

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

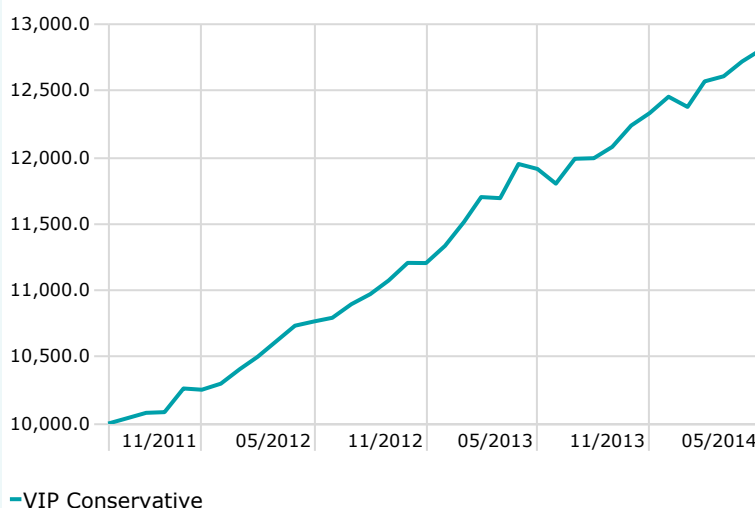
The VIP Conservative portfolio generated a 0.70% return pre-fees in May, and 1.89% return pre-fees in the quarter.

Over the last year the portfolio has generated a 7.53% return pre-fees.

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 31/05/2014



Trailing Returns

As of Date: 31/05/2014

	1 Month	3 Month	6 Month	1 Year	2 Years	Since Inception
VIP Conservative	0.70	1.89	3.87	7.53	9.08	8.87
VIP Conservative Investment	0.59	1.55	3.17	6.09		7.88
VIP Conservative Super-Pension	0.63	1.69	3.46	6.67	8.21	8.00

Tactical Asset Allocation

The VIP Conservative portfolios asset allocation as at 31/05/2014 was as follows:

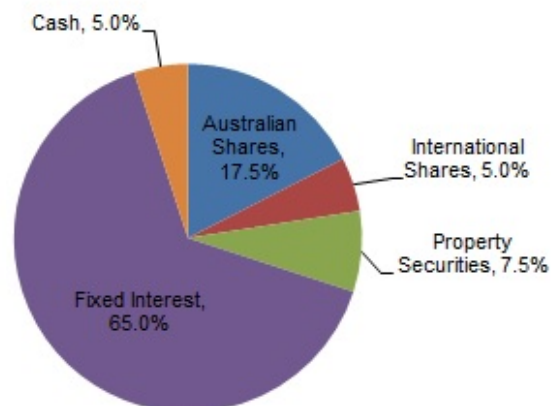
- Australian Shares 17.5%
- International Shares 5.0%
- Property Securities 7.5%
- Fixed Interest 65.0%
- Cash 5.0%

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

In terms of these Growth assets, Australian shares and Property Securities are help below benchmark (target) levels, whereas International shares are held above 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: 31/05/2014



Month in Review - Economic & Market Commentary

Last month we discussed the global market and economic performance of late and compared the situation to a "So-So" meal in a restaurant that promised so much, but delivered less. The report also discussed the outlook for share markets based on expectations of "So-So" economic growth and corporate profits.

In the last month we have learnt that the economic growth story is a little slower than has been forecast with the European Central Bank (ECB) announcing a package of reforms that are targeted to kick-start the European economy towards its minimum inflation targets. Although we usually think of inflation as being bad, no or negative inflation (or deflation) is worse and is an indicator of poor economic activity and low business and consumer confidence. On the other hand, if we are all optimistic about the future and spend money in our businesses and homes this demand for these goods pushes up prices and causes inflation.

The ECB cut the benchmark interest rate in Europe to a record low 0.15% and reduced the deposit rate to less than 0% essentially charging banks a fee for parking excess cash. The ECB will also provide as much as 400 billion euros (or \$542 billion US dollars) to healthy EU banks on the condition that they on lend the funds to companies and households.

Similarly, the International Monetary Fund (IMF) cut its growth target for the US economy from its April forecast of 2.8% to 2%, and stated that they expect low inflation and less than full employment until the end of 2017. In making this forecast the IMF also stated that the US Federal Reserve (Fed) has the scope to keep interest rates at 0% for longer than the mid-2015 date that the market currently expects.

How does this affect us?

Although lower interest rates are good for shares the market could see these forecasts of weaker growth and low interest rates as an indicator that share prices have risen higher than the current economic environment can support remembering that a company's share price is an indication of the profits that it can generate for investors, and the weaker the environment the lower the future profits, which should lead to a re-valuation of a company's share price by the market.

This also means that Australian interest rates will need to stay low for longer unless the Reserve Bank want to see the Australian dollar back over parity with the US dollar, which will greatly hurt our exporters.

Only time will tell how the market reacts to these announcements and the next reporting season.

Source: Bloomberg

Portfolio Commentary - Australian Shares Portfolio

The Australian share portfolio generated a 2.10% return for the month and 4.16% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in both periods by 1.41% and 1.17% respectively.

Over the last year the portfolio has generated a 23.67% return pre-fees outperforming the ASX100 index by 6.68%.

The **Top 3 Contributors** for the month were Ansell Limited +6.14%, Ramsay Healthcare +5.67%, and James Hardie Industries +4.45%.

The **Top 3 Detractors** for the month BHP Billiton -1.96%, ANZ Bank 0.44%, and Sonic Healthcare +0.06%.

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

VIP Australian Share Leaders - Holdings

	Ticker	Dividend Yield % TTM
BHP Billiton Ltd	BHP	3.59
Woodside Petroleum Ltd	WPL	4.99
Lend Lease Corp Ltd	LLC	3.10
Ansell Ltd	ANN	2.05
Telstra Corp Ltd	TLS	5.51
Bendigo And Adelaide Bank Ltd	BEN	5.07
Computershare Limited	CPU	2.27
Wesfarmers Ltd	WES	4.59
Macquarie Group Ltd.	MQG	3.94
Australia and New Zealand Banking Group Ltd	ANZ	5.12
Westpac Banking Corp	WBC	5.21
Sonic Healthcare Ltd	SHL	3.77
James Hardie Industries PLC DR	JHX	4.73
Ramsay Health Care Ltd	RHC	1.65
Crown Resorts Ltd	CWN	1.84

Source: Morningstar Direct

International Shares Portfolio

The International Share portfolio generated a 1.91% return for the month and 2.32% over the last 3 months. In doing so the portfolio underperformed the MSCI World Ex Aus (AUD) index in May by 0.09% and over the last 3 months by 0.72%.

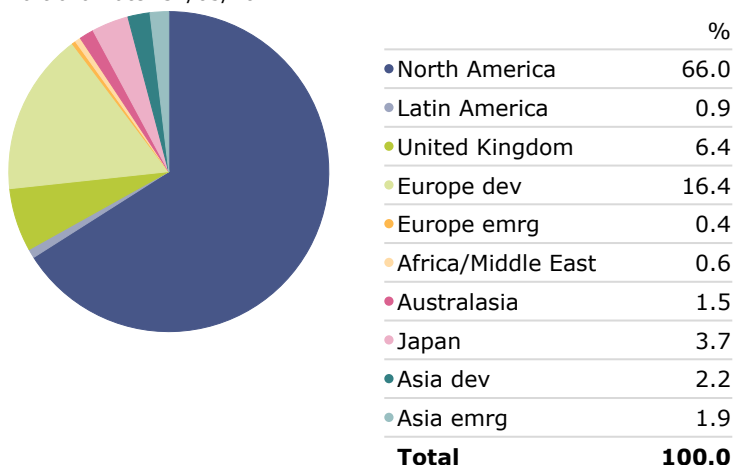
Over the last year the portfolio has generated a 5.22% return and underperformed the index by 13.84%.

There were no **Contributors** for the month above the index return; and the **Top Detractors** were the Magellan Global Fund +1.17%, Vanguard All World Ex-US ETF +1.51%, and the Vanguard Total Market Shares ETF +1.73%.

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

VIP International - Equity Regional Exposure

Portfolio Date: 31/05/2014



VIP International - Holdings

Portfolio Date: 31/05/2014

	Portfolio Weighting %
Magellan Global	42.27
Vanguard US Total Market Shares (AU) ETF	33.07
Vanguard All-World ex-US Shares (AU) ETF	24.67

Property Securities Portfolio

The Property Securities portfolio generated a 1.87% return for the month and 9.11% over the last 3 months. The portfolio outperformed the S&P/ASX 200 A-REIT index during the month by 1.37% and over the quarter by 0.87%.

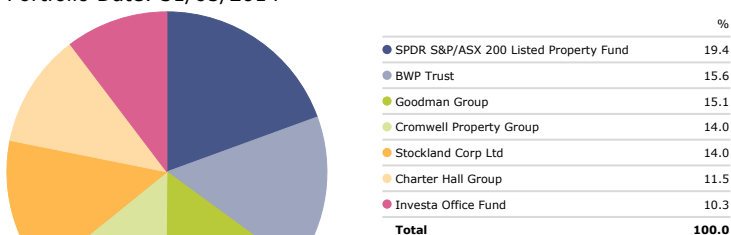
Over the last year the portfolio has generated a 9.15% return and outperformed the index by 5.70%.

The **Top Contributor** for the month was the BWP Trust +3.66%, Charter Hall Group +3.08%, and Goodman Group +2.67%; and there were no **Detractors** below the index return for the month.

The portfolios holdings and dividend yields are included below.

VIP Property Securities - Portfolio Holdings

Portfolio Date: 31/05/2014



VIP Property Securities - Holdings

Portfolio Date: 31/05/2014

	Ticker	Dividend Yield % TTM
SPDR S&P/ASX 200 Listed Property Fund	SLF	
BWP Trust	BWP	5.38
Goodman Group	GMG	3.89
Cromwell Property Group	CMW	6.94
Stockland Corp Ltd	SGP	5.96
Charter Hall Group	CHC	4.83
Investa Office Fund	IOF	5.27

International Portfolio Adjustments:

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

Property Securities Portfolio Adjustments:

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

Fixed Interest Portfolio

The Fixed Interest portfolio generated a 0.19% return for the month and 0.80% over the last 3 months. This was against the UBS Composite 0+Yr Bond index return of 1.37% and 2.31% over the month and last 3 months respectively.

There were no **Contributors** for the month above the index return; and the **Top Detractors** for the month were the Aberdeen Floating Rate Income Fund +0.12%, Cash +0.23%, and the Realm High Income Fund +0.54%.

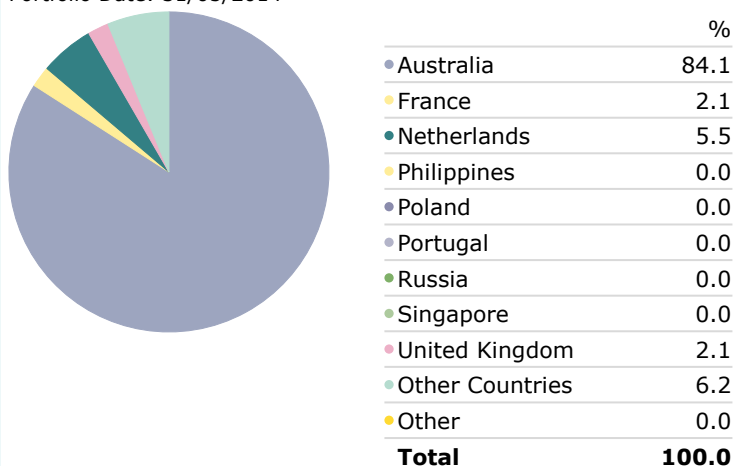
The portfolios country exposure is included below.

Fixed Interest Portfolio Adjustments:

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

VIP Fixed Interest - Country Exposure

Portfolio Date: 31/05/2014



VIP Fixed Interest Portfolio - Income Yield

Portfolio Date: 31/05/2014

	Income Return 1 Yr (Mo-End)
Aberdeen Australian Floating Rt Inc	2.67
Realm High Income	7.09
RBA Bank accepted Bills 90 Days	

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