

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

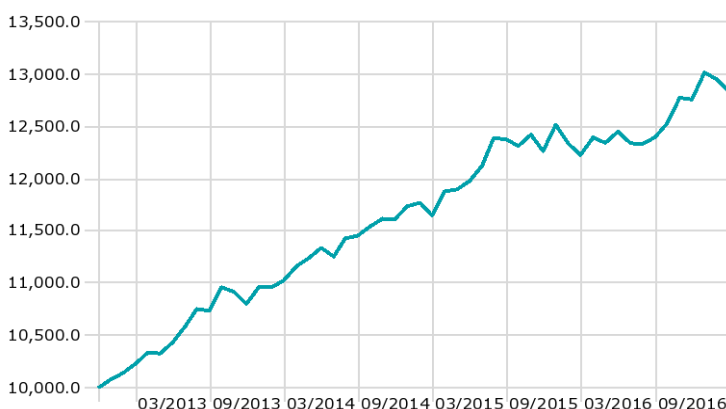
The VIP Conservative portfolio generated a -0.82% return pre-fees in September, and 0.90% return pre-fees in the quarter.

Over the last year the portfolio has generated a 6.34% return pre-fees and over 3 years 6.59%.

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 30/09/2016



—VIP Conservative Investment

Trailing Returns

As of Date: 30/09/2016

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	Since Inception
VIP Conservative	-0.82	0.90	4.19	6.34	6.36	6.59	7.24	7.63
VIP Conservative Investment	-0.93	0.55	3.48	4.91	4.94	5.16	5.81	6.03
VIP Conservative Super-Pension	-0.89	0.69	3.77	5.49	5.51	5.74	6.39	6.78
VIP Conservative Composite Index	-0.46	1.42	4.97	8.31	7.45	7.12	7.32	8.09

Tactical Asset Allocation

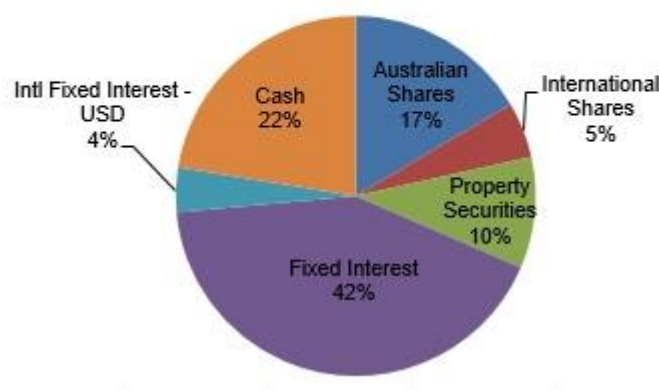
The VIP Conservative portfolios asset allocation as at 30/09/2016 was as follows:

- 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: 30/09/2016



Risk vs Return

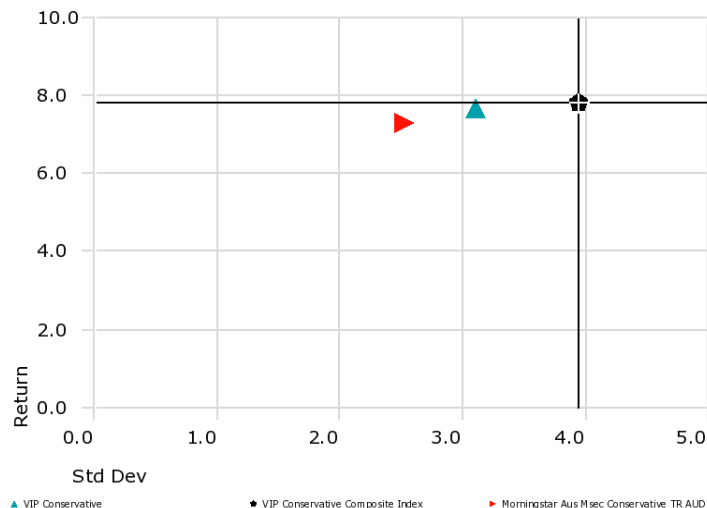
The VIP portfolios aim to reduce volatility, or risk, over the long term and achieve excess returns per unit of risk that is taken compared to our Conservative Composite Index and the Morningstar Multi-Sector Conservative Index.

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

Big Banks, Small Solutions

Australia's big 4 banks have recently completed a government requested bank inquiry, with the chief executives of each company experiencing a 3-hour grilling from a select group of members of parliament. While the notion behind the inquiry was legitimate and valid, the general consensus is that in large, the inquiry was unsuccessfully executed and fell well short of the banking royal commission that was called for by the Labor Party.

The bank inquiry was induced by the Turnbull government as a result of an unsavoury concoction of behavioural issues, scandals, and debatably unjustifiable bonuses and incentives given to the bank executives. A major reason for the inquiry was the well-publicised issue of the big 4's unwillingness to pass on Reserve Bank rate cuts to their customers despite notching record-breaking profits for the financial year. To further this sentiment, bank executives 'continue to be rewarded eye-watering bonuses' disregarding ongoing scandals that have occurred in their banks, which has led many to question the incentive structure of the big 4.

In regards to ongoing scandals, this refers to incidents such as the Commonwealth Bank (CBA) using outdated medical definitions to deny insurance payouts while being fully aware of the current definitions and practices. Such acts have led to families being cheated out of legitimate life insurance payouts. Furthermore, 2014 brought the revelation of financial planning scandals among the banks. The scandal consisted of financial planners providing poor advice, as well as forged signatures, unreliable compensation schemes, and as a result has been a highly influential motivator for a banking royal commission. Not only was Commonwealth involved, but NAB as well as Macquarie Bank. NAB has since paid over 750 customers between \$10-15 million in total, while CBA reports that the bank has worked through 91% of its files. However, the question remains as to why it has taken so long to compensate the victims of the financial planning scandal.

The bank inquiry, occurring between the 4th and the 6th of October, could be said to have had no clear outcome despite 720 minutes of question-and-answer between both Liberal and Labor MP's and the 4 chief executives. While there are no doubt numerous reasons for the inquiry, it failed to reach any proper conclusions or solutions. Instead, it can be said the executives beat the politicians at their own game, employing the use of non-answers, apologies, and promises to do better. What was essentially non-existent was scope to investigate further into the banks actions, nor the opportunity to 'forensically pull apart the "we have market costs" arguments.' There was also a lack of specific accountability, with only Westpac's CEO Brian Hartzer admitting that as a result of a scandal in their finance business Capital Finance Australia, the senior executive in charge was no longer a Westpac employee.

What was evident was a common theme in the problems concerning the banks. Analysts of the inquiry found that behind the blaming of rogue employees and poor enforcement was a notion not addressed by the executives – bad incentives. Incentives for employees of the big banks are aligned with the banks success – this means the bottom line and the banks share price, so that employees will strive towards these goals through any appropriate means available. Unfortunately, the pursuit of profit will almost always contradict the best interests of the customer and therein lies the larger problem and catalyst for scandalous behaviour if incentives are so purely based on the bottom line.

In a bad year for banks overall on the stock market, the bank enquiry could have proved particularly significant for VIP, which holds 3 of 4 of the major banks (CBA is not held). However, each stock value increased on Thursday the 6th, perhaps indicative of the insufficient ability of the government to reach any proper solution or conclusion, or perhaps indicative of the confirmation that the banks interests are very much aligned with their own return and thus the shareholders.

Source: SMH, ABC

Australian Shares Portfolio

The VIP Australian Share Leaders portfolio generated a -2.50% return for the month and 1.37% over the last 3 months. The portfolio underperformed the S&P/ASX 100 index in September by 2.91% and by 3.53% over the quarter.

Over the last year the portfolio has generated a 18.61% return pre-fees outperforming the ASX 100 index by 6.58%.

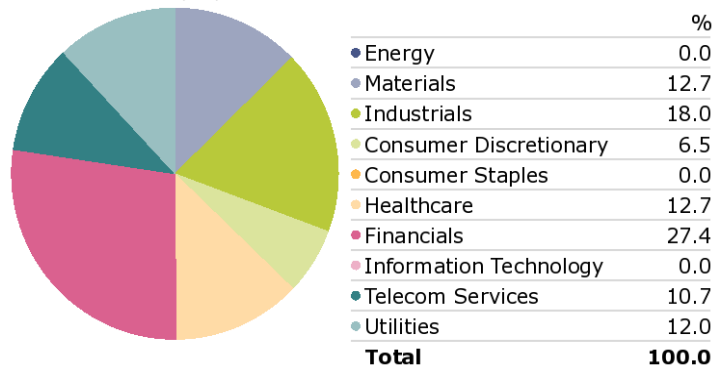
The **Top 3 Contributors** for the month Aristocrat Leisure Ltd +4.70%, DuluxGroup Ltd +2.96%, and Australian and New Zealand Banking Group +2.71%; and the **Top 3 Detractors** for the month were TPG Telecom -29.29%, James Hardie Industries PLC DR -6.32%, and Spark Infrastructure Group -6.20%.

VIP Australian Share Leaders - Holdings

	Ticker	Dividend Yield % TTM
Bendigo and Adelaide Bank Ltd	BEN	8.78
Australia and New Zealand Banking Group Ltd	ANZ	9.06
National Australia Bank Ltd	NAB	10.26
Ramsay Health Care Ltd	RHC	2.17
Aristocrat Leisure Ltd	ALL	1.20
DuluxGroup Ltd	DLX	4.60
Westpac Banking Corp	WBC	8.88
Telstra Corp Ltd	TLS	8.80
James Hardie Industries PLC DR	JHX	2.06
DUET Group	DUE	7.66
Sydney Airport	SYD	4.38
CSL Ltd	CSL	1.97
Reliance Worldwide Corp Ltd	RWC	
Brambles Ltd	BXB	2.68
Spark Infrastructure Group	SKI	6.00
RBA Bank accepted Bills 90 Days		
TPG Telecom Ltd	TPM	2.77

VIP Australian Share Leaders - Equity Sectors

Portfolio Date: 30/09/2016



Australian Shares Portfolio Adjustments:

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

International Shares Portfolio

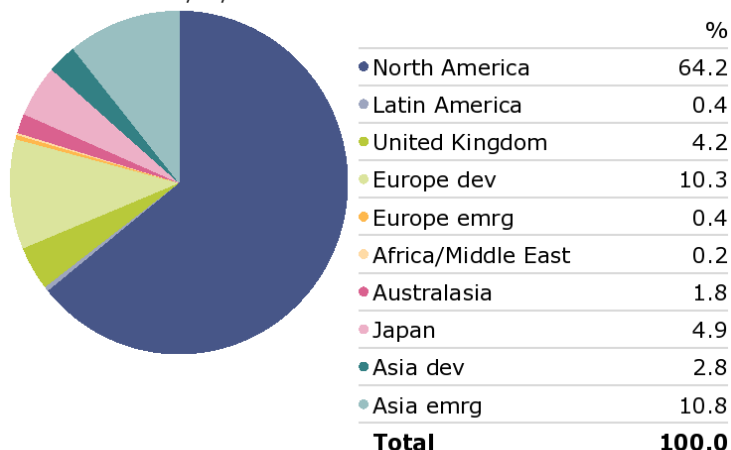
The VIP International share portfolio generated a -1.50% return for the month and 3.02% over the last 3 months. In doing so the portfolio underperformed the MSCI World Ex Aus (AUD) index in September by 0.18% and outperformed over the last 3 months by 1.07%.

Over the last year the portfolio has generated a 0.76% return and underperformed the index by 0.19%.

The **Top Contributors** were Platinum International Fund -0.47%, and Morpheic Global Opportunities -0.95%. The **Top Detractor** were Vanguard US Total Market Shares ETF -2.11% and Magellan Global -1.57%.

VIP International - Equity Regional Exposure

Portfolio Date: 30/09/2016



VIP International - Holdings

Portfolio Date: 30/09/2016

	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
Morpheic 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 September.

Property Securities Portfolio

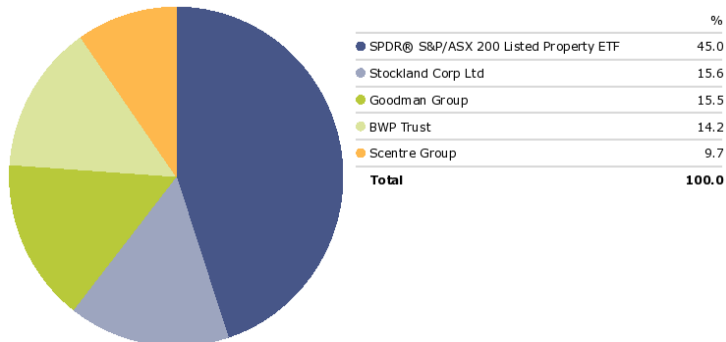
The VIP Property Securities portfolio generated a -3.52% return for the month and -2.41% over the last 3 months. The portfolio outperformed the S&P/ASX 200 A-REIT index during the month by 0.81%, and underperformed over the quarter by 0.46%.

Over the last year the portfolio has generated a 19.92% return and underperformed the index by 0.88%.

The **Top Contributors** were BWP Trust -1.23%, Stockland Corp Ltd -1.86%, and Goodman Group -4.08%, and the **Top Detractors** was Scentre Group -5.43%.

VIP Property Securities - Portfolio Holdings

Portfolio Date: 30/09/2016



VIP Property Securities - Holdings

Portfolio Date: 30/09/2016

	Ticker	Dividend Yield % TTM
SPDR® S&P/ASX 200 Listed Property ETF	SLF	
Stockland Corp Ltd	SGP	5.43
Goodman Group	GMG	3.53
BWP Trust	BWP	5.50
Scentre Group	SCG	4.85

Fixed Interest Portfolio

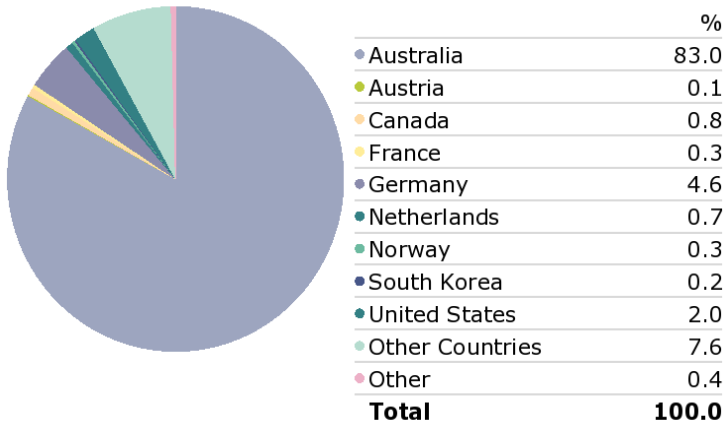
The VIP Fixed Interest portfolio generated a 0.02% return for the month and 1.19% over the last 3 months. This was against the Bloomberg AusBond Composite index return of -0.22% over the month and 0.93% over the quarter.

The portfolio outperformed the index by 0.24% over the month, and outperformed the index 0.26% over the last 3 months.

The **Top Contributors** were RBA Bank accepted Bills 30 Days +0.14%, BT Pure Alpha Fixed Income +0.09%, and Realm High Income +0.03%, The **Top Detractors** was iShares Core Composite Bond (AU) +0.44%.

VIP Fixed Interest - Country Exposure

Portfolio Date: 30/09/2016



VIP Fixed Interest Portfolio - Income Yield

Portfolio Date: 30/09/2016

	Income Return 1 Yr (Mo-End)
iShares Core Composite Bond (AU)	3.07
RBA Bank accepted Bills 90 Days	
Realm High Income	3.49
BT Pure Alpha Fixed Income	0.68

Property Securities Portfolio Adjustments:

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

Fixed Interest Portfolio Adjustments:

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

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