Performance Summary September 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

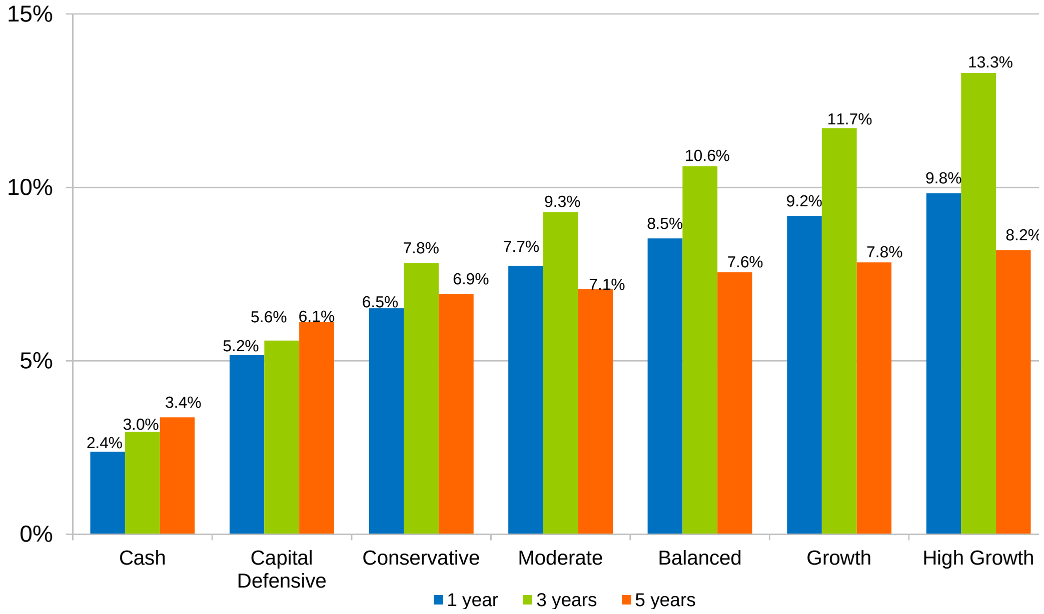
The table and chart below show Funds SA's multi-sector taxable fund returns based on the post tax unit pricing model detailed in the SLA.

Table 1: Multi-sector fund returns net of fees and tax to 30 September 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	0.6	2.4	3.0	3.4	3.8
Capital Defensive	-0.3	0.7	0.7	5.2	5.6	6.1	4.5
Conservative	-0.6	0.8	0.8	6.5	7.8	6.9	3.9
Moderate	-0.7	1.0	1.0	7.7	9.3	7.1	3.4
Balanced	-0.9	1.1	1.1	8.5	10.6	7.6	2.6
Growth	-1.0	1.2	1.2	9.2	11.7	7.8	2.3
High Growth	-1.2	1.2	1.2	9.8	13.3	8.2	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 30 September 2014



Key drivers of performance during September 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, amid growing expectations that the US Federal Reserve will soon raise interest rates, at the same time that additional stimulus measures are being announced in Europe.
- Rising government bond yields adversely impacted both equity and debt markets alike.
- Deteriorating economic data in China and weaker commodity prices weighed heavily on the Australian equities market.

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 30 September 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	0.7	2.6	3.4	3.9
Australian Government	-0.5	1.0	1.0	5.4	4.9	6.1
Australian Inflation-Linked	-1.2	0.7	0.7	9.3	6.5	8.6
Global Treasuries(1)	0.0	2.2	2.2	8.0	6.7	7.6
Global Inflation-Linked(1)	-1.6	1.4	1.4	7.2	6.0	8.4
Credit						
Global Credit(1),(2)	-0.6	1.3	1.3	9.2	8.7	9.4
Global High Yield(1)	-1.7	-1.2	-1.2	10.3	14.9	14.2
Emerging Market Debt(4)	-2.4	-1.6	-1.6	8.3	7.7	7.9
Property						
Australian Listed Property	-5.1	1.2	1.2	12.3	19.0	8.6
Equities(3)						
Australian Equities	-5.4	-0.6	-0.6	5.7	14.4	6.6
Global Equities	-1.0	0.8	0.8	15.3	19.6	11.5
US Equities	-1.4	1.1	1.1	19.7	23.0	15.7
European Equities	-0.2	-0.2	-0.2	10.9	16.5	8.2
Japanese Equities	4.7	5.8	5.8	13.0	22.9	9.9
Asia (ex Japan) Equities	-4.1	0.1	0.1	8.7	11.2	6.6
Emerging Market Equities	-4.2	0.7	0.7	8.6	10.5	6.6
Global Small Companies	-3.8	-3.5	-3.5	10.1	20.5	13.4
Currency (5)						
Australian Dollar vs Developed Market Basket	-4.9	-4.6	-4.6	-3.9	-2.2	0.4

(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 September 2014 are summarised below.

Equity Markets

Most global equity markets traded lower in September amid a sharp rise in volatility over the month. Central bank policy remains a crucial driver of markets, with the US Federal Reserve (Fed) set to complete its quantitative easing program in October, and the European Central Bank (ECB) announcing additional stimulus measures at their September meeting. In China, the latest round of economic data indicates that growth is falling short of the official target, which prompted the announcement of additional bank liquidity measures to help stimulate growth.

In the US, the key event was the Federal Reserve meeting mid-month, where the Fed continued to gradually scale back its quantitative easing program. The accompanying statement was a focal point, with investors scrutinising the Fed members' forecasts for the federal funds rate, in search of any indication as to the likely timing and pace of future interest rate increases. In Europe, the ECB strengthened its stance to combat the continued stream of weak economic data and stagnant inflation, by announcing a further 0.10% cut to key interest rates. The ECB also announced measures of unconventional monetary policy easing, which includes the purchase of asset-backed securities and covered bonds.

The Australian equity market materially underperformed global markets this month, falling by over 5% – the worst monthly result since the peak of the Eurozone crisis in May 2012. Stocks slid on the back of deteriorating economic data in Europe and China, and falling commodity prices – most notably iron ore which crashed to a five year low during the month – which had an exceptionally significant impact on the local resource-heavy index.

Debt Markets

September was a volatile month for debt markets, with government bond yields fluctuating wildly during the month. Hawkish commentary from some members of the US Federal Reserve pushed shorter-maturity bond yields (i.e. those that are most sensitive to monetary policy) to multi-year highs early in the month. The announcement of further monetary policy easing from the European Central Bank, which the market interpreted as being ultimately supportive for economic growth, also placed upward pressure on bond yields. Over the second half of the month, however, a significant increase in volatility across all asset classes saw renewed demand for high-quality, safe-haven government bonds. As a result, most government bond markets retraced most of their earlier losses, finishing the either flat or marginally negative.

Inflation-linked bonds underperformed their nominal counterparts this month, reflecting moderate falls in inflation expectations in some of the major markets, with inflation in Europe remaining particularly weak.

Performance of non-government debt sectors was poor this month, with these sectors adversely affected by both the underlying sovereign bond yields and the risk premium demanded for holding these securities moving higher over the month. Those higher risk segments of the market, such as high yield corporates and emerging market debt, were the hardest hit.

Currency

The US dollar continued to strengthen against most currencies this month, amid growing expectations that the US Federal Reserve will raise interest rates well ahead of its counterparts in Japan and the Eurozone. Combined with this backdrop of broad-based US dollar strength, weaker commodity prices – notably iron ore – and weak economic data in China saw the Australian dollar slump, finishing the month more than 6% lower against USD.

Disclaimer