

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 -0.10% return **pre-fees** in December, and -2.49% return pre-fees in the quarter.

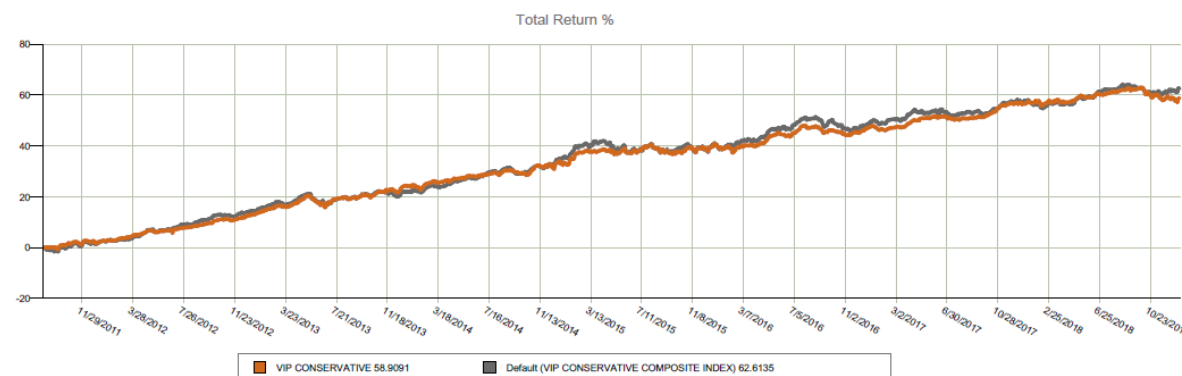
Over the last year the portfolio has generated a 1.47% return **pre-fees** and underperformed by 1.69%.

The **post-fees** returns for the *Investment* and *Superannuation & Pension* portfolios are shown **in blue** in the table below.

Tactical Asset Allocation

The VIP Conservative portfolios asset allocation as at 31/12/18 was as follows:

- Australian Shares 8%
- International Shares 15%
- Property Securities 0%
- Fixed Interest 60%
- Cash 17%



Trailing Returns

	31/12/2018					
	1 Month	3 Month	6 Month	1 Year	3 Year	5 Year
VIP Conservative PRE-FEES	-0.10	-2.49	-0.78	1.47	5.99	7.17
Net VIP Conservative Investment	-0.17	-2.69	-1.18	0.67	5.19	6.37
Net VIP Conservative Super-Pension	-0.21	-2.83	-1.46	0.12	4.64	5.82
VIP Conservative Composite Index	1.16	-0.30	0.68	3.16	7.10	8.46

	% End Weight	Tot Rtn 1M	Tot Rtn 3M	Tot Rtn 6M	Tot Rtn 1Y	Total Return YTD (%)
VIP CONSERVATIVE	100.00	-0.10	-2.49	-0.78	1.47	1.47
AREITs		0.00	0.00	0.00	0.00	0.00
Australian Equities	7.94	1.10	-9.91	-7.95	-4.33	-4.33
CASHLiquid	17.06	0.15	0.48	0.99	1.92	1.92
Fixed Income	60.00	0.58	0.94	1.73	3.13	3.13
International Equities	15.00	-3.18	-9.58	-4.10	0.35	0.35
Not Classified		0.00	0.00	0.00	0.00	0.00
USD		0.00	0.00	0.00	0.00	0.00

Economic Outlook

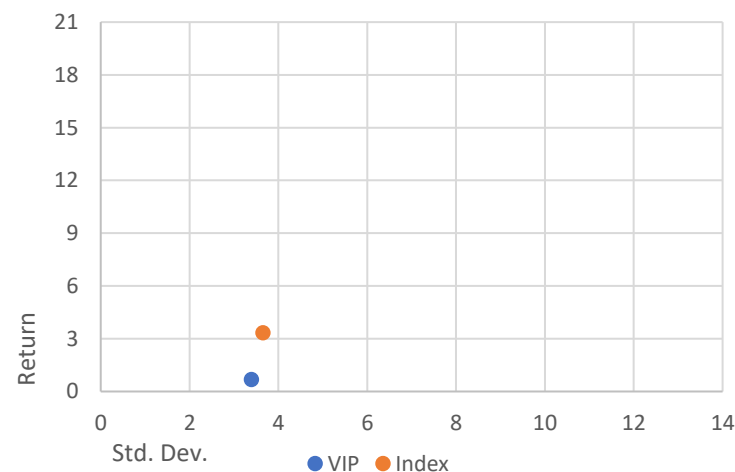
Entering into the month of December many investors were hopeful for a 'Santa Rally' to gain back the losses in the market from the months of October and November, unfortunately volatility continued, and economic and political pressures built resulting in a continued decline in the Australian market. This resulted in a further decline of 2.16% of the ASX S&P 200 Price Index over the month resulting in a total nominal return from the ASX S&P 200 of -6.9% for 2018. Similar losses have been felt around the world as trade tensions continue to escalate, and political uncertainty rises causing global markets more broadly to become increasingly nervous about the future.

Negotiations for a trade deal between China and the United States have been continuing but with the 1st of March deadline looming with no significant news concerning progress, investors will be growing more hawkish about the possibility of a comprehensive trade deal being agreed to by the date. The trade war has already cost investors significant amounts of money and are making businesses less competitive in the two economies, if a deal is not reached by the deadline than the market may begin to price in the possibility of a resolution being far in the future adding to the losses already incurred. A divided legislature in the United States will increase government gridlock and may begin to impact investor confidence, exaggerated by President Donald Trump's erratic policy changes creating a sense of unease for investors in the largest economy in the world. Global markets are generally uncertain about the productive nature of a split congress, especially with such a unique environment throughout the White House, this will continue to foster volatility.

A NSW state and Australian Federal election is to be called within the first half of the new year, bringing uncertainty for businesses and investors in particular concerning policy decisions around tax and investment continued to weigh on the market over the last couple of months. The outcome of the state election is unclear as many believe that the condition of the federal Liberal party will influence the outcome of the election in Labours favour. The federal election is fairly certainly going to be won by the Labour party and with it brings significant changes to negative gearing, capital gains taxes, and a variety of other measures that target investors and large businesses, which will have a material effect on returns and volatility.

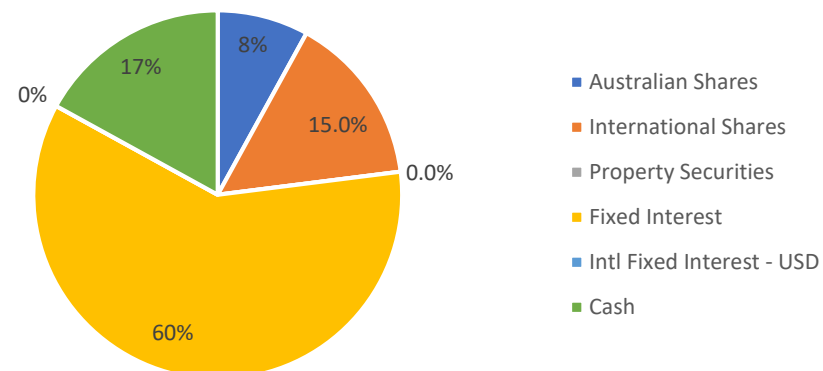
Overall, the market has been extremely volatile over the last month with only small gains to be found in the last 5 days of trading in the month, the market is continuing to price the current high levels of uncertainty. A business friendly and on time US-China trade agreement, as well as less aggressive policy action from the federal labour party would increase positivity in the market and build momentum to recoup the losses incurred over the last quarter.

Risk-Reward One Year



Tactical Asset Allocation

Conservative Portfolio TAA as at: 31/12/18



Australian Shares Portfolio

The VIP Australian Share Leaders portfolio generated a -0.07% **pre-fees** return for the month and -10.10% over the last 3 months. The portfolio outperformed the S&P/ASX 200 index over the month by 0.05% and underperformed by 1.84% over the quarter.

Over the last year, the portfolio has generated a -5.03% return pre-fees underperforming the ASX 200 index by 2.19%.

The **Top Contributors** were BHP Billiton Ltd 11.53%, South32 Ltd 8.06%, and Rio Tinto Ltd 7.08%. The **Top Detractors** were Australia and New Zealand Banking Group -8.73%, Western Areas Ltd -8.26%, and Westpac Banking Group -3.58%.

VIP Australian Share Leaders Holdings

	% End Weight
VIP AUSTRALIAN SHARE LEADERS	100.00
AUST AND NZ BANKING GROUP	2.84
WESTPAC BANKING CORP	2.84
WESTERN AREAS LTD	2.85
SANDFIRE RESOURCES NL	2.90
COSTA GROUP HOLDINGS LTD	5.59
REA GROUP LTD	5.62
RESMED INC-CDI	5.68
RIO TINTO LTD	5.71
BHP BILLITON LIMITED	5.74
BENDIGO AND ADELAIDE BANK	5.75
SOUTH32 LTD	5.82
BBG AUB Bank Bill	48.65

VIP Australian Share Leaders Equity Sectors

Materials (23.02)
Indexes (48.65)
Health Care (5.68)
Financials (11.44)
Consumer Staples (5.59)
Communication Services (5.62)

Australian Shares Portfolio Adjustments

In December, the Investment Committee made a number of changes to the portfolio. The Investment Committee sold; CSL Ltd, SEEK Ltd, James Hardie Industries Ltd, Seven Group Holdings Ltd, Aristocrat Leisure Ltd, Cimic Group Ltd, Computershare Ltd, and ARB Corp Ltd.

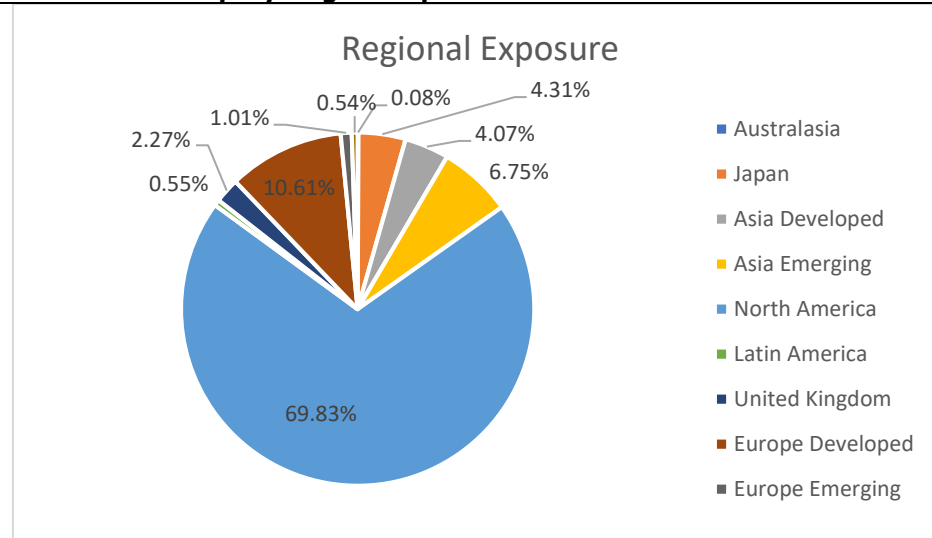
International Shares Portfolio

The VIP International Share Portfolio generated a -2.40% return for the month **pre-fees** and -7.35% over the last 3 months. In doing so the portfolio outperformed the MSCI World Ex Aus (AUD) index by 1.87% for the month and outperformed by 3.75% over the quarter.

Over the last year, the portfolio has generated a 2.29% return and outperformed the index by 0.77%.

The **Top Contributor** was BBG AUG Bank Bill 0.15%. The **Top Detractors** were Loftus Peak Global -5.86%, Alliance Bernstein Global Equity Fund -3.26, and Magellan Global Fund -2.25%.

VIP International Equity Region Exposure



VIP International Equity Holdings

	% End Weight
VIP INTERNATIONAL	100.00
BBG AUB Bank Bill	2.13
LOFTUS PEAK GLOBAL DISRUPTN	12.69
PLATINUM INTERNATIONAL FUND	19.55
WINTON GLOBAL ALPHA FD	21.48
ALLIANCEBERNSTEIN GLB EQ FD	22.04
MAGELLAN GLOBAL FD	22.11

International Shares Portfolio Adjustments

In December, the Investment Committee made no changes to the portfolio.

Property Securities Portfolio

The VIP Property Securities portfolio generated a 4.15% return for the month **pre-fees** and 1.29% over the last 3 months. The portfolio outperformed the S&P/ASX 200 A-REIT index during the month by 2.47%, and outperformed over the quarter by 3.21%.

Over the last year, the portfolio has generated a 15.76% return and outperformed the index by 13.17%.

The **Top Contributor** was Charter Hall 8.49%.

VIP Property Securities Holdings

	% End Weight
VIP PROPERTY SECURITIES	100.00
ARENA REIT	30.46
CROMWELL PROPERTY GROUP	32.97
CHARTER HALL GROUP	36.57

Property Securities Portfolio Adjustments

In December, the VIP Investment Committee made no changes to the portfolio.

Fixed Interest Portfolio

The VIP Fixed Interest portfolio generated a 0.86% return for the month **pre-fees** and 1.35% over the last 3 months. This was against the Bloomberg AusBond Composite index return of 1.50% over the month and 2.24% over the quarter.

The portfolio underperformed the index by 0.64% over the month and underperformed by 0.89% over the last 3 months.

The **Top Contributor** was iShares Core Composite Bond 1.28%. The **Top Detractor** was Realm High Income -0.39%.

VIP Fixed Interest Holdings

	% End Weight
VIP FIXED INTEREST	100.00
REALM HIGH INCOME FUND-WHL	25.05
ISHARES CORE COMPOSITE BOND	74.95

Fixed Interest Portfolio Adjustments

In December, the VIP Investment Committee made no changes to the portfolio.

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