

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

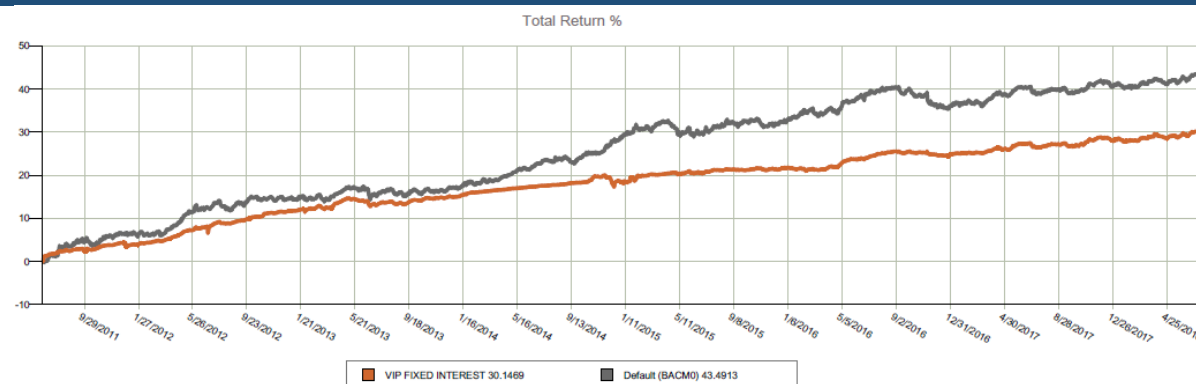
The VIP Fixed Interest portfolio generated a 0.37% return for the month **pre-fees** and 0.57% over the last 3 months. This was against the Bloomberg AusBond Composite index return of 0.48% over the month and 0.82% over the quarter.

The portfolio underperformed the index by 0.11% over the month, and by 0.25% over the last 3 months.

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

Contributors & Detractors

The **Top Detractors** were Realm High Income +0.22% and iShares Core Composite Bond +0.42%.



Trailing Returns

30/06/2018

	1 Month	3 Month	6 Month	1 Year	3 Year	5 Year
VIP Fixed Interest PRE-FEES	0.37	0.57	1.48	2.79	3.75	3.97
Net VIP Fixed Interest Investment	0.30	0.37	1.08	1.99	2.95	3.17
Net VIP Fixed Interest Super-Pension	0.26	0.23	0.81	1.44	2.40	2.62
Bloomberg AusBond Composite 0+Y TR AUD	0.48	0.82	1.69	3.08	4.87	6.31

Performance - Main View

	% End Weight	Tot Rtn 1M	Tot Rtn 3M	Tot Rtn 6M	Tot Rtn 1Y	Total Return YTD (%)
VIP FIXED INTEREST	100.00	0.37	0.57	1.48	2.79	1.48
REALM HIGH INCOME FUND-WHL	25.09	0.22	0.51	1.03	2.65	1.03
ISHARES CORE COMPOSITE BOND	74.91	0.42	0.59	1.63	2.84	1.63

Month in Review - Economic & Market Commentary

Economic Outlook

While May saw the largely expected correction in the markets, June brought windfall to the ASX, edging it towards a 10-year high. On the back of this, relative newcomers to the VIP portfolios Computershare and Costa Group Holdings performed well over the month with returns of 6.29% and 4.70% respectively. Moreover, Seek returned 7.97% for June, and is priced at all-time highs for the job matching company.

Outside of Australia, the first shots of the US-China Trade War have been shot after months of discussion, with the US imposing a 25% levy on \$US 34 billion worth of Chinese goods entering the US. In retaliation, China implemented tariffs on US products including soybeans, whiskey, and automobiles. These are merely considered to be opening strikes, with threats from President Trump that this could escalate to a final tariff towards \$500 billion, similar to the amount imported by the USA in 2017. With the potential to become the largest trade war in history, it stands that while it is all done under the guise that it brings jobs back to the US, the fact is that such tariffs will push higher prices onto the companies and consumers. Already, iconic American company Harley Davidson has shifted production to Europe to negate the effects of the trade war.

Regarding Europe, Theresa May's cabinet appears to be in disarray, with Brexit Minister David Davis resigning, shortly followed by Foreign Secretary Boris Johnson, who in particular was a prominent campaigner for the Leave vote. Davis leaves after disagreeing with May's vision of a British exit from the European Union, which in her opinion would include plans for close trade and regulatory ties with the EU. Johnson in turn voiced his disappointment with the direction May was taking in negotiations on the terms of Brexit. All in all, a light is shone on the waning trust her own cabinet has in May, and puts a threat on her position as Prime Minister.

With the larger world power creating waves in the global arena, VIP remains acutely aware to any economic movements that may impact our holdings and as such, watch the political pieces move with keen interest.

Portfolio Adjustments

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

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