# Performance Summary August 2015

## 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

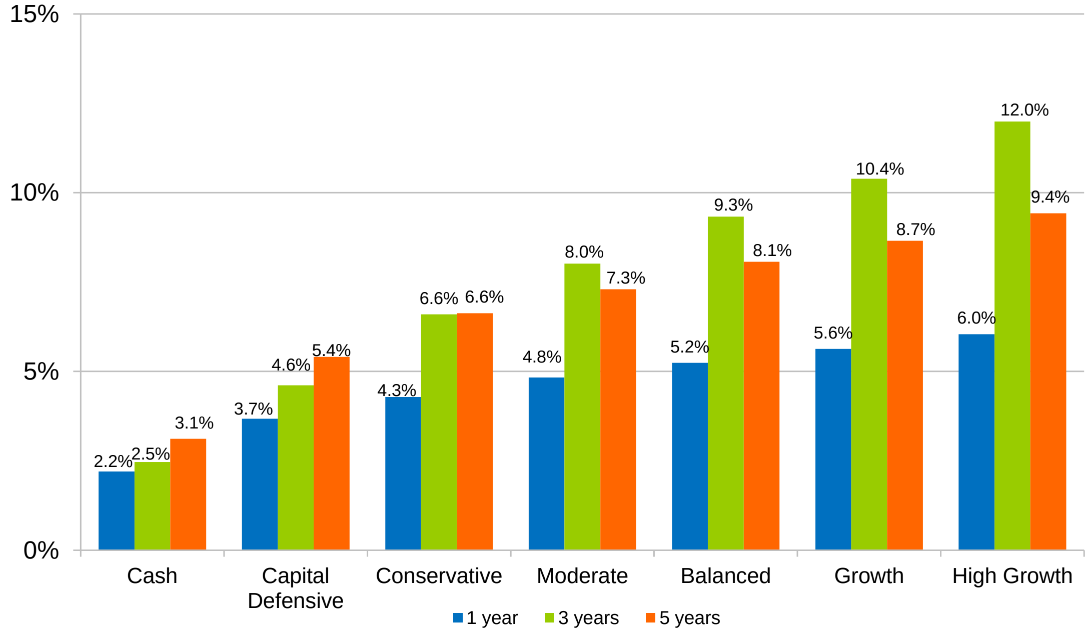
The table and chart below show Funds SA's multi-sector taxable fund returns based on the post tax unit pricing model detailed in the SLA.

### Table 1: Multi-sector fund returns net of fees and tax to 31 August 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 | 0.3 | 2.2 | 2.5 | 3.1 | 3.3 | 4.0 |
| Capital Defensive | -0.8 | -0.7 | 0.2 | 3.7 | 4.6 | 5.4 | 5.0 | 5.1 |
| Conservative | -1.6 | -1.6 | -0.2 | 4.3 | 6.6 | 6.6 | 5.3 | 5.4 |
| Moderate | -2.2 | -2.1 | -0.4 | 4.8 | 8.0 | 7.3 | 5.3 | n.a. |
| Balanced | -2.8 | -2.7 | -0.7 | 5.2 | 9.3 | 8.1 | 5.2 | 5.5 |
| Growth | -3.2 | -2.9 | -0.9 | 5.6 | 10.4 | 8.7 | 5.3 | 5.7 |
| High Growth | -3.9 | -3.6 | -1.3 | 6.0 | 12.0 | 9.4 | 5.5 | 5.9 |

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 August 2015



Key drivers of performance during August 2015 included:

- Financial markets experienced a significant increase in volatility across all asset classes.
- Heightened concern over the slowing rate of global economic growth, particularly in the emerging markets, weighed heavily on investor sentiment and the prices of risk assets, such as equities and non-government debt.
- Ongoing attempts by Chinese policymakers to halt the recent slide in that country's equity market were of limited success, with volatility rising further and benchmark indices posting another month of negative performance.
- Volatility in commodity prices was again a headwind for commodity-related corporate sectors and emerging market assets.

## Asset Allocation

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

**Table 2: Targeted asset allocation for the 2015-2016 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 August 2015**

| | 1 mth % | 3 mths % | FYTD % | 1 Year % | 3 Years % p.a. | 5 Years % p.a. |
|---|---|---|---|---|---|---|
| Cash and fixed income | | | | | | |
| Australian Cash | 0.2 | 0.5 | 0.4 | 2.5 | 2.8 | 3.5 |
| Australian Government | 0.7 | 1.0 | 2.2 | 6.6 | 4.3 | 5.9 |
| Australian Inflation-Linked | 0.6 | 0.4 | 2.1 | 6.8 | 5.2 | 8.2 |
| Global Treasuries(1) | 0.0 | 0.3 | 1.4 | 5.5 | 5.8 | 6.7 |
| Global Inflation-Linked(1) | -1.0 | -0.9 | 0.6 | 3.4 | 3.9 | 7.1 |
| Credit | | | | | | |
| Global Credit(1),(2) | -0.4 | -0.9 | 0.6 | 3.0 | 5.6 | 7.4 |
| Global High Yield(1) | -1.3 | -2.6 | -1.3 | 0.3 | 8.1 | 10.7 |
| Emerging Market Debt(4) | -1.1 | -2.4 | -0.7 | -3.0 | 1.5 | 5.0 |
| Property | | | | | | |
| Australian Listed Property | -4.0 | -2.6 | 1.4 | 14.2 | 16.8 | 13.5 |
| Equities(3) | | | | | | |
| Australian Equities | -7.7 | -8.8 | -3.7 | -3.2 | 10.9 | 7.9 |
| Global Equities | -6.7 | -7.1 | -4.3 | 1.9 | 14.0 | 12.3 |
| US Equities | -6.0 | -5.9 | -4.1 | 0.5 | 14.3 | 15.9 |
| European Equities | -7.3 | -8.0 | -3.2 | 3.6 | 12.0 | 8.9 |
| Japanese Equities | -7.6 | -8.4 | -5.9 | 23.1 | 30.8 | 16.0 |
| Asia (ex Japan) Equities | -8.3 | -15.8 | -12.8 | -9.3 | 5.3 | 4.1 |
| Emerging Market Equities | -6.5 | -12.4 | -10.5 | -9.2 | 4.5 | 4.0 |
| Global Small Companies | -5.3 | -6.3 | -4.8 | 4.1 | 16.9 | 14.5 |
| Currency (5) | | | | | | |
| Australian Dollar vs Developed Market Basket | -2.8 | -7.2 | -7.2 | -19.5 | -9.5 | -3.4 |

(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 August 2015 are summarised below.

## Equity Markets

Global equity markets fell sharply in August, recording their worst month since 2009. A confluence of factors drove this result with fallout from the latest round of Eurozone debt issues weighing on investor sentiment at the start of the month, while a series of unsuccessful attempts by Chinese policymakers to boost economic growth led to a sharp rise in volatility later in month.

Markets spent the first part of the month coming to terms with the Greek bailout package that was negotiated in late July. The package, which involved an €86 billion cash injection, came at a price for Greece's embattled Prime Minister Alexis Tsipras who was forced to call an early election after facing a revolt within his own party. This did little to calm fears domestically, with the Athens stock exchange suffering steep falls as it opened for the first time since June. The negative sentiment also spread to other European markets before investor fears were ultimately calmed, with the negotiation of the rescue package taking the prospect of a Greek exit from the Eurozone off the table, at least for the time being.

Developments in China were once again a key driver of global equity market performance, as the recent collapse in the Chinese equity market continued largely unabated. This saw investors begin to question the ability of Chinese policymakers to adequately stabilise markets and stimulate economic growth, leading to a steep rise in volatility across the globe.

The Chinese stock market itself posted a double-digit loss for the month in a volatile trading period which saw the benchmark Shanghai Composite index recording its worst one day fall since 2007. In response, policymakers unveiled a raft of new measures, including cuts to bank reserve requirements and interest rates, and a surprise devaluation of the Yuan. Nevertheless, these policies have proven to be largely unsuccessful thus far, with the Chinese equity market finishing the month as the worst performing major equity market.

Ongoing volatility in commodity markets continued to affect emerging market equities and other commodity-related equity sectors, with these segments of the market performing particularly poorly. After falling for a large portion of the month, a late recovery saw most commodities finish the month little changed. Reacting to slower global demand and excess supply issues, crude oil markets were again among the most volatile, with West Texas Intermediate oil futures falling below US$40 per barrel for the first time since 2009, before rebounding sharply in the last days of the month.

The Australian equity market lagged many of its global counterparts over the month, as the offshore themes of commodity price volatility and concerns over the Chinese economy combined with a modest domestic corporate reporting season. Corporate results were generally in line with expectations, although a significant number of companies cautioned against a weaker outlook citing the uncertain economic environment and weak demand conditions both domestically and globally.

## Debt Markets

August was also a volatile period for debt markets, with government bond yields fluctuating meaningfully during the month. The first three weeks of the month saw bond yields move lower and prices higher as heightened concerns over the growth prospects for the global economy and a significant increase in volatility across all asset classes saw renewed demand for high-quality, safe-haven government bonds. Declining inflation expectations, driven in large part by a sharp fall in oil prices and other economically-sensitive commodities, placed further downward pressure on bond yields.

However, this rally came to a sudden halt during the last week of the month, with most markets retracing their earlier gains to finish the month flat or marginally negative. The largest rise in bond yields occurred in the US and UK, where positive momentum in economic data in those regions prompted a rise in real yields and a stabilisation in oil prices saw a partial reversal of the earlier decline in inflation expectations, and in European markets which benefited from somewhat improved conditions in Greece. Australia was the notable exception, with domestic bonds strongly outperforming their global counterparts, reflecting Australia’s closer economic ties with China and expectations that the Reserve Bank of Australia will maintain an accommodative monetary policy for the foreseeable future.

Consistent with other risk assets, non-government debt markets came under significant pressure in August, with the backdrop of higher volatility not helped by the northern hemisphere’s summer holiday season and the accompanying reduced liquidity. These markets underperformed government bonds, as the risk premium demanded for holding these securities widened in response to concerns about softer global economic growth and broader weakness in risk assets. The Australian corporate bond market was the notable exception, still managing to post a positive return, assisted by falling underlying government bond yields.

## Currency

Currency markets saw a sharp reversal of recent US dollar strength, with most major currencies gaining against the USD as recent financial market volatility saw investors push back their expectations as to the timing of when the US Federal Reserve would start to raise interest rates. The Australian dollar was a notable exception falling to its lowest level since April 2009 on concerns around Australia’s close ties to a slowing Chinese economy and broader weakness in risk assets.

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