

## 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 0.34% return pre-fees in August, and 1.60% return pre-fees in the quarter.

Over the last year the portfolio has generated a 8.51% return pre-fees and over 3 years 8.90%. Over both these periods the portfolio has achieved performance below our Conservative Composite Index due to the defensive nature of the Fixed Interest allocation.

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

## Investment Growth

Time Period: 30/06/2012 to 31/08/2014



## Trailing Returns

As of Date: 31/08/2014

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	Since Inception
VIP Conservative	0.34	1.60	3.53	8.51	8.92	8.90	8.69
VIP Conservative Investment	0.23	1.26	2.83	7.06	7.46		7.57
VIP Conservative Super-Pension	0.27	1.40	3.11	7.65	8.06	8.03	7.82
VIP Conservative Composite Index	0.91	3.05	5.61	9.36	8.80	9.20	8.95

## Tactical Asset Allocation

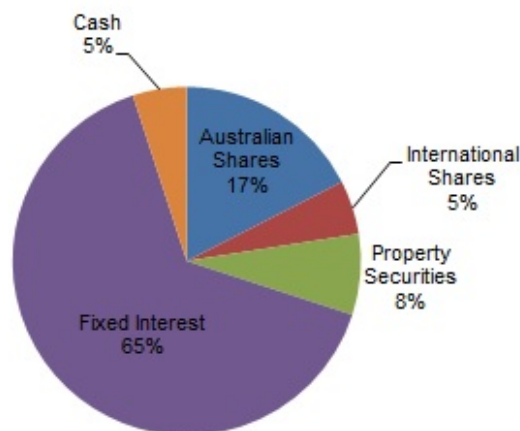
The VIP Conservative portfolios asset allocation as at 31/08/2014 was as follows:

- 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: 31/08/2014



## Risk vs Return

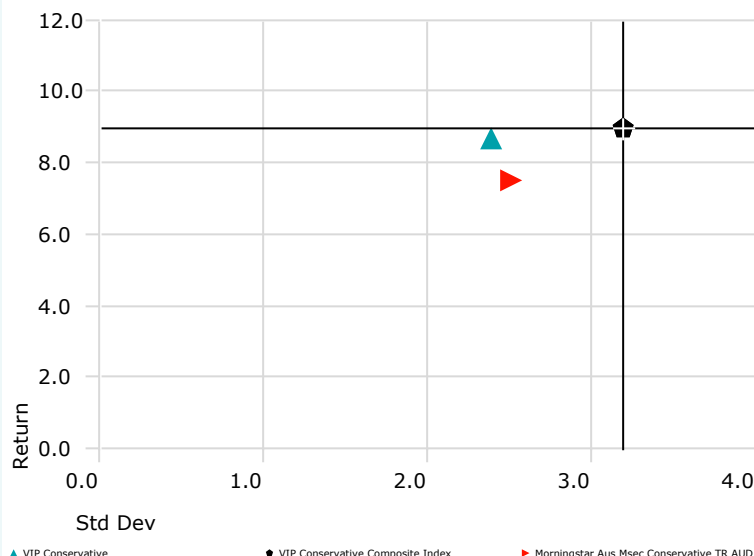
The VIP portfolios aim to reduce volatility, or risk, over the long term and achieve excess returns per unit of risk that is taken compared to our Conservative Composite Index and the Morningstar Multi-sector Conservative Index.

The chart on the right plots return on the vertical axis against risk (in the form of Standard Deviation) on the horizontal axis. Basically the higher up the vertical axis (high return) and the more left on the horizontal axis (low risk) is the ideal position that we aim for over the long term.

The chart on the right shows that the VIP Conservative portfolio (aqua triangle) has achieved **lower risk** compared to the Conservative Composite Index (black pentagon) and **higher return** and **lower risk** than our peers represented by the Morningstar Multi-sector Conservative index (red triangle) and since inception on 01/07/2011.

This is the outcome we aim to achieve for our investors.

## Risk-Reward



## Month in Review - Economic & Market Commentary

### Help Me, Help You...

Glen Stevens, the head of the Reserve Bank of Australia (RBA), had a Jerry Maguire moment (remember the 1996 movie starring Tom Cruise?) when he essentially said **Help Me, Help You** to the House of representatives Standing Committee on Economics on the 20th of August.

OK... he didn't say those exact words, but he was making the point that the RBA has done all it can in easing monetary conditions with low interest rates and now he is looking for Australian corporations to regain their "Animal Spirits" towards their attitude to investment.

He said *".. the thing that is most needed now is something monetary policy can't directly cause: more of the sort of 'animal spirits' needed to support an expansion of the stock of existing assets (outside the mining sector), not just a repricing of existing assets"*. Essentially he is saying that businesses outside of the mining sector need to invest and add value to their asset bases and not just enjoy a rise in the price of their existing share (asset) prices.

He goes on to say *"Nonetheless, if reports are to be believed, many businesses remain intent on sustaining a flow of dividends and returning capital to shareholders, and less focused on implementing plans for growth"* as companies remain cautious about the future. He also made the statement recently that investors are going to start asking companies not about their cost cutting program, but about their investment and growth program.

The RBA Governor has been making these statement as capital expenditure and investment levels (outside of the mining sector) are at very low levels and will need to increase to support the continual rise in share prices.

What are companies doing with this cash? During the recent reporting season just passed CommSec analysis showed that 76% of companies that reported full year results announced to either maintain or increase dividends above the levels announced at interim or full-year reporting seasons over the last 5 years. This dividend increase equated to an 11.2% rise for ASX 200 companies that reported full-year earnings.

So companies are not sitting on the funds in cash (which is good), and not investing for the future (which is not so good), but are paying out in dividends to keep us shareholders happy.

All in all reporting season was positive with revenue for the ASX 200 companies that reported up 4.1% in total and expenses up 3.2%. Most importantly there was a 31.4% increase in net profit, and this was not confined to the largest companies (in terms of capitalisation) as when BHP, Telstra, Commonwealth Bank, Wesfarmers and News Corp is excluded from the figures the profit increase was 61.5% in aggregate.

So it will be interesting to see when these companies will start to fire-up their investment cycles and projects, which as Glen Stevens says is needed to drive the economy along with the loose monetary policy conditions. From an investors perspective this is also vital as this increased investment will result in better valuations for our Australian listed companies based on growing asset bases and not just growing share prices.

Source: ComSec, Business Insider. .

## Australian Shares Portfolio

The Australian share portfolio generated a -0.05% return for the month and 1.81% over the last 3 months. The portfolio underperformed the S&P/ASX 100 index in August by 0.55% and 1.54% over the quarter.

Over the last year the portfolio has generated a 18.62% return pre-fees outperforming the ASX100 index by 3.89%.

The **Top 3 Contributors** for the month were Ramsay Healthcare +7.38%, Ansell Limited +5.81%, and Lend Lease Group +5.30%.

The **Top 3 Detractors** for the month were James Hardie Industries -6.36%, BHP Billiton -5.20%, and Computershare -5.17%.

## International Shares Portfolio

The International Share portfolio generated a 0.75% return for the month and 1.78% over the last 3 months. In doing so the portfolio underperformed the MSCI World Ex Aus (AUD) index in August by 0.88% and over the last 3 months by 0.04%.

Over the last 3 years the portfolio has generated a 17.69% return and underperformed the index by 3.36%.

The **Top Contributor** for the month was the Vanguard US Total Market Shares ETF +3.56%; and the **Top Detractors** were the Vanguard All World Ex-US ETF +0.42% and the Magellan Global Fund +0.97%.

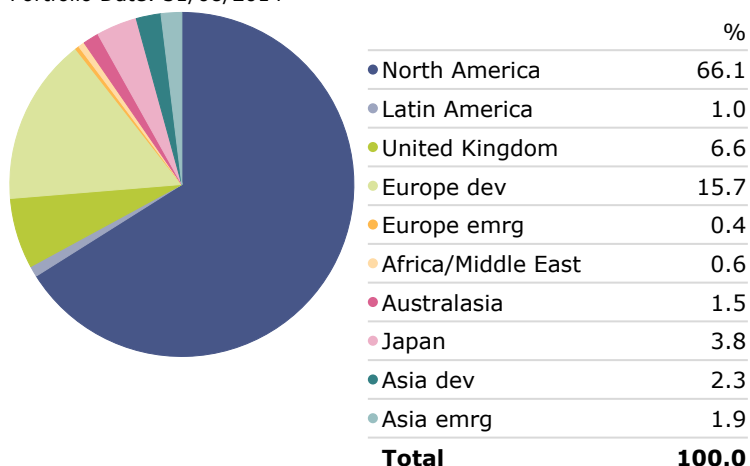
The portfolios holdings and the total regional exposure are included below.

### VIP Australian Share Leaders - Holdings

	Ticker	Dividend Yield % TTM
BHP Billiton Ltd	BHP	3.76
Lend Lease Group	LLC	4.98
Bendigo And Adelaide Bank Ltd	BEN	5.31
Woodside Petroleum Ltd	WPL	5.63
Telstra Corp Ltd	TLS	5.51
Ansell Ltd	ANN	2.16
Ramsay Health Care Ltd	RHC	1.69
Wesfarmers Ltd	WES	4.45
Westpac Banking Corp	WBC	5.49
Australia and New Zealand Banking Group Ltd	ANZ	5.58
Computershare Ltd	CPU	2.41
Sonic Healthcare Ltd	SHL	2.83
Macquarie Group Ltd.	MQG	1.83
James Hardie Industries PLC DR	JHX	3.57
Crown Resorts Ltd	CWN	1.89

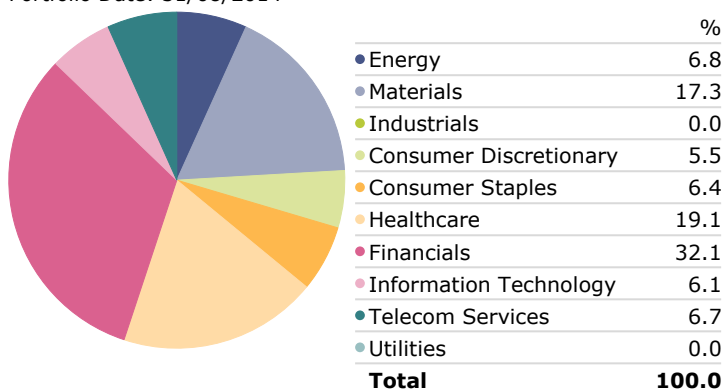
### VIP International - Equity Regional Exposure

Portfolio Date: 31/08/2014



### VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/08/2014



### VIP International - Holdings

Portfolio Date: 31/08/2014

	Portfolio Weighting %
Magellan Global	41.46
Vanguard US Total Market Shares ETF	34.00
Vanguard All-World ex-US Shares ETF	24.54

### Australian Shares Portfolio Adjustments:

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

### 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 2.68% return for the month and 8.77% over the last 3 months. The portfolio outperformed the S&P/ASX 200 A-REIT index during the month by 0.99%, but underperformed the index over the quarter by 1.57%.

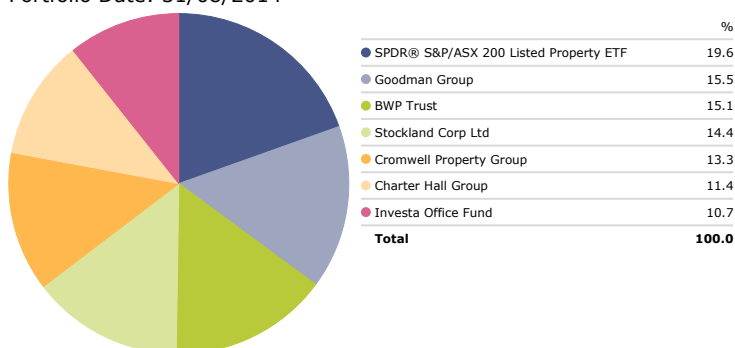
Over the last year the portfolio has generated a 22.38% return and outperformed the index by 2.66%.

The **Top 3 Contributors** were Goodman Group +4.69%, Stockland Corp +4.68%, and Charter Hall Group +4.15%; and the **Top Detractors** were Cromwell Group -1.47% and the SPDR ASX200 A-REIT ETF +1.65%.

The portfolios holdings and dividend yields are included below.

### VIP Property Securities - Portfolio Holdings

Portfolio Date: 31/08/2014



### VIP Property Securities - Holdings

Portfolio Date: 31/08/2014

	Ticker	Dividend Yield % TTM
SPDR® S&P/ASX 200 Listed Property ETF	SLF	
Goodman Group	GMG	3.98
BWP Trust	BWP	5.99
Stockland Corp Ltd	SGP	5.97
Cromwell Property Group	CMW	7.10
Charter Hall Group	CHC	5.30
Investa Office Fund	IOF	5.49

### Property Securities Portfolio Adjustments:

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

## Fixed Interest Portfolio

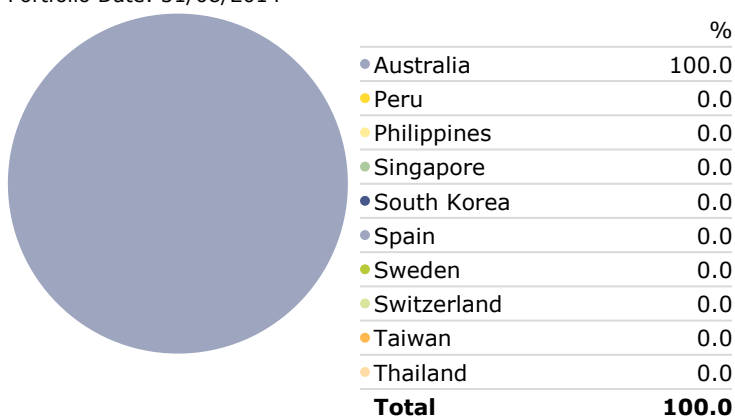
The Fixed Interest portfolio generated a 0.12% return for the month and 0.65% over the last 3 months. This was against the UBS Composite 0+Yr Bond index return of 1.01% and 2.12% over the month and last 3 months respectively.

There were **no Contributors** who achieved a return above the index return for the month; and the **Top Detractors** for the month were the Aberdeen Floating Rate Income Fund +0.08%, Cash +0.22%, and Realm High Income Fund +0.28.

The portfolios country exposure is included below.

### VIP Fixed Interest - Country Exposure

Portfolio Date: 31/08/2014



### VIP Fixed Interest Portfolio - Income Yield

Portfolio Date: 31/08/2014

	Income Return 1 Yr (Mo-End)
Aberdeen Australian Floating Rt Inc	2.60
Realm High Income	5.16
RBA Bank accepted Bills 90 Days	

### Fixed Interest Portfolio Adjustments:

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

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