VIP Fixed Interest Portfolio

Monthly Review

March 2016

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

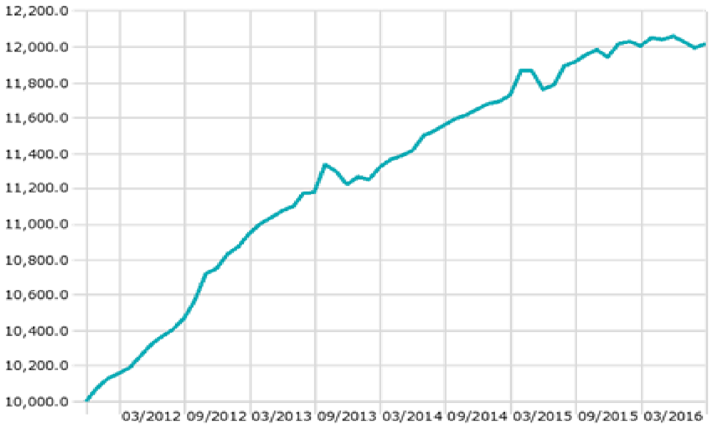
The VIP Fixed Interest portfolio generated a 0.20% return for the month and -0.34% over the last 3 months. This was against the Bloomberg AusBond Composite index return of -0.21% over the month and 2.05% over the quarter.

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

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

Investment Growth

Time Period: 1/07/2011 to 31/03/2016



-VIP Fixed Interest

Trailing Returns

As of Date: 31/03/2016

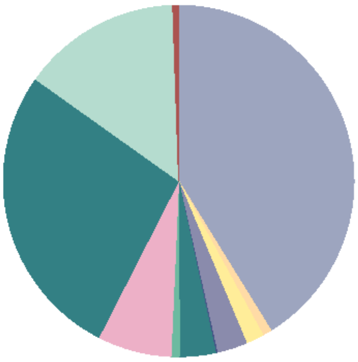
	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	Since Inception
VIP Fixed Interest	0.20	-0.34	0.11	0.86	1.96	2.44	3.51	3.94
VIP Fixed Interest Investment	0.09	-0.68	-0.57	-0.50	0.59	1.06	2.12	2.56
VIP Fixed Interest Super-Pension	0.13	-0.54	-0.29	0.05	1.15	1.62	2.69	3.13
Bloomberg AusBond Composite 0+Y TR AUD	-0.21	2.05	1.80	1.97	6.45	5.39	5.80	8.52

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: 31/03/2016



	%
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**

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

Portfolio Holdings & Adjustments

VIP Fixed Interest - Holdings

Portfolio Date: 31/03/2016

	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)
Realm High Income	25.21	0.43	0.27	1.38	1.57
RBA Bank accepted Bills 30 Days	22.23	0.18	0.51	1.03	2.08
Bentham Wholesale Global Income	21.08	2.38	-1.91	-1.64	-1.59
iShares Composite Bond	16.97	-0.23	2.01	1.72	1.82
BT Pure Alpha Fixed Income	14.52	-2.78	-1.25	-4.68	-3.62

Performance Contributors & Detractors, and Portfolio Adjustments

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%.

The *VIP Investment Committee* made no adjustments to the portfolio in March.