

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 Conservative portfolio generated a -1.88% return **pre-fees** in October, and -0.74% return pre-fees in the quarter.

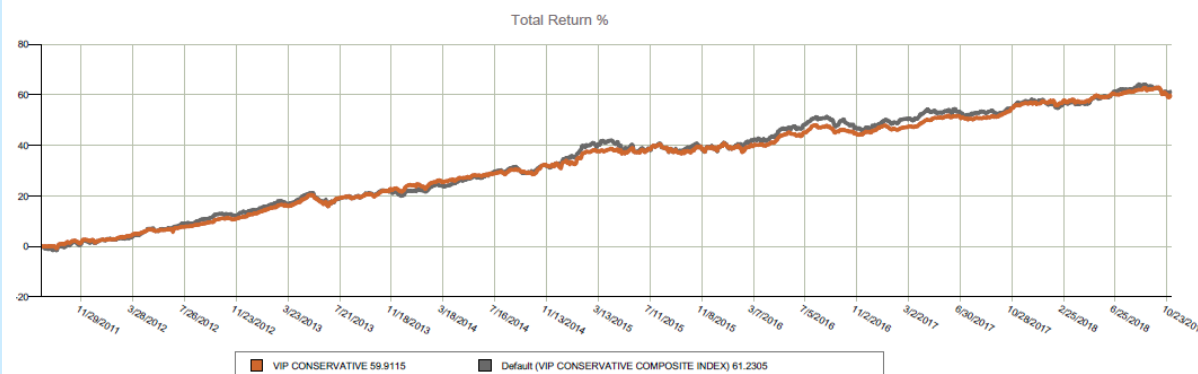
Over the last year the portfolio has generated a 4.59% return **pre-fees** and underperformed by 0.83%.

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

Tactical Asset Allocation

The VIP Conservative portfolios asset allocation as at 31/10/18 was as follows:

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



Trailing Returns

	31/10/2018					
	1 Month	3 Month	6 Month	1 Year	3 Year	5 Year
VIP Conservative PRE-FEES	-1.88	-0.74	0.96	4.59	6.64	7.92
Net VIP Conservative Investment	-1.95	-0.94	0.56	3.79	5.84	7.12
Net VIP Conservative Super-Pension	-1.99	-1.08	0.29	3.24	5.29	6.57
VIP Conservative Composite Index	-1.15	-0.71	2.01	5.42	6.81	8.17

	% End Weight	Tot Rtn 1M	Tot Rtn 3M	Tot Rtn 6M	Tot Rtn 1Y	Total Return YTD (%)
VIP CONSERVATIVE	100.00	-1.88	-0.74	0.96	3.23	2.11
AREITs		0.00	0.00	0.00	1.35	0.00
Australian Equities	13.23	-8.22	-7.17	-2.93	1.59	-2.53
CASHLiquid	10.01	0.17	0.49	1.01	1.89	1.61
Fixed Income	60.00	0.32	0.78	1.90	2.89	2.50
International Equities	15.00	-5.10	-0.79	1.20	6.22	5.33

Economic Outlook

The backend of September showed promise of continued gains in the stock market for 2018 until October saw devastation with the Australian All Ordinaries falling 6.47% and below the coveted 6000 mark for the first time since April. After months of unease among investors worldwide, the markets finally felt the full accumulative pressures of the trade war, higher interest rates in the US, and fears of slowing growth. The losses were seen globally, with the US' Nasdaq and S&P 500 dropping 9% and 7% respectively for the month, Hong Kong's Hang Seng falling 10%, and China's Shanghai Composite losing 8% for October. In Europe, Italy and France respectively lost 8% and 7% for the month.

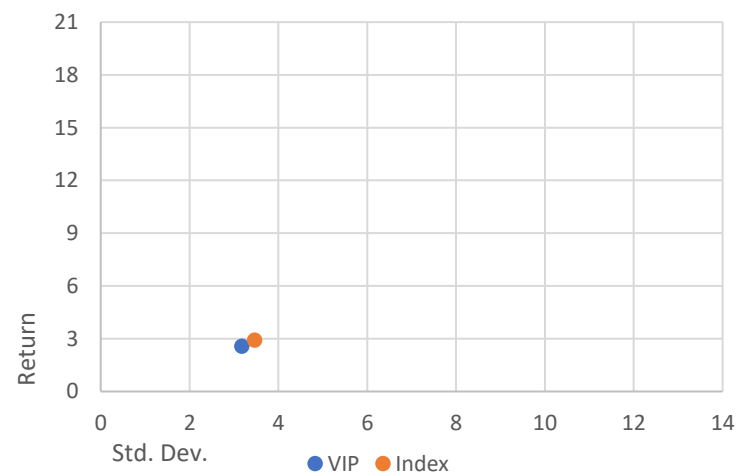
Economically speaking, the most relevant event in recent memory was the US Mid-Term elections, held at the beginning of November. While the president is not directly influenced by the election (that is, citizens are not voting him in or out of office), Mid-Terms are widely understood to be a referendum on the president, i.e. how well he has fared in the first half of his presidency. In the House of Representatives, all 435 members were up for re-election, and 35 of the 100 seats in the senate were to be contested. It is noted that pre-elections, both the House and the Senate were held by a Republican majority.

As expected, the Democrats won back the House with a net gain of 34 seats, exceeding the 23 seats needed to win the majority (the party represented by the president has lost an average of 32 seats in the House of Representatives during the Mid-Terms since the US Civil War). In the Senate, 23 seats currently held by Democrats were to be contested compared to the 8 Republican seats – clearly in this scenario, the Democrats had more to lose than to gain, and this was in fact the case.

The major difference as a result of the Mid-Terms is the Democrats ability to launch investigations, subpoena documents, and to block Republican policies they do not agree with. This essentially means the US government comes to a gridlock of sorts compared to pre-election, where the Republican party held both majorities and could pass legislation with relative ease.

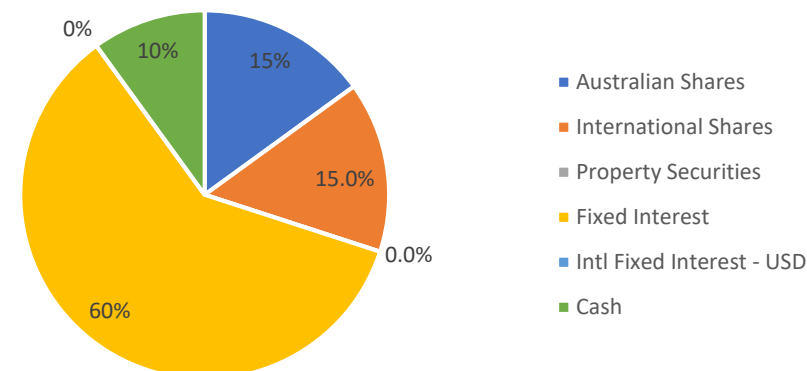
While volatility is still to be expected for the rest of the year, the hope is the mid-term election results will spur positivity in the market.

Risk-Reward One Year



Tactical Asset Allocation

Conservative Portfolio TAA as at: 31/10/18



Australian Shares Portfolio

The VIP Australian Share Leaders portfolio generated a -8.17% **pre-fees** return for the month and -7.31% over the last 3 months. The portfolio underperformed the S&P/ASX 100 index over the month by 2.45% and underperformed by 1.56% over the quarter.

Over the last year, the portfolio has generated an 1.25% return pre-fees underperforming the ASX 100 index by 1.71%.

The **Top Contributors** were Computershare -0.90%, Rio Tinto -3.00%, and REA Group -3.53%. The **Top Detractors** were Seven Group Holdings -21.56%, Western Areas -18.48%, and Costa Group -14.45%.

VIP Australian Share Leaders Holdings

Performance - Main View

	% End Weight
VIP AUSTRALIAN SHARE LEADERS	100.00
WESTERN AREAS LTD	2.76
SANDFIRE RESOURCES NL	2.83
AUST AND NZ BANKING GROUP	2.90
WESTPAC BANKING CORP	2.91
BBG AUB Bank Bill	5.14
SEVEN GROUP HOLDINGS LTD	5.19
ARISTOCRAT LEISURE LTD	5.19
SEEK LTD	5.35
SOUTH32 LTD	5.44
JAMES HARDIE INDUSTRIES-CDI	5.54
ARB CORP LTD	5.56
REA GROUP LTD	5.58
RIO TINTO LTD	5.61
COSTA GROUP HOLDINGS LTD	5.61
BHP BILLITON LIMITED	5.61
COMPUTERSHARE LTD	5.65
RESMED INC-CDI	5.75
CSL LTD	5.76
BENDIGO AND ADELAIDE BANK	5.76
CIMIC GROUP LTD	5.89

VIP Australian Share Leaders Equity Sectors

Materials (27.78)
Industrials (16.42)
Financials (11.56)
Health Care (11.50)
Consumer Discretionary (10.75)
Information Technology (5.65)
Consumer Staples (5.61)
Communication Services (5.58)

Australian Shares Portfolio Adjustments

In October, the VIP Investment Committee sold Challenger Group after a lacklustre reporting season, and acquired Western Areas and Sandfire Resources to boost the resources holdings in the portfolio. Additionally, Spark Infrastructure was offloaded after a stagnant performance for the year, replaced by REA group which the Investment Committee viewed as discounted stock with a worthy upside.

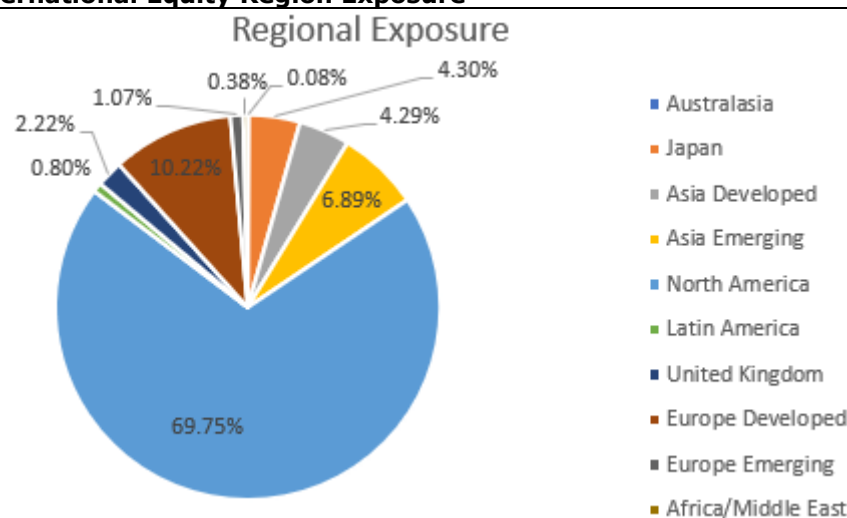
International Shares Portfolio

The VIP International Share Portfolio generated a -4.11% return for the month **pre-fees** and 0.15% over the last 3 months. In doing so the portfolio outperformed the MSCI World Ex Aus (AUD) index by 1.29% for the month and outperformed by 1.09%.

Over the last year, the portfolio has generated a 6.74% return and underperformed the index by 2.86%.

The **Top Contributors** were Winton Global Alpha -2.32%, Magellan Global -2.66%, and Alliance Bernstein -4.82%. The **Top Detractor** was Loftus Peak -8.00%.

VIP International Equity Region Exposure



VIP International Equity Holdings

Performance - Main View

	% End Weight
VIP INTERNATIONAL	100.00
BBG AUB Bank Bill	2.10
LOFTUS PEAK GLOBAL DISRUPTN	12.88
PLATINUM INTERNATIONAL FUND	19.90
WINTON GLOBAL ALPHA FD	20.91
ALLIANCEBERNSTEIN GLB EQ FD	21.85
MAGELLAN GLOBAL FD	22.35

International Shares Portfolio Adjustments

In October, the VIP Investment Committee sold the Vanguard US Total Market Share Index ETF and bought the Winton Global Alpha Hedge Fund.

Property Securities Portfolio

The VIP Property Securities portfolio generated a -4.99% return for the month **pre-fees** and - 2.29% over the last 3 months. The portfolio underperformed the S&P/ASX 200 A-REIT index during the month by 1.88%, and outperformed over the quarter by 0.82%.

Over the last year, the portfolio has generated a 12.83% return and outperformed the index by 5.88%.

The **Top Detractors** were Charter Hall Group -3.63%, Cromwell Property Group -3.74% and Arena REIT -8.05%.

VIP Property Securities Holdings

Performance - Main View

	% End Weight
VIP PROPERTY SECURITIES	100.00
ARENA REIT	28.85
CHARTER HALL GROUP	35.47
CROMWELL PROPERTY GROUP	35.68

Property Securities Portfolio Adjustments

In October, the VIP Investment Committee made no changes to the portfolio.

Fixed Interest Portfolio

The VIP Fixed Interest portfolio generated a 0.38% return for the month **pre-fees** and 0.80% over the last 3 months. This was against the Bloomberg AusBond Composite index return of 0.48% over the month and 0.87% over the quarter.

The portfolio outperformed the index by 2.95% over the month and underperformed by 0.14% over the last 3 months.

The **Top Contributors** was iShares Core Composite Bond +0.48% and Realm High Income +0.09%.

VIP Fixed Interest Holdings

Performance - Main View

	% End Weight
VIP FIXED INTEREST	100.00
REALM HIGH INCOME FUND-WHL	25.12
ISHARES CORE COMPOSITE BOND	74.88

Fixed Interest Portfolio Adjustments

In October, the VIP Investment Committee made no changes to the portfolio.

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