

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

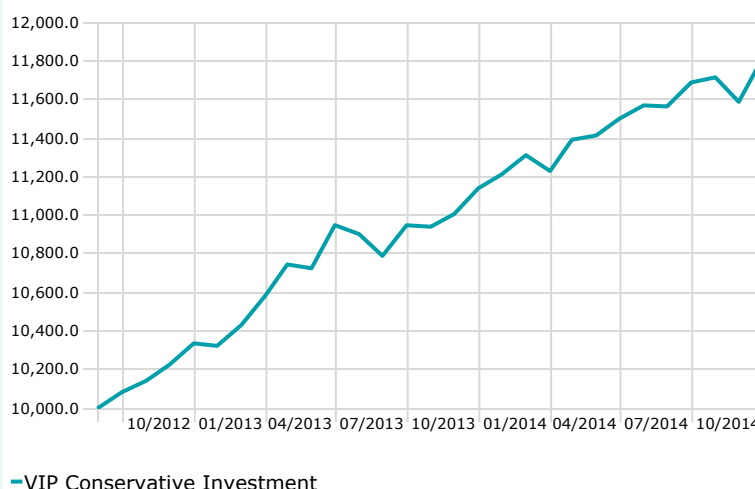
The VIP Conservative portfolio generated a 2.11% return pre-fees in October, and 1.46% return pre-fees in the quarter.

Over the last year the portfolio has generated a 7.53% return pre-fees and over 3 years 8.66%. 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 31/10/2014



—VIP Conservative Investment

Trailing Returns

As of Date: 31/10/2014

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	Since Inception
VIP Conservative	2.11	1.46	3.46	7.53	8.38	8.66	8.61
VIP Conservative Investment	1.99	1.11	2.76	6.09	6.93		7.42
VIP Conservative Super-Pension	2.04	1.25	3.05	6.67	7.52	7.79	7.74
VIP Conservative Composite Index	2.21	1.29	4.46	7.68	7.75	9.14	8.61

Tactical Asset Allocation

The VIP Conservative portfolios asset allocation as at 31/10/2014 was as follows:

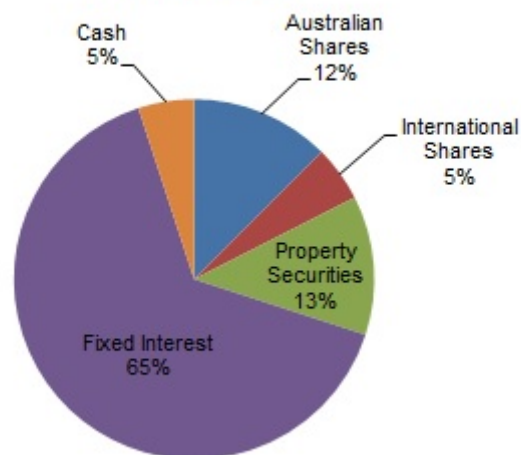
- Australian Shares 12.5%
- International Shares 5.0%
- Property Securities 12.5%
- Fixed Interest 65.0%
- Cash 5.0%

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

In terms of these Growth assets, Australian shares are held below benchmark (target) levels, whereas Property Securities and 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: 31/10/2014



Risk vs Return

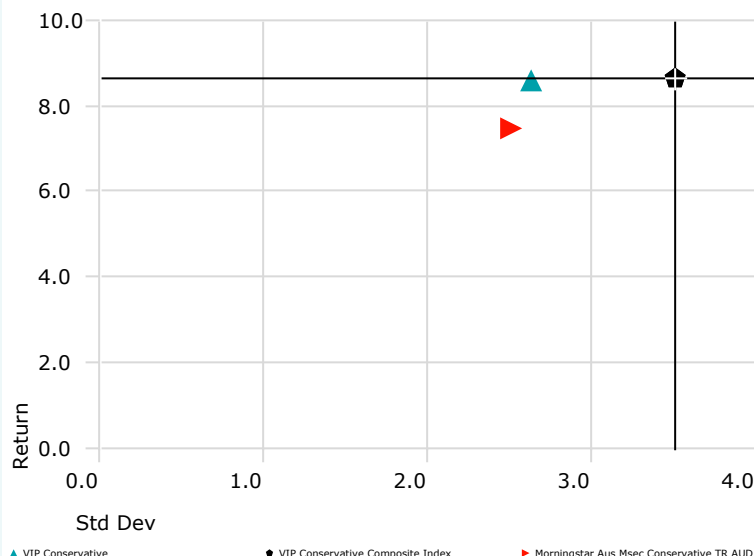
The VIP portfolios aim to reduce volatility, or risk, over the long term and achieve excess returns per unit of risk that is taken compared to our Conservative Composite Index and the Morningstar Multi-sector Conservative Index.

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

Australia-China Free Trade

The recent Free Trade Agreement (FTA) between Australia and China is expected to have some significant positive impacts on the Australian economy with the removal of tariffs in the agriculture, mining, and services sectors. The FTA will also have an impact on Chinese investment in Australia, which is critical for investors to understand as companies slowly become takeover targets by Chinese firms.

Australian exports to China are worth \$90 Billion to Australia and account for 1/3 of all goods sold abroad. Iron Ore exports account for 56% of these exports. In terms of agriculture Australia exports 23% of agriculture to China, our largest Agri export market, and this provides \$8.7 Billion (2013-14).

In terms of demand projections the US Department of Agriculture (USDA) projects that between 2013 and 2023 there will be a doubling of Chinese imports of cotton and beef, a 60% rise in pork and oilseed demand, and a 30% rise in barley demand. Similarly, Australian Dept of Agriculture Research Bureau ABARES project that between 2009 and 2050 sheep and goat meat demand by China will rise 20 fold or +1000%, Beef demand will rise 10 fold (500%), fruit demand will rise +200%, dairy +165%, Sugar +100%, and Cereals +50%.

So it is clear that this FTA has the potential to provide significant benefits for Australian agricultural exports. However, the agricultural sector is not the only winner in this FTA and not all parts of the agri sector are to be treated the same.

Tariffs on dairy, beef, sheep meat, wine, horticulture, seafood, and hides/skins/leathers are to be removed, whereas Rice, Cotton, and Sugar tariffs are not being removed as these are sensitive sectors in China. The Mining sector also wins with tariff removal on coal, alumina, and other mineral ores.

The Services sector is also a winner with improved market access for many service providers including the financial services, healthcare, legal services, construction, and mining services sectors. A look at the Healthcare sector can quickly show the benefits that this could have on the services sector. The FTA will allow healthcare companies to establish wholly owned hospitals and aged-care facilities in China. Ramsay Healthcare has already signed a memorandum of understanding to buy 50% of Jinxin Groups healthcare assets in Chengdu, mainland China's 4th most populated city.

One of the other effects the FTA will have is on Chinese investment in Australian assets. Currently Chinese investment in Australia reached \$20 billion in 2013. This is still a relatively small amount behind the Netherlands, Singapore, Japan, the UK, and the US (smallest to largest). To date most of this has been in the mining and property sectors. The main outcome in this area is the raising of the threshold at which investments in non-sensitive sectors by private sector entities from China are considered by the Foreign Investment Review Board (FIRB) from \$248 million to \$1,078 million.

However, the news is not all good as it would be expected that the FTA would be the final nail in the coffin for the Australian manufacturing sector that is already being affected by high labour costs in Australian and a high Australian dollar. It is expected that this will also throw fuel on the debate regarding foreign ownership of Australian assets.

As investors it is important to be informed of these developments as it shows us which sectors may benefit, and others be affected, by these changes. It will also help continue the shift of our focus on the mining sector as other sectors such as agriculture and services are also expected to benefit, and more so than the mining sector.

Source: Written with the assistance of the National Australia Bank.

Australian Shares Portfolio

The Australian share portfolio generated a 4.93% return for the month and 0.10% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in October by 0.23% and by 0.51% over the quarter.

Over the last year the portfolio has generated a 11.63% return pre-fees outperforming the ASX100 index by 4.71%.

The **Top 3 Contributors** for the month were Leighton Holdings +13.78%, Lend Lease Group +9.21%, and ANZ Bank +8.34%.

The **Top 3 Detractors** for the month were Woodside Petroleum -1.16%, Brambles Ltd +0.11%, and James Hardie Industries +0.42%.

International Shares Portfolio

The International Share portfolio generated a -0.34% return for the month and 4.81% over the last 3 months. In doing so the portfolio underperformed the MSCI World Ex Aus (AUD) index in October by 0.39% and over the last 3 months by 1.25%.

Over the last 3 years the portfolio has generated a 18.06% return and underperformed the index by 3.99%.

The **Top Contributor** for the month was the Vanguard US Total Market Shares ETF +2.28%; and the **Top Detractors** were the Magellan Global Fund -0.67% and the Vanguard All World Ex-US ETF -0.55%.

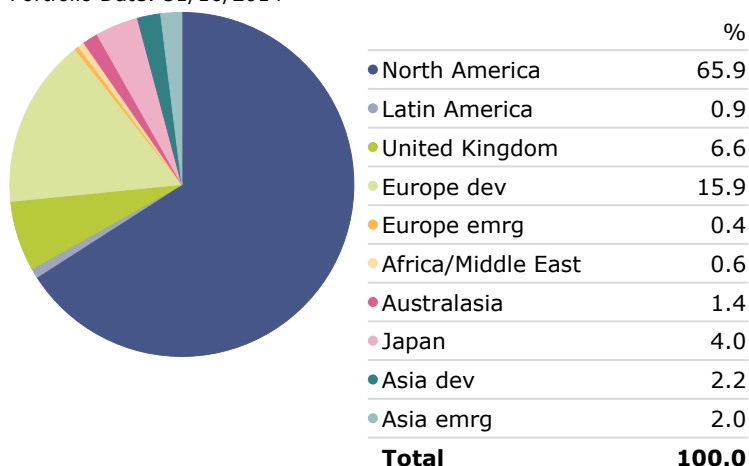
The portfolios holdings and the total regional exposure are included below.

VIP Australian Share Leaders - Holdings

	Ticker	Dividend Yield % TTM
Lend Lease Group	LLC	4.63
Ramsay Health Care Ltd	RHC	1.57
Leighton Holdings Ltd	LEI	4.32
Australia and New Zealand Banking Group Ltd	ANZ	5.58
National Australia Bank Ltd	NAB	6.07
Westpac Banking Corp	WBC	5.59
Telstra Corp Ltd	TLS	5.18
Wesfarmers Ltd	WES	4.67
Ansell Ltd	ANN	2.01
Bendigo And Adelaide Bank Ltd	BEN	5.01
Crown Resorts Ltd	CWN	2.57
Brambles Ltd	BXB	2.78
Rio Tinto Ltd	RIO	3.78
James Hardie Industries PLC DR	JHX	3.56
Woodside Petroleum Ltd	WPL	6.54

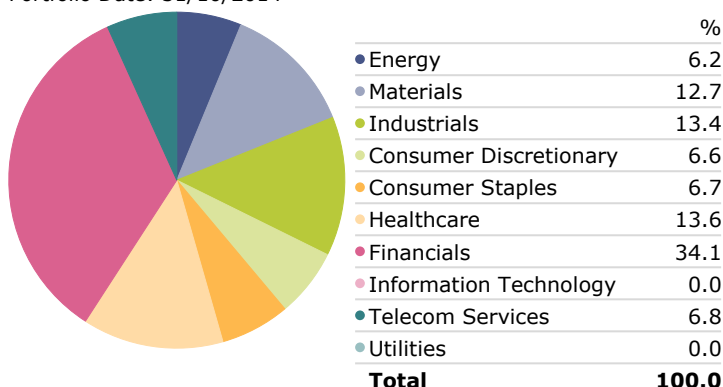
VIP International - Equity Regional Exposure

Portfolio Date: 31/10/2014



VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/10/2014



VIP International - Holdings

Portfolio Date: 31/10/2014

	Portfolio Weighting %
Magellan Global	41.71
Vanguard US Total Market Shares ETF	34.68
Vanguard All-World ex-US Shares ETF	23.60

Australian Shares Portfolio Adjustments:

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

International Portfolio Adjustments:

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

Property Securities Portfolio

The Property Securities portfolio generated a 6.18% return for the month and 1.25% over the last 3 months. The portfolio underperformed the S&P/ASX 200 A-REIT index during the month by 0.60% and over the quarter by 1.53%.

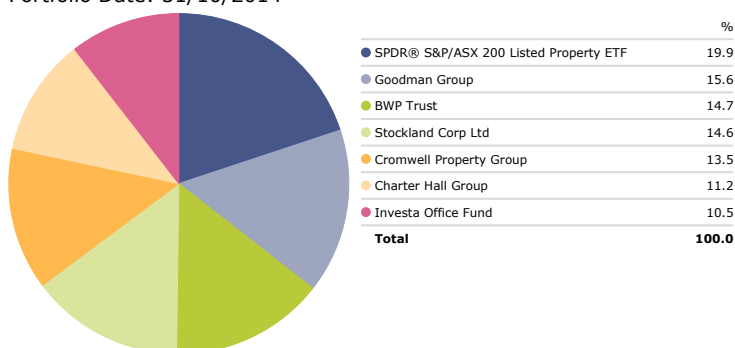
Over the last year the portfolio has generated a 16.55% return and underperformed the index by 0.16%, however, has outperformed over the last 3 years and Since Inception.

The **Top 3 Contributors** were Stockland Corp +7.34%, Goodman Group +7.16%, and Charter Hall Group +6.85%; and the **Top Detractors** were Cromwell Group +4.21%, BWP Trust +5.44%, and Investa Office Fund +6.27%.

The portfolios holdings and dividend yields are included below.

VIP Property Securities - Portfolio Holdings

Portfolio Date: 31/10/2014



VIP Property Securities - Holdings

Portfolio Date: 31/10/2014

	Ticker	Dividend Yield % TTM
SPDR® S&P/ASX 200 Listed Property ETF	SLF	
Goodman Group	GMG	3.80
BWP Trust	BWP	5.78
Stockland Corp Ltd	SGP	5.83
Cromwell Property Group	CMW	7.65
Charter Hall Group	CHC	4.87
Investa Office Fund	IOF	5.24

Property Securities Portfolio Adjustments:

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

Fixed Interest Portfolio

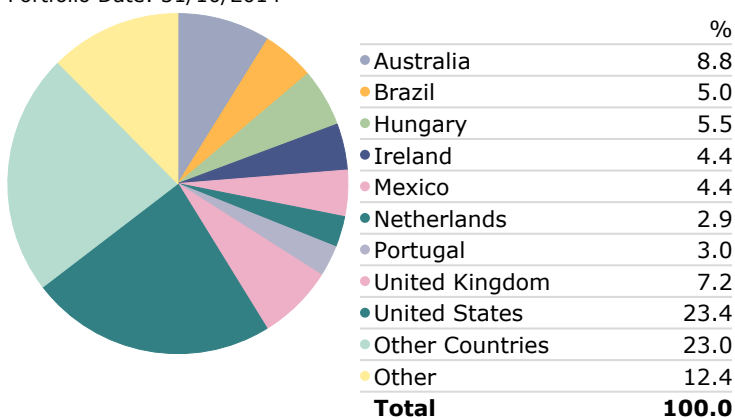
The Fixed Interest portfolio generated a 1.19% return for the month and 1.61% over the last 3 months. This was against the UBS Composite 0+Yr Bond index return of 0.96% and 1.64% over the month and last 3 months respectively.

The **Contributor** for the month was the Franklin Templeton Multi-Sector Bond Fund +1.35%; and the **Top Detractors** for the month were the Bentham Global Income Fund -0.86% and Realm High Income Fund +0.48.

The portfolios country exposure is included below.

VIP Fixed Interest - Country Exposure

Portfolio Date: 31/10/2014



VIP Fixed Interest Portfolio - Income Yield

Portfolio Date: 31/10/2014

	Income Return 1 Yr (Mo-End)
Franklin Templeton Multisector Bond I	2.32
Bentham Wholesale Global Income	5.45
Realm High Income	4.69

Fixed Interest Portfolio Adjustments:

The *VIP Investment Committee* redeemed the funds within the Aberdeen Floating Rate Note fund, which were invested in short-duration bonds and generated cash like returns, to invest within 2 diversified bond funds the Franklin Templeton Multi-Sector Bond Fund and the Bentham Global Income Fund.

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