

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

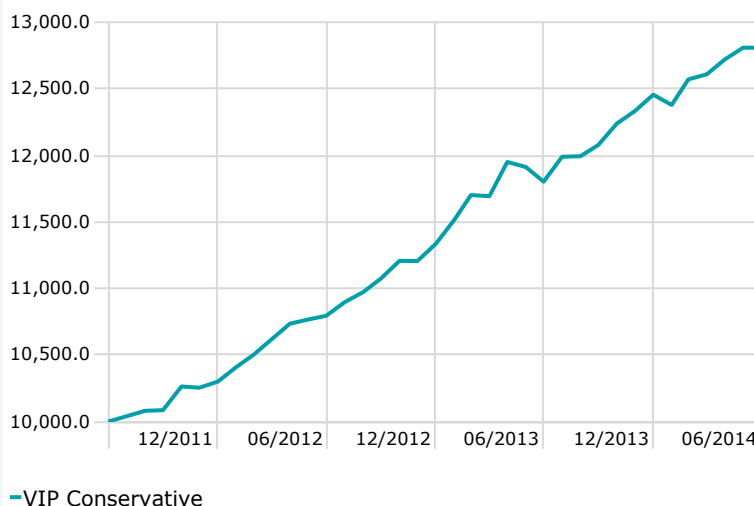
The VIP Conservative portfolio generated a 0.00% return pre-fees in June, and 1.58% return pre-fees in the quarter.

Over the last year the portfolio has generated a 8.53% 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 30/06/2014



Trailing Returns

As of Date: 30/06/2014

| | 1 Month | 3 Month | 6 Month | 1 Year | 2 Years | Since Inception |
|--------------------------------|---------|---------|---------|--------|---------|-----------------|
| VIP Conservative | 0.00 | 1.58 | 2.84 | 8.53 | 8.94 | 8.61 |
| VIP Conservative Investment | -0.11 | 1.24 | 2.15 | 7.08 | 7.48 | 7.48 |
| VIP Conservative Super-Pension | -0.07 | 1.38 | 2.43 | 7.67 | 8.07 | 7.74 |

Tactical Asset Allocation

The VIP Conservative portfolios asset allocation as at 30/06/2014 was as follows:

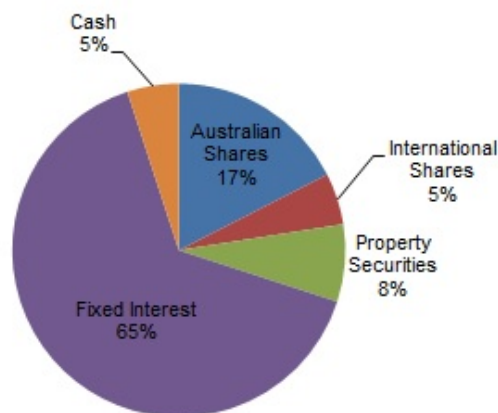
- Australian Shares 17.5%
- International Shares 5.0%
- Property Securities 7.5%
- Fixed Interest 65.0%
- Cash 5.0%

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: 30/06/2014



Month in Review - Economic & Market Commentary

With a European team winning the 2014 World Cup on South American soil the theme of this discussion is centred upon Europe and their ability, till now, to "kick the can" down the road just as successfully as German player Mario Goetze, now names *Super-Mario*, kicked the German team to a 4th World Cup triumph.

This ability to "kick the can" has also been a *triumph* when you reflect on the EU debt crisis that began to surface in Oct 2009 as the Greek government revealed a "black hole" in the budget, which was followed over the next few months with market volatility, credit agency downgrades, austerity program announcements, and resulting strikes and social upheaval. By the end of March 2010 the EU agreed on a Greek rescue package, and several short months later the same issues reared their ugly heads in Spain, Portugal, and Hungary to which the EU (basically Germany and France) agreed on a €500 billion fund to save the region from disaster.

The EU banks were at the forefront with stress-tests in July 2010 showing that most of them were stable in order to build confidence in the banking system to allow them to borrow and on lend to consumers and businesses in an attempt to breathe life into the EU region.

Then came the issues in Ireland taking centre stage amongst the continuing weakness in Spain, Portugal, Greece, et al..., and the emergence of the International Monetary Fund (IMF) and the Chinese as bailout-fund providers. Then came Italy's woes, the EU's third largest economy, as the European Central Bank started buying Italian and Spanish bonds in an ECB Bond buying program which was expected to reach €850 billion in an attempt to re-capitalise EU governments that were not able to raise funds from the open market as investors were afraid of these economies going bust.

This was followed by more rescue plans and stimulus as Germany and France agreed to increase the EU's rescue fund to €2 trillion! (Just for some perspective that is \$2.9 trillion Australian dollars and for comparison gross Australian Government debt is approximately \$300 billion AUD's).

These downgrades, austerity plane, stimulus measure, strikes, continued for the next 2 years until 14 August 2013 when it was announced that the Eurozone had been 'hauled' out of an 18 month recession by Germany and France.... *Talk about kicking the can!*

Essentially during this period bad debt that was owned by the banks post the GFC in 2008 was transferred to the governments as a measure to maintain confidence in their banking system. The problem was that these Governments were operating programs of *cradle to grave* Government support and had therefore also accumulated significant debt as the high taxes that are required for such a system to work were not being paid. Then this debt was *managed* with financial support from the ECB, IMF, and other stimulus providers with the hope being that this could be repaid as the underlying economies started to grow and perform.

After some optimistic Eurozone growth predictions for 2014 we have now seen that indicators of economic growth, such as Industrial (manufacturing) production has slumped in May 2014 which was the largest month-to-month drop since September 2012 as reported by commentators such as the Business Spectator (www.businessspectator.com.au).

This has sparked the ECB's most recent moves to effectively cut interest rates to negative levels and to announce the TLTRO (or the Targeted Longer-term Refinancing Operation) where the central bank will hand €700 billion to European banks in order for them to on lend these funds to consumers and businesses in an attempt to revive the EU economy.

Our bond managers, Realm Investments, have recently reviewed this program and have highlighted what needs to be done by a Eurozone bank to receive the funds from the ECB. In short to get their hands on a part of this hand-out a European bank needs to show they are currently lending to consumers with no real requirement to on lend at a greater level. In fact once they get the funds they can basically do whatever they see fit with the money. The fear here is that these funds are held on balance sheet by EU banks for a rainy day, however, they would be punished for doing nothing through the negative interest rates.

Apart from the interesting question as to whether this will actually work, it will be very interesting to see how this will impact (or will be impacted) by a future US interest rate rise that the US Federal Reserve would need to look into to control US economic growth and inflation.

If these reforms do work they will help manage this "kicking the can" process and allow the next chapter on the EU saga to continue with the measures effectively increasing the ECB's debt to €3 trillion. Hopefully the ECB can take a page out of *Super-Mario's* book.

Portfolio Commentary - Australian Shares Portfolio

The Australian share portfolio generated a -1.56% return for the month and 1.71% over the last 3 months. The portfolio underperformed the S&P/ASX 100 index in June by 0.09%, and outperformed by 0.58% over the quarter.

Over the last year the portfolio has generated a 26.36% return pre-fees outperforming the ASX100 index by 8.71%.

The **Top 3 Contributors** for the month were Bendigo & Adelaide Bank +4.01%, Ansell Limited +3.01%, and James Hardie Industries +2.00%.

The **Top 3 Detractors** for the month Crown Resorts -7.01%, Ramsay Healthcare -3.91%, and Wesfarmers Limited -3.51%.

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

VIP Australian Share Leaders - Holdings

| | Ticker | Dividend Yield % TTM |
|---|--------|----------------------------|
| BHP Billiton Ltd | BHP | 3.38 |
| Bendigo And Adelaide Bank Ltd | BEN | 5.00 |
| Ansell Ltd | ANN | 2.15 |
| Lend Lease Group | LLC | 3.19 |
| Woodside Petroleum Ltd | WPL | 4.89 |
| James Hardie Industries PLC DR | JHX | 4.83 |
| Macquarie Group Ltd. | MQG | 1.76 |
| Australia and New Zealand Banking Group Ltd | ANZ | 5.21 |
| Telstra Corp Ltd | TLS | 5.25 |
| Computershare Limited | CPU | 2.23 |
| Westpac Banking Corp | WBC | 5.25 |
| Wesfarmers Ltd | WES | 4.35 |
| Sonic Healthcare Ltd | SHL | 3.57 |
| Ramsay Health Care Ltd | RHC | 1.65 |
| Crown Resorts Ltd | CWN | 1.78 |

International Shares Portfolio

The International Share portfolio generated a 0.37% return for the month and 1.64% over the last 3 months. In doing so the portfolio underperformed the MSCI World Ex Aus (AUD) index in June by 0.07% and over the last 3 months by 1.39%.

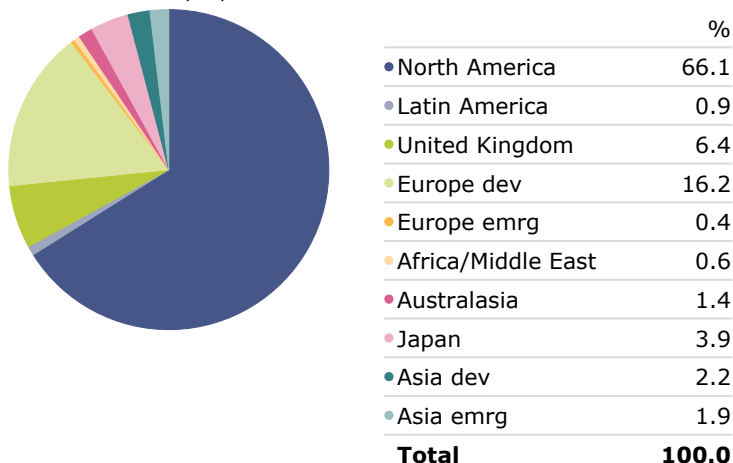
Over the last year the portfolio has generated an 8.56% return and underperformed the index by 11.85%.

There were no **Contributors** for the month above the index return; and the **Top Detractors** were the Magellan Global Fund -0.87%, Vanguard All World Ex-US ETF +0.24%, and the Vanguard Total Market Shares ETF +1.12%.

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

VIP International - Equity Regional Exposure

Portfolio Date: 30/06/2014



VIP International - Holdings

Portfolio Date: 30/06/2014

| | Portfolio Weighting % |
|--|-----------------------|
| Magellan Global | 41.75 |
| Vanguard US Total Market Shares (AU) ETF | 33.48 |
| Vanguard All-World ex-US Shares (AU) ETF | 24.77 |

International Portfolio Adjustments:

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

Property Securities Portfolio

The Property Securities portfolio generated a 0.55% return for the month and 6.84% over the last 3 months. The portfolio underperformed the S&P/ASX 200 A-REIT index during the month by 2.79% and over the quarter by 2.45%.

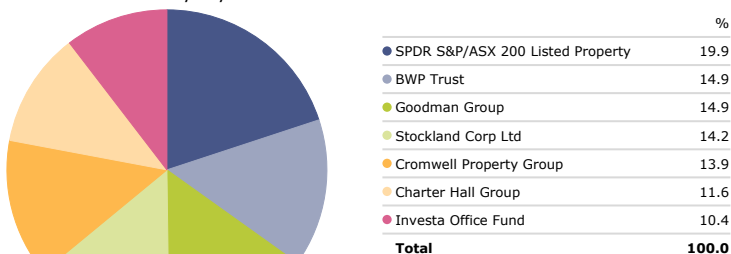
Over the last year the portfolio has generated a 14.95% return and outperformed the index by 3.89%.

There were no **Contributors** for the month above the index return; and the **Top 3 Detractors** were BWP Trust -3.88%, Goodman Group -0.79%, and Cromwell Group -0.06%.

The portfolios holdings and dividend yields are included below.

VIP Property Securities - Portfolio Holdings

Portfolio Date: 30/06/2014



VIP Property Securities - Holdings

Portfolio Date: 30/06/2014

| | Ticker | Dividend Yield % TTM |
|----------------------------------|--------|----------------------|
| SPDR S&P/ASX 200 Listed Property | SLF | |
| BWP Trust | BWP | 5.51 |
| Goodman Group | GMG | 3.86 |
| Stockland Corp Ltd | SGP | 5.97 |
| Cromwell Property Group | CMW | 7.03 |
| Charter Hall Group | CHC | 5.32 |
| Investa Office Fund | IOF | 5.16 |

Property Securities Portfolio Adjustments:

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

Fixed Interest Portfolio

The Fixed Interest portfolio generated a 0.27% return for the month and 0.76% over the last 3 months. This was against the UBS Composite 0+Yr Bond index return of 0.80% and 3.11% 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 +0.20%, Cash +0.22%, and the Realm High Income Fund +0.70%.

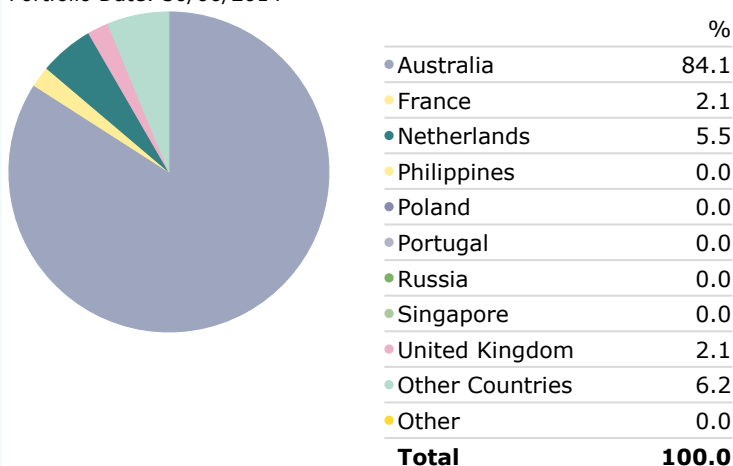
The portfolios country exposure is included below.

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: 30/06/2014



VIP Fixed Interest Portfolio - Income Yield

Portfolio Date: 30/06/2014

| | Income Return 1 Yr (Mo-End) |
|-------------------------------------|--------------------------------------|
| Aberdeen Australian Floating Rt Inc | 2.69 |
| Realm High Income | 5.16 |
| RBA Bank accepted Bills 90 Days | |

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