

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

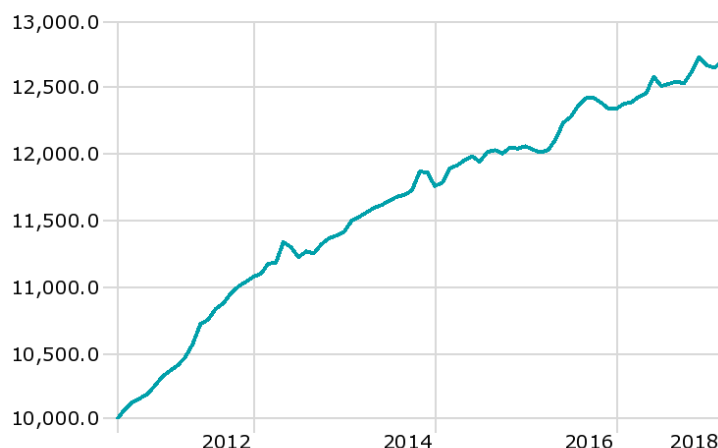
The VIP Fixed Interest portfolio generated a 0.35% return for the month **pre-fees** and -0.28% over the last 3 months. This was against the Bloomberg AusBond Composite index return of 0.29% over the month and -0.50% over the quarter.

The portfolio outperformed the index by 0.06% over the month, and by 0.22% over the last 3 months.

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

Investment Growth

Time Period: 1/07/2011 to 28/02/2018



—VIP Fixed Interest

Trailing Returns

As of Date: 28/02/2018

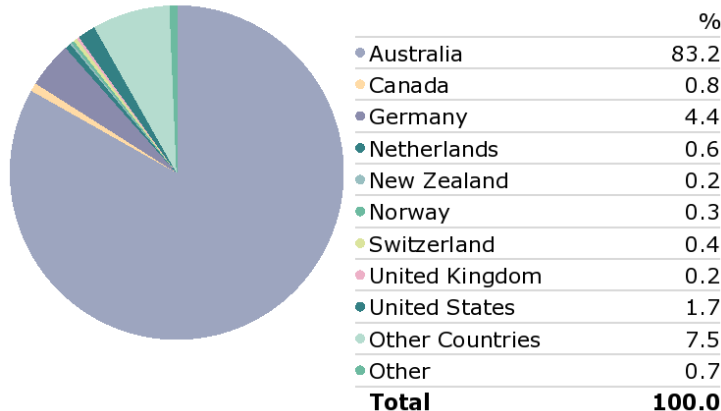
	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	5 Years	Since Inception
VIP Fixed Interest PRE-FEES	0.35	-0.28	1.18	2.48	2.80	2.21	2.45	2.59	3.65
Net VIP Fixed Interest Investment	0.25	-0.61	0.51	1.11	1.43	0.84	1.08	1.21	2.26
Net VIP Fixed Interest Super-Pension	0.29	-0.47	0.78	1.67	1.99	1.39	1.63	1.77	2.83
Bloomberg AusBond Composite 0+Y TR AUD	0.29	-0.50	1.15	2.87	2.15	2.42	4.34	4.08	8.09

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: 28/02/2018



The National Energy Guarantee Put Simply

With Jay Weatherill no longer the South Australian premier, the Turnbull government is now another step closer to bringing the National Energy Guarantee to fruition. After the signing of the Paris Agreement in 2016, in which world leaders pledged to respond to global climate change through reducing carbon emission, the timing is ripe for Australia to have a national energy strategy to adhere to after a decade of political infighting on energy and climate policy. This comes after last year's Finkel Review, an 'Independent Review into the Future Security of the National Electricity Market' by Dr Alan Finkel, in which he proposed a transition to low emission energy guided by the three pillars of a Clean Energy Target, system planning, and stronger governance.

Essentially, the National Energy Guarantee (NEG) is an obligation for energy retailers to meet a certain level of output from low-emissions sources, falling somewhat short of the Clean Energy Target proposed by Dr Finkel. Nonetheless, the NEG will aim to provide a structure for the country to build our future energy network. It is noted that the NEG will cover all states except Western Australia and the Northern Territory, and is launched by the Turnbull government in response to record high prices in recent times, not to mention rolling blackouts.

In regard to energy, the triad of factors to fulfil are security, reliability, and affordability – as in there is enough energy that is able to get to the people at a reasonable price. The way the NEG will work is by setting national levels for the combination of renewable energy and emission-producing sources. Although the policy at this stage is based on broad concepts with specific details pending discussion, the concept is that retailers will be required to establish a portfolio of contracts across both renewable and non-renewable energy sources. Furthermore, the NEG will require energy consumption to meet a set emissions intensity target for the electricity sector. As it stands, the government has indicated that it will set target of 26% reduction on 2005 levels of consumption by the year 2030.

Like anything in Australian politics, the opinions on the NEG are widely mixed. Given the fact that the proposed policy falls short of the Finkel Review's Clean Energy Target, naturally the NEG is opposed by environmental groups as well as the states of Victoria and South Australia. This is also because the NEG maintains the fact that the foundation of the energy network on the east coast remains dependent on coal-generated power, and does not include carbon trading.

On the other hand, the energy sector has voiced its support for the NEG as it enables the industry to plan for the future based on the guidelines provided in the policy. With guidelines set for emissions reductions, this gives the sector and its shareholders investment certainty as it aids businesses in determining the level of investment needed in low-emission technologies.

As the average citizen, what will matter most is usually the price of electricity. The Energy Security Board has projected that wholesale prices are expected to fall by 20-25% per year between 2020 and 2030. With investment into new technologies now absolutely necessary for retailers, whether this price drop will translate to cheaper electricity for the everyday Australian is not yet known. More will be known as the details of the NEG emerge over the next year – the Energy Security Board plans to release a draft NEG paper over the next month, and if supported by the state governments, could reach final approvals by July or August. Ambitious, but the Turnbull government aims for the NEG to be legislated by the end of the year.

Source: SMH, The Guardian, The Conversation, Australian Financial Review

Portfolio Holdings & Adjustments

VIP Fixed Interest - Holdings

Portfolio Date: 28/02/2018

	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)
iShares Core Composite Bond ETF	74.80	0.29	-0.54	1.07	2.70
Realm High Income	25.20	0.16	0.55	1.39	3.12

Performance Contributors & Detractors, and Portfolio Adjustments

The **Top Contributor** was iShares Core Composite Bond (AU) 0.29%, and the **Top Detractor** was Realm High Income 0.16%.

In February, the Investment Committee made no changes to the portfolio.

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