Performance Summary October 2016

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

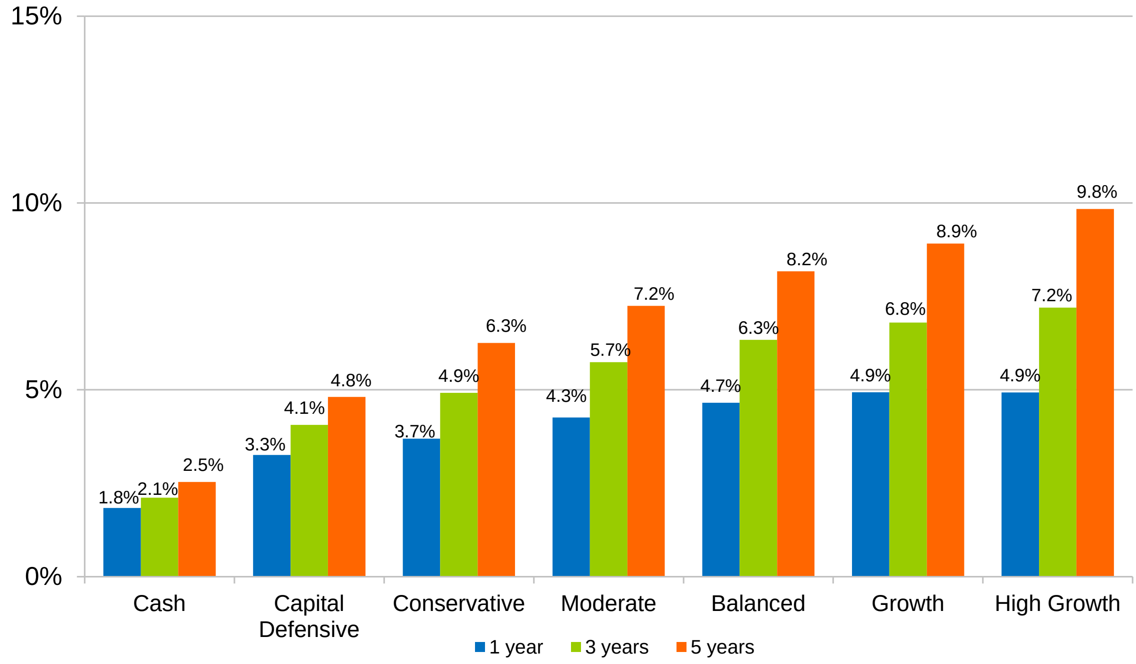
The table and chart below show Funds SA's multi-sector taxable fund returns based on the post tax unit pricing model detailed in the SLA.

Table 1: Multi-sector fund returns net of fees and tax to 31 October 2016 [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	0.2	0.4	0.6	1.9	2.1	2.5	3.0	3.5
Capital Defensive	-0.1	0.1	1.2	3.3	4.1	4.8	5.4	4.5
Conservative	-0.3	-0.1	1.6	3.7	4.9	6.3	6.3	4.6
Moderate	-0.5	-0.1	1.8	4.3	5.7	7.3	6.8	4.6
Balanced	-0.6	-0.2	2.1	4.6	6.3	8.2	7.3	4.4
Growth	-0.6	-0.2	2.4	5.0	6.8	8.9	7.7	4.4
High Growth	-0.8	-0.3	2.7	5.0	7.2	9.9	8.2	4.4

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 31 October 2016



Key drivers of performance during October 2016 included:

- Heighted policy uncertainty added a cautious tone to markets, with investors pondering the outcome of the US presidential election and the timing of the UK's Brexit.
- A broad based rise in interest rates as investors began to price in higher than expected inflation, and a quicker than expected path to policy normalisation.
- Rebound in commodity prices supported emerging market and other commodity linked sectors

This environment proved difficult for most portfolios, particularly those that held relatively larger amounts of fixed income securities and Australian equities.

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 31 October 2016

	1 mth %	3 mths %	FYTD %	1 Year %	3 Years % p.a.	5 Years % p.a.
Cash and fixed income						
Australian Cash	0.1	0.5	0.6	2.1	2.4	2.9
Australian Government	-1.8	-1.9	-1.0	3.9	5.7	5.4
Australian Inflation-Linked	-0.5	-1.9	0.3	2.7	6.6	6.4
Global Treasuries(1)	-1.2	-1.3	-0.9	6.7	6.9	6.9
Global Inflation-Linked(1)	-0.6	2.2	3.5	11.9	7.8	6.9
Credit						
Global Credit(1),(2)	-0.8	-0.3	1.2	8.1	6.8	7.4
Global High Yield(1)	0.3	3.2	5.9	12.3	7.6	10.6
Emerging Market Debt(4)	-1.5	0.6	2.2	11.6	6.0	6.2
Property						
Australian Listed Property	-7.7	-14.0	-9.4	6.4	13.6	16.8
Equities(3)						
Australian Equities	-2.2	-3.2	3.0	6.3	3.9	9.0
Global Equities	-0.7	-0.1	4.1	1.7	6.5	11.4
US Equities	-1.8	-1.7	2.0	4.5	8.8	13.6
European Equities	0.3	1.9	6.0	0.0	4.4	9.4
Japanese Equities	5.2	6.2	12.8	-9.3	7.2	14.9
Asia (ex Japan) Equities	-0.6	3.9	8.1	6.2	3.5	5.8
Emerging Market Equities	0.6	3.9	8.4	8.2	3.6	5.6
Global Small Companies	-2.4	-0.8	4.4	3.7	6.6	12.6
Currency (5)						
Australian Dollar vs Developed Market Basket	0.6	1.6	3.5	7.3	-4.8	-4.5

(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 October 2016 are summarised below.

Equity Markets

Australian and global equities fell in October as a number of upcoming policy announcements added a cautious tone to markets. Emerging market equities however outperformed as the recovery in commodity prices helped to lift earnings expectations.

Heightened policy uncertainty added a cautious tone to markets, with investors pondering the UK decision to leave the European Union (the so-called 'Brexit'), and the likely outcome of the US presidential election. Brexit was again in focus, as UK Prime Minister Theresa May announced that the UK was likely to invoke the necessary pieces of legislation in early 2017. These plans were somewhat derailed by the end of the month, as a court case raised the prospect that the UK parliament may need to formally vote on the matter. Adding to the geopolitical concerns was the upcoming US presidential election. In a tightly run election race, investors weighted up the merits of the two candidates and their respective policy platforms.

A broad based rise in interest rates saw a continued decline in the higher yielding pockets of the equity markets such as property REITs and utilities. The recent rise in oil prices raised concerns about a potential uptick in inflation, which in turn raised the prospect of a quicker than expected tightening of monetary policy. Central banks did little to stem these concerns, with the US Federal Reserve suggesting they were on the fence about whether to increase interest rates, while the European Central Bank considered options to taper some of its extraordinary monetary policy measures.

Debt Markets

Global government bond markets produced negative returns amidst a broad based rise in global interest rates. This was heavily driven by investors adjusting inflation expectations upwards as oil prices rose and the likelihood of future monetary stimulus faded. Non-government debt markets performed similarly, as a broad based fall in interest rates weighed on corporate bonds and emerging market debt, while the risk premium that investors attach to these asset classes were broadly unchanged.

Currency

Currency markets experienced heightened volatility as interest rates rose and policy uncertainty reverberated. The US dollar was broadly stronger as statements from the US Federal Reserve revealed that their decision to not lift interest rates was a marginal one, while the British Pound fell as the implications of Brexit precipitated a cautious tone to the currency. Domestically, the Australian dollar rose as broadly positive economic data dampened the likelihood of further interest rate cuts from the Reserve Bank of Australia while recovery in commodity prices also provided support for the currency.

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