Performance Summary December 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

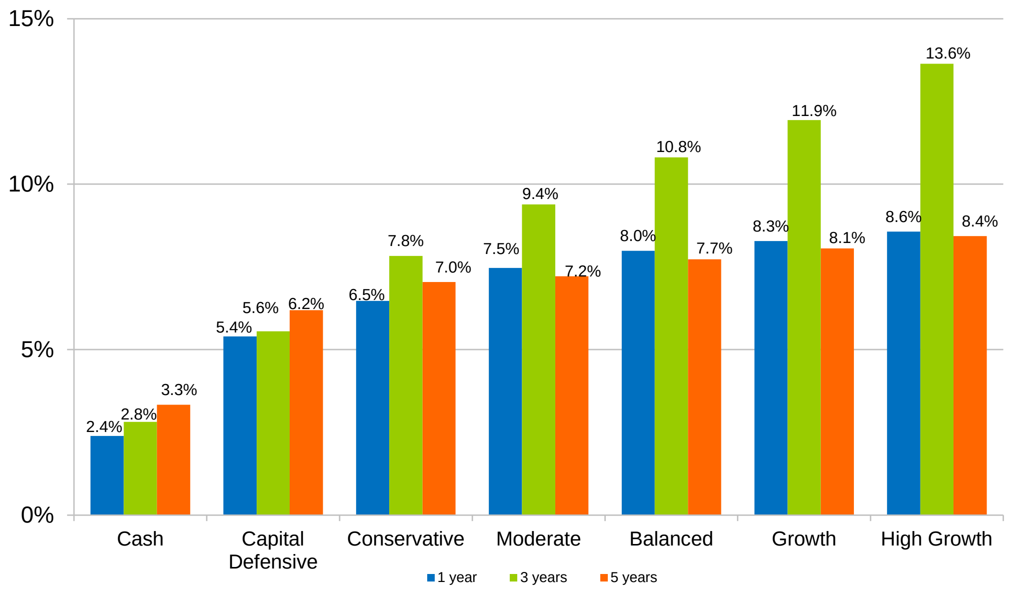
The table and chart below show Funds SA's multi-sector taxable fund returns based on the post tax unit pricing model detailed in the SLA.

Table 1: Multi-sector fund returns net of fees and tax to 31 December 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	1.2	2.4	2.8	3.3	3.7
Capital Defensive	0.6	1.9	2.6	5.4	5.6	6.2	4.8
Conservative	0.7	2.4	3.2	6.5	7.8	7.0	4.4
Moderate	0.9	2.8	3.8	7.5	9.4	7.2	4.0
Balanced	1.0	3.2	4.3	8.0	10.8	7.7	3.3
Growth	1.0	3.3	4.5	8.3	11.9	8.1	3.1
High Growth	1.2	3.6	4.9	8.6	13.6	8.4	2.8

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 December 2014



Key drivers of performance during December 2014 included:

- A softer economic outlook in Europe and China combined with excess supply issues to weigh heavily on commodity prices, which in turn placed downward price pressure on commodity-related corporate sectors and emerging market assets.
- Policy divergence among major central banks remains a key driver of markets, with the US Federal Reserve laying the groundwork for potential interest rate increases in 2015 at the same time that additional stimulus measures are being announced in Europe, Japan and China.
- Falling government bond yields drove strong returns in government debt markets.

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 December 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	1.4	2.7	3.2	3.8
Australian Government	1.7	4.5	5.5	10.3	5.3	6.8
Australian Inflation-Linked	2.1	5.8	6.6	14.5	7.0	9.4
Global Treasuries(1)	1.1	3.4	5.6	11.0	7.2	8.2
Global Inflation-Linked(1)	0.0	3.3	4.8	11.8	5.7	8.6
Credit						
Global Credit(1),(2)	0.3	2.3	3.6	10.2	8.7	9.4
Global High Yield(1)	-1.7	-1.1	-2.3	4.8	12.0	12.6
Emerging Market Debt(4)	-2.9	-1.6	-3.3	5.5	5.3	7.3
Property						
Australian Listed Property	4.5	11.3	12.7	26.8	21.8	12.0
Equities(3)						
Australian Equities	2.0	2.9	2.4	5.3	14.7	6.5
Global Equities	-0.8	3.3	4.1	9.8	17.9	11.2
US Equities	-0.3	4.9	6.1	13.7	20.4	15.5
European Equities	-2.1	0.0	-0.2	4.7	13.7	7.3
Japanese Equities	-0.3	6.5	12.7	9.9	27.2	11.2
Asia (ex Japan) Equities	-1.5	2.2	2.3	7.4	10.7	5.9
Emerging Market Equities	-2.4	0.1	0.8	5.6	8.8	5.2
Global Small Companies	1.2	5.0	1.3	7.0	19.4	13.8
Currency (5)						
Australian Dollar vs Developed Market Basket	-3.3	-4.6	-9.0	-4.4	-5.6	-1.0

(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 December 2014 are summarised below.

Equity Markets

Global equity markets in December were driven by similar themes to that of November – sharply falling oil prices and policy divergence among the major central banks. Against this backdrop, most markets finished the month marginally lower.

Developments in oil markets continued to be the biggest theme affecting markets this month. Brent crude oil prices closed the month at just over US$53 per barrel, down almost 20% for the month and almost 50% from the recent peak in June 2014, as oil markets continued to react to both slower global demand and excess supply issues. A softer economic outlook in Europe and China were the major drivers from the demand side, while on the supply side, increased production from Libya and Iran, combined with increases in production in the US shale market, contributed to lower prices, while the decision by OPEC in late November to leave supply unchanged triggered a sharp fall in prices. While a lower oil price should have a longer-term positive effect on consumers and manufacturers if prices remain at these levels, it did cause sharp falls in energy-related equity sectors this month. Emerging market equities also suffered, as the combination of higher market volatility, declining commodity prices, and a strong US dollar continued to undermine these markets.

The sell-off in global equity markets over the first half of the month was halted by the release of the US Federal Reserve’s Federal Open Market Committee statement on 17 December. The statement was largely in line with market expectations, though did strike a slightly more upbeat tone on the US labour market. Despite the slightly hawkish tone and its implication for higher interest rates in 2015, equity markets were buoyed by the stronger economic conditions, recovering much of the early month losses.

The European Central Bank (ECB), meanwhile, moved closer to announcing additional monetary policy accommodation this month, with increased market speculation that the central bank will soon engage in sovereign bond purchases as part of ECB President Draghi’s pledge to raise inflation and inflation expectations as fast as possible. Investors were very much focussed on the prospect of further stimulus rather than the underlying reason for its announcement – weaker economic conditions – with equity markets reacting positively as a result.

Elsewhere, Greece returned to the headlines, with the government there unexpectedly calling an early presidential election, after three parliamentary votes in December failed to deliver an outcome. Markets viewed this development as significant as the current front-runner in the polls, the left wing Syriza party, remain strongly opposed to the austerity measures imposed by the European Union, although have indicated their wish for Greece to remain part of the Eurozone.

The Australian equity market recovered from early losses, rallying strongly in to month end to post a gain of 2%. These gains were largely driven by interest-rate sensitive and defensive sectors such as Listed Property and Healthcare, and came despite slumping iron ore, coal and oil prices which weighed on the local resource-heavy index.

Debt Markets

Global government bond markets posted strong returns in December, with bond yields finishing the month materially lower in most major markets. These moves were driven by growing concerns as to the growth prospects for the global economy and declining inflation expectations, in large part driven by a sharp fall in oil prices and other economically-sensitive commodities. As a result, market speculation increased as to the need for additional stimulus measures from a number of major central banks. The US was the notable exception, as an improving domestic economic outlook and expectation of that the US Federal Reserve will raise interest rate in 2015 drove bond yields higher and prices lower over the month. Australian government bonds again outperformed global counterparts, as strong investor demand and rising expectations that the Reserve Bank may lower interest rates next year, placed further downward pressure on yields.

December was another challenging month for non-government debt sectors, as plummeting commodity prices led investors to question global growth estimates, with the risk premium demanded for holding these securities increasing as a result. Strong gains from the falling underlying sovereign bond yield did mean that some sectors still managed to post positive returns, but those higher risk segments of the market or those with closer links to commodities, such as US high yield corporates and emerging market debt, finished the month lower.

Currency

The US dollar continued to strengthen against most currencies this month, amid growing expectations that the US Federal Reserve will raise interest rates in 2015 at the same time that additional stimulus measures will be required in Europe, Japan and China. Combined with this backdrop of broad-based US dollar strength, weaker commodity prices saw a further fall in the Australian dollar, finishing the month 4% lower against USD at below US$0.82.

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