Performance Summary October 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

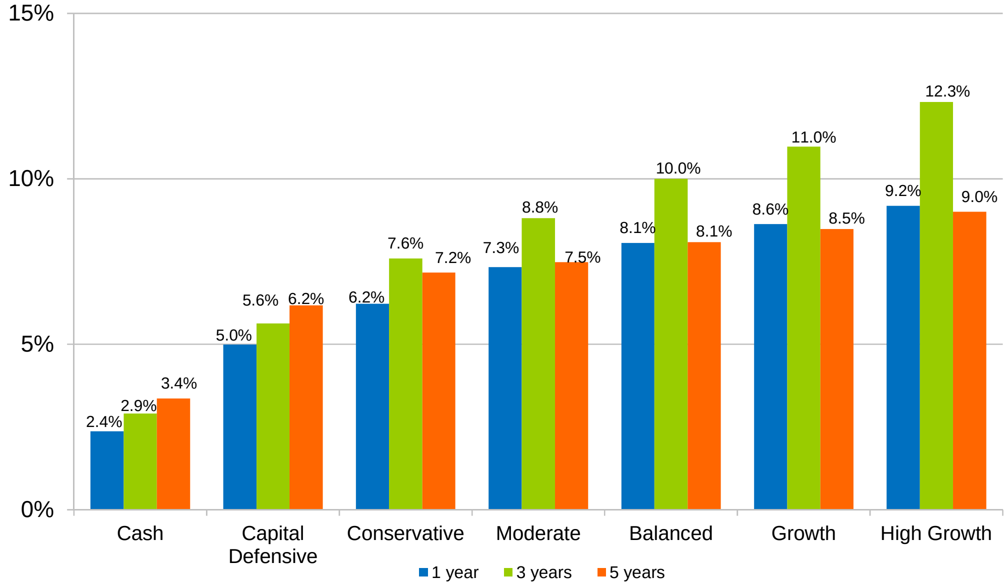
The table and chart below show Funds SA's multi-sector taxable fund returns based on the post tax unit pricing model detailed in the SLA.

Table 1: Multi-sector fund returns net of fees and tax to 31 October 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	0.8	2.4	2.9	3.4	3.7
Capital Defensive	0.6	1.0	1.3	5.0	5.6	6.2	4.5
Conservative	0.9	1.2	1.7	6.2	7.6	7.2	3.9
Moderate	1.2	1.5	2.2	7.3	8.8	7.5	3.4
Balanced	1.4	1.6	2.5	8.1	10.0	8.1	2.6
Growth	1.6	1.7	2.8	8.6	11.0	8.5	2.3
High Growth	1.9	1.9	3.1	9.2	12.3	9.0	1.9

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 October 2014



Key drivers of performance during October 2014 included:

- Financial markets experienced a significant increase in volatility across all asset classes.
- Policy divergence among major central banks remains a key driver of markets, with the US Federal Reserve ending its asset purchase program at the same time that additional stimulus measures were being announced in Europe and Japan.
- Maintenance of an overall accommodative global monetary policy environment provided a positive backdrop for equity markets.
- Falling government bond yields drove strong returns in government and non-government debt markets alike.
- Deteriorating economic data in Europe and China weighed on commodity prices.

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 October 2014

	1 mth %	3 mths %	FYTD %	1 Year %	3 Years % p.a.	5 Years % p.a.
Cash and fixed income						
Australian Cash	0.2	0.7	0.9	2.7	3.3	3.9
Australian Government	1.2	1.8	2.2	6.9	5.6	6.4
Australian Inflation-Linked	0.9	1.3	1.6	10.2	7.4	8.6
Global Treasuries(1)	0.9	2.4	3.1	7.9	7.1	7.7
Global Inflation-Linked(1)	1.2	1.9	2.6	7.2	6.2	8.4
Credit						
Global Credit(1),(2)	1.0	2.0	2.4	8.7	8.5	9.4
Global High Yield(1)	1.0	0.5	-0.2	8.6	13.1	14.0
Emerging Market Debt(4)	1.6	-0.1	0.0	7.2	6.7	8.3
Property						
Australian Listed Property	6.5	2.7	7.8	16.5	20.0	12.0
Equities(3)						
Australian Equities	4.3	-0.7	3.7	6.1	13.3	7.9
Global Equities	1.1	2.8	2.0	12.2	16.8	12.3
US Equities	2.4	5.0	3.6	17.3	19.8	16.7
European Equities	-1.6	0.0	-1.8	4.6	13.0	8.4
Japanese Equities	0.8	4.4	6.6	13.9	22.9	10.4
Asia (ex Japan) Equities	2.1	-1.8	2.2	7.2	8.6	7.2
Emerging Market Equities	1.4	-0.9	2.1	5.9	7.8	7.0
Global Small Companies	2.0	1.6	-1.6	8.8	17.5	14.9
Currency (5)						
Australian Dollar vs Developed Market Basket	1.1	-3.0	-3.5	-4.2	-4.2	0.3

(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 October 2014 are summarised below.

Equity Markets

Most global equity markets finished October in positive territory, notwithstanding a sharp sell-off at the start of the month and an increase in market volatility. The first two weeks of October saw equity markets fall sharply as investors grew increasingly concerned about the global economic growth outlook outside of the US. Investor sentiment improved over the second half of the month, however, causing equity markets to rebound strongly. This recovery was largely driven by the release of encouraging third quarter US corporate earnings data, and maintenance of the accommodative global monetary policy environment.

In line with market expectations, the US Federal Reserve brought its asset purchase program (so-called ‘quantitative easing’) to an end in late October, closing a program that had provided significant support to markets over recent years. The void left by the US Fed was quickly filled, however, by action from two other major central banks – the European Central Bank began its previously announced covered bond purchase program and were rumoured to be considering purchasing corporate bonds, while the Bank of Japan unexpectedly increased the size of its already-significant asset purchase program. These moves were instrumental in revitalising markets in the latter half of the month, as prior to these announcements, investors had become increasingly focussed on a low global growth outlook and the prospect for eventual interest rate rises in the US.

In another positive development for markets, the European Central Bank released its long awaited Asset Quality Review in late October, representing a comprehensive analysis of the European banking sector's exposures and testing the ability of the region's banking system to absorb losses. Together with the latest stress test from the European Banking Authority, these reports aimed to allay investor fears as to the level risk remaining in the European financial system. Overall, the results were in line with expectations, with only a small number of minor banks failing the stress tests.

The Australian equity market outperformed global markets this month, rebounding strongly after a poor month in September. The strength in the local market was largely driven by strong corporate earnings announcements from the major banks, and came despite deteriorating economic data in Europe and China, and falling commodity prices – most notably a 10% fall in crude oil prices and iron ore which remains down more than 40% this year – which had a significant impact on the local resource-heavy index.

Debt Markets

October was also an incredibly volatile month for debt markets, with government bond yields fluctuating wildly during the month. The largest moves came early in the month when government bond yields declined in all major markets amid significant weakness in equity markets, growing concerns as to the growth prospects for the global economy, and declining inflation expectations, the latter being largely driven by a sharp fall in oil prices. Bond yields did rebound in the second half of the month as investor sentiment improved, but not enough to erase the earlier falls. As a result, most government bond markets finished the month higher.

Non-government debt sectors performed broadly in line with government bonds this month, as the risk premium demanded for holding these securities was broadly stable while the underlying sovereign bond yield declined. Recovering from a challenging September, emerging market debt outperformed other non-government debt sectors this month, with investors expecting additional stimulus from major central banks and a sharp fall in oil prices to underpin a constructive inflation and growth backdrop for emerging markets.

Currency

The US dollar continued to strengthen against most currencies this month, with the yen and euro especially affected, after the Bank of Japan unexpectedly announced a significant increase to its stimulus package and hints that the European Central Bank would broaden the scope of its asset purchase program. In contrast, higher-yielding currencies, such as the Australian dollar, rebounded from last month's sharp sell-off, finishing the month slightly higher against the USD.

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