

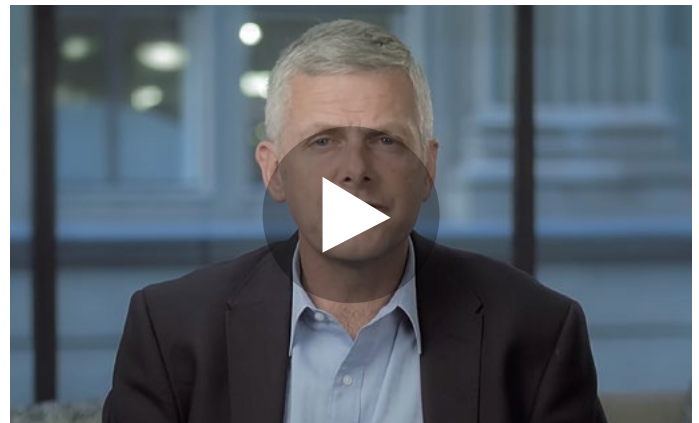
# REST Investment Update

June quarter 2017

REST Core Strategy produced another quarter of positive returns (+2.37%) to close the financial year ending 30 June 2017 with an excellent return of +11.07%.

This is the eighth consecutive year of positive returns and the fourth year of double digit returns since the bottom of the global financial crisis (GFC) in 2009. Since then, the Core Strategy has delivered an annualised return of +9.3% per annum, well above its investment return objective of 3% above the inflation rate.

Overseas shares were the largest contributor to returns followed by Australian shares and Growth Alternatives.<sup>1</sup> Together, these three asset classes contributed to over 75% of this year's financial return.



## June quarter investment update

with Brendan Casey, REST's General Manager, Investments

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## Global economic growth optimism continues to drive share markets

Share markets continued to rise on the back of economic recovery spurred by low interest rates and growing confidence feeding on escalating asset prices.

The world's largest economy – the United States – is in its third longest expansion period since 1850. Unemployment in the US has fallen from 10% in 2009 to 4.3%, encouraging consumer spending which makes up over 70% of US economic output.

China - the world's second largest economy - is expected to grow its economy at a healthy 6.7% this year to remain a major contributor to global growth.

International shares, as measured by MSCI All Country World ex Australia Index (unhedged in AUD), added +4.1% over the June quarter, returning an impressive +15.9% for the financial year ended 30 June 2017.

Australian Shares, represented by the S&P/ASX300 Accumulation Index, fell -1.6% over the June quarter but ended the financial year with a solid return of +13.8%.

### Core Strategy option to 30 June 2017\*

3 month (%)	1 Year (%)	10 Year (%pa)
2.37%	11.07%	6.11%

### Balanced option (REST Pension) to 30 June 2017\*

2.32%	10.50%	6.26%
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\* Returns are net of investment fees and tax, except Pension which is untaxed. Three month returns are not annualised returns. Returns for the ten year period are annualised returns. Past performance is not an indicator of future performance. For full information, please see page 3.

<sup>1</sup> Growth Alternatives comprise of Credit (credit or debt securities typically issued by corporations and governments), Equity Strategies (investment in equity related strategies) and Agricultural investments.

## Australian asset prices up as debt grows

The Reserve Bank of Australia (RBA) kept rates on hold at a record low 1.5% for the twelfth month in a row, citing concerns over weak wages growth. This low rate environment continues to support equity and property values while increasing household debt levels. Moody's and S&P both downgraded Australian banks due to concerns over record average household debt-to-income (now at 190%) and the banks' exposure to the property market.

## Lofty asset valuations test market confidence

Investors who held on to a diversified portfolio of overseas shares from the bottom of the GFC in March 2009 to 30 June 2017 would have seen its value rebound about +124% which is equivalent to +10.3% p.a.

This stellar rise had led the US Federal Reserve (Fed) Chair Janet Yellen, to comment that asset valuations, by some measures 'look high'. Another senior Fed official warned that the share market 'seems to be running very much on fumes', stating he was 'somewhat concerned about the complacency in the market.'

Asset prices such as shares appear expensive as they trade above historical averages relative to earnings. The yields from income generating assets such as property, infrastructure and bonds have fallen to historically low levels as investors compete to own these assets to compensate for very low cash yields.

## Swelling global debt pushes risk closer to a 'tipping point'

According to the Bank of International Settlements, global debt has jumped almost 45% to over US\$150 trillion since 2007.

At the same time, the Fed has raised interest rates by 1% (to 1.25%) since the end of 2015 with more expected before the end of 2017. Higher interest rates will increase the debt burden of borrowers.

It is feared that elevated global debt and low productivity growth means global growth could easily contract with the slightest push in the wrong direction.

## Looking ahead

Over the past year, global growth has improved and unemployment rates have fallen towards pre-GFC levels. However, we see the high asset valuations and elevated global debt levels as key risks ahead.

In light of these risks and consistent with our investment philosophy, we have been positioning our investment portfolio with a 'defensive bias'. In other words, we're actively managing these risks, primarily by trimming our exposure to shares in the Core Strategy in favour of more cash and long-term assets such as infrastructure.



## Investment spotlight

A recent addition to REST's \$2 billion infrastructure portfolio is a stake in NSW electricity distribution company Endeavour Energy. This is a high-quality infrastructure asset servicing one of the largest and fastest-growing regional economies in NSW.

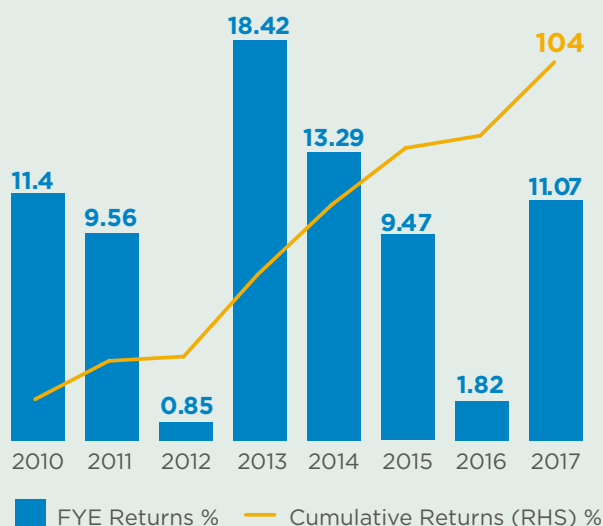
REST's other infrastructure investments in the energy sector include PowerCo (a New Zealand electricity and gas distributor) and renewable energy investments such as Collgar Wind Farm in Western Australia and Capistrano Wind in the United States.



## Did you know?

Since 30 June 2009, REST's Core Strategy has returned +9.3% per annum or 104% cumulatively.\*

## Core Strategy Financial Returns (%) ending June 30



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\* Source: REST Industry Super. The returns for an individual member may differ. Past performance is not an indication of future performance.



**REST performance results to 30 June 2017\***

Investment Option	3 month (%)	1 Year (%)	3 Year (%pa)	5 Year (%pa)	10 Year (%pa)
Core Strategy	2.37	11.07	7.38	10.68	6.11
<b>Structured</b>					
Cash Plus	0.58	2.21	2.24	2.67	3.28
Capital Stable	1.56	6.97	5.29	6.76	5.21
Balanced	2.01	9.26	6.65	8.77	5.53
Diversified	2.49	11.84	8.28	11.25	5.92
High Growth	2.81	13.71	9.30	12.84	6.11
<b>Tailored</b>					
Basic Cash	0.36	1.45	1.77	2.05	N/A
Cash	0.49	1.93	2.11	2.42	3.21
Bonds	0.85	3.73	3.70	4.67	5.97
Shares	2.97	15.84	9.95	15.16	5.76
Property	3.11	11.77	10.22	9.04	5.77
Australian Shares	-0.05	13.98	8.18	12.97	5.63
Overseas Shares	4.91	16.69	10.62	16.19	5.06

**REST Pension performance results to 30 June 2017\***

Investment Option	3 month (%)	1 Year (%)	3 Year (%pa)	5 Year (%pa)	10 Year (%pa)
Core Strategy	2.77	12.40	7.86	11.63	6.71
<b>Structured</b>					
Cash Plus	0.67	2.67	2.64	3.14	3.91
Capital Stable	1.80	7.96	5.90	7.57	6.01
Balanced	2.32	10.50	7.34	9.74	6.26
Diversified	2.86	13.28	9.04	12.45	6.62
High Growth	3.26	15.35	10.11	14.09	6.72
<b>Tailored</b>					
Basic Cash	0.44	1.75	2.09	2.41	N/A
Cash	0.58	2.30	2.53	2.89	3.84
Bonds	1.07	4.33	4.28	5.41	6.98
Shares	3.33	17.54	10.48	16.38	6.12
Property	3.44	12.92	11.24	10.06	6.46
Australian Shares	0.42	15.36	8.40	14.01	6.13
Overseas Shares	5.37	18.51	11.68	18.04	5.50

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\*Returns are net of investment fees and tax, except Pension which is 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)