



Performance Summary January 2017

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.

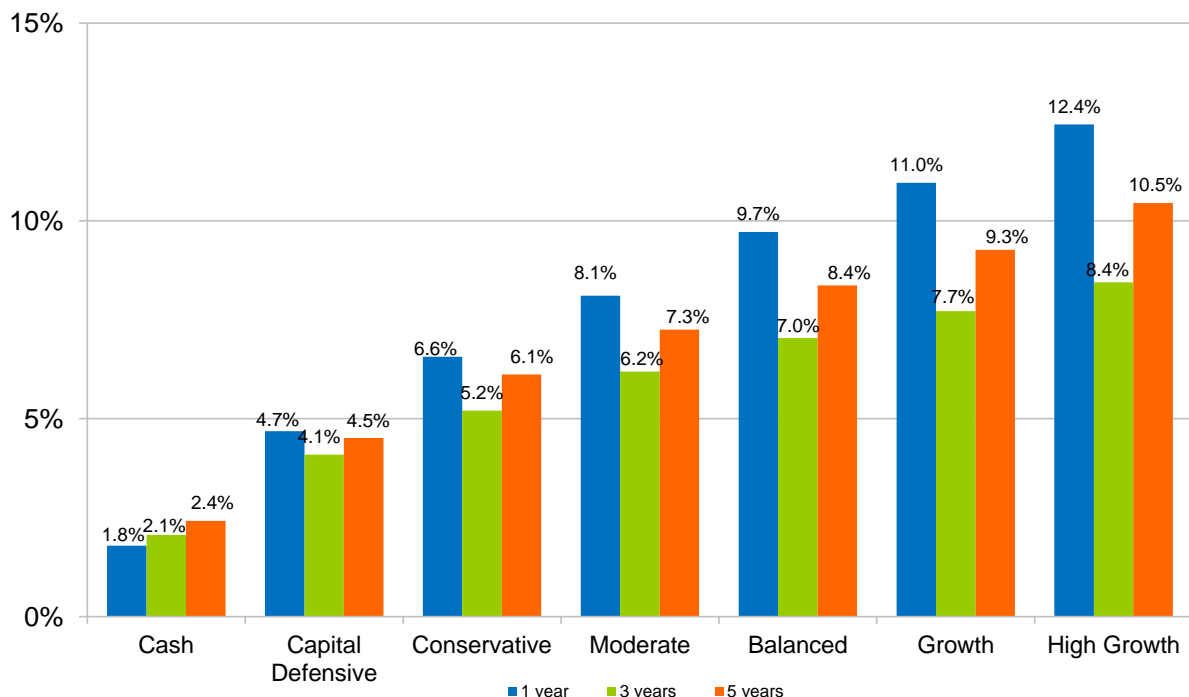
Table 1: Multi-sector fund returns net of fees and tax to 31 January 2017^{1, 2}

| | 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 | 1.0 | 1.8 | 2.1 | 2.4 | 2.9 | 3.4 |
| Capital Defensive | 0.2 | 0.9 | 2.1 | 4.7 | 4.1 | 4.5 | 5.3 | 4.4 |
| Conservative | 0.1 | 1.7 | 3.3 | 6.6 | 5.2 | 6.1 | 6.3 | 4.4 |
| Moderate | 0.1 | 2.2 | 4.1 | 8.1 | 6.2 | 7.3 | 6.8 | 4.4 |
| Balanced | 0.0 | 2.9 | 5.1 | 9.7 | 7.0 | 8.4 | 7.5 | 4.1 |
| Growth | 0.0 | 3.5 | 6.0 | 11.0 | 7.7 | 9.3 | 8.0 | 4.1 |
| High Growth | -0.1 | 4.3 | 7.1 | 12.4 | 8.4 | 10.5 | 8.7 | 4.2 |

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 2017



Key drivers of performance during January 2017 included:

- Political uncertainty following Donald Trump's inauguration as US president and the UK's ongoing Brexit process.
- A weak domestic economic back drop dragged the consumer linked sectors of the Australian equity market and reduced expectations of an interest rate increase.

This environment proved favourable for portfolios with larger exposures to global listed equities and non-government debt.

Asset Allocation

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

Table 2: Targeted asset allocation for the 2017-2018 financial year

| | Actual % | Strategic % | Variance % | Rebalancing Range % |
|---------------------------------|--------------|----------------|---------------|---------------------------|
| Cash | 2.9 | 2.0 | 0.9 | 0 to +20% |
| Short Term Fixed Interest | 1.8 | 3.0 | -1.2 | 0 to +5% |
| Long Term Fixed Interest | 6.5 | 8.0 | -1.5 | ± 5% |
| Inflation Linked Securities B | 8.4 | 9.0 | -0.6 | ± 5% |
| Diversified Strategies Income | 16.8 | 16.0 | 0.8 | ± 5% |
| Property B | 11.9 | 12.0 | -0.1 | ± 5% |
| Australian Equities B | 23.9 | 23.0 | 0.9 | ± 5% |
| International Equities B | 20.2 | 19.0 | 1.2 | ± 5% |
| Diversified Strategies Growth B | 7.5 | 8.0 | -0.5 | ± 5% |
| Total | 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 2017

| | 1 mth % | 3 mths % | FYTD % | 1 Year % | 3 Years % p.a. | 5 Years % p.a. |
|--|------------|-------------|-----------|-------------|-------------------|-------------------|
| Cash and fixed income | | | | | | |
| Australian Cash | 0.2 | 0.4 | 1.1 | 2.0 | 2.3 | 2.7 |
| Australian Government | 0.6 | -1.5 | -2.5 | 1.7 | 4.8 | 4.2 |
| Australian Inflation-Linked | 0.6 | -1.3 | -1.0 | 1.1 | 5.6 | 4.7 |
| Global Treasuries ⁽¹⁾ | -0.6 | -1.8 | -2.7 | 2.4 | 5.8 | 5.8 |
| Global Inflation-Linked ⁽¹⁾ | 0.2 | -1.1 | 2.3 | 9.0 | 7.4 | 5.5 |
| Credit | | | | | | |
| Global Credit ^{(1),(2)} | 0.2 | -1.1 | 0.1 | 6.3 | 5.8 | 6.5 |
| Global High Yield ⁽¹⁾ | 1.5 | 2.4 | 8.4 | 19.9 | 7.8 | 10.2 |
| Emerging Market Debt ⁽⁴⁾ | 1.4 | -1.4 | 0.8 | 12.0 | 6.5 | 5.4 |
| Property | | | | | | |
| Australian Listed Property | -4.7 | 2.5 | -7.2 | 6.8 | 15.9 | 16.1 |
| Equities⁽³⁾ | | | | | | |
| Australian Equities | -0.8 | 6.4 | 9.6 | 17.3 | 7.4 | 10.4 |
| Global Equities | 1.3 | 6.8 | 11.2 | 16.7 | 8.5 | 12.1 |
| US Equities | 1.9 | 7.8 | 9.9 | 20.0 | 10.8 | 14.1 |
| European Equities | -0.3 | 4.8 | 11.0 | 12.4 | 6.3 | 9.8 |
| Japanese Equities | 0.2 | 9.4 | 23.4 | 8.2 | 9.6 | 17.4 |
| Asia (ex Japan) Equities | 4.9 | 1.7 | 10.0 | 19.4 | 5.6 | 5.6 |
| Emerging Market Equities | 4.0 | 1.9 | 10.5 | 20.8 | 6.2 | 5.3 |
| Global Small Companies | 1.1 | 9.2 | 14.1 | 23.1 | 8.7 | 13.6 |
| Currency⁽⁵⁾ | | | | | | |
| Australian Dollar vs Developed Market Basket | 3.8 | -0.1 | 3.4 | 6.7 | -2.4 | -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 market performance during January 2017 are summarised below.

Equity Markets

Global equity markets posted positive returns in January while Australian equities fell. Investors continued to react to the prospect for US policies to lift economic growth and corporate profits, while domestic equities fell in aggregate, exhibiting meaningful variation at the sector level.

Political uncertainty remained a focus following Donald Trump's inauguration as US president. While markets remain optimistic about the prospect of fiscal stimulus and deregulation, sentiment shifted more negative during the month as a series of executive orders reiterated Trump's focus on more protectionist trade policies. Meanwhile, the UK's path to a quick Brexit was thrown into doubt as the judiciary ruled that parliament must approve the necessary legislation.

Domestic equities fell on the back of softer economic data. A lower than expected inflation print, coupled with a modest rise in the unemployment rate saw the more domestically orientated parts of the market post negative returns. Returns were however somewhat buoyed by a rise in commodity prices, which saw resource linked market segments perform strongly.

Debt Markets

Global government bond markets fell over the month as interest rates rose. An increase in investor expectations of future inflation drove this result, amidst hope that the incoming US president may institute a more stimulatory fiscal policy regime. In contrast, domestic fixed interest markets posted a small positive return as expectations of an interest rate increase fell. Non-government debt markets (corporate and emerging market bonds) also posted positive returns as the risk premiums that investors demand for holding these assets contracted modestly.

Currency

Currency markets saw significant moves over the month. The Australian dollar rallied against most major currencies on the back of rising commodity prices, while the US dollar lost ground amid heightened political uncertainty. The Euro and the British Pound were mixed, while the Bank of Japan's decision to maintain its accommodative monetary policy stance saw the Yen post modest gains.

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