

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

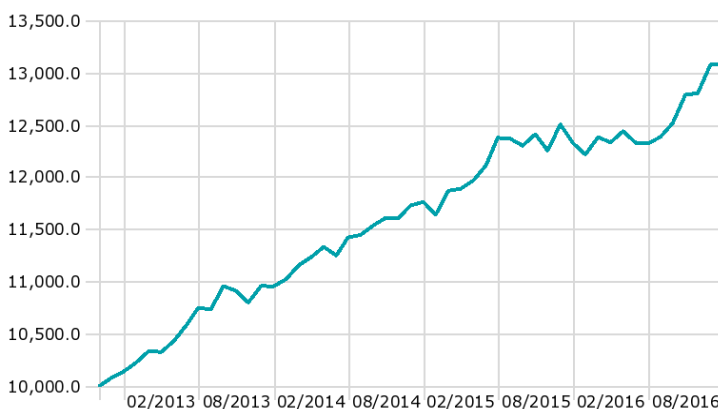
The VIP Conservative portfolio generated a 0.11% return pre-fees in August, and 2.59% return pre-fees in the quarter.

Over the last year the portfolio has generated a 7.54% return pre-fees and over 3 years 7.52%.

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 31/08/2016



—VIP Conservative Investment

Trailing Returns

As of Date: 31/08/2016

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	Since Inception
VIP Conservative	0.11	2.59	6.85	7.54	6.87	7.52	8.01	8.17
VIP Conservative Investment	-0.01	2.24	6.13	6.10	5.44	6.08	6.56	6.66
VIP Conservative Super-Pension	0.04	2.38	6.42	6.68	6.02	6.66	7.15	7.31
VIP Conservative Composite Index	-0.09	3.24	7.51	9.29	7.18	7.90	7.99	8.51

Tactical Asset Allocation

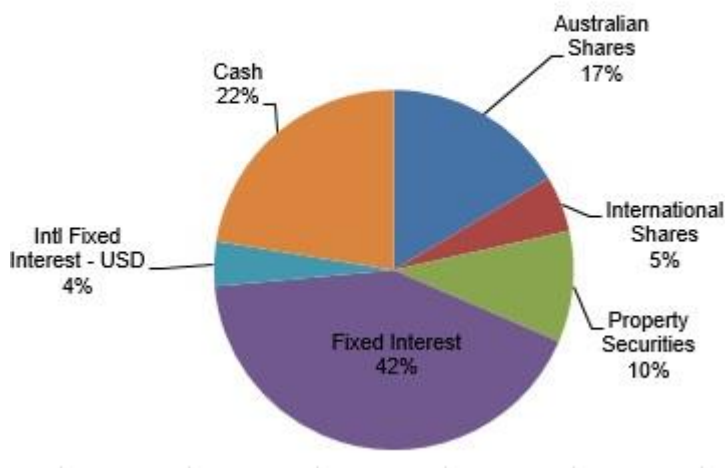
The VIP Conservative portfolios asset allocation as at 31/08/2016 was as follows:

- Australian Shares 17%
- International Shares 5%
- Property Securities 10%
- Fixed Interest 42%
- International Fixed Interest - US dollars 4%
- Cash 22%

Fixed interest allocation is currently reduced and held in cash as the *VIP Investment Committee* believes this to be a safer method of investing at this time.

Conservative Portfolio TAA

As at: 31/08/2016



Risk vs Return

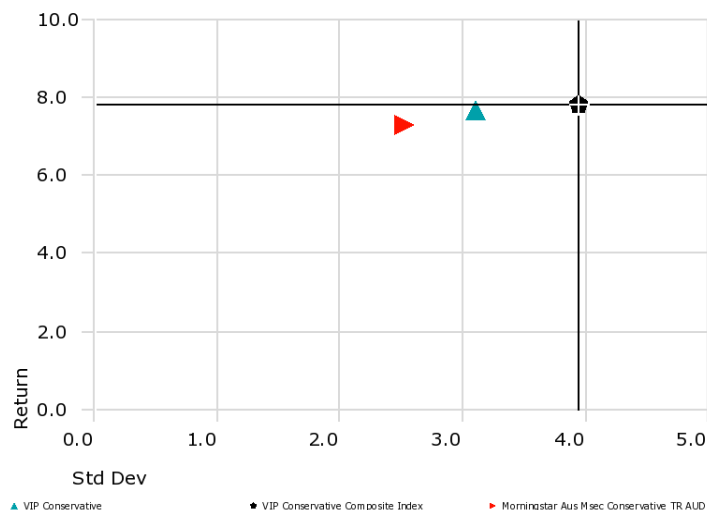
The VIP portfolios aim to reduce volatility, or risk, over the long term and achieve excess returns per unit of risk that is taken compared to our Conservative Composite Index and the Morningstar Multi-Sector Conservative Index.

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

Australia and its Overseas Owners

It is a common perception, largely media-driven, that the Chinese are slowly but surely planting their flag across Australia, particularly in the agricultural sector where foreign ownership of Australian land has come under scrutiny in recent years. While Chinese investors and companies are indeed acquiring Australian agricultural land (AAL) at a steady pace, their ownership percentage has been revealed as a comparative side act with the release of The Register of Foreign Ownership of Agricultural Land compiled by the Australian Tax Office.

The results have shown that the United Kingdom leads the ownership percentage with a 7.2% ownership of total Australian agricultural land. notably, this equates to 52.7% of foreign-owned agricultural land, meaning that of the 13.6% total foreign-owned agricultural land, the UK contributes to over half of the sum. Coming in second is the USA with a 2% hold in AAL, the Netherlands at 0.8%, Singapore at 0.5%, and finally China with an 0.38% ownership of AAL. Ironically, one of the more pressing drivers of the development of the register was concerns over China's increasing stake in Australian land.

That said, the ranking order would have been significantly different had treasurer Scott Morrison not blocked the sale of Australia's largest cattle business, S. Kidman and Co., who's land mass totals 2.5% AAL. The proposed sale for \$370 million was to Dakang Australia, who's largest shareholder is China's Shanghai Pengxin Group and would have therefore moved China to the 2nd ranking in the Register.

At rank 5, concerns over China's takeover may seem misplaced. However, reasoning behind the hype may be deduced from the notion that while they may not be owners of as much physical land as the four countries before them, China's acquisitions could be better placed in the smaller but more lucrative properties of the south as opposed to the large lands of the Top End used for grazing.

While the Register's stocktake was done between the 1st of July 2015 and February 29th 2016, there have been notable acquisitions this year. Included in the Register is the \$280 million sale of the Van Diemen's Land Company, Australia's largest dairy farm to Chinese firm Moon Lake Investments. Furthermore, Westchester Group of Australia (US-owned) paid \$35 million in April for three properties totalling 5000ha and 7500 mega litres of water licences at Goondiwindi, on the QLD-NSW border. China's Union Agriculture also has been active recently, paying \$11 million for the 5260ha Kyabra Station at Tamworth to add to its NSW portfolio. These are just some examples of the acquisitions of AAL that continue to occur, with an increase over the last two years of foreign ownership that had 11% of agricultural land being foreign owned in 2014 compared to the 13.6% in 2016.

Complaints of foreign ownership have derived largely from a combination of a misunderstanding of the situation and a resulting rise in patriotism. As stated by Victorian Farmers Federation vice president David Jochinke, "sometimes we get tripped up on the word 'foreign'... and it really detracts from the real game of agriculture and what agriculture needs." In fact, foreign investment is essentially a necessary factor in almost any economy as noted by Alan Bowman, chairman of Australian superannuation fund Prime Super, maintaining that "generally speaking to grow this country we need to external investment in every field."

Misunderstood by opposition to foreign investment is the fact that it contributes to the growth of the economy, productivity and creates jobs. Whether a supporter or opposed to foreign investment in agricultural land, it is safe to say Australia will never again see a country that is 100% Australian owned and simply from an economic standpoint, it can be summed up by Scott Morrison's comment that "we cannot afford to risk our economic future by engaging in protectionism."

Source: Business Insider, News.com.au, ABC, Weekly Times

Australian Shares Portfolio

The VIP Australian Share Leaders portfolio generated a -2.34% return for the month and 2.07% over the last 3 months. The portfolio underperformed the S&P/ASX 100 index in August by 0.78% and outperformed by 0.27% over the quarter.

Over the last year the portfolio has generated a 14.85% return pre-fees outperforming the ASX 100 index by 6.7%.

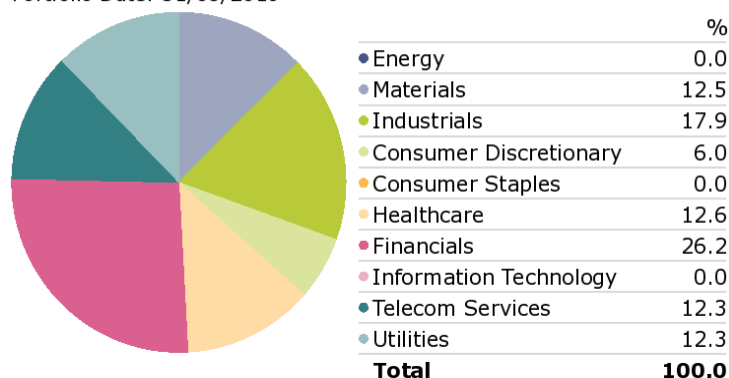
The **Top 3 Contributors** for the month were Bendigo and Adelaide Bank Ltd 8.18%, Ramsay Health Care Ltd +5.31%, and Australian and New Zealand Banking Group +4.10%; and the **Top 3 Detractors** for the month were Brambles Ltd -8.40%, CSL Ltd -8.39%, and Reliance Worldwide Corp Ltd -5.76%.

VIP Australian Share Leaders - Holdings

	Ticker	Dividend Yield % TTM
Bendigo and Adelaide Bank Ltd	BEN	9.18
Ramsay Health Care Ltd	RHC	2.12
Australia and New Zealand Banking Group Ltd	ANZ	9.23
National Australia Bank Ltd	NAB	10.22
James Hardie Industries PLC DR	JHX	1.99
TPG Telecom Ltd	TPM	1.53
DUET Group	DUE	7.06
Sydney Airport	SYD	3.98
DuluxGroup Ltd	DLX	4.63
Telstra Corp Ltd	TLS	8.67
Spark Infrastructure Group	SKI	5.57
Westpac Banking Corp	WBC	8.94
Aristocrat Leisure Ltd	ALL	1.27
CSL Ltd	CSL	1.99
Brambles Ltd	BXB	2.67
Reliance Worldwide Corp Ltd	RWC	
RBA Bank accepted Bills 90 Days		

VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 31/08/2016



Australian Shares Portfolio Adjustments:

In August, the VIP Investment Committee decided to sell Bank of Queensland (BOQ) in order to replace it with National Australia Bank (NAB). We believe NAB to have better growth opportunities than BOQ, particularly now that NAB has diversified away from Europe via a demerger from Clydesdale Bank. Boral Ltd (BLD) was also sold as the Committee lacks confidence in the company's management, shown in BLD's underperformance. However, VIP still likes the construction industry and as a result replaced BLD with DUET Group (DUE), and Reliance Group (RWC).

International Shares Portfolio

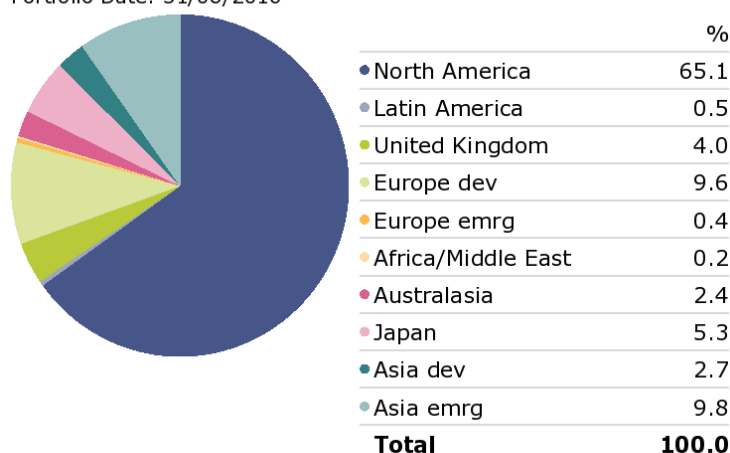
The VIP International share portfolio generated a 1.63% return for the month and 0.08% over the last 3 months. In doing so the portfolio outperformed the MSCI World Ex Aus (AUD) index in August by 0.34% and outperformed over the last 3 months by 0.72%.

Over the last year the portfolio has generated a -4.80% return and underperformed the index by 0.87%.

The **Top Contributors** were Platinum International Fund +3.17%, Magellan Global +1.69%, and Vanguard US Total Market Shares ETF +1.39%. The **Top Detractor** was Morphic Global Opportunities +0.99%.

VIP International - Equity Regional Exposure

Portfolio Date: 31/08/2016



VIP International - Holdings

Portfolio Date: 31/08/2016

	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
Morphic 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 August.

Property Securities Portfolio

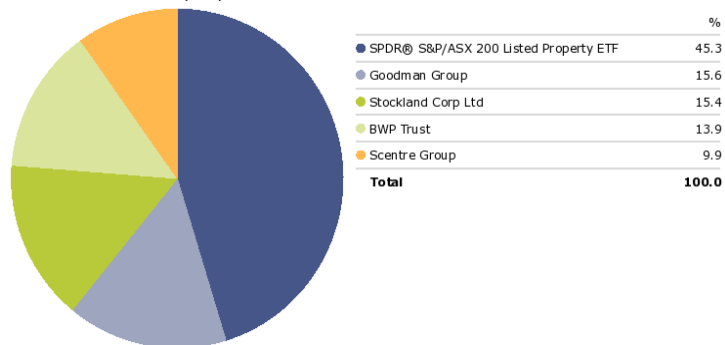
The VIP Property Securities portfolio generated a -4.25% return for the month and 4.98% over the last 3 months. The portfolio underperformed the S&P/ASX 200 A-REIT index during the month by 1.47%, and over the quarter by 1.14%.

Over the last year the portfolio has generated a 22.11% return and underperformed the index by 3.81%.

The **Top Contributors** were Goodman Group +0.66%, and SPDR S&P/ASX 200 Listed Property ETF -2.78%, and The **Top Detractors** were BWP Trust -15.14%, Scentre Group -4.22%, and Stockland Corp Ltd -3.77%.

VIP Property Securities - Portfolio Holdings

Portfolio Date: 31/08/2016



VIP Property Securities - Holdings

Portfolio Date: 31/08/2016

	Ticker	Dividend Yield % TTM
SPDR S&P/ASX 200 Listed Property ETF	SLF	
Goodman Group	GMG	3.25
Stockland Corp Ltd	SGP	5.16
BWP Trust	BWP	5.35
Scentre Group	SCG	4.46

Fixed Interest Portfolio

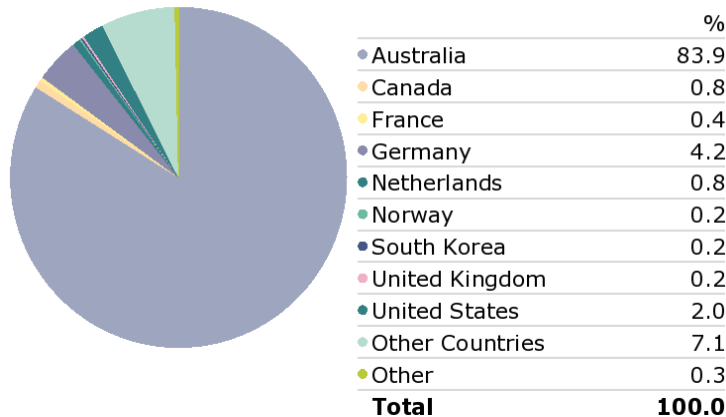
The VIP Fixed Interest portfolio generated a 0.92% return for the month and 2.77% over the last 3 months. This was against the Bloomberg AusBond Composite index return of 0.74% over the month and 3.35% over the quarter.

The portfolio outperformed the index by 0.18% over the month, and underperformed the index 0.58% over the last 3 months.

The **Top Contributor** was RBA Bank accepted Bills 30 Days +2.43% and Bentham Wholesale Global Income +1.67%. **Top Detractors** were, BT Pure Alpha Fixed Income -0.15%, iShares Core Composite Bond (AU) +0.70%, and Realm High Income +0.71%.

VIP Fixed Interest - Country Exposure

Portfolio Date: 31/08/2016



VIP Fixed Interest Portfolio - Income Yield

Portfolio Date: 31/08/2016

	Income Return 1 Yr (Mo-End)
RBA Bank accepted Bills 30 Days	
iShares Core Composite Bond (AU)	3.07
Realm High Income	3.46
BT Pure Alpha Fixed Income	1.06

Property Securities Portfolio Adjustments:

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

Fixed Interest Portfolio Adjustments:

In August, the *VIP Investment Committee* decided to sell Bentham Wholesale Global Income. With interest rates low around the world, the Committee looks to reduce VIP's exposure to the bond market particularly if rates rise in the US. We therefore believe a cash position is better, taking risk out of the portfolio.

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