Performance Summary September 2016

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

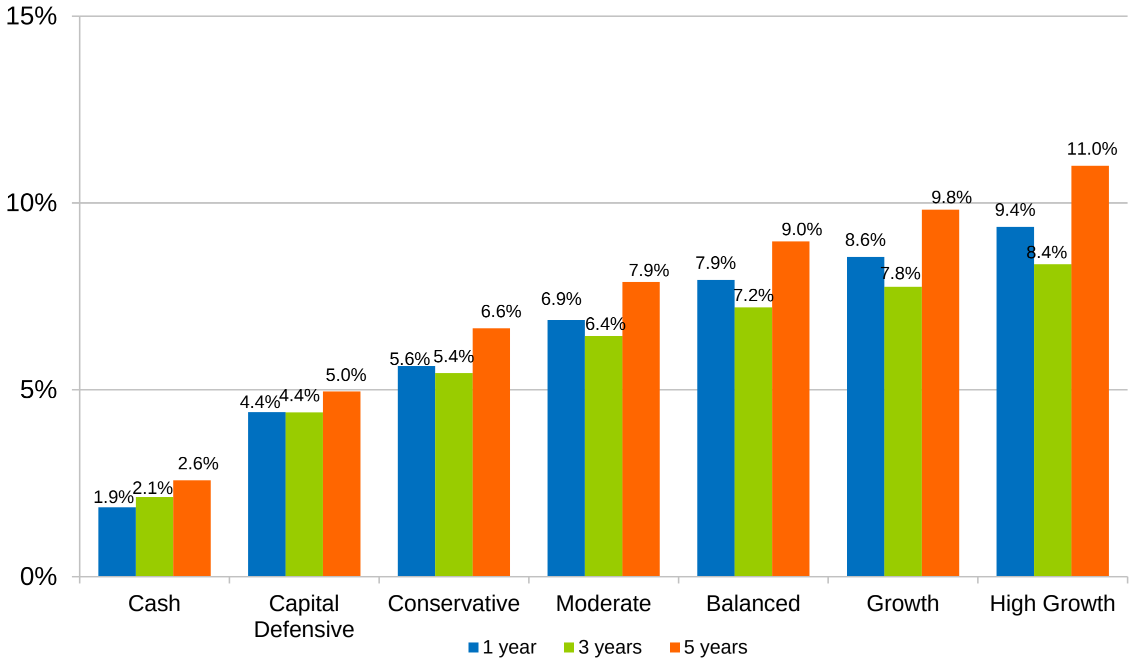
The table and chart below show Funds SA's multi-sector taxable fund returns based on the post tax unit pricing model detailed in the SLA.

Table 1: Multi-sector fund returns net of fees and tax to 30 September 2016 [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	0.1	0.4	0.4	1.9	2.1	2.6	3.0	3.6
Capital Defensive	0.0	1.3	1.3	4.4	4.4	5.0	5.5	4.6
Conservative	0.0	1.9	1.9	5.7	5.4	6.6	6.3	4.8
Moderate	0.1	2.3	2.3	6.9	6.4	7.9	6.7	4.8
Balanced	0.2	2.7	2.7	7.9	7.2	9.0	7.3	4.6
Growth	0.2	3.0	3.0	8.6	7.8	9.8	7.6	4.7
High Growth	0.3	3.5	3.5	9.5	8.4	11.0	8.0	4.8

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 2016



Key drivers of performance during September 2016 included:

- Monetary policy divergence as statements from the Bank of Japan and European Central Bank contrasted to rhetoric from the US Federal Reserve to raise rates.
- Concerns around the health of the European banking system.
- Rising commodity prices supporting commodity linked corporate sectors.

This market proved challenging for most portfolios as yields rose in line with US interest rate and inflation expectations. Commodity linked corporate bonds and Australian equities performed relatively well. Equities sectors sensitive to bond yields rising underperformed significantly.

Asset Allocation

The targeted asset allocation of the multi-sector funds is shown in the table below.

Table 2: Targeted asset allocation for the 2016-2017 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	30.0	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	16.0	12.0	9.0	6.0	0.0
Diversified Strategies Income	0.0	17.0	18.0	17.0	16.0	16.0	12.0
Property B	0.0	6.0	9.0	10.0	12.0	14.0	16.0
Australian Equities B	0.0	7.0	13.0	17.0	23.0	26.0	33.0
International Equities B	0.0	5.0	11.0	15.0	19.0	22.0	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 2016

	1 mth %	3 mths %	FYTD %	1 Year %	3 Years % p.a.	5 Years % p.a.
Cash and fixed income						
Australian Cash	0.1	0.5	0.5	2.2	2.4	2.9
Australian Government	-0.4	0.8	0.8	6.1	6.3	5.6
Australian Inflation-Linked	-1.1	0.8	0.8	3.4	6.9	6.2
Global Treasuries(1)	0.0	0.2	0.2	8.5	7.7	7.1
Global Inflation-Linked(1)	0.2	4.1	4.1	13.1	8.4	7.2
Credit						
Global Credit(1),(2)	-0.1	2.0	2.0	9.8	7.6	7.9
Global High Yield(1)	0.8	5.5	5.5	15.6	8.4	11.9
Emerging Market Debt(4)	0.3	3.7	3.7	16.8	7.4	7.4
Property						
Australian Listed Property	-4.3	-1.9	-1.9	20.9	17.7	19.6
Equities(3)						
Australian Equities	0.5	5.2	5.2	13.5	6.0	11.0
Global Equities	0.2	4.8	4.8	10.5	8.1	13.4
US Equities	0.0	3.9	3.9	15.4	11.2	16.4
European Equities	0.4	5.7	5.7	7.0	5.8	11.0
Japanese Equities	-0.1	7.2	7.2	-4.5	5.4	13.9
Asia (ex Japan) Equities	1.3	8.8	8.8	13.7	4.9	7.9
Emerging Market Equities	0.5	7.7	7.7	13.4	4.7	7.3
Global Small Companies	1.1	7.0	7.0	12.0	8.6	15.3
Currency (5)						
Australian Dollar vs Developed Market Basket	1.6	2.9	2.9	8.6	-4.5	-3.2

(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 market performance during September 2016 are summarised below.

Equity Markets

Global and Australian equity markets posted modest positive returns in September despite heightened uncertainty emanating from rising interest rates and geo-political concerns.

Central bank policy remained in focus with key meetings of the Bank of Japan, European Central Bank and US Federal Reserve highlighting a divergence in monetary policy. The Bank of Japan announced an additional expansion of its unconventional monetary policy program in the face of a lacklustre domestic economic outlook, while the European Central Bank reiterated the bias towards looser policy, but held off on announcing any measures at this meeting. In contrast, monetary policy guidance from the US Federal Reserve highlighted a bias towards tightening with an interest rate increase by the end of 2016 looking more likely as US economic conditions continue to show strength.

Financials stocks fell over the month amidst heightened concerns about the health of the European banking system. Concerns around the solvency of the German lender Deutsche Bank were the epicentre of these issues, as the US Department of Justice announced that it was levelling a larger than expected fine on Deutsche Bank. This issue reignited market concerns around European banks, which are already struggling with negative interest rates and lingering bad debts. These concerns had somewhat abated by the end of month on news that Deutsche was close to reaching a settlement with the US Department of Justice.

Commodity prices were generally higher over the month, a factor that proved to be a positive for commodity linked sectors. In a move that surprised financial markets, member states of the Organisation for Petroleum Exporting Countries (OPEC) came to an agreement to cap oil production. This saw crude oil rise over the month, despite lingering uncertainty around the specifics of the deal. Industrial metals were mixed as investors pondered the outlook for Chinese demand.

Debt Markets

Global government bond markets ended the month largely unchanged despite heightened volatility. Concerns around a faster than expected US interest rate tightening cycle saw global treasuries rise at the start of the month but this eased as the month drew to a close. Australian bonds however, rose during the month as comments from the new governor dashed expectations of further rate cuts while the issuance of a new 30 year government bond created technical pressures for yields to rise.

Non-government debt markets produced modest positive returns over the month. Rising commodity prices buoyed commodity-linked issuers, while the broader market benefited from a backdrop of accommodative monetary policy and sustained investor demand for high yielding assets. This environment was particularly favourable for high yield corporates.

Currency

Currency markets experienced heightened volatility over the month. The US Dollar weakened modestly as the US Federal Reserve deferred increasing interest rates. The British Pound also weakened as investors pondered the implications of the UK’s exit from the European Union, while the Euro staged a late month recovery, ending September largely unchanged as concerns around the stability of the European banking system abated. Rising commodity prices benefitted the Australian Dollar and other commodity linked currencies.

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