VIP Fixed Interest Portfolio
Monthly Review
April 2013

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 1.40% return pre-fees in April, and a 2.13% return pre-fees for the 3 months to 30/04/2013.

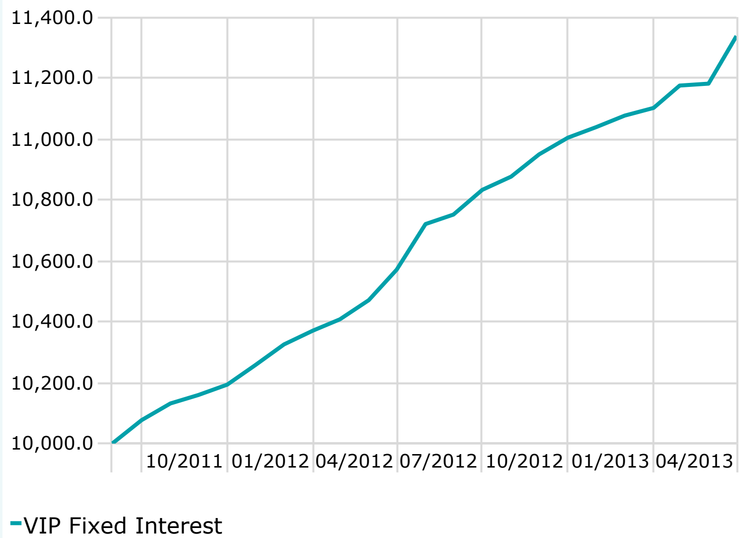
Over these periods the fixed interest index, the UBS Composite index, generated 1.54% and 1.94% respectively.

Over the last year the portfolio has generated a 7.26% return pre-fees.

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 30/04/2013



Trailing Returns

As of Date: 04/30/2013

	1 Month	3 Month	6 Month	1 Year	Since Inception
VIP Fixed Interest	1.40	2.13	3.03	7.26	7.07
VIP Fixed Interest Investment	1.29	1.79	2.35	5.82	5.65
VIP Fixed Interest Super-Pension	1.33	1.93	2.62	6.41	6.23
UBS Composite 0+ Yr TR AUD	1.54	1.94	1.90	6.99	8.97

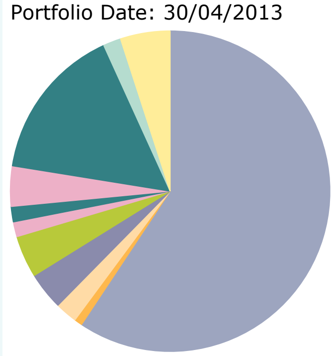
Portfolio Exposure

The portfolio is mainly allocated across Australian fixed interest securities with the next dominant region being the US.

Across these regional markets the portfolio holds approximately 37.3% Government bonds, 30.4% Corporate bonds, and 17.7% Cash and Cash Equivalents.

VIP Fixed Interest - Fixed-Inc Country Exposure

Portfolio Date: 30/04/2013



	%
Australia	59.4
Brazil	0.8
Canada	2.2
Germany	3.8
Italy	4.2
Mexico	1.5
Netherlands	1.5
United Kingdom	4.1
United States	15.6
Other Countries	1.8
Other	5.0
Total	**100.0**

Source: Morningstar Direct

Month in Review - Economic & Market Commentary

The attention of investment markets in April and into May has been placed firmly on the world's 3rd largest economy, Japan, and program of Quantitative Easing (also known as printing money) targeted towards stimulating the Japanese economy and taking them off the deflationary carousel they have been on for some time.

Japan has been in a deflationary environment where prices go down due to lower priced imports from trading partners such as China, and a high household savings ratios over the years where Japanese consumers spend less of their incomes than European or US consumers – low spending and demand leads to lower prices. To stop this deflationary environment Prime Minister Shinzo Abe and the Bank of Japan (BoJ) have embarked on a Quantitative Easing exercise aimed at boosting the Japanese economy and bringing about inflation of 2% over the next 2 years.

In doing so the BoJ is expanding its balance sheet to 270 trillion yen… that's $2.66 trillion AUD. In comparison the Australian debt ceiling is currently $0.3 trillion AUD, which we are forecast to reach by December 2014 based on the Gillard Governments projected deficits.

Many commentators have warned that this move will cause Japan to default due to its debt, which will have much larger ramifications for global investment markets than the fears of a Greek default; and early signs of trouble were evident this month as the BoJ announced that the monthly bond purchases would be increased to 7.6 trillion yen (or $76 billion USD) causing a significant sell off of Japanese Government bonds.

However, with this negative prospect of a potential Japanese default some time during this 2 year Quantitative Easing program comes the positive prospect of the effect of this additional money supply on commodity prices.

Additional stimulus money is planned to eventually be spent or invested thereby stimulating the economy. Investments made in infrastructure will increase the demand for the raw commodities that feed into these projects, which subsequently increase these commodities prices. Remember high demand = high price. And this should have a positive effect on Australian mining companies whose values are linked to commodity prices.

Similarly if this program, known as *Abenomics* after Prime Minister Abe, works and starts to kick start the Japanese economy then the positive effect of a growing Japan will be felt in other economies.

So as it stands the two possible outcomes are completely at odds with each other… financial default on the one hand, or financial prosperity on the other. Our job is to closely monitor these developments and structure the portfolios accordingly.

Portfolio Holdings & Adjustments

VIP Fixed Interest - Holdings

Portfolio Date: 30/04/2013

	Portfolio Weighting %	Income Return YTD (Mo-End)
PIMCO EQT WS Diversified Fixed Interest	43.20	1.37
Schroder Fixed Income	42.97	0.95
Aberdeen Australian Floating Rt Inc	13.83	1.72

Performance Contributors & Detractors, and Portfolio Adjustments

During April the fixed interest index, the UBS Composite index, generated a 1.54% return, and the PIMCO Diversified Fixed Interest fund **Contributed** to performance with a +1.70% return for the month. The Aberdeen Floating Rate Income fund and the Schroder Fixed Income fund **Detracted** from performance versus the index with 0.46% and 1.40% returns respectively for the month.

The *VIP Investment Committee* elected to sell down the Schroder Fixed Income Fund in April due to concerns of a bond market correction due to the Bond market volatility occuring in Japan at present. This sell down reduced the international fixed interest exposure of the portfolio.

Source: Morningstar Direct