

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 -0.61% return pre-fees in January, and 1.14% return pre-fees in the quarter.

Over the last year the portfolio has generated a 7.51% return pre-fees.

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

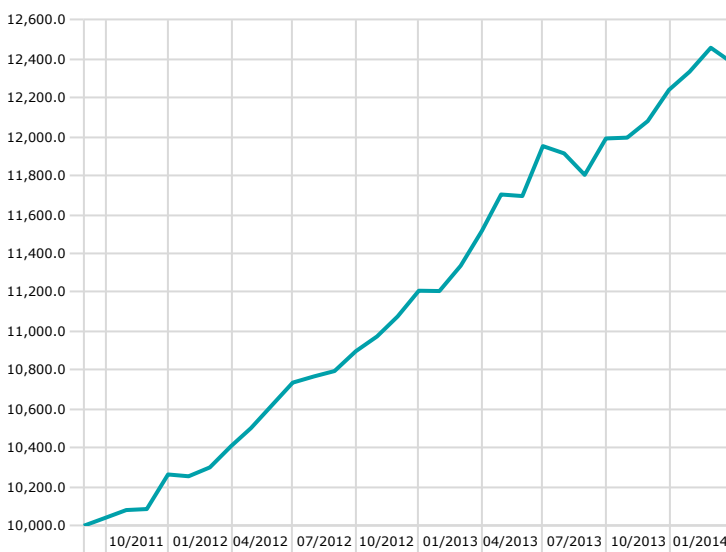
Trailing Returns

As of Date: 31/01/2014

	1 Month	3 Month	6 Month	1 Year	2 Years	Since Inception
VIP Conservative	-0.61	1.14	3.25	7.51	9.06	8.62
VIP Conservative Investment	-0.73	0.80	2.55	6.07		7.58
VIP Conservative Super-Pension	-0.68	0.94	2.84	6.66	8.19	7.75

Investment Growth

Time Period: 1/07/2011 to 31/01/2014



—VIP Conservative

Tactical Asset Allocation

The VIP Conservative portfolios asset allocation as at 31/01/2014 was as follows:

- Australian Shares 27.5%
- International Shares 5%
- Property Securities 0%
- Fixed Interest 62.5%
- Cash 5%

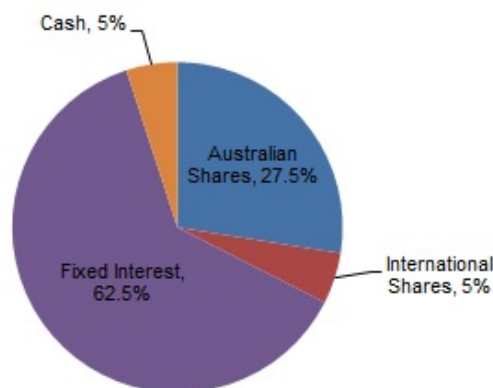
The Growth asset allocation (Shares and Property Securities) is currently at the target level.

In terms of these Growth assets, Australian shares are held at over-benchmark (target) levels and International shares are held at benchmark levels. This allocation towards Australian Shares from International Shares is due to our belief that there is less risk and greater dividend yields in the domestic share market while maintaining the potential return from a fall in the Australian dollar vs the US dollar as many of the stocks in the portfolio also have global operations.

The *VIP Investment Committee's* has maintained the 0% exposure to Property Securities due to the fully priced nature of Property Securities in a difficult rental environment, and this decision has been rewarded over the last few months.

Conservative Portfolio TAA

As at: 31/01/2014



Two Sides to Every Story

Following from a volatile January markets have continued to rally upon a positive US and local reporting season even with continued reduction in US monthly stimulus, mixed economic data, and some negative local news regarding the car manufacturing sector in Australia and notable companies such as Qantas.

Investors are understandably confused and concerned about the trajectory of stock prices with many markets approaching and moving beyond 'fair-value' and entering the 'over-valued' range. If these returns are expected to continue over the course of the year the state of the Chinese economy is one of the most important factors we need to carefully watch.

However, as is usually the case there are always two sides to any China economic story....

So what's happening in China?

In a previous post we discussed the plan the Chinese Government has mapped out to boost internal consumption and reduce China's reliance on exports. In doing so Premier Li Keqiang is trying to maintain growth of the Chinese economy above a 7% baseline while reducing the growth of debt and increasing employment.

The challenge Premier Li has in achieving these targets is that Chinese manufacturing activity has slowed over the last month. The Purchasing Managers' Index figure has been above the figure that indicates growth of manufacturing, however, the February result was just above this benchmark and has been falling over recent months.

Bloomberg reports that this slowdown in manufacturing activity is due to the Government's stance in curbing the growth of debt (or credit) which is reducing the investment in infrastructure and real-estate development. However, commentators such as Louis Kuijs, chief China economist at Royal Bank of Scotland Plc in Hong Kong, say that this 7% growth target can be maintained amidst a slowdown in manufacturing activity as the Government has the ability to introduce pro-growth policy settings such as maintaining low interest rates.

Positive or Negative?

Although these pro-growth policy setting would push back the reforms the Chinese Government has targeted to transform the economy to a more sustainable economy not as reliant on the rest of the world, there are signs that these reforms have already had an effect.

Bloomberg reports that Chinese economic growth will slow to 7.5% this year down from 7.7% in 2013 and highlights that this is the lowest growth rate since 1990. Clearly the Governments work to reduce the growth of debt funding, curb overcapacity that could lead to inflation, and shift from an economy dependant on the rest of the world buying Chinese products to one where the Chinese consumer is king are working. And although these policies are slowing Chinese growth economic commentators believe these transformations are required to protect the Chinese economy from global shocks.

This is supported by news from BlueScope Steel, Australia's biggest steelmaker, that demand for industrial buildings and construction products in China is falling as steel shipments from BlueScope fell 7 percent in China in the six months to December compared to the previous year as reported by Bloomberg.

So yet again there are two sides to this story with initial concern that a slowdown in Chinese manufacturing is pointing to a reduction in economic growth for the world's second largest economy, while on the flip side this slowdown is a direct result of the Government's efforts to transform the economy to a more stable and self-sufficient China.

Portfolio Commentary - Australian Shares Portfolio

The Australian Share portfolio generated a -3.66% return for the month and 0.20% over the last 3 months. The portfolio underperformed the S&P/ASX 100 index in January by 0.64%, however, outperformed over the last 3 months by 3.57%.

The **Top 3 Contributors** for the month were Ramsay Healthcare +1.39%, James Hardie Industries -0.31%, and Sonic Healthcare -0.42%.

The **Top 3 Detractors** for the month were Ansell Limited -7.26%, ANZ Bank -6.52%, and Lend Lease Corporation -5.48%.

The *VIP Investment Committee* sold Myer in January to take profits ahead of a weak retail sales period and Twenty-First Century Fox ahead of its upcoming vote to delist the company from the ASX and list only on the US Nasdaq.

VIP Investment Committee bought mining giant Rio Tinto, Macquarie Bank to increase exposure to Financial Services and corporate activity, and share market registry company Computershare as it continues its expansion into the US and Europe and also benefits from corporate activity.

VIP Australian Share Leaders - Holdings

Portfolio Date: 31/01/2014

	Ticker	Dividend Yield % TTM
Ramsay Health Care Limited	RHC	1.46
Telstra Corp Ltd	TLS	5.64
Bendigo And Adelaide Bank Ltd.	BEN	5.57
Rio Tinto Ltd	RIO	2.76
Australia and New Zealand Banking Group Limited	ANZ	5.10
Computershare Limited	CPU	2.36
BHP Billiton Ltd	BHP	3.16
Wesfarmers Ltd	WES	4.41
Crown Resorts Ltd	CWN	1.44
Sonic Healthcare Limited	SHL	3.68
Westpac Banking Corp	WBC	5.20
Ansell Limited	ANN	2.25
Woodside Petroleum Limited	WPL	5.41
James Hardie Industries PLC DR	JHX	1.54
Lend Lease Corporation Limited	LLC	3.14
Macquarie Group Ltd.	MQG	4.24

International Shares Portfolio

The International Share portfolio generated a -2.41% return for the month and 4.30% over the last 3 months. In doing so the portfolio underperformed the MSCI World Ex Aus (AUD) index in January by 1.21% and over the last 3 months by 4.75%.

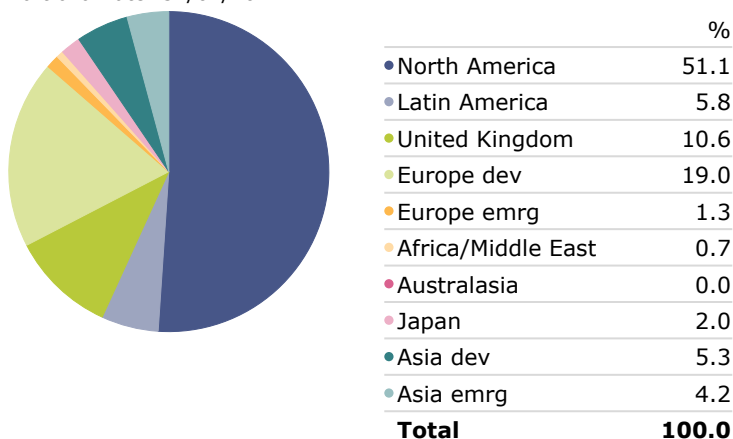
Over the last year the portfolio has generated a 23.34% return and underperformed the index by 16.49%.

The **Top Contributor** for the month was the BlueSky Global Macro Fund +1.16%; and the **Top Detractors** were the Aberdeen Emerging Opportunities -5.52%, Aberdeen International Equity -2.89%, and the Magellan Global Fund -2.04%.

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

VIP International - Equity Regional Exposure

Portfolio Date: 31/01/2014



VIP International - Holdings

Portfolio Date: 31/01/2014

	Portfolio Weighting %
Magellan Global	42.32
Aberdeen International Equity	38.36
Blue Sky Apeiron Global Macro A	9.75
Aberdeen Emerging Opportunities	9.57

International Portfolio Adjustments:

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

Property Securities Portfolio

The Property Securities portfolio generated a -0.21% return for the month and -1.31% over the last 3 months. The portfolio underperformed the S&P/ASX 200 A-REIT index during the month by 0.68%, however, outperformed the index over the quarter by 2.30%.

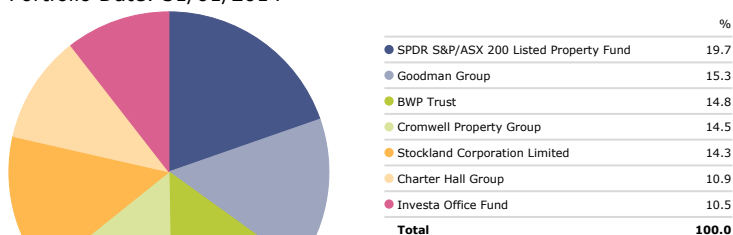
Over the last year the portfolio has generated a 9.27% return and outperformed the index by 6.21%.

The **Top Contributors** for the month were Charter Hall Group +1.64%, BWP Trust +1.37%, and Stockland Corporation +0.55%; and the **Top Detractors** were Cromwell Property Group -2.05%, Goodman Group -1.27%, and Investa Office Fund -0.96%.

The portfolios holdings and dividend yields are included below.

VIP Property Securities - Portfolio Holdings

Portfolio Date: 31/01/2014



VIP Property Securities - Holdings

Portfolio Date: 31/01/2014

	Ticker	Dividend Yield % TTM
SPDR S&P/ASX 200 Listed Property Fund	SLF	
Goodman Group	GMG	4.18
BWP Trust	BWP	5.86
Cromwell Property Group	CMW	6.81
Stockland Corporation Limited	SGP	6.22
Charter Hall Group	CHC	5.32
Investa Office Fund	IOF	5.70

Property Securities Portfolio Adjustments:

The *VIP Investment Committee* sold Commonwealth Office Property Fund in January as its buyout by either Dexu or GPT looms, and replaced the holding with Industrial property manager Goodman Group.

Fixed Interest Portfolio

The Fixed Interest portfolio generated a 0.74% return for the month and 1.18% over the last 3 months. This was against the UBS Composite 0+Yr Bond index return of 1.09% and 1.52% over the month and last 3 months respectively.

The **Top Contributors** for the month were the PIMCO Diversified Fixed Interest Fund +1.33%; and the **Top Detractors** were the Aberdeen Floating Rate Income Fund +0.18%, Cash +0.22%, and the Realm High Income Fund +0.46%.

The portfolios country exposure is included below.

Fixed Interest Portfolio Adjustments:

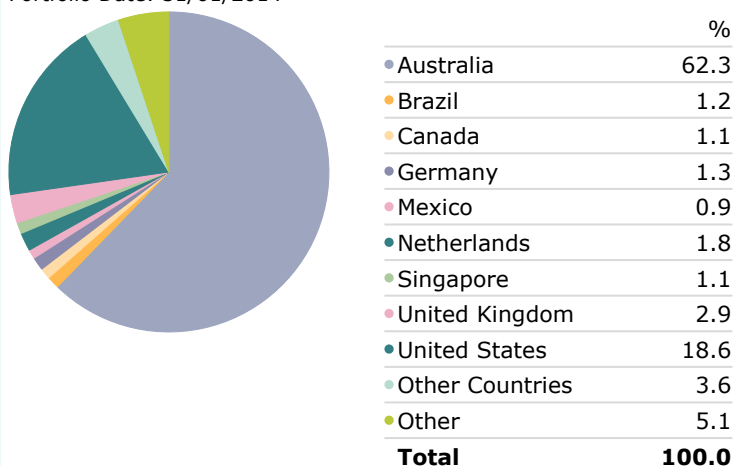
The *VIP Investment Committee* sold down the PIMCO Diversified Fixed Interest Fund holding in January due to the effect the reduction in US Quantitative Easing may have on the longer duration of some of the securities within this portfolio.

This allocation was invested in the Aberdeen Floating Rate Income Fund for the short-term.

This may reduce the return that is achieved within the Fixed Interest portfolio over the short term, however, will protect the portfolio from bond market shocks as the markets digest the initial reductions in monthly US stimulus.

VIP Fixed Interest - Country Exposure

Portfolio Date: 31/01/2014



VIP Fixed Interest Portfolio - Income Yield

Portfolio Date: 31/01/2014

	Income Return 1 Yr (Mo-End)
PIMCO EQT WS Diversified Fixed Interest	2.94
Aberdeen Australian Floating Rt Inc	2.98
Realm High Income	6.33
RBA Bank accepted Bills 90 Days	

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