

### 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 6.18% return for the month and 1.25% over the last 3 months. The portfolio underperformed the S&P/ASX 200 A-REIT index during the month by 0.60% and over the quarter by 1.53%.

Over the last year the portfolio has generated a 16.55% return and underperformed the index by 0.16%, 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 31/10/2014



### Trailing Returns

As of Date: 31/10/2014

	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	Since Inception
VIP Property Securities	6.18	1.25	8.78	16.55	17.00	20.67	16.98
VIP Property Securities Investment	6.06	0.91	8.04	14.99	15.44	19.05	15.55
VIP Property Securities Super-Pension	6.11	1.05	8.34	15.62	16.07	19.71	16.19
S&P/ASX 200 A-REIT TR	6.78	2.78	11.58	16.71	15.00	20.07	10.56

### Portfolio Holdings

#### VIP Australian Share Leaders - Holdings

Portfolio Date: 31/10/2014

	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	19.91	6.67	2.62	11.28	16.08	
Goodman Group	15.65	-1.62	-2.33	9.11	16.88	3.80
BWP Trust	14.65	0.79	-3.79	1.50	17.33	5.78
Stockland Corp Ltd	14.59	-2.83	-3.06	8.72	13.25	5.83
Cromwell Property Group	13.53	1.52	1.93	4.90	10.96	7.65
Charter Hall Group	11.18	4.81	1.33	8.89	28.08	4.87
Investa Office Fund	10.50	-0.84	-3.81	8.13	19.07	5.24

### Australia-China Free Trade

The recent Free Trade Agreement (FTA) between Australia and China is expected to have some significant positive impacts on the Australian economy with the removal of tariffs in the agriculture, mining, and services sectors. The FTA will also have an impact on Chinese investment in Australia, which is critical for investors to understand as companies slowly become takeover targets by Chinese firms.

Australian exports to China are worth \$90 Billion to Australia and account for 1/3 of all goods sold abroad. Iron Ore exports account for 56% of these exports. In terms of agriculture Australia exports 23% of agriculture to China, our largest Agri export market, and this provides \$8.7 Billion (2013-14).

In terms of demand projections the US Department of Agriculture (USDA) projects that between 2013 and 2023 there will be a doubling of Chinese imports of cotton and beef, a 60% rise in pork and oilseed demand, and a 30% rise in barley demand. Similarly, Australian Dept of Agriculture Research Bureau ABARES project that between 2009 and 2050 sheep and goat meat demand by China will rise 20 fold or +1000%, Beef demand will rise 10 fold (500%), fruit demand will rise +200%, dairy +165%, Sugar +100%, and Cereals +50%.

So it is clear that this FTA has the potential to provide significant benefits for Australian agricultural exports. However, the agricultural sector is not the only winner in this FTA and not all parts of the agri sector are to be treated the same.

Tariffs on dairy, beef, sheep meat, wine, horticulture, seafood, and hides/skins/leathers are to be removed, whereas Rice, Cotton, and Sugar tariffs are not being removed as these are sensitive sectors in China. The Mining sector also wins with tariff removal on coal, alumina, and other mineral ores.

The Services sector is also a winner with improved market access for many service providers including the financial services, healthcare, legal services, construction, and mining services sectors. A look at the Healthcare sector can quickly show the benefits that this could have on the services sector. The FTA will allow healthcare companies to establish wholly owned hospitals and aged-care facilities in China. Ramsay Healthcare has already signed a memorandum of understanding to buy 50% of Jinxin Groups healthcare assets in Chengdu, mainland China's 4th most populated city.

One of the other effects the FTA will have is on Chinese investment in Australian assets. Currently Chinese investment in Australia reached \$20 billion in 2013. This is still a relatively small amount behind the Netherlands, Singapore, Japan, the UK, and the US (smallest to largest). To date most of this has been in the mining and property sectors. The main outcome in this area is the raising of the threshold at which investments in non-sensitive sectors by private sector entities from China are considered by the Foreign Investment Review Board (FIRB) from \$248 million to \$1,078 million.

However, the news is not all good as it would be expected that the FTA would be the final nail in the coffin for the Australian manufacturing sector that is already being affected by high labour costs in Australia and a high Australian dollar. It is expected that this will also throw fuel on the debate regarding foreign ownership of Australian assets.

As investors it is important to be informed of these developments as it shows us which sectors may benefit, and others be affected, by these changes. It will also help continue the shift of our focus on the mining sector as other sectors such as agriculture and services are also expected to benefit, and more so than the mining sector.

Source: Written with the assistance of the National Australia Bank.

## Portfolio Holdings & Adjustments

### Performance Contributors & Detractors:

The **Top 3 Contributors** were Stockland Corp +7.34%, Goodman Group +7.16%, and Charter Hall Group +6.85%; and the **Top Detractors** were Cromwell Group +4.21%, BWP Trust +5.44%, and Investa Office Fund +6.27%.

### Property Securities Portfolio Adjustments:

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

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