# Performance Summary June 2012

## 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 products offered under the Scheme.

## Performance

Key drivers of multi-sector performance during June 2012 included:

- The announcement of several government and central bank policy initiatives to assist the European banking system helped to restore market confidence, resulting in a rebound in risk assets, such as equities and non-government debt;
- A reversal of recent risk aversion resulted in "safe-haven" assets such as the US dollar and government bonds underperforming;
- The release of weaker-than-expected economic data in the US, Europe, and China has renewed concerns about the strength of the global economic recovery; and
- Uncertainty surrounding a longer-term solution to the European sovereign debt crisis remains a major risk, contributing to intra-month market volatility.

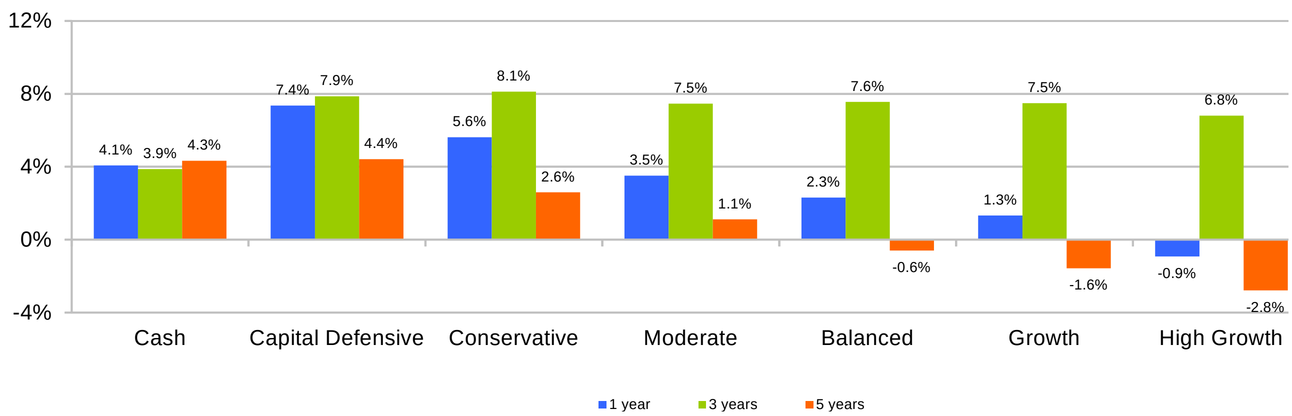
The table and chart below shows Funds SA's multi-sector taxable product returns based on the post tax unit prices in the SLA.

**Table 1: Multi-sector product returns net of fees to 30 June 2012 [1, 2]**

| | 1 mth % | 3 mths % | FYTD % | 1 year % | 3 years % p.a. | 5 years % p.a. | 7 years % p.a. |
|---|---|---|---|---|---|---|---|
| Cash | 0.3 | 0.9 | 4.1 | 4.1 | 3.9 | 4.3 | 4.7 |
| Capital Defensive | 0.1 | 1.6 | 7.4 | 7.4 | 7.9 | 4.4 | 5.5 |
| Conservative | 0.2 | 0.7 | 5.6 | 5.6 | 8.1 | 2.6 | 5.0 |
| Moderate | 0.2 | -0.5 | 3.5 | 3.5 | 7.5 | 1.1 | n.a. |
| Balanced | 0.4 | -0.9 | 2.3 | 2.3 | 7.6 | -0.6 | 4.0 |
| Growth | 0.5 | -1.4 | 1.3 | 1.3 | 7.5 | -1.6 | 3.9 |
| High Growth | 0.6 | -2.5 | -0.9 | -0.9 | 6.8 | -2.8 | 3.6 |

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 product annualised returns net of fees to 30 June 2012**



# Asset Allocation

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

### Table 2: Targeted asset allocation for the 2011-2012 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 | 21.0 | 21.0 | 16.0 | 12.0 | 9.0 | 0.0 |
| Diversified Strategies Income | 0.0 | 15.0 | 15.0 | 10.0 | 10.0 | 10.0 | 8.0 |
| Property B | 0.0 | 5.0 | 7.0 | 9.0 | 10.0 | 14.0 | 15.0 |
| Australian Equities B | 0.0 | 4.0 | 14.0 | 24.0 | 29.0 | 33.0 | 40.0 |
| International Equities B | 0.0 | 2.0 | 10.0 | 17.0 | 20.0 | 22.0 | 27.0 |
| Diversified Strategies Growth B | 0.0 | 0.0 | 0.0 | 0.0 | 6.0 | 6.0 | 8.0 |
| 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 2012 | 1 month % | 3 months % | FYTD % | 1 Year % | 3 Years % pa | 5 Years % pa |
|---|---|---|---|---|---|---|
| **Cash and fixed income** | | | | | | |
| Cash | 0.3 | 1.0 | 4.7 | 4.7 | 4.5 | 5.3 |
| Australian Fixed Interest | -0.2 | 4.6 | 12.4 | 12.4 | 8.6 | 8.2 |
| Australian Inflation-Linked | -1.6 | 5.3 | 19.2 | 19.2 | 12.1 | 7.8 |
| Global Fixed Interest (1) | 0.1 | 2.6 | 11.6 | 11.6 | 10.4 | 9.8 |
| Global Inflation-Linked(1) | -0.8 | 2.7 | 14.3 | 14.3 | 12.6 | 10.8 |
| **Property (2)** | | | | | | |
| Australian Listed Property | 4.3 | 8.6 | 11.0 | 11.0 | 12.2 | -12.6 |
| Global Listed Property | 5.8 | 2.9 | 6.8 | 6.8 | 19.8 | -3.4 |
| **Equities(2)** | | | | | | |
| Australian Equities | 0.5 | -5.0 | -7.0 | -7.0 | 5.6 | -4.2 |
| Global Equities | 4.3 | -4.3 | -2.2 | -2.2 | 9.9 | -3.8 |
| US Equities | 4.1 | -2.8 | 5.4 | 5.4 | 16.4 | 0.2 |
| Japanese Equities | 7.2 | -9.9 | -8.0 | -8.0 | -4.5 | -14.1 |
| Asia (ex Japan) Equities | 2.2 | -5.4 | -9.1 | -9.1 | 8.6 | 1.4 |
| European Equities | 5.3 | -4.0 | -8.5 | -8.5 | 7.7 | -5.6 |
| Global Small Companies | 3.1 | -5.7 | -6.3 | -6.3 | 13.4 | -2.8 |
| Emerging Market Equities | 2.1 | -5.1 | -6.8 | -6.8 | 9.8 | 1.6 |
| **Currency (3)** | | | | | | |
| Australian Dollar vs MSCI Currency Basket | 4.5 | -0.5 | -1.8 | -1.8 | 7.5 | 3.0 |
| Australian Dollar vs USD | 5.7 | -1.1 | -4.3 | -4.3 | 8.2 | 3.9 |

(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 2012 are summarised below.

## Equity Markets

Global equity markets finished June on a stronger note, recovering some of last month's losses, with the ongoing challenges faced by Europe again the chief driver of market sentiment. Markets rallied late in the month amid some perceived progress on the Eurozone's sovereign debt problems, despite a continued deterioration of economic data in Europe, the US and China. Against this backdrop, the MSCI World Index of developed markets posted a gain of 4.3% for the month.

Global markets posted strong gains early in the month, following an announcement from the US Federal Reserve that it would be expanding its efforts to maintain long-term borrowing costs at the current low levels, together with a commitment to take further action should the US economic recovery slow further. This was closely followed by a similar commitment from the European Central Bank and news that pro-austerity parties had prevailed in the second round of Greek elections, temporarily easing fears of a disorderly breakup of the Eurozone in the near-term.

Renewed concerns over the health of the Spanish economy and its banking system, and the possible implications for the Spanish government balance sheet should a bank bailout become necessary, did, however, see equity markets come under pressure later in the month. Sentiment improved sharply on the last trading day of June, however, following a commitment from the European Union to provide more direct assistance to Eurozone banks. Whilst the announced measures still face significant hurdles before they can be implemented, and their long-term effectiveness remains to be seen, investors were seemingly buoyed by the decision by European leaders to bypass the sovereigns in addressing banking issues directly, thereby reducing concerns of the need for further sovereign bailouts.

The Australian market posted a small gain for the month, though notably underperformed other developed equity markets. In an extension of the recent theme, those sectors perceived to be more defensive (telecommunications, health care, consumer staples, REITs) were the strongest performers. Resource-related sectors, on the other hand, were again weighed down by the prospect of a slower global economic growth environment, particularly given further evidence of a slowing Chinese economy, and further falls in commodity prices.

## Debt Markets

Following a strong rally in May, global government bond yields continued to fall early in June, reaching multi-decade lows in many regions. The announcement of several policy initiatives designed to ease Europe's sovereign debt issues saw yields retract from these lows, amid a reduction in the demand for "risk-free" securities, although a continued deterioration in global economic data muted these movements. The domestic government bond market underperformed global markets in June, with the paring back of market expectations of further aggressive interest rate cuts in the near term placing additional upward pressure on bond yields. In most regions, the majority of the yield movement was the result of rising real yields, leading to an outperformance of nominal bonds relative to inflation-linked bonds over this period.

As with other risk assets, non-government debt sectors benefitted from some stabilisation in Eurozone financial conditions, with the risk premium demanded for holding these assets compressing over the month. Both domestic and global investment-grade corporate debt (+0.3% and +0.6%, respectively) managed to post modest positive returns, despite the rise in underlying government bond yields acting to partially offset gains from narrowing premiums. Those higher-risk segments of the market, such as global high yield (+2.5%) and emerging market debt (+2.6%), posted stronger gains with these assets impacted predominantly by narrowing risk premiums.

## Currency

Currency markets in June were characterised by the US dollar weakening against nearly all major currencies as the announcement of several policy initiatives designed to ease the Eurozone debt crisis saw a retracement of the flight-to-safety that had assisted the USD in recent months. The

Australian dollar also benefited from a reduction in market expectations of aggressive interest rates in coming months.  Against this backdrop, the AUD gained 5.7% against the USD, to finish the month back above parity, and 4.5% against the broader MSCI Currency Basket.

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