43%, and RBA Bank accepted Bills 30 Day +0.18%. **Top Detractors** were BT Pure Alpha Fixed Income -0.24%, and iShares Composite Bond -0.23%.

VIP Fixed Interest - Country Exposure

Portfolio Date: 31/03/2016



	%
Australia	41.2
Canada	0.8
France	1.7
Germany	2.8
Ireland	0.1
Netherlands	3.3
Norway	0.8
United Kingdom	6.8
United States	27.3
Other Countries	14.6
Other	0.5
Total	**100.0**

VIP Fixed Interest Portfolio - Income Yield

Portfolio Date: 31/03/2016

	Income Return 1 Yr (Mo-End)
Realm High Income	3.11
RBA Bank accepted Bills 30 Days	
Bentham Wholesale Global Income	5.14
iShares Composite Bond	3.64
BT Pure Alpha Fixed Income	3.52

Property Securities Portfolio Adjustments:

In March the VIP Investment Committee made no adjustment to the portfolio.

Fixed Interest Portfolio Adjustments:

In March the VIP Investment Committee made no adjustment to the portfolio.