Performance Summary September 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

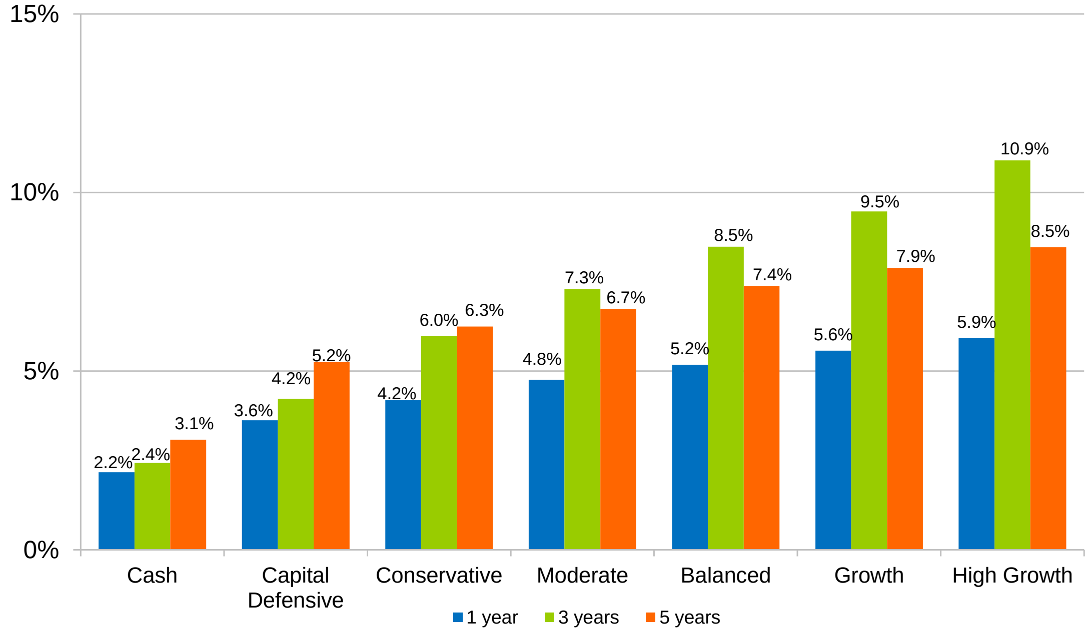
The table and chart below show Funds SA's multi-sector taxable fund returns based on the post tax unit pricing model detailed in the SLA.

Table 1: Multi-sector fund returns net of fees and tax to 30 September 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	0.5	2.2	2.4	3.1	3.2	3.9
Capital Defensive	-0.3	-0.2	-0.2	3.6	4.2	5.2	5.2	5.0
Conservative	-0.6	-0.9	-0.9	4.2	6.0	6.3	5.8	5.2
Moderate	-0.8	-1.2	-1.2	4.8	7.3	6.7	6.0	n.a.
Balanced	-0.9	-1.7	-1.7	5.2	8.5	7.4	6.0	5.1
Growth	-1.0	-1.9	-1.9	5.6	9.5	7.9	6.2	5.3
High Growth	-1.3	-2.6	-2.6	5.9	10.9	8.5	6.5	5.4

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 30 September 2015



Key drivers of performance during September 2015 included:

- Financial market volatility remained elevated throughout September, capping off what has been a difficult quarter for risk assets.
- Global growth was high on investors list of concerns, particularly within the emerging markets, driving economic growth-sensitive assets and sectors lower.
- The US Federal Reserve left interest rates on hold, despite prior rhetoric suggesting that September was the month that would see the first rise in interest rates since 2006.
- Commodity price volatility continued to wreak havoc market wide, sending resource stocks and corporate bonds lower.

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 30 September 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	0.5	2.5	2.7	3.5
Australian Government	0.3	2.5	2.5	7.4	4.2	6.2
Australian Inflation-Linked	-0.1	2.0	2.0	8.0	4.5	8.0
Global Treasuries(1)	1.0	2.4	2.4	6.6	6.0	6.9
Global Inflation-Linked(1)	-0.1	0.5	0.5	5.1	4.0	7.0
Credit						
Global Credit(1),(2)	0.3	0.8	0.8	3.9	5.3	7.3
Global High Yield(1)	-2.0	-3.2	-3.2	0.0	6.6	9.6
Emerging Market Debt(4)	-1.4	-2.0	-2.0	-2.0	0.5	4.4
Property						
Australian Listed Property	-0.3	1.1	1.1	20.1	16.2	13.6
Equities(3)						
Australian Equities	-2.9	-6.5	-6.5	-0.7	9.1	6.3
Global Equities	-3.5	-7.7	-7.7	-0.8	11.9	10.0
US Equities	-2.5	-6.4	-6.4	-0.6	12.4	13.3
European Equities	-3.9	-7.0	-7.0	-0.3	10.1	6.9
Japanese Equities	-7.7	-13.2	-13.2	8.4	26.6	13.3
Asia (ex Japan) Equities	-1.3	-13.9	-13.9	-6.6	3.0	2.1
Emerging Market Equities	-1.7	-12.0	-12.0	-6.8	2.4	2.1
Global Small Companies	-3.9	-8.5	-8.5	4.0	14.4	11.7
Currency (5)						
Australian Dollar vs Developed Market Basket	-1.4	-8.5	-8.5	-16.5	-9.9	-4.8

(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 September 2015 are summarised below.

Equity Markets

Global equity markets suffered heavy falls in September, capping off what was a poor quarter for risk assets. Concerns around the strength and stability of global growth weighed heavily on investors' minds and had far reaching ramifications for financial markets, influencing everything from equity market returns to monetary policy.

Globally, there was no shortage of headlines for investors to fret over. In China, several major manufacturing indicators struggled to meet expectations, which coupled with the ongoing Chinese stock market rout signalled that conditions in the world's second largest economy were softening further. Meanwhile, in Europe, embattled Greek PM Alexander Tsipras's Syriza party was re-elected, sparking fears that Eurozone debt issues may again become a problem.

Investor fears about the strength of the world's largest economies came to the forefront when the US Federal Reserve had their much awaited meeting on the 16th and 17th of the month. Prior to the meeting, investors widely expected a September interest rate hike, drawing this conclusion from the hawkish rhetoric that the Fed themselves had been communicating for the better part of six months. When it came time to actually act, the Federal Open Market Committee members voted 9 to 1 in favour of keeping the target rate at the current record low levels. In their statement, the Fed indicated that modest improvements in the US labour market were not enough to offset recent global financial and economic developments that are likely to put further downward pressure on inflation in the longer term. In follow up statements, it was suggested that an interest rate hike by the end on 2015 is still on the table, but there is uncertainty as to whether this would occur at either the October or December meetings.

These developments were interpreted by the market as a signal that the global economic recovery was not as robust as once thought. The result, broad based falls in global equity markets. Within the major developed markets, Japan was the hardest hit, with Europe being the second worst performer. Emerging market equities also suffered, with softening economic conditions in China again battering the A and H Shares markets, while the ongoing commodity slump sent the energy reliant Russian and Brazilian markets lower.

Domestically, the Australian share market outperformed many of its global peers. While September saw a stabilisation of iron ore prices, mixed economic data and offshore themes drove the market lower. The resources sector again struggled, with falling oil prices weighing on the energy sector. The stabilisation in the iron ore price was not enough to stave off fears about the embattled metals and mining sector, which fell late in the month as investors started to question the long term viability of leveraged players in this space.

Debt Markets

Global government debt markets delivered positive returns in September, benefiting from investors seeking a safe haven asset amid ongoing economic woes and the deferral of monetary policy tightening in the US. This was most pronounced in the US, the UK and Europe, where both nominal and real yields declined. Meanwhile, lower commodity prices drove global inflation expectations broadly lower. The most pronounced effect was in the US where market implied inflation expectations moved to its lowest level since during the Global Financial Crisis. Australia bucked the global trend, with real yields little changed over the month as the June quarter economic growth rate was lacklustre, but still sufficient to keep the unemployment rate at an appropriate level.

The behaviour of non-government debt markets was consistent with other risk assets. As concerns around the deterioration in global economic conditions persisted, those sectors most exposed to global growth suffered the sharpest falls. Emerging market sovereign debt struggled as oil prices fell further and Brazil had its credit rating lowered to below investment-grade by Standard & Poor’s, highlighting to the market the troubling situation that many commodity producing countries now find themselves in. Higher risk corporate debt sectors also suffered, with those markets weighed down by the dominance of struggling resources-linked names.

Currency

Currency markets experienced significant volatility in the lead up to the US Federal Reserve’s interest rate decision. Despite beginning the month broadly stronger, the US dollar weakened in anticipation of a rise in interest rates. Once the decision to leave rates on hold was made, the USD rallied, finishing the month higher against all major currency pairs except the Japanese yen which struggled on the back of signs Japan’s economy is again slowing. The Australian dollar was again weaker as commodity prices continued to struggle through a combination of oversupply and weak demand.

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