

REST Investment Update

September quarter 2017

REST Core Strategy produced another quarter of positive returns (+1.66%) for the period ending 30 September 2017.

Over the last 12 months, the Core Strategy has returned +9.22%, well above its return objective of CPI + 3% over the long term.¹

Overseas shares were the largest contributor to returns followed by Australian shares, property and growth alternatives.²

Core Strategy option to 30 September 2017*

| 3 month (%) | 1 Year (%) | 10 Year (%pa) |
|-------------|------------|---------------|
| 1.66% | 9.22% | 6.12% |

Balanced option (REST Pension) to 30 September 2017*

| | | |
|-------|-------|-------|
| 1.37% | 8.93% | 6.31% |
|-------|-------|-------|



September quarter investment update

with Brendan Casey, REST's General Manager, Investments

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Overseas shares rally on improved conditions

International shares, as measured by the MSCI All Country World ex Australia Index (unhedged in AUD), added +4.3% over the September quarter, returning an impressive +20.0% for the 12 months ended 30 September 2017.

The US share market rallied to a new record, with the S&P500 rallying 4.0% over the quarter to reach 2,519 on 29 September. This assisted REST's Overseas Shares option return 1.83% for super and 1.99% for pension during the quarter.

In encouraging news, the US unemployment rate for August remained low at 4.4% and upcoming corporate tax cuts were announced.

This offset the US Federal Reserve announcing an end to its quantitative easing program from October and indicating that US interest rates will likely continue to rise slowly.

Australian shares post modest gains

Australian Shares, represented by the S&P/ASX300 Accumulation Index, increased 0.8% over the September quarter. Australia's unemployment rate remained low into August, at 5.6% and the Reserve Bank of Australia indicated that the next interest rate move would likely be up.

The Australian dollar pushed up to USD \$0.812 as the US dollar weakened against major currencies, before retreating to \$0.783 as iron ore prices weakened.

¹ Rolling ten year periods

² 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.

* 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.

China downgraded despite continued growth

China's economy grew strongly at around 6.9% pa for the first half of 2017 and has been a major driver for global growth. China is the world's largest exporting nation, exporting over USD \$2 trillion annually. China constitutes around 32% of Australia's exports and 22% of Australia's imports.

China was downgraded by ratings agency S&P during the quarter due to concerns over mounting debt levels. China's strong economic growth has been supported by record levels of debt.

China's current debt level is estimated to be around 300% of GDP. If China reduces its debt and cuts back on government spending, its economic growth rate is likely to stall, with negative repercussions on the global economy.

Global markets unsettled by North Korea tensions

During the September quarter, tensions between North Korea and the US reached crisis levels, raising concerns for major stock markets. North Korea fired a missile over Japan and detonated a suspected hydrogen bomb, ignoring warnings from the US. China's involvement as North Korea's predominant trading partner and the possibility of a US-China trade war has kept global markets on edge.

Looking ahead

Economic growth and employment levels in many major economies have generally improved. As a result, central banks in the US, Europe and Australia appear to be transitioning to unwind ultra-low interest rates and liquidity support that's been held in place since the GFC.

The US has raised interest rates four times since December 2015 and announced that it will cease quantitative easing in October 2017. Combined with high levels of debt, increases in interest rates could put borrowers under pressure and put downward pressure on asset valuations.

In response to this increased uncertainty, REST has been positioning the Core Strategy more defensively, allocating a greater share of the portfolio from shares and property into lower risk asset classes such as cash. This will provide the opportunity to purchase assets at cheaper valuations if markets experience a correction as interest rates normalise.



Investment spotlight

REST has introduced a 3% allocation to private equity investments as part of the Growth Alternatives asset class in the Core Strategy.

Private equity involves investment in businesses that are not listed on a stock exchange. These investments typically involve ownership of private companies.

The aim of introducing private equity is to add diversification and growth opportunities to REST's Core Strategy, Balanced, Diversified and High Growth options.



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³ Financial Advice provided by REST financial advisers as authorised representatives of Adviser Network Pty Ltd. ABN 25 056 310 699 AFSL 232729.

REST performance results to 30 September 2017*

| Investment Option | 3 month (%) | 1 Year (%) | 3 Year (%pa) | 5 Year (%pa) | 10 Year (%pa) |
|-------------------|-------------|------------|--------------|--------------|---------------|
| Core Strategy | 1.66 | 9.22 | 7.30 | 10.00 | 6.12 |
| Structured | | | | | |
| Cash Plus | 0.43 | 2.05 | 2.14 | 2.60 | 3.23 |
| Capital Stable | 1.03 | 6.11 | 5.03 | 6.39 | 5.23 |
| Balanced | 1.32 | 8.03 | 6.41 | 8.26 | 5.58 |
| Diversified | 1.63 | 10.18 | 8.01 | 10.57 | 6.01 |
| High Growth | 1.85 | 11.71 | 9.03 | 12.05 | 6.23 |
| Tailored | | | | | |
| Basic Cash | 0.36 | 1.43 | 1.72 | 1.97 | N/A |
| Cash | 0.45 | 1.88 | 2.07 | 2.35 | 3.15 |
| Bonds | 0.66 | 4.03 | 3.25 | 4.27 | 5.96 |
| Shares | 2.01 | 13.57 | 9.60 | 14.08 | 5.97 |
| Property | 2.71 | 11.43 | 10.52 | 9.27 | 5.63 |
| Australian Shares | 2.10 | 10.87 | 8.48 | 11.66 | 5.77 |
| Overseas Shares | 1.83 | 14.94 | 9.81 | 15.25 | 5.35 |

REST Pension performance results to 30 September 2017*

| Investment Option | 3 month (%) | 1 Year (%) | 3 Year (%pa) | 5 Year (%pa) | 10 Year (%pa) |
|-------------------|-------------|------------|--------------|--------------|---------------|
| Core Strategy | 1.77 | 10.13 | 7.82 | 10.83 | 6.71 |
| Structured | | | | | |
| Cash Plus | 0.53 | 2.47 | 2.53 | 3.05 | 3.85 |
| Capital Stable | 1.10 | 6.88 | 5.59 | 7.13 | 6.03 |
| Balanced | 1.37 | 8.93 | 7.03 | 9.13 | 6.31 |
| Diversified | 1.64 | 11.17 | 8.69 | 11.61 | 6.70 |
| High Growth | 1.81 | 12.81 | 9.73 | 13.11 | 6.83 |
| Tailored | | | | | |
| Basic Cash | 0.40 | 1.71 | 2.02 | 2.32 | N/A |
| Cash | 0.53 | 2.25 | 2.46 | 2.81 | 3.78 |
| Bonds | 0.73 | 4.62 | 3.73 | 4.94 | 6.96 |
| Shares | 1.87 | 14.58 | 10.00 | 15.01 | 6.31 |
| Property | 3.21 | 12.76 | 11.64 | 10.36 | 6.34 |
| Australian Shares | 1.50 | 10.95 | 8.43 | 12.34 | 6.20 |
| Overseas Shares | 1.99 | 16.40 | 10.79 | 16.96 | 5.82 |

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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