Performance Summary October 2010

SA Metropolitan Fire Service Superannuation Scheme

Funds SA is responsible for investing the assets of the SA Metropolitan Fire Service Superannuation Scheme. In this summary Funds SA provides an overview of the performance of the multi-sector products offered under the Scheme.

Performance

Key drivers of multi-sector performance during October 2010 included:

- Mixed economic news and poor labour market conditions saw increased speculation that the US Federal Reserve would embark upon another round of expansionary monetary policy (quantitative easing), lifting investor sentiment globally.
- Equities, commodities, and non-government debt securities rose across the board, with those assets perceived to be of higher risk outperforming more defensive sectors.
- Government bonds experienced a modest sell-off on fears that quantitative easing would trigger higher inflation in the future.
- Australian economic conditions continue to improve, raising expectations that the Reserve Bank of Australia will continue to raise interest rates over coming months.

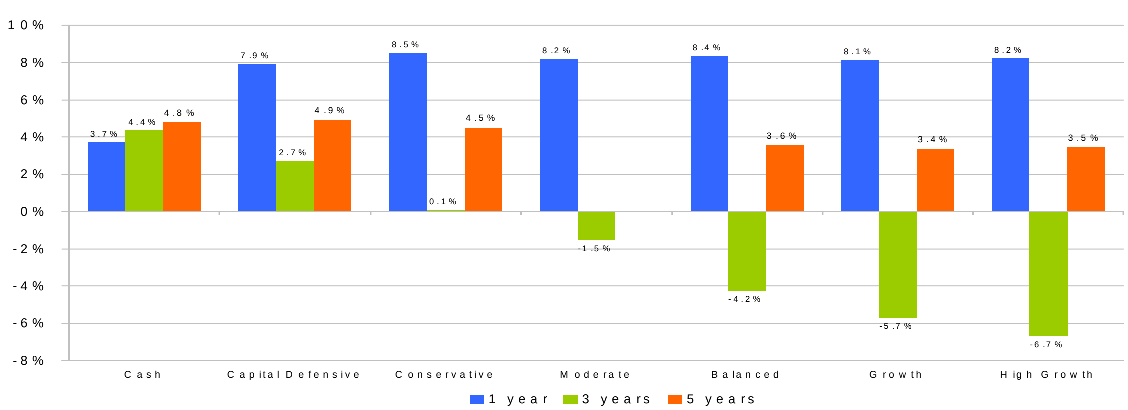
The table and chart below shows Funds SA's multi-sector taxable product returns based on the post tax unit prices in the SLA.

Table 1: Multi-sector product returns net of fees to 31 October 2010 [1, 2]

	1 mth %	3 mths %	FYTD %	1 year %	3 years % p.a.	5 years % p.a.
Cash	0.3	1.0	1.4	3.7	4.4	4.8
Capital Defensive	0.4	2.0	2.6	7.9	2.7	4.9
Conservative	0.7	2.6	3.8	8.5	0.1	4.5
Moderate	0.9	3.1	4.8	8.2	-1.5	n.a.
Balanced	1.1	3.4	5.4	8.4	-4.2	3.6
Growth	1.2	3.6	5.9	8.1	-5.7	3.4
High Growth	1.5	3.9	6.7	8.2	-6.7	3.5

1. Returns are based on the post tax unit prices in the SLA.
2. The taxable products were established in April 2005, with the exceptions of the Moderate product (established in July 2006) and the Socially Responsible Balanced product (established in March 2009)

Chart 1: Multi-sector product annualised returns net of fees to 31 October 2010



Asset Allocation

The targeted asset allocation of the multi-sector products is shown in the table below.

Table 2: Targeted asset allocation for the 2010-2011 financial year

	Cash %	Capital Defensive %	Conservative %	Moderate %	Balanced %	Growth %	High Growth %
Cash	100.0	25.0	15.0	8.0	3.0	2.0	2.0
Short Term Fixed Interest	0.0	23.0	13.0	7.0	5.0	2.0	0.0
Long Term Fixed Interest	0.0	5.0	5.0	9.0	6.0	3.0	0.0
Inflation Linked Securities B	0.0	22.0	22.0	16.0	13.0	10.0	0.0
Diversified Strategies Income	0.0	15.0	15.0	10.0	10.0	10.0	8.0
Property B	0.0	4.0	6.0	8.0	8.0	12.0	14.0
Australian Equities B	0.0	4.0	14.0	25.0	29.0	33.0	41.0
International Equities B	0.0	2.0	10.0	17.0	20.0	22.0	27.0
Diversified Strategies Growth B	0.0	0.0	0.0	0.0	6.0	6.0	8.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Financial Market Snapshot

The table below summarises market performance.

Table 3: Major Market Index Returns

Index movements as at 31 October 2010	1 month %	3 months %	FYTD %	1 Year %	3 Years % pa	5 Years % pa
Cash and fixed income						
Cash	0.4	1.2	1.6	4.5	5.4	5.7
Australian Fixed Interest	0.0	1.0	1.3	7.4	7.6	6.2
Australian Inflation-Linked	-0.6	2.8	2.0	9.5	4.1	4.5
Global Fixed Interest (1)	0.3	2.6	3.8	10.8	9.7	8.0
Global Inflation-Linked(1)	1.1	4.8	5.1	12.1	9.3	7.5
Property (2)						
Australian Listed Property	-0.4	2.3	3.4	4.5	-24.6	-8.1
Global Listed Property	3.5	9.7	17.7	23.9	-10.3	1.4
Equities(2)						
Australian Equities	1.8	5.6	10.3	4.7	-7.6	5.4
Global Equities	2.8	6.3	12.4	11.7	-8.6	0.7
US Equities	3.8	8.0	15.5	16.5	-6.5	1.7
Japanese Equities	-1.9	-3.3	-2.2	-7.2	-19.3	-9.3
Asia (ex Japan) Equities	1.7	9.7	14.8	18.6	-3.7	13.9
European Equities	3.0	6.1	12.3	12.0	-7.8	2.1
Global Small Companies	3.0	7.9	13.8	20.9	-6.6	2.8
Emerging Market Equities	2.3	8.7	15.4	18.8	-2.9	13.4
Currency (3)						
Australian Dollar vs MSCI Currency Basket	0.8	6.0	10.9	8.5	1.5	3.9
Australian Dollar vs USD	1.7	8.6	15.9	9.2	2.0	5.6

(1) Australian dollar return (hedged)

(2) Local currency return

(3) A positive number represents appreciation of the Australian dollar. A negative number represents depreciation.

Key factors impacting financial markets performance during October 2010 are summarised below.

Equity Markets

Global equity markets consolidated the gains made in September, with most major markets gaining ground during October. The dominant investment theme this month was again the prospect of further monetary easing by the US Federal Reserve, with equity markets moving higher on the expectation that the easing would benefit real economic activity. Against this backdrop, the MSCI World Index of developed equity markets gained 2.8% for the month.

In the US, widespread improvements in investor sentiment fuelled by the increasing likelihood of further monetary easing, as well as a reasonably strong Q3 corporate earnings reporting season, saw equities post another strong monthly gain. Higher-risk segments of the market continued to outperform this month, as commodity-related stocks performed particularly strongly, buoyed by positive news from China, while the energy sector was helped by the lifting of the ban on drilling in the Gulf of Mexico.

Elsewhere, equity markets largely followed the US lead and finished the month higher. European markets also benefitted from improved Eurozone industrial production data, with the core countries (Germany and France) particularly strong performers. Japanese equities, meanwhile, were the only major developed market to fall in October, as that market continues to be weighed down by concerns over the negative impact of a strong yen on the nation's export-oriented economy.

The domestic market also finished the month higher, driven by strong gains in the resources sector, an increase in corporate activity, and the release of some positive company-specific announcements. As with offshore, it was those higher-risk market segments (materials, information technology, smaller companies) that outperformed the more defensive-oriented sectors (consumer staples, major banks, health care, listed property). On the economic front, the Reserve Bank of Australia surprised the market early in the month by leaving official interest rates unchanged at 4.50% for the fifth consecutive month. Subsequent economic data releases were mixed with lower-than-expected inflation data seeming to affirm the RBA's decision, while stronger-than-expected employment data and continued strength in discretionary retail spending and consumer sentiment lent support to tighter monetary policy.

Debt Markets

After several consecutive months of strong gains, global bond markets experienced a modest sell-off in October. Although nominal government bond yields finished the month only slightly higher, when the yields are decomposed into their real yield and inflation expectation components, more significant moves are evident. Real yields have continued to grind lower, reflecting both a slower economic growth outlook and an acknowledgement that official interest rates will remain lower for longer, whilst inflation expectations have increased, largely reflective of fears that additional quantitative easing would lead to inflation pressures down the track. Unsurprisingly in this environment, inflation-linked bonds outperformed nominal bonds over the course of the month, with longer maturities performing particularly well.

In Australia, bonds were also weaker in October despite the surprising RBA decision to keep rates unchanged at the start of the month. The release of generally positive domestic economic data and commentary from the RBA indicating a strong bias to tighter monetary policy in coming months saw short-end yields rise, while long-end rates followed the lead from offshore.

Non-government debt sectors performed well once again in October, as the risk premium demanded for holding these assets remained largely unchanged. The expectation of further quantitative easing in the US, a strong corporate reporting season, and sustained investor demand for higher yielding assets, all contributed to a positive environment for these assets. As with other risk asset classes, it was those relatively higher risk sectors which performed best this month, with global high yield (+2.9%) and emerging market debt (+1.7%) outperforming global (+0.5%) and Australian (+0.4%) investment grade debt.

Currency

In a continuation of the trend of recent months, the US dollar experienced a further decline against most major currencies (-2.2% against a basket of developed markets), driven lower by the speculation of quantitative easing. As a result, currency markets witnessed a high degree of intervention from authorities, with a number of countries mentioning the need for, or even implementing, new capital inflow controls in an attempt to prevent their currencies from appreciating too far or too fast. These events saw the mid-month G20 meeting of finance ministers focus heavily on these issues, with the ministers pledging not to undermine their currencies, without agreeing on any definitive undertakings.

Against this backdrop, the Australian dollar gained 1.7% against the US dollar, finishing the month at US$0.9803, after briefly reaching parity during the month. It also continued to trend higher against the broader MSCI Currency Basket, gaining 0.8% for the month.

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