

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

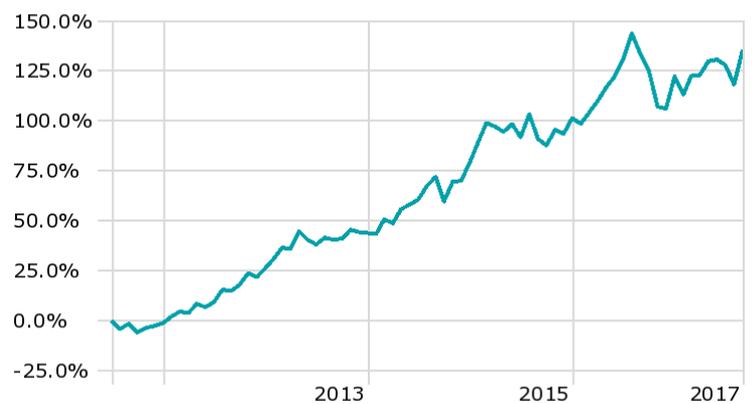
The VIP Property Securities portfolio generated a 7.98% return for the month **pre-fees** and 2.18% over the last 3 months. The portfolio outperformed the S&P/ASX 200 A-REIT index during the month by 6.70%, and outperformed over the quarter by 5.85%.

Over the last year, the portfolio has generated a 1.01% return and outperformed the index by 8.44%.

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 31/08/2017



—VIP Property Securities

Trailing Returns

As of Date: 31/08/2017

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	5 Years	Since Inception
VIP Property Securities PRE-FEES	7.98	2.18	5.93	1.01	11.05	11.06	13.79	15.45	14.88
Net VIP Property Securities Investment	7.86	1.84	5.22	-0.34	9.56	9.57	12.26	13.90	13.33
Net VIP Property Securities Super-Pension	7.91	1.98	5.51	0.21	10.17	10.17	12.88	14.53	13.95
S&P/ASX 200 A-REIT TR	1.28	-3.67	-1.63	-7.43	7.96	10.00	12.36	13.19	5.72

Portfolio Holdings

VIP Property Securities - Holdings

Portfolio Date: 31/08/2017

	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
Cromwell Property Group	34.67	3.26	1.66	0.69	1.32	8.69
Arena REIT	33.17	12.14	6.40	12.39	13.56	5.29
Charter Hall Group	32.16	9.25	2.39	10.76	2.05	5.26

Debt and Wages Growth: A Serious Imbalance

It is a commonly known fact that the Australian economy has found itself in a golden age of high house prices, low interest rates and therefore liberal borrowing. *Not* in conjunction with the rise in borrowing is the important economic factor of wages growth, which one could be forgiven to think to be concurrent with a rise in prices and lending. On the contrary, while houses are selling at historical amounts, the average weekly household income has only grown by \$27 since 2008. Essentially, the increase to average weekly household income has been \$3 per year for the last 9 years.

Compare this to the growth between 2004 and 2008, where the average weekly household income grew by a total of \$213. This period is defined by the mining boom spurred on by China's charge towards industrialisation, sending demand for iron ore and coal through the roof. Off the back of this, wages growth ran high to match the productivity gains of the economy, but since the slowdown of China, Australia has somewhat struggled to find where it's next windfall will come from and as a result, wages growth has suffered.

Despite low wages growth, the average household debt to disposable income ratio is sitting at a record high 189%, meaning Australians and their ability to service this debt is in a delicate predicament if anything was to cause their value of assets to take a turn for the worst. In fact, over a quarter of the relevant population has amassed debts equal to three times their income. Hypothetically, if enough borrowers found themselves incapable of paying off their debt and conceding to sell their house, an oversupply of houses on offer would send the housing market into a spiral if potential buyers didn't pick up the slack. Clearly, low wages growth coupled with high borrowing could have dire consequences to the economy if the right dominos were to fall.

Given the environment Australia finds itself in, the obvious question is 'what is the trigger for a rise in wages growth?' Essentially, Australia needs to see the unemployment rate decrease before expecting any significant movements in wages. Economist Saul Eslake notes that a rise in business investment is gradually gaining pace, and that 'strengthening conditions offshore may finally have encouraged local firms to spend.' More spending logically equates to more jobs, which in turn spurs on consumer confidence, and basic economics communicates that this all leads to lower unemployment and higher wages.

It is important to recognise that a higher employment rate doesn't necessarily translate to a lower rate of unemployment. Recently, the Australian Bureau of Statistics reported that the Australian economy experienced its largest jobs surge in two years, leaping by 54,200 jobs and drastically exceeding the 15,000-20,000 expected by economists. Despite this, unemployment was steady at 5.6% as a greater number of people looked for work, and as such, wage inflation remained stagnant. This is seen in that while 269,000 have been created this year, the labour force expanded by a similar 257,000 and therefore had little effect on the unemployment rate.

With the mining investment boom behind us, it is hard to say whether Australia will experience such a catalyst for change in the short to medium term – the China provided boom could be considered a historical period for our economy. That said, there will always be a 'next big thing,' and whatever that is will be spotted by the smart investor, felt by the economy, and seen in economic factors including wages growth.

Source: SMH, ABC

Portfolio Holdings & Adjustments

Performance Contributors & Detractors:

The **Top Contributor** was Arena REIT +12.14%, Charter Hall Group +9.25%, and Cromwell Property Group +3.26%.

Property Securities Portfolio Adjustments:

In August, the VIP Investment Committee sold GMG and bought CMW in favour of CMWs yield.

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