

## 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

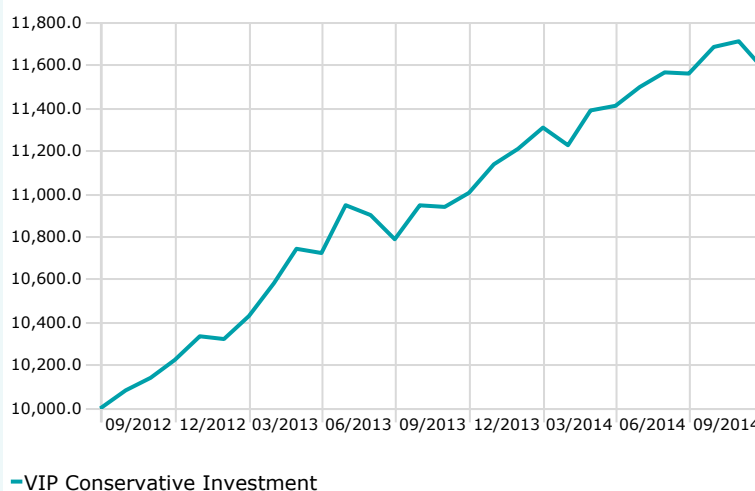
The VIP Conservative portfolio generated a -0.97% return pre-fees in September, and 0.55% return pre-fees over the quarter.

Over the last year the portfolio has generated a 6.71% return pre-fees and over 3 years 8.53%. Over the last year the portfolio has outperformed our Conservative Composite Index, and underperformed over the last 3 years 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 30/09/2014



## Trailing Returns

As of Date: 30/09/2014

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	Since Inception
VIP Conservative	-0.97	0.55	2.22	6.71	7.89	8.53	8.13
VIP Conservative Investment	-1.08	0.21	1.53	5.28	6.45		6.76
VIP Conservative Super-Pension	-1.04	0.35	1.81	5.86	7.03	7.67	7.27
VIP Conservative Composite Index	-1.80	0.65	3.76	6.47	7.20	8.90	8.11

## Tactical Asset Allocation

The VIP Conservative portfolios asset allocation as at 30/09/2014 was as follows:

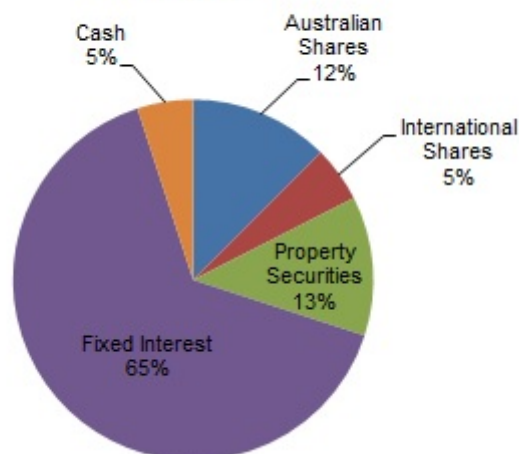
- Australian Shares 12.5%
- International Shares 5.0%
- Property Securities 12.5%
- Fixed Interest 65.0%
- Cash 5.0%

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

In terms of these Growth assets, Property Securities and International Shares are held above the benchmark (target) levels, whereas Australian shares are held below benchmark levels. These weightings are due to the *VIP Investment Committee's* targeting of yield and more favourable market conditions in global shares in this currently volatile environment.

## Conservative Portfolio TAA

As at: 30/09/2014



## Risk vs Return

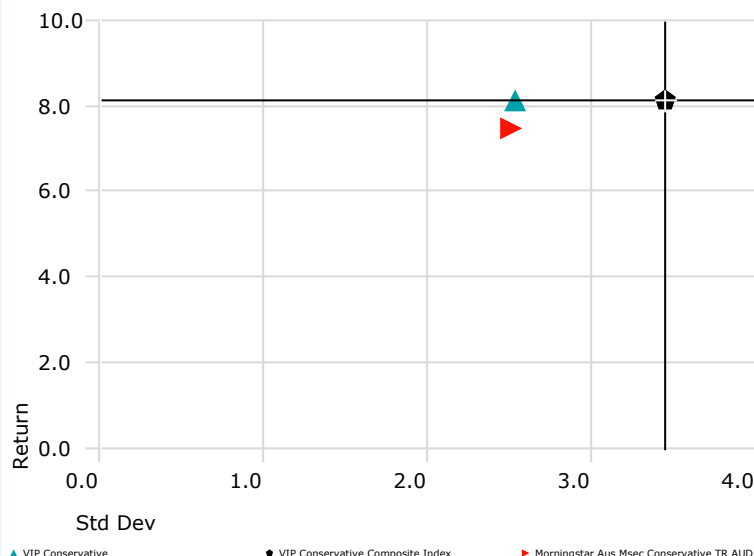
The VIP portfolios aim to reduce volatility, or risk, over the long term and achieve excess returns per unit of risk that is taken compared to our Conservative Composite Index and the Morningstar Multi-sector Conservative Index.

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

### Finally It's Over

It finally happened. The US Federal Reserve announced last night (our time) the end of its stimulus program – QE3. This brings to an end the \$US85 billion (yes, billion) a month that the US Fed was pumping into the financial system by buying Treasury bonds and mortgage-backed securities to hold interest rates down and boost the recovering US economy.

By buying bonds (Treasury bonds and mortgage-backed securities) the demand had drove up bond prices and effectively pushed down interest rates or yields remembering that the price of bonds moves in the opposite direction to the bond yield (interest rates) and vice versa... rising bond price = falling interest rates; and falling bond price = rising interest rates.

That produced a selloff in bond markets which saw a marketable rise in short term US Government bond yields. The 5-year US Treasury note yield jumped to a level where it is on track for its largest done-day increase since the middle of March. The announcement also saw an increase in the US dollar (USD) against all major currencies as expected with the market starting to price in an increase in official interest rates sooner post the announcement.

Stocks suffered a losses during the trading session but recovered late in trading to close down only marginally on the day.

The US Fed also expressed confidence in the US recovery with a positive view on the US employment situation. They stated that the US unemployment and inflation targets remain on track even in light of a slowing global economy particularly in Europe. The US Fed also stated that although they announced the end of QE3 US interest rates would remain near 0% for a "considerable time".

It was these comments that underpinned a recovery in the earlier market losses of the trading day.

In September markets were spooked by poor economic news from Germany and equally poor outlook from the International Monetary Fund (IMF). The IMF predicted only 3.3% global economic growth in 2014 and 3.8% in 2015, which were lower than the July forecasts. The forecasts highlighted 0.8% growth in from Europe in 2014 and 7.4% from China.

Commodity prices also fell in September with the RBA Index of Commodity prices down 3.1% in September taking the annual decline in prices to 18%. The large miners such as Rio Tinto came under fire for increasing iron-ore production in an environment of falling iron-ore process as more supply would lead to lower prices again.

This negative economic news along with the focus on the geo-political conflicts in the Middle East and Ukraine, and the Ebola epidemic in West Africa, led to a 5.38% fall in Australian shares (S&P/ASX 200 index) 5.35% fall in Australian Property Securities (S&P/ASX 200 A-REIT index) although international markets rose for the month.

These negative Australian results led a fall in global markets in October with the US market (S&P 500 index) falling by 5.4% by the middle of this month. At the time of writing the S&P 500 had made up all of this October loss while the Australian market (S&P/ASX 200) is still down approximately 200 points or 3.5% from the September highs.

## Australian Shares Portfolio

The Australian share portfolio generated a -4.55% return for the month and -1.20% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in September by 0.81%, and underperformed by 0.48% over the quarter.

Over the last year the portfolio has generated a 10.30% return pre-fees outperforming the ASX100 index by 4.05%.

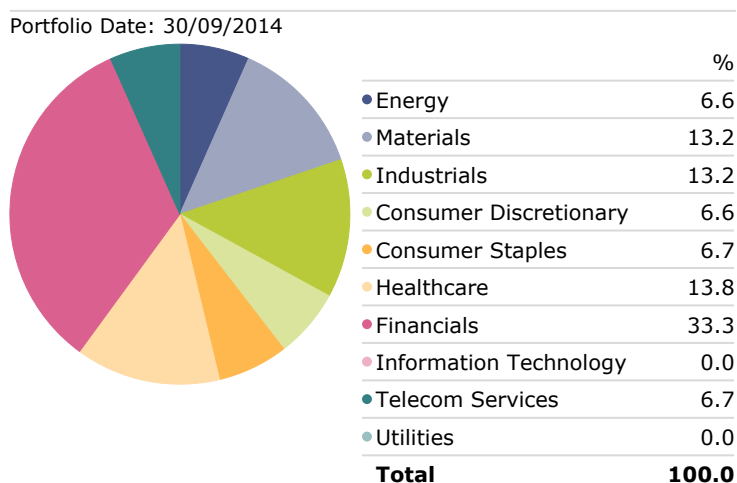
The **Top 3 Contributors** for the month were Lend Lease Group +3.71%, Brambles Limited +1.63%, and Ansell Limited -2.26%. The **Top 3 Detractors** for the month were Crown Resorts -11.46%, Leighton Holdings -11.45%, and Westpac Bank -8.28%.

The portfolios holdings and sector exposure are included below.

### VIP Australian Share Leaders - Holdings

	Ticker	Dividend Yield % TTM
Ramsay Health Care Ltd	RHC	1.64
Lend Lease Group	LLC	4.57
Ansell Ltd	ANN	2.12
Brambles Ltd	BXB	2.88
Wesfarmers Ltd	WES	4.33
Telstra Corp Ltd	TLS	5.28
Bendigo And Adelaide Bank Ltd	BEN	5.18
Woodside Petroleum Ltd	WPL	5.88
National Australia Bank Ltd	NAB	5.66
Rio Tinto Ltd	RIO	3.76
James Hardie Industries PLC DR	JHX	3.61
Australia and New Zealand Banking Group Ltd	ANZ	5.23
Crown Resorts Ltd	CWN	2.59
Westpac Banking Corp	WBC	5.17
Leighton Holdings Ltd	LEI	4.03

### VIP Australian Share Leaders - Equity Sectors



### Australian Shares Portfolio Adjustments:

The *VIP Investment Committee* elected to make the portfolio more defensive in September by selling Computershare and Sonic Healthcare to take profits, selling Macquarie Bank as it has not experienced the merger and acquisition business contributions that were expected in this marketplace, and selling BHP Billiton as their decision to move away from a UK listing may result in indexes selling the stock which would push the price down with no consideration of the company's fundamentals.

To replace these holdings the *VIP Investment Committee* bought Brambles, Leighton Holdings, Rio Tinto, and the National Australia Bank.

**Brambles** is the world's largest provider of pallet and reusable plastic crate pooling services, which will benefit upon an increase in global consumption especially from developing economies. The global scope of brambles operations will provide USD exposure which will benefit profitability if the USD continues to strengthen against the AUD.

**Leighton Holdings** was previously in the portfolio and sold due to board concerns. It is Leighton's new streamlined structure that follows a more traditional business model and focuses on infrastructure projects away from resource-based work that sees it back into the portfolio. We believe this restructuring into four specialised divisions - engineering, construction, public private partnerships, and mining - and divestment of several non-core businesses will increase efficiencies and margins the dominant infrastructure construction and mining services company. Leighton holds AUD 43.1 billion work-in-hand and a reasonably positive outlook, supported by a solid pipeline of large-scale infrastructure projects, domestically and in Asia.

**Rio Tinto** has been added to the portfolio in light of the sale of BHP due to its UK listing decision. Rio's recent increase in iron-ore production is a good sign in an uncertain global economic environment of management's focus to meet demand and shows the profitability Rio generate off a low cost structure. Like BHP geographic and product diversification give the company relatively stable cash flow and lower operating risk than many of its mining peers. Most revenue comes from the relative safe havens of Australia, North America, and Europe, though operations span half a dozen continents.

**National Australia Bank** is Australia's biggest bank and is representing better value than its peers. NAB's aggressive retail banking marketing and pricing strategy is delivering strong uplift in new customers, loan growth and customer deposits. Lower retail banking margins are offset by improved performance in business and New Zealand.

## International Shares Portfolio

## Property Securities Portfolio

The International Share portfolio generated a 4.10% return for the month and 5.57% over the last 3 months. In doing so the portfolio underperformed the MSCI World Ex Aus (AUD) index in September by 0.20% and over the last 3 months by 0.17%.

Over the last 3 years the portfolio has generated a 18.12% return and underperformed the index by 4.25%, however has outperformed the index by 7.16% since inception.

The **Top Contributor** for the month was the Magellan Global Fund +5.39%; and the **Top Detractors** were the Vanguard US Total Market Shares ETF +3.56%, Vanguard All World Ex-US ETF +0.42%.

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

The Property Securities portfolio generated a -7.13% return for the month and -0.55% over the last 3 months. The portfolio underperformed the S&P/ASX 200 A-REIT index during the month by 1.78% and over the quarter by 1.61%.

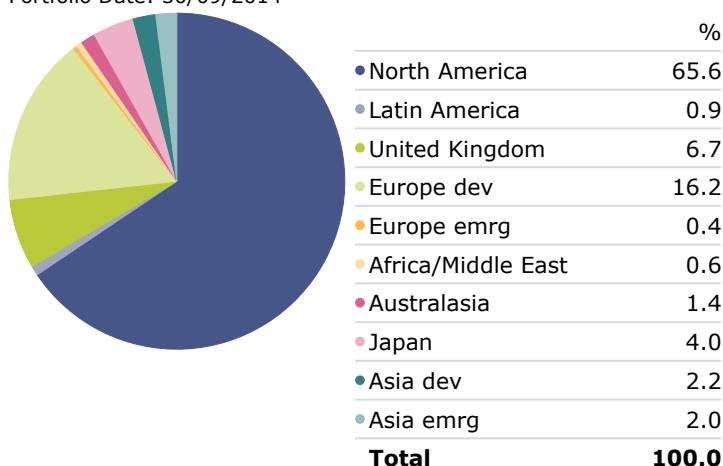
Over the last year the portfolio has generated a 13.20% return and outperformed the index by 1.01%.

The **Top 3 Contributors** were Cromwell Group -3.54%; and the **Top Detractors** were Charter Hall Group -9.51%, BWP trust -9.47%, and Investa Office Fund -8.72%.

The portfolios holdings and dividend yields are included below.

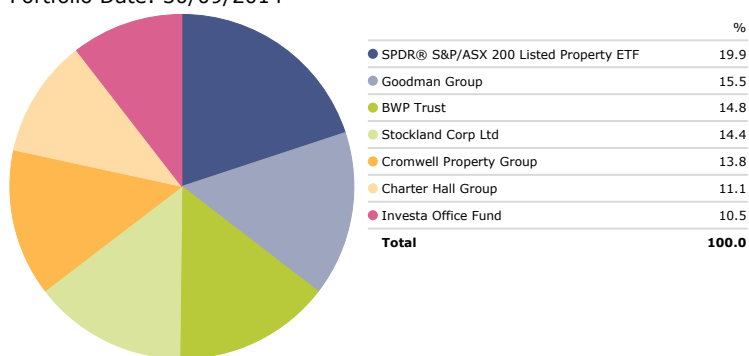
### VIP International - Equity Regional Exposure

Portfolio Date: 30/09/2014



### VIP Property Securities - Portfolio Holdings

Portfolio Date: 30/09/2014



### VIP International - Holdings

Portfolio Date: 30/09/2014

	Portfolio Weighting %
Magellan Global	41.85
Vanguard US Total Market Shares ETF	34.28
Vanguard All-World ex-US Shares ETF	23.87

### VIP Property Securities - Holdings

Portfolio Date: 30/09/2014

	Ticker	Dividend Yield % TTM
SPDR® S&P/ASX 200 Listed Property ETF	SLF	
Goodman Group	GMG	3.79
BWP Trust	BWP	5.90
Stockland Corp Ltd	SGP	5.77
Cromwell Property Group	CMW	7.80
Charter Hall Group	CHC	5.13
Investa Office Fund	IOF	5.29

### International Portfolio Adjustments:

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

### Property Securities Portfolio Adjustments:

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

## Fixed Interest Portfolio

The Fixed Interest portfolio generated a 0.30% return for the month and 0.67% over the last 3 months. This was against the UBS Composite 0+Yr Bond index return of -0.33% and 0.97% over the month and last 3 months respectively.

The **Top Contributors** who achieved a return above the index return for the month were Cash +0.22%, and Realm High Income Fund -0.17%; and there were no **Detractors** for the month.

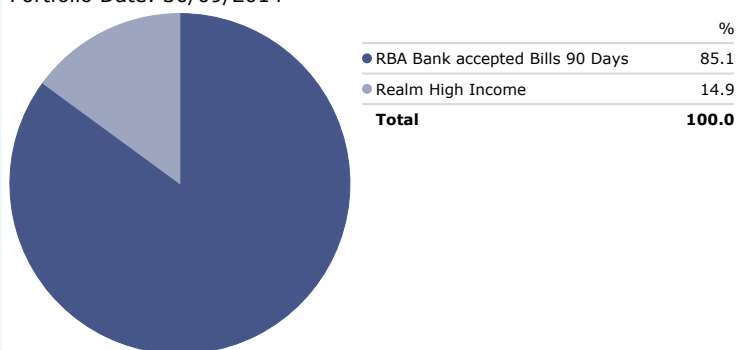
The portfolios country exposure is included below.

### Fixed Interest Portfolio Adjustments:

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

### VIP Fixed Interest - Portfolio Holdings

Portfolio Date: 30/09/2014



### VIP Fixed Interest Portfolio - Income Yield

Portfolio Date: 30/09/2014

	Income Return 1 Yr (Mo-End)
RBA Bank accepted Bills 90 Days	
Realm High Income	4.69

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Source: Morningstar Direct