

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

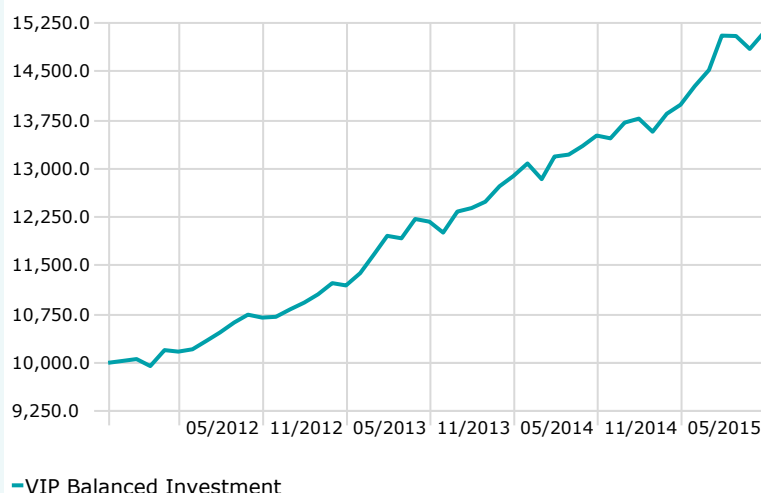
The VIP Balanced portfolio generated a 1.83% return pre-fees in May, and 0.67% return pre-fees over the quarter.

Over the last year the portfolio has generated a 13.30% return pre-fees and over 3 years 13.70%.

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

Investment Growth

Time Period: 1/07/2011 to 31/05/2015



Trailing Returns

As of Date: 31/05/2015

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	Since Inception
VIP Balanced	1.83	0.67	8.71	13.30	12.86	13.70	12.61
VIP Balanced Investment	1.71	0.32	7.98	11.79	11.35	12.18	11.10
VIP Balanced Super-Pension	1.76	0.46	8.28	12.40	11.97	12.80	11.71
VIP Balanced Composite Index	0.96	0.00	9.04	13.39	12.47	14.44	11.63

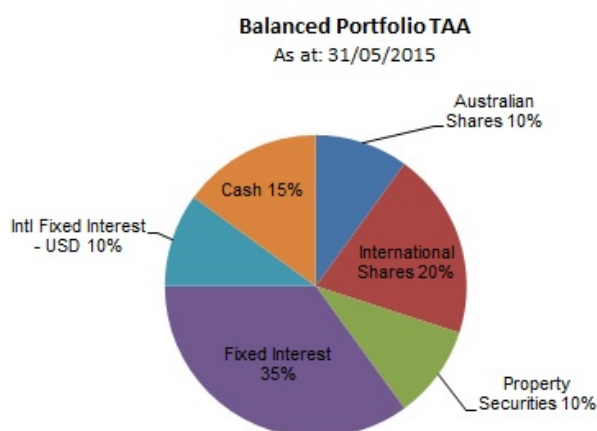
Tactical Asset Allocation

The VIP Balanced portfolios asset allocation as at 31/05/2015 was as follows:

- Australian Shares 10%
- International Shares 20%
- Property Securities 10%
- Fixed Interest 35%
- International Fixed Interest - US dollars 10%
- Cash 15%

The Growth asset allocation (Shares and Property Securities) is currently reduced to 40% from the 60% target level due to concerns over the currently high share prices compared to valuations.

In April the *VIP Investment Committee* maintained the reduced Australian share and International share weightings, and the defensive overweight exposure to Cash and International Fixed Interest - US Dollars.



Risk vs Return

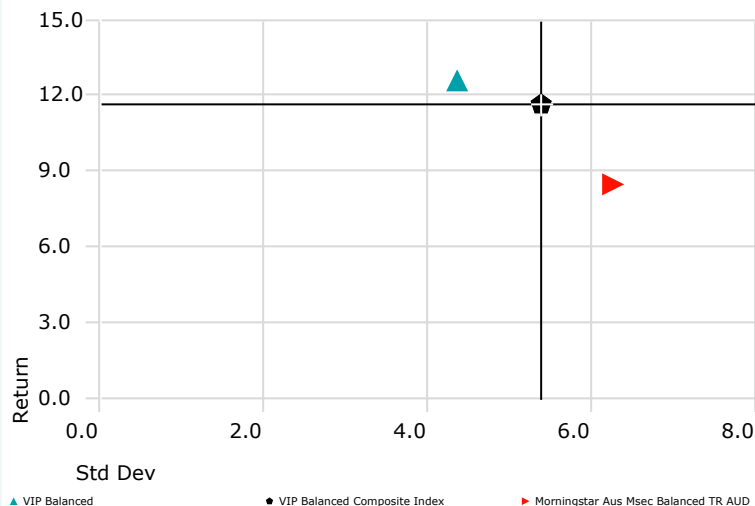
The VIP portfolios aim to reduce volatility, or risk, over the long term and achieve excess returns per unit of risk that is taken compared to our Balanced Composite Index and the Morningstar Multi-sector Balanced Index.

The chart on the right plots return on the vertical axis against risk (in the form of Standard Deviation) on the horizontal axis. Basically the higher up the vertical axis (high return) and the more left on the horizontal axis (low risk) is the ideal position that we aim for over the long term.

The chart on the right shows that the VIP Balanced portfolio (aqua triangle) has achieved a **higher return** and **lower risk** compared to the Balanced Composite Index (black pentagon) and our peers represented by the Morningstar Multi-sector Balanced index (red triangle) since inception on 01/07/2011.

This is the outcome we aim to achieve for our investors.

Risk-Reward



Month in Review - Economic & Market Commentary

Greece & the Fed.... A cocktail for volatility

With the recent volatility caused firstly by rumours of a Fed Interest rate increase and now by Greek Debt Crisis negotiations this article below from Bloomberg, written by Craig Torres, explains how the Greek event can affect the Fed's decision on interest rates later this year, which we believe will be the next correction:

A Greek exit from the euro zone could give Federal Reserve policy makers reason to put off an interest-rate increase. Some investors are already betting on a delay. Federal funds futures traders reduced the probability of a September increase to 35 percent on Monday in New York from 45 percent Friday. The yield on the 10-year Treasury note dropped by the most since October.

Whether those bets are correct will depend on how turmoil in the euro zone plays into Fed officials' forecasts for growth, employment and interest-rate increases this year. Chair Janet Yellen made it clear in her June 17 press conference that she needed to see "more decisive evidence" of sustainable economic momentum that supports labor markets and gradually firming prices.

While economic data have improved since then, New York Fed President William C. Dudley called Greece a "huge wildcard" for the U.S. outlook in an interview with the Financial Times published Sunday.

Here's what Fed officials will be watching in the weeks ahead:

Contagion: One immediate risk is a slump in business and consumer confidence in the euro zone that undermines the region's economic recovery and increases risk-aversion elsewhere. "The Fed is concerned because they see these problems in Europe and in the world economy as basically a drag," said Joseph Gagnon, a former Fed economist and now a senior fellow at the Peterson Institute for International Economics in Washington. "The current turmoil in Greece may make people around the world even more reluctant to spend."

Dollar Drag - The exchange rate: One of the biggest surprises for economists in and outside the central bank was how swiftly the 18 percent rise in the dollar against major currencies for the year ending March sapped U.S. gross domestic product. A stronger dollar cuts into exports by making U.S. goods more expensive abroad, while making imports cheaper. A ballooning trade deficit cut 1.9 percentage points from GDP in the first quarter of this year and about 1 percent in the fourth quarter of 2014, the biggest back-to-back drag since the first half of 1998.

Greece's impact "will depend on the market reaction, especially the dollar," said Mark Spindel, chief investment officer at Potomac River Capital, a hedge fund in Washington with \$750 million under management. "We know how sensitive the Fed committee is to dollar strength." Spindel added that the Fed's September meeting is months away, and the Greece situation "could change in heartbeat."

Borrowing Costs - Financial conditions: Fed stimulus works through financial markets by lowering financing costs on everything from cars to homes.

The question is whether mortgage and corporate financing become more expensive relative to Treasury yields as lenders grow more risk averse. Fed officials "need to see where mortgage-backed security spreads and corporate spreads are to Treasuries" and what happens to stocks, which influence consumer confidence and spending, said Michael Gapen, chief U.S. economist at Barclays Capital Inc. "Those are your primary starting points" as a policy maker, Gapen added.

Source: Bloomberg

Source: Morningstar Direct

Australian Shares Portfolio

The Australian share portfolio generated a 1.68% return for the month and -1.34% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in May by 1.42% and by 0.22% over the quarter.

Over the last year the portfolio has generated a 13.12% return pre-fees outperforming the ASX 100 index by 3.01%.

The **Top 3 Contributors** for the month were James Hardie Industries +20.88%, Brambles +5.63%, and Origin Energy +4.47%.

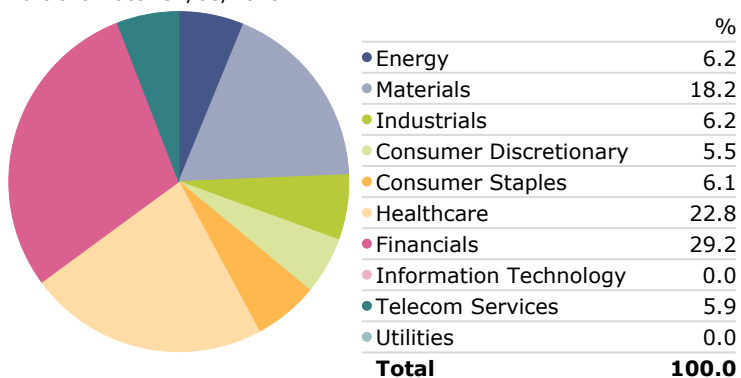
The **Top 3 Detractors** for the month were Aristocrat Leisure -5.29%, Dulux Group -4.78%, and ResMed -4.58.

VIP Australian Share Leaders - Holdings

	Ticker	Dividend Yield % TTM
James Hardie Industries PLC DR	JHX	2.58
Brambles Ltd	BXB	2.96
Origin Energy Ltd	ORG	4.43
Wesfarmers Ltd	WES	7.60
Bendigo And Adelaide Bank Ltd	BEN	7.72
Rio Tinto Ltd	RIO	6.86
Bank of Queensland Ltd	BOQ	7.97
Lend Lease Group	LLC	5.04
Telstra Corp Ltd	TLS	7.06
CSL Ltd	CSL	1.62
Ramsay Health Care Ltd	RHC	1.87
Australia and New Zealand Banking Group Ltd	ANZ	8.06
Ansell Ltd	ANN	2.07
Aristocrat Leisure Ltd	ALL	2.15
ResMed Inc DR	RMD	1.11
Westpac Banking Corp	WBC	8.25
DuluxGroup Ltd	DLX	5.37

VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/05/2015



Australian Shares Portfolio Adjustments:

The *VIP Investment Committee* did not make any changes to the portfolio in May.

International Shares Portfolio

The International share portfolio generated a 4.49% return for the month and 3.88% over the last 3 months. In doing so the portfolio outperformed the MSCI World Ex Aus (AUD) index in May by 1.00% and over the last 3 months by 0.35%.

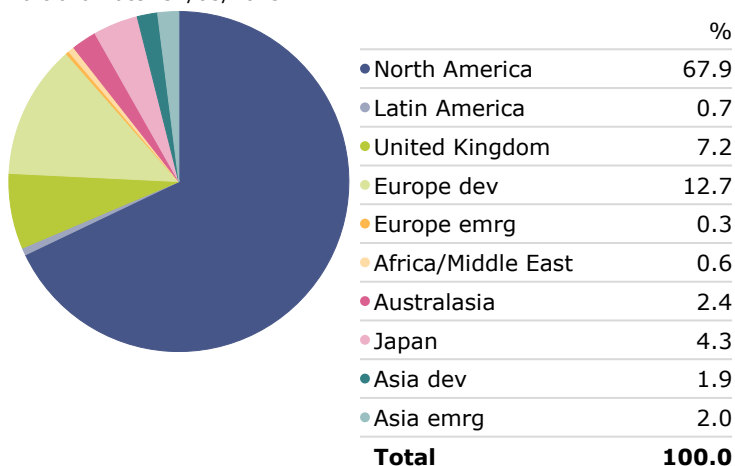
Over the last year the portfolio has generated a 31.66% return and outperformed the index by 2.50%.

The **Top Contributors** for the month were the Vanguard US Total Market Shares ETF +4.48% and the Magellan Global Fund +4.45%; and the **Top Detractor** was the Vanguard All World Ex-US ETF +1.95%.

The portfolios holdings and the total regional exposure are included below.

VIP International - Equity Regional Exposure

Portfolio Date: 31/05/2015



VIP International - Holdings

Portfolio Date: 31/05/2015

	Portfolio Weighting %
Magellan Global	42.35
Vanguard US Total Market Shares ETF	34.54
Vanguard All-World ex-US Shares ETF	23.11

International Portfolio Adjustments:

The *VIP Investment Committee* did not make any changes to the portfolio in May.

Property Securities Portfolio

The Property Securities portfolio generated a 2.01% return for the month and -0.27% over the last 3 months. The portfolio underperformed the S&P/ASX 200 A-REIT index during the month by 0.91%, and outperformed the index over the quarter by 0.05%.

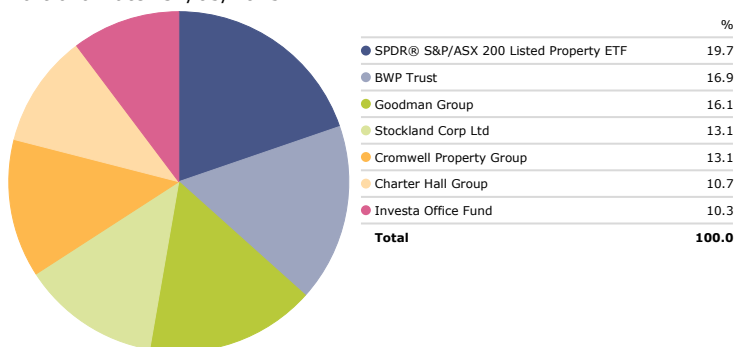
Over the last year the portfolio has generated a 25.46% return and underperformed the index by 4.20%.

The **Top Contributors** were BWP Trust +8.88%, Investa Office Fund +6.72%, and Goodman Group +4.80%; and the **Top Detractors** were Charter Hall Group -6.63%, Stockland Corporation -2.25%, and Cromwell Group -1.81%.

The portfolios holdings and dividend yields are included below.

VIP Property Securities - Portfolio Holdings

Portfolio Date: 31/05/2015



VIP Property Securities - Holdings

Portfolio Date: 31/05/2015

	Ticker	Dividend Yield % TTM
SPDR® S&P/ASX 200 Listed Property ETF	SLF	
BWP Trust	BWP	5.15
Goodman Group	GMG	3.54
Stockland Corp Ltd	SGP	5.90
Cromwell Property Group	CMW	7.75
Charter Hall Group	CHC	5.48
Investa Office Fund	IOF	5.04

Fixed Interest Portfolio

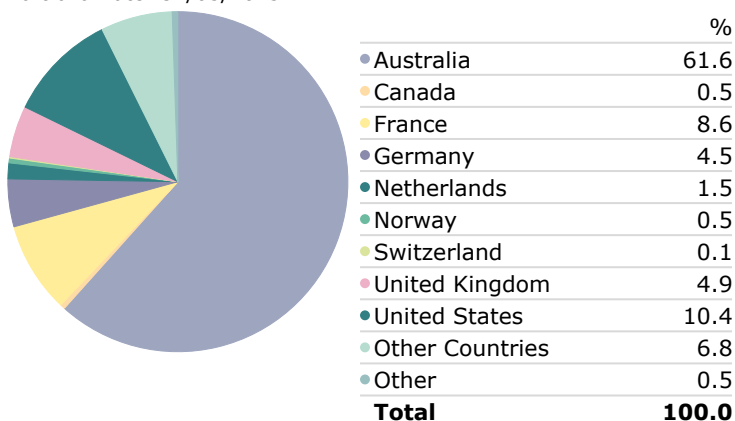
The Fixed Interest portfolio generated a 0.24% return for the month and 0.77% over the last 3 months. This was against the Bloomberg AusBond Composite index return of 0.04% and -0.32% over the month and last 3 months respectively.

The **Top Contributors** were Bentham Global Income Fund +0.50%, Realm High Income Fund +0.21%, and cash +0.17%; and the **Top Detractor** for the month was the iShares Composite Bond ETF +0.01%.

The portfolios country exposure is included below.

VIP Fixed Interest - Country Exposure

Portfolio Date: 31/05/2015



VIP Fixed Interest Portfolio - Income Yield

Portfolio Date: 31/05/2015

	Income Return 1 Yr (Mo-End)
RBA Bank accepted Bills 30 Days	
iShares Composite Bond	3.09
Bentham Wholesale Global Income	4.99
Realm High Income	4.71

Property Securities Portfolio Adjustments:

The *VIP Investment Committee* did not make any changes to the portfolio in May.

Fixed Interest Portfolio Adjustments:

The *VIP Investment Committee* did not make any changes to the portfolio in May.

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