

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

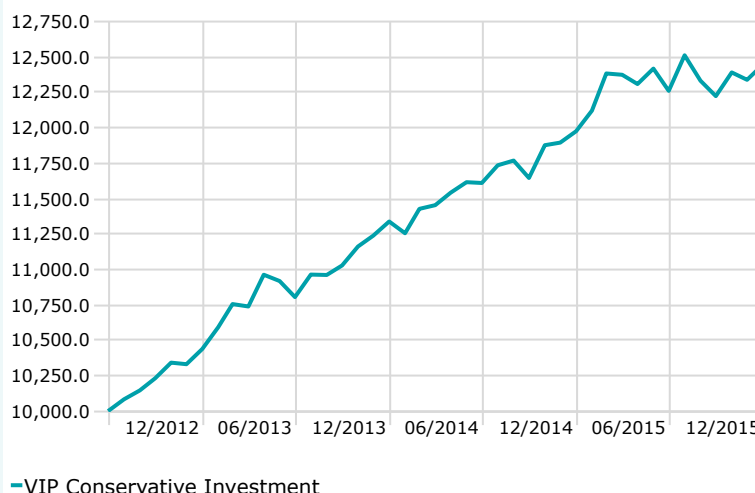
The VIP Conservative portfolio generated a 0.99% return pre-fees in December, and 2.17% return pre-fees in the quarter.

Over the last year the portfolio has generated a 5.35% return pre-fees and over 3 years 7.48%. Over 1 to 4 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: 1/07/2012 to 31/12/2015



Trailing Returns

As of Date: 31/12/2015

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	Since Inception
VIP Conservative	0.99	2.17	2.21	5.35	6.20	7.48	8.17	8.01
VIP Conservative Investment	0.88	1.83	1.52	3.94	4.78	6.04		6.46
VIP Conservative Super-Pension	0.92	1.97	1.80	4.51	5.35	6.63	7.31	7.15
VIP Conservative Composite Index	1.16	1.76	2.00	3.96	6.99	6.81	8.18	8.00

Tactical Asset Allocation

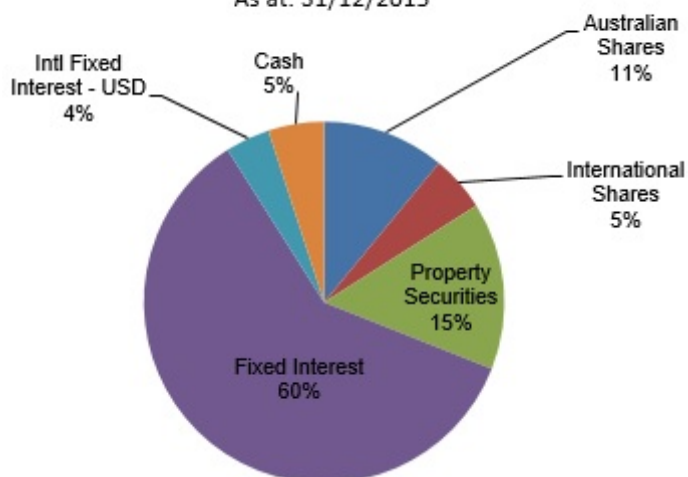
The VIP Conservative portfolios asset allocation as at 31/12/2015 was as follows:

- Australian Shares 11%
- International Shares 5%
- Property Securities 15%
- Fixed Interest 60%
- International Fixed Interest - US dollars 4%
- Cash 5%

In December The Growth asset allocation (Shares and Property Securities) is currently at 31% due to the *VIP Investment Committee's* decision to sell a percentage of the holding's of the US dollar given the US Federal Reserves decision to raise interest rates in America.

Conservative Portfolio TAA

As at: 31/12/2015



Risk vs Return

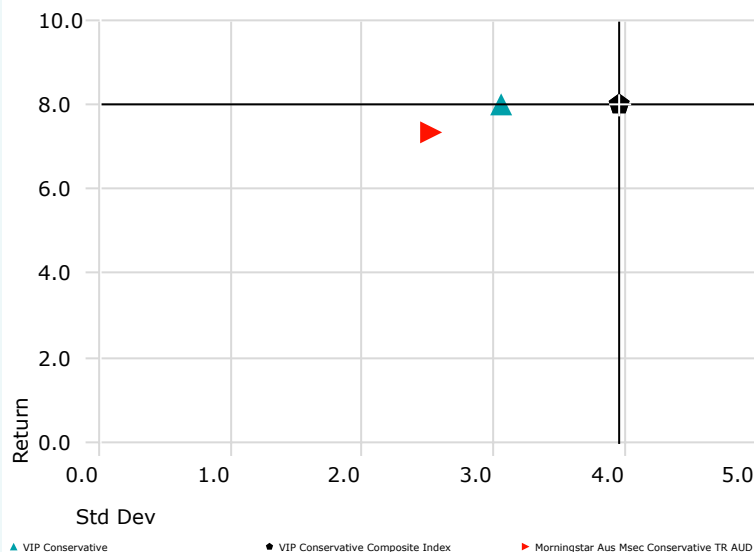
The VIP portfolios aim to reduce volatility, or risk, over the long term and achieve excess returns per unit of risk that is taken compared to our Conservative Composite Index and the Morningstar Multi-sector Conservative Index.

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 Lucky Country

From almost any standpoint, it is easy to understand why Australia is fondly referred to (albeit mostly by Australians) as 'The Lucky Country.' With another Australia Day just passed, we Australians were once again offered the chance to experience and reflect on what makes this country great – the sun, the surf, the beach, the barbeques. Whilst these distinctive factors of our nation's character are no doubt great, they are admittedly accessible in other areas of the globe. So what makes us so lucky? Beyond the obvious, the answer lies within the fundamental components of Australia, such as our current government, interest rates, the low Australian dollar, as well as current prices in oil and energy. Given the recent volatility in the market, from an investors perspective it is easy to forget that we are in fact a privileged bunch.

In the Spring of 2015 the Australian public witnessed the demise of Tony Abbott's time at the helm, and emerging victorious was a leader that oozed success, and had a resume to back it up. Mr Malcolm Turnbull took the prime minister's office after an illustrious career in investment banking as a partner for Goldman Sachs as well as his own firm 'Whitlam Turnbull & Co Ltd, and historically has proven to be an expert at mastering policy detail. As was mentioned in the VIP August Report, Turnbull's success resulted in a boost in consumer and business confidence, a feat considering China's correction in August had thrown global markets into disarray, and fear was a widespread theme across the world's economy. Almost five months ahead we see stability in the government, a tell-tale sign to the everyday Australian being that the coalition is rarely making a headline in today's newspapers.

Australia is also experiencing historically low interest rates, with a cash rate of 2.00%. effectively, the point of lowering a cash rate is to promote growth by encouraging spending and reducing the cost of borrowing, each of which stimulate the economy. As a result, the nation is currently recording inflation at an increase of 2% in 2016, a rate that although slightly higher than expected, is well under control. Compare this to other economies such as Europe, Japan, and China, where, as put by AFR's Phil Baker "fears that inflation is so low that central banks will, sooner than later, be forced to cut interest rates to stave off a bout of potential deflation." Consequently, Australia finds itself the 'envy of the world,' with inflation a welcomed relief if the alternative is the potential of deflation derived from a lethargic rate of growth.

Noticeable of recent times is the severe decrease in both oil and energy prices. Essentially, these prices are a by-product of the slowdown of China's economy. Among other market factors, it is a simple case of the supply/demand concept in that while supply has more or less remained stable, China's slowdown has largely decreased the demand for these sectors and as a result the prices have fallen. While this may upset shareholders in oil or energy (of which the VIP Portfolios hold neither), the Australian general public is happy to benefit from cheaper fuel and a slighter energy bill.

Finally, it is common knowledge that the Australian dollar now resides at a lowly \$0.70 after peaking at \$1.10 in 2011, and although this obviously impacts overseas travel plans there is the other, indispensably valuable side of the coin. A low Australian dollar, whilst meaning a holiday abroad will be more expensive, encourages Australian's to travel within Australia, thus putting money back into our businesses. Subsequently, a pickup in business leads to a greater demand for employees and a greater need for marketing campaigns all of which promote the growth of our economy. Our exports, including tourism, become more attractive and locally produced goods are able to compete more effectively against imported products. All in all, the Australian dollar at \$0.70 is doing far more good than damage.

One must ponder what the motherland was thinking when it sent convicts (of all people) from damp, grey England to one of the most spectacular landscapes the earth has to offer. Over 200 years later, to live in such a land seems to be a birthright. However, regardless of all the perks Australians enjoy on a daily basis, when considering the Australian economy relative to the developed world as well as its incomparability to the developing countries, to be standing on this golden soil we are, in every sense of the word, lucky.

Australian Shares Portfolio

The VIP Australian Share Leaders portfolio generated a 4.43% return for the month and 11.51% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in December by 1.82% and by 5.42% over the quarter.

Over the last year the portfolio has generated a 3.53% return pre-fees outperforming the ASX 100 index by 1.39%.

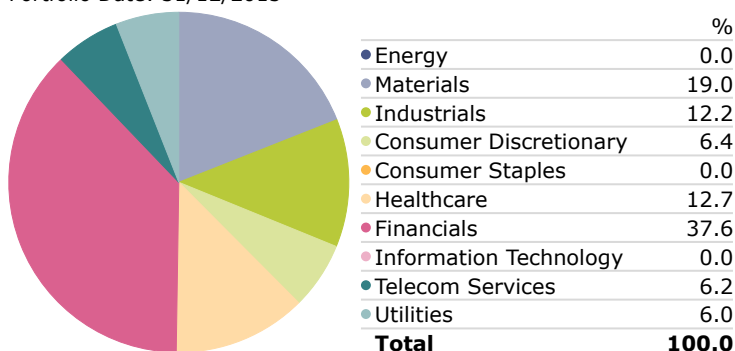
The **Top 3 Contributors** for the month were Lend Lease Group 11.84%, Aristocrat Leisure Ltd 7.59%, and James Hardie Industries 7.39%; and the **Top 3 Detractors** for the month were CIMIC Group -2.99%, Spark Infrastructure Group 1.05%, and Ramsay Health Care Ltd 1.33%

VIP Australian Share Leaders - Holdings

	Ticker	Dividend Yield % TTM
Westpac Banking Corp	WBC	8.78
Australia and New Zealand Banking Group Ltd	ANZ	10.92
Lendlease Group	LLC	4.33
CSL Ltd	CSL	1.55
Aristocrat Leisure Ltd	ALL	1.69
James Hardie Industries PLC DR	JHX	2.80
Brambles Ltd	BXB	2.87
DuluxGroup Ltd	DLX	4.38
Bendigo and Adelaide Bank Ltd	BEN	8.92
Boral Ltd	BLD	4.69
Ramsay Health Care Ltd	RHC	2.08
Bank of Queensland Ltd	BOQ	8.11
Telstra Corp Ltd	TLS	7.88
Spark Infrastructure Group	SKI	5.91
CIMIC Group Ltd	CIM	6.77
RBA Bank accepted Bills 90 Days		

VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/12/2015



Portfolio Adjustments:

In December the *VIP Investment Committee* decided to sell BHP Billiton after the company experienced a disaster in a Brazilian dam and its stock price suffered accordingly. CIMIC Group was bought in its place to capitalise on the industrials sector. Strictly in reference to the Conservative portfolio, the committee also sold some its US dollars and bought TPM and Macquarie Group.

International Shares Portfolio

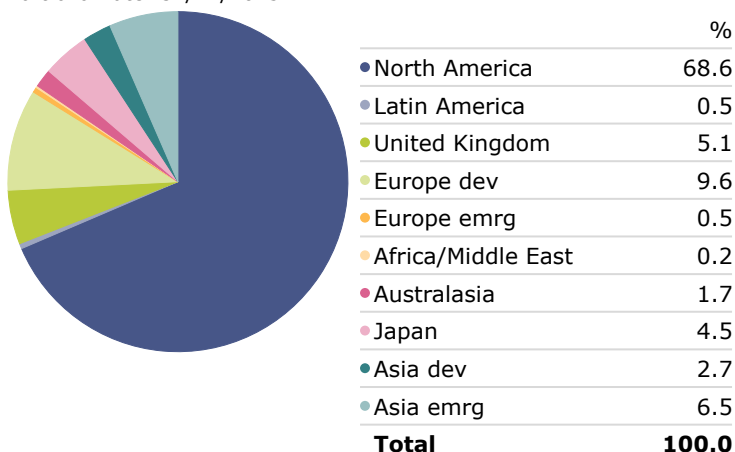
The VIP International share portfolio generated a -2.14% return for the month and 0.95% over the last 3 months. In doing so the portfolio outperformed the MSCI World Ex Aus (AUD) index in December by 0.14% and underperformed over the last 3 months by 0.77%.

Over the last year the portfolio has generated a 10.53% return and underperformed the index by 1.27%.

The **Top Contributors** were Vanguard US Total Market Shares ETF -0.99%, Platinum International Fund -1.59%, and Magellan Global Opportunities -2.47%. The **Top Detractor** was Morphic Global Opportunities -2.47%.

VIP International - Equity Regional Exposure

Portfolio Date: 31/12/2015



VIP International - Holdings

Portfolio Date: 31/12/2015

	Global Category
Magellan Global	Global Equity Large Cap
Platinum International Fund	Global Equity Large Cap
Vanguard US Total Market Shares ETF	US Equity Large Cap Blend
Morphic Global Opportunities	Global Equity Large Cap
RBA Bank accepted Bills 90 Days	

International Portfolio Adjustments:

The *VIP Investment Committee* decided to sell Vanguard All-World ex-US Shares ETF in order to divest from a turbulent world economy, and instead buy Vanguard US Total Market Shares ETF to invest in the US economy.

Property Securities Portfolio

The VIP Property Securities portfolio generated a 4.10% return for the month and 7.28% over the last 3 months. The portfolio outperformed the S&P/ASX 200 A-REIT index during the month by 0.11%, and outperformed over the quarter by 1.33%.

Over the last year the portfolio has generated a 12.31% return and underperformed the index by 2.01%.

The **Top Contributors** were Investa Office Fund 6.17%, Stockland Corp Ltd 5.55%, and Cromwell Property Group 4.89%; the **Top Detractors** were BWP Trust 1.95%, SPDR S&P/ASX 200 Listed Property ETF 3.95%, and Goodman Group 4.40%.

Fixed Interest Portfolio

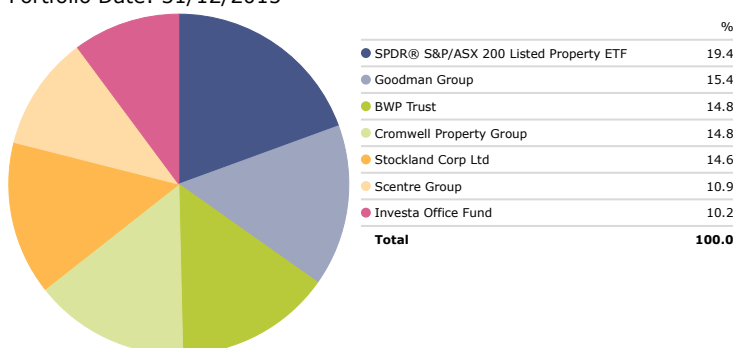
The VIP Fixed Interest portfolio generated a 0.15% return for the month and 0.45% over the last 3 months. This was against the Bloomberg AusBond Composite index return of 0.33% over the month and -0.25% over the quarter.

The portfolio underperformed the index by 0.18% over the month, and outperformed the index 0.70% over the last 3 months.

The **Top Detractors** for the month were Bentham Wholesale Global Income -0.22%, Realm High Income 0.11%, and RBA Bank accepted Bills 30 Days 0.17%.

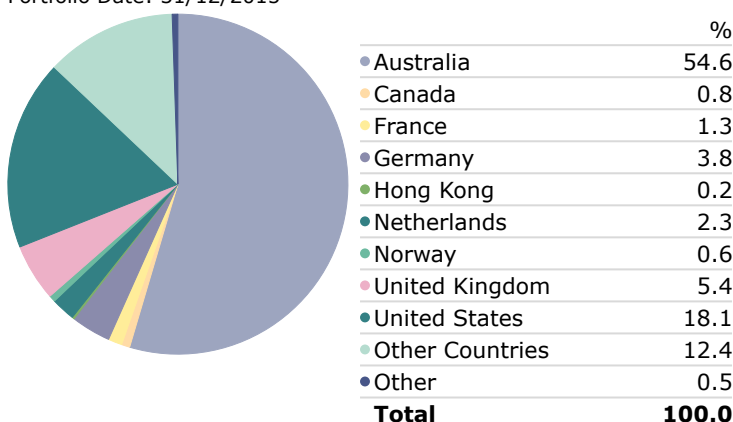
VIP Property Securities - Portfolio Holdings

Portfolio Date: 31/12/2015



VIP Fixed Interest - Country Exposure

Portfolio Date: 31/12/2015



VIP Property Securities - Holdings

Portfolio Date: 31/12/2015

	Ticker	Dividend Yield % TTM
SPDR® S&P/ASX 200 Listed Property ETF	SLF	
Goodman Group	GMG	3.79
BWP Trust	BWP	5.33
Cromwell Property Group	CMW	8.09
Stockland Corp Ltd	SGP	5.95
Scentre Group	SCG	5.07
Investa Office Fund	IOF	4.96

VIP Fixed Interest Portfolio - Income Yield

Portfolio Date: 31/12/2015

	Income Return 1 Yr (Mo-End)
iShares Composite Bond	3.64
Realm High Income	2.62
RBA Bank accepted Bills 30 Days	
Bentham Wholesale Global Income	5.32

Property Securities Portfolio Adjustments:

In December, the *VIP Investment Committee* decided to sell Charter Hall Group to reduce fund manager exposure, and bought Scentre Group in order to increase direct retail coverage.

Fixed Interest Portfolio Adjustments:

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

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