

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 -0.97% return pre-fees in June, and 0.88% return pre-fees in the June quarter.

Over the last year the portfolio has generated a 9.27% return pre-fees.

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

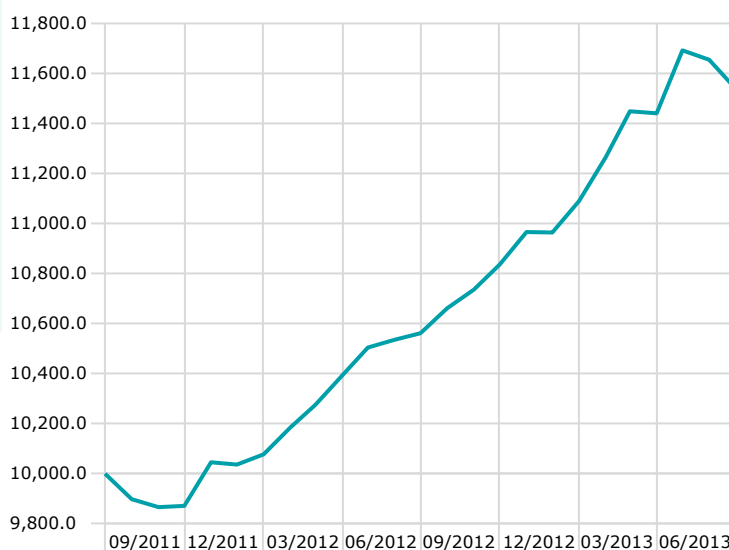
Trailing Returns

As of Date: 06/30/2013

	1 Month	3 Month	6 Month	1 Year	2 Years	Since Inception
VIP Conservative	-0.97	0.88	4.07	9.27	7.43	7.43
VIP Conservative Investment	-1.08	0.54	3.38	7.81		7.81
VIP Conservative Super-Pension	-1.03	0.68	3.66	8.40	6.57	6.57

Investment Growth

Time Period: 1/07/2011 to 30/06/2013



—VIP Conservative

Tactical Asset Allocation

The VIP Conservative portfolios asset allocation as at 30/06/2013 was as follows:

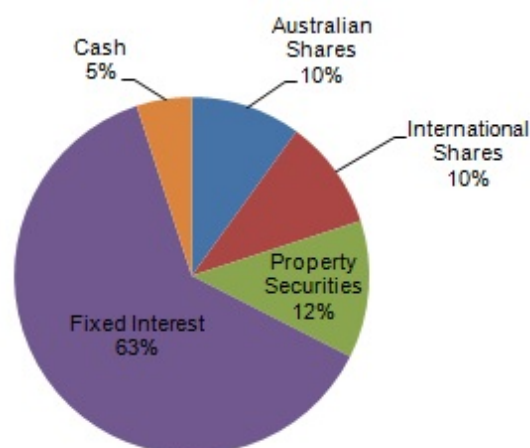
- Australian Shares 10%
- International Shares 10%
- Property Securities 12%
- Fixed Interest 63%
- Cash 5%

The Growth asset allocation (Shares and Property Securities) is currently at the 30% target level.

In terms of these Growth assets, Australian shares are held under-benchmark (target) while International shares and Property Securities are held at over-benchmark levels. These weightings are due to the *VIP Investment Committee's* targeting of yield and more favourable market conditions in global shares.

Conservative Portfolio TAA

As at: 30/06/2013





Month in Review - Economic & Market Commentary

Global share markets had a difficult time in June with the top 200 Australian shares by market capitalisation down 2.32%, property securities index down 0.84% and the global share index (in AUD) up 2.31%. The volatile market conditions were caused by several issues. There was an expectation that the US Fed will slow down its quantitative easing program, and the fact that stocks that had already risen over recent months could not sustain current prices in the absence of the US Fed's help. Other issues in the mixing pot were concerns over the Japanese stimulus program, a potential slowdown of Chinese growth, and continued weakness in Europe.

Many commentators see the recent volatility as a short term reaction to negative data and announcements in an environment where longer term growth economic growth news and prospects are positive. And this is also our view. However, the same cannot be said about bond markets.

Bonds, or fixed interest investments (such as Government bonds), have for a long time been considered as *defensive assets* that do not lose value. The Global Financial Crisis (GFC) showed us that this is not true with US Government bonds and a speculative pool of mortgages effectively being classed under the same asset class even though they display a huge difference in investment risk. Luckily since the GFC these high-risk fixed interest vehicles are not as mainstream as was the case before the GFC, however, challenges still remain in the bond markets due to the US Fed's stimulus program.

OK, we know that the US Fed has been printing money for some time, but how is this actually done? The US Fed is using quantitative easing to reduce long term interest rates and thereby supporting the close to zero short term interests rates that exists in the US today. This makes longer term borrowing cheaper for companies and households to kick-start corporate and household investment and spending.

By buying \$85 billion worth of bonds each month bond prices go up (remember supply, demand, and the upward effect that high demand has on prices). And bond yields (or long-term interest rates) have an inverse relationship with bond prices – therefore as bond prices go up with continued purchases by the US fed, bond yields go down!

The issue is that the opposite is also true, and this is what can affect investors. As the US Fed stops its stimulus program when they feel the US economy has recovered to an appropriate level of growth and ceases purchasing \$85 billion in bonds on a monthly basis bond prices will fall (as there is less demand) and bond yields will go up; and this means that the capital value of a bond investment will fall with the investor experiencing a loss in the value of their defensive asset.

To negate this risk the VIP Investment Committee has been selling down the portfolio's bond exposure, particularly in international bonds, and holding these funds in cash. We have earmarked to sell down the remaining international bond exposure over the coming period when conditions are suitable.

Portfolio Commentary - Australian Shares Portfolio

The Australian share portfolio generated a -4.09% return for the month and -6.36% over the June quarter. The portfolio underperformed the S&P/ASX 100 index in both periods by 2.06% and 4.57% respectively. This has been due to the continued weakness in the Resources and Energy sectors within which the portfolio held 17.3% and 14.2% sector weightings respectively.

The **Top 3 Contributors** for the month were Sonic Healthcare +4.08%, ANZ Bank +3.78%, and Bendigo & Adelaide Bank +1.92%.

The **Top 3 Detractors** for the month were Fairfax Media -20.16%, Lend Lease -16.67%, and Leighton Holdings -12.17%.

In June the *VIP Investment Committee* elected to add more defensive holdings to the portfolio and sold AGL Energy and Rio Tinto due to low dividend yield and to reduce Resources and Energy exposure.

These were replaced by Myer Holdings and Telstra in order to secure higher dividend yields and add more defensive positions to the portfolio.

VIP Australian Share Leaders - Holdings

Portfolio Date: 30/06/2013

	Ticker	Dividend Yield % TTM
BHP Billiton Ltd	BHP	3.37
Sonic Healthcare Limited	SHL	3.46
Bendigo And Adelaide Bank Ltd.	BEN	5.73
Santos Ltd	STO	2.15
Australia and New Zealand Banking Group Limited	ANZ	5.25
Wesfarmers Ltd	WES	4.41
Westpac Banking Corp	WBC	5.79
Woodside Petroleum Limited	WPL	3.36
Myer Holdings Limited	MYR	7.72
Telstra Corp Ltd	TLS	5.80
Lend Lease Corporation Limited	LLC	3.36
Leighton Holdings Limited	LEI	3.55
UGL Ltd	UGL	8.55
Iluka Resources Limited	ILU	3.36
Fairfax Media Ltd.	FXJ	3.67



International Shares Portfolio

The International share portfolio generated a 0.21% return for the month and 10.30% over the last 3 months to 30/06/2013. In doing so the portfolio underperformed the MSCI World Ex Aus (AUD) index in June by 2.10% and over the last 3 months by 4.99%.

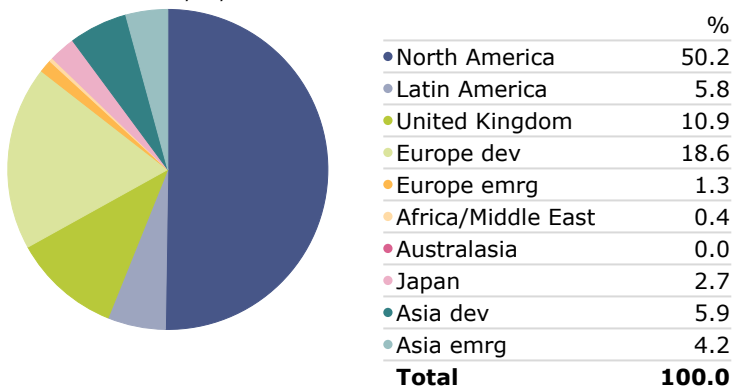
Over the last year the portfolio has generated a 28.17% return and underperformed the index by 4.93%.

The **Top Contributor** for the month was Magellan Global fund with +3.05%; and the **Top Detractors** was the Aberdeen Emerging Opportunities -2.19% and Aberdeen International Equity +0.22% return for the month.

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

VIP International - Equity Regional Exposure

Portfolio Date: 30/06/2013



VIP International - Holdings

Portfolio Date: 30/06/2013

	Portfolio Weighting %
Magellan Global	42.22
Aberdeen International Equity	39.71
Aberdeen Emerging Opportunities	9.39
Blue Sky Apeiron Global Macro A	8.68

International Portfolio Adjustments:

The *VIP Investment Committee* added the Blue Sky Global Macro fund to the portfolio in June. Blue Sky Apeiron is a specialist hedge fund manager, employing a global macroeconomic strategy to produce absolute returns, uncorrelated with traditional asset classes. The fund is operated by a highly qualified and experienced team.

The Manager employs a top-down global approach focused on geopolitical trends and macroeconomic events that affect the valuation of financial instruments. The global macro strategy identifies extreme price valuations and anticipates movements in equity, currency, interest rate and commodity markets.

Property Securities Portfolio

The Property Securities portfolio generated a -1.65% return for the month and 1.48% over the last 3 months to 30/06/2013. The portfolio underperformed the S&P/ASX 200 A-REIT index during the month by 0.81% and over the quarter by 1.86%.

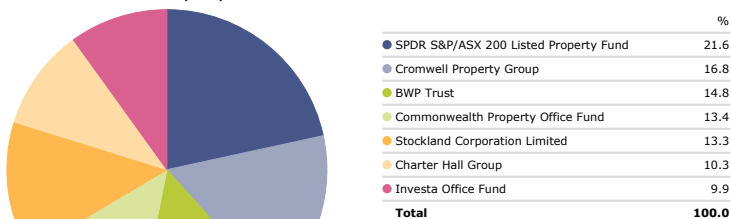
Over the last year the portfolio has generated a 26.10% return and outperformed the index by 1.88%.

The **Top Contributor** for the month was Commonwealth Office Property Trust +3.05%; and the **Top Detractors** were BWP Trust -7.16%, Investa Office Fund -5.96%, and Cromwell Property Group -4.51%.

The portfolios holdings and dividend yields are included below.

VIP Property Securities - Portfolio Holdings

Portfolio Date: 30/06/2013



VIP Property Securities - Holdings

Portfolio Date: 30/06/2013

	Ticker	Dividend Yield % TTM
SPDR S&P/ASX 200 Listed Property Fund	SLF	
Cromwell Property Group	CMW	6.29
BWP Trust	BWP	2.85
Commonwealth Property Office Fund	CPA	5.04
Stockland Corporation Limited	SGP	5.83
Charter Hall Group	CHC	4.39
Investa Office Fund	IOF	5.16

Property Securities Portfolio Adjustments:

The *VIP Investment Committee* added two holdings to the portfolio in order to reduce the overall retail property exposure of the portfolio via the holding of the index (in SPDR S&P/ASX 200 Listed Property Fund).

The securities that were added were Charter Hall Group and Investa Office Fund that both have a high allocation of office and industrial property and are yielding high levels of income.

**Fixed Interest Portfolio**

The Fixed Interest portfolio generated a 0.39% return for the month and 1.34% over the last 3 months to 30/06/2013. This was against the UBS Composite 0+Yr Bond index return of 0.40% and 0.57% over the month and last 3 months respectively.

The **Top Contributors** for the month were Cash +0.23% and the Aberdeen Floating Rate Income fund +0.12%, and the **Detractor** was the PIMCO Diversified Fixed Interest Fund -1.81% for the month.

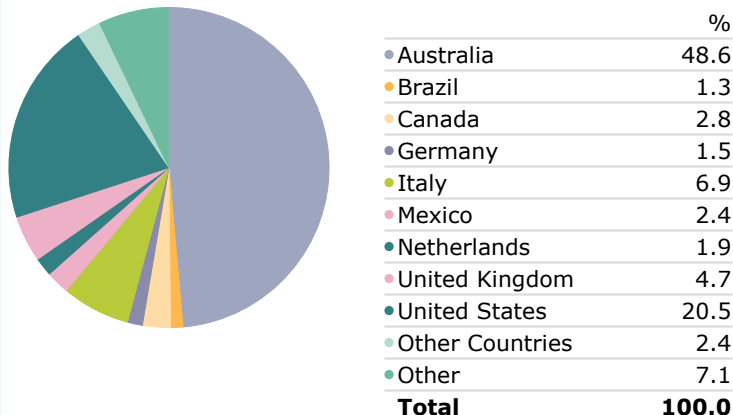
The portfolios country exposure is included below.

Fixed Interest Portfolio Adjustments:

The *VIP Investment Committee* did not make any changes to the Fixed Interest portfolio in June.

VIP Fixed Interest - Country Exposure

Portfolio Date: 30/06/2013

**VIP Fixed Interest Portfolio - Income Yield**

Portfolio Date: 30/06/2013

	Income Return 1 Yr (Mo-End)
RBA Bank accepted Bills 90 Days	
PIMCO EQT WS Diversified Fixed Interest	5.11
Aberdeen Australian Floating Rt Inc	3.86
Schroder Fixed Income	5.06

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