Performance Summary August 2014

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

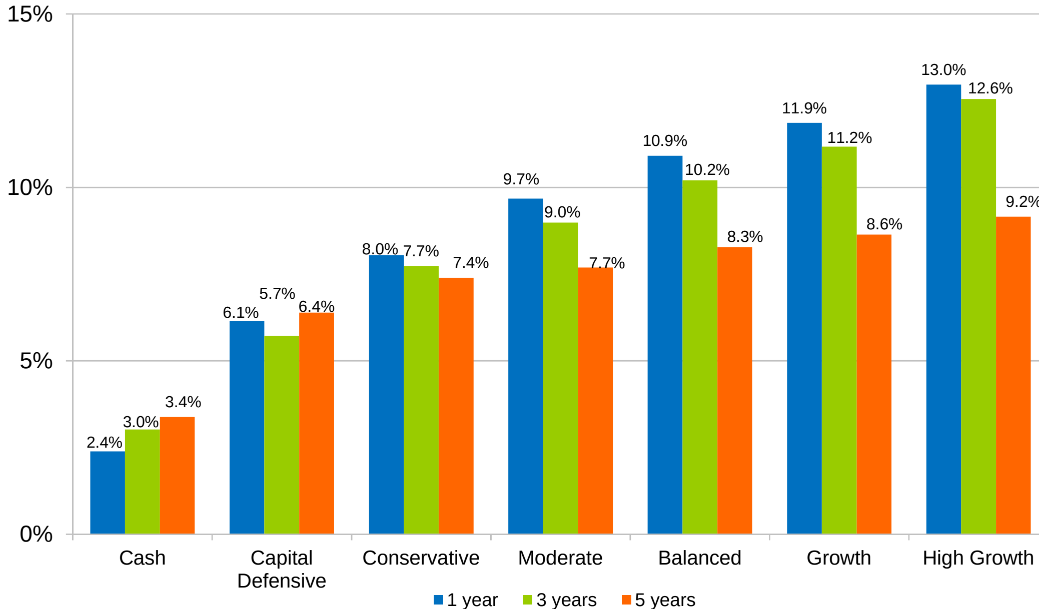
The table and chart below show Funds SA's multi-sector taxable fund returns based on the post tax unit pricing model detailed in the SLA.

Table 1: Multi-sector fund returns net of fees and tax to 31 August 2014 [1, 2]

	1 mth %	3 mths %	FYTD %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.
Cash	0.2	0.6	0.4	2.4	3.0	3.4	3.8
Capital Defensive	0.7	1.4	1.0	6.1	5.7	6.4	4.6
Conservative	0.8	1.7	1.3	8.0	7.7	7.4	4.2
Moderate	1.0	2.1	1.7	9.7	9.0	7.7	3.7
Balanced	1.1	2.4	2.0	10.9	10.2	8.3	3.0
Growth	1.1	2.6	2.1	11.9	11.2	8.6	2.7
High Growth	1.2	2.7	2.4	13.0	12.6	9.2	2.5

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 August 2014



Key drivers of performance during August 2014 included:

- Global equity markets posted solid returns as stronger-than-expected economic data in the US and expectations of further monetary stimulus from the European Central Bank boosted investor confidence;
- An escalation of geopolitical risks following a further deterioration of the situation in Ukraine and continuing unrest in the Middle East were not sufficient to disrupt the general uptrend in equity markets; and
- Government bond markets posted strong returns, as the impact of a better economic outlook in the US was offset by expectations of monetary policy stimulus in Europe and ongoing geopolitical tensions.

Asset Allocation

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

Table 2: Targeted asset allocation for the 2014-2015 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	33.0	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	19.0	15.0	12.0	9.0	0.0
Diversified Strategies Income	0.0	16.0	17.0	16.0	15.0	15.0	12.0
Property B	0.0	6.0	9.0	10.0	12.0	14.0	16.0
Australian Equities B	0.0	6.0	12.0	16.0	22.0	25.0	33.0
International Equities B	0.0	4.0	10.0	14.0	18.0	21.0	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 August 2014

	1 mth %	3 mths %	FYTD %	1 Year %	3 Years % p.a.	5 Years % p.a.
Cash and fixed income						
Australian Cash	0.2	0.7	0.5	2.7	3.4	3.9
Australian Government	1.1	2.4	1.5	6.4	5.3	6.3
Australian Inflation-Linked	1.6	3.1	1.9	11.4	7.4	8.9
Global Treasuries(1)	1.5	2.7	2.1	8.9	7.3	7.7
Global Inflation-Linked(1)	2.3	3.3	3.1	10.2	7.1	9.0
Credit						
Global Credit(1),(2)	1.6	2.4	1.9	11.0	9.0	9.9
Global High Yield(1)	1.1	1.7	0.5	13.7	14.0	16.0
Emerging Market Debt(4)	0.7	1.4	0.8	13.9	7.0	9.5
Property						
Australian Listed Property	1.7	10.3	6.7	19.5	19.2	11.8
Equities(3)						
Australian Equities	0.6	3.6	5.1	14.1	14.0	9.1
Global Equities	2.6	3.2	1.8	20.8	17.5	12.4
US Equities	4.0	4.7	2.6	25.2	20.6	16.9
European Equities	1.8	-0.9	0.0	15.2	14.8	9.1
Japanese Equities	-1.1	6.2	1.0	17.0	20.8	7.7
Asia (ex Japan) Equities	0.3	6.7	4.4	17.9	9.2	8.9
Emerging Market Equities	2.0	7.7	5.1	18.3	9.2	8.9
Global Small Companies	3.5	3.3	0.2	20.8	18.3	15.3
Currency (5)						
Australian Dollar vs Developed Market Basket	0.9	1.3	0.3	4.8	-2.9	2.2

(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 markets performance during August 2014 are summarised below.

Equity Markets

Most global equity markets bounced back in August, after starting the financial year on a weaker note in July. The US market was again the standout performer, closing the month at an all-time high, while European markets also finished the month higher despite weaker economic data as investors focussed instead on the likelihood of further monetary stimulus from the European Central Bank. And after spiking higher in July, measures of equity market volatility receded significantly through August to close the month not far above all-time lows.

In the US, economic data released this month continues to indicate that the gradual economic recovery remains on track, as second quarter GDP data was revised higher, manufacturing and housing data was stronger-than-expected, and consumer confidence reached levels not seen since 2007. While this trend in economic data has caused markets to question how long the US Federal Reserve would keep interest rates at their record low levels after the anticipated end of its quantitative easing program later this year, Chairman Yellen again took a balanced stance, reiterating that although the labour market appeared to be improving faster than the Fed expected, there remains significant slack in the economy. Nevertheless, she did flag interest rate rises may come sooner rather than later should labour market conditions continue to improve or inflation accelerates.

In Europe, slumping economic and inflation data saw increased speculation that the European Central Bank would soon announce further monetary policy easing. In a speech on 22 August, ECB President Draghi fuelled this speculation, indicating that the central bank was willing to continue to consider any means at its disposal to improve growth and inflation prospects for the region. This announcement triggered a strong rally in European equity markets to close the month.

Geopolitical risks escalated over the month, although these were not enough to disrupt the general uptrend in equity markets. US and European relations with Russia became increasingly strained, following a further deterioration of the situation in Ukraine, and the announcement of a new round of sanctions on Russia. In addition, the situation in Iraq and Syria also worsened, however the impact on broader risk markets of these Middle Eastern developments has been limited at this stage.

Domestically, corporate reporting season was the major focus in August, with companies reporting results for the period to 30 June 2014. As such, it was this company-specific news, rather than offshore themes, that drove the local market to finish the month modestly higher. By and large, results were well received by the market with many companies' share prices reacting positively, although it must be noted that market expectations had been tempered by the fallout of the May Federal budget and a weaker outlook for the Chinese economy. Another discernible trend was a continuation of the relatively subdued revenue growth environment of the past few years with cost reductions continuing to be the major driver of earnings growth.

Debt Markets

Global government bond markets posted strong returns in August, with bond yields finishing the month materially lower as slumping economic and inflation data in Europe saw heightened speculation that the European Central Bank would soon implement a quantitative easing policy. Rising geopolitical tensions in the Middle East and between Russia and Ukraine also contributed to the fall in bond yields, overshadowing stronger-then-expected economic data in the US. In the domestic market, longer-dated bond yields moved lower in line with offshore markets, while shorter-dated bond yields were less changed reflecting a neutral stance on the part of the Reserve Bank of Australia.

Performance of non-government debt sectors was also positive this month, with these sectors benefitting from the fall in underlying sovereign bond yields and stability in the risk premium demanded for holding these securities.

Currency

The US dollar continued to strengthen against most currencies this month, as solid economic data saw investors begin to consider the possibility of the US Federal Reserve needing to increase interest rates sooner than previously expected. The Australian dollar, however, was one of the few exceptions, finishing the month marginally higher against the USD. The euro and other European currencies, on the other hand, were again among the weakest performing currencies this month, due to expectations that the European Central Bank are likely to provide further stimulus in response to soft inflation and economic growth data in the region.

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