

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 0.37% return for the month **pre-fees** and 3.67% over the last 3 months. The portfolio outperformed the S&P/ASX 200 A-REIT index during the month by 1.47%, and over the quarter by 1.55%.

Over the last year, the portfolio has generated a 3.78% return and outperformed the index by 1.80%.

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

Investment Growth

Time Period: 1/07/2011 to 31/05/2017



Trailing Returns

As of Date: 31/05/2017

| | 1 Month | 3 Month | 6 Month | 1 Year | 2 Years | 3 Years | 4 Years | 5 Years | Since Inception |
|---|---------|---------|---------|--------|---------|---------|---------|---------|-----------------|
| VIP Property Securities PRE-FEES | 0.37 | 3.67 | 11.90 | 3.78 | 7.80 | 13.39 | 13.18 | 16.64 | 15.14 |
| Net VIP Property Securities Investment | 0.25 | 3.32 | 11.15 | 2.39 | 6.35 | 11.87 | 11.66 | 15.07 | 13.58 |
| Net VIP Property Securities Super-Pension | 0.30 | 3.46 | 11.45 | 2.95 | 6.94 | 12.49 | 12.28 | 15.71 | 14.21 |
| S&P/ASX 200 A-REIT TR | -1.10 | 2.12 | 8.10 | 1.98 | 8.43 | 15.09 | 12.90 | 16.28 | 6.09 |

Portfolio Holdings

VIP Property Securities - Holdings

Portfolio Date: 31/05/2017

| | 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 |
|--------------------|-----------------------|-------------------------|-------------------------|-------------------------|-------------------------|----------------------|
| Goodman Group | 36.22 | 4.81 | 12.58 | 29.15 | 23.04 | 2.93 |
| Arena REIT | 32.08 | 3.29 | 5.72 | 24.86 | 14.14 | 5.27 |
| Charter Hall Group | 31.69 | 0.35 | 8.17 | 29.07 | 13.28 | 4.90 |

May, June, and the Influence of Capital Gains and Losses

Each year, the months of May and June bring excitement and anticipation, a time where the smallest detail can make the biggest difference in a result that has endured a full year's build up. This refers not to State of Origin, but tax time of course. As the end of financial year 2017 approaches, anyone with a vested interest in the world of investment has their eyes turned to capital gains tax, and what this entails for their returns and performance for the financial year. This is particularly true for investment firms, who exist in a world where capital gains tax is a vital facet to perfect in terms of displaying proficiency in funds management.

A capital gain defines as the profit from the sale of an investment, and capital gains tax is therefore the tax levied on such a profit. In understanding this, it is clearly of utmost importance to managers to use such concepts to their advantage in presenting a successful performance regardless of how the fund has actually performed. This refers to investors receiving realised capital gains despite the fund having performed poorly or have had a flat year. Such a technique could possibly be attributed to managers selling stocks that have performed well in order to earn the capital gain and present a 'façade' of success despite the fund overall having a less than ideal year.

Similarly, the same can be said for capital losses. Given that a realized gain will obviously bring with it a capital gains tax, the sale of underperforming stocks is commonly used in order to offset the capital gains and therefore lessening the tax burden. When all taken into account, capital loss selling coupled with selling for capital gains all before June 30th makes for a huge amount of selling in the months of May and June, a predominant reason markets have traditionally performed badly in these months. Essentially, much of the selling is to crystallise gains or losses before the tax man comes knocking.

With the gears of the global economy working overtime to cater for movements and incidents throughout the world, it would be a sensible assumption that volatility in the markets derives from the likes of the rumbles of unrest in Europe, the continual and constant rise of terrorism, and the rollercoaster that is the Trump administration. While of course these factors hold substance and do effect markets to some extent, the true influence on the market are fund managers and their significant holdings. As a result, May and June are traditionally down months on the stock market as managers look to crystallise capital gains and losses before the conclusion of the financial year. In fact, it is noted by Michael Browne, fund manager at Martin Currie, that eight of the last ten Junes have been negative months.

That said, the flipside to this is the bargain prices that result from the need to offload stock. Just because certain stocks have tracked badly doesn't necessarily mean they have no value, and managers could therefore be buying back these securities after crystallising the capital losses, potentially at a cheaper price given that many others would be seeking to realise the loss as well. In regard to smaller, more illiquid stock, the need to sell is exacerbated by a low trade offering, and as a result magnifies the effect of selling at discounted prices. Managers therefore seek to sell early and buy closer to June 30th to capitalise on cheap stock that they believe to have value.

Although Value Investment Partners does not partake in these concepts given our focus on long-term growth and value, tax time overall is a hectic period in which everyone strives to reduce their tax paid, a large part of this being capital gains tax in the investment world. Due to large fund managers having such a dominant holding in the market, there is no doubt as to why stocks can suffer May and June as investors rush to crystallise capital gains and losses alike.

Source: SMH, CNBC, AFR

Portfolio Holdings & Adjustments

Performance Contributors & Detractors:

Top Contributor was Goodman Group +4.81%, Arena REIT +3.29%, and Charter Hall Group +0.35%.

Property Securities Portfolio Adjustments:

In May, the VIP Investment Committee sold Centuria Metropolitan REIT given its low liquidity in trading, and SLF as a result of the decision to avoid association with the retail sector.

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