

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

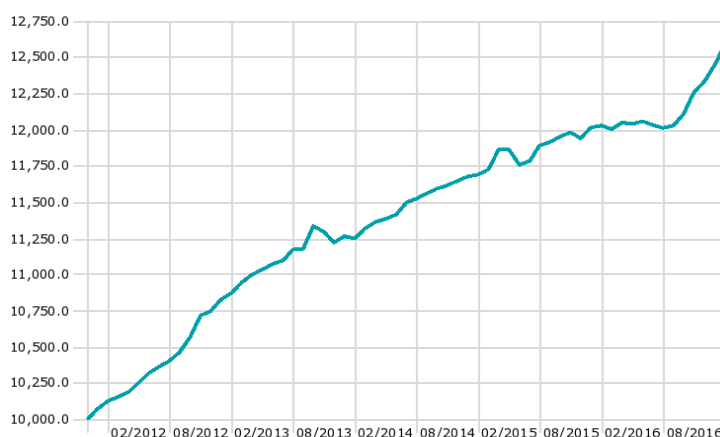
The VIP Fixed Interest portfolio generated a 1.14% return for the month and 2.68% over the last 3 months. This was against the Bloomberg AusBond Composite index return of 0.74% over the month and 3.35% over the quarter.

The portfolio outperformed the index by 0.72% over the month, and outperformed the index 0.18% 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 31/08/2016



—VIP Fixed Interest

Trailing Returns

As of Date: 31/08/2016

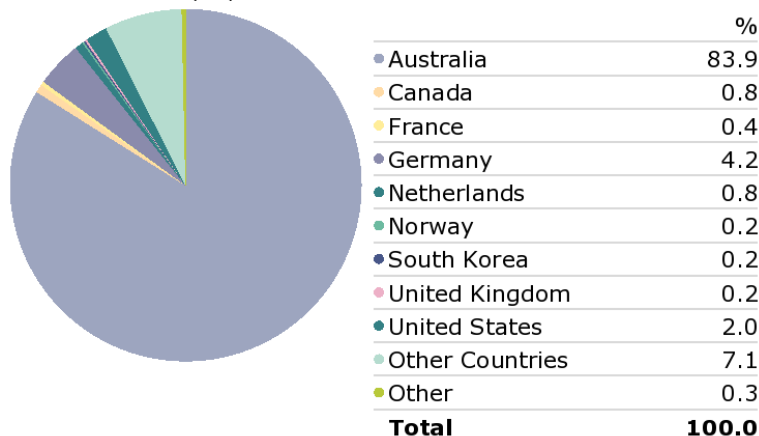
	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	5 Years	Since Inception
VIP Fixed Interest	1.14	2.68	4.80	4.66	3.77	3.82	3.73	4.44	4.56
VIP Fixed Interest Investment	1.03	2.33	4.09	3.25	2.37	2.42	2.34	3.04	3.16
VIP Fixed Interest Super-Pension	1.07	2.47	4.38	3.82	2.94	2.99	2.90	3.61	3.73
Bloomberg AusBond Composite 0+Y TR AUD	0.42	2.50	3.84	6.19	6.24	6.46	5.41	6.21	8.54

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: 31/08/2016



Australia and its Overseas Owners

It is a common perception, largely media-driven, that the Chinese are slowly but surely planting their flag across Australia, particularly in the agricultural sector where foreign ownership of Australian land has come under scrutiny in recent years. While Chinese investors and companies are indeed acquiring Australian agricultural land (AAL) at a steady pace, their ownership percentage has been revealed as a comparative side act with the release of The Register of Foreign Ownership of Agricultural Land compiled by the Australian Tax Office.

The results have shown that the United Kingdom leads the ownership percentage with a 7.2% ownership of total Australian agricultural land. notably, this equates to 52.7% of foreign-owned agricultural land, meaning that of the 13.6% total foreign-owned agricultural land, the UK contributes to over half of the sum. Coming in second is the USA with a 2% hold in AAL, the Netherlands at 0.8%, Singapore at 0.5%, and finally China with an 0.38% ownership of AAL. Ironically, one of the more pressing drivers of the development of the register was concerns over China's increasing stake in Australian land.

That said, the ranking order would have been significantly different had treasurer Scott Morrison not blocked the sale of Australia's largest cattle business, S. Kidman and Co., who's land mass totals 2.5% AAL. The proposed sale for \$370 million was to Dakang Australia, who's largest shareholder is China's Shanghai Pengxin Group and would have therefore moved China to the 2nd ranking in the Register.

At rank 5, concerns over China's takeover may seem misplaced. However, reasoning behind the hype may be deduced from the notion that while they may not be owners of as much physical land as the four countries before them, China's acquisitions could be better placed in the smaller but more lucrative properties of the south as opposed to the large lands of the Top End used for grazing.

While the Register's stocktake was done between the 1st of July 2015 and February 29th 2016, there have been notable acquisitions this year. Included in the Register is the \$280 million sale of the Van Diemen's Land Company, Australia's largest dairy farm to Chinese firm Moon Lake Investments. Furthermore, Westchester Group of Australia (US-owned) paid \$35 million in April for three properties totalling 5000ha and 7500 mega litres of water licences at Goondiwindi, on the QLD-NSW border. China's Union Agriculture also has been active recently, paying \$11 million for the 5260ha Kyabra Station at Tamworth to add to its NSW portfolio. These are just some examples of the acquisitions of AAL that continue to occur, with an increase over the last two years of foreign ownership that had 11% of agricultural land being foreign owned in 2014 compared to the 13.6% in 2016.

Complaints of foreign ownership have derived largely from a combination of a misunderstanding of the situation and a resulting rise in patriotism. As stated by Victorian Farmers Federation vice president David Jochinke, "sometimes we get tripped up on the word 'foreign'... and it really detracts from the real game of agriculture and what agriculture needs." In fact, foreign investment is essentially a necessary factor in almost any economy as noted by Alan Bowman, chairman of Australian superannuation fund Prime Super, maintaining that "generally speaking to grow this country we need to external investment in every field."

Misunderstood by opposition to foreign investment is the fact that it contributes to the growth of the economy, productivity and creates jobs. Whether a supporter or opposed to foreign investment in agricultural land, it is safe to say Australia will never again see a country that is 100% Australian owned and simply from an economic standpoint, it can be summed up by Scott Morrison's comment that "we cannot afford to risk our economic future by engaging in protectionism."

Source: Business Insider, News.com.au, ABC, Weekly Times

Portfolio Holdings & Adjustments

VIP Fixed Interest - Holdings

Portfolio Date: 31/08/2016

	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)
RBA Bank accepted Bills 30 Days	30.41	2.42	7.25	10.03	11.15
iShares Core Composite Bond (AU)	29.80	0.44	2.47	3.76	6.05
Realm High Income	24.93	0.90	1.87	4.07	4.77
BT Pure Alpha Fixed Income	14.86	0.25	1.26	-0.51	-2.01

Performance Contributors & Detractors, and Portfolio Adjustments

The **Top Contributor** was RBA Bank accepted Bills 30 Days +2.42%, Realm High Income +0.90%, and iShares Core Composite Bond (AU) +0.44%. The **Top Detractors** was BT Pure Alpha Fixed Income -0.25%.

In August, the VIP Investment Committee decided to sell Bentham Wholesale Global Income. With interest rates low around the world, the Committee looks to reduce VIP's exposure to the bond market particularly if rates rise in the US. We therefore believe a cash position is better, taking risk out of the portfolio.

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