

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

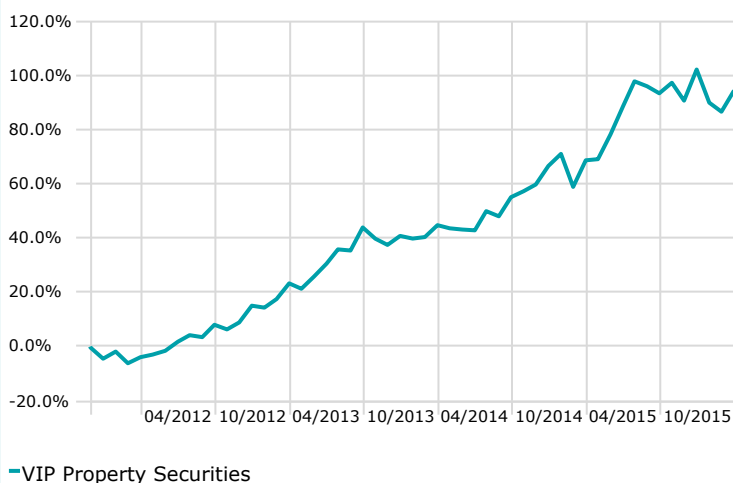
The VIP Property Securities portfolio generated a 4.18% return for the month and -3.84% over the last 3 months. The portfolio underperformed the S&P/ASX 200 A-REIT index during the month by 0.78%, and over the quarter by 4.23%.

Over the last year the portfolio has generated a 15.27% return and underperformed the index by 2.99%.

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 31/10/2015



Trailing Returns

As of Date: 31/10/2015

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	Since Inception
VIP Property Securities	4.18	-3.84	0.52	15.27	15.92	16.43	19.30	16.58
VIP Property Securities Investment	4.06	-4.17	-0.16	13.73	14.37	14.87	17.70	15.13
VIP Property Securities Super-Pension	4.11	-4.04	0.12	14.35	15.00	15.50	18.35	15.77
S&P/ASX 200 A-REIT TR	4.96	0.39	4.68	18.26	17.50	16.08	19.62	10.77

Portfolio Holdings

VIP Property Securities - Holdings

Portfolio Date: 31/10/2015

	Portfolio Weighting %	Total Ret 1 Mo (Mo-End)	Total Ret 3 Mo (Mo-End)	Total Ret 6 Mo (Mo-End)	Total Ret 1 Yr (Mo-End)	Dividend Yield % TTM
SPDR® S&P/ASX 200 Listed Property ETF	20.49	4.93	0.36	4.69	17.99	
BWP Trust	17.11	4.21	-4.45	8.61	34.04	5.01
Goodman Group	15.41	3.76	-7.19	-1.10	13.57	3.71
Cromwell Property Group	12.84	4.69	-8.08	-5.45	9.51	7.95
Stockland Corp Ltd	12.79	5.19	-4.71	-6.08	1.18	6.20
Investa Office Fund	10.86	2.54	2.02	11.21	18.89	4.99
Charter Hall Group	10.50	3.22	-5.07	-10.12	8.28	5.49

A Tax Reform for the Future

A couple months in office, and Malcolm Turnbull's government faces its first major assessment as the leader of this country – the much anticipated tax reforms have made news headlines for the last few weeks and with Prime Minister popularity rating at an all-time high as of late, the Australian public is very keen to hear what Mr. Turnbull and treasurer Scott Morrison have in store for us. Much has been said about a potential GST hike and changes to superannuation taxes, but until the release of the tax discussion paper in 2016 we can only speculate while following the clues dropped by the government.

What we do know is that a change is vital for the continual growth of Australia. The OECD (Organisation for Economic Cooperation and Development) has warned that annual Australian growth is unlikely to recover to 3% until 2017, assuming that Australia maintains the existing tax structure. The tax system currently in place was designed in a different era, when the economy was very different. It was not designed to deal with multinational trade, increasing global competition for investment, the internet and the digital economy.

The last major reform, referred to back then as the 'New Tax System' was in 2000, and introduced the Goods and Services Tax (GST). This tax system was considered both efficient and fair for several years afterwards, and met the Government's wider policy objectives. As noted by Greg Smith of Melbourne Law School and teacher of Tax Policy, 'Australia's tax reforms have had one key theme. They have broadened tax bases so as to lower tax rates.' This is what the country has required in the past, and what it needs now particularly given Australia's aging population.

Now more than ever, a tax reform is necessary to encourage growth and investment in the Australian economy. In the last 15 years, there has been a gradual decrease in overall revenue robustness, and as a result, the current tax system is collecting a lesser amount than in the several years after 2000. A changing landscape has seen a fall in spending in recent years, thus effecting the GST share, as has a shift towards spending on exempt items such as education, health, and overseas purchases. Furthermore, the increasing globalisation of the world has seen import taxes reduced as part of trade reform. An effective tax reform would provide tax incentives for businesses to grow, for growth requires spending, which subsequently puts money back into both the economy and the government, effectively boosting Australia's overall growth.

On a more individual front, fairness of saving and investment taxes has been challenged as more taxpayers exploit the margins, and there has been an increase in concerns over the cost and distribution of the concessions for capital gains and superannuation. A tax reform would aim to adjust the system so as to balance out the distribution of these concessions.

As a result of an aging population, the work force of Australia could find themselves supporting the country's tax obligation despite the majority of the population being in the retiree bracket and thus able to access a number of tax offsets. As mentioned previously, broadening tax bases so as to lower tax rates is essential in order to spread the tax burden more fairly among Australian citizens, while encouraging the growth of our economy.

All in all, Australia, and for that matter the world, is a changed place to what it was 15 years ago. We need a tax reform that has adapted to these changes and is able to get us back on track in terms of growth, and provide Australian's from all walks of life with a system that is fair. While it is fair to say that this will come with pain in the short term, it is a necessary step for the good of our country going forward.

Source: Greg Smith, Lisa Cox, Peter Martin, Louise Yaxley, Dan Conifer

Portfolio Holdings & Adjustments

Performance Contributors & Detractors:

The **Top Contributors** was Stockland Corp Ltd +5.19%; the **Top Detractors** were Investa Office Fund +2.54%, Charter Hall Group +3.22%, and Cromwell Property Group 4.40%.

Property Securities Portfolio Adjustments:

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

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