

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

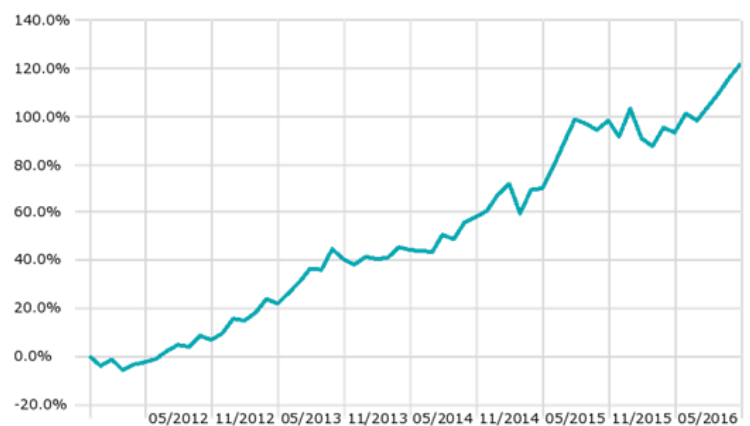
The VIP Property Securities portfolio generated a 2.60% return for the month and 8.93% over the last 3 months. The portfolio underperformed the S&P/ASX 200 A-REIT index during the month by 0.03%, and over the quarter by 0.89%.

Over the last year the portfolio has generated a 11.98% return and underperformed the index by 3.33%.

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

Investment Growth

Time Period: 1/07/2011 to 31/05/2016



—VIP Property Securities

Trailing Returns

As of Date: 31/05/2016

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	Since Inception
VIP Property Securities	2.60	8.93	14.88	11.98	18.52	16.50	20.09	17.60
VIP Property Securities Investment	2.48	8.56	14.11	10.48	16.93	14.94	18.48	16.00
VIP Property Securities Super-Pension	2.53	8.71	14.42	11.09	17.57	15.57	19.13	16.64
S&P/ASX 200 A-REIT TR	2.63	8.04	16.79	15.31	22.26	16.80	20.15	10.97

Portfolio Holdings

VIP Property Securities - Holdings

Portfolio Date: 31/05/2016

	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	44.85	2.61	7.91	16.51	14.83	
BWP Trust	15.84	3.43	11.73	16.44	14.34	4.46
Goodman Group	15.11	3.19	9.55	18.12	12.06	3.16
Stockland Corp Ltd	14.67	3.66	8.63	16.30	9.95	5.08
Scentre Group	9.53	-0.64	6.64	19.11	23.27	4.45

Month in Review - Economic & Market Commentary

The Brexit Debate

Here in the land of Oz the headlines have been all-dominated by the country's looming election, and while we fast grow tired of our politicians' generic routines (make promise, slander opposition, carry stranger's child), there are headlines making much larger waves in the global economy. The possible withdrawal of Britain from the European Union has the potential to have notable effects near and far – far being Australia. Then again, there is also a case to be argued that Britain's exit or 'Brexit' will induce short-term complications, but in the greater scheme of things will not be a telling factor in the global markets.

It must be noted that a withdrawal from the EU is highly unlikely – the 'Stay' vote is currently paying \$1.29 as opposed to a \$3.50 for the 'Leave vote' in betting company SportsBet. However, in the case of a triumphant 'Leave' vote, to decide whether or not the stock market will feel the brunt of Brexit, one must first understand the reasons behind a desire to leave to EU. In a nutshell, supporters of Brexit believe leaving would stem the immigration crisis for Britain, enable Britain to focus on emerging markets such as India and China, and facilitate a greater control over the country's laws. Furthermore, there is belief that economic integration is likely to increase after the euro crisis, and that it is best to cut ties before the relationship deepens.

For discussion's sake, let's assume a Brexit. There are believers of a near-painless separation in the long-term, a concept boosted by the argument that the UK stock market is predominantly occupied by multinational companies whose performance is global-based rather than linked to domestic issues. Of course, short-term pain is to be expected as Britain 'will have to renegotiate trade deals not only with EU countries but with other countries where we (Britain) rely on EU trade deals,' as noted by Peter O'Flanagan, head of foreign exchange at specialist risk firm Clear Treasury. Observers also note that stock markets have not been severely affected since the announcement of the referendum held on the 23rd of June. However, this is most likely due to the belief that a change is improbable as opposed to a change already being priced in.

Alternatively, there are many supporters of the opinion that Brexit would bring about widespread consequences, and of these supporters is the British Treasury. The Treasury believes Brexit would impact via a three step process. A 'transition effect' where company's adjust for growth without the EU, then an 'uncertainty effect' because of the wide range of possible outcomes of the negotiations needed to establish Britain's future trading relations with the EU and other economies. A 'financial conditions' effect then comes into play as the uncertainty leads to increased market volatility. It becomes increasingly clear that the most major factor in play is the effect Brexit would have on trade agreements. Full access to the European market allows Britain to spread its specialised products and services to readily established markets giving it a comparative advantage. In reducing the access to this market, the scope of specialisation is also reduced, and while the extent of the repercussions of Brexit are widely unknown, an almost certain fact is that an exit would increase the cost of trading with Europe. It is well known that London is recognised as the financial hub of the modern world. While Wall St. caters for the largest economy, London still holds resonance given its larger scope. If Brexit was to occur, the question asked is that in the long-term, would Britain maintain this standing if it were to sever ties with the Union? It could be argued that countries such as the US, China and India would have less reason to do business with London if it no longer served as a Europe's gateway. This would no doubt have dire consequences for the country's multinational companies.

While the outcomes of Brexit are murky, the repercussions for Australia is even murkier still. However, it is known that Australian companies operating out of Britain currently benefit from a 'passporting system' in which 'financial services companies are able to set up base in a European Economic area without needing to comply with each member state's individual regulations.' With the withdrawal of Britain from the EU, these Australian companies would more than likely lose this privilege.

Whichever way you perceive the issue, it is evident that a majority 'Leave' vote would result in severe movements in the short-term, if not the long-term. That said, all the effects of Brexit are simply speculation, and at that, speculations that the majority believe won't come to fruition anyway.

Source: The Telegraph, Sydney Morning Herald, The Economist

Portfolio Holdings & Adjustments

Performance Contributors & Detractors:

The **Top Contributors** were Stockland Corp Ltd +3.66%, BWP Trust +3.43%, and Goodman Group +3.19%; the **Top Detractors** were Scentre Group -0.64%, and SPDR S&P/ASX 200 Listed Property ETF +2.61%.

Property Securities Portfolio Adjustments:

In May the VIP Investment Committee made no adjustments to the portfolio.

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