

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 3.08% return for the month **pre-fees** and 7.84% over the last 3 months. The portfolio outperformed the S&P/ASX 200 A-REIT index during the month by 0.47%, and over the quarter by 0.31%.

Over the last year, the portfolio has generated a 6.09% return and outperformed the index by 0.27%.

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 30/04/2017



—VIP Property Securities

Trailing Returns

As of Date: 30/04/2017

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	4 Years	5 Years	Since Inception
VIP Property Securities PRE-FEES	3.08	7.84	10.92	6.09	8.68	13.79	12.25	16.18	15.31
Net VIP Property Securities Investment	2.97	7.49	10.18	4.66	7.22	12.26	10.75	14.62	13.75
Net VIP Property Securities Super-Pension	3.01	7.63	10.49	5.24	7.81	12.88	11.36	15.26	14.37
S&P/ASX 200 A-REIT TR	2.61	7.53	10.21	5.82	10.61	15.54	12.15	16.24	6.20

Portfolio Holdings

VIP Property Securities - Holdings

Portfolio Date: 30/04/2017

	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
SPDR® S&P/ASX 200 Listed Property ETF	44.79	2.57	7.59	10.18	5.62	
Goodman Group	14.90	4.78	17.20	21.31	21.31	3.04
Arena REIT	13.51	1.43	15.55	13.18	16.13	5.52
Charter Hall Group	13.41	2.72	20.64	23.70	24.22	4.85
Centuria Metropolitan REIT	13.39	0.85	9.72	15.92	19.42	6.73

Amazon and the Australian Retail Market

While many events, occurrences, and advancements have taken place in the last few decades, only a select few are able to rival the introduction of the internet into mainstream society. With the internet came infinite access to information and communication, and therefore possibility and change. Unimmune to one of the greatest advancements in technological history was the brick and mortar retail market, which was suddenly exposed to competition from around the world. Although Australia has now been accustomed to the likes of eBay and Amazon, the industry is due for its latest shakeup with Amazon announcing its imminent physical arrival in Australia.

the arrival of the US giant, which will feature a fulfillment centre with floor space of approximately 93,000 square metres (about 5 MCG's), comes at a time in which the Australian retail sector faces an uphill battle. Despite overall business conditions improving in the last year, the retail sector has worsened since July 2016 with a fall in gross operating profits over the year. What more, income from sales was up just 1.3% year on year in December – almost half the decade average. With a larger focus on spending towards services, retail lost more jobs last year than any other sector, and experienced over 2100 retail business collapses in the last 2 financial years.

All in all, the environment is perfect for a foreign retailer to successfully disrupt the Australian market. Australia, who lags in most things from technology to cultural adaptations, will finally be exposed to what countries such as Spain, Germany, and the UK have enjoyed for up several years now. In a market where prices are traditionally high and range is relatively scarce, Amazon aims to earn the business of Australian customers through 'low prices, vast selection, and fast delivery.' In fact, a subscription to the Amazon Prime Now service would make the concept of one-hour delivery a reality.

Known as the 'Country Killer' by analysts at Morgan Stanley, Amazon is renowned for its relentless efforts in earning market share in target countries. For example, Amazon's sales in non-food goods exceed all competing retailers in Germany and the UK. Furthermore, after 5 years in Spain, the retail conglomerate offers 175 million products, has 1000 employees and will hire 600 more in 2017. Despite having a physical presence in Australia, Amazon already has a \$1 billion sales revenue in the country through overseas shipping. Considering that total annual retail sales in Australia were \$300 billion and online retail sales were \$21 billion, Amazon's Australian play holds immense potential for the company.

This potential bodes poorly for the likes of JB Hi-Fi and Harvey Norman, given that Amazon's predominant focus in entering the market will be consumer and home electronics. To a lesser extent, Bunnings is also on Amazon's radar, although the customer experience is a large part of Bunnings' attraction. The long-term view will also place fresh food suppliers such as Woolworths and Coles in Amazon sights, with the service in the UK and US proving to be a viable alternative, particularly with a one-hour delivery timeframe. That said, Australians have been reluctant to embrace fresh food delivery and Amazon Fresh was only implemented after 12 years of Amazon existence in the UK.

With online retail sales growing at 14.2% in Australia and Amazon's proven track record, it leaves little doubt that their chance of success in the Australian market are extremely high. In fact, analysts at Credit Suisse predict the US retail giant will reach over 5% market share in many retail categories within 5 years of arriving in Australia. If other countries are any indication, it will be notable to look back in history before Amazon arrived on our shores and recognise its significance in changing the Australian retail landscape forever.

Source: SMH, ABS, Deloitte

Portfolio Holdings & Adjustments

Performance Contributors & Detractors:

Top Contributor was Goodman Group +4.78%, & Charter Hall Group +2.72%. **Top Detractors** were Centuria Metropolitan REIT +0.85%, & SPDR S&P/ASX 200 Listed Property ETF +2.57%.

Property Securities Portfolio Adjustments:

In April, the VIP Investment Committee bought Charter Hall Group, Centuria Metropolitan REIT, and Arena REIT in replacement of Stockland Group and Scentre Group.

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