# Performance Summary September 2010

## SA Metropolitan Fire Service Superannuation Scheme

FUNDS SA

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 September 2010 included:

- Economic news from developed economies remained mixed while poor labour market conditions raised expectations that the US Federal Reserve would embark on another round of expansionary monetary policy (quantitative easing) which lifted investor sentiment;
- Equities and non-government debt securities rose across the board, due to prospects of another round of quantitative easing, with those assets perceived to be of higher risk outperforming more defensive sectors;
- The release of more details around proposed global banking reforms helped to improve investor sentiment for the financial sectors;
- Australian economic conditions continue to improve, raising expectations that the Reserve Bank of Australian will continue to raising interest rates; and
- Commodity currencies and precious metals outperformed the USD which drifted lower against most currencies in the back of expectations that the US Federal Reserve will embark on a second round of quantitative easing.

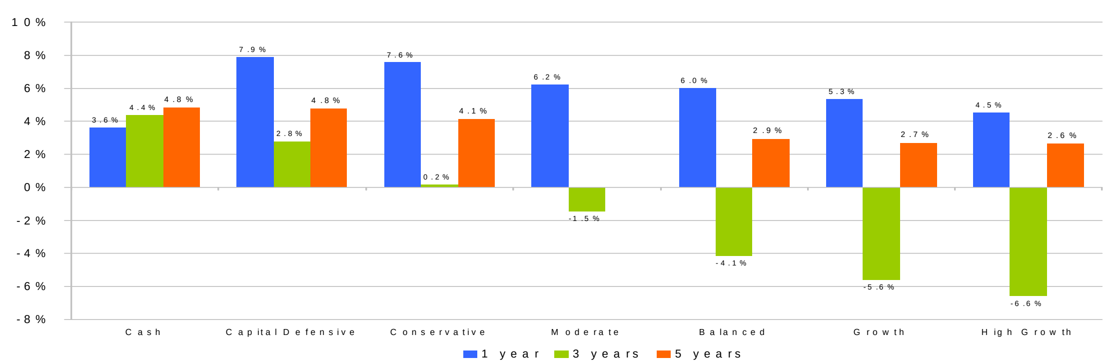
The table and chart below shows Funds SA's multi-sector taxable product returns based on the post tax unit prices in the SLA.

Table 1: Multi-sector product returns net of fees to 30 September 2010 [1, 2]

| | 1 mth % | 3 mths % | FYTD % | 1 year % | 3 years % p.a. | 5 years % p.a. |
|---|---|---|---|---|---|---|
| Cash | 0.3 | 1.0 | 1.0 | 3.6 | 4.4 | 4.8 |
| Capital Defensive | 0.4 | 2.2 | 2.2 | 7.9 | 2.8 | 4.8 |
| Conservative | 1.1 | 3.1 | 3.1 | 7.6 | 0.2 | 4.1 |
| Moderate | 1.8 | 3.9 | 3.9 | 6.2 | -1.5 | n.a. |
| Balanced | 2.2 | 4.3 | 4.3 | 6.0 | -4.1 | 2.9 |
| Growth | 2.5 | 4.6 | 4.6 | 5.3 | -5.6 | 2.7 |
| High Growth | 3.2 | 5.1 | 5.1 | 4.5 | -6.6 | 2.6 |

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 30 September 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<br>% | Capital Defensive<br>% | Conservative<br>% | Moderate<br>% | Balanced<br>% | Growth<br>% | High Growth<br>% |
|---|---|---|---|---|---|---|---|
| Cash | 100.0 | 25.0 | 15.0 | 8.0 | 3.0 | 2.0 | 2.0 |
| Long Term Fixed Interest | 0.0 | 5.0 | 5.0 | 9.0 | 6.0 | 3.0 | 0.0 |
| Short Term Fixed Interest | 0.0 | 23.0 | 13.0 | 7.0 | 5.0 | 2.0 | 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 30 September 2010 | 1 month<br>% | 3 months<br>% | FYTD<br>% | 1 Year<br>% | 3 Years<br>% pa | 5 Years<br>% pa |
|---|---|---|---|---|---|---|
| Cash and fixed income | | | | | | |
| Cash | 0.4 | 1.2 | 1.2 | 4.3 | 5.4 | 5.7 |
| Australian Fixed Interest | -0.9 | 1.3 | 1.3 | 7.3 | 7.6 | 6.2 |
| Australian Inflation-Linked | 0.6 | 2.6 | 2.6 | 11.3 | 4.6 | 4.7 |
| Global Fixed Interest (1) | 0.2 | 3.5 | 3.5 | 11.0 | 10.0 | 7.8 |
| Global Inflation-Linked(1) | 0.4 | 3.9 | 3.9 | 11.9 | 9.3 | 7.1 |
| Property (2) | | | | | | |
| Australian Listed Property | -0.9 | 3.8 | 3.8 | -4.5 | -24.6 | -8.4 |
| Global Listed Property | 5.1 | 13.6 | 13.6 | 16.8 | -11.1 | 0.2 |
| Equities(2) | | | | | | |
| Australian Equities | 4.8 | 8.3 | 8.3 | 0.7 | -7.3 | 4.2 |
| Global Equities | 7.0 | 9.3 | 9.3 | 6.1 | -8.8 | -0.2 |
| US Equities | 8.9 | 11.3 | 11.3 | 10.2 | -7.2 | 0.6 |
| Japanese Equities | 3.9 | -0.3 | -0.3 | -6.9 | -18.7 | -8.6 |
| Asia (ex Japan) Equities | 8.7 | 12.9 | 12.9 | 15.8 | -1.3 | 12.1 |
| European Equities | 5.3 | 9.1 | 9.1 | 5.8 | -7.9 | 0.9 |
| Global Small Companies | 9.1 | 10.5 | 10.5 | 12.1 | -6.6 | 1.6 |
| Emerging Market Equities | 7.7 | 12.8 | 12.8 | 15.6 | -0.9 | 11.6 |
| Currency (3) | | | | | | |
| Australian Dollar vs MSCI Currency Basket | 6.4 | 10.0 | 10.0 | 9.0 | 2.5 | 3.4 |
| Australian Dollar vs USD | 8.5 | 14.0 | 14.0 | 9.3 | 2.9 | 4.8 |

(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 September 2010 are summarised below.

## Equity Markets

Global equity markets rallied strongly in September amid widespread improvements in investor sentiment and a general retracement of the risk aversion that has plagued markets over recent months. The main drivers were the release of better-than-expected economic data from the US and comments from the US Federal Reserve that they would provide further monetary stimulus, should it be required to maintain the economic recovery and support asset prices. Consequently, market expectations of a “double-dip” recession in the US receded and investors moved back into riskier asset classes.

Against this backdrop, the US was the strongest performer of the developed equity markets, posting its strongest monthly gain since April 2009. From a sectoral perspective, while the market rally was largely broad based, those sectors perceived to be of higher risk or with close links to global growth did outperform the more defensive areas of the market. Commodity-related stocks, in particular, saw strong gains as the price of gold soared to new highs despite renewed investor risk appetite, while a weaker US dollar helped oil and industrial metals reverse recent weakness.

Elsewhere, equity markets largely followed the US lead and finished the month higher. European markets were lifted higher amid a reduction of fears over the health of that region’s financial system following the successful completion of several Euro-zone government bond auctions and the announcement that the global Basel III banking capital reforms would be less onerous than initially feared. Asian markets, meanwhile, were helped by the release of reassuring Chinese economic data, diminishing investor concerns over a potentially damaging economic slowdown in China.

Australian equities also reacted positively to offshore leads this month, with those higher-risk sectors (industrials, materials, financials) outperforming the more defensive-oriented sectors (consumer staples, health care, telecommunications). On the economic front, data releases illustrated broad-based strength of the domestic economy, with the release of a strong June quarter GDP result and bullish employment data. Against this backdrop, however, the Reserve Bank of Australia left official interest rates unchanged at 4.50% for the fourth consecutive month.

## Debt Markets

Despite the more positive tone of economic news this month and the sharp rebound in risk assets, government bond yields in most developed markets finished the month largely unchanged thanks to statements from the US Federal Reserve indicating that they would embark upon an expanded quantitative easing program should it prove necessary to ensure positive economic growth. In the local market, however, the release of robust domestic economic data and hawkish commentary from the RBA saw short end yields rise substantially, as the market moved to price in imminent interest rate hikes, while the developments in the US limited the extent of the rise of long end yields. Consequently, Australian debt markets were among the weaker performers in September. Inflation-linked bonds outperformed nominal bonds this month, due to the combination of falling real yields and the relatively long duration nature of this asset class.

As with other risk assets, non-government debt sectors performed well in September, driven higher by the release of stronger economic data, a retracement in risk aversion, and strong investor demand for higher yielding assets. Global high yield (+3.2%) and emerging market debt (+1.7%) were again among the best performing sectors, while global investment-grade (+0.6%) also finished the month higher. Australian credit markets, however, posted negative returns for the month, as the improvements in sentiment were more than offset by the increase in underlying government bond yields.

## Currency

The Australian dollar rallied against most major currencies in September, driven higher by rising commodity prices, strong domestic economic growth, and increasing expectations of further interest rate rises over coming months. All up, the AUD gained 8.5% against the US dollar to close the month at US$0.9680, while also posting a 6.4% gain against the broader MSCI Currency Basket.

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