

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

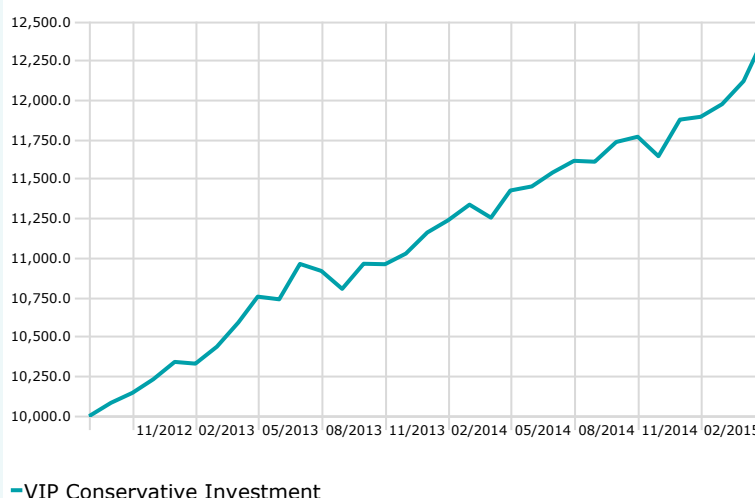
The VIP Conservative portfolio generated a 2.27% return pre-fees in February, and 4.45% return pre-fees in the quarter.

Over the last year the portfolio has generated a 9.83% return pre-fees and over 3 years 9.71%. 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 28/02/2015



Trailing Returns

As of Date: 28/02/2015

| | 1 Month | 3 Month | 6 Month | 1 Year | 2 Years | 3 Years | Since Inception |
|----------------------------------|---------|---------|---------|--------|---------|---------|-----------------|
| VIP Conservative | 2.27 | 4.45 | 5.93 | 9.83 | 8.76 | 9.71 | 9.35 |
| VIP Conservative Investment | 2.17 | 4.11 | 5.22 | 8.36 | 7.30 | | 8.35 |
| VIP Conservative Super-Pension | 2.21 | 4.25 | 5.51 | 8.96 | 7.89 | 8.84 | 8.48 |
| VIP Conservative Composite Index | 1.90 | 6.43 | 6.97 | 12.97 | 8.88 | 10.44 | 9.68 |

Tactical Asset Allocation

The VIP Conservative portfolios asset allocation as at 28/02/2015 was as follows:

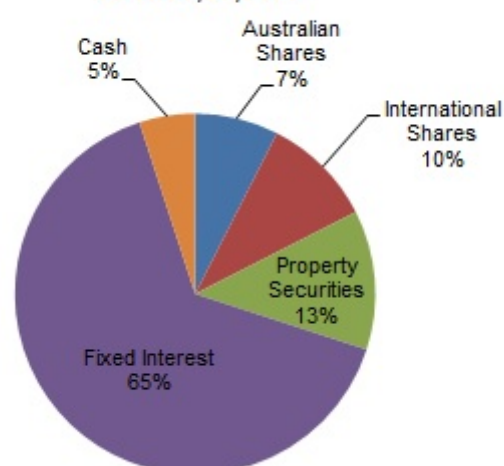
- Australian Shares 7.5%
- International Shares 10.0%
- Property Securities 12.5%
- Fixed Interest 65.0%
- Cash 5.0%

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: 28/02/2015



Risk vs Return

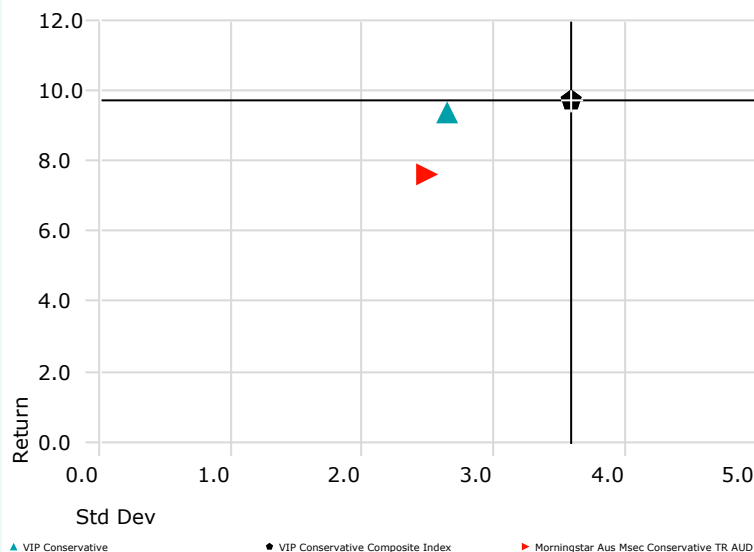
The VIP portfolios aim to reduce volatility, or risk, over the long term and achieve excess returns per unit of risk that is taken compared to our Conservative Composite Index and the Morningstar Multi-sector Conservative Index.

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

'Whatever it takes' is not enough

In 2012 the European Central Banks (ECB) President Mario Draghi famously pledged that the ECB would do "whatever it takes" to breathe life into the European economy. Almost 3 years from that pledge and it seems the ECB is now doing something. Like the US and Japan the ECB is going down the path of a Quantitative Easing programme to boost growth in the Eurozone. However, in looking at the major European economies it is evident that without specific reforms targeted in boosting investment, spending, and growth the printing presses alone won't help the EU dig themselves out of their current predicament.

The German economy, the largest in the Eurozone, is a perfect example of this with low debt, and a balanced budget in 2014 for the first time since 1969. The German economy will gain further momentum this year with German companies benefiting from a weaker euro and cheaper energy prices. This export focused model delivered a record trade surplus in 2014 (here a country's exports exceeds its imports) while German unemployment is at a multi-decade low, and remains around only half the eurozone average. The only criticism of Chancellor Angela Merkel's leadership has been the little progress in areas including increasing competition in services or improving the tax system.

On the other hand the French are in no hurry to address the size of the French public sector and the continued increase of the French government's budget deficit. Some forecasts predict the country's budget deficit will reach 4.7% of GDP in 2015, compared with the official eurozone limit of 3%. With the French economy stagnant since 2012, even allowing for the benefits of a weak euro, lower energy costs and the introduction of QE the budget deficit is not expected to improve anytime soon especially in an environment of high unemployment at around 10%.

Recent cuts in public spending have not been of the magnitude to convince markets that the Government is on the right track and reforms such as the 35-hour working week and regulations that discourage companies from employing more than 50 employees must be addressed.

However, Italy is moving the right direction with the passage of a labour market reforms in late 2014 that aim to encourage private sector employment and positive signs of reforms to the troubled banking sector which will aim to restrict banks from accumulating high levels of bad loans.

Italy's main challenge is its level of debt with the eurozone's second-highest debt levels after Greece, and high interest payments on state debt that stand at nearly 5% of GDP. To combat this Prime Minister Matteo Renzi, who came to power in early 2014, has outlined a large-scale privatisation program, and an approach of trying to fix the government before tackling the economy as Italian politics usually gets in the way of economic enhancement.

The Spanish economy is one of the positive signs of EU recovery with growth accelerating since Spain emerged from recession in late 2013. This improvement have been largely attributed to labour market reforms in 2012 that give Spanish businesses more flexibility in hiring and firing and setting wages with the OECD estimating that more than half of a 3.2% decline in labour costs in the business sector between 2011 and 2013 was due to these reforms.

The lower euro has also helped by increasing the competitiveness of Spanish exports as has the stabilising of the banking system by the Spanish government forcing many banks to raise capital to cover bad loans that they had carried since the bursting of a property-market boom at the time of the GFC.

But the Spanish still have a long way to go with unemployment still at extremely high levels even though it has fallen over the last 18 months. To stimulate the economy further, the government is planning sizable cuts in personal and corporate taxes, though uncertainty about how these cuts will be funded has raised concerns about a deterioration of public finances.

There is still much that needs to be done in Eurozone economies and this will require political will to introduce reforms that aim to strengthen sectors such as the banking sector; provide flexibility to businesses to set wages, employ more staff, and grow; and a focus on public finances that aim to reduce the size (and cost) of Government. Unfortunately the structure of the EU means that Mr Draghi's "whatever it takes" pledge alone will not be enough.

Source: Written with help from Franklin Templeton Investments.

Australian Shares Portfolio

The Australian share portfolio generated a 7.87% return for the month and 13.29% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in February by 1.07% and over the quarter by 0.45%.

Over the last year the portfolio has generated a 19.98% return pre-fees outperforming the ASX100 index by 4.78%.

The **Top 3 Contributors** for the month were James Hardie Industries +16.28%, Ramsay Health Care +12.53%, and Crown Resorts +12.42%.

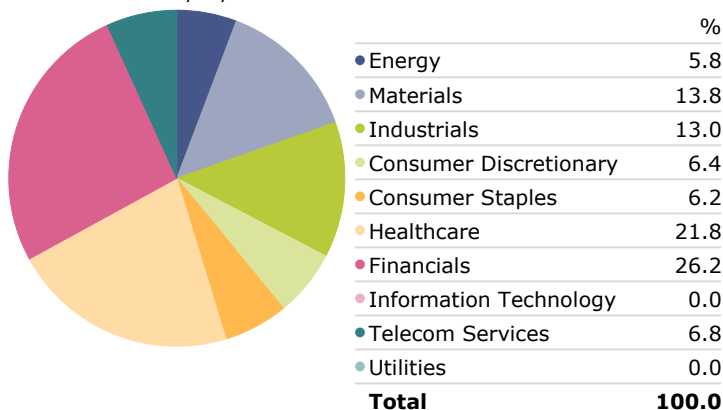
The **Top 3 Detractors** for the month were Bendigo & Adelaide Bank -0.66%, Telstra Corp +1.30%, and Wesfarmers Ltd +3.51%.

VIP Australian Share Leaders - Holdings

| | Ticker | Dividend Yield % TTM |
|---|--------|----------------------|
| Ramsay Health Care Ltd | RHC | 1.69 |
| Ansell Ltd | ANN | 1.81 |
| James Hardie Industries PLC DR | JHX | 4.25 |
| CSL Ltd | CSL | 1.48 |
| Westpac Banking Corp | WBC | 6.57 |
| Telstra Corp Ltd | TLS | 6.75 |
| Lend Lease Group | LLC | 4.58 |
| Rio Tinto Ltd | RIO | 5.16 |
| Brambles Ltd | BXB | 2.69 |
| Australia and New Zealand Banking Group Ltd | ANZ | 6.91 |
| Crown Resorts Ltd | CWN | 3.36 |
| Leighton Holdings Ltd | LEI | 7.37 |
| Wesfarmers Ltd | WES | 6.69 |
| Bendigo And Adelaide Bank Ltd | BEN | 7.31 |
| Woodside Petroleum Ltd | WPL | 12.19 |

VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 28/02/2015



Australian Shares Portfolio Adjustments:

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

International Shares Portfolio

The International Share portfolio generated a 4.87% return for the month and 11.76% over the last 3 months. In doing so the portfolio underperformed the MSCI World Ex Aus (AUD) index in February by 0.40% and outperformed the index over the last 3 months by 0.28%.

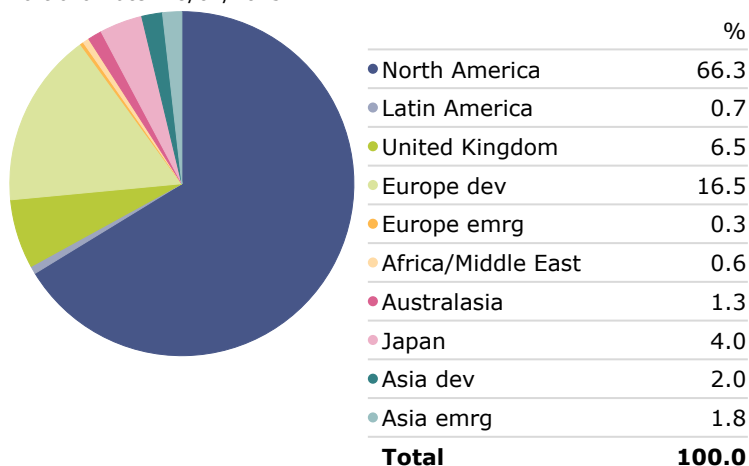
Over the last year the portfolio has generated a 24.72% return and outperformed the index by 1.13%.

The **Top Contributors** for the month was the Magellan Global Fund +5.51%; and the **Detractors** for the month were the Vanguard All World Ex-US ETF +4.96%, and the Vanguard US Total Market Shares ETF +5.23%.

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

VIP International - Equity Regional Exposure

Portfolio Date: 28/02/2015



VIP International - Holdings

Portfolio Date: 28/02/2015

| | Portfolio Weighting % |
|-------------------------------------|-----------------------|
| Magellan Global | 42.33 |
| Vanguard US Total Market Shares ETF | 34.85 |
| Vanguard All-World ex-US Shares ETF | 22.81 |

International Portfolio Adjustments:

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

Property Securities Portfolio

The Property Securities portfolio generated a 4.84% return for the month and 17.00% over the last 3 months. The portfolio outperformed the S&P/ASX 200 A-REIT index during the month by 1.14% and over the quarter by 0.28%.

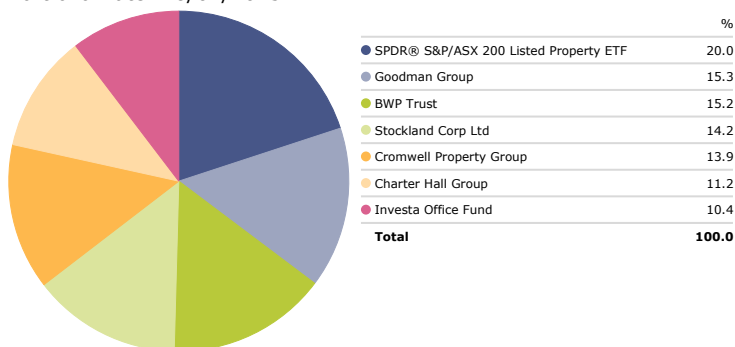
Over the last year the portfolio has generated a 31.98% return and underperformed the index by 3.39%, however, has outperformed over the last 3 years and Since Inception.

The **Top 3 Contributors** were Cromwell Property Group +10.38%, Stockland Corp +7.08%, and BWP Trust +4.56%; and the **Top Detractors** were Goodman Group +1.79%, Charter Hall Group 3.31%, and SPDR S&P/ASX200 AREIT ETF +3.68%.

The portfolios holdings and dividend yields are included below.

VIP Property Securities - Portfolio Holdings

Portfolio Date: 28/02/2015



VIP Property Securities - Holdings

Portfolio Date: 28/02/2015

| | Ticker | Dividend Yield % TTM |
|---------------------------------------|--------|----------------------|
| SPDR® S&P/ASX 200 Listed Property ETF | SLF | |
| Goodman Group | GMG | 3.43 |
| BWP Trust | BWP | 5.13 |
| Stockland Corp Ltd | SGP | 5.26 |
| Cromwell Property Group | CMW | 6.69 |
| Charter Hall Group | CHC | 4.50 |
| Investa Office Fund | IOF | 4.63 |

Fixed Interest Portfolio

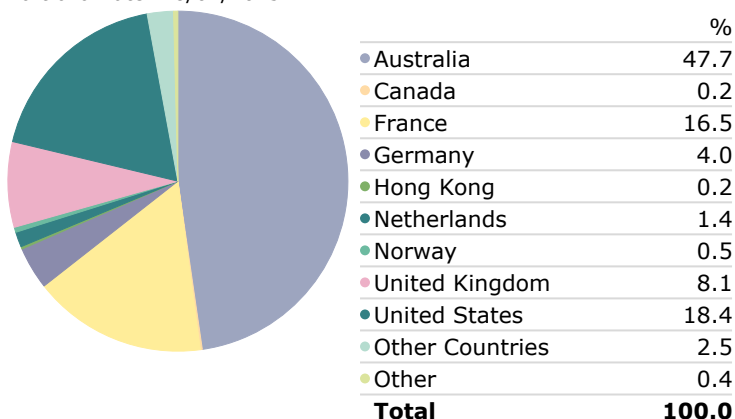
The Fixed Interest portfolio generated a 1.32% return for the month and 0.65% over the last 3 months. This was against the Bloomberg AusBond Composite 0+Yr index return of 0.28% and 3.61% over the month and last 3 months respectively.

The **Contributors** for the month were the Franklin Templeton Multi-Sector Bond Fund +1.59%, Bentham Global Income Fund +1.41%, and the Realm High Income Fund +0.33%; and there were no **Detractors** for the month.

The portfolios country exposure is included below.

VIP Fixed Interest - Country Exposure

Portfolio Date: 28/02/2015



VIP Fixed Interest Portfolio - Income Yield

Portfolio Date: 28/02/2015

| | Income Return 1 Yr (Mo-End) |
|---------------------------------------|-----------------------------|
| Bentham Wholesale Global Income | 5.19 |
| Franklin Templeton Multisector Bond I | 2.32 |
| Realm High Income | 5.16 |

Property Securities Portfolio Adjustments:

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

Fixed Interest Portfolio Adjustments:

The *VIP Investment Committee* sold down all of the Franklin Templeton Multi-Sector Bond Fund and 50% of the Bentham Global Income Fund over fears of bond market volatility and losses emanating from Europe in late February.

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