VIP Property Securities Portfolio

Monthly Review
June 2014

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

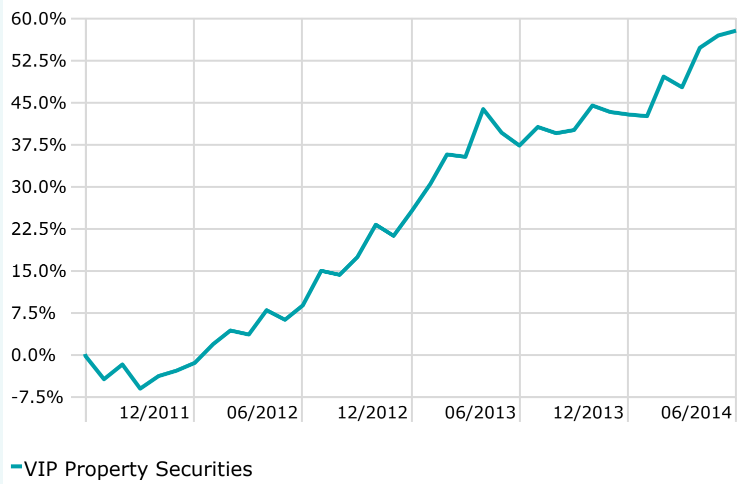
The VIP Property Securities portfolio generated a 0.55% return for the month and 6.84% over the last 3 months. The portfolio underperformed the S&P/ASX 200 A-REIT index during the month by 2.79% and over the quarter by 2.45%.

Over the last year the portfolio has generated a 14.95% return and outperformed the index by 3.89%.

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 30/06/2014



Trailing Returns

As of Date: 30/06/2014

	1 Month	3 Month	6 Month	1 Year	2 Years	Since Inception
VIP Property Securities	0.55	6.84	10.49	14.95	20.49	16.39
VIP Property Securities Investment	0.44	6.48	9.75	13.41	18.87	14.99
VIP Property Securities Super-Pension	0.48	6.63	10.05	14.03	19.53	15.62
S&P/ASX 200 A-REIT TR	3.34	9.29	12.73	11.06	17.47	10.43

Portfolio Holdings

VIP Property Securities - Holdings

Portfolio Date: 30/06/2014

	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	SLF	3.27	9.17	10.59	
BWP Trust	BWP	-3.88	6.44	13.24	5.51
Goodman Group	GMG	-0.79	6.77	5.60	3.86
Stockland Corp Ltd	SGP	2.56	6.67	18.39	5.97
Cromwell Property Group	CMW	-0.06	3.58	7.17	7.03
Charter Hall Group	CHC	1.46	9.60	15.84	5.32
Investa Office Fund	IOF	1.49	4.94	20.02	5.16

Source: Morningstar Direct

Month in Review - Economic & Market Commentary

With a European team winning the 2014 World Cup on South American soil the theme of this discussion is centred upon Europe and their ability, till now, to ”kick the can” down the road just as successfully as German player Mario Goetze, now names *Super-Mario*, kicked the German team to a 4th World Cup triumph.

This ability to “kick the can” has also been a *triumph* when you reflect on the EU debt crisis that began to surface in Oct 2009 as the Greek government revealed a “black hole” in the budget, which was followed over the next few months with market volatility, credit agency downgrades, austerity program announcements, and resulting strikes and social upheaval. By the end of March 2010 the EU agreed on a Greek rescue package, and several short months later the same issues reared their ugly heads in Spain, Portugal, and Hungary to which the EU (basically Germany and France) agreed on a €500 billion fund to save the region from disaster.

The EU banks were at the forefront with stress-tests in July 2010 showing that most of them were stable in order to build confidence in the banking system to allow them to borrow and on lend to consumers and businesses in an attempt to breathe life into the EU region.

Then came the issues in Ireland taking centre stage amongst the continuing weakness in Spain, Portugal, Greece, et al…, and the emergence of the International Monetary Fund (IMF) and the Chinese as bailout-fund providers. Then came Italy’s woes, the EU’s third largest economy, as the European Central Bank started buying Italian and Spanish bonds in an ECB Bond buying program which was expected to reach €850 billion in an attempt to re-capitalise EU governments that were not able to raise funds from the open market as investors were afraid of these economies going bust.

This was followed by more rescue plans and stimulus as Germany and France agreed to increase the EU’s rescue fund to €2 trillion! (Just for some perspective that is $2.9 trillion Australian dollars and for comparison gross Australian Government debt is approximately $300 billion AUD’s).

These downgrades, austerity plane, stimulus measure, strikes, continued for the next 2 years until 14 August 2013 when it was announced that the Eurozone had been ‘hauled’ out of an 18 month recession by Germany and France…. *Talk about kicking the can!*

Essentially during this period bad debt that was owned by the banks post the GFC in 2008 was transferred to the governments as a measure to maintain confidence in their banking system. The problem was that these Governments were operating programs of *cradle to grave* Government support and had therefore also accumulated significant debt as the high taxes that are required for such a system to work were not being paid. Then this debt was *managed* with financial support from the ECB, IMF, and other stimulus providers with the hope being that this could be repaid as the underlying economies started to grow and perform.

After some optimistic Eurozone growth predictions for 2014 we have now seen that indicators of economic growth, such as Industrial (manufacturing) production has slumped in May 2014 which was the largest month-to-month drop since September 2012 as reported by commentators such as the Business Spectator (*www.businessspectator.com.au*).

This has sparked the ECB’s most recent moves to effectively cut interest rates to negative levels and to announce the TLTRO (or the Targeted Longer-term Refinancing Operation) where the central bank will hand €700 billion to European banks in order for them to on lend these funds to consumers and businesses in an attempt to revive the EU economy.

Our bond managers, Realm Investments, have recently reviewed this program and have highlighted what needs to be done by a Eurozone bank to receive the funds from the ECB. In short to get their hands on a part of this hand-out a European bank needs to show they are currently lending to consumers with no real requirement to on lend at a greater level. In fact once they get the funds they can basically do whatever they see fit with the money. The fear here is that these funds are held on balance sheet by EU banks for a rainy day, however, they would be punished for doing nothing through the negative interest rates.

Apart from the interesting question as to whether this will actually work, it will be very interesting to see how this will impact (or will be impacted) by a future US interest rate rise that the US Federal Reserve would need to look into to control US economic growth and inflation.

If these reforms do work they will help manage this “kicking the can” process and allow the next chapter on the EU saga to continue with the measures effectively increasing the ECB’s debt to €3 trillion. Hopefully the ECB can take a page out of *Super-Mario’s* book.

Portfolio Holdings & Adjustments

Performance Contributors & Detractors:

There were no **Contributors** for the month above the index return; and the **Top 3 Detractors** were BWP Trust -3.88%, Goodman Group -0.79%, and Cromwell Group -0.06%.

Property Securities Portfolio Adjustments:

The *VIP Investment Committee* did not make any changes to the Property Securities portfolio in June.

Source: Morningstar Direct