

### 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

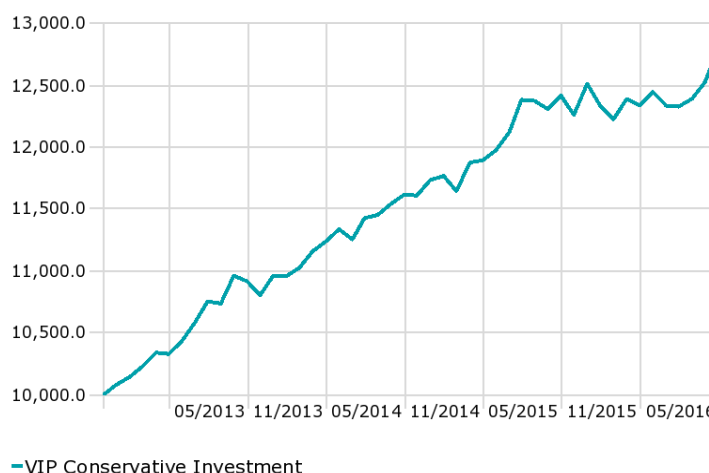
The VIP Conservative portfolio generated a 2.29% return pre-fees in May, and 4.16% return pre-fees in the quarter.

Over the last year the portfolio has generated a 4.46% return pre-fees and over 3 years 6.87%. 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 31/05/2016



### Trailing Returns

As of Date: 31/05/2016

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	Since Inception
VIP Conservative	2.29	4.16	4.42	4.46	6.39	6.87	7.85	8.04
VIP Conservative Investment	2.18	3.80	3.72	3.06	4.96	5.44		6.50
VIP Conservative Super-Pension	2.22	3.95	4.00	3.63	5.54	6.02	6.99	7.18
VIP Conservative Composite Index	1.85	4.13	5.67	4.46	7.08	7.01	7.97	8.26

### Tactical Asset Allocation

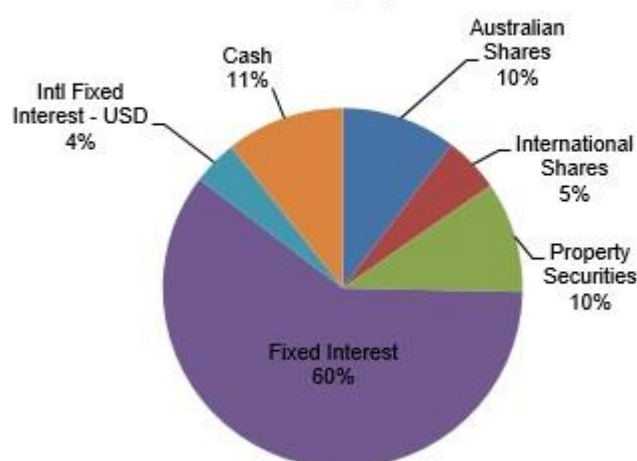
The VIP Conservative portfolios asset allocation as at 31/05/2016 was as follows:

- Australian Shares 10%
- International Shares 5%
- Property Securities 10%
- Fixed Interest 60%
- International Fixed Interest - US dollars 4%
- Cash 11%

In April the Growth asset allocation (Shares and Property Securities) is currently lower than the target level of 30% due to the *VIP Investment Committee's* belief that the market has featured too much volatility in recent times to be at target level.

### Conservative Portfolio TAA

As at: 31/05/2016



## Risk vs Return

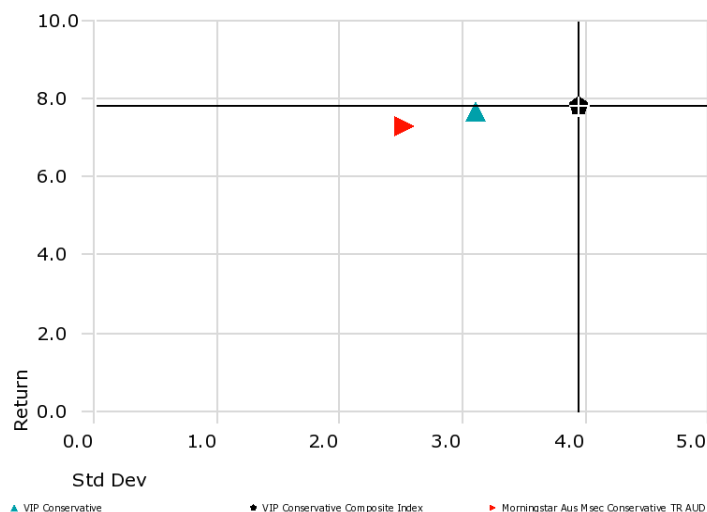
The VIP portfolios aim to reduce volatility, or risk, over the long term and achieve excess returns per unit of risk that is taken compared to our Conservative Composite Index and the Morningstar Multi-Sector Conservative Index.

The chart on the right plots return on the vertical axis against risk (in the form of Standard Deviation) on the horizontal index. 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 Brexit Debate

Here in the land of Oz the headlines have been all-dominated by the country's looming election, and while we fast grow tired of our politicians' generic routines (make promise, slander opposition, carry stranger's child), there are headlines making much larger waves in the global economy. The possible withdrawal of Britain from the European Union has the potential to have notable effects near and far – far being Australia. Then again, there is also a case to be argued that Britain's exit or 'Brexit' will induce short-term complications, but in the greater scheme of things will not be a telling factor in the global markets.

It must be noted that a withdrawal from the EU is highly unlikely – the 'Stay' vote is currently paying \$1.29 as opposed to a \$3.50 for the 'Leave vote' in betting company SportsBet. However, in the case of a triumphant 'Leave' vote, to decide whether or not the stock market will feel the brunt of Brexit, one must first understand the reasons behind a desire to leave to EU. In a nutshell, supporters of Brexit believe leaving would stem the immigration crisis for Britain, enable Britain to focus on emerging markets such as India and China, and facilitate a greater control over the country's laws. Furthermore, there is belief that economic integration is likely to increase after the euro crisis, and that it is best to cut ties before the relationship deepens.

For discussion's sake, let's assume a Brexit. There are believers of a near-painless separation in the long-term, a concept boosted by the argument that the UK stock market is predominantly occupied by multinational companies whose performance is global-based rather than linked to domestic issues. Of course, short-term pain is to be expected as Britain 'will have to renegotiate trade deals not only with EU countries but with other countries where we (Britain) rely on EU trade deals,' as noted by Peter O'Flanagan, head of foreign exchange at specialist risk firm Clear Treasury. Observers also note that stock markets have not been severely affected since the announcement of the referendum held on the 23<sup>rd</sup> of June. However, this is most likely due to the belief that a change is improbable as opposed to a change already being priced in.

Alternatively, there are many supporters of the opinion that Brexit would bring about widespread consequences, and of these supporters is the British Treasury. The Treasury believes Brexit would impact via a three step process. A 'transition effect' where company's adjust for growth without the EU, then an 'uncertainty effect' because of the wide range of possible outcomes of the negotiations needed to establish Britain's future trading relations with the EU and other economies. A 'financial conditions' effect then comes into play as the uncertainty leads to increased market volatility. It becomes increasingly clear that the most major factor in play is the effect Brexit would have on trade agreements. Full access to the European market allows Britain to spread its specialised products and services to readily established markets giving it a comparative advantage. In reducing the access to this market, the scope of specialisation is also reduced, and while the extent of the repercussions of Brexit are widely unknown, an almost certain fact is that an exit would increase the cost of trading with Europe.

It is well known that London is recognised as the financial hub of the modern world. While Wall St. caters for the largest economy, London still holds resonance given its larger scope. If Brexit was to occur, the question asked is that in the long-term, would Britain maintain this standing if it were to sever ties with the Union? It could be argued that countries such as the US, China and India would have less reason to do business with London if it no longer served as a Europe's gateway. This would no doubt have dire consequences for the country's multinational companies.

While the outcomes of Brexit are murky, the repercussions for Australia is even murkier still. However, it is known that Australian companies operating out of Britain currently benefit from a 'passporting system' in which 'financial services companies are able to set up base in a European Economic area without needing to comply with each member state's individual regulations.' With the withdrawal of Britain from the EU, these Australian companies would more than likely lose this privilege.

Whichever way you perceive the issue, it is evident that a majority 'Leave' vote would result in severe movements in the short-term, if not the long-term. That said, all the effects of Brexit are simply speculation, and at that, speculations that the majority believe won't come to fruition anyway.

Source: The Telegraph, Sydney Morning Herald, The Economist

## Australian Shares Portfolio

The VIP Australian Share Leaders portfolio generated a 6.60% return for the month and 11.46% over the last 3 months. The portfolio outperformed the S&P/ASX 100 index in May by 3.56% and underperformed by 0.06% over the quarter.

Over the last year the portfolio has generated a 2.34% return pre-fees outperforming the ASX 100 index by 5.29%.

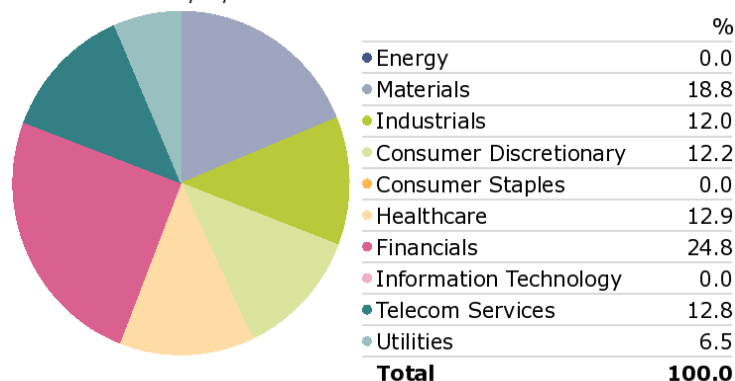
The **Top 3 Contributors** for the month were Aristocrat Leisure Ltd +28.60%, TPG Telecom Ltd +15.03%, and James Hardie Industries PLC DR +13.76%; and the **Top 3 Detractors** for the month were Flight Centre travel Group Ltd -19.59%, Brambles Ltd +2.96%, and Dulux Group Ltd +3.19%.

### VIP Australian Share Leaders - Holdings

	Ticker	Dividend Yield % TTM
RBA Bank accepted Bills 90 Days		
Aristocrat Leisure Ltd	ALL	1.44
TPG Telecom Ltd	TPM	1.55
James Hardie Industries PLC DR	JHX	2.03
Ramsay Health Care Ltd	RHC	2.09
Spark Infrastructure Group	SKI	5.08
CSL Ltd	CSL	1.77
Australia and New Zealand Banking Group Ltd	ANZ	10.20
Bendigo and Adelaide Bank Ltd	BEN	10.20
Boral Ltd	BLD	4.45
Telstra Corp Ltd	TLS	8.10
Sydney Airport	SYD	3.60
Bank of Queensland Ltd	BOQ	9.76
DuluxGroup Ltd	DLX	4.71
Westpac Banking Corp	WBC	8.85
Brambles Ltd	BXB	2.53
Flight Centre Travel Group Ltd	FLT	7.02

### VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/05/2016



### Australian Shares Portfolio Adjustments:

The *VIP Investment Committee* made no adjustments to the portfolio in May.

## International Shares Portfolio

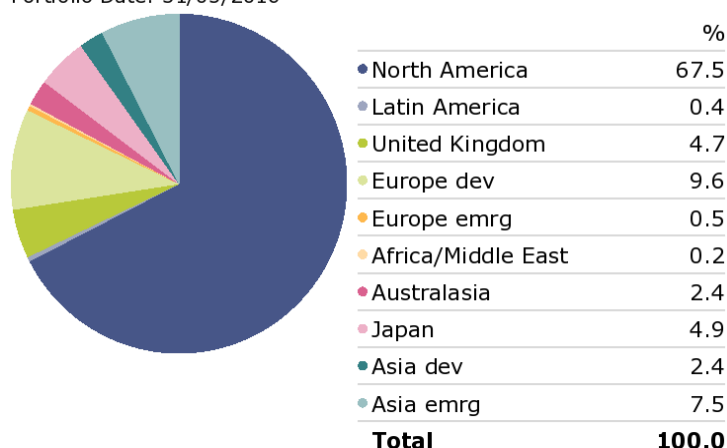
The VIP International share portfolio generated a 5.44% return for the month and 5.59% over the last 3 months. In doing so the portfolio underperformed the MSCI World Ex Aus (AUD) index in May by 0.58% and over the last 3 months by 1.86%.

Over the last year the portfolio has generated a -0.77% return and underperformed the index by 2.39%.

The **Top Contributors** were Vanguard US Total Market Shares ETF +7.22%, and Magellan Global +6.62%. The **Top Detractors** were Platinum International Fund +2.90%, and Morphec Global Opportunities +5.05%.

### VIP International - Equity Regional Exposure

Portfolio Date: 31/05/2016



### VIP International - Holdings

Portfolio Date: 31/05/2016

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

### International Portfolio Adjustments:

The *VIP Investment Committee* made no adjustments to the portfolio in May.

## Property Securities Portfolio

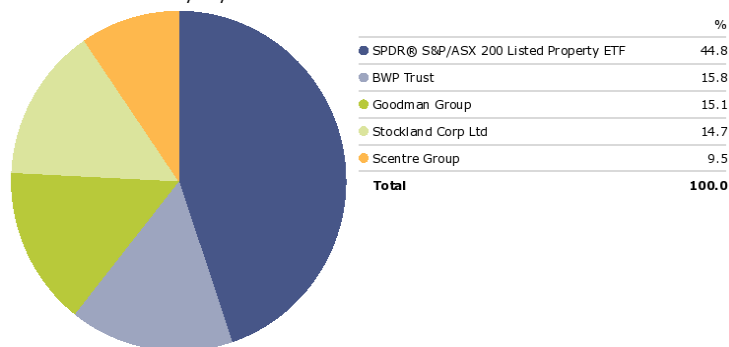
The VIP Property Securities portfolio generated a 2.60% return for the month and 8.93% over the last 3 months. The portfolio underperformed the S&P/ASX 200 A-REIT index during the month by 0.03%, and over the quarter by 0.89%.

Over the last year the portfolio has generated a 11.98% return and underperformed the index by 3.33%.

The **Top Contributors** were Stockland Corp Ltd +3.66%, BWP Trust +3.43%, and Goodman Group +3.19%; the **Top Detractors** were Scentre Group -0.64%, and SPDR S&P/ASX 200 Listed Property ETF +2.61%.

### VIP Property Securities - Portfolio Holdings

Portfolio Date: 31/05/2016



### VIP Property Securities - Holdings

Portfolio Date: 31/05/2016

	Ticker	Dividend Yield % TTM
SPDR® S&P/ASX 200 Listed Property ETF	SLF	
BWP Trust	BWP	4.46
Goodman Group	GMG	3.16
Stockland Corp Ltd	SGP	5.08
Scentre Group	SCG	4.45

### Property Securities Portfolio Adjustments:

The *VIP Investment Committee* made no adjustments to the portfolio in May.

## Fixed Interest Portfolio

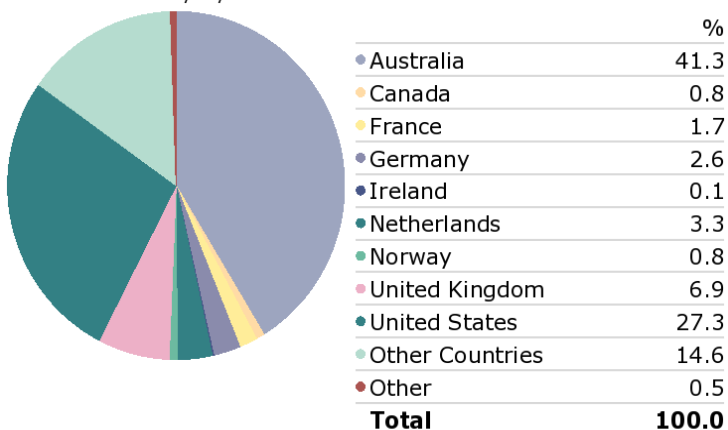
The VIP Fixed Interest portfolio generated a 1.33% return for the month and 2.25% over the last 3 months. This was against the Bloomberg AusBond Composite index return of 1.26% over the month and 1.30% over the quarter.

The portfolio outperformed the index by 0.07% over the month, and outperformed the index 0.95% over the last 3 months.

The **Top Contributors** were RBA Bank accepted Bills 30 Days +2.11%, BT Pure Alpha Fixed Income +1.81%, and iShares Core Composite Bond (AU) +1.26% and Realm High Income +1.23%. **Top Detractors** were Bentham Wholesale Global Income +1.13%, AND +0.49%.

### VIP Fixed Interest - Country Exposure

Portfolio Date: 31/05/2016



### VIP Fixed Interest Portfolio - Income Yield

Portfolio Date: 31/05/2016

	Income Return 1 Yr (Mo-End)
Realm High Income	3.01
RBA Bank accepted Bills 30 Days	
Bentham Wholesale Global Income	5.01
iShares Core Composite Bond (AU)	3.52
BT Pure Alpha Fixed Income	3.52

### Fixed Interest Portfolio Adjustments:

The *VIP Investment Committee* made no adjustments to the portfolio in May.

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