

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 Fixed Interest portfolio generated a 0.12% return for the month and 0.65% over the last 3 months.

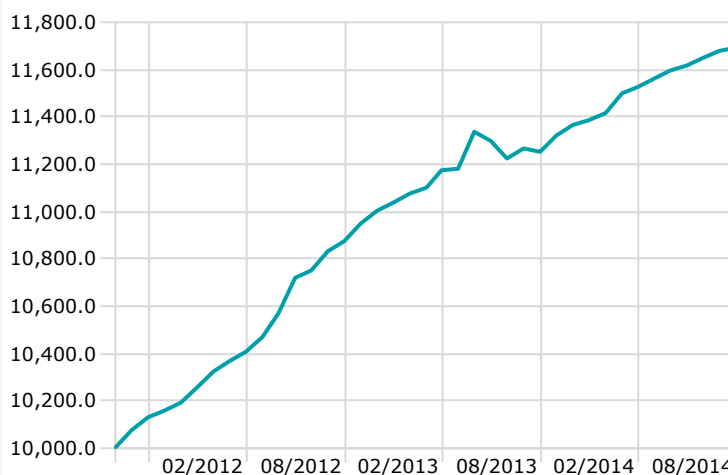
This was against the UBS Composite 0+Yr Bond index return of 1.01% and 2.12% over the month and last 3 months respectively.

Over the last 3 years the portfolio has generated a 4.90% return and underperformed the index by 1.29%.

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 31/08/2014



—VIP Fixed Interest

Trailing Returns

As of Date: 31/08/2014

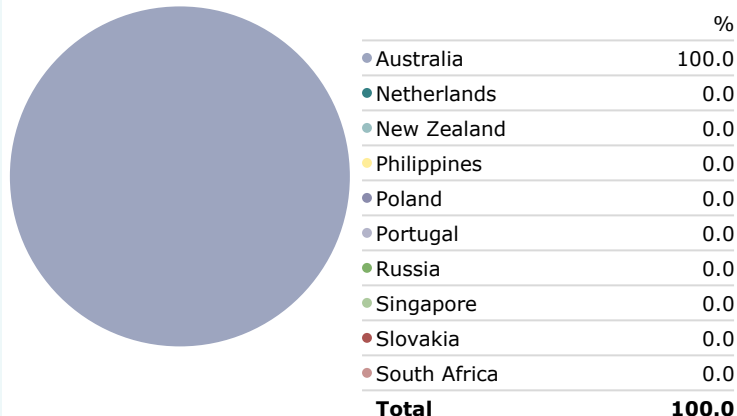
	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	Since Inception
VIP Fixed Interest	0.12	0.65	1.45	3.91	3.69	4.90	5.05
VIP Fixed Interest Investment	0.00	0.31	0.77	2.52	2.30	3.49	3.65
VIP Fixed Interest Super-Pension	0.05	0.45	1.05	3.09	2.87	4.06	4.22
UBS Composite 0+ Yr TR AUD	1.01	2.12	4.48	6.90	4.58	6.19	8.73

Portfolio Exposure

The portfolio is 100% allocated across Australian fixed interest securities due to the lower yields in global markets and potential for capital loss from the Quantitative easing Tapering program that the US Federal reserve is currently undertaking.

VIP Fixed Interest - Fixed-Inc Country Exposure

Portfolio Date: 31/08/2014



Help Me, Help You...

Glen Stevens, the head of the Reserve Bank of Australia (RBA), had a Jerry Maguire moment (remember the 1996 movie starring Tom Cruise?) when he essentially said **Help Me, Help You** to the House of representatives Standing Committee on Economics on the 20th of August.

OK... he didn't say those exact words, but he was making the point that the RBA has done all it can in easing monetary conditions with low interest rates and now he is looking for Australian corporations to regain their "Animal Spirits" towards their attitude to investment.

He said *".. the thing that is most needed now is something monetary policy can't directly cause: more of the sort of 'animal spirits' needed to support an expansion of the stock of existing assets (outside the mining sector), not just a repricing of existing assets"*. Essentially he is saying that businesses outside of the mining sector need to invest and add value to their asset bases and not just enjoy a rise in the price of their existing share (asset) prices.

He goes on to say *"Nonetheless, if reports are to be believed, many businesses remain intent on sustaining a flow of dividends and returning capital to shareholders, and less focused on implementing plans for growth"* as companies remain cautious about the future. He also made the statement recently that investors are going to start asking companies not about their cost cutting program, but about their investment and growth program.

The RBA Governor has been making these statement as capital expenditure and investment levels (outside of the mining sector) are at very low levels and will need to increase to support the continual rise in share prices.

What are companies doing with this cash? During the recent reporting season just passed CommSec analysis showed that 76% of companies that reported full year results announced to either maintain or increase dividends above the levels announced at interim or full-year reporting seasons over the last 5 years. This dividend increase equated to an 11.2% rise for ASX 200 companies that reported full-year earnings.

So companies are not sitting on the funds in cash (which is good), and not investing for the future (which is not so good), but are paying out in dividends to keep us shareholders happy.

All in all reporting season was positive with revenue for the ASX 200 companies that reported up 4.1% in total and expenses up 3.2%. Most importantly there was a 31.4% increase in net profit, and this was not confined to the largest companies (in terms of capitalisation) as when BHP, Telstra, Commonwealth Bank, Wesfarmers and News Corp is excluded from the figures the profit increase was 61.5% in aggregate.

So it will be interesting to see when these companies will start to fire-up their investment cycles and projects, which as Glen Stevens says is needed to drive the economy along with the loose monetary policy conditions. From an investors perspective this is also vital as this increased investment will result in better valuations for our Australian listed companies based on growing asset bases and not just growing share prices.

Source: ComSec, Business Insider.

Portfolio Holdings & Adjustments

VIP Fixed Interest - Holdings

Portfolio Date: 31/08/2014

	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)
Aberdeen Australian Floating Rt Inc	79.77	0.08	0.49	1.05	2.55
Realm High Income	15.27	0.28	1.51	3.68	7.64
RBA Bank accepted Bills 90 Days	4.96	0.22	0.66	1.33	2.63

Performance Contributors & Detractors, and Portfolio Adjustments

There were **no Contributors** who achieved a return above the index return for the month; and the **Top Detractors** for the month were the Aberdeen Floating Rate Income Fund +0.08%, Cash +0.22%, and Realm High Income Fund +0.28.

The *VIP Investment Committee* did not make any changes to the Fixed Interest portfolio in August.

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Source: Morningstar Direct