

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

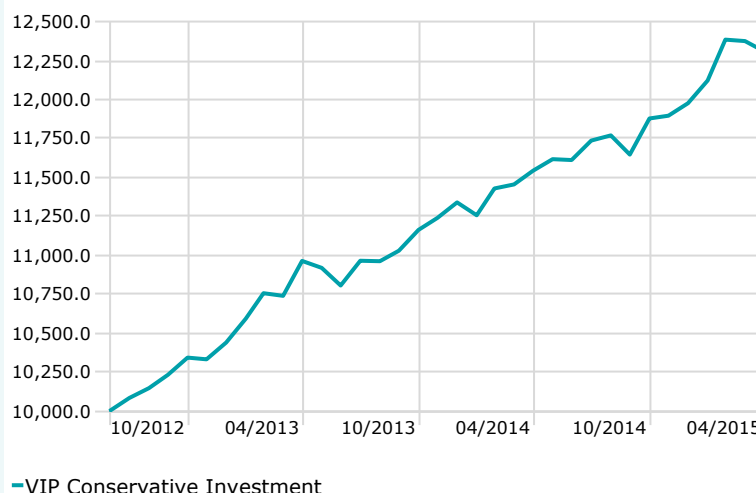
The VIP Conservative portfolio generated a -0.42% return pre-fees in April, and 1.88% return pre-fees in the quarter.

Over the last year the portfolio has generated a 8.09% return pre-fees and over 3 years 8.75%. 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 30/04/2015



Trailing Returns

As of Date: 30/04/2015

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	Since Inception
VIP Conservative	-0.42	1.88	4.33	8.09	7.40	8.75	8.82
VIP Conservative Investment	-0.53	1.55	3.63	6.65	5.96		7.61
VIP Conservative Super-Pension	-0.48	1.69	3.92	7.23	6.55	7.89	7.95
VIP Conservative Composite Index	-1.13	1.07	5.70	10.42	7.38	9.19	9.01

Tactical Asset Allocation

The VIP Conservative portfolios asset allocation as at 30/04/2015 was as follows:

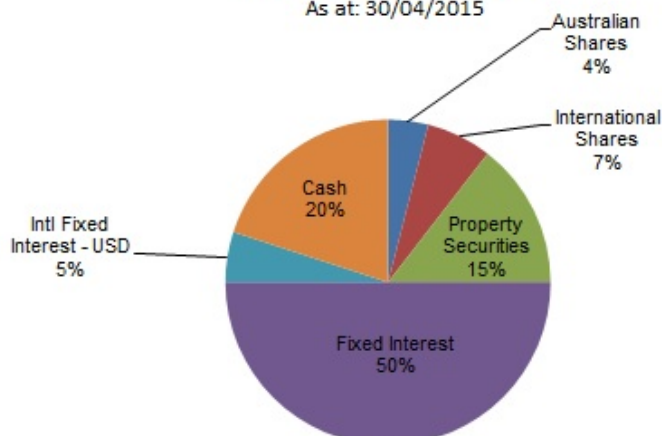
- Australian Shares 4%
- International Shares 6.5%
- Property Securities 14.5%
- Fixed Interest 50%
- International Fixed Interest - US dollars 5%
- Cash 20%

The Growth asset allocation (Shares and Property Securities) is currently reduced to 22.5% from the 30% target level due to concerns over the currently high share prices compared to valuations.

In April the *VIP Investment Committee* maintained the reduced Australian share and International share weightings, and the defensive overweight exposure to Cash and International Fixed Interest - US Dollars.

Conservative Portfolio TAA

As at: 30/04/2015



Risk vs Return

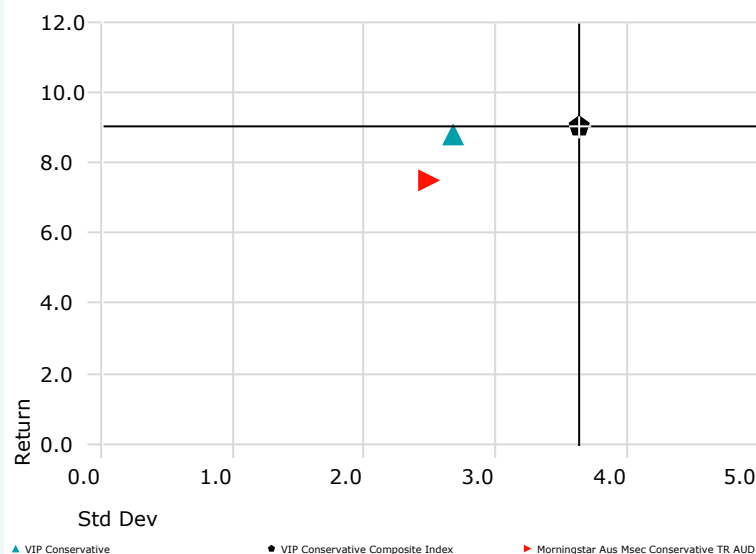
The VIP portfolios aim to reduce volatility, or risk, over the long term and achieve excess returns per unit of risk that is taken compared to our Conservative Composite Index and the Morningstar Multi-sector Conservative Index.

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

The Great Disagreement by Magellan Asset Management

We have added this discussion from Magellan Asset Management' CEO and Lead Portfolio Manager, Hamish Douglass, that explains Magellan's view that the US Federal reserve (US Fed) and the markets have an entirely different view on the movement of US interest rates, and the affect that rising rates can have on growth asset markets.

Magellan's view is consistent with the VIP Investment Committees (IC) cautious view and asset allocation, and Magellan have themselves increased cash exposure in their flagship global equities fund to 15%. This consistency in our views is one of the drivers for the VIP IC decision to maintain the Magellan Global Equity fund in the VIP diversified portfolios. The discussion from Magellan Asset Management is below:

"Today there is a "Great Disagreement" as to where US monetary policy (and hence US interest rates) is headed over the next three years or so. In one corner is the Fed which is anticipating a normalisation of the US economy and US monetary policy (and hence higher interest rates) over the next three years or so. In the other corner is "the market" which is effectively pricing secular stagnation with prolonged lower inflation and growth (and hence lower interest rates).

In our view it is unusual to see such a fundamental and important disagreement between the market and policy setters. In our view, if the Fed is right, many assets are mispriced at the moment and a normalisation of US monetary policy could lead to material losses for investors.

The scale of this disagreement is staggering. At present, the market's forecast of overnight index swaps are pricing the Fed Funds Rate (FFR) at 1.7% by the end of 2017. This compares to the median forecast for the FFR by each Federal Reserve member at 3-3.25%. The gap between the market's and the Fed's forecast of short term interest rates in 2017 is almost 1.5%. The gap is even wider when you compare longer run forecasts of short term interest rates.

Worryingly, we believe that this translates into a large gap between the long term risk free interest rate assumed by equity investors and the implied long term risk free interest rate assumed by the Fed. As an illustration of the implications of this divergence, the difference between the value of 30 year bonds yielding 3.5% and 5.0% is approximately 25%.

If long term rates rise more than the market expects, there could be a similarly adverse impact on equity valuations. While we do not rule out the possibility of secular stagnation in the US, we believe that many of the near term economic forces (such as the collapse in the oil price) will prove to be transitory and the most likely outcome is that the Fed will need to neutralise monetary policy over the next three years or so. This will result in materially higher US interest rates than the market is currently anticipating.

Many investors have cited the current low inflation environment as a reason to doubt the necessity for the Fed to raise interest rates to levels anywhere near pre-crisis levels. However, as the oil price and the US dollar stabilise, and as wages growth returns, inflation is likely to head back towards the Fed's target of 2%.

We do not expect a break-out in US inflation; we believe normalising inflationary pressures, diminishing labour market slack and the size of the Fed's balance sheet (over US\$4.5 trillion in assets) will force the Fed to normalise monetary policy over the course of the next three years. We believe that the economic events of the last eight months or so (the dramatic fall in oil prices, the appreciation of the US dollar, falling Chinese growth, some poor economic data in the US in recent months) have clouded investors' judgment and increased confirmation bias regarding the case for secular stagnation. We would also add that there appears to be anchoring bias associated with such a prolonged period of low interest rates which makes a normalisation of monetary policy in the US almost seem radical and implausible.

We regard the current market environment as anything but normal. Yields and spreads across a range of credit markets are at or near historic extremes. We have witnessed a number of high quality corporates issue debt at negative interest rates, and many European sovereigns (including Switzerland, Denmark, Germany, the Netherlands and Belgium) are experiencing negative yields on debt of up to five years to maturity. Investors are now effectively paying European governments or certain corporates to borrow money. Furthermore, spreads between German Bunds and US Treasuries are at their highest levels since before the reunification of Germany. As investors we find this unprecedented and somewhat confronting."

Source: Magellan Asset Management Limited

Australian Shares Portfolio

The Australian share portfolio generated a -2.54% return for the month and 4.66% over the last 3 months. The portfolio underperformed the S&P/ASX 100 index in April by 0.61% and by 0.21% over the quarter.

Over the last year the portfolio has generated a 13.97% return pre-fees outperforming the ASX 100 index by 3.38%.

The **Top 3 Contributors** for the month were Origin Energy +12.64%, Rio Tinto -0.14%, and Wesfarmers -0.57%.

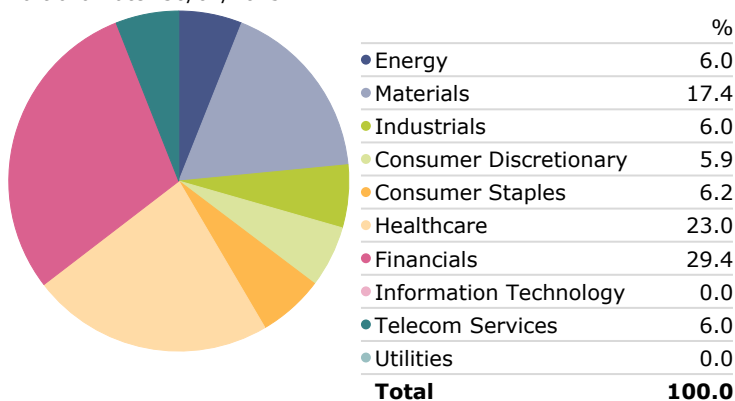
The **Top 3 Detractors** for the month ResMed -13.23%, Westpac -7.41%, and ANZ Bank -7.23%.

VIP Australian Share Leaders - Holdings

	Ticker	Dividend Yield % TTM
Wesfarmers Ltd	WES	6.54
Bendigo And Adelaide Bank Ltd	BEN	7.57
Origin Energy Ltd	ORG	3.83
Rio Tinto Ltd	RIO	6.30
Telstra Corp Ltd	TLS	6.91
Brambles Ltd	BXB	2.78
Bank of Queensland Ltd	BOQ	7.56
Aristocrat Leisure Ltd	ALL	1.97
Ramsay Health Care Ltd	RHC	1.78
CSL Ltd	CSL	1.56
ResMed Inc DR	RMD	1.14
Lend Lease Group	LLC	4.61
Australia and New Zealand Banking Group Ltd	ANZ	7.81
Westpac Banking Corp	WBC	8.00
DuluxGroup Ltd	DLX	2.29
James Hardie Industries PLC DR	JHX	4.18
Ansell Ltd	ANN	1.92

VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 30/04/2015



Australian Shares Portfolio Adjustments:

The *VIP Investment Committee* added ResMed (RMD) and Bank of Queensland (BOQ) to the portfolio in April.

BOQ was purchased to increase Financial Services exposure without concentrating on the Big 4 Banks who are expected to be affected by new capital adequacy requirements more adversely to their regional competitors.

RMD was purchased to increase defensive Healthcare exposure in a company that specialises in sleep apnoea treatment.

International Shares Portfolio

The International share portfolio generated a -1.57% return for the month and 4.26% over the last 3 months. In doing so the portfolio underperformed the MSCI World Ex Aus (AUD) index in April by 0.73% and over the last 3 months by 1.05%.

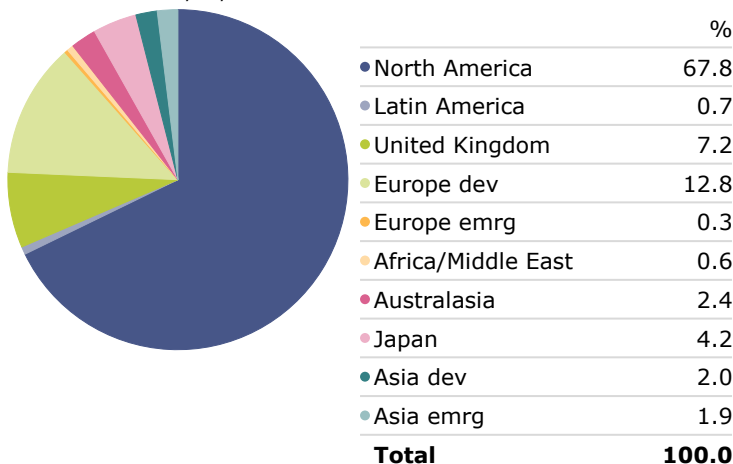
Over the last year the portfolio has generated a 27.84% return and outperformed the index by 1.11%.

The **Top Contributor** for the month was the Vanguard All World Ex-US ETF +1.70%; and the **Top Detractors** were the Vanguard US Total Market Shares ETF -2.73% and the Magellan Global Fund -0.94%.

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

VIP International - Equity Regional Exposure

Portfolio Date: 30/04/2015



VIP International - Holdings

Portfolio Date: 30/04/2015

	Portfolio Weighting %
Magellan Global	42.45
Vanguard US Total Market Shares ETF	34.27
Vanguard All-World ex-US Shares ETF	23.28

International Portfolio Adjustments:

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

Property Securities Portfolio

The Property Securities portfolio generated a -1.32% return for the month and 2.49% over the last 3 months. The portfolio underperformed the S&P/ASX 200 A-REIT index during the month by 0.23%, and outperformed the index over the quarter by 2.05%.

Over the last year the portfolio has generated a 24.74% return and underperformed the index by 1.31%.

The **Top Contributors** were BWP Trust +1.33% and Charter Hall Group +0.59%; and the **Top Detractors** were Investa Office Fund -4.62%, Cromwell Group -2.64%, and Goodman Group -1.57%.

The portfolios holdings and dividend yields are included below.

Fixed Interest Portfolio

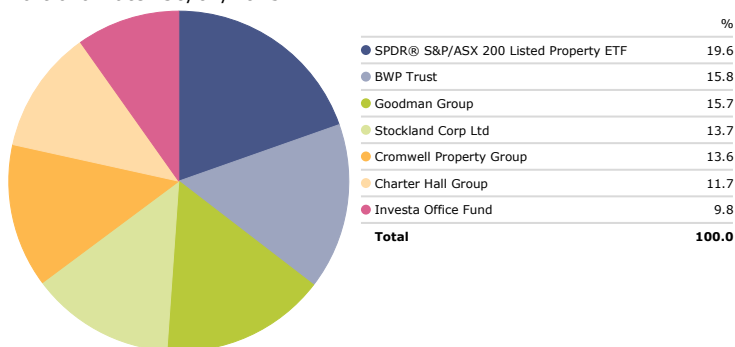
The Fixed Interest portfolio generated a 0.32% return for the month and 1.43% over the last 3 months. This was against the Bloomberg AusBond Composite index return of -1.11% and -0.08% over the month and last 3 months respectively.

The **Top Contributors** were Bentham Global Income Fund +0.99%, Realm High Income Fund +0.19, and Cash +0.18%; and the **Top Detractor** for the month was the iShares Composite Bond ETF -1.12%.

The portfolios country exposure is included below.

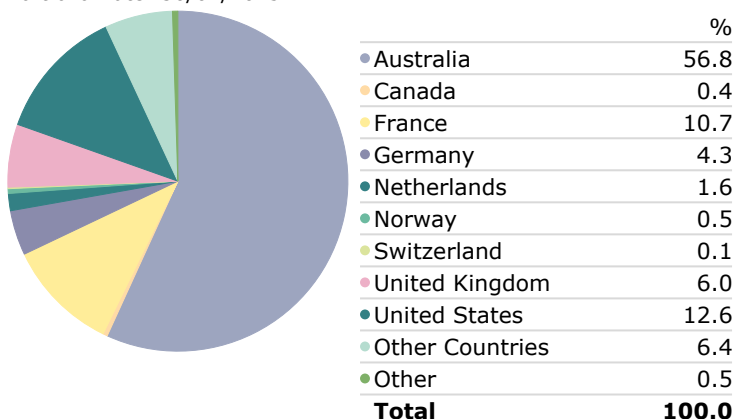
VIP Property Securities - Portfolio Holdings

Portfolio Date: 30/04/2015



VIP Fixed Interest - Country Exposure

Portfolio Date: 30/04/2015



VIP Property Securities - Holdings

Portfolio Date: 30/04/2015

	Ticker	Dividend Yield % TTM
SPDR® S&P/ASX 200 Listed Property ETF	SLF	
BWP Trust	BWP	4.99
Goodman Group	GMG	3.41
Stockland Corp Ltd	SGP	5.45
Cromwell Property Group	CMW	7.17
Charter Hall Group	CHC	4.67
Investa Office Fund	IOF	4.88

VIP Fixed Interest Portfolio - Income Yield

Portfolio Date: 30/04/2015

	Income Return 1 Yr (Mo-End)
RBA Bank accepted Bills 30 Days	
iShares Composite Bond	3.09
Bentham Wholesale Global Income	5.06
Realm High Income	4.61

Property Securities Portfolio Adjustments:

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

Fixed Interest Portfolio Adjustments:

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

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