

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

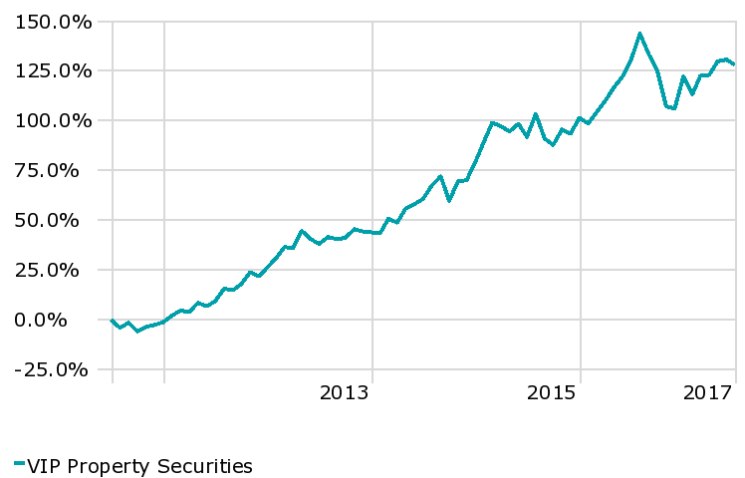
The VIP Property Securities portfolio generated a -1.17% return for the month **pre-fees** and 2.25% over the last 3 months. The portfolio outperformed the S&P/ASX 200 A-REIT index during the month by 3.65%, and over the quarter by 5.65%.

Over the last year, the portfolio has generated a -1.18% return and outperformed the index by 5.08%.

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 30/06/2017



Trailing Returns

As of Date: 30/06/2017

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	5 Years	Since Inception
VIP Property Securities PRE-FEES	-1.17	2.25	2.56	-1.18	9.00	12.36	13.32	15.81	14.69
Net VIP Property Securities Investment	-1.28	1.90	1.88	-2.51	7.54	10.85	11.80	14.25	13.14
Net VIP Property Securities Super-Pension	-1.24	2.04	2.15	-1.97	8.13	11.46	12.41	14.88	13.77
S&P/ASX 200 A-REIT TR	-4.82	-3.40	-3.67	-6.26	8.06	11.98	11.75	14.14	5.71

Portfolio Holdings

VIP Property Securities - Holdings

Portfolio Date: 30/06/2017

	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	34.49	-5.86	3.39	12.23	14.33	3.38
Arena REIT	33.65	3.67	8.61	23.61	19.10	5.75
Charter Hall Group	31.87	-0.60	2.46	19.32	14.62	5.78

US Housing and James Hardie

Established in 1888, James Hardie Industries has been a mainstay of the VIP portfolio, approximately doubling its value since acquiring the security in 2013. James Hardie or 'JHX' is an industrial building materials company in the business of manufacturing and developing technologies, materials, and processes for the production of building materials, specialising in fibre cement products. While the company has since relocated its headquarters to Ireland from Australia, JHX has a strong presence in the US housing market and is a predominant reason the security has performed so strongly during its time in the VIP portfolios, and a major reason the company is still held by VIP.

The US housing market has found itself in a predicament in which there is a significant shortage of housing inventory on the lower end, with builders opting to allocate efforts towards higher end luxury homes. As a result of high construction costs, including regulatory, land, labour, and financing costs, a housing start is only deemed feasible if the house can be sold at a higher end price. With a high cost to build and preference towards building luxury homes, housing inventory has fallen year-over-year for the last 28 consecutive months, with over 9% fewer homes on the market than last year. Interestingly, the last time such a reduction in inventory occurred was August 2013, one month prior to JHX's acquisition in our portfolios.

The amount of demand is no doubt an exacerbator of the shortage of inventory, with homes on sale being bought at record pace – in April a house in the US had an average of 77 days before taking on a new owner, 77 being the lowest number recorded by Zillow, an online real estate database company. The fundamental laws of economics mean that a low supply of houses and a high demand results in an ever-growing housing price, with prices rising 7.4% year-over-year in May. With a national average of \$200,000 USD or \$250,000 AUD per house (a pipedream to any Sydneysider), rising prices despite record low interest rates are keeping young American buyers out of the market.

Although housing inventory is scarce, it is noted that homebuilding bounced back in June after 3 consecutive months of decline, with housing starts jumping 8.3% to the highest since February. In an environment where buyers are crowding the sidelines waiting for an opportunity, any increase in housing starts bodes well for companies such as James Hardie.

It is also noted that housing starts are being hampered by high lumber prices as well as a shortage of building lots and labour. These are factors that are no doubt taken into consideration when analysing a stock such as James Hardie, but the fact still remains that despite these obstacles, the demand in place is impossible to ignore.

The VIP investment comes to the simple conclusion that a high demand for housing coupled with a shortage of houses means that the US housing construction industry demands a place in our portfolios, hence the holding of James Hardie Industries.

Source: BBN, CNBC, Bloomberg

Portfolio Holdings & Adjustments

Performance Contributors & Detractors:

Top Contributor was Arena REIT +3.67%, and Charter Hall Group -0.60%. the **Top Detractor** was Goodman Group - 5.86%.

Property Securities Portfolio Adjustments:

In June, the VIP Investment Committee made no changes to the portfolio.

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