

Investment Objective

The aim of the **VIP Conservative Portfolio** is to provide investors with a reliable income stream with the potential for moderate capital growth over the medium to long term from investment within a diversified portfolio heavily weighted to defensive assets (70% allocation to fixed interest and cash) and holding some growth assets (30% allocation to Australian shares, International shares, and property securities).

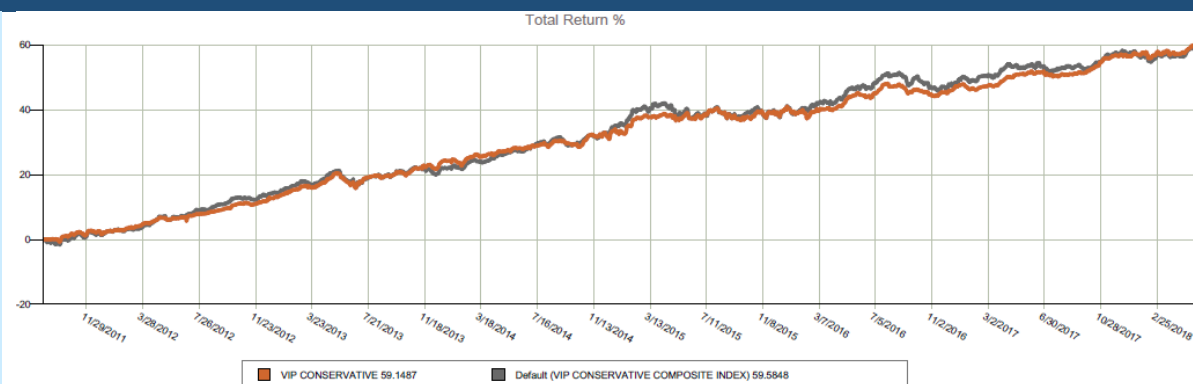
The portfolio is composed of 30 – 60 securities and consists of ASX listed securities, Exchange Traded Funds (ETFs), Listed Investment Companies (LICs), Managed Funds, Government and Semi Government Bonds, Term Deposits and Cash.

Performance Review

The VIP Balanced portfolio generated a 0.46% return **pre-fees** in May, and 0.92% return pre-fees in the quarter.

Over the last year the portfolio has generated a 5.13% return **pre-fees** and outperformed by 1.31%.

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 Conservative PRE-FEES	0.46	0.92	1.50	5.13
Net VIP Conservative Investment	0.35	0.58	0.83	3.78
Net VIP Conservative Super-Pension	0.39	0.72	1.10	4.33
VIP Conservative Composite Index	0.97	1.78	1.32	3.82

Tactical Asset Allocation

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

- Australian Shares 15%
- International Shares 15%
- Property Securities 0%
- Fixed Interest 60%
- Cash 10%

Performance - Main View 1

	% End Weight	Tot Rtn 1M	Tot Rtn 3M	Tot Rtn 6M	Tot Rtn 1Y	Total Return YTD (%)
VIP CONSERVATIVE	100.00	0.46	0.92	1.50	5.13	1.61
AREITs		0.00	0.00	0.00	6.93	0.00
Australian Equities	15.00	0.85	0.30	3.41	15.53	1.27
CASHLiquid	10.45	0.17	0.48	0.91	1.78	0.77
Fixed Income	60.00	0.45	0.74	0.69	2.06	1.04
International Equities	14.55	0.29	2.36	2.81	11.57	4.38

Month in Review - Economic & Market Commentary

Economic Outlook

After an unprecedented amount of volatility in the markets to begin the year 2018, the month of April has seen the bounce in prices expected by the VIP Investment Committee. Although more pronounced in the US, the market bounce in Australia saw stocks such as Aristocrat Leisure (+11.47%) and CSL (+9.58%) have an outstanding month.

Around the world, it appears President Trump has posted a win for his administration with China agreeing to reduce America's trade deficit. The Trump administration aims to cut the deficit by \$200 billion, which will be highly beneficial for US exporters to China, particularly US farmers with China showing a preference towards agricultural products. Given the VIP portfolios in regard to international holdings are predominantly weighted towards the US, this information should bode well for the international assets held by VIP.

That said, any volatility in the international arena could potentially be blamed on President Trump and his decisions on key economic factors. For one, reneging on the Iran Nuclear Deal not only guarantees more volatility in the Middle East where tensions are forever high as is, but loses the already-waning faith between Trump and the power of Europe, if it was ever there to begin with. Furthermore, withdrawing from the long-awaited summit with North Korea can only spell for uncertainty in the global economy.

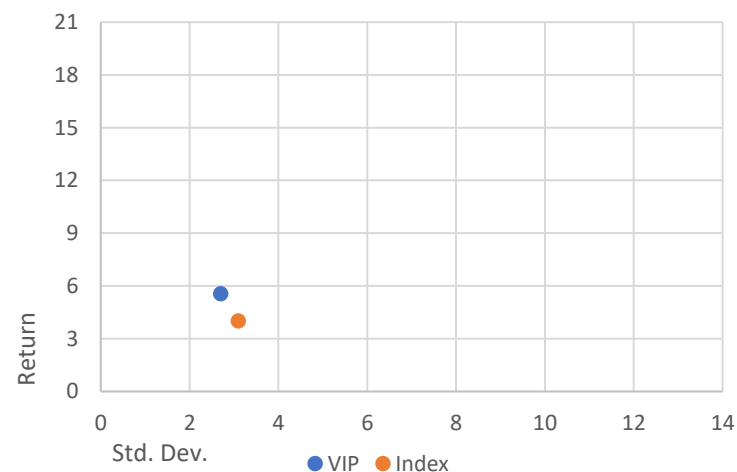
Within Europe, while Merkel and Macron (Germany and France respectively) are enforcing sensible policy as the main powers of the continent, Italy is a cause for concern as a result of the populist movement. The populist parties that won the country's elections two months ago have been given the go ahead to form government, hugely threatening the cohesion of the EU. Essentially, with Italian populism comes the promise to safeguard the interest of Italians, which could lead to decisions that are averse to the greater good of the EU.

Closer to home, the Federal Budget released recently is a clear election budget, making promises that bode well for voters. In the meantime, the east coast property market continues to lose heat. To the VIP Investment Committee, the greatest concern currently is credit growth – if the banks tighten lending next year, coupled with a slowing property market, this could lead to negative credit growth next year which may not be factored into the markets. That said, at this point this is simply hypothesising and ensures that the Committee has a keen eye on any movements that may indicate that this concept may come into fruition, enabling us to react swiftly and accordingly.

Going forward, the big question in terms of business is will the Liberal government get their company tax cuts through the senate? Naturally, the posed tax cuts present a giant target of attack for the Labor government, and in an election year, this may seem unwise for the Coalition and has yet to receive strong support from independent parties in the senate with only four confirmed supporters on the senate crossbench.

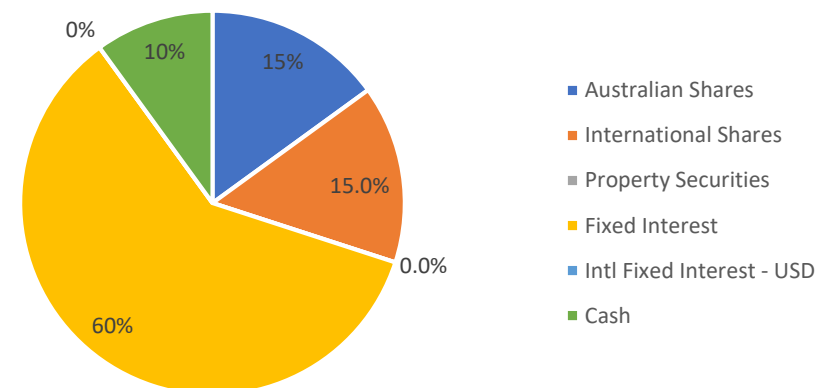
Risk vs Return

Risk-Reward One Year



Tactical Asset Allocation

Conservative 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.

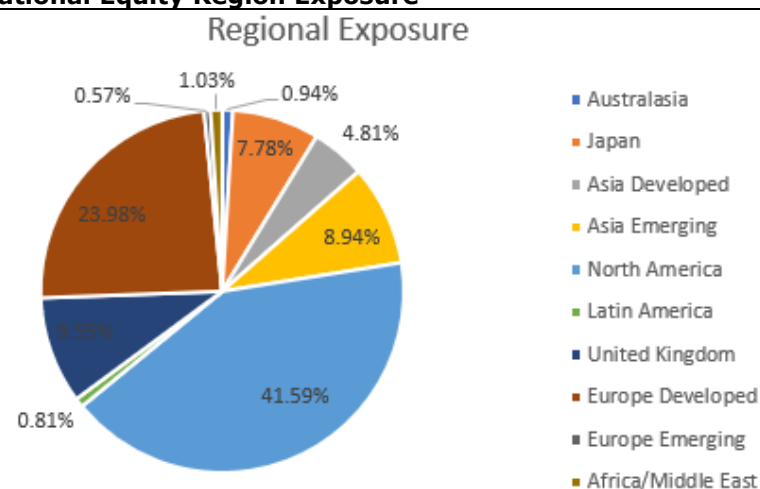
International Shares Portfolio

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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