

Investment Objective

The aim of the **VIP Balanced Portfolio** is to provide investors with a combination of capital growth and income over the medium to long term from investment within a diversified portfolio of growth assets (60% allocation to Australian shares, International shares, and property securities) and defensive assets (40% allocation to fixed interest and cash).

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

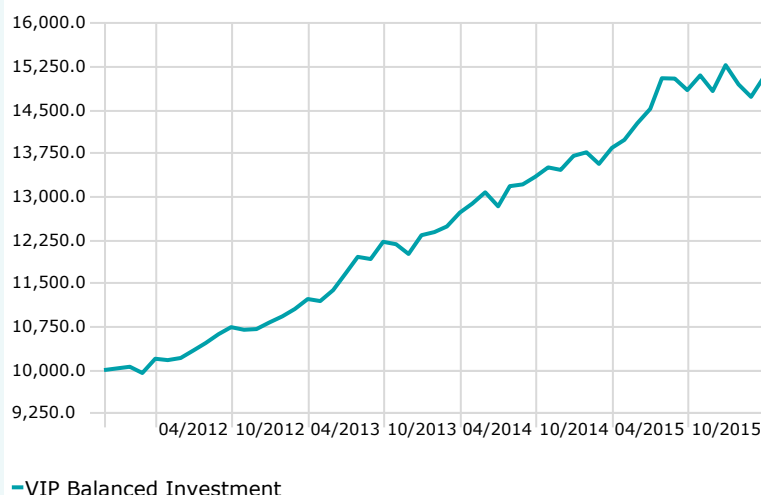
The VIP Balanced portfolio generated a 2.46% return pre-fees in October, and -1.00% return pre-fees over the quarter.

Over the last year the portfolio has generated an 10.35% return pre-fees and over 3 years 11.82%. Over 1 to 4 years and Since Inception the portfolio has achieved performance above our Balanced Composite Index.

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

Investment Growth

Time Period: 1/07/2011 to 31/10/2015



Trailing Returns

As of Date: 31/10/2015

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	Since Inception
VIP Balanced	2.46	-1.00	2.23	10.35	10.32	11.82	11.78	11.44
VIP Balanced Investment	2.34	-1.34	1.54	8.88	8.85	10.32	10.28	9.94
VIP Balanced Super-Pension	2.39	-1.20	1.82	9.48	9.45	10.93	10.89	10.55
VIP Balanced Composite Index	3.01	-1.86	-0.28	7.75	8.50	11.20	11.51	10.14

Tactical Asset Allocation

The VIP Balanced portfolios asset allocation as at 31/10/2015 was as follows:

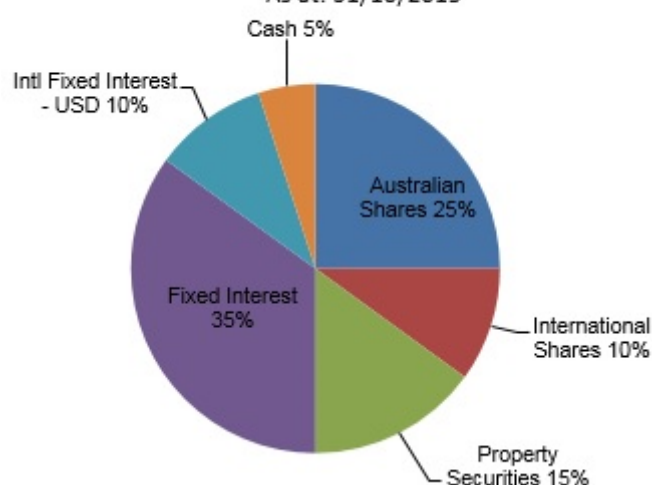
- Australian Shares 25%
- International Shares 10%
- Property Securities 15%
- Fixed Interest 35%
- International Fixed Interest - US dollars 10%
- Cash 5%

The Growth asset allocation (Shares and Property Securities) is currently reduced to 50% from the 60% target level due to concerns over the currently high share prices compared to valuations.

In October the *VIP Investment Committee* decided to invest 5% of the underweight position in Growth assets to Australian Listed Property based on valuation and yield generation.

Balanced Portfolio TAA

As at: 31/10/2015



Risk vs Return

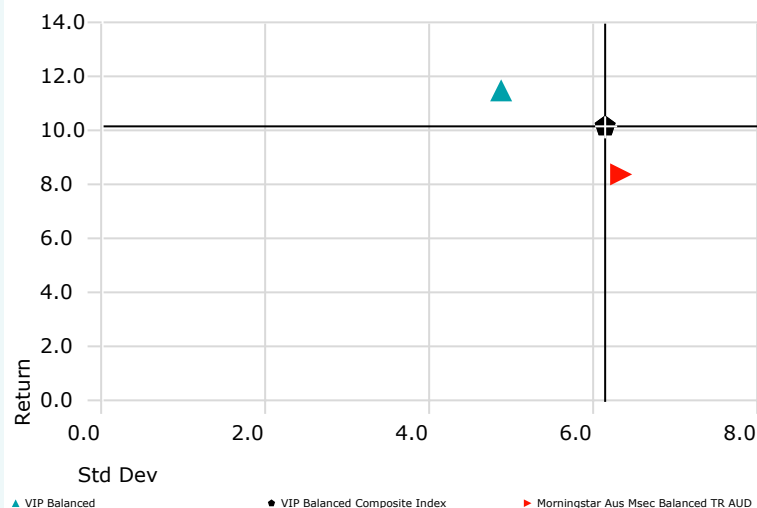
The VIP portfolios aim to reduce volatility, or risk, over the long term and achieve excess returns per unit of risk that is taken compared to our Balanced Composite Index and the Morningstar Multi-sector Balanced Index.

The chart on the right plots return on the vertical axis against risk (in the form of Standard Deviation) on the horizontal axis. 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 Balanced portfolio (aqua triangle) has achieved a **higher return** and **lower risk** compared to the Balanced Composite Index (black pentagon) and our peers represented by the Morningstar Multi-sector Balanced index (red triangle) 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

A Tax Reform for the Future

A couple months in office, and Malcolm Turnbull's government faces its first major assessment as the leader of this country – the much anticipated tax reforms have made news headlines for the last few weeks and with Prime Minister popularity rating at an all-time high as of late, the Australian public is very keen to hear what Mr. Turnbull and treasurer Scott Morrison have in store for us. Much has been said about a potential GST hike and changes to superannuation taxes, but until the release of the tax discussion paper in 2016 we can only speculate while following the clues dropped by the government.

What we do know is that a change is vital for the continual growth of Australia. The OECD (Organisation for Economic Cooperation and Development) has warned that annual Australian growth is unlikely to recover to 3% until 2017, assuming that Australia maintains the existing tax structure. The tax system currently in place was designed in a different era, when the economy was very different. It was not designed to deal with multinational trade, increasing global competition for investment, the internet and the digital economy.

The last major reform, referred to back then as the 'New Tax System' was in 2000, and introduced the Goods and Services Tax (GST). This tax system was considered both efficient and fair for several years afterwards, and met the Government's wider policy objectives. As noted by Greg Smith of Melbourne Law School and teacher of Tax Policy, 'Australia's tax reforms have had one key theme. They have broadened tax bases so as to lower tax rates.' This is what the country has required in the past, and what it needs now particularly given Australia's aging population.

Now more than ever, a tax reform is necessary to encourage growth and investment in the Australian economy. In the last 15 years, there has been a gradual decrease in overall revenue robustness, and as a result, the current tax system is collecting a lesser amount than in the several years after 2000. A changing landscape has seen a fall in spending in recent years, thus effecting the GST share, as has a shift towards spending on exempt items such as education, health, and overseas purchases. Furthermore, the increasing globalisation of the world has seen import taxes reduced as part of trade reform. An effective tax reform would provide tax incentives for businesses to grow, for growth requires spending, which subsequently puts money back into both the economy and the government, effectively boosting Australia's overall growth.

On a more individual front, fairness of saving and investment taxes has been challenged as more taxpayers exploit the margins, and there has been an increase in concerns over the cost and distribution of the concessions for capital gains and superannuation. A tax reform would aim to adjust the system so as to balance out the distribution of these concessions.

As a result of an aging population, the work force of Australia could find themselves supporting the country's tax obligation despite the majority of the population being in the retiree bracket and thus able to access a number of tax offsets. As mentioned previously, broadening tax bases so as to lower tax rates is essential in order to spread the tax burden more fairly among Australian citizens, while encouraging the growth of our economy.

All in all, Australia, and for that matter the world, is a changed place to what it was 15 years ago. We need a tax reform that has adapted to these changes and is able to get us back on track in terms of growth, and provide Australian's from all walks of life with a system that is fair. While it is fair to say that this will come with pain in the short term, it is a necessary step for the good of our country going forward.

Source: Greg Smith, Lisa Cox, Peter Martin, Louise Yaxley, Dan Conifer

Source: Morningstar Direct

Australian Shares Portfolio

The VIP Australian Share Leaders portfolio generated a 5.69% return for the month and -9.09% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in October by 1.52% and underperformed by 2.05% over the quarter.

Over the last year the portfolio has generated a 0.53% return pre-fees outperforming the ASX 100 index by 1.35%.

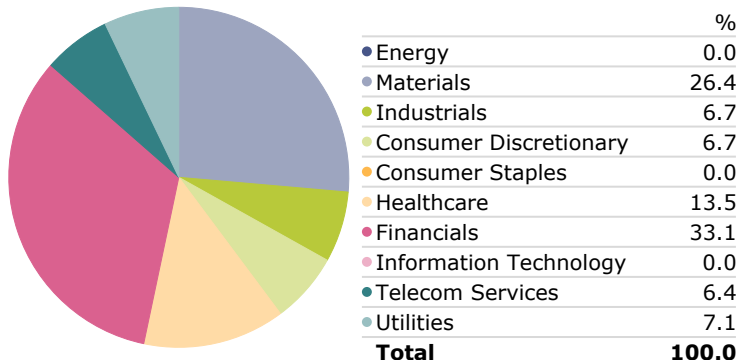
The **Top 3 Contributors** for the month were Bank of Queensland +17.25%, Spark Infrastructure Group +11.23%, and Dulux Group 10.28%; and the **Top 3 Detractors** for the month were Telstra Corp -3.74%, Australia and New Zealand Banking Group Ltd 0.48%, and Boral Ltd 2.28%.

VIP Australian Share Leaders - Holdings

	Ticker	Dividend Yield % TTM
Spark Infrastructure Group	SKI	5.85
DuluxGroup Ltd	DLX	5.05
CSL Ltd	CSL	1.71
Bank of Queensland Ltd	BOQ	7.86
Lend Lease Group	LLC	4.63
Bendigo and Adelaide Bank Ltd	BEN	8.80
Brambles Ltd	BXB	2.99
Aristocrat Leisure Ltd	ALL	1.71
Ramsay Health Care Ltd	RHC	1.99
James Hardie Industries PLC DR	JHX	2.54
Westpac Banking Corp	WBC	8.83
Boral Ltd	BLD	4.62
Telstra Corp Ltd	TLS	8.24
Australia and New Zealand Banking Group Ltd	ANZ	9.86
BHP Billiton Ltd	BHP	11.50
RBA Bank accepted Bills 90 Days		

VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/10/2015



Australian Shares Portfolio Adjustments:

Origin Energy was sold after consecutive months of poor performance, and we believe the energy sector has a long way to go before recovery. Boral Ltd was bought to replace Origin and to capitalise on the construction boom of Australia, having had James Hardie perform consistently well for our portfolio for some time now.

International Shares Portfolio

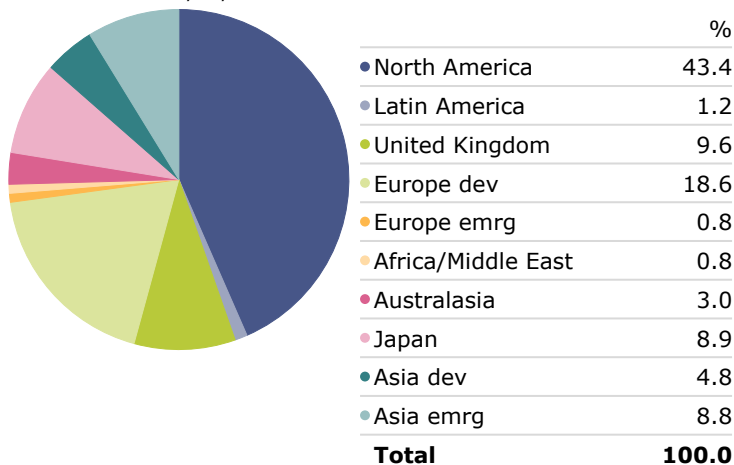
The VIP International share portfolio generated a 5.10% return for the month and -0.71% over the last 3 months. In doing so the portfolio underperformed the MSCI World Ex Aus (AUD) index in October by 1.18% and underperformed over the last 3 months by 0.82%.

Over the last year the portfolio has generated a 26.72% return and outperformed the index by 0.45%.

The **Top Detractors** were Morpheic Global Opportunities +4.02%, Magellan Global +4.39%, and Vanguard All-World ex-US Shares ETF +4.75%

VIP International - Equity Regional Exposure

Portfolio Date: 31/10/2015



VIP International - Holdings

Portfolio Date: 31/10/2015

	Global Category
Magellan Global	Global Equity Large Cap
Platinum International Fund	Global Equity Large Cap
Vanguard All-World ex-US Shares ETF	Global Equity Large Cap
Morpheic Global Opportunities	Global Equity Large Cap
RBA Bank accepted Bills 90 Days	

International Portfolio Adjustments:

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

Property Securities Portfolio

The VIP Property Securities portfolio generated a 4.18% return for the month and -3.84% over the last 3 months. The portfolio underperformed the S&P/ASX 200 A-REIT index during the month by 0.78%, and over the quarter by 4.23%.

Over the last year the portfolio has generated a 15.27% return and underperformed the index by 2.99%.

The **Top Contributor** for the month was Stockland Corp Ltd +5.19%. The **Top Detractors** Investa Office Fund +2.54%, Charter Hall Group +3.22%, and Cromwell Property Group +4.40%.

Fixed Interest Portfolio

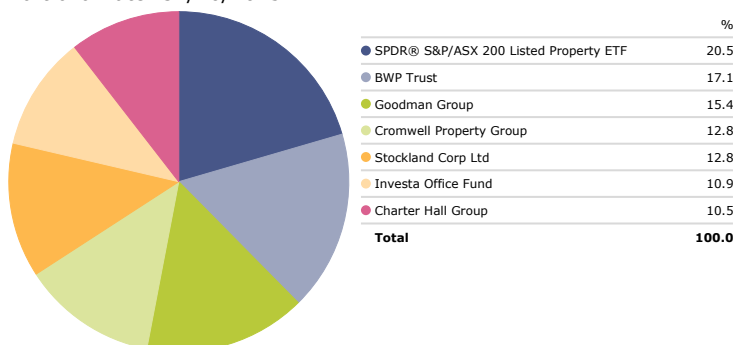
The VIP Fixed Interest portfolio generated a 0.38% return for the month and 0.28% over the last 3 months. This was against the Bloomberg AusBond Composite index return of 0.30% over the month and 1.19% over the quarter.

The portfolio outperformed the index by 0.08% over the month, and underperformed the index 0.91% over the last 3 months.

The **Top Contributor** for the month was Realm High Income +0.80%. The **Top Detractors** for the month were the RBA Bank accepted Bills 30 Days +0.17%, Bentham Wholesale Global Income 0.19%, and iShares Composite Bond +0.28%.

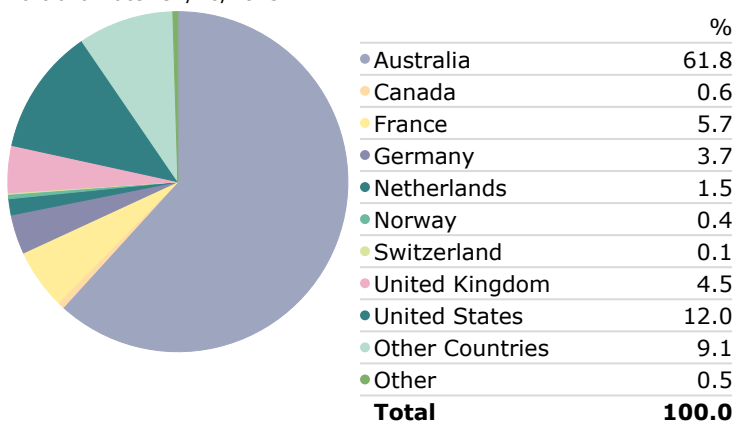
VIP Property Securities - Portfolio Holdings

Portfolio Date: 31/10/2015



VIP Fixed Interest - Country Exposure

Portfolio Date: 31/10/2015



VIP Property Securities - Holdings

Portfolio Date: 31/10/2015

	Ticker	Dividend Yield % TTM
SPDR® S&P/ASX 200 Listed Property ETF	SLF	
BWP Trust	BWP	5.01
Goodman Group	GMG	3.71
Cromwell Property Group	CMW	7.95
Stockland Corp Ltd	SGP	6.20
Investa Office Fund	IOF	4.99
Charter Hall Group	CHC	5.49

VIP Fixed Interest Portfolio - Income Yield

Portfolio Date: 31/10/2015

	Income Return 1 Yr (Mo-End)
iShares Composite Bond	3.73
Realm High Income	3.87
RBA Bank accepted Bills 30 Days	
Bentham Wholesale Global Income	5.46

Property Securities Portfolio Adjustments:

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

Fixed Interest Portfolio Adjustments:

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

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