REST Pension Investment Update

December quarter 2015

The Balanced Option (REST Pension's default investment option) returned +1.69% for the December quarter after the previous quarter's negative results. The option returned +0.83% for the period 1 July 2015 to 31 December 2015 and has maintained robust performance of +9.84% per annum over the last three years and +8.71% per annum over the last five years.

The Australian shares and property portfolios were key contributors to fund performance over the last three months. Australian shares staged a strong recovery while overseas shares (in Australian dollar terms) had a smaller rebound from the previous quarter but added to overall performance for the same period. Returns from bonds remained relatively muted reflecting a challenging period for this asset class.

REST Pension performance results to 31 December 2015

Investment Option	3 month (%)	1 Year (%)	3 Year (%pa)	5 Year (%pa)	10 Year (%pa)
Core Strategy	2.70	4.84	11.46	9.70	N/A
Structured					
Cash Plus	0.49	2.49	3.28	3.91	4.49
Capital Stable	1.26	3.82	7.55	7.44	6.61
Balanced	1.69	4.95	9.84	8.71	7.08
Diversified	2.32	6.30	12.81	10.32	7.76
High Growth	2.58	6.93	14.55	11.15	8.03
Tailored					
Basic Cash	0.52	2.15	2.55	3.25	N/A
Cash	0.60	2.56	3.01	3.69	4.49
Bond	1.07	1.29	4.91	6.98	6.97
Shares	2.89	6.00	17.58	12.02	7.65
Property	3.99	11.19	9.50	8.24	7.30
Australian Shares	4.53	4.38	12.46	9.67	8.83
Overseas Shares	1.60	7.50	21.61	13.97	5.84

Returns are net of investment fees and untaxed. The earnings applied to members' accounts may differ. Investment returns are at the investment option level and are reflected in the unit prices for those options. Returns for the three, five and ten year periods are annualised returns. N/A applies to options running less than the indicated time periods. Past performance is not an indication of future performance. For more investment information including the latest investment returns visit **rest.com.au/Investment**

REST Industry Super

US Fed tightens rates whilst the ECB eases

After many months of speculation the US Federal Reserve has raised interest rates for the first time in almost a decade, lifting the US federal funds rate target by 0.25% at their December meeting.

In contrast, the European Central Bank (ECB) announced further economic stimulus measures including a cut in deposit rates (to -0.30%) and an extension of its asset purchasing programme to support financial conditions until March 2017.

RBA has scope to cut rates if required

The Reserve Bank of Australia (RBA) indicated there is scope for additional easing in interest rates if the Australian economy requires more support. Australian employment conditions have improved with the unemployment rate now at 5.8% but business spending remains weak with recent data showing a fall in mining sector investment.

The RBA has kept Australian interest rates unchanged at 2.00% since May 2015.

Australian shares bounce back despite a further decline in commodity prices

The Australian share market has managed to cap off 2015 with the S&P/ASX 300 Accumulation Index[1] gaining +5.53% over the last three months and trimming the calendar year return to -1.87%.

The slide in commodity markets has been a major drag on the performance of Australian shares in 2015. The price of iron ore[2] has fallen almost 50% in the last 12 months to around US$37 per tonne by December 2015. Crude oil[3] prices have seen a similar dramatic decline in 2015, plummeting more than 35% to trade below US$40 per barrel by the close of the year.

Overseas shares fare well in volatile markets

The past 12 months have been an eventful period for overseas markets, with global shares weathering share market volatility and economic growth concerns in China, on top of Eurozone instability including a possible Greek default, tumbling energy prices, outflows from emerging markets, and the uncertainty of interest rate rises in the US.

Overseas shares underperformed Australian equity markets over the last three months with the MSCI World ex Australia Index[4] (unhedged in AUD) returning +1.72% for the quarter. This caps off a +11.80% net return for the 2015 calendar year.

Caution in bond markets as US rates rise

Bond investors remain cautious with interest rates around the world remaining at historic lows, recent volatility hitting high-yield markets and now with the prospect of further interest rate rises in the US.

Expectations of rising interest rates (and increasing bond yields) have held back the performance of bond returns[5] compared to previous years and bond markets could soften further if developed economies tighten monetary policy as economic conditions improve.

Australian bond markets, as measured by the Bloomberg Ausbond Composite Index[6], closed the calendar year with a +2.59% gain, significantly lower compared to the previous year that returned +9.81%.

1. S&P/ASX 300 Accumulation Index includes up to 300 of Australia's largest shares by float-adjusted market capitalisation
2. Bloomberg Iron Ore Spot Price Index 62% Import Fine Ore in USD
3. Bloomberg West Texas Intermediate (WTI) Cushing Crude Oil Spot Price
4. MSCI World ex Australia Index (unhedged in AUD) covers 22 of 23 developed markets excluding Australia
5. The price of bonds moves in the opposite direction to the change in interest rates or bond yields.
6. Bloomberg Ausbond Composite 0+ Yr Index comprises of different types of investment-grade Australian bonds

rest.com.au 1300 305 778

Please call between 8am–6pm, Monday to Friday

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