

## 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

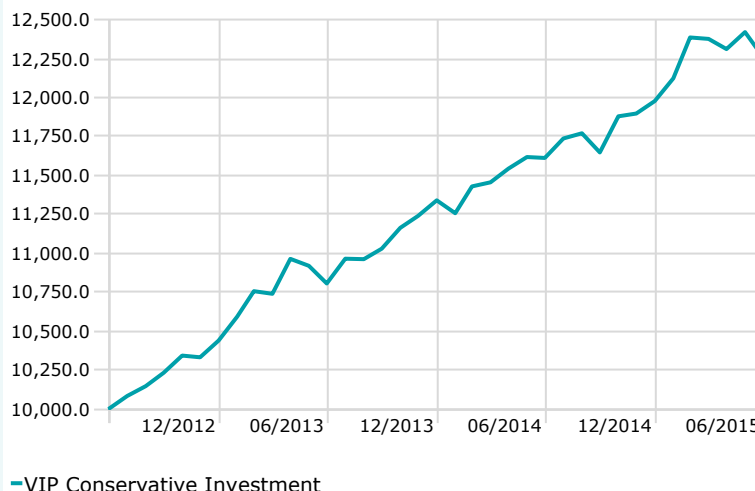
The VIP Conservative portfolio generated a -1.18% return pre-fees in June, and -0.61% return pre-fees in the quarter.

Over the last year the portfolio has generated a 7.01% return pre-fees and over 3 years 8.48%. Over 2 years, 3 years, and Since Inception the portfolio has achieved performance above our Conservative Composite Index.

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 30/06/2015



## Trailing Returns

As of Date: 30/06/2015

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	Since Inception
VIP Conservative	-1.18	-0.61	3.05	7.01	7.96	8.48	8.39
VIP Conservative Investment	-1.29	-0.94	2.36	5.58	6.52	7.03	7.03
VIP Conservative Super-Pension	-1.24	-0.80	2.64	6.16	7.10	7.62	7.52
VIP Conservative Composite Index	-1.96	-2.68	1.91	7.03	7.81	8.24	8.19

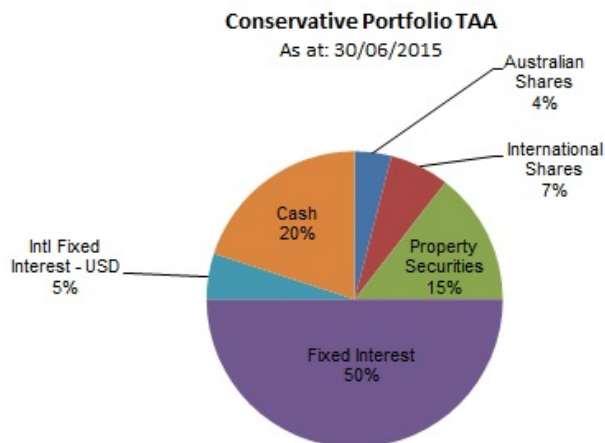
## Tactical Asset Allocation

The VIP Conservative portfolios asset allocation as at 30/06/2015 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.



## Risk vs Return

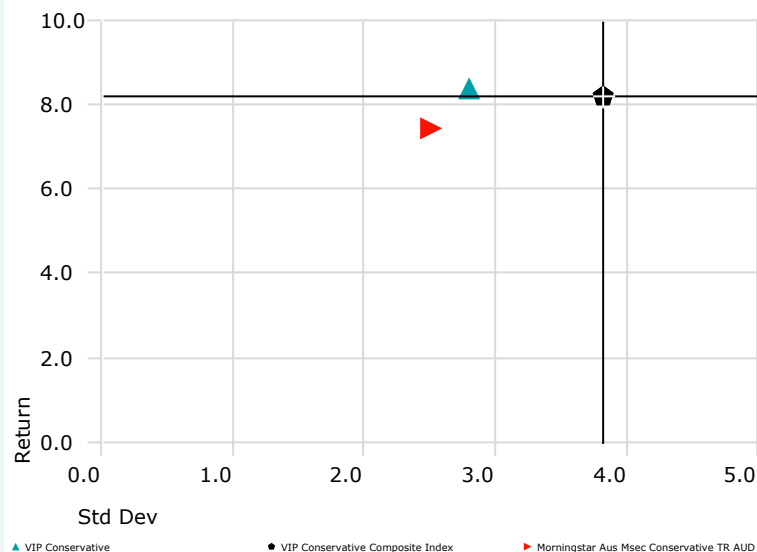
The VIP portfolios aim to reduce volatility, or risk, over the long term and achieve excess returns per unit of risk that is taken compared to our Conservative Composite Index and the Morningstar Multi-sector Conservative Index.

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 (current) China Story

For years we have been hearing and talking about the China Story. The huge opportunity that comes from a large population that is rising up the class ranks and westernising their diets, material wants, and day-to-day habits off the back of economic gains that have transformed the economy to one of the largest in the world.

Stories of selling woodchip for paper production, wine for consumption, iron ore for steel production, and the opening of KFC's all over mainland China had us all jumping over any type of asset from soft commodities to US stocks.

We saw it first hand with the rise and rise of our mining sector where BHP, Rio Tinto, Fortescue Minerals, et al. couldn't get the ore out of the ground quick enough. We've also seen it with European car manufacturers such as Mercedes Benz, BMW & VW whom as the ABC Business Editor, Ian Verrender, reports derive 50 to over 70% of profits from Chinese sales.

It seems the Shanghai and Shenzhen stock markets have painted the picture well. After being up approximately 150% over the last 12 months the inevitable happened and the market has plunged more than 23% since over the last month.... Yes, 1 month.

This market rally has been fuelled by debt and even though a small proportion of the Chinese population have margin loans and invest in the markets, this trend paints a picture of what we may be walking into... a slowing China.

China pundits are arguing that although the market has crashed in the last month it is still up 94% over the last year. They also suggest that only a small amount of investors have used leverage to enter the market. However, Chinese authorities had to suspend almost all the shares on the index and threaten those engaging in short selling with arrest in order to 'stabilise' the market. Extreme measures when only 15% of household incomes are invested in the stock market.

When the economic growth figures of an annualised 7% GDP growth are considered, again there is no cause for alarm, but what if we consider official trade numbers.

The ABC reports that Imports have slowed by 6% in June and 17.6% the previous month signalling that an overcapacity is not being utilised by internal consumption, which has been the aim of Chinese authorities.

This overcapacity is then being exported resulting in better export figures, but then leading to weakness in different markets around the world as this supply floods these markets. For instance, steel mills in China are still producing record amounts of steel; however, as this supply is not being utilised domestically excess supply is being exported and has led to a halving in steel prices over the last 5 years. Ian Verrender reports that the price of Chinese cabbages per tonne is more expensive than a tonne of steel.

Soft commodities such as dairy products are following a similar trend to hard commodities such as Iron ore. The western style diets with high dairy content were one of the reasons behind the success of the New Zealand (NZ) economy, which has been one of the only economies to raise interest rates over the last few years to slow their economy as the rest of the world has been cutting rates to stimulate their economies. The ABC reports that last week global dairy prices fell to a 12½ year low pushing the Kiwi dollar off a cliff, and forcing Fonterra, NZ's biggest exporter to cut more than 500 jobs. Some commentators believe the NZ Central Bank may need to now cut interest rates.

These are just some examples of trends that are occurring in different markets that are highly leveraged to China and the China story. Official GDP growth results indicate that the economy is in healthy territory; however, trade data and the movement of Chinese share markets are telling a different story.

Source: ABC, The Drum, Ian Verrender

## Australian Shares Portfolio

The Australian share portfolio generated a -5.09% return for the month and -5.95% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in June by 0.01% and by 0.74% over the quarter.

Over the last year the portfolio has generated a 9.17% return pre-fees outperforming the ASX 100 index by 3.10%.

The **Top 3 Contributors** for the month were James Hardie Industries +1.65%, Bendigo & Adelaide Bank -0.24%, and Telstra -1.29%.

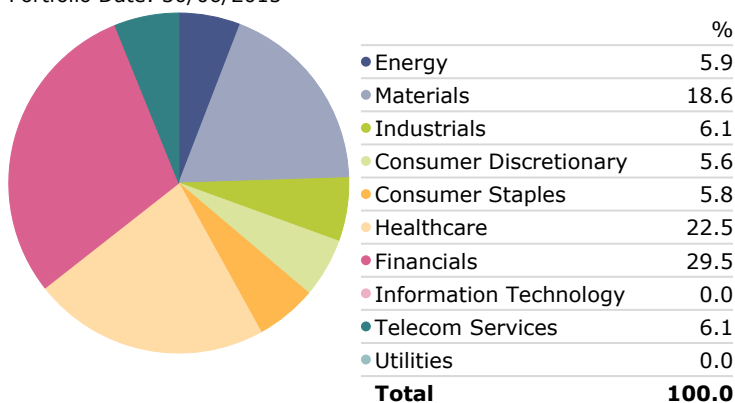
The **Top 3 Detractors** for the month were Wesfarmers Limited -10.60%, Origin Energy -10.07%, and Ansell Limited -9.94%.

### VIP Australian Share Leaders - Holdings

	Ticker	Dividend Yield % TTM
James Hardie Industries PLC CDR	JHX	2.35
Bendigo And Adelaide Bank Ltd	BEN	7.25
Telstra Corp Ltd	TLS	6.68
Brambles Ltd	BXB	2.73
Bank of Queensland Ltd	BOQ	7.47
Ramsay Health Care Ltd	RHC	1.74
Australia and New Zealand Banking Group Ltd	ANZ	7.87
Origin Energy Ltd	ORG	4.44
Rio Tinto Ltd	RIO	6.79
Wesfarmers Ltd	WES	7.02
CSL Ltd	CSL	1.46
Aristocrat Leisure Ltd	ALL	1.86
Lend Lease Group	LLC	4.81
DuluxGroup Ltd	DLX	5.30
Westpac Banking Corp	WBC	7.64
ResMed Inc CDR	RMD	1.47
Ansell Ltd	ANN	1.95

### VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 30/06/2015



### Australian Shares Portfolio Adjustments:

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

## International Shares Portfolio

The International share portfolio generated a -3.36% return for the month and -0.60% over the last 3 months. In doing so the portfolio underperformed the MSCI World Ex Aus (AUD) index in June by 0.70% and over the last 3 months by 0.49%.

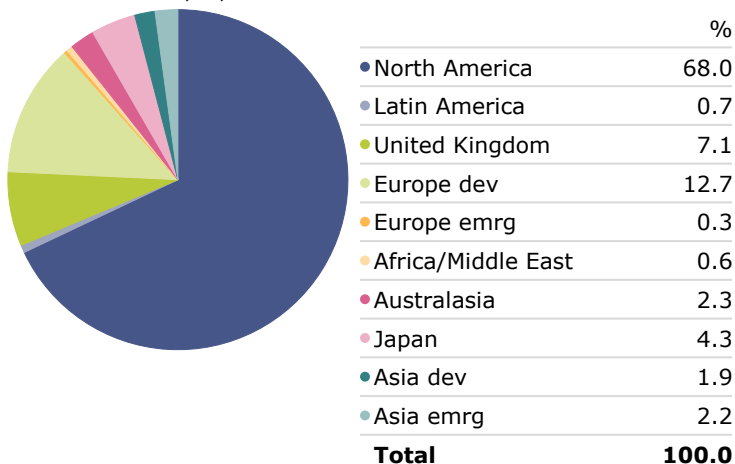
Over the last year the portfolio has generated a 26.77% return and outperformed the index by 1.59%.

The **Top Contributor** for the month was the Vanguard US Total Market Shares ETF -2.52%; and the **Top Detractors** were the Vanguard All World Ex-US ETF -4.21%, and the Magellan Global Fund -2.74%.

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

### VIP International - Equity Regional Exposure

Portfolio Date: 30/06/2015



### VIP International - Holdings

Portfolio Date: 30/06/2015

	Portfolio Weighting %
Magellan Global	42.62
Vanguard US Total Market Shares ETF	34.67
Vanguard All-World ex-US Shares ETF	22.71

### International Portfolio Adjustments:

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

## Property Securities Portfolio

The Property Securities portfolio generated a -3.35% return for the month and -2.71% over the last 3 months. The portfolio outperformed the S&P/ASX 200 A-REIT index during the month by 0.80%, and underperformed the index over the quarter by 0.28%.

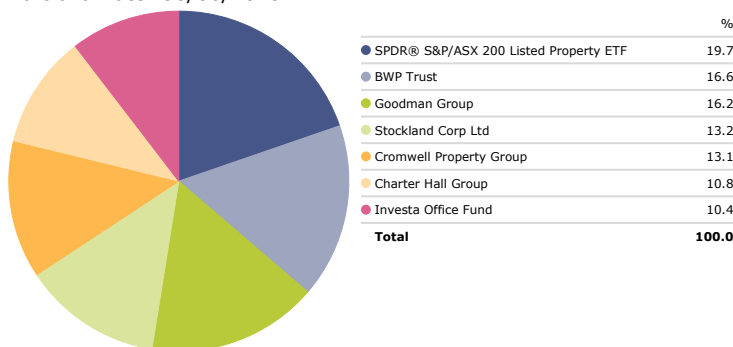
Over the last year the portfolio has generated a 19.38% return and underperformed the index by 0.88%.

The **Top Contributors** were Investa Office Fund -1.84%, Goodman Group -2.58%, and Stockland Corporation -2.76%; and the **Top Detractors** were BWP Trust -5.11% and the SPDR S&P/ASX200 Listed Property ETF -4.23%.

The portfolios holdings and dividend yields are included below.

### VIP Property Securities - Portfolio Holdings

Portfolio Date: 30/06/2015



### VIP Property Securities - Holdings

Portfolio Date: 30/06/2015

	Ticker	Dividend Yield % TTM
SPDR® S&P/ASX 200 Listed Property ETF	SLF	
BWP Trust	BWP	4.79
Goodman Group	GMG	3.42
Stockland Corp Ltd	SGP	5.62
Cromwell Property Group	CMW	7.21
Charter Hall Group	CHC	5.12
Investa Office Fund	IOF	4.94

## Fixed Interest Portfolio

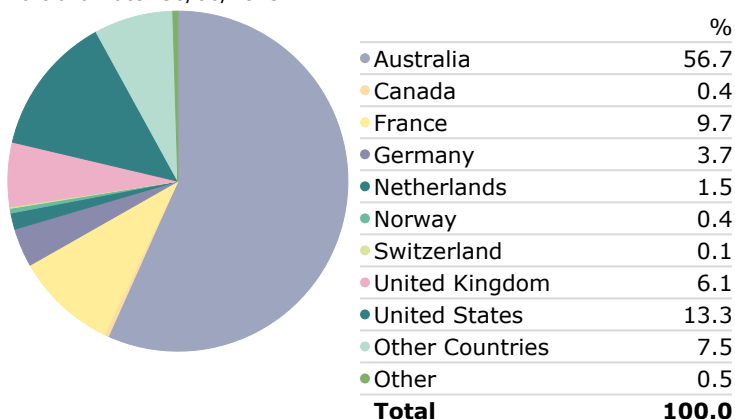
The Fixed Interest portfolio generated a -0.34% return for the month and 0.23% over the last 3 months. This was against the Bloomberg AusBond Composite index return of -0.93% and -1.99% over the month and last 3 months respectively.

The **Top Contributors** were Cash +0.17%, Bentham Global Income Fund +0.02%, and the Realm High Income Fund -0.52%; and the **Top Detractor** for the month was the iShares Composite Bond ETF -0.93%.

The portfolios country exposure is included below.

### VIP Fixed Interest - Country Exposure

Portfolio Date: 30/06/2015



### VIP Fixed Interest Portfolio - Income Yield

Portfolio Date: 30/06/2015

	Income Return 1 Yr (Mo-End)
RBA Bank accepted Bills 30 Days	
iShares Composite Bond	3.09
Bentham Wholesale Global Income	5.73
Realm High Income	3.41

### Property Securities Portfolio Adjustments:

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

### Fixed Interest Portfolio Adjustments:

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

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