

### 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 5.86% return for the month and 11.88% over the last 3 months.

The portfolio underperformed the S&P/ASX 200 A-REIT index during the month by 1.85% and over the quarter by 0.59%.

Over the last year the portfolio has generated a 32.13% return and underperformed the index by 4.06%, however, has outperformed over the last 3 years and Since Inception.

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 31/01/2015



### Trailing Returns

As of Date: 31/01/2015

	1 Month	3 Month	6 Month	1 Year	2 Years	Since Inception
VIP Property Securities	5.86	11.88	13.28	32.13	20.26	19.37
VIP Property Securities Investment	5.74	11.50	12.51	30.36	18.65	17.91
VIP Property Securities Super-Pension	5.79	11.66	12.83	31.08	19.30	18.56
S&P/ASX 200 A-REIT TR	7.71	12.47	15.60	36.19	18.49	10.85

### Portfolio Holdings

#### Trailing Returns

As of Date: 31/01/2015 Data Point: Return Source Data: Total Return

	YTD	1 Month	3 Month	6 Month	1 Year
SPDR® S&P/ASX 200 Listed Property ETF	7.53	7.53	12.32	15.27	35.40
BWP Trust	2.15	2.15	16.11	14.30	35.81
Cromwell Property Group	2.91	2.91	9.01	7.96	19.95
Charter Hall Group	7.08	7.08	13.61	14.39	37.29
Goodman Group	7.73	7.73	12.69	17.13	36.34
Investa Office Fund	6.04	6.04	11.17	10.85	31.03
Stockland Corp Ltd	6.31	6.31	6.25	10.96	27.89
S&P/ASX 200 A-REIT TR	7.71	7.71	12.47	15.60	36.19

Source: Morningstar Direct

### What's in store for 2015?

2014 saw an interesting period for global economies and markets, and at this point it seems that 2015 will be serving up a similar menu. And it seems that this menu is going to continue to be defined by low interest rates and rising growth asset prices as investors search for yield and income growth.

The size of the money printing programs in the US, Japan, and stimulus measures in China not only indicated the continuation of low interest rates for some time to come, but also acted to drive up growth asset prices (shares and property) forcing investors to take greater risk to achieve returns in excess of low cash and short-term bond returns.

These growth asset prices are the main focus now as investors ask whether the underlying economies are strong enough to sustain these prices and help these companies (in the case of shares) achieve greater profits and dividend growth. Market shocks as we experienced last September and October were due to these types of questions as commodity and oil price falls signalled weak global growth that was not sufficient to support share prices at those levels.

In reply to this, developed economies have confirmed their commitment to keep interest rates low as a means to drive economic growth, and there is no better example of this than the Reserve Bank of Australia (RBA) cutting rates in February and talk of more cuts to come. Even the US Federal Reserve (US Fed) has signalled to the market that although rates are expected to rise in 2015 these rises will be small and will take some time.

In theory lower interest rates in Australia will help consumers spend as their confidence levels rise with the rise of their house prices and surplus cash flows. This increased confidence and demand will help business drive revenue growth and profitability in an environment where the interest bill on their loans is at very low levels. And, Australian companies that export goods or generate profits in US dollars will also see a rise in profits as low interest rates are expected to lower the value of the Australian Dollar (AUD) making exports more competitive.

The problem is that this theory does depend on where we're starting from, and the current position of the Australian economy is that of low economic growth (actually close to zero growth when you factor in inflation), low consumer demand, almost no wage growth, and rising unemployment. Luckily we have great political leaders from all sides that divert our attention from reality with leadership spills, a focus on international affairs that we all agree on (such as our non-approval of the death penalty) and searching for political point scoring when a potentially important report (such as the inter-generational report this week) is presented by the opposing side.

The reality is that some sectors will perform well in this environment and others will not, and therefore companies in those sectors will find it a little easier, than their peers, to generate profits. These would include companies with US dollar earnings, defensive companies that sell necessities and not discretionary items, and companies in sectors where global demand is depleting global supply such as Energy.

The US also has pressures even though the US economy is performing well with rising economic growth, stronger business investment, and falling unemployment. From a US perspective investors must consider the effect of increasing interest rates and a higher US dollar (making US exports less-competitive) on US consumers, businesses, and ultimately the US economy. This would also have an effect on the prices of US companies.

And finally, there is China and its impact on global asset prices. China, as in all economies, has its own pressures with one of the main being the large amount of reported un-used construction stock that will likely see a continuation of soft construction activity in China in 2015. Chinese authorities are expected to set fiscal and monetary policy to help ensure the economy can grow with an uplift in exports and consumer driven consumption with growth from consumption outpacing growth from investment and development. Commentators are projecting 7.1% GDP growth in 2015 for China, which will help support asset prices into the year.

The continuation of this expansionary interest policy from the world's major economies in 2015, in an attempt to lead to an increase in economic growth, is expected to sustain growth asset prices by driving company profit growth, driving export activity, and (as seen on the east coast of Australia) maintaining strong housing market activity. However, with the current stagnant position (weak in Europe) of most economies this profit growth will most likely be enjoyed by some and not all sectors of the economy.

Source: This article has been written with the help of our research partners Morningstar.

## Portfolio Holdings & Adjustments

### Performance Contributors & Detractors:

The **Top 3 Contributors** were Goodman Group +7.73%; and the **Top Detractors** were BWP Trust +2.15%, Cromwell Group +2.91%, and Investa Office Fund +6.04%.

### Property Securities Portfolio Adjustments:

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

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