REST Pension Investment Update

June quarter 2016

REST Pension's default investment option, the Balanced option, returned +2.88% for the quarter ending 30 June 2016 and +1.81% for the financial year ending 30 June 2016. The returns for the financial year are a moderation in returns following a long stretch of strong performance since the end of the global financial crisis.

Financial markets saw significant volatility over the past financialyear, most notably at the beginning of 2016 and again in June. These key periods of market volatility explain much of the moderation in investment returns during the year.

The property asset class was the largest contributor to returns for the Balanced option followed by infrastructure, with both asset classes underpinning investment performance over the twelve month period.

Australian shares and bonds contributed modest returns, but overseas shares - the largest asset class exposure for the Balanced option - was the main detractor to performance.

REST Pension performance results to 30 June 2016

Investment Option	3 month (%)	1 Year (%)	3 Year (%pa)	5 Year (%pa)	10 Year (%pa)
Core Strategy	3.06	1.56	8.50	9.31	N/A
Structured					
Cash Plus	0.77	2.09	2.89	3.55	4.30
Capital Stable	2.36	1.86	6.05	7.03	6.28
Balanced	2.88	1.81	7.50	8.30	6.56
Diversified	3.51	1.82	9.38	9.94	7.03
High Growth	3.91	1.54	10.41	10.77	7.15
Tailored					
Basic Cash	0.53	2.12	2.38	2.95	N/A
Cash	0.68	2.41	2.79	3.37	4.29
Bond	1.27	1.85	4.78	6.65	7.05
Shares	3.39	-1.84	11.52	11.73	6.41
Property	2.11	14.16	9.87	8.71	7.17
Australian Shares	4.05	1.79	9.93	9.70	7.54
Overseas Shares	2.69	-4.23	12.76	13.28	4.79

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

Economic and political uncertainties stir global markets

Global investment markets in the 2016 financial year have been driven by investor uncertainty around a unique combination of economic, political and financial market conditions. Investor sentiment in early 2016 was negatively impacted by significant volatility in energy and commodity prices, concerns of a slowdown in China's economy and uncertainty around future US interest rate rises.

More recently in June 2016, the UK referendum result for Britain to leave the European Union - known as 'Brexit' - spurred fresh concerns for the European region and the greater global economy. The 'leave' outcome came as a surprise to financial markets which quickly tumbled.

Monetary policy eased further as economic conditions remain weak

Weak economic conditions have prompted central banks around the world, including the Reserve Bank of Australia (RBA), to lower interest rates in an attempt to boost economic activity and growth.

The RBA lowered the Australian cash rate from 2.00% to 1.75% in May following weak inflation data from the first quarter of 2016 and has stated that it is ready to reduce rates further if domestic conditions continue to wane. Other major central banks including the European Central Bank, Bank of Japan and the Reserve Bank of New Zealand have also made similar moves to ease monetary policy by lowering official interest rates over the last twelve months.

The closely-watched US Federal Reserve, after having raised US interest rates for the first time in almost a decade in December 2015 to 0.50%, has now indicated that they will pause on further interest rate rises in light of global economic concerns and the bouts of significant financial market volatility over recent months.

Share markets run out of puff

Global share markets were tested in the early months of the calendar year by oil prices[1] that fell to as low as $US26 a barrel in February 2016 and concerns of a slowdown in global economic growth. Equities were rattled again at the end of the financial year in June 2016 following the vote for Brexit.

International share markets, as measured by the MSCI World ex Australia Index[2], closed the quarter ending 30 June 2016 up +4.4% and finished the financial period with a return of +0.4%. Australian equity markets fared marginally better compared to overseas markets, with the S&P/ASX 300 Accumulation Index[3] returning +4.0% for the final quarter of the fiscal period and rounding out the financial year higher by +0.9%.

Global bond yields fall to record lows as investors shift to defensive assets

Bond yields around the world hit record lows following a string of interest rate cuts from major central banks and as investors shifted towards defensive assets. Over the last twelve months 10-year US government bond yields hit as low as 1.43%, Australian 10-year government bonds troughed at 1.95% and German 10-year bunds (government bonds) slid into negative yields plummeting to as low as -0.13%.

Global bond markets have benefited from falling yields given that bond prices move inversely to expected changes in interest rates, making respectable gains for the financial year. Australian bond markets, as measured by the Bloomberg Ausbond Composite Index, added +2.9% for the fourth quarter of the fiscal period and closed the financial year with a +7.0% return.

[1] Bloomberg West Texas Intermediate (WTI) Cushing Crude Oil Spot Price

[2] MSCI World ex Australia Index (unhedged in AUD) covers 22 of 23 developed markets excluding Australia

[3] S&P/ASX 300 Accumulation Index includes up to 300 of Australia's largest shares by float-adjusted market capitalisation

rest.com.au 1300 305 778
Please call between 8am–6pm, Monday to Friday

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