Performance Summary January 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

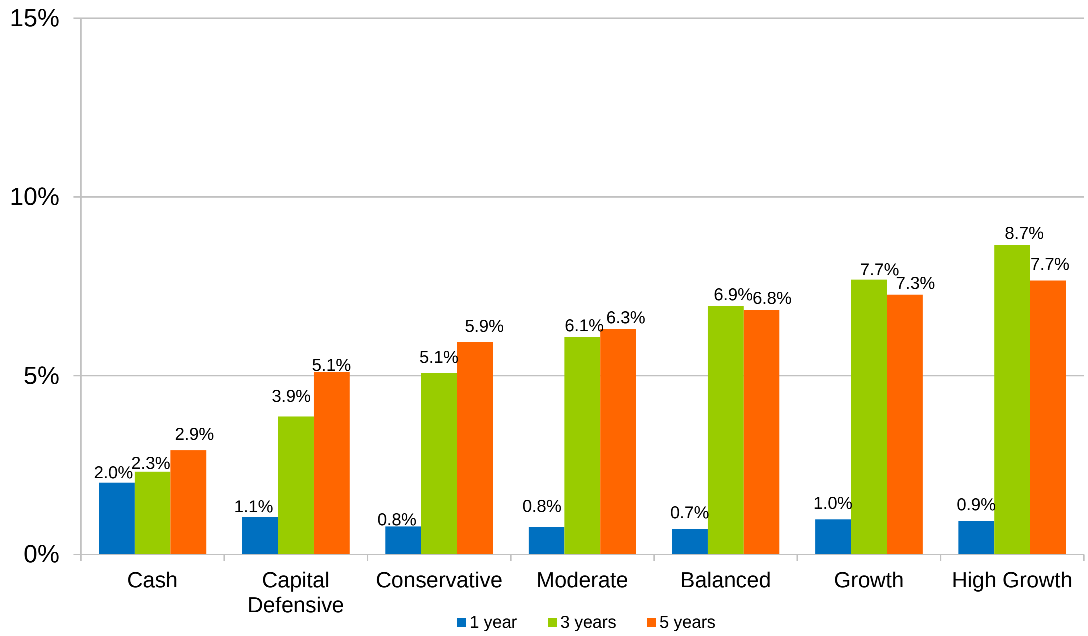
The table and chart below show Funds SA's multi-sector taxable fund returns based on the post tax unit pricing model detailed in the SLA.

Table 1: Multi-sector fund returns net of fees and tax to 31 January 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	1.1	2.0	2.3	2.9	3.1	3.8
Capital Defensive	-0.2	-0.4	0.3	1.1	3.9	5.1	5.8	4.7
Conservative	-0.8	-1.0	-0.3	0.8	5.1	5.9	7.0	4.8
Moderate	-1.1	-1.4	-0.6	0.8	6.1	6.3	7.7	n.a.
Balanced	-1.6	-1.8	-1.0	0.7	6.9	6.8	8.2	4.6
Growth	-2.0	-2.1	-1.3	1.0	7.7	7.3	8.8	4.7
High Growth	-2.6	-2.6	-1.8	0.9	8.7	7.7	9.4	4.7

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 January 2016



Key drivers of performance during January 2016 included:

- Ongoing concern over the slowing rate of global economic growth, particularly in the emerging markets, continued to weigh on investor sentiment and the prices of risk assets, such as equities and non-government debt.
- Volatility in commodity prices was again a headwind for commodity-related corporate sectors and emerging market assets.
- Strong demand for high-quality, safe-haven assets and a decline in inflation expectations drove strong returns in government bond markets.

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	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 January 2016

	1 mth %	3 mths %	FYTD %	1 Year %	3 Years % p.a.	5 Years % p.a.
Cash and fixed income						
Australian Cash	0.2	0.6	1.3	2.3	2.6	3.3
Australian Government	1.4	0.7	3.4	1.8	4.9	6.4
Australian Inflation-Linked	0.8	0.2	2.3	0.6	5.0	8.1
Global Treasuries(1)	2.1	2.4	5.3	3.6	6.5	7.7
Global Inflation-Linked(1)	2.4	1.5	2.5	-0.2	3.5	7.4
Credit						
Global Credit(1),(2)	0.8	0.6	2.2	0.4	5.2	7.7
Global High Yield(1)	-1.2	-4.1	-4.2	-0.5	4.1	8.2
Emerging Market Debt(4)	-0.2	-1.8	-0.7	0.7	0.3	5.2
Property						
Australian Listed Property	0.9	2.1	8.2	7.5	14.6	14.9
Equities(3)						
Australian Equities	-5.4	-3.5	-5.8	-5.8	5.3	5.5
Global Equities	-5.4	-6.9	-7.3	-2.9	9.0	7.9
US Equities	-5.0	-6.2	-4.8	-0.7	11.3	10.9
European Equities	-4.9	-6.8	-7.0	-4.0	6.5	5.5
Japanese Equities	-7.5	-8.2	-11.7	3.0	17.3	11.6
Asia (ex Japan) Equities	-6.8	-9.6	-17.1	-14.2	-0.6	0.5
Emerging Market Equities	-5.2	-8.7	-15.3	-11.6	-1.0	0.6
Global Small Companies	-7.2	-7.9	-11.1	-3.6	9.3	8.3
Currency (5)						
Australian Dollar vs Developed Market Basket	-2.4	0.5	-6.4	-6.9	-9.6	-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 January 2016 are summarised below.

Equity Markets

Global equity markets began 2016 on a sombre note, as the combination of ongoing concerns over the Chinese economy, further falls in commodity prices and uncertainty around global economic growth weighed heavily on investor sentiment. Against this uncertain backdrop, equities sold off heavily for the first half of the month, falling more than 10%, before partially recovering towards the end of the month following a number of central bank policy announcements and some stabilisation in commodity prices. All in all, global and domestic equity markets finished the month about 5% lower.

Events in China were once again a major theme this month. Ongoing policy action by the People's Bank of China saw a further depreciation in the Chinese currency, raising uncertainty as to the strength of the Chinese economy amid reports of significant capital outflows and a decline in central bank reserves. Compounding this uncertainty was the release of weaker than anticipated economic data, which was interpreted by investors as a sign that China's economic transition away from a manufacturing-led economy is not going as smoothly as the market had hoped. Reacting to this, investors in the country's already stressed stock market sold en masse, with that market finishing the month more than 20% lower as a result.

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. Reacting to slower global demand and excess supply issues, crude oil markets were again among the most volatile, with the price of West Texas Intermediate falling to its lowest level since 2003, before rebounding sharply in the last days of the month.

Against this backdrop, a number of the world's central banks have grown increasingly cautious about the near-term economic outlook, with a series of announcements late in the month supporting a modest rebound in equity markets. The European Central Bank indicated that additional stimulus will be considered in March, as the eurozone struggles to reach its growth and inflation targets, while the Bank of Japan surprised markets by introducing a negative policy rate at its January meeting.

Debt Markets

The strong demand for government bonds that had begun in the second half of December persisted in January, as concerns about the health of the Chinese economy triggered a broad-based sell-off in risky assets. Placing additional downward pressure on bond yields (upward pressure on prices) was a further decline in inflation expectations, driven in large part by sharp falls in the price of oil. This backdrop was highly constructive for government bonds, with both global and domestic markets posting strong returns in January.

Consistent with other risk assets, non-government debt markets experienced a period of higher volatility in January, with some sectors even posting a negative return for the month. While these markets benefited from falling government bond yields, heightened risk aversion surrounding events in China and broader weakness in equity markets saw the risk premium demanded for holding these assets widen over the month. This effect was especially pronounced in those higher risk segments of the market, such as US high yield corporate bonds.

Currency

Recent US dollar strength continued into January, with the USD gaining against most major currencies. The Australian dollar came under particular pressure, reaching its lowest level since March 2009 during the month, given its close links to a weakening Chinese economy and softer commodity prices. By month end, the local currency had recovered some of these losses, in line with the broader rebound in risky assets.

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