VIP Property Securities Portfolio

Monthly Review
December 2017

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

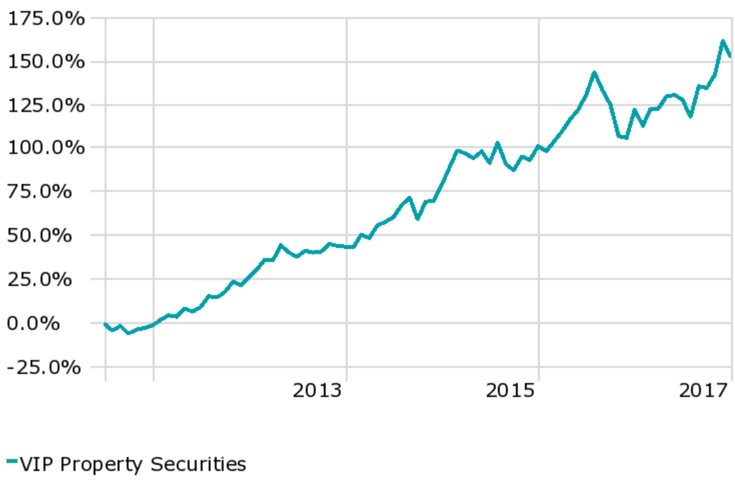
The VIP Property Securities portfolio generated a -3.61% return for the month **pre-fees** and 7.44% over the last 3 months. The portfolio underperformed the S&P/ASX 200 A-REIT index during the month by 3.85%, and over the quarter by 0.46%.

Over the last year, the portfolio has generated a 13.43% return and outperformed the index by 7.71%.

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 31/12/2017



Trailing Returns

As of Date: 31/12/2017

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	5 Years	Since Inception
VIP Property Securities PRE-FEES	-3.61	7.44	10.60	13.43	11.87	12.02	15.04	14.80	15.25
Net VIP Property Securities Investment	-3.72	7.08	9.85	11.91	10.37	10.52	13.50	13.26	13.70
Net VIP Property Securities Super-Pension	-3.67	7.23	10.15	12.53	10.98	11.13	14.12	13.88	14.32
S&P/ASX 200 A-REIT TR	0.24	7.90	9.75	5.72	9.37	11.00	14.81	13.23	6.15

Portfolio Holdings

VIP Property Securities - Holdings

Portfolio Date: 31/12/2017

	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	35.93	-0.88	7.94	10.71	11.01	8.43
Charter Hall Group	32.88	-1.70	15.51	12.78	34.15	5.78
Arena REIT	31.19	-8.32	-0.35	3.29	27.57	5.76

Month in Review - Economic & Market Commentary

Looking Ahead

2017 was a much needed year of steady growth and positivity around the world after a tumultuous 2016. Following the momentum of last year, 2018 is forecasted to outdo its predecessor in regard to the world's economy. In fact, analysts from Goldman Sachs have gone has far as labelling the forecast for 2018 'As Good As It Gets.' While bold, their statement may not be as farfetched as it seems with the global economy currently outperforming most predictions for the first time since 2010.

As of November last year, Goldman Sachs have predicted a 4% growth around the globe, which would be the strongest growth rate since 2011. Their 4% prediction exceeds their 3.7% forecast for 2017, a prediction that Barclays agrees with. What is significant is that unlike more recent years of high productivity, the world's economy isn't riding on the coattails of any particular economy or sector. As opposed to the years of the US housing bubble or China's gallop into the 21st century, this ongoing economic expansion "is not overly reliant on any single geographical region, industry, or source of demand – it does not seem to have generated economic or financial excesses that pose an immediate threat," as noted by Barclay analysts. While Morgan Stanley's forecasts are more moderate, the overall theme of 2018 seems to be healthy and stable growth collectively around the world.

Of course, some economies are more prevalent (at least from Australia's perspective) than others. The US economy holds great influence in how the entire world's year plays out, particularly Australia, such is the political and business relationship between the two countries. Already we see in 2018 how Trump's administration will affect the global economy. The decision to cut corporate tax in the US from 35% to 21% has enabled the world to enter 2018 with a sprinting start, causing the International Monetary Fund to upgrade their 2018 forecast to 3.9% from the 3.7% estimate given last October. While this 'sugar hit' tax cut will boost the world's economy in the short term, this will no doubt cause problems in the future (such as the next presidential administration) as the US works to reduce their gargantuan budget deficit.

On the other hand of the world's economy is China. China's future faces what its leaders call 'three years of critical battles' in which the country looks to tackle debt, poverty, and pollution. While China starts the year in a strong position, a debt-to-GDP ratio that looks to exceed 320% by 2022 puts the country in a precarious position and brings the controlling of financial risk to the forefront of China's priorities. This is in an environment where construction is one of the sectors leading the economy, and as such, curbing debt has to be a gradual process so as not to throw the system into shock.

Locally, we find ourselves in an economy that continues to turn the corner on non-mining investment. With the days of the mining boom in the rear view, Australia has yet to find its 'next big thing.' With residential property showing the signs of slowing in 2017, 2018 may finally be the year that Sydney and Melbourne in particular see something more than mild fluctuations. That said, those words have been said for the last 3 years. Nonetheless, the domestic economy is in good stead to follow the global economy into a prosperous year of growth, especially companies with significant US exposure, such as Aristocrat Leisure and James Hardie Industries. This is all said with the lessons of 2016 in the back of the mind – anything can happen.

Source: Bloomberg, SMH, The Australian, Goldman Sachs, Fortune

Portfolio Holdings & Adjustments

Performance Contributors & Detractors:

The **Top Contributors** were Cromwell Property Group -0.88%, and Charter Hall Group -1.70%. The **Top Detractor** was Arena REIT -8.32%.

Property Securities Portfolio Adjustments:

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

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