Performance Summary January 2014

SA Metropolitan Fire Service Superannuation Scheme

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

Key drivers of performance during January 2014 included:

- The US Federal Reserve further reduced its asset purchase program at its January meeting;
- Slower economic growth expectations and a less supportive global monetary policy backdrop continue to affect emerging markets, with equities and currencies of those markets again selling off sharply;
- Ongoing turmoil in emerging markets precipitated a surge in global asset price volatility and investor risk aversion more generally;
- Global government bond markets posted strong returns amid increased risk aversion and global growth concerns, despite the Fed's decision to further reduce monetary stimulus.

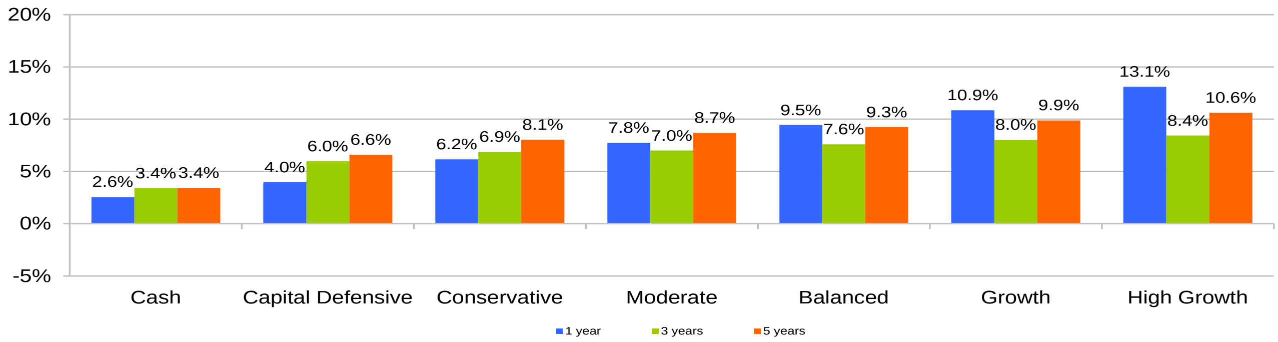
The table and chart below shows Funds SA's multi-sector taxable funds returns based on the post tax unit prices in the SLA.

Table 1: Multi-sector fund returns net of fees and tax to 31 January 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	1.4	2.6	3.4	3.4	4.0
Capital Defensive	0.0	0.8	3.2	4.0	6.0	6.6	4.6
Conservative	-0.3	0.9	4.5	6.2	6.9	8.1	4.1
Moderate	-0.6	0.9	5.6	7.8	7.0	8.7	3.6
Balanced	-0.9	0.9	6.7	9.5	7.6	9.3	2.9
Growth	-1.1	0.9	7.6	10.9	8.0	9.9	2.6
High Growth	-1.4	0.8	8.8	13.1	8.4	10.6	2.4

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)

Chart 1: Multi-sector fund annualised returns net of fees and tax to 31 January 2014



Asset Allocation

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

Table 2: Targeted asset allocation for the 2013-2014 financial year

	Cash %	Capital Defensive %	Conservative %	Moderate %	Balanced %	Growth %	High Growth %
Cash	100.0	25.0	15.0	8.0	3.0	2.0	2.0
Short Term Fixed Interest	0.0	23.0	13.0	7.0	5.0	2.0	0.0
Long Term Fixed Interest	0.0	5.0	5.0	9.0	5.0	2.0	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

Index movements to 31 January 2014	1 month %	3 months %	FYTD %	1 Year %	3 Years % pa	5 Years % pa
Cash and fixed income						
Cash	0.2	0.7	1.6	2.8	3.9	4.0
Australian Fixed Interest	1.1	1.5	2.5	3.3	7.0	5.6
Australian Inflation-Linked	0.7	1.6	2.1	-0.7	8.3	6.0
Global Fixed Interest (1)	1.7	1.4	4.0	4.3	8.4	8.7
Global Inflation-Linked(1)	2.1	0.0	2.3	-2.2	7.9	8.9
Property (2)						
Australian Listed Property	0.4	-3.6	-0.9	3.2	11.2	11.1
Global Listed Property	-0.2	-2.4	0.8	4.9	10.3	18.7
Equities(2)						
Australian Equities	-3.0	-3.5	10.6	10.6	7.3	12.8
Global Equities	-3.2	0.9	11.6	18.3	10.2	15.2
US Equities	-3.5	2.0	12.3	21.5	13.9	19.2
Japanese Equities	-6.6	2.2	8.1	32.4	12.3	11.1
Asia (ex Japan) Equities	-4.1	-4.2	4.5	-0.5	1.3	15.3
European Equities	-2.2	-0.8	12.0	13.0	6.9	12.6
Global Small Companies	-1.3	3.2	17.0	25.3	12.6	20.6
Emerging Market Equities	-4.4	-5.4	4.1	-2.2	1.4	14.3
Currency (3)						
Australian Dollar vs MSCI Currency Basket	-1.6	-7.0	-5.0	-15.0	-3.6	5.7
Australian Dollar vs USD	-2.5	-7.9	-4.7	-16.4	-4.3	6.5

(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 January 2014 are summarised below.

Equity Markets

Global equity markets started 2014 on a softer note, with almost all markets trading lower by the end of the month. Risk aversion increased substantially in January as investors responded to continuing weakness in emerging markets and a generally less supportive global monetary policy backdrop.

In the US, equity markets finished the month more than 3% lower, as the Federal Reserve announced a further reduction in its quantitative easing program, despite the release of a series of disappointing economic data, including key manufacturing and labour market reports. In contrast, the latest corporate reporting season has got off to a generally positive start, with both sales and profits surpassing market expectations, though this was not enough to sway investors who remain squarely focussed on macroeconomic drivers.

Recent turmoil in emerging markets persisted into the New Year, with these markets continuing to be impacted by the US Federal Reserve's decision to taper its asset purchases, with those countries with capital account deficits, such as Indonesia, Brazil, and Turkey, particularly affected. In addition to the perceived risk of capital flight, the fact that many of these countries are commodity exporters meant that the decline in commodity prices over the past few months has added to the negative impact on their currencies, in many cases prompting emerging central bank action to help support their currencies. Investor sentiment in relation to the emerging world was further impacted by the release of weak manufacturing data in China, which pointed to a slowing of that economy, while political uncertainty in Thailand, Turkey, Ukraine, and Argentina meant there was heightened risk in these countries. Against this backdrop, emerging market assets, and particularly equities and currencies, experienced another month of heavy selling.

The Australian equity market again followed the lead of offshore markets this month, finishing the month approximately 3% lower. The general theme of increased risk aversion, lower commodity prices and Australia's close ties to China all weighed on the local market, with those more defensive sectors, such as utilities and health care, outperforming during the month as a result. Domestic economic data was also somewhat softer during January, with the manufacturing sector continuing to struggle and the labour market remaining soft. Retail sales did, however, show signs of improvement and the consumer price index (inflation) recorded a surprisingly sharp rise in the December quarter, driven in part by the weaker Australian dollar.

Debt Markets

Government bond yields finished the month sharply lower across the major developed markets, despite the US Federal Reserve's decision to further scale back its asset purchase program. Offsetting the influence of this reduction in monetary stimulus were heightened concerns as to the strength of the global economy, with particular focus on the emerging world, and a general deterioration in investor risk sentiment, both of which prompted increased demand for the relative safety offered by government bonds. By month end, bond yields had fallen to well below where they started the month, leading to strong returns across all developed government debt markets.

With the exception of emerging markets, non-government debt sectors withstood the increase in financial market volatility and risk aversion reasonably well. While the risk premium demanded for holding these assets was at best stable or even moved slightly wider through the month, overall returns were boosted by a significant fall in underlying government bond yields, helping all non-emerging market sectors into positive territory for the month.

Emerging market debt was again the notable exception this month, posting another month of negative performance. Economic fundamentals in these markets continue to weaken, along with their currencies, while investors continue to divest holdings of these assets, all of which continues to weigh heavily on the sector.

Currency

The US dollar and Japanese yen, two currencies that traditionally perform well in periods of heightened risk aversion, appreciated strongly against all other major currencies this month, as investors reacted to concerns over global growth and steep falls in emerging market currencies. On the other hand, lower commodity prices and concerns over economic conditions in China weighed on the exchange rates of commodity-linked currencies, such as the Australian dollar. Against this backdrop, the AUD fell over 2% against the US dollar, closing at its lowest level since 2010.

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