Performance Summary May 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 May 2014 included:

- Equity markets posted gains as a combination of dovish central bank commentary and further decline in overall market volatility offset lingering concerns over the strength of the Chinese economy;
- Government bond markets posted strong returns, as investors lowered their expectations of tighter monetary policy in the US and began to expect monetary policy easing from the European Central Bank at its upcoming June meeting; and
- Non-government debt securities were again among the best performing assets, benefitting from a falling government bond yield and strong investor demand for these income generating assets.

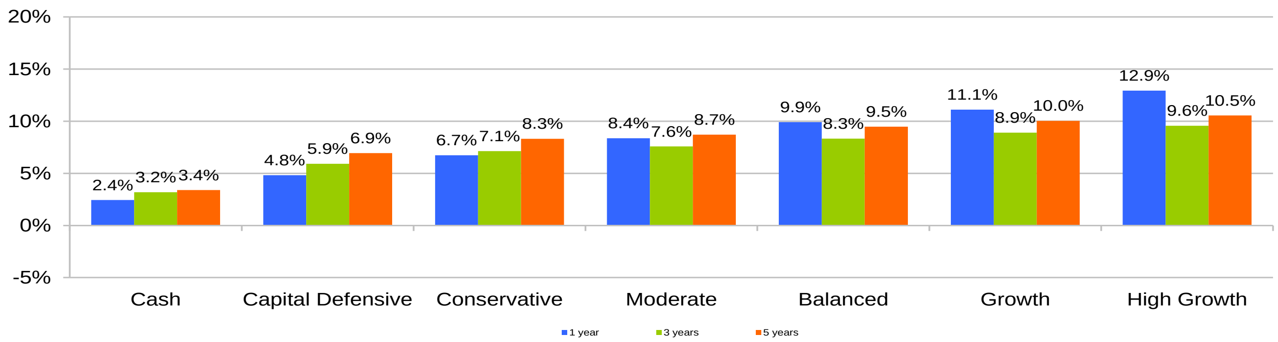
The table and chart below shows Funds SA's multi-sector taxable funds returns based on the post tax unit prices in the SLA.

Table 1: Multi-sector fund returns net of fees and tax to 31 May 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	2.2	2.4	3.2	3.4	3.9
Capital Defensive	0.8	1.5	5.7	4.8	5.9	6.9	4.6
Conservative	1.0	1.8	7.8	6.7	7.1	8.3	4.0
Moderate	1.1	2.0	9.5	8.4	7.6	8.7	3.5
Balanced	1.1	2.0	11.0	9.9	8.3	9.5	2.7
Growth	1.1	2.1	12.2	11.1	8.9	10.0	2.3
High Growth	1.0	2.1	13.9	12.9	9.6	10.5	2.0

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 May 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 May 2014	1 month %	3 months %	FYTD %	1 Year %	3 Years % pa	5 Years % pa
Cash and fixed income						
Cash	0.2	0.7	2.5	2.7	3.6	3.9
Australian Fixed Interest	1.4	2.3	5.2	4.1	6.9	6.6
Australian Inflation-Linked	3.1	4.3	7.7	3.6	8.3	8.8
Global Fixed Interest (1)	1.2	2.4	7.2	5.8	7.8	8.8
Global Inflation-Linked(1)	1.9	3.8	6.7	2.5	7.3	9.1
Property (2)						
Australian Listed Property	0.0	4.0	7.5	6.5	13.6	14.6
Global Listed Property	3.2	6.2	10.6	8.2	11.4	18.1
Equities(2)						
Australian Equities	0.6	2.6	19.0	16.1	9.7	12.1
Global Equities	2.2	3.2	20.0	17.1	11.9	14.1
US Equities	2.3	4.0	22.1	20.4	15.1	18.4
Japanese Equities	3.5	-0.1	7.4	7.6	14.9	7.9
Asia (ex Japan) Equities	3.4	4.1	11.9	6.5	2.8	9.4
European Equities	2.2	3.3	21.3	15.2	9.1	12.1
Global Small Companies	1.4	-0.6	21.6	18.8	12.0	17.7
Emerging Market Equities	2.9	4.7	11.4	5.8	2.9	9.1
Currency (3)						
Australian Dollar vs MSCI Currency Basket	0.6	4.4	0.5	-4.6	-3.4	2.9
Australian Dollar vs USD	0.4	4.0	1.7	-2.9	-4.4	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 May 2014 are summarised below.

Equity Markets

Global equity markets trended higher in May, particularly over the latter portion of the month as US markets reached new all-time highs. These gains were heavily influenced by a dovish policy outlook for the US Federal Reserve, expectations of monetary policy easing from the European Central Bank at its upcoming June meeting, and a further decline in overall market volatility.

In the US, attention shifted from a broadly positive US earnings season to the release of economic data which continued to show signs of recovery from the weather-affected start to the year. Increased global M&A activity, particularly within the technology, media, and telecommunications sectors, also boosted market sentiment. In other positive news, there were some tentative signs of improvement in the Chinese economy, with the release of stronger-than-expected manufacturing data. Weaker fixed asset investment and a slower rate of industrial production growth did, however, highlight the continued challenges faced by the Chinese leadership.

The European economy, meanwhile, continues to show a tepid rate of recovery, with both manufacturing and retail sales exhibiting only modest expansion, while the unemployment rate for the region fell slightly, although remains at elevated levels. Against this backdrop, the European Central Bank elected to keep interest rates at 0.25%, although accompanying commentary indicated that both conventional and unconventional policy measures would be considered in the future to help ward off the deflationary conditions that continue to threaten the region. The prospect of future monetary policy easing helped lift equity markets higher over the last half of the month.

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. The Federal budget was handed down in May, revealing a path to surplus over the coming years broadly at the expense of households, prompting a sharp fall in consumer confidence. Equity markets, however, responded in a relatively muted fashion to the budget announcement, instead focussing on offshore developments.

Debt Markets

Global bond markets rallied strongly in May, with government bond yields in most major markets moving materially lower over the month. The release of mixed economic data and a dovish policy outlook for the US Federal Reserve and European Central Bank placed downward pressure on rates of all maturities. Australian bonds also rallied strongly, with a number of developments specific to Australia intensifying the offshore lead. A modest degree of fiscal tightening associated with the Federal budget, a more substantial hit to business and consumer confidence, and relatively muted economic releases all supported the decline in bond yields. Inflation-linked bonds dramatically outperformed nominal bonds in most markets, despite no material change to inflation expectations, largely due to the longer duration nature of the asset class.

Emerging market bonds again outperformed the developed markets, with the combination of low currency volatility, a dovish outlook from major central banks, and attractive valuations following the sell-off in emerging market assets in 2013, providing an ideal backdrop for strong emerging market asset performance in May.

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

Currency

Most major currencies traded in a range-bound fashion throughout the month. The Australian dollar finished the month largely unchanged, while the euro gave back its prior month’s gains against the US dollar after the European Central Bank signalled imminent easing following soft inflation and economic growth data in the region. Emerging market currencies posted a fourth consecutive month of gains, benefitting from attractive valuations, lower developed market yields, overall falling market volatility, and more sanguine investor sentiment toward the potential for liquidity and growth problems in these markets.

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