Performance Summary September 2013

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 September 2013 included:

- A surprise decision by the US Federal Reserve to delay winding down its asset purchase program, which triggered strong returns across most asset classes;
- Investor sentiment continued to be buoyed by the release of generally positive economic data in the US and China;
- Diminishing concerns over the potential for military conflict in Syria also improved market sentiment and triggered a fall in oil prices, providing a further boost to risk-oriented assets; and
- Heightened concern over the ability of US lawmakers to agree on a resolution that would increase the nation's debt ceiling ahead of a mid-October deadline saw an increase in market volatility and a sell-off in risk-oriented assets late in the month.

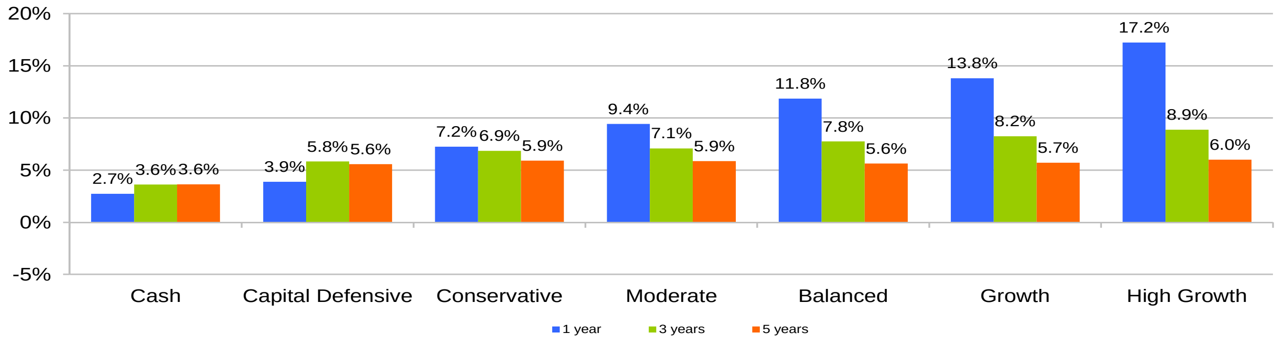
The table and chart below shows Funds SA's multi-sector taxable funds returns based on the post tax unit prices in the SLA.

Table 1: Multi-sector fund returns net of fees and tax to 30 September 2013 [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	0.6	2.7	3.6	3.6	4.2
Capital Defensive	0.6	1.6	1.6	3.9	5.8	5.6	4.7
Conservative	0.9	2.4	2.4	7.2	6.9	5.9	4.5
Moderate	1.1	3.0	3.0	9.4	7.1	5.9	4.1
Balanced	1.3	3.8	3.8	11.8	7.8	5.6	3.6
Growth	1.5	4.4	4.4	13.8	8.2	5.7	3.4
High Growth	1.7	5.3	5.3	17.2	8.9	6.0	3.3

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 30 September 2013



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 30 September 2013	1 month %	3 months %	FYTD %	1 Year %	3 Years % pa	5 Years % pa
Cash and fixed income						
Cash	0.2	0.7	0.7	3.1	4.1	4.2
Australian Fixed Interest	0.5	1.0	1.0	1.8	6.8	6.9
Australian Inflation-Linked	0.7	0.4	0.4	-3.4	7.5	5.3
Global Fixed Interest (1)	1.0	1.4	1.4	3.2	7.4	9.0
Global Inflation-Linked(1)	1.1	1.1	1.1	-0.3	7.6	8.2
Property (2)						
Australian Listed Property	0.9	0.1	0.1	16.4	12.0	0.7
Global Listed Property	4.9	0.6	0.6	15.8	13.0	7.3
Equities(2)						
Australian Equities	2.2	10.3	10.3	23.6	8.9	7.1
Global Equities	3.7	6.4	6.4	22.3	12.1	7.4
US Equities	3.1	5.2	5.2	19.3	16.3	10.0
Japanese Equities	8.4	5.7	5.7	65.6	15.0	3.5
Asia (ex Japan) Equities	4.0	5.4	5.4	7.6	3.1	9.9
European Equities	3.6	8.1	8.1	20.6	8.1	6.4
Global Small Companies	5.6	9.8	9.8	30.8	14.9	11.1
Emerging Market Equities	4.3	5.8	5.8	6.2	3.1	8.5
Currency (3)						
Australian Dollar vs MSCI Currency Basket	3.7	0.7	0.7	-8.8	-0.9	3.1
Australian Dollar vs USD	5.0	2.2	2.2	-10.1	-1.2	3.5

(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 September 2013 are summarised below.

Equity Markets

Global equity markets moved higher over the month of September, recovering losses suffered in the previous month. A macro backdrop in which many of the systemic market risks that had been weighing on financial markets over recent months diminished, proved to be highly supportive to risk assets, with equities in both developed markets (+3.7%) and emerging markets (+4.3%) posting healthy gains for the month.

The key driver of market performance across all markets was the surprise decision of the US Federal Reserve to delay the scaling back of its asset purchase program, which had been widely tipped to commence in September. The continuation of this program, which has significantly buoyed financial markets over the past several years, provided a strong boost to market confidence and equity prices.

In other “equity-friendly” developments, speculation grew that the Obama administration will appoint deputy chair Janet Yellan to replace outgoing US Federal Reserve Chairman Bernanke, which has been widely interpreted as posing little risk to the Fed’s current monetary policy stance, oil prices receded as it became apparent that world leaders had avoided military action in Syria, and further signs of improvement in US and Chinese economic data helped allay concerns over the global economic growth outlook.

Global equity markets began to falter toward the end of the month, however, amid growing scepticism as to the US legislature’s ability to reach consensus on two crucial upcoming policy issues. The first being the requirement for Congress to pass a new budget by 30 September, or automatically trigger a partial shutdown of the US government – something which has ultimately occurred. And the second issue is the requirement to raise the so-called “debt-ceiling” – the limit on the debt that can be issued by the US government without congressional approval – by mid-October. While markets have seemingly accepted that the consequence of a relatively short government shutdown would be only a modest drag on economic growth, they have become increasingly concerned as to the growing risk of Congressional inaction triggering a debt-ceiling-related default in mid-October. This led to a period of heightened volatility and a sell-off in equity markets over the last week of September.

European issues also returned to the fore in September, with political developments providing financial markets with a timely reminder as to the fragility of the economic recovery in that region. Market volatility increased leading into German federal elections which had the potential to dramatically change the dynamic in Europe. A strong victory to Chancellor Merkel’s incumbent CDU party, however, helped convince markets that Germany’s stance on the Eurozone would remain largely unchanged. Meanwhile, political developments in Italy also upset markets in September, with former Prime Minister Berlusconi threatening to withdraw his party from the ruling coalition, an act that would undo the government’s narrow grip on power and likely trigger fresh elections. As the month drew to a close, however, it appeared unlikely that this would eventuate, giving markets some comfort, though this latest episode again highlights the continued weakness in that country’s political and economic foundations.

In Australia, the Federal election developed a changed in government, though this was widely anticipated and had very little impact on financial markets. The domestic economy continues to exhibit signs of weakness, with retail sales and employment data well below expectations. Offshore leads, and in particular positive economic news out of China, however, provided sufficient support for equity markets to post a monthly gain, although the local market underperformed offshore peers.

Debt Markets

Government bond yields fell in all major markets in September, following the US Federal Reserve’s surprise decision to delay the scaling back of its asset purchase program. While a backdrop of improving market sentiment and expectations of tighter monetary policy in the US saw bond yields continue on their upward trend over the first half of the month, the Fed's surprise decision triggered a sharp fall in yields. By month end, bond yields had fallen to well below where they started the month, leading to strong returns across all debt markets.

Like other risk assets, non-government debt markets also benefited from the reduction in systemic risk factors and an extension of central bank liquidity that has buoyed the sector over recent years. While the risk premium demanded for holding these assets compressed only marginally through September, the large fall in underlying government bond yields saw strong returns to all non-government debt sectors.

Currency

Currency markets were also dominated by the US Federal Reserve's decision to defer winding down its asset purchase program, an action that saw a broad-based weakening of the US dollar. All developed market currencies finished September higher against the US dollar, with the British pound and Euro among the strongest performers, buoyed by improving European economic data. Emerging market currencies also rebounded sharply after a period of weakness over recent months.

The Australian dollar also benefited from the decision of the Reserve Bank of Australia to keep domestic interest rates on hold at 2.5%, with the accompanying commentary indicating a more neutral stance to future interest rate policy than in previous months, leading investors to speculate that the current easing cycle may have ended. As such, the AUD finished September above US$0.93, representing a gain of 4.9% against the USD and 3.7% against the broader basket of developed market currencies.