Acumen Investment Update

December quarter 2016

REST's Core Strategy delivered a solid return of 2.60% for the quarter ending 31 December 2016, bringing the overall Core Strategy financial year to date performance to 6.07%.

Shares continue to be the largest contributor to investment returns halfway into the financial year, with the combined performance of overseas shares and Australian shares providing more than half of the Core Strategy returns over the financial year to date. The performance of Core Strategy also benefited from strong quarterly returns from the Growth Alternatives asset class, which is mostly made up of credit securities such as bank loans and asset-backed securities.

REST's property portfolio contributed modest returns for the Core Strategy over the financial year to date and bond performance was positive despite the rise in bond yields over the last quarter.

Acumen Performance results to 31 December 2016

Investment Option	3 month (%)	1 Year (%)	3 Year (%pa)	5 Year (%pa)	10 Year (%pa)
Core Strategy	2.60	7.53	6.77	10.68	6.36
Structured					
Cash Plus	0.46	2.03	2.34	2.84	3.48
Capital Stable	1.82	5.05	5.05	6.91	5.36
Balanced	2.58	6.37	6.16	8.79	5.73
Diversified	3.45	7.95	7.51	11.12	6.21
High Growth	4.11	8.92	8.31	12.59	6.44
Tailored					
Basic Cash	0.35	1.67	1.90	2.25	N/A
Cash	0.49	2.03	2.22	2.60	3.44
Bond	0.96	3.36	4.03	5.25	5.89
Shares	5.52	9.18	8.61	14.68	6.03
Property	1.66	9.54	9.68	8.81	5.95
Australian Shares	4.89	12.58	8.42	12.43	6.73
Overseas Shares	5.82	6.49	8.24	15.75	4.57

Returns are net of investment fees and tax. 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**



Markets stirred as Trump elected next US president

Donald Trump's unexpected election victory sent global financial markets on a rollercoaster ride as investors grappled with the prospect of the controversial Republican candidate becoming the 45th president of the United States. There were mixed reactions immediately following the US election result. For example, Australia's S&P/ASX200¹ share index initially fell almost 4% but recovered shortly after; the Mexican Peso plunged more than 10% against the US dollar; and the US S&P500² share index actually gained 1.1% by the end of the next day's trading.

Markets have since had time to absorb the early implications of the Trump presidency, including Trump's proposal to cut taxes and increase US government spending. But it is still very much a case of 'wait and see' and investment markets are expected to remain on watch until the new president officially takes office.

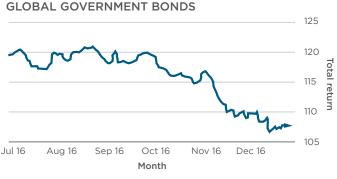
Full steam ahead for share markets

Australian and international share markets have been in good form over the last six months, with both local and offshore investors encouraged by an overall improvement in market sentiment and more recently, by the optimism surrounding US president-elect Trump's promises of fiscal stimulus.

Australia's S&P/ASX300 Accumulation Index³ gained 4.93% over the quarter ending 31 December 2016 and overseas shares, measured by the MSCI World ex Australia Index⁴, achieved a return of 7.68% over the quarter. The Australian share index is 10.43% higher for the financial year to date and the overseas shares index gained 9.78% over the same period.

Global bond markets sell-off with expected US rate rises

When bond yields rise, bond prices fall. This relationship has been very apparent over the last few months of the 2016 calendar year, as shown in the chart below.



Bloomberg Global Developed Sovereign Bond Index⁵ Source: Bloomberg The recent shift in bond markets has been mainly driven by expectations of increasing inflation in the US, a direct result of fiscal policy promises from US president-elect Donald Trump. The potential for stronger inflation saw a dramatic effect on global bond markets as investors sold out of bonds fearing a rise in interest rates in the near term.

The Australian bond market, measured by the Bloomberg Ausbond Composite 0+ Yr Index⁶, fell 2.86% over the December quarter and dropped 1.96% over the financial year to date.

US Federal Reserve raises rates and signals more to come

The US Federal Reserve increased US interest rates by 25 basis points (to a new federal funds rate target between 0.50% and 0.75%) and also signalled a faster pace of rate rises for the new calendar year at its latest meeting in December 2016.

The rate increase comes as US economic conditions show marked improvement, including a decline in official unemployment, strong gains in the job market and improving inflationary conditions.

The latest move by the US Federal Reserve represents a vote of confidence for the world's largest economy and could see a lift in market sentiment on broader global economic conditions.

Australian economic growth slows to lowest level since the GFC

Australia's key economic growth indicator, gross domestic product (GDP), slowed to the lowest level since the depths of the global financial crisis in 2008, falling 0.5% over the September quarter and growing only 1.8% for the year ending September 2016.

The slowing of GDP growth is largely due to a fall in government spending, weak business investment and declining home construction. The slump in Australian growth conditions may cause concern for policy makers such as the Reserve Bank of Australia, who recently kept Australian interest rates on hold at their latest meeting in December 2016.

- ¹ S&P/ASX 200 Index includes up to 200 of Australia's largest shares by float-adjusted market capitalisation
- ² S&P 500 Index includes 500 leading US listed companies and covers approx. 80% of available market capitalisation
- ³ S&P/ASX 300 Accumulation Index includes up to 300 of Australia's largest shares by float-adjusted market capitalisation
- ⁴ MSCI World ex Australia Index (unhedged in AUD) covers 22 of 23 developed markets excluding Australia
- ⁵ Bloomberg Global Developed Sovereign Bond Index is a measure of the fixed-rate local currency public obligations of developed countries
- ⁶ Bloomberg Ausbond Composite 0+ Yr Index comprises different types of investment-grade Australian bonds

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