



Performance Summary December 2016

SA Metropolitan Fire Service Superannuation 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.

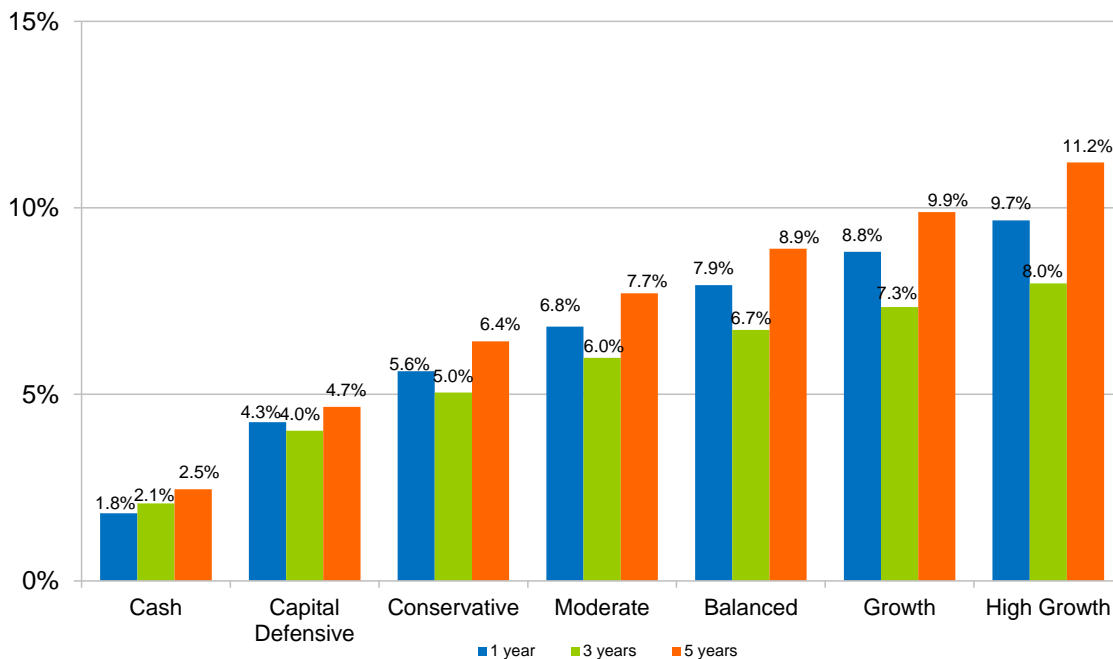
Table 1: Multi-sector fund returns net of fees and tax to 31 December 2016^{1, 2}

| | 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 | 0.8 | 1.8 | 2.1 | 2.5 | 2.9 | 3.5 |
| Capital Defensive | 0.9 | 0.6 | 1.9 | 4.3 | 4.0 | 4.7 | 5.4 | 4.5 |
| Conservative | 1.4 | 1.3 | 3.2 | 5.6 | 5.0 | 6.4 | 6.3 | 4.5 |
| Moderate | 1.7 | 1.7 | 4.0 | 6.8 | 6.0 | 7.7 | 6.6 | 4.5 |
| Balanced | 2.1 | 2.3 | 5.1 | 7.9 | 6.7 | 8.9 | 7.3 | 4.3 |
| Growth | 2.4 | 2.9 | 6.0 | 8.8 | 7.3 | 9.9 | 7.7 | 4.3 |
| High Growth | 2.8 | 3.6 | 7.2 | 9.7 | 8.0 | 11.2 | 8.2 | 4.4 |

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 December 2016



Key drivers of performance during December 2016 included:

- Investors continued to react positively to the potential for the new US president's prospective policies to stimulate economic growth and inflation
- Heightened political uncertainty stemming from the outcome of the recent US election and the recent referendum in Italy
- Continuing policy divergence amongst global central banks with the US tightening interest rates while others remain largely accommodative

This environment proved favourable for portfolios with larger exposures to listed equities.

Asset Allocation

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

Table 2: Asset allocation as at 31 December 2016

| | Cash % | Capital Defensive % | Conservative % | Moderate % | Balanced % | Growth % | High Growth % |
|---------------------------------|--------------|---------------------------|-------------------|---------------|---------------|--------------|---------------------|
| Cash | 100.0 | 15.8 | 10.7 | 8.8 | 2.9 | 2.5 | 2.2 |
| Short Term Fixed Interest | 0.0 | 28.8 | 16.8 | 5.9 | 1.8 | 0.0 | 0.0 |
| Long Term Fixed Interest | 0.0 | 3.7 | 3.7 | 7.7 | 6.5 | 2.7 | 0.0 |
| Inflation Linked Securities B | 0.0 | 14.5 | 15.5 | 11.5 | 8.4 | 5.5 | 0.0 |
| Diversified Strategies Income | 0.0 | 17.6 | 18.6 | 17.7 | 16.8 | 16.5 | 12.1 |
| Property B | 0.0 | 5.6 | 8.7 | 9.9 | 11.9 | 13.8 | 15.6 |
| Australian Equities B | 0.0 | 7.8 | 13.9 | 18.1 | 24.2 | 26.8 | 33.4 |
| International Equities B | 0.0 | 6.1 | 12.1 | 16.3 | 20.3 | 22.9 | 27.5 |
| Diversified Strategies Growth B | 0.0 | 0.0 | 0.0 | 4.3 | 7.2 | 9.3 | 9.2 |
| 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.

Funds under management

The SA Metropolitan Fire Service Superannuation Scheme invests in Funds SA's multi-sector taxable funds.

Table 3: SA Metropolitan Fire Service Superannuation Scheme investments as at 31 December 2016

| Funds under management | Cash \$m | Capital Defensive \$m | Conservative \$m | Moderate \$m | Balanced \$m | Growth \$m | High Growth \$m | Total |
|------------------------|-------------|-----------------------------|---------------------|-----------------|-----------------|---------------|-----------------------|--------------|
| Defined Benefit Scheme | 0.0 | 0.0 | 47.7 | 0.0 | 0.0 | 232.8 | 0.0 | 280.5 |
| Accumulation Scheme | 5.2 | 5.2 | 7.0 | 2.8 | 3.1 | 39.4 | 2.5 | 65.1 |
| Total | 5.2 | 5.2 | 54.7 | 2.8 | 3.1 | 272.1 | 2.5 | 345.6 |

Note that due to rounding, the sum of the individual numbers within the table may not equal the totals quoted.

Single-sector Performance

The total return for each multi-sector fund is primarily determined by each fund's asset mix and the relative performance of the individual sectors comprising the mix.

Returns for Funds SA's single sector portfolios are shown below.

Table 4: Single sector returns net of fees to 31 December 2016

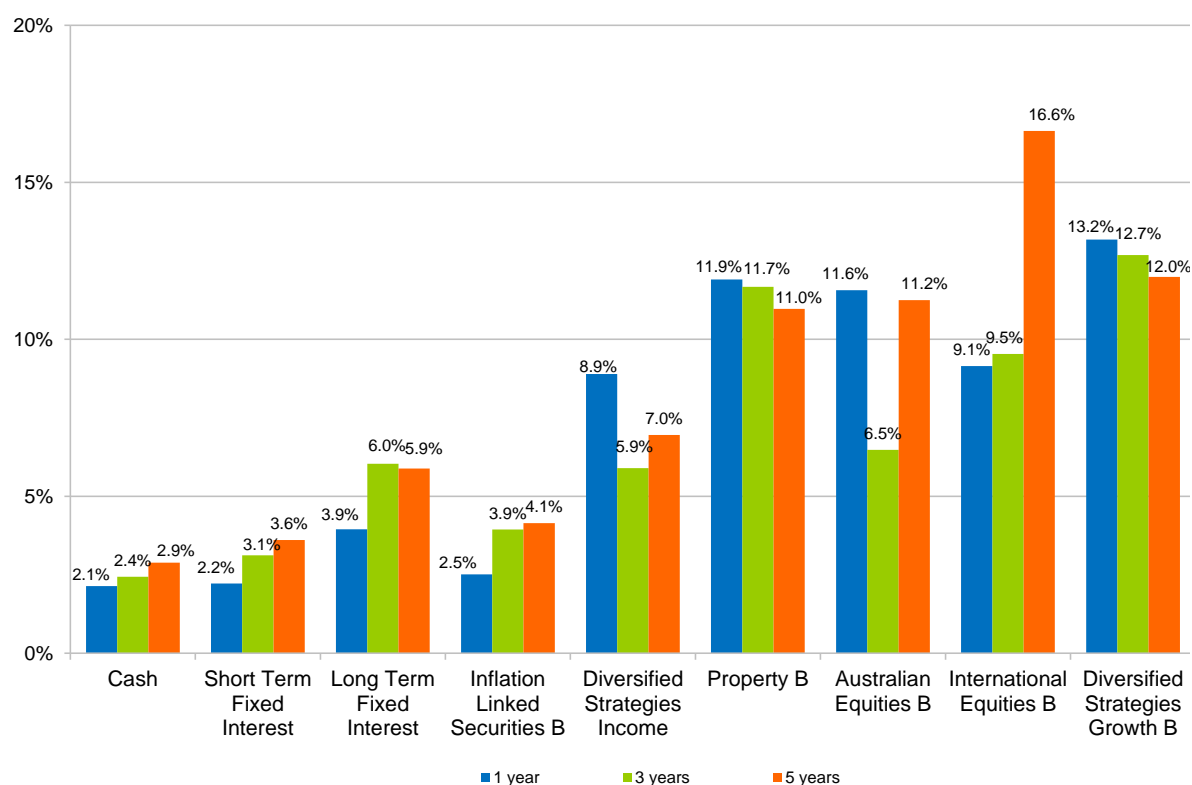
| | 1 mth % | 3 mths % | FYTD % | 1 year % | 3 years % p.a. | 5 years % p.a. | 7 years % p.a. | 10 years % p.a. |
|--|------------|-------------|-----------|-------------|-------------------|-------------------|-------------------|--------------------|
| Cash | 0.2 | 0.5 | 1.0 | 2.1 | 2.4 | 2.9 | 3.5 | 4.1 |
| Short Term Fixed Interest ⁽³⁾ | -0.1 | -0.8 | -0.1 | 2.2 | 3.1 | 3.6 | n.a. | n.a. |
| Long Term Fixed Interest | 0.0 | -4.7 | -3.8 | 3.9 | 6.0 | 5.9 | 7.5 | 7.0 |
| Inflation Linked Securities B ⁽²⁾ | 0.8 | 0.0 | 1.0 | 2.5 | 3.9 | 4.1 | 6.0 | 5.4 |
| Diversified Strategies Income | 1.4 | 1.2 | 3.6 | 8.9 | 5.9 | 7.0 | 8.2 | 7.8 |
| Property B ⁽¹⁾ | 2.2 | 2.5 | 4.6 | 11.9 | 11.7 | 11.0 | 10.1 | 1.1 |
| Australian Equities B ⁽¹⁾ | 4.1 | 5.2 | 10.4 | 11.6 | 6.5 | 11.2 | 6.0 | 3.7 |
| International Equities B ⁽¹⁾ | 3.4 | 5.3 | 9.9 | 9.1 | 9.5 | 16.6 | 11.9 | 6.0 |
| Diversified Strategies Growth B ⁽²⁾ | 1.5 | 2.3 | 5.6 | 13.2 | 12.7 | 12.0 | 12.8 | 8.1 |

1. Return series reflects investment in the respective A portfolios prior to the establishment of the B portfolios in October 2007.

2. Return series reflects investment in the respective A portfolio prior to the establishment of the B portfolio in June 2008.

3. Data not available for several time periods as portfolio established July 2010.

Chart 2: Single sector annualised returns net of fees to 31 December 2016



Financial Market Snapshot

The table below summarises market performance.

Table 5: Major market index returns to 31 December 2016

| | 1 mth % | 3 mths % | FYTD % | 1 Year % | 3 Years % p.a. | 5 Years % p.a. |
|--|------------|-------------|-----------|-------------|-------------------|-------------------|
| Cash and fixed income | | | | | | |
| Australian Cash | 0.1 | 0.4 | 0.9 | 2.1 | 2.4 | 2.8 |
| Australian Government | -0.2 | -3.8 | -3.0 | 2.5 | 5.0 | 4.1 |
| Australian Inflation-Linked | 0.3 | -2.5 | -1.6 | 1.3 | 5.6 | 4.7 |
| Global Treasuries ⁽¹⁾ | 0.3 | -2.4 | -2.2 | 5.2 | 6.6 | 6.1 |
| Global Inflation-Linked ⁽¹⁾ | 1.5 | -1.9 | 2.1 | 11.5 | 8.0 | 5.9 |
| Credit | | | | | | |
| Global Credit ^{(1),(2)} | 0.7 | -2.1 | -0.1 | 6.9 | 6.4 | 7.0 |
| Global High Yield ⁽¹⁾ | 2.0 | 1.2 | 6.8 | 16.8 | 7.4 | 10.7 |
| Emerging Market Debt ⁽⁴⁾ | 1.4 | -4.2 | -0.6 | 10.2 | 5.6 | 5.4 |
| Property | | | | | | |
| Australian Listed Property | 6.8 | -0.7 | -2.6 | 13.2 | 18.0 | 18.5 |
| Equities⁽³⁾ | | | | | | |
| Australian Equities | 4.3 | 4.9 | 10.4 | 11.8 | 6.6 | 11.6 |
| Global Equities | 2.8 | 4.8 | 9.8 | 9.0 | 6.9 | 12.7 |
| US Equities | -0.2 | 3.8 | 7.8 | 12.0 | 8.9 | 14.7 |
| European Equities | 5.8 | 5.4 | 11.4 | 7.2 | 5.6 | 10.6 |
| Japanese Equities | 3.4 | 15.0 | 23.2 | -0.1 | 7.1 | 18.1 |
| Asia (ex Japan) Equities | -1.4 | -3.6 | 4.9 | 6.1 | 2.5 | 6.4 |
| Emerging Market Equities | 0.2 | -1.4 | 6.2 | 10.1 | 3.2 | 6.0 |
| Global Small Companies | 2.8 | 5.5 | 12.8 | 13.0 | 7.8 | 14.8 |
| Currency⁽⁵⁾ | | | | | | |
| Australian Dollar vs Developed Market Basket | -2.0 | -3.2 | -0.4 | 0.4 | -4.2 | -5.0 |

(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 December 2016 are summarised below.

Equity Markets

Australian and global equities posted strong positive returns in December. Investors continued to react positively to the prospect for US policies to lift US economic growth and corporate profits. In particular, cyclical growth sectors such as commodities and banks stocks performed well, reflecting both the improving global growth environment and potential US fiscal policy and regulatory changes.

Politics remained a focus during the month as investors continued to assess the potential implications of Donald Trump's election as US president, while uncertainty was cast over the European political landscape as changes to Italy's constitution were rejected by the voting public. This triggered the resignation of the Italian prime minister and cast doubt over the government's ability to deal with the issues facing the banking system.

Central banks reacted to the divergence in global economic conditions. The US Federal Reserve increased interest rates for the first time since 2015, and also increased their expectations for the number of interest rate increases in 2017. On the other hand, the European Central Bank maintained a bias towards a further easing of policy, but did however elect to slow the pace of its extraordinary monetary policy program, while the Bank of Japan remained cautious, electing to not change its accommodative monetary policy arrangements.

Debt Markets

Global government bond markets were mixed over the month, with Australian bonds producing small negative returns as a rise in bond yields was driven by a rise in investor's expectations of future inflation. This theme resulted in inflation linked securities out-performing nominal government bonds. Corporate bonds and emerging market bonds produced very strong positive returns as the risk premiums on these asset classes contracted given the rising expectation of improving global growth.

Currency

Currency markets experienced volatility over the month, reacting to similar political themes as equity markets. The US Federal Reserve increasing interest rates caused the US dollar to rise while the Euro and Yen struggled. Locally, the Australian dollar fell against most currencies.

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