VALUE INVESTMENT PARTNERS

VIP Property Securities Portfolio

Monthly Review
September 2015

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

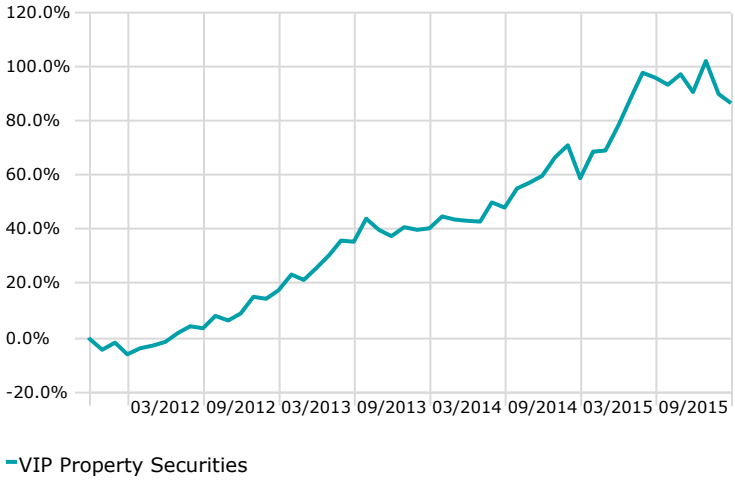
The VIP Property Securities portfolio generated a -1.76% return for the month and -2.14% over the last 3 months. The portfolio underperformed the S&P/ASX 200 A-REIT index during the month by 1.49%, and over the quarter by 3.25%.

Over the last year the portfolio has generated a 17.48% return and underperformed the index by 2.84%.

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 30/09/2015



Trailing Returns

As of Date: 30/09/2015

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	Since Inception
VIP Property Securities	-1.76	-2.14	-4.79	17.48	15.33	16.71	18.79	15.82
VIP Property Securities Investment	-1.87	-2.47	-5.43	15.90	13.78	15.14	17.20	14.38
VIP Property Securities Super-Pension	-1.82	-2.34	-5.17	16.54	14.41	15.78	17.84	15.01
S&P/ASX 200 A-REIT TR	-0.27	1.11	-1.35	20.32	16.20	16.21	19.29	10.65

Portfolio Holdings

VIP Property Securities - Holdings

Portfolio Date: 30/09/2015

	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
SPDR® S&P/ASX 200 Listed Property ETF	20.34	-0.28	1.04	-1.42	19.94	
BWP Trust	17.11	-2.22	0.98	5.72	35.89	4.94
Goodman Group	15.47	-4.10	-6.70	-6.13	17.45	3.68
Cromwell Property Group	12.77	-4.40	-4.40	-11.91	9.38	3.96
Stockland Corp Ltd	12.67	-1.53	-6.10	-11.78	3.54	6.03
Investa Office Fund	11.04	2.34	3.68	3.51	23.36	4.75
Charter Hall Group	10.59	-2.03	-3.76	-12.33	12.27	5.44

Source: Morningstar Direct

Month in Review - Economic & Market Commentary

Housing: Start of the Slowdown

For the past 3 years, a week hasn't gone by without a mention of the Sydney housing bubble – 'how long will this growth be sustainable,' and moreover, 'how will this next generation of home buyers ever afford a house' are common queries in the largest city in Australia. The country's housing values have risen 24% in the last 3 years, with Sydney accounting for 46% of total price growth, much of which can be attributed to an undersupply of residential property as well as record low interest rates. However, it seems that the bubble is finally prime to pop, with numerous signs indicating that Sydney will be seeing a slowing down of growth in months to come. Naturally, with the slowing of the housing market comes the questions as to why it is happening, and perhaps more importantly, what the slow down means for investors.

It is important to note upfront that the extent to which this slowdown will occur is vastly opinionated. On one hand, a majority of property experts and research branches are yet to acknowledge any indication that the housing market will record a fall in prices in the near future. Conversely, other major financial institutions such as Macquarie Bank and Credit Suisse predict that 'national house prices would see a 7.5% decline from March next year.' Regardless of how substantial a slowdown this will be, all indicators point to the fact that there will indeed be a slowdown. For one, auction clearance rates have recently recorded below their usual highs, with Sydney dropping to 75% in September from the 80% it has held for much of the year, and again to 66% in October. Furthermore, as noted in the *Domain Group House Price Report*, Sydney has 'experienced the slowest rate of price growth since March 2014, at just 3.2%.'

There are many factors that attribute to the slowing down of the housing market, a major one being the simple economics of supply and demand. As mentioned previously, much of the growth was propelled by an undersupply of houses in comparison to demand. However, as a result of this surplus of demand what we are now witnessing is a construction boom, with approximately 720,000 new homes to be built in Australia by 2019. Investment bank Goldman Sachs predict this will lead to an oversupply of housing by 2017, and following the rules of supply/demand, lower the housing prices.

Also highlighted by Goldman is that this construction boom should derive from a growing economy, although this is not the case. Signs such as wage growth were at a low 2.3% this year, and the Australian economy's growth rate was 0.2% in the second quarter this being the lowest since 2013. Additionally, population growth in 2014 was only 1.4%, and is looking to fall even lower in 2015. All this taken into account, it's fairly noticeable that the housing growth we have experienced in the past few years isn't sustainable compared to economic growth, hence the overall consensus that a slowdown is inevitable.

Interest rates also have much to do with housing growth. With the cash rate at the historic low of 2%, lending has been high with the banks following suit and enabling a greater accessibility to mortgage loans, which of course boosts housing price growth. Recently however, there has been movement by banking regulator APRA to limit lending to property investors, and banks are expected to raise interest rates with Westpac already doing so. As stated by Domain Group senior economist Andrew Wilson, 'nothing will slow a market more than higher interest rates.' These factors accumulate to make it harder to obtain a mortgage, thus reducing demand and therefore housing price growth.

While it cannot be said to what extent the housing growth rate will reduce or if housing prices will fall, it is a safe observation to say that all market signals are largely indicative of a peaking housing bubble that is set for a slowdown. Whether this will be a resounding pop or a hissing deflation, only time will tell.

Source: Georgina Mitchell, Justine Parker, Mat Spasic, Jens Meyer

Portfolio Holdings & Adjustments

Performance Contributors & Detractors:

The **Top Contributors** were Investa Office Fund 3.68%, SPDR S&P/ASX 200 Listed Property ETF 1.04%, and BWP Trust 0.98%; and the **Top Detractors** were Cromwell Property Group -4.40%, Stockland Corp Ltd -6.10%, and Goodman Group -6.70%.

Property Securities Portfolio Adjustments:

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

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Source: Morningstar Direct