

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

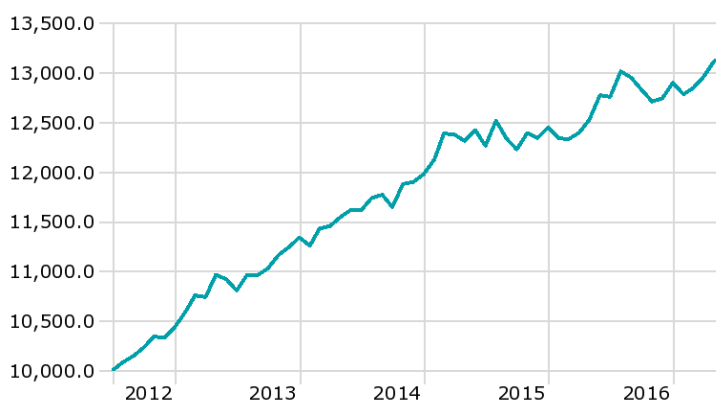
The VIP Conservative portfolio generated a 0.48% return **pre-fees** in May, and 2.82% return pre-fees in the quarter.

Over the last year the portfolio has generated a 4.43% return **pre-fees** and over 3 years 5.66%.

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

Investment Growth

Time Period: 1/07/2012 to 31/05/2017



—VIP Conservative Investment

Trailing Returns

As of Date: 31/05/2017

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	Since Inception
VIP Conservative PRE-FEES	0.48	2.82	3.98	4.43	4.33	5.66	6.20	7.37
Net VIP Conservative Investment	0.37	2.47	3.29	3.04	2.93	4.24	4.78	5.74
Net VIP Conservative Super-Pension	0.35	2.42	3.19	2.84	2.74	4.04	4.58	5.73
VIP Conservative Composite Index	0.04	2.02	4.30	4.35	4.30	6.09	6.28	7.54

Tactical Asset Allocation

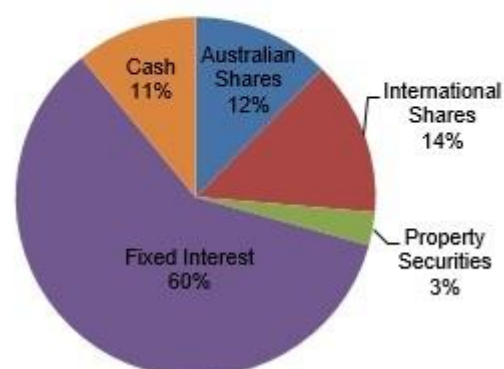
The VIP Conservative portfolios asset allocation as at 31/05/2017 was as follows:

- Australian Shares 12%
- International Shares 14%
- Property Securities 3%
- Fixed Interest 60%
- Cash 11%

The Growth asset allocation (Shares and Property Securities) is currently reduced from the 40% target level due to the *VIP Investment Committee's* belief that a reduced weighting to 29% and a favourable weighting towards fixed interest best suits the conservative approach at this time.

Conservative Portfolio TAA

As at: 31/05/2017



Risk vs Return

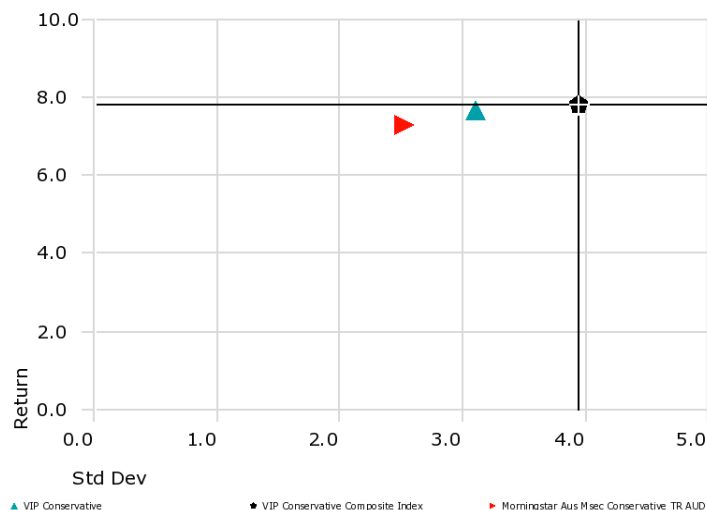
The VIP portfolios aim to reduce volatility, or risk, over the long term and achieve excess returns per unit of risk that is taken compared to our Conservative Composite Index and the Morningstar Multi-Sector Conservative Index.

The chart on the right plots return on the vertical axis against risk (in the form of Standard Deviation) on the horizontal index. 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 Conservative portfolio (aqua triangle) has achieved **lower risk** compared to the Conservative Composite Index (black pentagon) and **higher return** and **lower risk** than our peers represented by the Morningstar Multi-Sector Conservative index (red triangle) and 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

May, June, and the Influence of Capital Gains and Losses

Each year, the months of May and June bring excitement and anticipation, a time where the smallest detail can make the biggest difference in a result that has endured a full year's build up. This refers not to State of Origin, but tax time of course. As the end of financial year 2017 approaches, anyone with a vested interest in the world of investment has their eyes turned to capital gains tax, and what this entails for their returns and performance for the financial year. This is particularly true for investment firms, who exist in a world where capital gains tax is a vital facet to perfect in terms of displaying proficiency in funds management.

A capital gain defines as the profit from the sale of an investment, and capital gains tax is therefore the tax levied on such a profit. In understanding this, it is clearly of utmost importance to managers to use such concepts to their advantage in presenting a successful performance regardless of how the fund has actually performed. This refers to investors receiving realised capital gains despite the fund having performed poorly or have had a flat year. Such a technique could possibly be attributed to managers selling stocks that have performed well in order to earn the capital gain and present a 'façade' of success despite the fund overall having a less than ideal year.

Similarly, the same can be said for capital losses. Given that a realized gain will obviously bring with it a capital gains tax, the sale of underperforming stocks is commonly used in order to offset the capital gains and therefore lessening the tax burden. When all taken into account, capital loss selling coupled with selling for capital gains all before June 30th makes for a huge amount of selling in the months of May and June, a predominant reason markets have traditionally performed badly in these months. Essentially, much of the selling is to crystallise gains or losses before the tax man comes knocking.

With the gears of the global economy working overtime to cater for movements and incidents throughout the world, it would be a sensible assumption that volatility in the markets derives from the likes of the rumbles of unrest in Europe, the continual and constant rise of terrorism, and the rollercoaster that is the Trump administration. While of course these factors hold substance and do effect markets to some extent, the true influence on the market are fund managers and their significant holdings. As a result, May and June are traditionally down months on the stock market as managers look to crystallise capital gains and losses before the conclusion of the financial year. In fact, it is noted by Michael Browne, fund manager at Martin Currie, that eight of the last ten Junes have been negative months.

That said, the flipside to this is the bargain prices that result from the need to offload stock. Just because certain stocks have tracked badly doesn't necessarily mean they have no value, and managers could therefore be buying back these securities after crystallising the capital losses, potentially at a cheaper price given that many others would be seeking to realise the loss as well. In regard to smaller, more illiquid stock, the need to sell is exacerbated by a low trade offering, and as a result magnifies the effect of selling at discounted prices. Managers therefore seek to sell early and buy closer to June 30th to capitalise on cheap stock that they believe to have value.

Although Value Investment Partners does not partake in these concepts given our focus on long-term growth and value, tax time overall is a hectic period in which everyone strives to reduce their tax paid, a large part of this being capital gains tax in the investment world. Due to large fund managers having such a dominant holding in the market, there is no doubt as to why stocks can suffer May and June as investors rush to crystallise capital gains and losses alike.

Source: SMH, CNBC, AFR

Australian Shares Portfolio

The VIP Australian Share Leaders portfolio generated a -2.69% **pre-fees** return for the month and 5.23% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in May by 0.12% and by 3.68% over the quarter.

Over the last year, the portfolio has generated a 6.96% return pre-fees underperforming the ASX 100 index by 4.69%.

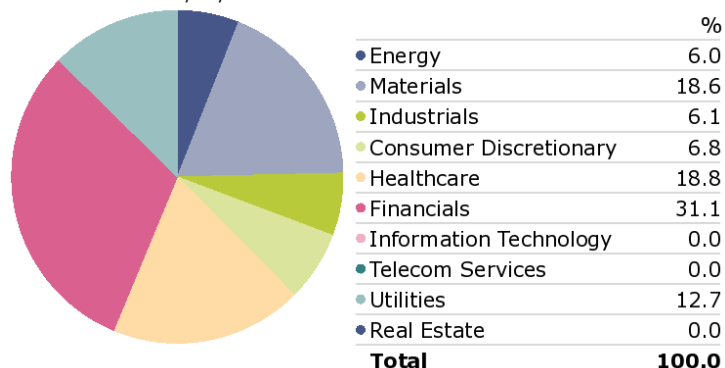
The **Top Contributors** for the month were Aristocrat Leisure Ltd +11.79%, Spark Infrastructure Group +8.43%, & APA Group +4.59%. The **Top Detractors** for the month were CSR Ltd -14.90%, James Hardie Industries PLC DR -13.63%, and Australia and New Zealand Banking Group Ltd -11.01%.

VIP Australian Share Leaders - Holdings

	Ticker	Dividend Yield % TTM
Aristocrat Leisure Ltd	ALL	1.36
ResMed Inc DR	RMD	0.46
APA Group	APA	4.86
Spark Infrastructure Group	SKI	5.27
National Australia Bank Ltd	NAB	9.64
Challenger Ltd	CGF	3.84
CSR Ltd	CSR	6.48
Westpac Banking Corp	WBC	9.04
Australia and New Zealand Banking Group Ltd	ANZ	8.30
James Hardie Industries PLC DR	JHX	2.29
CSL Ltd	CSL	1.31
Ramsay Health Care Ltd	RHC	2.60
South32 Ltd	S32	2.29
Seek Ltd	SEK	3.61
Bendigo and Adelaide Bank Ltd	BEN	9.39
Oil Search Ltd	OSH	0.59

VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/05/2017



Australian Shares Portfolio Adjustments:

In May, the VIP Investment Committee bought CSR Ltd to boost the portfolio's holdings in industrials at what we believe to be discount prices.

International Shares Portfolio

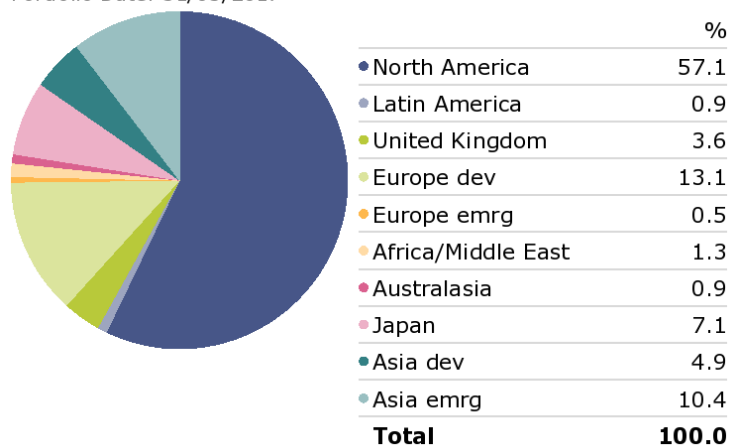
The VIP International share portfolio generated a 2.05% return for the month **pre-fees** and 7.71% over the last 3 months. In doing so the portfolio underperformed the MSCI World Ex Aus (AUD) index in May by 0.70% and underperformed over the last 3 months by 0.65%.

Over the last year, the portfolio has generated a 9.06% return and underperformed the index by 4.27%.

The **Top Contributors** were Platinum International Fund +4.14%, & Magellan +3.26%. The **Top Detractors** were iShares S&P Mid-Cap (AU) -0.03%, Alliance Bernstein Global Equities +1.50%, and Morpich Global Opportunities +2.52%.

VIP International - Equity Regional Exposure

Portfolio Date: 31/05/2017



VIP International - Holdings

Portfolio Date: 31/05/2017

	Global Category
Platinum International Fund	Global Equity Large Cap
Magellan Global	Global Equity Large Cap
AllianceBernstein Global Equities	Global Equity Large Cap
Morpich Global Opportunities	Global Equity Large Cap
iShares S&P Mid-Cap (AU)	US Equity Large Cap Blend
RBA Bank accepted Bills 90 Days	

International Portfolio Adjustments:

In May, the Investment Committee sold its holdings in VTS and bought Alliance Bernstein Global Equities.

Property Securities Portfolio

The VIP Property Securities portfolio generated a 0.37% return for the month **pre-fees** and 3.67% over the last 3 months. The portfolio outperformed the S&P/ASX 200 A-REIT index during the month by 1.47%, and over the quarter by 1.55%.

Over the last year, the portfolio has generated a 3.78% return and outperformed the index by 1.80%.

Top Contributor was Goodman Group +4.81%, Arena REIT +3.29%, and Charter Hall Group +0.35%.

Fixed Interest Portfolio

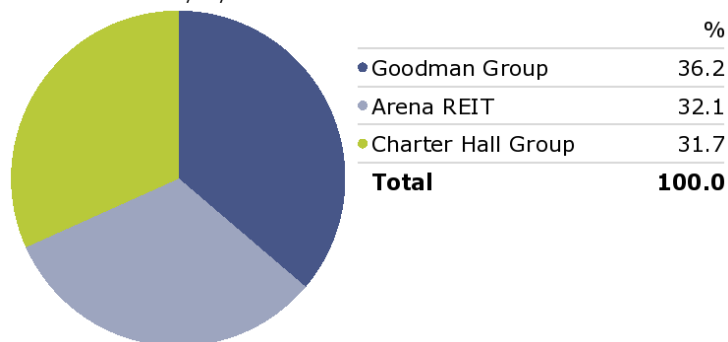
The VIP Fixed Interest portfolio generated a 1.02% return for the month **pre-fees** and 1.58% over the last 3 months. This was against the Bloomberg AusBond Composite index return of 1.17% over the month and 2.38% over the quarter.

The portfolio underperformed the index by 0.15% over the month, and underperformed the index 0.20% over the last 3 months.

The **Top Contributor** was iShares Core Composite Bond (AU) +1.17%. The **Top Detractor** was Realm High Income +0.28%.

VIP Property Securities - Portfolio Holdings

Portfolio Date: 31/05/2017



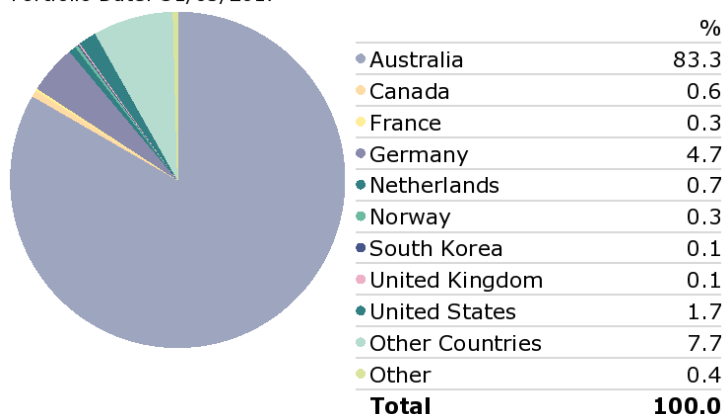
VIP Property Securities - Holdings

Portfolio Date: 31/05/2017

	Ticker	Dividend Yield % TTM
Goodman Group	GMG	2.93
Arena REIT	ARF	5.27
Charter Hall Group	CHC	4.90

VIP Fixed Interest - Country Exposure

Portfolio Date: 31/05/2017



VIP Fixed Interest Portfolio - Income Yield

Portfolio Date: 31/05/2017

	Income Return 1 Yr (Mo-End)
iShares Core Composite Bond (AU)	2.91
Realm High Income	2.96

Property Securities Portfolio Adjustments:

In May, the VIP Investment Committee sold Centuria Metropolitan REIT given its low liquidity in trading, and SLF as a result of the decision to avoid association with the retail sector.

Fixed Interest Portfolio Adjustments:

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

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