Performance Summary May 2015

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

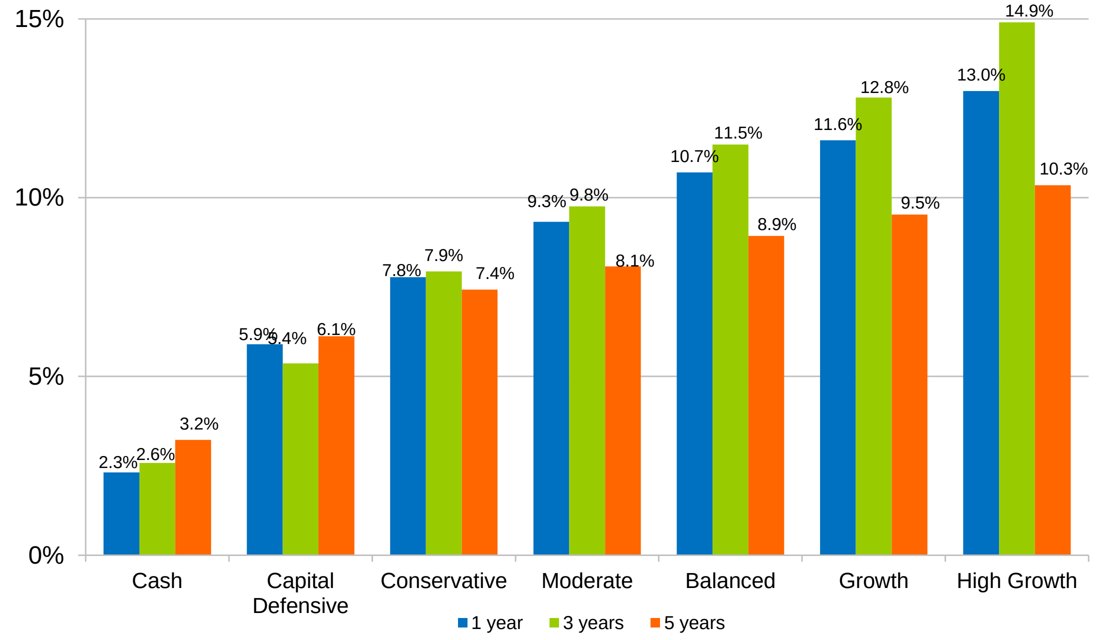
The table and chart below show Funds SA's multi-sector taxable fund returns based on the post tax unit pricing model detailed in the SLA.

Table 1: Multi-sector fund returns net of fees and tax to 31 May 2015 [1, 2]

	1 mth %	3 mths %	FYTD %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Cash	0.2	0.5	2.1	2.3	2.6	3.2	3.5	4.0
Capital Defensive	0.3	0.4	5.5	5.9	5.4	6.1	5.2	5.5
Conservative	0.5	0.5	7.4	7.8	7.9	7.4	5.4	6.0
Moderate	0.6	0.7	8.9	9.3	9.8	8.1	5.3	n.a.
Balanced	0.7	0.8	10.3	10.7	11.5	8.9	5.0	6.4
Growth	0.8	1.0	11.2	11.6	12.8	9.5	5.0	6.8
High Growth	1.0	1.2	12.7	13.0	14.9	10.3	5.1	7.1

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 May 2015



Key drivers of performance during May 2015 included:

- Improving European economic growth and inflation data triggered a sharp rise in government bonds yields, as the European Central Bank's aggressive policy easing appears to be having the desired effect on the region's economy.
- Higher government bond yields in all major markets drove negative returns in government and investment-grade corporate debt markets alike.
- Most global equity markets managed to deliver positive returns despite the headwinds of higher bonds yields and rising anxiety over Greece's ability to meet upcoming payment obligations to the International Monetary Fund.

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 May 2015

	1 mth %	3 mths %	FYTD %	1 Year %	3 Years % p.a.	5 Years % p.a.
Cash and fixed income						
Australian Cash	0.2	0.6	2.4	2.6	2.9	3.7
Australian Government	-0.1	-0.8	7.0	8.0	3.9	6.5
Australian Inflation-Linked	-0.6	-1.9	8.5	9.7	4.9	8.9
Global Treasuries(1)	-0.4	0.1	7.4	8.1	6.3	7.5
Global Inflation-Linked(1)	-0.7	0.7	7.6	7.8	4.7	8.2
Credit						
Global Credit(1),(2)	-0.2	0.0	6.0	6.4	7.3	8.9
Global High Yield(1)	0.5	2.5	3.4	4.6	11.6	12.8
Emerging Market Debt(4)	-0.5	1.9	0.1	0.7	5.3	7.3
Property						
Australian Listed Property	2.7	-0.3	25.2	29.3	21.6	14.9
Equities(3)						
Australian Equities	0.4	-1.3	11.5	9.9	17.0	10.1
Global Equities	1.3	1.9	11.7	13.2	19.8	13.5
US Equities	1.3	0.6	9.5	11.8	19.7	16.5
European Equities	0.8	2.4	12.6	11.5	19.2	10.9
Japanese Equities	5.2	10.9	35.8	42.7	35.5	16.0
Asia (ex Japan) Equities	-1.6	5.2	12.5	15.0	12.9	9.0
Emerging Market Equities	-2.5	3.2	9.0	11.7	10.6	7.7
Global Small Companies	2.4	3.9	11.3	14.7	21.8	15.2
Currency (5)						
Australian Dollar vs Developed Market Basket	-2.3	-1.3	-13.0	-12.2	-5.7	-1.4

(1) Australian dollar return (hedged)

(2) Includes obligations of corporates, supranational agencies, and other government-related (e.g. government agencies, government guaranteed bank debt, etc)

(3) Local currency return

(4) Hedged to USD

(5) A positive number represents appreciation of the Australian dollar. A negative number represents depreciation.

Key factors impacting financial markets performance during May 2015 are summarised below.

Equity Markets

Global equity market performance was again mixed in May, with significant divergence between regions.

Equity markets in Europe and the US continued to grind higher this month, managing to post modest positive returns despite several challenges. In Europe, data indicative of a steady improvement in economic conditions lifted markets higher, as the European Central Bank's aggressive policy easing appears to be having the desired effect. Offsetting this, however, investors began to increasingly focus on the lack of agreement over a Greek bailout extension, which caused a pause in the risk rally, while rising bond yields provided another headwind. Meanwhile in the US, equity markets were resilient in the face of disappointing economic data, largely attributed to the harsh winter weather conditions in the first quarter, the recent strength of the US dollar and rising bond yields.

After materially outperforming in April, emerging market equities experienced a modest pullback this month, as conditions in the emerging world continue to soften with trade flows, particularly from Asia, unexpectedly weak in response to muted growth in developed market demand in the first quarter. China announced more stimulus measures during the month, aimed at lifting growth back up towards the official target. However, this was insufficient to prevent Chinese equities from delivering a negative return for the month.

In Australia, the month of May saw some important policy developments, with the Reserve Bank of Australia (RBA) again trimming the cash rate and Treasurer Joe Hockey releasing his second budget. In contrast to last year, the reaction to the budget was broadly positive, which combined with the RBA's rate cut, helped lift consumer confidence. Most other data released during May was on the softer side, with employment falling and business confidence holding steady at depressed levels. Nevertheless, the Australian equity market finished the month slightly higher, despite a meaningful sell-off in the four major banks on growing speculation that the regulator will force them to hold higher capital levels.

Debt Markets

Government bond markets experienced considerable volatility in May, with bond yields rising sharply early in the month before reversing most of the move in the final days of the month. However, with yields ultimately finishing the month higher in most major markets, government bonds delivered a negative return for the month. European markets led the sell-off, as a trend of improving European economic data saw some market participants speculate that the European Central Bank (ECB) could scale back its quantitative easing program if growth and inflation were to stabilise in the region. Despite the release of softer economic data in the US, which would usually be expected to lower bond yields, US bond markets also sold-off in line with developments in Europe. Market sentiment improved significantly later in the month, following official statements from the ECB that its QE program would continue as planned, and amid growing concerns surrounding the ability of Greece to reach an agreement ahead of some important payments to the International Monetary Fund due in early June.

Non-government debt sector performance was mixed in May, with those higher risk segments of the market, such as high yield corporate bonds and emerging market debt, significantly outperforming lower risk sectors. The risk premium demanded for holding higher yielding bonds contracted in both the US and Europe, while the premium for holding investment-grade securities widened slightly, with the combination of strong supply and a higher interest-rate sensitivity weighing on those markets.

Currency

In a reversal of April's trend, the US dollar gained against nearly all currencies in May. US Federal Reserve Chair Janet Yellen delivered a slightly hawkish speech that referenced a likely 2015 interest rate hike, which instantly reoriented currency markets toward a stronger US dollar. Further concerns surrounding Greece weighed on the euro, while the Japanese yen neared decade-low levels against the US dollar. The Australian dollar also suffered, driven lower by concerns as to the strength of the Chinese economy and the broad-based strengthening of the US dollar.

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