

Investment Objective

The aim of the **VIP Property Securities Portfolio** is to provide investors with tax advantaged income and long term capital growth from investment in an actively managed, concentrated portfolio of property and property related companies and trusts listed on the ASX.

The portfolio invests in 4 to 10 Australian Real Estate Investment trusts (A-REITs) listed on the S&P/ASX 200 A-REIT Accumulation index that have been selected via a Quantitative and Qualitative screening process. This process aims to short list companies that are transparent and easy to understand, run by good management, priced below their valuation, &, display attractive growth prospects.

Performance Review

The VIP Property Securities portfolio generated a -1.65% return for the month and 1.48% over the last 3 months to 30/06/2013.

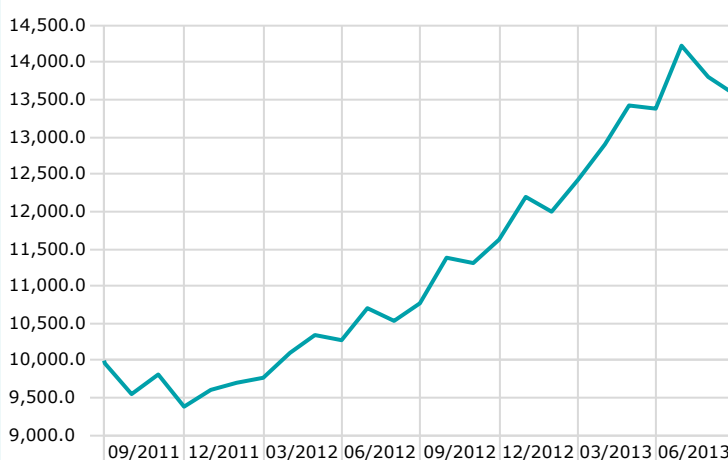
The portfolio underperformed the S&P/ASX 200 A-REIT index during the month by 0.81% and over the quarter by 1.86%.

Over the last year the portfolio has generated a 26.10% return pre-fees and has outperformed the S&P/ASX 200 A-REIT index over the last year and since inception.

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

Investment Growth

Time Period: 30/06/2011 to 30/06/2013



—VIP Property Securities

Trailing Returns

As of Date: 06/30/2013

	1 Month	3 Month	6 Month	1 Year	Since Inception
VIP Property Securities	-1.65	1.48	9.24	26.10	16.49
VIP Property Securities Investment	-1.76	1.14	8.51	24.41	15.17
VIP Property Securities Super-Pension	-1.71	1.27	8.81	25.09	15.81
S&P/ASX 200 A-REIT TR	-0.84	3.34	8.72	24.22	10.41

Performance Contributors & Detractors:

The **Top Contributor** for the month was Commonwealth Office Property Trust +3.05%; and the **Top Detractors** were BWP Trust -7.16%, Investa Office Fund -5.96%, and Cromwell Property Group -4.51%. Over the June quarter there were no holdings that generated a greater return than the index and the **Detractors** were Stockland Corporation -2.14%, Commonwealth Office Property Trust +0.30%, and BWP Trust +2.14%.

Property Securities Portfolio Adjustments:

The *VIP Investment Committee* added two holdings to the portfolio in order to reduce the overall retail property exposure of the portfolio via the holding of the index (in SPDR S&P/ASX 200 Listed Property Fund).

The securities that were added were Charter Hall Group and Investa Office Fund that both have a high allocation of office and industrial property and are yielding high levels of income.

**Month in Review - Economic & Market Commentary**

Global share markets had a difficult time in June with the top 200 Australian shares by market capitalisation down 2.32%, property securities index down 0.84% and the global share index (in AUD) up 2.31%. The volatile market conditions were caused by several issues. There was an expectation that the US Fed will slow down its quantitative easing program, and the fact that stocks that had already risen over recent months could not sustain current prices in the absence of the US Fed's help. Other issues in the mixing pot were concerns over the Japanese stimulus program, a potential slowdown of Chinese growth, and continued weakness in Europe.

Many commentators see the recent volatility as a short term reaction to negative data and announcements in an environment where longer term growth economic growth news and prospects are positive. And this is also our view. However, the same cannot be said about bond markets.

Bonds, or fixed interest investments (such as Government bonds), have for a long time been considered as *defensive assets* that do not lose value. The Global Financial Crisis (GFC) showed us that this is not true with US Government bonds and a speculative pool of mortgages effectively being classed under the same asset class even though they display a huge difference in investment risk. Luckily since the GFC these high-risk fixed interest vehicles are not as mainstream as was the cases before the GFC, however, challenges still remain in the bond markets due to the US Fed's stimulus program.

OK, we know that the US Fed has been printing money for some time, but how is this actually done? The US Fed is using quantitative easing to reduce long term interest rates and thereby supporting the close to zero short term interests rates that exists in the US today. This makes longer term borrowing cheaper for companies and households to kick-start corporate and household investment and spending.

By buying \$85 billion worth of bonds each month bond prices go up (remember supply, demand, and the upward effect that high demand has on prices). And bond yields (or long-term interest rates) have an inverse relationship with bond prices – therefore as bond prices go up with continued purchases by the US fed, bond yields go down!

The issue is that the opposite is also true, and this is what can affect investors. As the US Fed stops its stimulus program when they feel the US economy has recovered to an appropriate level of growth and ceases purchasing \$85 billion in bonds on a monthly basis bond prices will fall (as there is less demand) and bond yields will go up; and this means that the capital value of a bond investment will fall with the investor experiencing a loss in the value of their defensive asset.

To negate this risk the VIP Investment Committee has been selling down the portfolio's bond exposure, particularly in international bonds, and holding these funds in cash. We have earmarked to sell down the remaining international bond exposure over the coming period when conditions are suitable.

Portfolio Holdings & Adjustments**VIP Property Securities - Holdings**

Portfolio Date: 30/06/2013

	Ticker	Total Ret 1 Mo (Mo-End)	Total Ret 3 Mo (Mo-End)	Total Ret 1 Yr (Mo-End)	Dividend Yield % TTM
SPDR S&P/ASX 200 Listed Property Fund	SLF	-0.85	3.24	23.75	
Cromwell Property Group	CMW	-4.51	2.38	51.33	6.29
BWP Trust	BWP	-7.16	-2.48	24.45	2.85
Commonwealth Property Office Fund	CPA	3.05	2.12	13.88	5.04
Stockland Corporation Limited	SGP	-1.37	-1.37	19.61	5.83
Charter Hall Group	CHC	-1.64	5.55	82.78	4.39
Investa Office Fund	IOF	-5.96	-1.96	12.96	5.16

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