Performance Summary July 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

Key drivers of performance during July 2014 included:

- Global equity markets posted negative returns as stronger-than-expected economic data in the US saw investors begin to consider the possibility of the US Federal Reserve needing to increase interest rates sooner than previously expected;
- An escalation of geopolitical risks following the Malaysian Airlines tragedy and further deterioration of the situation in Ukraine, and continuing unrest in the Middle East;
- Australian equities posted a strong gain despite the negative global influences, due to the influence of higher commodity prices and improving sentiment toward the outlook for China on the local resource-heavy market; and
- Government bond markets posted modest returns, as the impact of a better economic outlook was offset by some weakness in equity markets and ongoing geopolitical tensions.

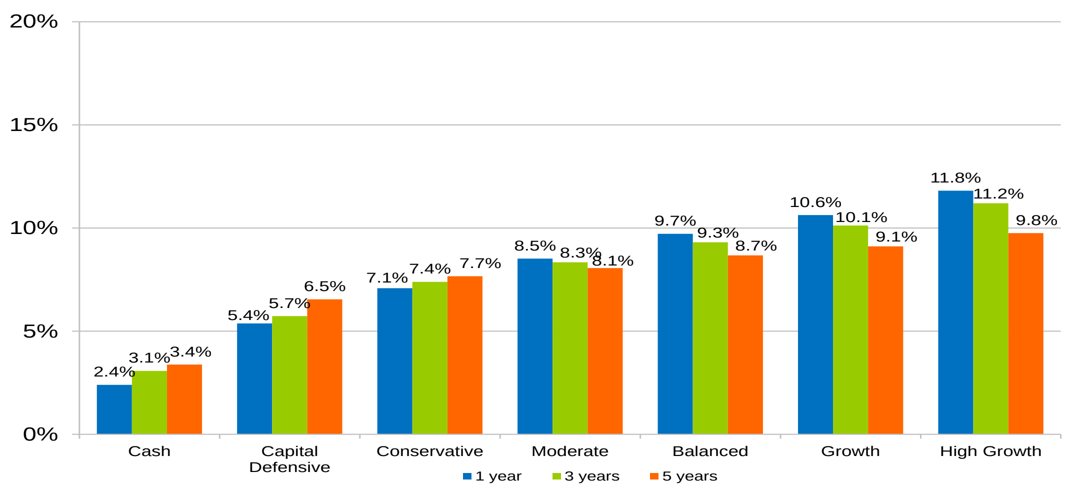
The table and chart below show Funds SA's multi-sector taxable fund returns based on the post tax unit pricing model detailed in the SLA.

Table 1: Multi-sector fund returns net of fees and tax to 31 July 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	0.2	2.4	3.1	3.4	3.8
Capital Defensive	0.3	1.5	0.3	5.4	5.7	6.5	4.7
Conservative	0.5	1.9	0.5	7.1	7.4	7.7	4.3
Moderate	0.7	2.2	0.7	8.5	8.3	8.1	3.8
Balanced	0.9	2.4	0.9	9.7	9.3	8.7	3.1
Growth	1.0	2.5	1.0	10.6	10.1	9.1	2.8
High Growth	1.3	2.6	1.3	11.8	11.2	9.8	2.6

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 July 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 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 July 2014

	1 mth %	3 mths %	FYTD %	1 Year %	3 Years % p.a.	5 Years % p.a.
Cash and fixed income						
Cash	0.2	0.7	0.2	2.7	3.5	3.9
Australian Fixed Interest	0.3	2.5	0.3	5.5	6.5	6.9
Australian Inflation-Linked	0.3	4.6	0.3	9.0	7.5	8.9
Global Fixed Interest (1)	0.5	2.2	0.5	7.6	7.6	8.5
Global Inflation-Linked(1)	0.8	2.9	0.8	6.7	6.4	8.9
Property (2)						
Australian Listed Property	5.0	8.5	5.0	17.4	19.7	14.8
Global Listed Property	0.9	5.5	0.9	12.7	13.2	16.7
Equities(2)						
Australian Equities	4.4	3.6	4.4	16.3	13.0	10.3
Global Equities	-0.8	2.8	-0.8	15.3	13.8	12.6
US Equities	-1.4	3.0	-1.4	16.9	16.8	16.8
European Equities	-1.8	-0.6	-1.8	11.5	10.3	9.9
Japanese Equities	2.2	11.1	2.2	15.6	17.6	8.2
Asia (ex Japan) Equities	4.1	10.0	4.1	16.6	5.6	8.2
Emerging Market Equities	3.1	8.6	3.1	15.8	5.8	8.5
Global Small Companies	-3.1	1.3	-3.1	14.5	13.8	15.7
Currency (3)						
Australian Dollar vs Developed Market Basket	-0.6	0.9	-0.6	3.2	-4.0	2.2

(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 July 2014 are summarised below.

Equity Markets

After trading in a tight range for much of the month, most global equity markets finished July on a slightly weaker note. A number of events contributed to the negative investor sentiment, with the primary driver being a bringing forward of expectations of interest rate rises in the US as the current quantitative easing program draws to a close. Increasing geopolitical tensions were also key contributors to performance, including notable developments in Ukraine and the Middle East, and the Argentine government defaulting on its sovereign debt obligations. As a result, markets moved out of the tight trading range seen over the past few months, as general market volatility jumped to its highest level since April.

In the US, economic data released this month continues to indicate that the economy is improving, causing 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. In Europe, the release of subdued manufacturing data and the weakest Eurozone inflation data since 2009 weighed on sentiment, as did the ongoing instability in Ukraine. Meanwhile in China, economic data showed some improvement, with early evidence that the slowdown of that economy is being adequately managed with targeted stimulus and reforms across the nation.

Geopolitical risks escalated over the month, as US and European relations with Russia became increasingly strained following the downing of Malaysian Airlines flight MH17 and further deterioration of the situation in Ukraine. In addition, Israel increased its operations in Gaza to include a ground invasion, while the situation in Iraq also worsened, however the impact on broader risk markets of these Middle Eastern developments has been limited at this stage.

The Australian equity market materially outperformed global markets this month, finishing July more than 4% higher. This represents the local market's best month in 12 months, and comes despite a backdrop of mixed domestic economic data and the bearish themes affecting offshore markets. One notable contributor to this outperformance was the strong performance of the materials sector. Higher commodity prices and improvements in the sentiment toward the outlook for China saw strong gains across the sector, which had a significant positive impact on the local resource-heavy index.

Debt Markets

Global bond markets posted flat to modestly positive returns in July, with movements in government bond yields muted in most major markets. The release of the weakest Eurozone inflation data since 2009 and heightened expectations of further monetary policy easing by the European Central Bank did see a decline in European yields, but in the US, yields finished the month largely unchanged as the impact of stronger-than-expected economic growth data was offset by some weakness in equity markets and ongoing geopolitical tensions in Ukraine and the Middle East. In Australia, bond yields were also stable, with markets influenced by a combination of these offshore leads and central bank commentary suggesting that interest rates would likely stay low for the foreseeable future.

Performance of non-government debt sectors was mixed this month, with lower quality corporate securities posting small losses as the risk premium demanded for holding these securities finished the month slightly wider. Higher quality corporate securities and emerging market debt fared better, benefitting from stability in both the underlying sovereign bond yield and the risk premium demanded for holding these securities.

Currency

Currency markets in July saw a strengthening of the US dollar and a further decline of volatility. The USD gained ground against most currencies, including the Australian dollar, as better-than-expected second quarter economic growth data saw investors begin to consider the possibility of the US Federal Reserve needing to increase interest rates sooner than previously expected. The euro and other European currencies were 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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