Performance Summary June 2017

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 funds offered under the Scheme.

Performance

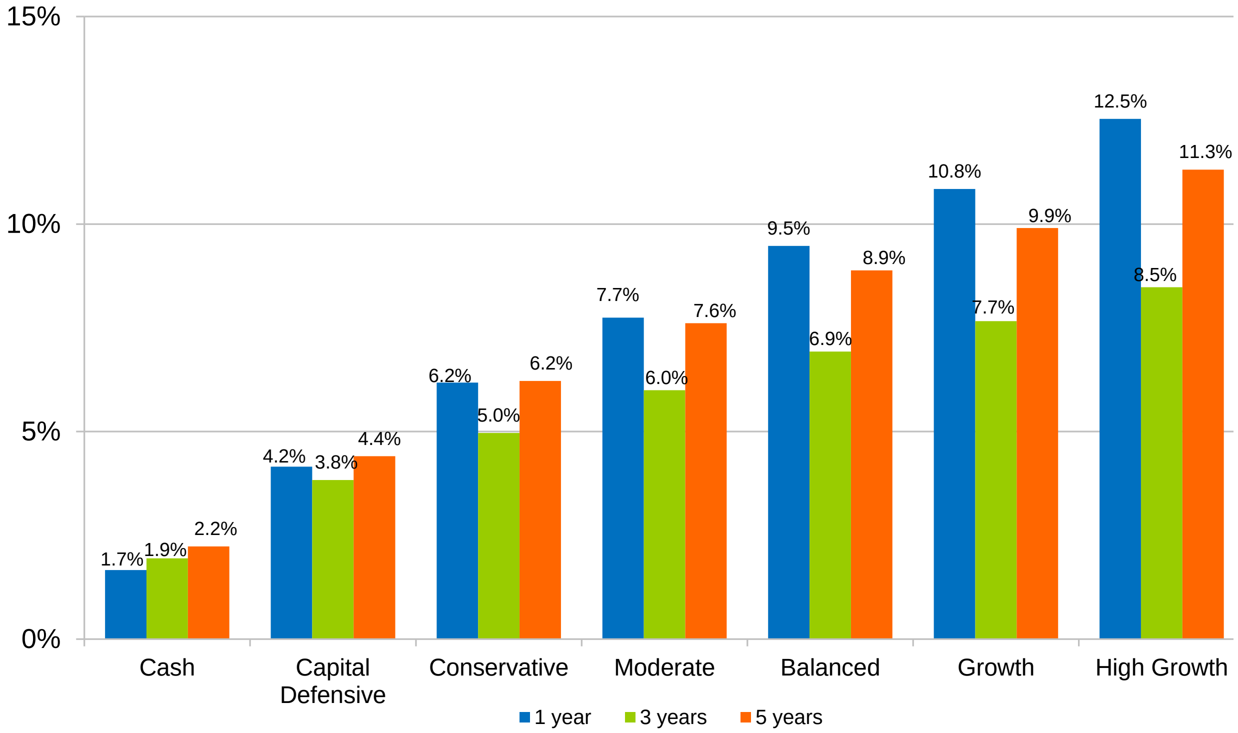
The table and chart below show Funds SA's multi-sector taxable fund returns based on the post tax unit pricing model detailed in the SLA.

Table 1: Multi-sector fund returns net of fees and tax to 30 June 2017 [1, 2]

	1 mth %	3 mths %	FYTD %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Cash	0.1	0.4	1.7	1.7	1.9	2.2	2.8	3.3
Capital Defensive	-0.2	0.7	4.2	4.2	3.8	4.4	5.1	4.4
Conservative	-0.2	0.9	6.2	6.2	5.0	6.2	6.3	4.4
Moderate	-0.1	1.2	7.7	7.7	6.0	7.6	7.1	4.3
Balanced	-0.1	1.4	9.5	9.5	6.9	8.9	8.0	4.0
Growth	0.0	1.5	10.8	10.8	7.7	9.9	8.6	4.0
High Growth	0.0	1.6	12.5	12.5	8.5	11.3	9.4	4.0

1. Returns are based on the post tax unit pricing model detailed in the SLA.
2. The taxable funds were established in March 2005, with the exception of the Moderate fund (established in June 2006)

Chart 1: Multi-sector fund annualised returns net of fees and tax to 30 June 2017



Key drivers of performance during June 2017 included:

- Central banks became biased towards winding back accommodative monetary policy.
- Political uncertainty remained elevated in the UK and USA.

This environment proved to be more favourable for portfolios with larger exposures to cash, unlisted assets and emerging market equities, which remained resilient.

Asset Allocation

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

Table 2: Targeted asset allocation for the 2016-2017 financial year

	Cash %	Capital Defensive %	Conservative %	Moderate %	Balanced %	Growth %	High Growth %
Cash	100.0	15.0	10.0	8.0	2.0	2.0	2.0
Short Term Fixed Interest	0.0	30.0	18.0	7.0	3.0	0.0	0.0
Long Term Fixed Interest	0.0	5.0	5.0	9.0	8.0	4.0	0.0
Inflation Linked Securities B	0.0	15.0	16.0	12.0	9.0	6.0	0.0
Diversified Strategies Income	0.0	17.0	18.0	17.0	16.0	16.0	12.0
Property B	0.0	6.0	9.0	10.0	12.0	14.0	16.0
Australian Equities B	0.0	7.0	13.0	17.0	23.0	26.0	33.0
International Equities B	0.0	5.0	11.0	15.0	19.0	22.0	27.0
Diversified Strategies Growth B	0.0	0.0	0.0	5.0	8.0	10.0	10.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note that due to rounding, the sum of the individual numbers within the table may not equal the totals quoted.

Financial Market Snapshot

The table below summarises market performance.

Table 3: Major market index returns to 30 June 2017

	1 mth %	3 mths %	FYTD %	1 Year %	3 Years % p.a.	5 Years % p.a.
Cash and fixed income						
Australian Cash	0.1	0.4	1.8	1.8	2.2	2.5
Australian Government	-1.1	1.1	-0.8	-0.8	4.2	3.6
Australian Inflation-Linked	-1.5	0.7	0.3	0.3	3.8	3.9
Global Treasuries[(1)]	-0.3	0.9	-1.0	-1.0	5.3	5.5
Global Inflation-Linked[(1)]	-1.3	-0.2	2.9	2.9	6.0	5.0
Credit						
Global Credit[(1),(2)]	0.0	1.9	3.2	3.2	5.3	6.3
Global High Yield[(1)]	0.0	2.4	12.8	12.8	6.9	9.9
Emerging Market Debt[(4)]	-0.3	2.2	5.5	5.5	4.6	5.2
Property						
Australian Listed Property	-4.5	-3.1	-5.6	-5.6	12.2	14.2
Equities[(3)]						
Australian Equities	0.2	-1.6	13.8	13.8	6.6	11.6
Global Equities	0.0	2.7	18.8	18.8	7.8	13.1
US Equities	0.6	3.1	17.9	17.9	9.6	14.6
European Equities	-2.3	1.8	20.2	20.2	6.6	11.6
Japanese Equities	2.9	6.6	31.6	31.6	10.4	18.1
Asia (ex Japan) Equities	2.2	8.7	25.6	25.6	7.1	9.0
Emerging Market Equities	1.7	6.7	22.2	22.2	6.5	8.0
Global Small Companies	1.3	3.3	21.7	21.7	8.5	15.0
Currency [(5)]						
Australian Dollar vs Developed Market Basket	3.0	-0.9	3.8	3.8	-4.4	-4.2

(1) Australian dollar return (hedged)

(2) Includes obligations of corporates, supranational agencies, and other government-related (e.g. government agencies, government guaranteed bank debt, etc)

(3) Local currency return

(4) Hedged to USD

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

Key factors impacting financial market performance during June 2017 are summarised below.

Equity Markets

Equity markets ended the month largely unchanged in an environment that was punctuated by uncertainty surrounding political outcomes and central bank policy direction. Emerging markets equities remained resilient with growth improving and domestic policy continuing to remain supportive for earnings growth.

Changes in central bank policy direction drove markets over the month. The US Federal Reserve increased interest rates, accompanying the policy change with a statement which surprised markets as it indicated that the reversal of extraordinary monetary policy measures may happen faster than anticipated. This concern around a faster than anticipated tightening of monetary policy was reinforced by the Bank of England and the European Central Bank, both of which became more biased towards a tightening of policy conditions going forward. Domestically, the Reserve Bank of Australia’s rhetoric was little changed, with monetary policy statements noting a softening of economic conditions and a strong housing market.

Political uncertainty remained elevated. The results of the UK general election surprised markets, with a hung parliament casting uncertainty over the UK's Brexit negotiations, while in the USA, the uncertainty surrounding implications of Trump's Russian connections cast doubt over his ability to pass aspects of his legislative agenda such as tax cuts and infrastructure spending.

Debt Markets

Global government bond markets produced negative returns over the month. The increase in interest rates by the US Federal Reserve, coupled with changes in messaging from the European Central Bank and the Bank of England saw government bond yields rise meaningfully over the month. Corporate bonds and emerging market debt were mixed, with the risk premiums that investors demand for holdings these assets remaining largely unchanged.

Currency

Currency market movements were driven by similar themes to risk assets. The Euro and British Pound ended the month higher on the back of the respective central banks shifting their bias towards tightening of monetary policy, while the Australian dollar rose strongly, buoyed by a rise in iron ore prices.

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