Performance Summary June 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 June 2014 included:

- Equity markets posted gains as a combination of dovish central bank commentary and a further decline in overall market volatility offset soft economic data and rising geopolitical tensions;
- Government bond markets posted solid returns, as investors reacted positively to easier monetary policy in the US and Europe; and
- Non-government debt securities also performed strongly, benefitting from a falling government bond yield and strong investor demand for these income generating assets.

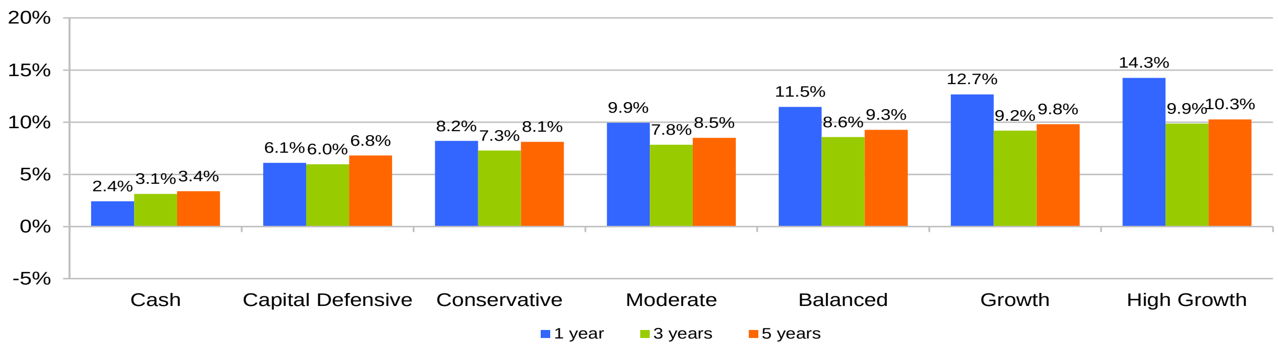
The table and chart below shows Funds SA's multi-sector taxable funds returns based on the post tax unit prices in the SLA.

Table 1: Multi-sector fund returns net of fees and tax to 30 June 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	2.4	2.4	3.1	3.4	3.9
Capital Defensive	0.4	1.7	6.1	6.1	6.0	6.8	4.7
Conservative	0.4	2.1	8.2	8.2	7.3	8.1	4.2
Moderate	0.4	2.3	9.9	9.9	7.8	8.5	3.6
Balanced	0.4	2.3	11.5	11.5	8.6	9.3	2.8
Growth	0.4	2.4	12.7	12.7	9.2	9.8	2.5
High Growth	0.3	2.3	14.3	14.3	9.9	10.3	2.2

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 30 June 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 30 June 2014	1 month %	3 months %	FYTD %	1 Year %	3 Years % pa	5 Years % pa
Cash and fixed income						
Cash	0.2	0.7	2.7	2.7	3.5	3.9
Australian Fixed Interest	0.8	3.1	6.1	6.1	7.0	6.9
Australian Inflation-Linked	1.2	5.6	9.0	9.0	8.8	8.8
Global Fixed Interest (1)	0.5	2.6	7.8	7.8	7.9	8.7
Global Inflation-Linked(1)	0.2	3.5	6.9	6.9	7.1	8.9
Property (2)						
Australian Listed Property	3.3	9.2	11.1	11.1	15.2	14.3
Global Listed Property	1.3	7.5	12.0	12.0	12.7	18.2
Equities(2)						
Australian Equities	-1.4	0.9	17.3	17.3	9.9	11.0
Global Equities	1.4	4.4	21.7	21.7	13.0	14.4
US Equities	2.1	5.2	24.6	24.6	16.6	18.8
Japanese Equities	5.1	5.1	12.9	12.9	16.3	8.3
Asia (ex Japan) Equities	2.2	5.8	14.4	14.4	4.4	9.9
European Equities	-0.9	3.0	20.2	20.2	9.3	12.3
Global Small Companies	3.1	2.8	25.3	25.3	13.8	18.1
Emerging Market Equities	2.4	5.2	14.1	14.1	4.4	9.9
Currency (3)						
Australian Dollar vs MSCI Currency Basket	0.9	1.3	1.4	1.4	-3.2	2.8
Australian Dollar vs USD	1.4	1.8	3.1	3.1	-4.1	3.1

(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 June 2014 are summarised below.

Equity Markets

Global equity markets finished the financial year on a positive note, with most markets trading higher through June and the US market again reaching new all-time highs. These gains came despite increasing geopolitical tensions and apparent softness in global economic data, as investors were buoyed by dovish central bank policy in the US and Europe and a further decline in overall market volatility.

The June meeting of the European Central Bank (ECB) was always going to be a key event, with markets staging an impressive rally in May and early June in the lead-up to the meeting on the expectation that low inflation in Europe would prompt the ECB to further ease monetary policy. Broadly as expected, the ECB announced additional stimulus, including cuts to key interest rates, notably taking the overnight deposit rate below zero for the first time for a major central bank. A Targeted Long-Term Refinancing Operation was also announced, with the objective of directing credit to small- and medium-sized enterprises in Europe and boosting economic growth in the region.

The announcement of the ECB policy measures fuelled a rally in equity markets around the globe, which was reinforced later in the month by comments from the US Federal Reserve which delivered a less hawkish stance than had been feared by markets. The Fed again kept pace on its monthly reduction of its asset purchase program, but also revised down expectations of interest rate increases in the near-term, noting that economic conditions may warrant keeping interest rates below long run levels for an extended period of time.

Adding to the positive policy backdrop was an environment of incredibly low market volatility. This showed no signs of abating this month, as a key measure of expected equity market volatility fell to its lowest level since early 2007. Rising geopolitical tensions in the Ukraine and Iraq threatened to trigger a spike in volatility at times, but these proved to be only temporary blips on the general uptrend in markets.

The Australian equity market lagged global markets this month, with positive sentiment from offshore markets offset by declining commodity prices, which weighed more heavily on the local resource-heavy index. Consumer-related sectors also struggled, with consumer confidence continuing to suffer from the fallout from the Federal budget announced in May.

Debt Markets

Global bond markets posted solid returns in June, with government bond yields in most major markets moving lower over the month. The announcement of monetary policy easing by the European Central Bank, including a range of non-conventional policy measures and the introduction of a negative deposit rate, saw a continued decline in European yields, while in the US, yields were kept low by a continued dovish stance from the US Federal Reserve. In Australia, bonds benefitted from a combination of these offshore leads, ongoing concerns around below-trend domestic economic growth, and central bank commentary suggesting that interest rates would likely stay low for the foreseeable future. Rising geopolitical tensions in Ukraine and Iraq placed further downward pressure on government bond yields.

Non-government debt sectors also performed strongly over the month, benefitting from the fall in underlying sovereign bond yields and stability in the risk premium demanded for holding these securities.

Currency

Most major currencies traded in a range-bound fashion throughout the month, with currency market volatility declining to near all-time lows. The Australian dollar finished the month around 1% higher, climbing higher on investor demand for high-quality and higher-yielding government bonds.

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