SA METROPOLITAN FIRE SERVICE SUPERANNUATION SCHEME

Winter 2009

SUPER INFO

This Newsletter is issued by SA Metropolitan Fire Service Superannuation Pty Ltd ABN 99 439 309 855, 99 Wakefield Street, Adelaide 5000.

Welcome to the Winter edition of Super Info.

Check List

Members are reminded of the following:

1. **Change of Address.**
   Have you advised the Scheme of your change of address? You need to let us know as well as the Corporation as the Scheme is not automatically informed.

2. **Nomination of Beneficiary Form.**
   Is your Nomination of Beneficiary form up to date?
   These forms can be downloaded from the website www.samfs.superfacts.com or they can be emailed or posted to you by ringing this office.

3. **Leave Without Pay**
   Are you going on Leave without Pay for an extended period or working overseas.
   Your premiums for death, total and permanent and temporary total disablement cover will need to be paid in advance if you wish to be covered during the period of your leave.
   Please ensure you let the Scheme know.

4. **Long Term Sick leave.**
   For members under age 60, you may be eligible for disablement benefits under the Scheme if you are absent continuously for 3 months from work due to illness or injury.
   It is important that you let the Scheme know, particularly if your sick leave is due to run out.

5. **Working less than 20 hours per week.**
   For members working less than 20 hours per week, you will only have death cover.
   No insured component is provided if you are working less than 10 hours per week.
   It is important to let the Scheme know if your working hours change.

Please contact the Manager, Mr Alan Kent on 8204 3826 for any clarification you may require. Information is also available on the website in the Member Benefit Guide.

Investment Performance

Investment returns net of fees to 30 June 2009 [1,2]

	1 mth %	3 mths %	FYTD %	1 year %	2 years % pa	3 years % pa
Cash	0.2	0.7	4.8	4.8	5.0	5.2
Capital Defensive	1.0	1.5	-1.5	-1.5	-0.5	2.1
Conservative	1.2	3.2	-6.5	-6.5	-5.2	0.1
Moderate	1.4	4.7	-8.7	-8.7	-7.7	-1.3
Balanced	1.4	5.4	-14.0	-14.0	-11.7	-3.2
Growth	1.5	6.3	-16.2	-16.2	-13.7	-4.1
High Growth	1.5	8.0	-17.7	-17.7	-15.6	-4.8

1. Returns are net of effective tax rates and after deduction of all fees and costs.
2. Returns are those achieved by Funds SA for each of the investment products shown. The Scheme has been using Funds SA snce 1 November 2007 and therefore the 2 and 3 year returns are for information purposes only and have not been experienced by members of the Scheme.

Note: The Growth Portfolio's performance is very close to the projected figure used by the Actuary in determining the Scheme's funding deficit rectification measures.

Investment Objectives

Accumulation Section

Seven investment options spanning the risk spectrum are available to members with accumulation accounts. All of the options are provided by Funds SA. Funds SA have re-affirmed their investment objectives and asset allocations for 2009-2010. Funds SA's Growth (taxable) product is the default option for member accumulation balances.

The investment objectives state what each option aims to achieve and are designed to help members with their investment decisions. The objectives have been developed having regard for the long term performance and characteristics of financial markets. There is no guarantee, however, that the objectives will be met. This is because financial markets are volatile and future returns may vary from returns earned in the past. Indeed, there is a material likelihood that returns may be negative in any particular year.

The objectives[1] for each of Funds SA's taxable investment products investment options are stated below.

- The 'high growth' product has a target rate of return of 5% in excess of the rate of inflation. There is a reasonable likelihood of earning this target over an investment period of ten years or longer. However, annual returns may be volatile with the likelihood that a negative return may be recorded, on average, two years in seven. The probability of a negative return in any one year is 29%.
- The 'growth' product has a target rate of return of 4.5% in excess of the rate of inflation. There is a reasonable likelihood of earning this target over an investment period of eight years or longer. However, annual returns may be volatile with the likelihood that a negative return may be recorded, on average, two years in eight. The probability of a negative return in any one year is 25%.
- The 'balanced' product has a target rate of return of 4% in excess of the rate of inflation. There is a reasonable likelihood of earning this target over an investment period of seven years or longer. However, annual returns may be volatile with the likelihood that a negative return may be recorded, on average, two years in nine. The probability of a negative return in any one year is 22%.
- The 'moderate' product has a target rate of return of 3.5% in excess of the rate of inflation. There is a reasonable likelihood of earning this target over an investment period of six years or longer. However, annual returns may be volatile with the likelihood that a negative return may be recorded, on average, two years in ten. The probability of a negative return in any one year is 20%.
- The 'conservative' product has a target rate of return of 3% in excess of the rate of inflation. There is a reasonable likelihood of earning this target over an investment period of four years or longer. However, annual returns may be volatile with the likelihood that a negative return may be recorded, on average, two years in fourteen. The probability of a negative return in any one year is 14%.

- The 'capital defensive' product has a target rate of return of 2% in excess of the rate of inflation. There is a reasonable likelihood of earning this target over an investment period of two years or longer. However, annual returns may be volatile with the likelihood that a negative return may be recorded, on average, two years in forty. The probability of a negative return in any one year is 5%.
- The 'cash' product has a target of maintaining the value of capital, with a negligible likelihood of a negative return over any twelve month rolling period.

The objectives are framed to apply in 'normal' times. However, perhaps 5% of the time or 5 years in 100, the financial markets may be characterised by quite exceptional conditions. Indeed, this has been the case over the past year.

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Factors Affecting 2009-10 Investment Strategy

The investment and management of the funds in 2009-10 will be affected or influenced by the following:

- economic and investment environmental factors which will similarly influence all other institutional investors; and
- Funds SA portfolio structures.

Economic and Investment Environment Factors

The past 2 years have witnessed some of the most difficult conditions experienced in financial markets on record:

- As at June 2009 the Australian share market has fallen 43.9% from its peak in November 2007.
- The US sharemarket has fallen 46.4% from its peak in October 2007.

A series of events has unfolded, initially impacting on financial markets in the United States but now impacting severely and generally on financial markets and economic conditions in all developed and developing economies.

Major events impacting on financial markets over the past 2 years have included:

June 2007

- Two Bear Sterns funds collapsed due to extensive investments in US subprime mortgage backed securities. US subprime mortgage investment concerns triggered financial losses across the globe.

September 2007

- British bank Northern Rock is besieged by depositors.
- Federal Reserve starts easing interest rates.

February 2008

- Northern Rock is nationalised.

March 2008

- Bear Stearns collapse.

September 2008

- Two US mortgage finance agencies (Fannie Mae and Freddie Mac) are taken into conservatorship.
- Lehman Brothers Holdings Inc files for Chapter 11 bankruptcy protection.
- US government steps in to rescue insurance company AIG.
- The US Securities Exchange Commission announces a ban on short selling in
- financial shares.
- Australia bans all short selling.
- The Reserve Bank of Australia commences the start of an easing cycle.
- Government bailouts announced for key banks in Britain and Germany as well as a takeover of a bank in Iceland. British government intervenes to save Bradford and Bingley Bank. Netherlands, Belgium and Luxemburg to take over substantial parts of Fortis, a Dutch/Belgium insurance group.

October 2008

- US congress passes the Emergency Economic Stabilisation Act 2008, which establishes the $US700 billion Troubled Asset Relief Program (TARP).
- The Australian government announces deposit and wholesale funding guarantees for the Australian banking system.
- European Union guarantees inter-bank lending. Japan announces 26.9 trillion-yen stimulus package.

November 2008

- European Commission unveils economic stimulus package of Euro $200 billion. China announces 4 trillion-Yuan economic stimulus package.

December 2008

- The US Federal Open Market Committee (FOMC) establishes a target range for the Federal Funds rate of 0% to 0.25%.

February 2009

- The US Federal Reserve and the US Federal Deposit Insurance Corporation (FDIC) announce that they conduct “stress tests” of eligible US banks.
- US congress passes the American Recovery and Reinvestment Act 2009, a $US787 billion economic stimulus package.
- Australian government releases a significant fiscal policy easing totalling $A42
- billion.

March 2009

- The US FOMC decides to increase the size of the Federal Reserves balance sheet by purchasing up to an additional $US300 billion of longer-term Treasury securities over the coming 6 months. i.e. this is the start of Quantitative Easing in the US.

As a result:

- Equity and credit markets have been hit by significant distressed selling as many entities have been forced to massively delever;
- Credit creation has ceased as banks attempt to repair over levered balance sheets and uncertainty over counterparty strength results in the interbank lending market seizing up;
- World trade has plummeted as a result of the removal of trade credit;
- Gross domestic product has contracted in many economies;
- There is huge uncertainty over the level and direction of corporate earnings and hence the valuation of equity markets; and
- There is the prospect of massive government bond issuance to fund budget deficits and stimulus programs.

Overall, these factors are expected to have long lasting effects on the global economy which should ensure that risk levels remain elevated.

As a result, Funds SA has considered it appropriate to generally reduce the level of risk in the core Funds SA multi-sector portfolios. Funds SA believes that over the long term, good returns will be earned from more volatile asset classes, such as equities and property, and hence they should continue to form the core of long term portfolios.

However, with the prospect of continuing high levels of volatility and still meaningful risk of material downside, it is appropriate to generally position medium term strategy a little more defensively.

Nevertheless, it is important that the portfolio is positioned to participate in the inevitable recovery in financial markets. Due to the anticipatory and forward looking nature of markets, this will most likely occur well before the recovery in general economic conditions.
Funds SA will continue to monitor the financial markets closely and will refine the investment strategy where appropriate.

The following table summarises the Strategic Asset Allocation (SAA) for each of the Scheme's investment options from 1 July 2009. The changes in the SAA from 1 July are shown in brackets.

	Cash %	**Capital Defensive** %	**Conservative** %	**Moderate** %	**Balanced** %	**Growth** %	**High Growth** %
Cash	100	25	11	8 (+2)	5 (+4)	5 (+4)	2 (+1)
Fixed Interest		25	20	14	7(1)	2	0
Inflation Linked Securities B		25 (+1)	24 (+2)	18	15 (+1)	10 (+1)	0
Diversified Strategies Income		15 (+9)	15 (+8)	10 (+2)	10 (+2)	10 (+2)	8
Property B		4	6	8	8(-1)	12 (+2)	14 (+3)
Australian Equities B		4 (-5)	14 (-6)	25 (-2)	29 (-4)	33 (-4)	41 (-1)
International Equities B		2 (-5)	10 (-4)	17 (-2)	20 (-3)	22 (-5)	27 (-3)
Diversified Strategies Growth B		0	0	0	6	6	8
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Changes to income testing for some Government benefits

As announced in the 2007 Federal Budget, from 1 July 2009, your salary sacrifice contributions will count towards your income when assessing your eligibility for certain Government benefits, including the Government co-contribution, spouse contributions tax offset, tax deductibility of contributions (for those who are primarily self employed), various other tax offsets, Family Tax Benefits, childcare benefits, baby bonus and certain other programs. It will also be taken into account in determining your liability for the Medicare Levy Surcharge and in determining your liability to make Child Support payments.

Currently, salary sacrifice super contributions reduce your "income" and this may result in you qualifying for the above benefits. From 1 July 2009 your salary sacrifice contributions will count towards your income for the purposes of these tests. As a result, your entitlement to these and other Government benefits may be reduced or eliminated.

Despite this, making regular salary sacrifice contributions may still be a tax-effective way to help build your retirement savings. Salary sacrifice contributions are taxed at just 15% rather than your personal marginal tax rate (unless you exceed the new contribution caps announced in the May 2009 Federal Budget – refer to the Autumn 2009 edition of Super Info).

This change to income testing, combined with the recent reduction in the concessional contributions cap, may mean that you need to revisit your contributions strategy. A financial adviser can help you develop a holistic strategy that takes into account your goals and the relevant rules. You can also refer to the salary sacrifice calculator on the Scheme's website which has been updated to take account of the above changes from 1 July 2009.

Alan Kent
Manager