

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

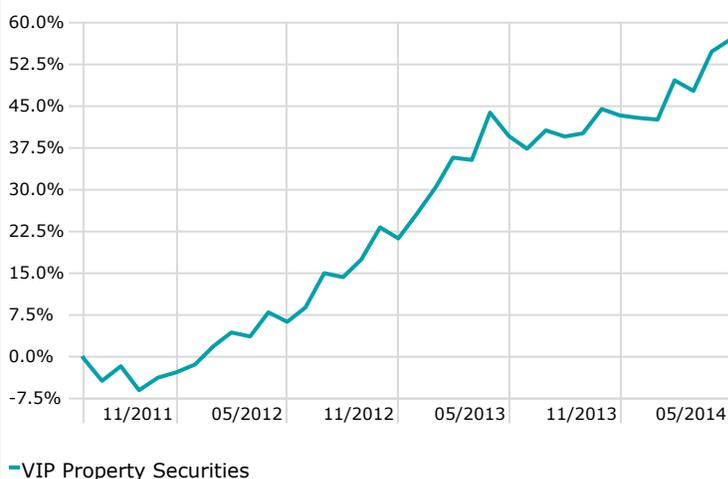
The VIP Property Securities portfolio generated a 1.42% return for the month and 4.91% over the last 3 months. The portfolio outperformed the S&P/ASX 200 A-REIT index during the month by 1.37% and over the quarter by 0.84%.

Over the last year the portfolio has generated a 12.44% return and outperformed the index by 5.87%.

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

Investment Growth

Time Period: 30/06/2011 to 31/05/2014



Trailing Returns

As of Date: 31/05/2014

	1 Month	3 Month	6 Month	1 Year	2 Years	Since Inception
VIP Property Securities	1.42	4.91	9.54	12.44	21.60	16.67
VIP Property Securities Investment	1.30	4.55	8.80	10.93	19.97	15.27
VIP Property Securities Super-Pension	1.35	4.70	9.10	11.54	20.64	15.90
S&P/ASX 200 A-REIT TR	0.05	4.07	7.64	6.57	18.08	10.35

Portfolio Holdings

VIP Property Securities - Holdings

Portfolio Date: 31/05/2014

	Ticker	Total Ret 1 Mo (Mo-End)	Total Ret 3 Mo (Mo-End)	Total Ret 1 Yr (Mo-End)	Dividend Yield % TTM
SPDR S&P/ASX 200 Listed Property Fund	SLF	0.10	3.99	6.18	
BWP Trust	BWP	3.20	8.40	8.78	5.36
Goodman Group	GMG	2.21	6.04	2.93	3.87
Cromwell Property Group	CMW	0.51	2.46	2.28	6.87
Stockland Corp Ltd	SGP	0.26	1.04	13.42	5.94
Charter Hall Group	CHC	2.62	7.21	11.75	4.82
Investa Office Fund	IOF	0.30	4.69	10.74	5.23

Source: Morningstar Direct

Last month we discussed the global market and economic performance of late and compared the situation to a "So-So" meal in a restaurant that promised so much, but delivered less. The report also discussed the outlook for share markets based on expectations of "So-So" economic growth and corporate profits.

In the last month we have learnt that the economic growth story is a little slower than has been forecast with the European Central Bank (ECB) announcing a package of reforms that are targeted to kick-start the European economy towards its minimum inflation targets. Although we usually think of inflation as being bad, no or negative inflation (or deflation) is worse and is an indicator of poor economic activity and low business and consumer confidence. On the other hand, if we are all optimistic about the future and spend money in our businesses and homes this demand for these goods pushes up prices and causes inflation.

The ECB cut the benchmark interest rate in Europe to a record low 0.15% and reduced the deposit rate to less than 0% essentially charging banks a fee for parking excess cash. The ECB will also provide as much as 400 billion euros (or \$542 billion US dollars) to healthy EU banks on the condition that they on lend the funds to companies and households.

Similarly, the International Monetary Fund (IMF) cut its growth target for the US economy from its April forecast of 2.8% to 2%, and stated that they expect low inflation and less than full employment until the end of 2017. In making this forecast the IMF also stated that the US Federal Reserve (Fed) has the scope to keep interest rates at 0% for longer than the mid-2015 date that the market currently expects.

How does this affect us?

Although lower interest rates are good for shares the market could see these forecasts of weaker growth and low interest rates as an indicator that share prices have risen higher than the current economic environment can support remembering that a company's share price is an indication of the profits that it can generate for investors, and the weaker the environment the lower the future profits, which should lead to a re-valuation of a company's share price by the market.

This also means that Australian interest rates will need to stay low for longer unless the Reserve Bank want to see the Australian dollar back over parity with the US dollar, which will greatly hurt our exporters.

Only time will tell how the market reacts to these announcements and the next reporting season.

Source: Bloomberg

Portfolio Holdings & Adjustments

Performance Contributors & Detractors:

The **Top Contributor** for the month was the BWP Trust +3.66%, Charter Hall Group +3.08%, and Goodman Group +2.67%; and there were no **Detractors** below the index return for the month.

Property Securities Portfolio Adjustments:

The *VIP Investment Committee* did not make any changes to the Property Securities portfolio in May.

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