

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 0.04% return pre-fees in August, and 0.68% return pre-fees in the quarter.

Over the last year the portfolio has generated a 9.31% return pre-fees.

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

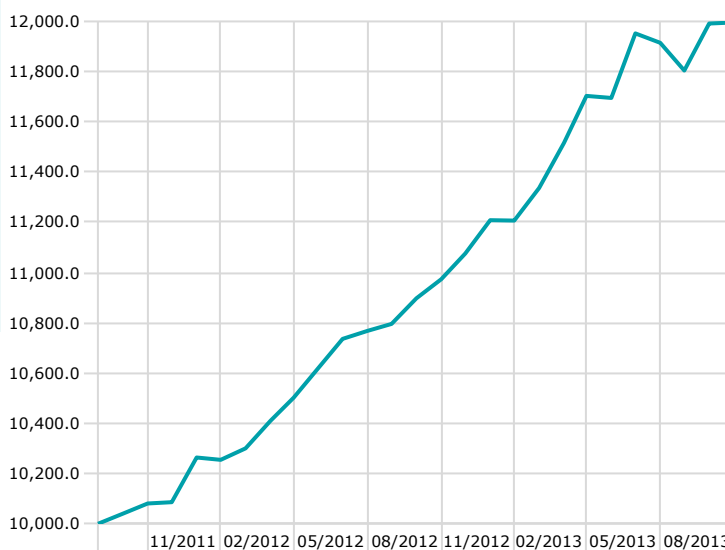
Trailing Returns

As of Date: 31/08/2013

	1 Month	3 Month	6 Month	1 Year	2 Years	Since Inception
VIP Conservative	0.04	0.68	2.50	9.31	9.09	8.76
VIP Conservative Investment	-0.08	0.34	1.80	7.85		7.99
VIP Conservative Super-Pension	-0.03	0.48	2.09	8.44	8.22	7.89

Investment Growth

Time Period: 1/07/2011 to 31/08/2013



—VIP Conservative

Tactical Asset Allocation

The VIP Conservative portfolios asset allocation as at 31/08/2013 was as follows:

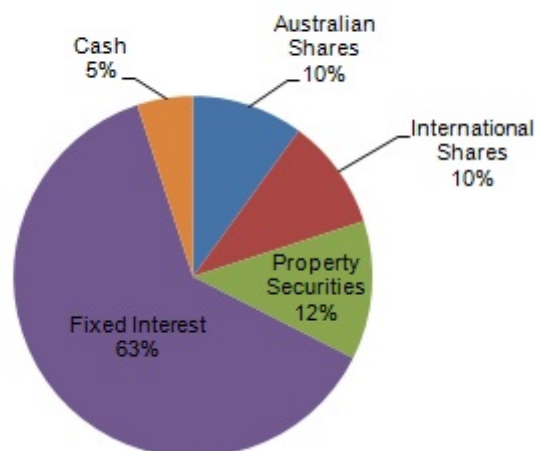
- Australian Shares 10%
- International Shares 10%
- Property Securities 12%
- Fixed Interest 63%
- Cash 5%

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: 31/08/2013



Month in Review - Economic & Market Commentary

In a blog post written in June 2013, *More Soup Anyone?*, we discussed the reasons for the market volatility at the time based on the expectation by the market that the US Federal Reserve (US Fed) would pull back its stimulus (money-printing) program based on the underlying strength of the recovering US economy.

Right now we're at what many believe is the cusp of that decision by the US Fed as they meet Wednesday night our time to determine whether to start the first reduction in the pace of monthly money-printing and bond purchases (QE3) it introduced in September 2012.

In past blog posts also discussed our concern with the effect that this tapering of QE3 could have on capital values of bonds and we have taken significant steps to ensure that we minimise and eliminate any losses that could occur in our bond portfolio by holding shorter term (duration) bonds. This is also the primary reason why there is a significant amount of cash within the portfolios.

So the short-term strategy to protect the portfolios upon a tapering of the US Fed's stimulus (money-printing) program is in place, but if we take a step back and have a look at the broader global economy what effect could the current forces have on the global economy and global markets?

Currently there are both some significant positives and negative forces that could affect markets. The positive forces include a growing US economy, first signs of growth in the Eurozone (principally Germany and France), an apparent soft-landing for the Chinese economy at 7.5% growth, and solid growth and low debt to GDP data in Emerging Markets like Mexico, South America, and Korea. On the other hand, the negative ledger we have a cessation of US stimulus as discussed above, German elections this year, continued weakness in Italy, Spain, and Greece, and the continued geo-political situation in the Middle East.

The BIG question is whether the tapering of the US Fed's stimulus (the most significant negative force) will take the wind out of the sails of the growing global economy and global markets.

The US Fed's stimulus or money-printing program puts money (or liquidity) into the system. This is the same as the Bank of Japan's stimulus program or low interest rates in Europe, the UK, Australia, and many other countries. It is this liquidity that is used to fund growth and investment - exactly what's needed to kick start the global economy.

Many commentators believe that there won't be a liquidity issue upon the US slowing their stimulus program as monetary and fiscal policy around the world is very accommodating (i.e. stimulus in Japan and low interest rates everywhere else). In addition, many countries have built huge foreign currency reserves during this period of stimulus as reported by Franklin Templeton Investments. It is expected that over the short-term the decision to slow QE3 will lead to greater volatility, but over the medium-term this reduction in the money supply won't affect the momentum of global growth.

Our Investment Committee is also of this view; however, we are taking steps to reduce risk in our portfolios to cushion our investors upon short-term volatility. The first of these steps is by holding cash and shorter term (duration) bonds within the defensive asset classes. Step 2 includes selecting defensive Australian shares within the Australian share portfolio that are not directly linked to global growth and commodity price fluctuations - names like Westfarmers (Coles and Bunnings), ANZ, Westpac, Lend Lease, etc... And thirdly, our global share position is focused on large multi-national grand names and includes some emerging market and alternative asset exposure.

Our approach to portfolio construction has meant that our level of risk (measured by standard deviation) in the VIP growth, VIP Balanced, and VIP Conservative portfolios is 28 -30% less than our benchmark targets. In addition, the reward (or performance) for every unit of risk that we take is greater for our diversified portfolios compared to our benchmarks. In short, our portfolios are giving investors a smoother ride in these dynamic and volatile times.

Portfolio Commentary - Australian Shares Portfolio

The Australian share portfolio generated a 4.07% return for the month and 6.14% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in both periods by 1.59% and 0.75% respectively.

The **Top 3 Contributors** for the month were Fairfax Media +13.54% Sonic Healthcare +10.55%, and Santos Ltd +10.24%.

The **Top 3 Detractors** for the month were Bendigo & Adelaide Bank -2.47%, ANZ Bank -0.24%, and Telstra +1.00%.

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

VIP Australian Share Leaders - Holdings

Portfolio Date: 31/08/2013

	Ticker	Dividend Yield % TTM
Myer Holdings Limited	MYR	7.01
Sonic Healthcare Limited	SHL	3.65
Twenty-First Century Fox Inc DR	FOX	0.54
Lend Lease Corporation Limited	LLC	3.56
Wesfarmers Ltd	WES	4.33
Ansell Limited	ANN	1.55
Westpac Banking Corp	WBC	5.23
Santos Ltd	STO	2.00
Woodside Petroleum Limited	WPL	4.02
Telstra Corp Ltd	TLS	5.71
Ramsay Health Care Limited	RHC	1.95
Australia and New Zealand Banking Group Limited	ANZ	4.95
Bendigo And Adelaide Bank Ltd.	BEN	5.97
UGL Ltd	UGL	4.15
RBA Bank accepted Bills 90 Days		
Fairfax Media Ltd.	FXJ	3.60

International Shares Portfolio

The International share portfolio generated a -1.65% return for the month and 2.93% over the last 3 months. In doing so the portfolio underperformed the MSCI World Ex Aus (AUD) index in August by 0.15% and over the last 3 months by 5.35%.

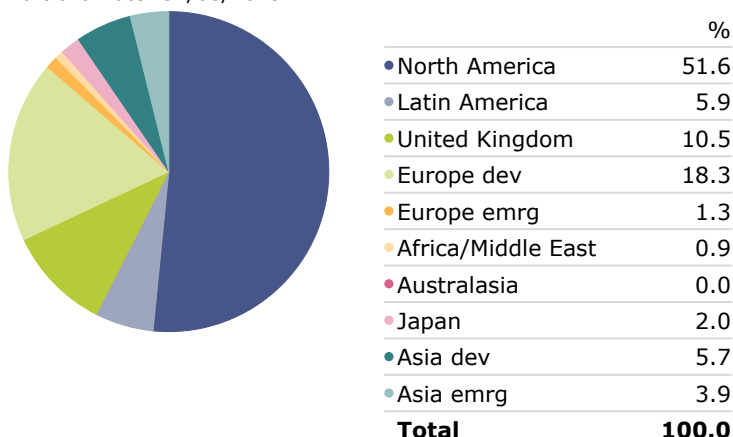
Over the last year the portfolio has generated a 27.30% return and underperformed the index by 9.64%.

The **Top Contributors** for the month were BlueSky Global Macro Fund +0.38%, and Aberdeen International Equity -1.12%; and the **Top Detractors** were the Aberdeen Emerging Opportunities -3.53% and Magellan Global Fund -2.14%.

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

VIP International - Equity Regional Exposure

Portfolio Date: 31/08/2013



VIP International - Holdings

Portfolio Date: 31/08/2013

	Portfolio Weighting %
Magellan Global	42.42
Aberdeen International Equity	40.27
Aberdeen Emerging Opportunities	8.93
Blue Sky Apeiron Global Macro A	8.38

International Portfolio Adjustments:

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

Property Securities Portfolio

The Property Securities portfolio generated a -0.79% return for the month and -0.06% over the last 3 months. The portfolio underperformed the S&P/ASX 200 A-REIT index during the month by 0.63%, however, outperformed the index over the quarter by 1.72%.

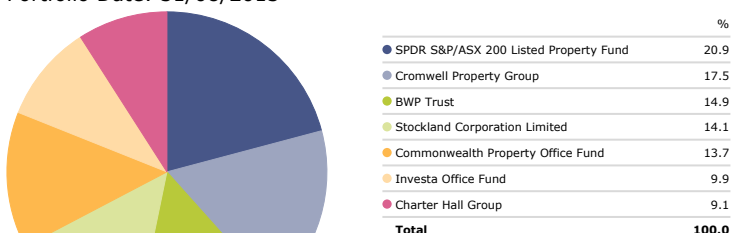
Over the last year the portfolio has generated a 22.15% return and outperformed the index by 5.57%.

The **Top Contributors** for the month were Cromwell Property Group +5.61%; Stockland Corporation +4.19%, and SPDR S&P/ASX200 Listed Property ETF -0.11%; and the **Top Detractors** were Charter Hall Group -9.61%, BWP Trust -6.50%, and Commonwealth Office Property Trust -0.43%.

The portfolios holdings and dividend yields are included below.

VIP Property Securities - Portfolio Holdings

Portfolio Date: 31/08/2013



VIP Property Securities - Holdings

Portfolio Date: 31/08/2013

	Ticker	Dividend Yield % TTM
SPDR S&P/ASX 200 Listed Property Fund	SLF	
Cromwell Property Group	CMW	6.10
BWP Trust	BWP	3.91
Stockland Corporation Limited	SGP	5.24
Commonwealth Property Office Fund	CPA	4.84
Investa Office Fund	IOF	4.98
Charter Hall Group	CHC	4.64

Property Securities Portfolio Adjustments:

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

Fixed Interest Portfolio

The Fixed Interest portfolio generated a -0.12% return for the month and -0.40% over the last 3 months. This was against the UBS Composite 0+Yr Bond index return of -0.32% and -0.52% over the month and last 3 months respectively.

The **Top Contributors** for the month were the Aberdeen Floating Rate Income Fund +0.29% and Cash +0.22%, and the **Detractor** was the PIMCO Diversified Fixed Interest Fund -0.62% for the month.

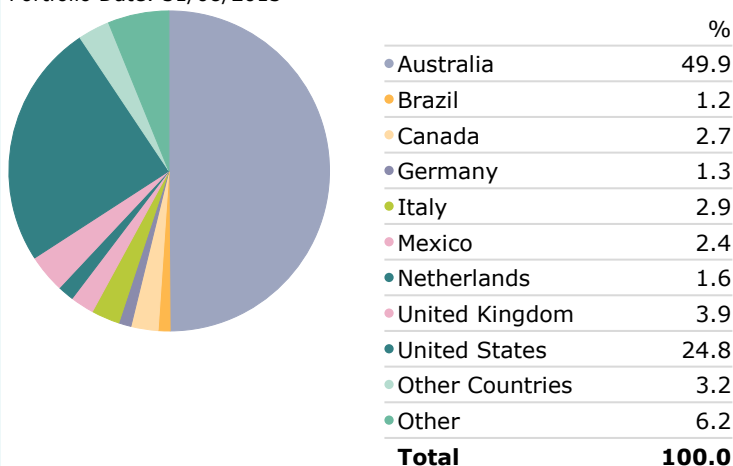
The portfolios country exposure is included below.

Fixed Interest Portfolio Adjustments:

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

VIP Fixed Interest - Country Exposure

Portfolio Date: 31/08/2013



VIP Fixed Interest Portfolio - Income Yield

Portfolio Date: 31/08/2013

	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	3.95

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