REST Pension Investment Update

March quarter 2016

REST Balanced (Pension default investment option) returned -1.86% for the March quarter reflecting a bumpy start to the calendar year for global financial markets. Shares were the major drag on quarterly performance, with overseas and Australian shares finishing in the red despite a late comeback in March. Overseas shares fell more as the shares valued in foreign currency depreciated against a rising Australian dollar.

Property and infrastructure performed well over the quarter and adds to their strong overall performance for the financial year-to-date period. Bonds were also a positive contributor to returns over the three month period ending 31 March 2016.

REST Pension performance results to 31 March 2016

Investment Option	3 month (%)	1 Year (%)	3 Year (%pa)	5 Year (%pa)	10 Year (%pa)
Core Strategy	-1.88	-1.45	9.04	8.62	N/A
Structured					
Cash Plus	0.34	1.95	2.99	3.70	4.36
Capital Stable	-1.08	-0.27	6.16	6.80	6.09
Balanced	-1.86	-0.82	7.81	7.88	6.30
Diversified	-2.69	-1.38	9.98	9.29	6.69
High Growth	-3.37	-2.17	11.16	9.96	6.76
Tailored					
Basic Cash	0.55	2.12	2.45	3.11	N/A
Cash	0.54	2.38	2.88	3.52	4.38
Bond	0.97	-0.47	4.60	6.75	6.92
Shares	-4.76	-6.09	13.18	10.61	6.00
Property	2.83	11.82	9.87	8.85	7.30
Australian Shares	-3.80	-8.28	7.77	8.55	7.35
Overseas Shares	-5.72	-4.61	17.20	12.29	4.01

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

A bumpy start to 2016 for financial markets

It has been a challenging start to 2016 for financial markets around the world with global shares down more than 11%[1] at its lowest point during the first three months of the year. These dramatic market movements generated a number of headlines in the media and weighed heavily on investor confidence. Markets were unsettled by falling oil prices and the prospect of increasing interest rates in the United States, as well as concerns of a weakening Chinese economy and its potential impact on global economic growth. Investment markets have, however, managed to rebound as some of these concerns have subsided and overall market sentiment has improved.

Oil prices impact market sentiment

Dramatic falls in crude oil prices in January and February drove much of the negative sentiment in investment markets throughout the first quarter of 2016. West Texas Intermediate (WTI) crude oil[2] shed as much as 30% from its opening levels at the start of the year, hitting lows in early February. These movements impacted investor confidence in many markets, most notably in global shares, as plunging crude oil prices sparked worries of a renewed slowdown in the global economy. Oil prices have since recovered, highlighting an overall improvement in market sentiment towards the close of the March quarter.

Global share markets suffered considerably alongside the volatility in crude oil prices in January and February. Overseas shares, as measured by the MSCI World ex Australia Index[3] (unhedged in Australian dollar), remained in negative territory for much of the quarter despite a rebound in March, finishing -5.8% lower over the quarter.

Australian shares didn't fare much better, with the S&P/ASX 300 Accumulation Index[4] returning -2.6% for the March quarter. Australian markets were particularly vulnerable given the fluctuations in banking, materials and energy stocks that make up more than 60% of the overall index.

US Federal Reserve signals a slower pace for interest rate hikes

After the much-heralded 'lift-off' in US interest rates back in December 2015, the US Federal Reserve acknowledged that both market volatility at the start of the year and offshore economic risks call for careful consideration of any further interest rate increases in the near term. This has eased much of the concern around rapidly rising interest rates in the US and its potential negative impact on the global economy. It is expected, however, that interest rates will gradually rise as the US economic recovery continues.

ECB adds more stimulus and China looks to defend growth conditions

The European Central Bank (ECB) has provided additional stimulus for the Eurozone as economic conditions in the region continue to lag. At its March meeting the ECB cut deposit rates by 10 basis points – making it the fourth cut into negative interest rates – and broadened its asset purchase programme to buy more bonds on a monthly basis. This was promising news for investors as it provides renewed financial support for the world's largest economic region.

The People's Bank of China also eased monetary policy in March by cutting the reserve requirement ratio – the amount of capital banks need to set aside – by 50 basis points. The latest move seeks to bolster credit supply and support economic growth conditions in China.

Bond markets and the Aussie dollar make back some ground

Bond markets benefited over the quarter due to investors shying away from share market volatility and as concerns of rapidly rising US interest rates eased. Australian bonds finished higher with the Bloomberg Ausbond Composite Index[5] returning +2.1% for the March quarter. Despite the recent flight to safety, global interest rates are considered by some market commentators to be at the bottom of their cycle. This continues to be a potential risk for bond markets, particularly if economic conditions improve and interest rates rise as a result.

The Australian dollar managed to reverse losses from earlier in the calendar year to finish more than 5% higher against the US dollar by the end of the March quarter. The AUD/USD recovered lost ground as oil price concerns subsided and as expectations of a quick rise in US interest rates fell away.

[1] Based on the MSCI All Country World Index (USD), calculated as the percentage difference between the opening level on 1 Jan 2016 and the closing level on 11 Feb 2016

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

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

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

[5] Bloomberg Ausbond Composite 0+ Yr Index comprises 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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