FUNDS SA

Performance Summary March 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 March 2014 included:

- Several macroeconomic and geopolitical issues led to a period of heightened volatility for global markets;
- The combination of hawkish central bank commentary, lingering concerns over the strength of the Chinese economy, and escalating tensions between Ukraine and Russia, led to sharp falls in equity markets early in the month, before a recovery into month end;
- Emerging market assets posted a second consecutive month of strong gains, notwithstanding the ongoing concerns surrounding these markets, as investors seek value in these assets following significant depreciation over recent months; and
- Government bond markets posted modest returns, with the influence improving economic data and hawkish central bank commentary largely offset by uncertainty surrounding the Chinese economy and geopolitical concerns.

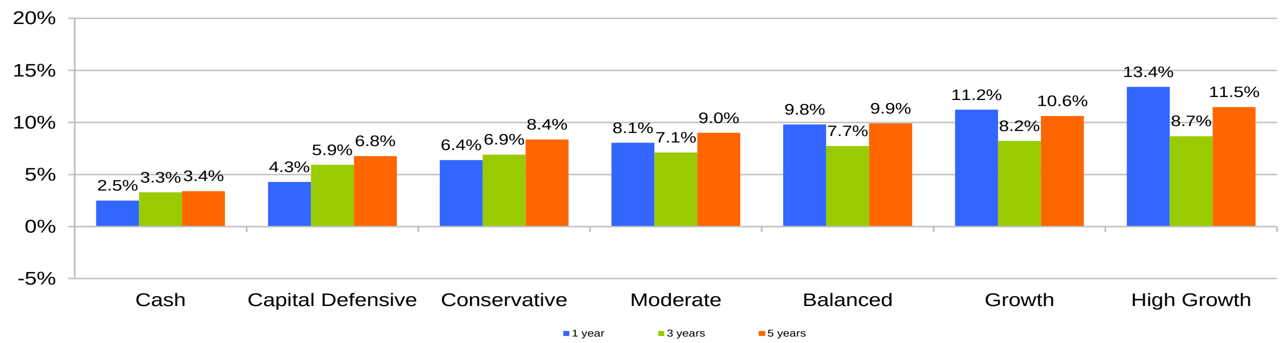
The table and chart below shows Funds SA's multi-sector taxable funds returns based on the post tax unit prices in the SLA.

Table 1: Multi-sector fund returns net of fees and tax to 31 March 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	1.8	2.5	3.3	3.4	4.0
Capital Defensive	0.1	1.0	4.3	4.3	5.9	6.8	4.5
Conservative	0.1	1.1	6.0	6.4	6.9	8.4	4.1
Moderate	0.1	1.2	7.5	8.1	7.1	9.0	3.6
Balanced	0.1	1.2	8.9	9.8	7.7	9.9	3.0
Growth	0.1	1.2	10.0	11.2	8.2	10.6	2.7
High Growth	0.0	1.1	11.6	13.4	8.7	11.5	2.5

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 March 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 March 2014	1 month %	3 months %	FYTD %	1 Year %	3 Years % pa	5 Years % pa
Cash and fixed income						
Cash	0.2	0.6	2.0	2.8	3.7	3.9
Australian Fixed Interest	0.0	1.5	2.9	3.3	6.7	6.0
Australian Inflation-Linked	-0.1	1.8	3.2	-0.6	7.9	6.3
Global Fixed Interest (1)	0.3	2.7	5.0	3.7	8.5	8.6
Global Inflation-Linked(1)	0.5	3.1	3.3	-3.0	7.4	8.7
Property (2)						
Australian Listed Property	-1.6	3.0	1.7	5.0	11.7	15.7
Global Listed Property	0.1	3.2	4.2	2.5	11.1	22.5
Equities(2)						
Australian Equities	0.2	2.0	16.3	13.0	8.1	13.2
Global Equities	0.2	1.0	16.6	18.6	11.2	17.0
US Equities	0.8	1.8	18.4	21.9	14.7	21.2
Japanese Equities	-0.1	-7.1	7.4	18.6	13.5	11.2
Asia (ex Japan) Equities	0.5	-0.8	8.1	4.4	2.1	14.5
European Equities	-0.7	1.8	16.6	15.7	8.3	14.9
Global Small Companies	-0.3	2.9	22.0	23.5	12.5	22.3
Emerging Market Equities	1.9	-0.5	8.4	3.8	1.8	13.7
Currency (3)						
Australian Dollar vs MSCI Currency Basket	4.0	3.7	0.1	-11.7	-2.9	5.0
Australian Dollar vs USD	3.6	3.6	1.3	-11.1	-3.6	5.9

(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 March 2014 are summarised below.

Equity Markets

Global equity markets finished March on a modestly positive note, after struggling with a number of macroeconomic and geopolitical issues for much of the month. The first US Federal Reserve meeting and press conference under new Chairman Janet Yellen were important events, given the key role played by the Fed's stimulatory monetary policy in driving strong market returns over recent years, while investors also focussed on developments in the Ukraine and Russia, as well as softer economic data and financial strains appearing in China.

Fed Chairman Yellen's first meeting was always going to be a key event for markets, with investors largely expecting the central bank to continue along its path of tapering its asset purchase program, while dropping its unemployment rate threshold for future interest rate movements. Overall, the statement and accompanying press conference were slightly more aggressive than expected, with forecasts of the official interest rate from Fed board members suggesting an earlier rise in interest rates than previously expected. After initially selling off, equity markets quickly shrugged off the news, focussing instead on some improvement in US economic data later in the month.

Markets also continued to pay close attention to developments in China, with recent economic data, particularly a softening in export and credit growth, pointing toward a slowdown in economic growth. The country's first local corporate bond default and ongoing issues with the so-called shadow banking system (i.e. non-bank lenders, such as investment trust companies and some wealth management products) also elicited some concern from investors. Commodity markets reflected this uncertainty about China's economic growth outlook, with the prices of number of industrial metals falling sharply mid-month as investors reassessed the combination of lower expected Chinese consumption and significant stockpiles of some commodities.

Political turmoil in Ukraine and subsequent tensions with Russia were also a key focus for markets, particularly over the first half of the month. Fear of escalation in the region and the potential for a series of economically damaging sanctions saw global equity markets sell off, with European markets the hardest hit, given Russia being the major supplier of energy to the region. By month end, however, markets had calmed somewhat and largely recovered from the initial sell-off, with Russia apparently stopping at annexing Crimea and Western sanctions only affecting a small number of individuals.

Debt Markets

Improving economic data and relatively hawkish central bank commentary saw short- and intermediate-term government bond yields move higher in the US and Australia. Uncertainty surrounding the Chinese economy, the release of modest inflation data globally and lingering geopolitical risk all contributed, however, to longer-maturity bond yields in these markets finishing the month flat or even slightly lower. European bond yields, meanwhile, fell across all maturities as investors reacted to falling inflation in the region and began to price in a variety of potential easing actions from the European Central Bank. Against this backdrop, Australian and global sovereign bonds posted only modest returns of -0.1% and 0.4%, respectively.

Non-government debt sectors were resilient over the month, mostly trading in a reasonably tight range despite volatility in other markets, helping them outperform sovereign bonds. Emerging markets debt was the strongest performing sector for the second consecutive month, as that sector continues to rebound on the back of improvements in investor risk appetite following a sustained period of underperformance up to January.

Currency

Currency markets in March generally saw a weakening of the US dollar against most higher-yielding currencies, despite a significant rise in short-term US bond yields. The Australian dollar performed particularly well, outperforming all other major currencies on its way to finishing the month about 4% higher against the USD. The local currency was driven higher as positive surprises in retail trade surplus data, a buoyant labour market, and a slightly more hawkish central bank stance saw investors remove residual expectations of further official interest rate cuts in the near term. Emerging market currencies also performed strongly, posting a second consecutive month of gains, notwithstanding the ongoing concerns surrounding these markets, as investors seek value in these higher-yielding currencies following significant depreciation over recent months.

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