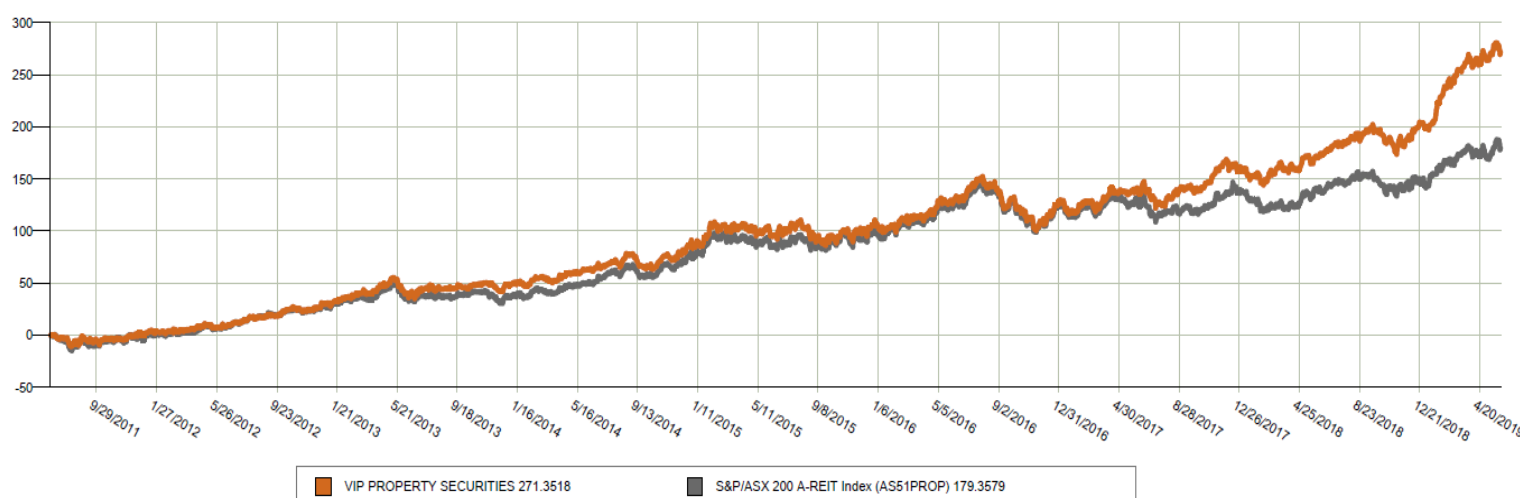


## Investment Objective

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.

## Total Portfolio Performance (%)



## Performance Review & Portfolio Adjustments

The VIP Property Securities portfolio generated a 1.36% return for the month **pre-fees** and 8.43% over the last 3 months. The portfolio underperformed the S&P/ASX 200 A-REIT index during the month by 1.11% and outperformed over the quarter by 2.37%. Over the last year, the portfolio has generated a 37.16% return and outperformed the index by 20.65%. The **post-fees** returns for the *Investment* and *Superannuation & Pension* portfolios are shown in **blue** in the table below.

The **Top Contributors** were Charter Hall Group 5.40%, Dexus 3.04%, and Cromwell Property Group. The **Top Detractor** was Arena REIT -6.14% and Goodman Group 1.82%.

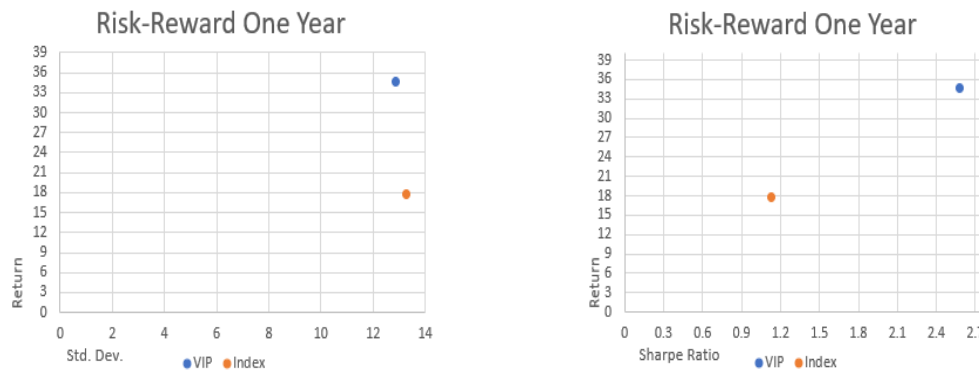
In May, the Investment Committee made no changes to the portfolio.

## Trailing Percentage Returns Against the Benchmark

|   | 1 Month | 3 Month | 6 Month | 1 Year | 3 Year | 5 Year |
|---|---------|---------|---------|--------|--------|--------|
| VIP Property Securities Gross Returns             | 1.36    | 8.43    | 29.35   | 37.16  | 26.94  | 27.83  |
| VIP Property Securities Super-Pension Net Returns | 1.29    | 8.23    | 28.95   | 36.36  | 26.14  | 27.03  |
| VIP Property Securities Investment Net Returns    | 1.25    | 8.09    | 28.68   | 35.81  | 25.59  | 26.48  |
| S&P/ASX 200 A-REIT TR                             | 2.47    | 6.06    | 16.51   | 17.07  | 12.45  | 21.17  |

|                         | % End Weight | Tot Rtn 1M | Tot Rtn 3M | Tot Rtn 6M | Tot Rtn 1Y | Total Return YTD (%) |
|-------------------------|--------------|------------|------------|------------|------------|----------------------|
| VIP PROPERTY SECURITIES | 100.00       | 1.36       | 8.43       | 29.35      | 37.16      | 24.19                |
| ARENA REIT              | 18.70        | -6.14      | 6.63       | 17.55      | 32.62      | 15.48                |
| CROMWELL PROPERTY GROUP | 19.55        | 2.67       | 6.23       | 20.72      | 14.84      | 18.57                |
| DEXUS                   | 19.67        | 3.04       | 7.15       | 8.88       | 8.88       | 8.88                 |
| GOODMAN GROUP           | 20.33        | 1.82       | 4.69       | 12.98      | 12.98      | 12.98                |
| CHARTER HALL GROUP      | 21.75        | 5.40       | 17.50      | 51.18      | 70.00      | 39.35                |

## Risk/Reward & Sharpe Ratios



## Economic & Market Commentary

Global markets suffered material losses over the month of May, with systemic downside in markets mainly attributable to the break down of trade negotiations between the US and China as well as the implementation and enforcement of previously announced tariffs on US and Chinese goods. As such, the US's S&P 500 posted a 5.87% decline for the month, Japan's Nikkei 225 recorded a 7.45% fall, Europe's Euro Stoxx 50 a 6.66% decline, and the UK's FTSE 100 3.46% negative return. In Australia, in contrast a surprise election victory of the Coalition added tailwinds to markets, with the elimination of proposed franking credit and negative gearing reform boosting financial stocks and listed real estate trusts, helping to nudge the S&P/ASX 200 index into positive return territory recording a 1.10% rise.

US-China trade talks have deteriorated over the month of May with anonymous sources from both sides, reported by The New York Times, stating that negotiations have grinded to a halt with limited to no continued communications between both sides occurring. A glimmer of hope exists in the G20 meeting this June as it has been rumored that President Xi and President Trump are expected to meet, as something as trivial as a handshake and photo op would be all that markets need to feel a sense of progress and ultimately resolution. Out of Europe and the UK, Prime Minister Theresa May has announced that she will be resigning her position and leaving the office of Prime Minister in the early weeks of June as a consequence of once again failing to pass a resolution to confirm a deal on leaving the European Union. Although confirming that she would not leave office until a replacement was decided on by the party room, there is cautious optimism from markets that a new lead negotiator will at least be able to formulate a deal regardless of its content, as certainty is better than the worst possible Brexit outcome.

In Australia the upset election victory from the Coalition boosted markets and investor confidence as the election result eliminated the possibility of major taxation reform that was going to be directly impacting investors in both equity, debt, and housing markets. On a less positive note the RBA during their meeting for June decided to cut the official cash rate but 25 basis points to a record low of 1.25% citing growing concerns for the length of trade negotiations globally, low consumer confidence and spending, and a tightening credit environment. Unfortunately the Australian economy has been plagued with wages stagnation, low levels of inflation, and slowing economic growth that would make it difficult to continue to lower the unemployment rate without monetary easing when the federal government is reluctant to stimulate with big spending schemes in order to maintain election promises of balancing the budget.

What does this mean for investors? Regardless of political affiliation markets have reacted positively to a Coalition federal government which has removed global headwinds from affecting Australian markets for now. The Coalition government, a lowering of the cash rate, and a removal of higher approval ratings for loan applications are hopefully sufficient to boost economic growth. If done in conjunction to positive trade negotiations between US and China, investors should continue to observe growing wealth in the short-medium term.