

# REST Pension Investment Update

September quarter 2016

REST's Balanced option returned 2.83% for the quarter ending 30 September 2016, a welcome start for our members to the new financial year.

The strong quarterly performance follows a nervous twelve months for investment markets that was marked by substantial volatility and events such as Brexit.

The Balanced option continues to deliver on long term objectives, returning 9.77% per annum over five years and 8.13% per annum over seven years as at 30 September 2016.

The top contributors to returns for the September quarter were Australian shares followed by overseas shares. These two asset classes collectively represent around 35% of the Balanced option portfolio and the result helped drive overall returns.

The performance of REST's Balanced option was further bolstered by strong returns from credit securities in REST's Growth Alternatives asset class, highlighting the benefits of a maintaining a diversified portfolio mix.

## REST Pension performance results to 30 September 2016

Investment Option	3 month (%)	1 Year (%)	3 Year (%pa)	5 Year (%pa)	10 Year (%pa)
Core Strategy	3.87	7.87	7.90	11.55	N/A
<b>Structured</b>					
Cash Plus	0.73	2.34	2.84	3.46	4.22
Capital Stable	2.13	4.72	5.90	7.83	6.32
Balanced	2.83	5.58	7.15	9.77	6.70
Diversified	3.57	6.75	8.73	12.25	7.26
High Growth	4.11	7.23	9.58	13.67	7.45
<b>Tailored</b>					
Basic Cash	0.44	2.06	2.31	2.81	N/A
Cash	0.58	2.42	2.73	3.25	4.21
Bond	0.45	3.82	4.69	6.27	6.87
Shares	4.51	5.88	9.87	15.58	6.78
Property	3.35	12.85	10.38	10.28	7.09
Australian Shares	5.54	10.42	7.93	13.81	8.08
Overseas Shares	3.84	2.13	11.35	17.00	4.99

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](http://rest.com.au/Investment)

## Central banks keep markets on edge

The central bank policies of major developed world economies continue to drive much of the investor sentiment in global financial markets.

Since the lows of the global financial crisis in 2009, key central banks such as the US Federal Reserve, European Central Bank and the Reserve Bank of Australia have actively loosened monetary policy and cut interest rates to unprecedented levels in an attempt to help stimulate growth and facilitate a turnaround in economic conditions.

The US Federal Reserve continues to delay a hike in US interest rates (currently at 0.50%), arguing that economic conditions in the US are still not at satisfactory levels to warrant a tightening in monetary policy.

Other key central banks, including the European Central Bank and Bank of Japan, have implemented policies of negative interest rates and bond buying programs to try and kick-start economic conditions.

The effectiveness of such central bank policy is now being questioned as major developed economies, particularly Europe and Japan, experience a prolonged period of negative interest rates without a clear turnaround in economic growth.

Investors are concerned that the effectiveness of these policies are beginning to wane and that these central banks are running out of options to revive their respective economies.

## Australia's economy not in the clear

The August meeting of the Reserve Bank of Australia (RBA) saw Australian cash rates cut by 25 basis points to a record low of 1.50%. The RBA cited concerns around the strength of the Australian dollar and potential room for stronger economic growth as key reasons for the rate decision.

In September, the new RBA governor Philip Lowe stated that challenges remained for the Australian economy, including low wage growth, poor infrastructure and potential risks around the high cost of housing.

## Share markets unfazed over the quarter

Both Australian and offshore investors appeared undeterred by global economic concerns, trading positively over the first three months of the new financial year. Australian investors bought into the local share market, with the S&P/ASX300 Index<sup>1</sup> gaining 5.2% over the September quarter.

The gains in the Australian share market were helped along by a strong rebound in materials and resources stocks that resulted from a reversal in commodity markets over the September quarter.

Investors also took to international share markets, the MSCI World ex Australia Index<sup>2</sup> adding 2.0% over the latest three-month period and shaking off much of the negativity in offshore markets from the previous twelve months.

## Growing risk in the hunt for yield

With global interest rates at historic lows (and in some cases at negative levels), investors are continuing to search for assets outside of cash investments in a search for better returns and yield.

This has seen a rise in the prices of so-called 'yield-based' assets such as bonds, utility stocks and REIT's<sup>3</sup>, unlisted property and unlisted infrastructure over the last few years.

There are concerns that the prolonged period of low interest rates is potentially inflating the prices for these yield-based assets, with risks of a correction in these assets.

Uncertainty around future market conditions, however, remains front of mind for investors and this may continue to see support for income producing yield-based assets in the near term.

<sup>1</sup> S&P/ASX 300 Accumulation Index includes up to 300 of Australia's largest shares by float-adjusted market capitalisation

<sup>2</sup> MSCI World ex Australia Index (unhedged in AUD) covers 22 of 23 developed markets excluding Australia

<sup>3</sup> REIT - Real Estate Investment Trust

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

