

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

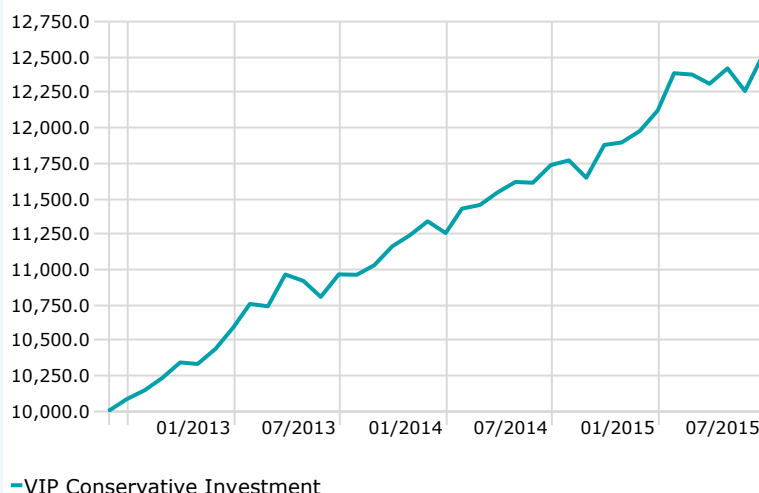
The VIP Conservative portfolio generated a 2.20% return pre-fees in July, and 2.00% return pre-fees in the quarter.

Over the last year the portfolio has generated a 8.08% return pre-fees and over 3 years 8.93%. Over 1 to 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 31/07/2015



Trailing Returns

As of Date: 31/07/2015

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	Since Inception
VIP Conservative	2.20	2.00	3.93	8.08	8.29	8.93	8.87	8.79
VIP Conservative Investment	2.08	1.66	3.23	6.63	6.83	7.47		7.55
VIP Conservative Super-Pension	2.13	1.80	3.51	7.22	7.42	8.06	8.00	7.92
VIP Conservative Composite Index	2.29	0.69	1.77	7.80	8.26	8.43	8.94	8.62

Tactical Asset Allocation

The VIP Conservative portfolios asset allocation as at 31/07/2015 was as follows:

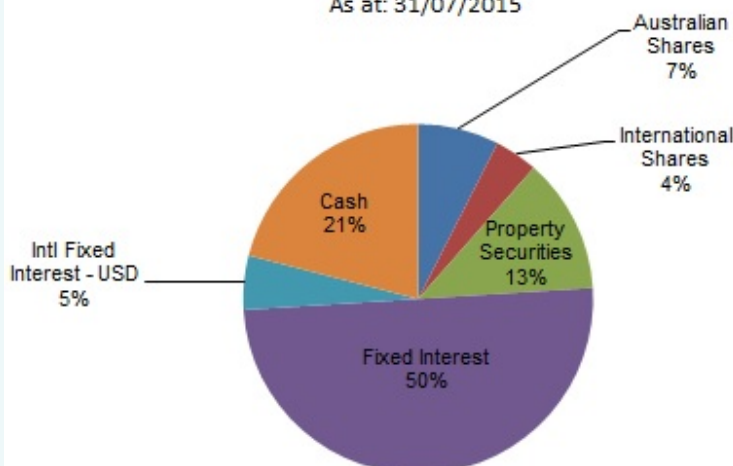
- Australian Shares 7%
- International Shares 4%
- Property Securities 13%
- Fixed Interest 50%
- International Fixed Interest - US dollars 5%
- Cash 21%

The Growth asset allocation (Shares and Property Securities) is currently reduced to 24% 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: 31/07/2015



Risk vs Return

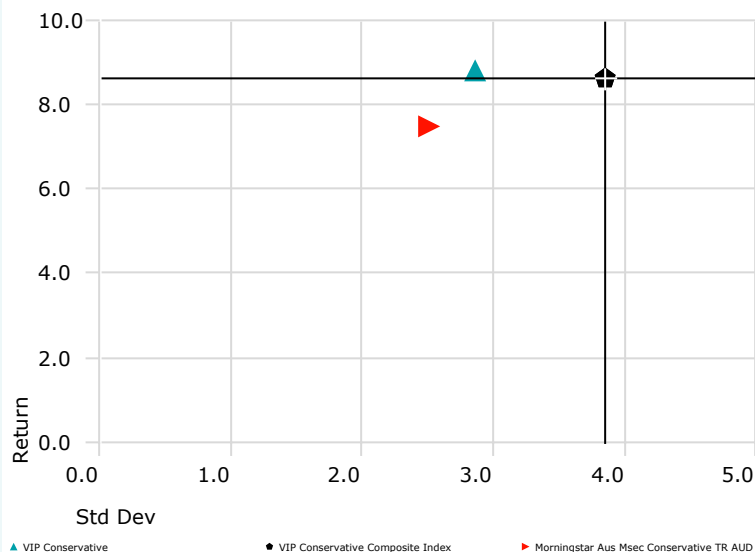
The VIP portfolios aim to reduce volatility, or risk, over the long term and achieve excess returns per unit of risk that is taken compared to our Conservative Composite Index and the Morningstar Multi-sector Conservative Index.

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

China: The Sequel

Much has been said recently about the falling Chinese market and as a result, questions arise as to what lies ahead for a slowing China. When any market takes a plunge, panic consequently follows concerning the state of the economy. Although this can be true in some cases, in China's case its stock market plays a small role in its economy, and even more so has few ties to the overall economy. Therefore, the potential for China's equity correction to spread a worldwide economic meltdown is rather limited. This is the true reality of the situation, which subsequently presents the question 'is China's economy being reflected in its market?'

In short, it is not. China's equity market predominantly consists of 'retail investors who make their investment decisions based on what they read in investor newsletters.' Additionally, the Chinese governments' efforts to boost liquidity in the market (through tools such as interest rate reductions and reserve ratio requirement cuts) were timed poorly with the Greece crisis pulling the plug on global risk. Combine this with the Chinese retail investor, and the result is a flurry of panic selling despite what the Chinese economy is doing.

Overall, the underlying concept is that regardless of what the Chinese stock market is doing, the Chinese economy itself is still growing (albeit slower), and even more so, transforming. China is moving away from being a low-cost producer and exporter, to becoming a consumer driven society. In this process mistakes and adjustments will be made which are possibly being reflected in the stock market. However, this does not necessarily reflect the state of the 2nd largest economy in the World.

It is true that China's growth is slowing down as we discussed in last months report. This is largely due to the industrial and property sectors, with growth in real industrial output declining from 14% in mid-2011 to 5.9% in April. While slowdown is no doubt causing a stir in both the Chinese stock market and international markets alike, it must be noted that it would have been ridiculous to think for a second that China's rate of growth was ever sustainable. In contrast to being a slowing economy, China is instead simply beginning the 'necessary rebalance towards a more sustainable, consumption-led growth model,' as noted by chief economist at Standard Life Investments Jeremy Lawson.

Despite playing a huge role in the World's economy, the truth is that China is still an emerging market. Which means it hasn't yet reached its final form. Which means its economy will continue to grow and flourish. All this taken into consideration, it is ludicrous to think that the Chinese stock market is indicative of the well-being of its country. China as an economic organism is still in its infantile stages of development, with new markets continually building.

Take for example its environmental problem concerning the pollution and waste generated by the country, which opens up new markets in the quest to turn China green. Also take into account its ever-expanding middle class, the rising amount of billionaires, and that the Chinese population are earning more than ever.

The fact that Chinese banks are generally uninvolved in providing leverage and are not showing signs of stress is indicative of a sound economy, regardless of what the market is saying. Furthermore, 'there is very little evidence that the moves in the stock market will have a major impact on the real economy,' and even if there was, stocks only amount to 15% of total wealth. Even the average retail investor, who we previously mentioned to be highly reactive to what everyone else is doing, spends less of their wealth than other countries with a 49% savings rate.

While China's eventual transition to a consumer society will no doubt create volatility and weaken growth reflected in the market, these negatives are minor in terms of China's pursuit to their desired economy. As said by Jan Dehn, head of research at Ashmore in London, 'you need to break eggs to make an omelette.'

Source: Kenneth Rapoza, Forbes.

Source: Morningstar Direct

Australian Shares Portfolio

The Australian share portfolio generated a 5.69% return for the month and 2.02% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in July by 1.14% and by 2.55% over the quarter.

Over the last year the portfolio has generated a 11.47% return pre-fees outperforming the ASX 100 index by 5.22%.

The **Top 3 Contributors** for the month were CSL Ltd +14.44%, Aristocrat Leisure Ltd +12.03%, and ResMed Inc CDR +10.04%.

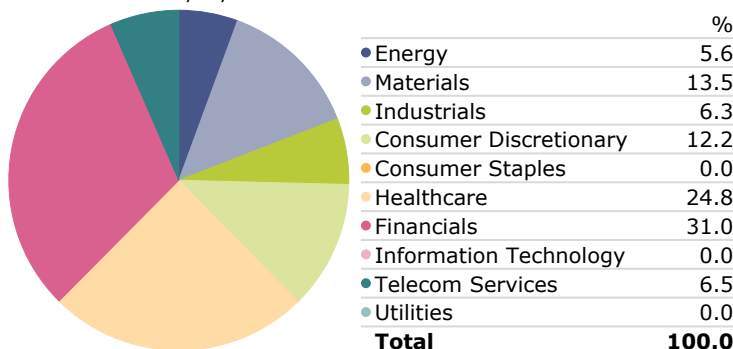
The **Top 3 Detractors** for the month were Origin Energy Ltd -5.26%, Harvey Norman Holdings Ltd -1.11%, RBA Bank accepted Bills 90 days +0.18%.

VIP Australian Share Leaders - Holdings

	Ticker	Dividend Yield % TTM
James Hardie Industries PLC CDR	JHX	2.55
Bendigo and Adelaide Bank Ltd	BEN	8.63
CSL Ltd	CSL	1.50
Bank of Queensland Ltd	BOQ	7.88
Ramsay Health Care Ltd	RHC	1.78
Telstra Corp Ltd	TLS	7.39
Aristocrat Leisure Ltd	ALL	1.88
Brambles Ltd	BXB	3.09
ResMed Inc CDR	RMD	1.56
Harvey Norman Holdings Ltd	HVN	5.34
Lend Lease Group	LLC	3.91
Australia and New Zealand Banking Group Ltd	ANZ	9.05
Westpac Banking Corp	WBC	8.35
RBA Bank accepted Bills 90 Days		
DuluxGroup Ltd	DLX	5.51
Origin Energy Ltd	ORG	6.14
Ansell Ltd	ANN	2.63

VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/07/2015



Australian Shares Portfolio Adjustments:

The VIP Investment Committee sold Wesfarmers (WES), Rio Tinto (RIO), and ResMed (RMD) in July and purchased Harvey Norman (HVN). WES was sold as it was trading above our fair value target and WES, along with its competitors, are finding it difficult to maintain margins in the highly competitive Consumer Staples sector. The recent weaknesses in China are slowing global growth, which is having a negative effect on the price of iron ore. For this reason RIO was sold and the portfolio currently has no Materials exposure even with the current low prices of companies within this sector. And RMD was sold as after the unfavourable results of a medical trial for patients with congestive heart failure with sleep disorder breathing pattern. Although this only affects 2% of RMD's sales the VIP IC elected to sell the share.

The VIP IC decided to buy HVN due to the forecasted sales increases expected from the Government's recent budget announcements for small business. In addition, HVN is benefiting from increased spending on electrical goods, furniture, floor coverings, and homewares off the back of a buoyant housing market and record low interest rates.

International Shares Portfolio

The International share portfolio generated a 5.79% return for the month and 6.82% over the last 3 months. In doing so the portfolio underperformed the MSCI World Ex Aus (AUD) index in July by 0.81% and over the last 3 months by 0.57%.

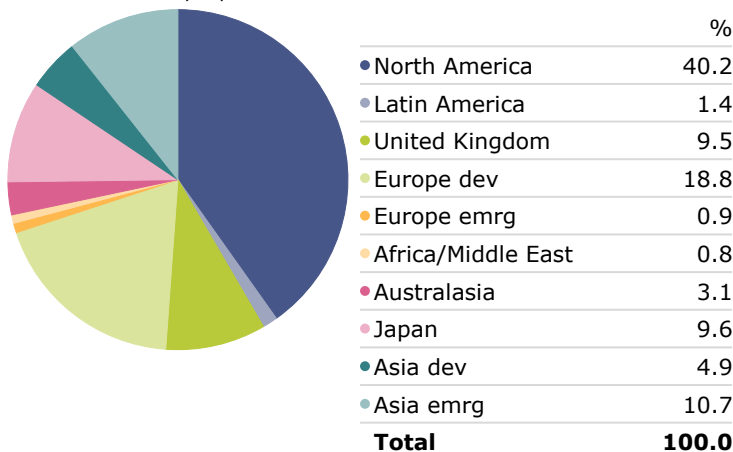
Over the last year the portfolio has generated a 33.23% return and underperformed the index by 0.54%.

The **Top Contributor** for the month was Magellan Global +8.16%; and the **Top Detractors** were the Morpheic Global opportunities -2.44%, RBA Bank accepted Bills 90 Days +0.18%, Platinum International Fund +2.63.

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

VIP International - Equity Regional Exposure

Portfolio Date: 31/07/2015



VIP International - Holdings

Portfolio Date: 31/07/2015

	Global Category
Magellan Global	Global Equity Large Cap
Morpheic Global Opportunities	Global Equity Large Cap
Platinum International Fund	Global Equity Large Cap
RBA Bank accepted Bills 90 Days	
Vanguard All-World ex-US Shares ETF	Global Equity Large Cap

International Portfolio Adjustments:

VTS (Vanguard US Total Market Shares Index ETF) has been sold in order to reduce our exposure to the US stock market upon the view that the US market is fully priced and US interest rates will be increased in the short-term future.

The Morpheic Global Opportunities Fund and Platinum International Fund purchased as they provide active international share exposure via managers that employ different strategies to manage risk.

Property Securities Portfolio

The Property Securities portfolio generated a 6.03% return for the month and 4.54% over the last 3 months. The portfolio outperformed the S&P/ASX 200 A-REIT index during the month by 0.32%, and underperformed the index over the quarter by 0.28%.

Over the last year the portfolio has generated a 21.38% return and outperformed the index by 0.30%.

The **Top Contributors** were BWP Trust +10.13%, and Cromwell Property Group +8.78; and the **Top Detractors** were Stockland Corp Ltd +3.66%, Investa Office Fund +4.21%, and Goodman Group +4.31%.

The portfolios holdings and dividend yields are included below.

Fixed Interest Portfolio

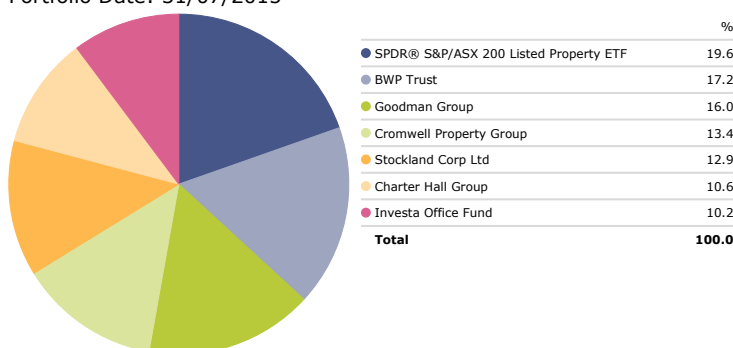
The Fixed Interest portfolio generated a 0.62% return for the month and 0.53% over the last 3 months. This was against the Bloomberg AusBond Composite index return of 1.30% over the month and 0.40% over the quarter. The portfolio underperformed the index by 0.68% over the month, and outperformed the index 0.13% over the last 3 months.

The **Top Detractors** for the month were the RBA Bank accepted Bills 30 Days +0.17%, Bentham Wholesale Global Income +0.42%, and Realm High Income +0.61.

The portfolios country exposure is included below.

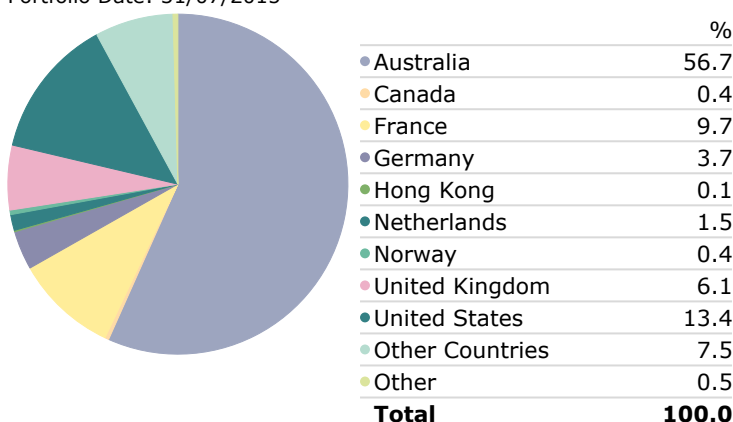
VIP Property Securities - Portfolio Holdings

Portfolio Date: 31/07/2015



VIP Fixed Interest - Country Exposure

Portfolio Date: 31/07/2015



VIP Property Securities - Holdings

Portfolio Date: 31/07/2015

	Ticker	Dividend Yield % TTM
SPDR® S&P/ASX 200 Listed Property ETF	SLF	
BWP Trust	BWP	4.90
Goodman Group	GMG	3.60
Cromwell Property Group	CMW	7.56
Stockland Corp Ltd	SGP	5.94
Charter Hall Group	CHC	5.45
Investa Office Fund	IOF	5.04

VIP Fixed Interest Portfolio - Income Yield

Portfolio Date: 31/07/2015

	Income Return 1 Yr (Mo-End)
RBA Bank accepted Bills 30 Days	
iShares Composite Bond	3.98
Bentham Wholesale Global Income	5.67
Realm High Income	3.54

Property Securities Portfolio Adjustments:

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

Fixed Interest Portfolio Adjustments:

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

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