

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

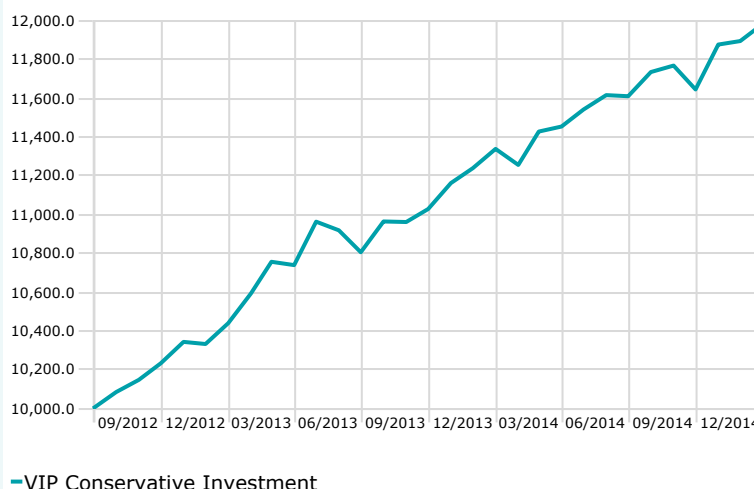
The VIP Conservative portfolio generated a 0.87% return pre-fees in December, and 3.23% return pre-fees in the quarter.

Over the last year the portfolio has generated a 6.87% return pre-fees and over 3 years 8.95%. 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 31/12/2014



Trailing Returns

As of Date: 31/12/2014

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	Since Inception
VIP Conservative	0.87	3.26	3.93	7.13	8.61	9.15	8.73
VIP Conservative Investment	0.75	2.91	3.22	5.70	7.15		7.51
VIP Conservative Super-Pension	0.80	3.05	3.51	6.28	7.74	8.28	7.86
VIP Conservative Composite Index	1.95	4.34	5.02	10.11	8.26	9.63	8.82

Tactical Asset Allocation

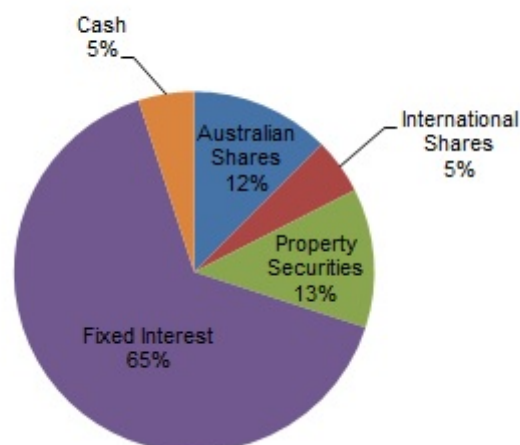
The VIP Conservative portfolios asset allocation as at 31/12/2014 was as follows:

- 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: 31/12/2014



Risk vs Return

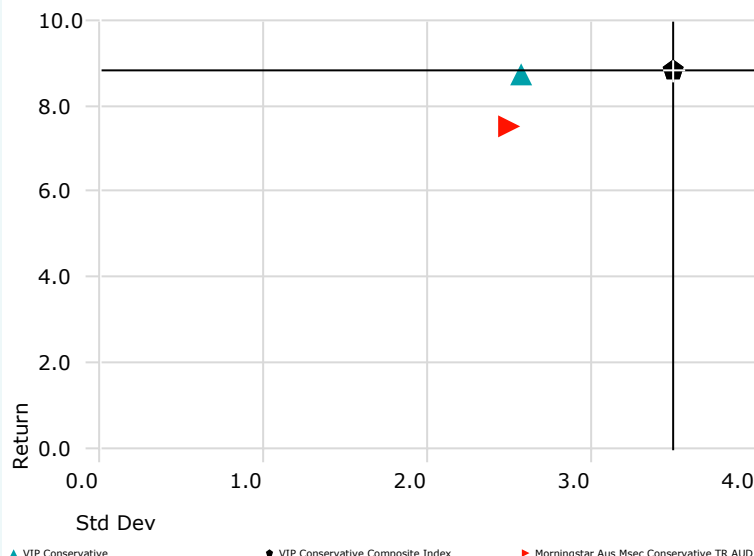
The VIP portfolios aim to reduce volatility, or risk, over the long term and achieve excess returns per unit of risk that is taken compared to our Conservative Composite Index and the Morningstar Multi-sector Conservative Index.

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

Santa Never Misses Christmas

As expected the 'Santa-Rally' we were eagerly waiting for did occur in December.

The top 200 Australian shares by market capitalisation (S&P/ASX 200) was up 2.06% for the month and International shares measured by the MSCI World Ex Australia index were up 2.63% for the month.

As a summary of the calendar year Australian shares did not have a great year with a 5.61% return, whereas International shares were up 15.01% for the year in Australian dollar terms. This International share result was largely driven by the US as the S&P 500 (largest 500 US stocks) and the Nasdaq Composite (US technology stocks) rose by 13.69% and 14.75% respectively in US dollar terms. In comparison the UK (FTSE 100) rose by 0.74%, Germany (FSE DAX) rose by 2.65%, France (Euronext Paris CAC 40) rose by 1.73% Japan (Nikkei 225) rose by 7.12%, while the whole of Europe as measured by the NSCI Europe Ex UK fell by 6.55% all in the respective currencies.

It was definitely not a year for the faint hearted with fears of interest rate rises, concerns over the US ceasing the money printing (Quantitative Easing), fears over bad news from China, a realisation that Europe is in bad shape, and continuing geopolitical issues (Russia, Ukraine, Iraq, Syria, ISIS, and Ebola just to name a few...). If it wasn't enough commodity prices and the price of oil also had to plunge late in the year.

The concerns that hit the markets in September and October relating to high equity and property prices amidst poor global growth that sparked a global sell-off were somewhat forgotten as Santa delivered our expected Santa-Rally... albeit later than we normally expect.

Looking forward at this early stage it seems that low interest rates may be here for some time as growth is low to stagnant, the consumer is not spending, wages growth seems to be on hold, and unemployment may slowly rise this year. Commentators are starting to talk about an interest rate cut, however, you would expect that the lower price of oil may do the stimulatory job of a rate cut if these prices continue.

This all points to another year of positive, but not strong returns, and continued volatility. We would expect lower returns from the US in the absence of Quantitative Easing and with a rising US dollar that loses competitiveness against other currencies. Similarly, Europe will continue to have its woes with Greece concerns re-surfacing recently and the unpegging of the Swiss franc and the Euro causing Eastern European mortgages to become much more expensive.

This leaves the all-important Chinese economy which is expected to grow at its 7% target level supported by stimulatory fiscal and monetary policy from the Chinese Government. The lower oil price, if maintained, will help as oil imports will be cheaper and these savings at the pump by Chinese households and businesses can help drive more consumption.

Australian Shares Portfolio

The Australian share portfolio generated a 3.78% return for the month and 7.25% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in December by 1.61% and by 3.71% over the quarter.

Over the last year the portfolio has generated a 9.71% return pre-fees outperforming the ASX100 index by 6.01%.

The **Top 3 Contributors** for the month were Leighton Holdings +11.77%, James Hardie +9.91%, Brambles Ltd +9.36%.

The **Top 3 Detractors** for the month were Crown Resorts -11.75%, Rio Tinto -1.86%, and Wesfarmers +0.72%.

International Shares Portfolio

The International Share portfolio generated a 2.57% return for the month and 9.47% over the last 3 months. In doing so the portfolio underperformed the MSCI World Ex Aus (AUD) index in December by 0.06% and outperformed the index over the last 3 months by 1.31%.

Over the last year the portfolio has generated a 13.63% return and underperformed the index by 1.38%.

The **Top Contributors** for the month were the Vanguard US Total Market Shares ETF +5.48%, Magellan Global Fund +3.80%, and the Vanguard All World Ex-US ETF +2.84%; and there were no **Detractors** in December.

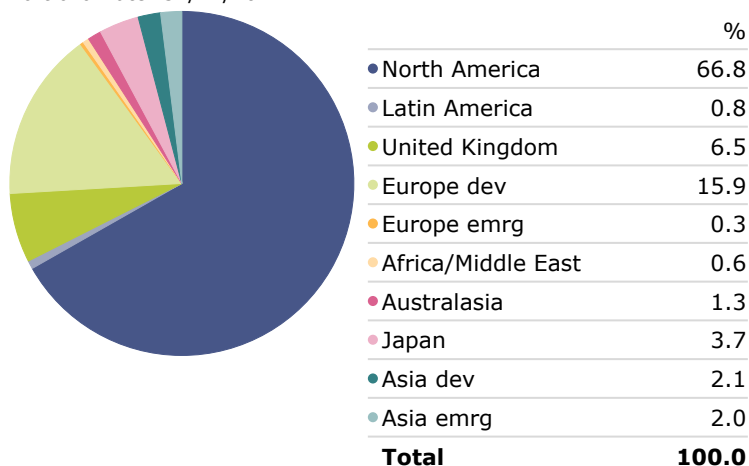
The portfolios holdings and the total regional exposure are included below.

VIP Australian Share Leaders - Holdings

	Ticker	Dividend Yield % TTM
Leighton Holdings Ltd	LEI	6.58
Ansell Ltd	ANN	1.88
CSL Ltd	CSL	1.40
Ramsay Health Care Ltd	RHC	2.01
Brambles Ltd	BXB	2.91
James Hardie Industries PLC DR	JHX	5.00
Lend Lease Group	LLC	4.29
Telstra Corp Ltd	TLS	6.45
Rio Tinto Ltd	RIO	5.55
Westpac Banking Corp	WBC	7.46
Bendigo And Adelaide Bank Ltd	BEN	6.76
Australia and New Zealand Banking Group Ltd	ANZ	7.62
Woodside Petroleum Ltd	WPL	9.64
Wesfarmers Ltd	WES	4.61
Crown Resorts Ltd	CWN	3.26

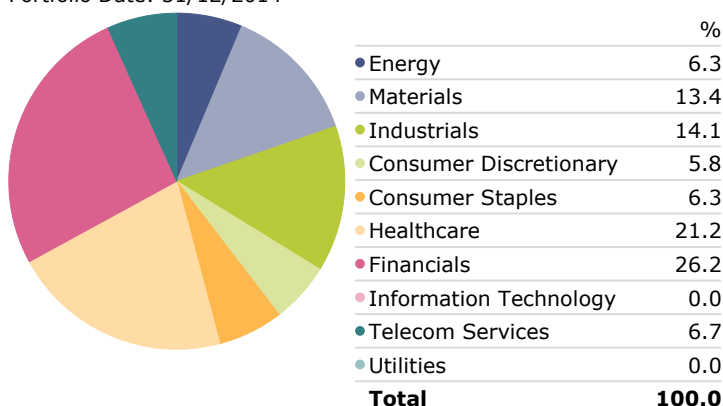
VIP International - Equity Regional Exposure

Portfolio Date: 31/12/2014



VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/12/2014



VIP International - Holdings

Portfolio Date: 31/12/2014

	Portfolio Weighting %
Magellan Global	42.39
Vanguard US Total Market Shares ETF	35.24
Vanguard All-World ex-US Shares ETF	22.37

Australian Shares Portfolio Adjustments:

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

International Portfolio Adjustments:

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

Property Securities Portfolio

The Property Securities portfolio generated a 5.42% return for the month and 12.22% over the last 3 months. The portfolio outperformed the S&P/ASX 200 A-REIT index during the month by 0.92% and over the quarter by 0.71%.

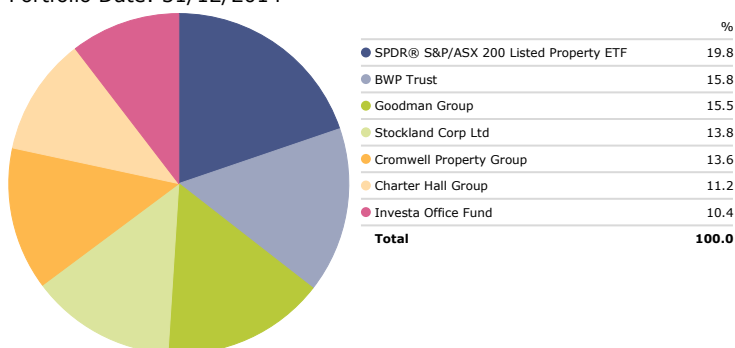
Over the last year the portfolio has generated a 24.57% return and underperformed the index by 2.47%, however, has outperformed over the last 3 years and Since Inception.

The **Top 3 Contributors** were BWP Trust +12.83%, Goodman Group +6.44%, and Investa Office Fund +5.82%; and the **Top Detractors** were Charter Hall Group +1.33%, Stockland Corp +2.91%, Cromwell Group +4.42%.

The portfolios holdings and dividend yields are included below.

VIP Property Securities - Portfolio Holdings

Portfolio Date: 31/12/2014



VIP Property Securities - Holdings

Portfolio Date: 31/12/2014

	Ticker	Dividend Yield % TTM
SPDR® S&P/ASX 200 Listed Property ETF	SLF	
BWP Trust	BWP	5.34
Goodman Group	GMG	3.46
Stockland Corp Ltd	SGP	5.43
Cromwell Property Group	CMW	7.05
Charter Hall Group	CHC	4.88
Investa Office Fund	IOF	4.83

Property Securities Portfolio Adjustments:

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

Fixed Interest Portfolio

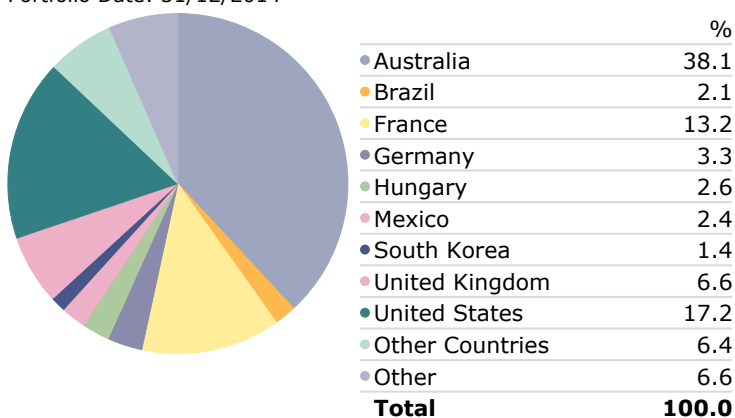
The Fixed Interest portfolio generated a -0.89% return for the month and 0.27% over the last 3 months. This was against the UBS Composite 0+Yr Bond index return of 1.69% and 3.96% over the month and last 3 months respectively.

There were no **Contributors** that achieved an excess return over the index for the month; and the **Top Detractors** for the month were the Franklin Templeton Multi-Sector Bond Fund -2.32%, Bentham Global Income Fund +0.03% and Realm High Income Fund +0.58%.

The portfolios country exposure is included below.

VIP Fixed Interest - Country Exposure

Portfolio Date: 31/12/2014



VIP Fixed Interest Portfolio - Income Yield

Portfolio Date: 31/12/2014

	Income Return 1 Yr (Mo-End)
Bentham Wholesale Global Income	5.32
Franklin Templeton Multisector Bond I	2.32
Realm High Income	5.16

Fixed Interest Portfolio Adjustments:

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

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