Performance Summary August 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

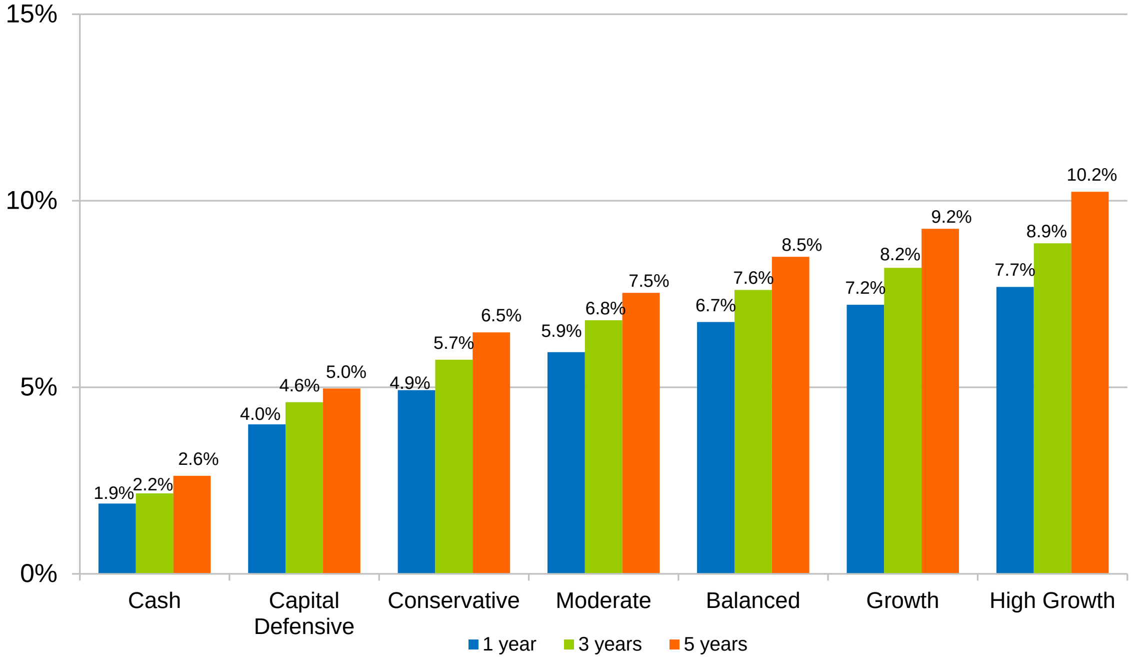
The table and chart below show Funds SA's multi-sector taxable fund returns based on the post tax unit pricing model detailed in the SLA.

Table 1: Multi-sector fund returns net of fees and tax to 31 August 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	0.2	0.5	0.3	1.9	2.2	2.6	3.0	3.6
Capital Defensive	0.2	1.7	1.3	4.0	4.6	5.0	5.7	4.7
Conservative	0.2	1.9	1.8	4.9	5.7	6.5	6.6	4.9
Moderate	0.2	2.2	2.2	5.9	6.8	7.5	7.0	4.9
Balanced	0.2	2.3	2.5	6.7	7.6	8.5	7.6	4.8
Growth	0.2	2.3	2.8	7.3	8.2	9.3	8.0	4.9
High Growth	0.2	2.2	3.2	7.8	8.9	10.3	8.5	5.0

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 2016



Key drivers of performance during August 2016 included:

- A divergence in monetary policy by major central banks following the UK's decision in late June to leave the European Union.
- A lacklustre domestic corporate reporting season which saw substantial earnings declines.
- Strong global demand for higher yielding assets, which drove returns in non-government debt markets.

This environment proved supportive for all portfolios, with those that hold relatively larger amounts of fixed income securities and international equities performing best

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 31 August 2016

	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	0.3	2.2	2.5	3.0
Australian Government	0.3	3.0	1.2	6.9	6.6	5.9
Australian Inflation-Linked	-0.2	2.9	2.0	4.5	7.5	6.7
Global Treasuries(1)	-0.2	2.5	0.2	9.5	8.0	7.4
Global Inflation-Linked(1)	2.6	8.2	3.9	12.8	8.7	7.5
Credit						
Global Credit(1),(2)	0.6	4.1	2.1	10.2	8.0	8.0
Global High Yield(1)	2.1	6.1	4.7	12.5	8.6	10.8
Emerging Market Debt(4)	1.8	7.2	3.4	14.8	8.3	6.4
Property						
Australian Listed Property	-2.7	6.2	2.5	26.0	19.8	19.5
Equities(3)						
Australian Equities	-1.6	2.1	4.7	9.7	6.6	9.5
Global Equities	0.4	3.2	4.6	6.4	9.4	11.9
US Equities	0.1	4.1	3.8	12.6	12.3	14.7
European Equities	1.2	3.1	5.2	2.3	6.9	9.9
Japanese Equities	1.0	-3.1	7.3	-11.8	8.3	13.9
Asia (ex Japan) Equities	3.2	9.1	7.5	10.8	5.8	5.5
Emerging Market Equities	2.8	9.0	7.2	10.9	6.0	5.6
Global Small Companies	0.5	3.4	5.8	6.5	10.2	12.9
Currency (5)						
Australian Dollar vs Developed Market Basket	-0.6	4.1	1.3	5.5	-3.8	-4.9

(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 August 2016 are summarised below.

Equity Markets

Global equity markets posted modest positive returns in August while Australian markets were negative.

Global equity markets reacted to central bank policy announcements. In the wake of the decision by the UK to leave the European Union (the 'BREXIT'), the Bank of England (BoE) announced more supportive monetary policy measures including an interest rate cut (conventional monetary policy) and a resumption of its asset purchase program. The Bank of Japan also hinted at the potential for further easing of monetary policy, reiterating its willingness to act decisively to spur growth, while the Reserve Bank of Australia and Reserve Bank of New Zealand both cut interest rates to historic low levels of 1.5% and 2%, respectively. In contrast the US Federal Reserve noted that recent economic resilience has strengthened the case for a tightening of monetary policy in the coming months, and in doing so highlighted the issue of global policy divergence.

Australian equity markets posted negative returns, and in doing so underperformed many of their global peers. Despite the RBA cutting interest rates, investors' attention focussed on the lacklustre company reporting season. In what was a challenging financial year, company earnings declined more than 7% in the 2015/16 financial year. The resources sector led the declines as broadly lower commodity prices impacted financial performance in this space. Banks and consumer staples also struggled as sluggish domestic economic conditions continued to weigh on other these sectors.

Debt Markets

Global government bond markets were largely unchanged in most developed markets over the month. The UK was the stark exception to this, with significant falls in interest rates (bond prices rose) in response to the Bank of England easing monetary policy. Australian government bonds also produced positive returns as the Reserve Bank of Australian cut interest rates.

Non-government debt markets performed well over the month as the risk premium that investors demand for holding these assets contracted modestly. Rising crude oil 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 and emerging market debt.

Currency

Currency markets ended the month largely unchanged. After staging a rise initially, the British Pound and Japanese Yen experienced modest falls in response to central bank policy announcements. The US dollar was also influenced by the same forces, falling at the start of the month before bouncing back on comments from the US Federal Reserve who may be preparing to raise interest rates again.

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