

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

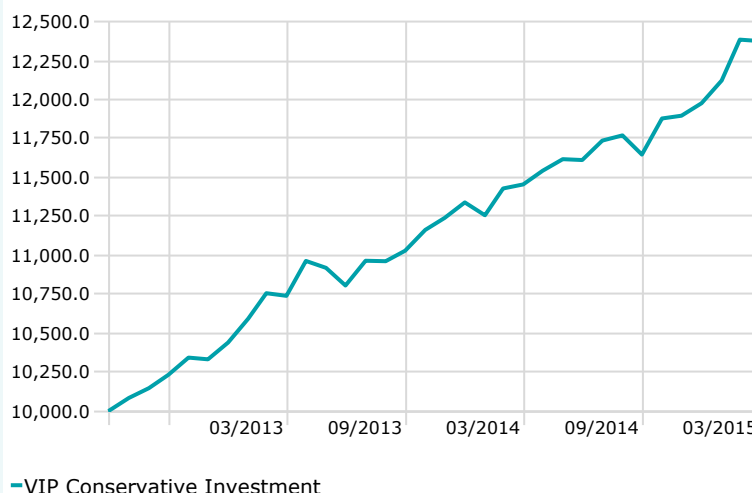
The VIP Conservative portfolio generated a 0.04% return pre-fees in March, and 3.68% return pre-fees in the quarter.

Over the last year the portfolio has generated a 9.50% return pre-fees and over 3 years 9.30%. 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 31/03/2015



Trailing Returns

As of Date: 31/03/2015

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	Since Inception
VIP Conservative	0.04	3.68	6.97	9.50	8.80	9.30	9.15
VIP Conservative Investment	-0.08	3.33	6.26	8.03	7.35		8.05
VIP Conservative Super-Pension	-0.03	3.47	6.55	8.63	7.94	8.43	8.28
VIP Conservative Composite Index	0.31	4.72	9.27	13.38	9.48	10.27	9.55

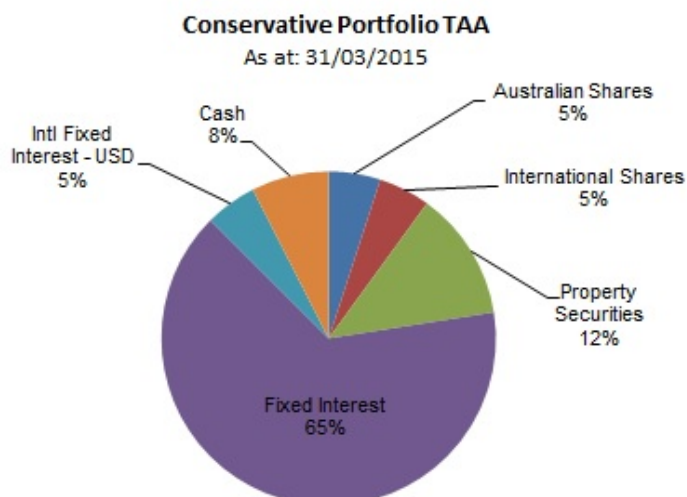
Tactical Asset Allocation

The VIP Conservative portfolios asset allocation as at 31/03/2015 was as follows:

- Australian Shares 5.0%
- International Shares 5.0%
- Property Securities 12.5%
- Fixed Interest 65.0%
- International Fixed Interest - US dollars 5%
- Cash 7.5%

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 March the *VIP Investment Committee* reduced the Australian share weighting by 2.5% down to 5%, and the International share exposure by 5% down to 5%. The 2.5% from the Australian share sector is currently held in cash, and the 5% sold down from the International share sector is currently held in US dollars to take advantage of the US dollar rise against the Australian dollar.



Risk vs Return

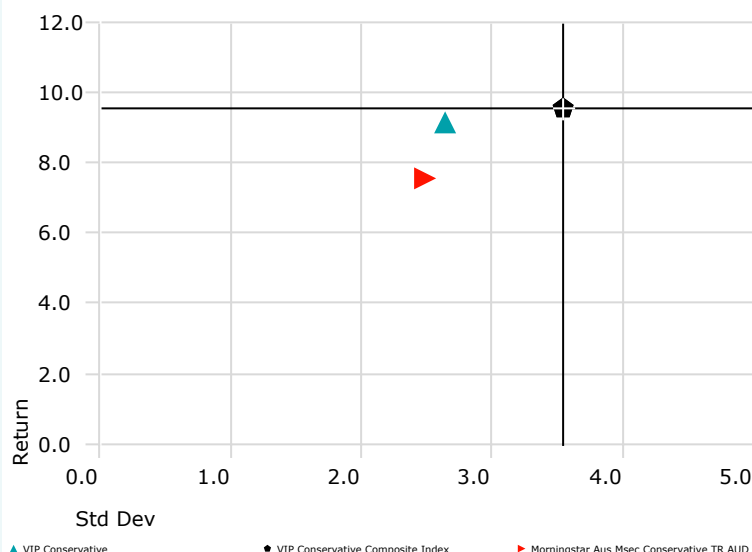
The VIP portfolios aim to reduce volatility, or risk, over the long term and achieve excess returns per unit of risk that is taken compared to our Conservative Composite Index and the Morningstar Multi-sector Conservative Index.

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

Where are we in the cycle now? I think we may have to wait and see.....

Market commentators have been struggling with the question of the future of growth asset performance based on the strong results that have been achieved since the global financial crisis ended with the 2009 lows. Since then AMP Capital reports that global shares are up 159% and Australian shares are up 91% with the higher Australian dollar, mining boom slowdown, and higher interest rates being the main reasons for the difference in performance between Australian and global shares.

Some commentators look to cycle lengths to try to determine how long the current market run will go and argue that since World War 2 the current bull market has seen US shares rise by 212% over 73 months, which compared to the average of a 177% gain over 64 months points to an ending of this bull market cycle. However, it is argued that in 2011 during the start of the Greek crisis shares did enter a bear market, which reduces the current bull market performance and period to a 92% gain over 42 months pointing to more of the same strong returns to continue (AMP Capital).

Other commentators look to the way investment cycles work with an economic slowdown reducing performance from shares and seeing Government bonds perform well followed by low interest rates to kick start the economy, economic recovery, and strong share market performance until shares look over priced again, the economy runs too hard, inflation rises, and interest rates are raised to control inflation and the economy to stop it from overheating.

In reviewing our current position in this cycle we can firstly look at valuation. For instance, when Price to Earnings (PE) ratios are compared against past periods the US and Australian markets look cheaper than where they reached in 1999 – 2000; and when share dividend yields are considered against bond yields shares actually look cheap.

Others are considering the state of the global economy stating that as the global economy is not over heating interest rates will stay low for longer, and both investor and consumer confidence will drive the economy and markets higher to the point in the cycle where interest rates will rise and slow things down.

So all commentators are pointing to good things to come.

However, there does seem to be a few issues that these commentators are forgetting that may be pointing to somewhat uncharted territory.

Firstly, Governments have been borrowing a large amount of money since the global financial crisis as they initially nationalised banks and mortgage originators and then started the printing presses. This huge amount of money has hit the economy, but has not really led to the type of economic prosperity that the architects of these programs envisaged. So what happens to this debt if Governments can't raise enough money in taxes whilst the costs of essential services (such as Healthcare) continues to rise?

Secondly, interest rates are at historic lows with the US at close to 0%, the EU and Japan at negative interest rates, and Australia hitting a 2% cash rate. You would expect that historic low interest rates would be driving spending and investment by households and businesses, but all the consumer and business confidence surveys point to uncertainty and weakness. Some of this uncertainty and weakness will result in unemployment which will only exacerbate the problem with lower tax revenue hitting Government coffers with which to reduce debt.

These issues or anomalies don't seem to fit the pattern of cycles or support the notion that the underlying economy led by businesses and consumers is strong enough to support current company profitability and share prices.

The only way to see where this leaves us is to watch, wait, and take a cautious approach to investing.

Source: this article was written with the help of AMP Capital.

Australian Shares Portfolio

The Australian share portfolio generated a -0.44% return for the month and 8.68% over the last 3 months. The portfolio underperformed the S&P/ASX 100 index in March by 0.56% and over the quarter by 1.90%.

Over the last year the portfolio has generated a 18.35% return pre-fees outperforming the ASX100 index by 3.39%.

The **Top 3 Contributors** for the month were Ansell Limited +9.50%, Brambles Limited +5.21%, and ANZ Bank +3.68%.

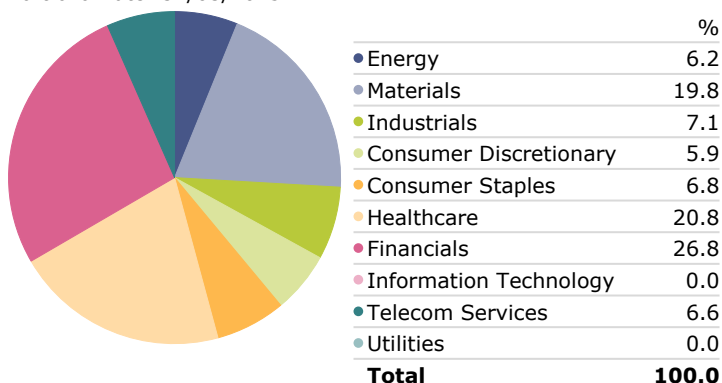
The **Top 3 Detractors** for the month were Crown Resorts -11.19%, Rio Tinto -7.75%, and Origin Energy -7.37%.

VIP Australian Share Leaders - Holdings

	Ticker	Dividend Yield % TTM
Ansell Ltd	ANN	1.88
Brambles Ltd	BXB	2.84
Westpac Banking Corp	WBC	7.64
Australia and New Zealand Banking Group Ltd	ANZ	7.99
DuluxGroup Ltd	DLX	2.38
Wesfarmers Ltd	WES	6.73
CSL Ltd	CSL	1.55
James Hardie Industries PLC DR	JHX	4.37
Ramsay Health Care Ltd	RHC	1.83
Telstra Corp Ltd	TLS	6.95
Bendigo And Adelaide Bank Ltd	BEN	7.75
Lend Lease Group	LLC	4.68
Origin Energy Ltd	ORG	4.02
Rio Tinto Ltd	RIO	6.26
Crown Resorts Ltd	CWN	3.50

VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/03/2015



Australian Shares Portfolio Adjustments:

The *VIP Investment Committee* elected to sell Leighton Holdings and Woodside Petroleum, and replace them with Dulux Group and Origin Energy in March.

Leighton's new majority owners are implementing a strategy of selling off many of the parts of the business in an attempt to realise value on their investment, and the weak oil price off the back of sluggish global economic growth will not help Woodside Petroleum perform over the medium term.

On the other hand, Dulux Group was purchased to take advantage of property market activity as sellers and buyers look to renovate pre and post-sale. And Origin Energy was purchased to maintain Energy sector exposure (i.e. to oil and gas) without having too large an exposure to oil.

International Shares Portfolio

The International Share portfolio generated a 0.76% return for the month and 9.39% over the last 3 months. In doing so the portfolio underperformed the MSCI World Ex Aus (AUD) index in March by 0.13% and over the last 3 months by 0.18%.

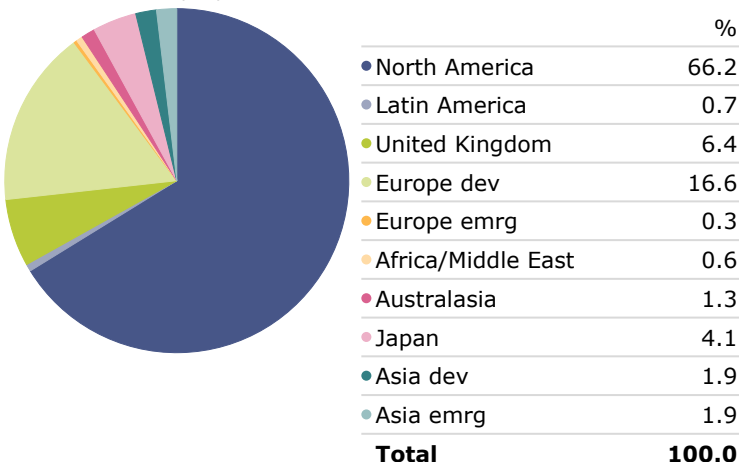
Over the last year the portfolio has generated a 29.33% return and outperformed the index by 0.21%.

The **Top Contributor** for the month was the Vanguard US Total Market Shares ETF +1.43%; and the **Detractors** for the month were the Magellan Global Fund +0.63%.

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

VIP International - Equity Regional Exposure

Portfolio Date: 31/03/2015



VIP International - Holdings

Portfolio Date: 31/03/2015

	Portfolio Weighting %
Magellan Global	42.18
Vanguard US Total Market Shares ETF	34.98
Vanguard All-World ex-US Shares ETF	22.85

International Portfolio Adjustments:

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

Property Securities Portfolio

The Property Securities portfolio generated a -0.92% return for the month and 9.95% over the last 3 months. The portfolio outperformed the S&P/ASX 200 A-REIT index during the month by 1.16% and over the quarter by 0.58%.

Over the last year the portfolio has generated a 32.44% return and underperformed the index by 2.26%, however, has outperformed over the last 3 years and Since Inception.

The **Top 3 Contributors** were Charter Hall Group +2.00%, Goodman Group +1.76%, and BWP Trust +0.67; and the **Top Detractors** were Stockland -4.05%, and Investa Office Fund -2.99%.

The portfolios holdings and dividend yields are included below.

Fixed Interest Portfolio

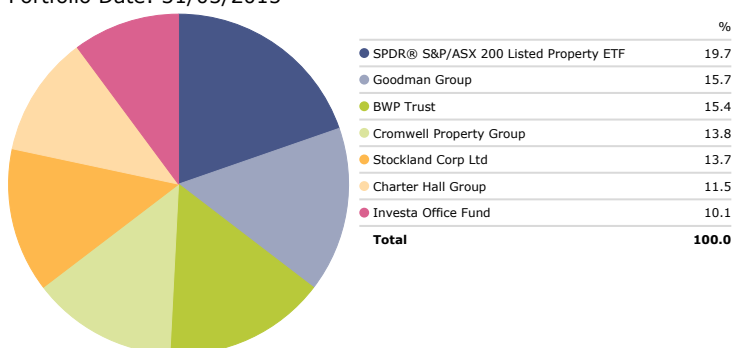
The Fixed Interest portfolio generated a -0.24% return for the month and 1.30% over the last 3 months. This was against the Bloomberg AusBond Composite 0+Yr index return of 0.76% and 2.67% over the month and last 3 months respectively.

There were no **Contributors** over the index for the month; and the **Detractors** for the month were the Bentham Global Income Fund +0.19%, and the Realm High Income Fund +0.27%.

The portfolios country exposure is included below.

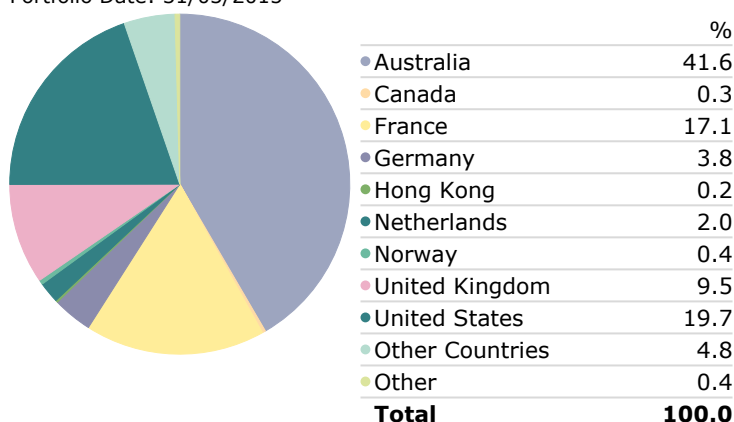
VIP Property Securities - Portfolio Holdings

Portfolio Date: 31/03/2015



VIP Fixed Interest - Country Exposure

Portfolio Date: 31/03/2015



VIP Property Securities - Holdings

Portfolio Date: 31/03/2015

	Ticker	Dividend Yield % TTM
SPDR® S&P/ASX 200 Listed Property ETF	SLF	
Goodman Group	GMG	3.45
BWP Trust	BWP	5.08
Cromwell Property Group	CMW	7.10
Stockland Corp Ltd	SGP	5.52
Charter Hall Group	CHC	4.68
Investa Office Fund	IOF	5.09

VIP Fixed Interest Portfolio - Income Yield

Portfolio Date: 31/03/2015

	Income Return 1 Yr (Mo-End)
RBA Bank accepted Bills 30 Days	
Bentham Wholesale Global Income	4.60
Realm High Income	4.61

Property Securities Portfolio Adjustments:

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

Fixed Interest Portfolio Adjustments:

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

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