

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).

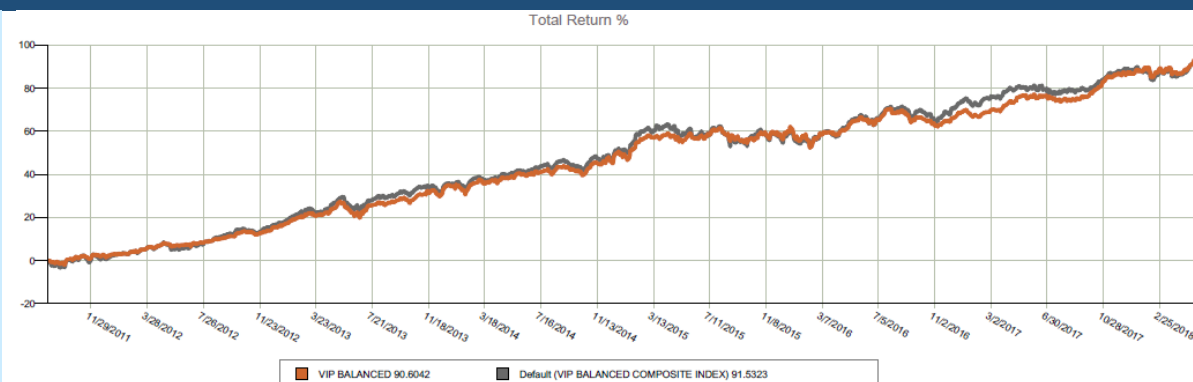
The portfolio is composed of 30 – 60 securities and consists of ASX listed securities, Exchange Traded Funds (ETFs), Listed Investment Companies (LICs), Managed Funds, Government and Semi Government Bonds, Term Deposits and Cash.

Performance Review

The VIP Balanced portfolio generated a 0.37% return **pre-fees** in May, and 0.98% return pre-fees in the quarter.

Over the last year the portfolio has generated an 8.40% return **pre-fees** and outperformed by 2.06%.

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



Trailing Returns

	31/05/2018			
	1 Month	3 Month	6 Month	1 Year
VIP Balanced PRE-FEES	0.37	0.98	2.23	8.40
Net VIP Balanced Investment	0.26	0.64	1.56	7.05
Net VIP Balanced Super-Pension	0.30	0.78	1.83	7.60
VIP Balanced Composite Index	1.00	2.01	1.96	6.34

Tactical Asset Allocation

The VIP Balanced portfolios asset allocation as at 31/05/18 was as follows:

- Australian Shares 30%
- International Shares 29%
- Property Securities 0%
- Fixed Interest 35%
- Cash 6%

Performance - Main View 1

	% End Weight	Tot Rtn 1M	Tot Rtn 3M	Tot Rtn 6M	Tot Rtn 1Y	Total Return YTD (%)
VIP BALANCED	100.00	0.37	0.98	2.23	8.40	2.08
AREITs		0.00	0.00	0.00	6.93	0.00
Australian Equities	30.00	0.62	0.08	3.18	15.28	1.05
CASHLiquid	5.90	0.17	0.48	0.91	1.78	0.77
Fixed Income	35.00	0.21	0.51	0.81	2.42	0.92
International Equities	29.10	0.29	2.36	2.81	11.57	4.38

Economic Outlook

May saw the expected correction in markets after a meteoric rise of the all ordinaries in April. With it came strong returns from Challenger, which posted a return of 19.35% for May after being somewhat lacklustre for the last six months. Aristocrat Leisure and CSL also continued their outstanding performances this year, posting returns of 12.71% and 9.09% for the month.

Internationally, the feature of global movements has had predominant focus around the Singapore Summit with President Trump finally meeting with North Korea's Supreme Leader Kim Jong-Un after much hype. While the general consensus among political commentators is that promises and agreements made by the leaders must be taken with a grain of salt, the outcome of the meeting (among other points) essentially reaffirmed the April 27, 2018 Panmunjom Declaration, in which North Korea commits to work towards the complete denuclearization of the Korean Peninsula. It is noted that North Korea has made this promise without action numerous times.

Significantly, Trump's major move was to announce the end of military exercises with South Korea as an assurance to North Korea to provide them with security guarantees. The importance in this point is that this leaves South Korea largely exposed in the event of a North Korean invasion. Without consultation with South Korea or US Forces Korea, it is this decision from Trump that has convinced commentators that North Korea won the summit.

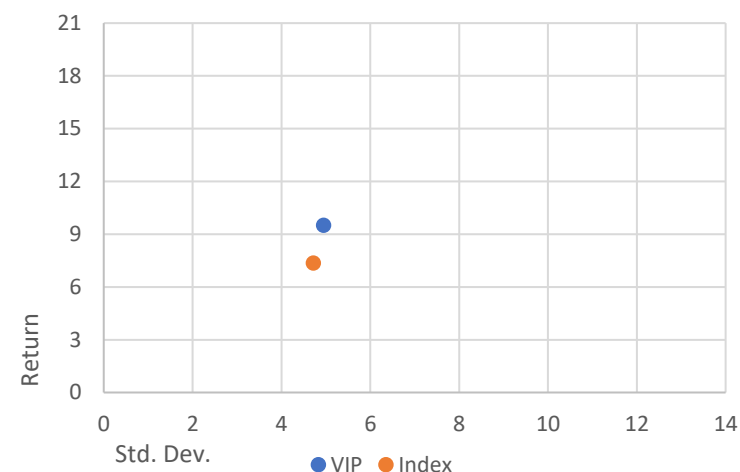
Around the globe, the central banks are tightening their monetary policies, with the US Federal Reserve, the European Central Bank, The Bank of Japan, and the Bank of England predicted to become contractionary in the next few months. In contrast, China is enforcing monetary easing in order to divert an investment bust, which in itself could cause waves via a weaker yuan. Specific to the US, as quoted in the Telegraph (London):

"The unwinding of quantitative easing implies a loss of \$US2 trillion (\$2.7 trillion) in annual net stimulus by December, compared to peak QE. Nobody knows what the consequences will be as the Fed reverses the process at an accelerating pace, lifting bond sales to \$US50 billion a month by early autumn. It is uncharted territory."

The world has never been so in debt before, and as such has never been more vulnerable to monetary tightening. The property market on Australia's east coast is in itself a great example. According to the Institute of International Finance, world debt reached 318% of GDP for 2017. It is safe to say the world's central banks will play a particularly strong hand in the progression of financial markets in the coming years.

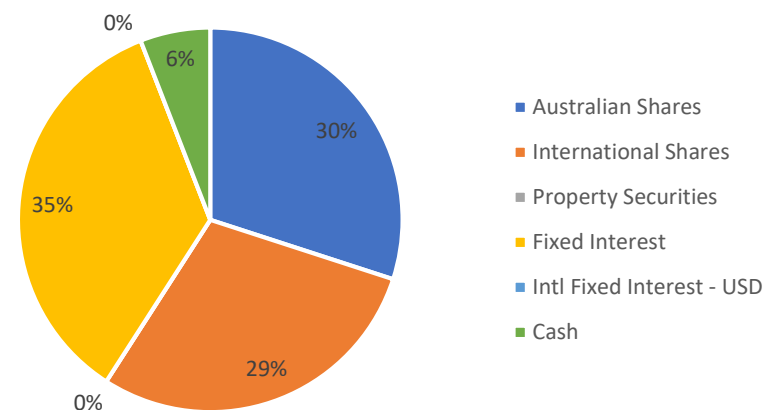
Looking ahead, VIP continues to keep a keen eye on trade talks coming out of the US, which will highly influence the decisions made by the Investment Committee.

Risk-Reward One Year



Tactical Asset Allocation

Balanced Portfolio TAA as at: 31/05/18



Australian Shares Portfolio

The VIP Australian Share Leaders portfolio generated a 0.89% **pre-fees** return for the month and 0.64% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index over the month by 0.03% and underperformed by 0.11% over the quarter.

Over the last year, the portfolio has generated an 13.39% return pre-fees outperforming the ASX 100 index by 5.04%.

The **Top Contributors** were Challenger +19.35%, Aristocrat Leisure +12.71%, and CSL +9.09%. The **Top Detractors** were Treasury Wine Estates -13.06%, CIMIC -9.19%, and Boral -8.87%.

VIP Australian Share Leaders Holdings

	% End Weight
VIP AUSTRALIAN SHARE LEADERS	100.00
WESTPAC BANKING CORP	2.65
AUST AND NZ BANKING GROUP	2.73
BBG AUB Bank Bill	4.33
TREASURY WINE ESTATES LTD	4.64
CIMIC GROUP LTD	4.69
BRAMBLES LTD	4.76
JAMES HARDIE INDUSTRIES-CDI	4.91
BORAL LTD	4.99
SPARK INFRASTRUCTURE GROUP	5.03
COMPUTERSHARE LTD	5.26
SOUTH32 LTD	5.27
BENDIGO AND ADELAIDE BANK	5.36
SEEK LTD	5.42
RIO TINTO LTD	5.42
BHP BILLITON LIMITED	5.48
AGL ENERGY LTD	5.51
RESMED INC-CDI	5.56
CSL LTD	5.82
ARISTOCRAT LEISURE LTD	5.88
CHALLENGER LTD	6.29

VIP Australian Share Leaders Equity Sectors

Materials (26.07)
Financials (17.04)
Industrials (14.88)
Health Care (11.38)
Utilities (10.54)
Consumer Discretionary (5.88)
Information Technology (5.26)
Consumer Staples (4.64)

Australian Shares Portfolio Adjustments

In May, the VIP Investment Committee decided to sell Treasury Wine Estates to take profits from the tenure of the investment, as well as Boral and Brambles after consecutive underperformances. To replace the holdings, Seven Group Holdings was bought to ensure a continued weighting towards the Industrials sector. Costa Group Holdings was also acquired due to its place as Australia's leading supplier of fresh produce.

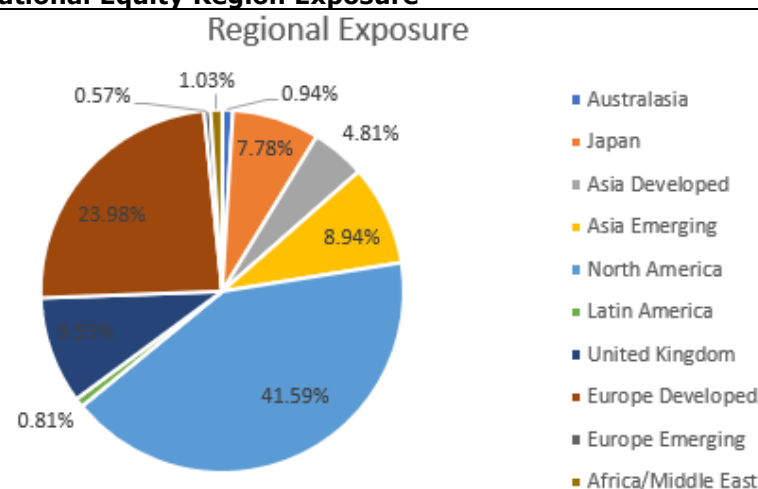
International Shares Portfolio

The VIP International share portfolio generated a -0.87% return for the month **pre-fees** and 2.30% over the last 3 months. In doing so the portfolio underperformed the MSCI World Ex Aus (AUD) index by 0.14% and by 1.43%.

Over the last year, the portfolio has generated a 12.08% return and underperformed the index by 1.02%.

The **Top Contributors** were Loftus Peak +2.15% and Magellan Global +0.14%. The **Top Detractors** were iShares Europe -3.71%, Alliance Bernstein Global Equities -1.16%, and Morphic Global -1.01%.

VIP International Equity Region Exposure



VIP International Equity Holdings

	% End Weight
VIP INTERNATIONAL	100.00
BBG AUB Bank Bill	4.93
LOFTUS PEAK GLOBAL DISRUPTN	8.62
ISHARES EUROPE -CDI	14.50
MORPHIC GLOBAL OPP FD	17.76
PLATINUM INTERNATIONAL FUND	17.83
ALLIANCEBERNSTEIN GLB EQ FD	17.93
MAGELLAN GLOBAL FD	18.45

International Shares Portfolio Adjustments

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

Property Securities Portfolio	Fixed Interest Portfolio
<p>The VIP Property Securities portfolio generated a 1.94% return for the month pre-fees and 5.58% over the last 3 months. The portfolio underperformed the S&P/ASX 200 A-REIT index during the month by 0.74%, and over the quarter by 1.76%.</p> <p>Over the last year, the portfolio has generated a 14.40% return and outperformed the index by 9.51%.</p> <p>The Top Contributor was Charter Hall Group +7.97%. The Top Detractors were Arena REIT - 1.79%, and Cromwell Property Group +0.00%.</p>	<p>The VIP Fixed Interest portfolio generated a 0.58% return for the month pre-fees and 0.87% over the last 3 months. This was against the Bloomberg AusBond Composite index return of 0.69% over the month and 1.18% over the quarter.</p> <p>The portfolio underperformed the index by 0.11% over the month, and by 0.31% over the last 3 months.</p> <p>The Top Contributors was iShares Core Composite Bond +0.78%. The Top Detractors was Realm High Income -0.01%.</p>

VIP Property Securities Holdings	VIP Fixed Interest Holdings																		
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