



# Performance Summary July 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.

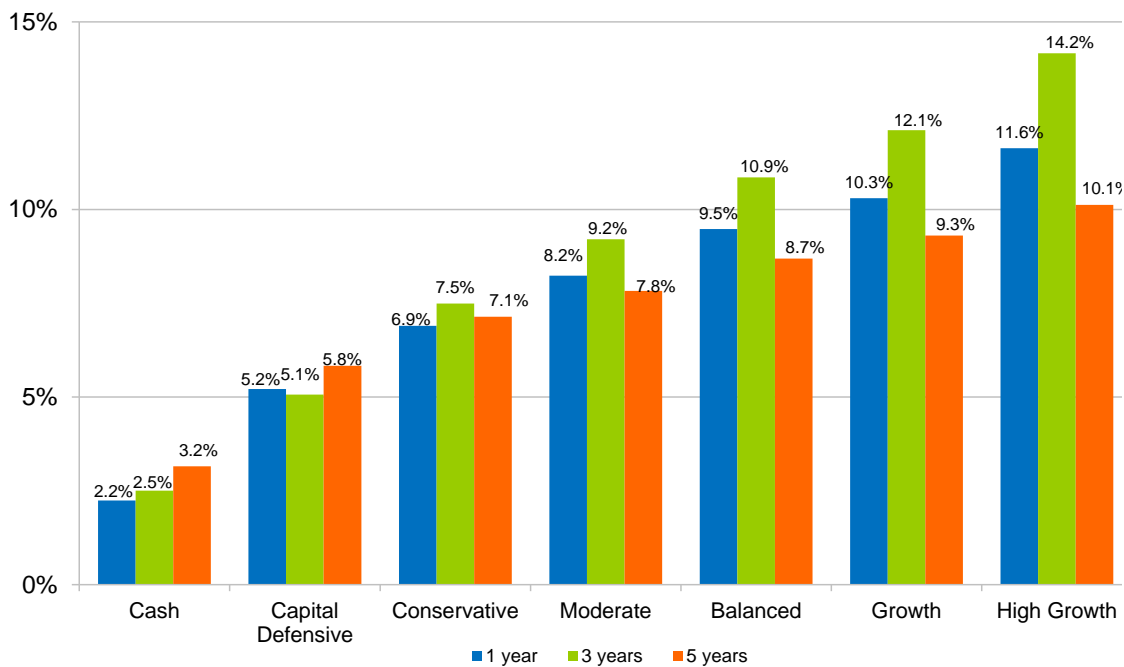
**Table 1: Multi-sector fund returns net of fees and tax to 31 July 2015<sup>1,2</sup>**

|                   | 1 mth<br>% | 3 mths<br>% | FYTD<br>% | 1 year<br>% | 3 years<br>% p.a. | 5 years<br>% p.a. | 7 years<br>% p.a. | 10 years<br>% p.a. |
|-------------------|------------|-------------|-----------|-------------|-------------------|-------------------|-------------------|--------------------|
| Cash              | 0.2        | 0.5         | 0.2       | 2.2         | 2.5               | 3.2               | 3.4               | 4.0                |
| Capital Defensive | 1.0        | 0.4         | 1.0       | 5.2         | 5.1               | 5.8               | 5.4               | 5.3                |
| Conservative      | 1.4        | 0.5         | 1.4       | 6.9         | 7.5               | 7.1               | 5.9               | 5.7                |
| Moderate          | 1.8        | 0.7         | 1.8       | 8.2         | 9.2               | 7.8               | 6.0               | n.a.               |
| Balanced          | 2.1        | 0.8         | 2.1       | 9.5         | 10.9              | 8.7               | 6.0               | 5.9                |
| Growth            | 2.3        | 1.0         | 2.3       | 10.3        | 12.1              | 9.3               | 6.2               | 6.2                |
| High Growth       | 2.7        | 1.3         | 2.7       | 11.6        | 14.2              | 10.1              | 6.5               | 6.5                |

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 July 2015**



Key drivers of performance during July 2015 included:

- Prior to an interim agreement being reached late in the month, financial markets experienced a sharp rise in volatility as a Greek referendum rejected the terms of the reform package offered by European creditors, dramatically increasing the prospect of a Greek default and exit from the Eurozone.
- Ongoing attempts by Chinese policymakers to halt the recent slide in that country's equity market were of limited success, with volatility rising further and benchmark indices posting another month of negative performance.
- Sharp falls in commodity prices placed further downward pressure on commodity-related corporate sectors and emerging market assets.
- Falling government bond yields in all major markets drove strong returns in government debt 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<br>Defensive | Conservative | Moderate     | Balanced     | Growth       | High<br>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           |
| <b>Total</b>                    | <b>100.0</b> | <b>100.0</b>         | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b>   |

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 July 2015**

|  | 1 mth<br>% | 3 mths<br>% | FYTD<br>% | 1 Year<br>% | 3 Years<br>% p.a. | 5 Years<br>% p.a. |
|--|------------|-------------|-----------|-------------|-------------------|-------------------|
| <b>Cash and fixed income</b>                 |            |             |           |             |                   |                   |
| Australian Cash                              | 0.2        | 0.6         | 0.2       | 2.6         | 2.8               | 3.6               |
| Australian Government                        | 1.4        | 0.1         | 1.4       | 7.0         | 4.2               | 6.2               |
| Australian Inflation-Linked                  | 1.5        | -0.8        | 1.5       | 7.9         | 4.9               | 8.6               |
| Global Treasuries <sup>(1)</sup>             | 1.4        | 0.0         | 1.4       | 7.1         | 6.0               | 7.2               |
| Global Inflation-Linked <sup>(1)</sup>       | 1.6        | -0.6        | 1.6       | 6.9         | 4.3               | 8.0               |
| <b>Credit</b>                                |            |             |           |             |                   |                   |
| Global Credit <sup>(1),(2)</sup>             | 1.0        | -0.7        | 1.0       | 5.0         | 6.0               | 8.0               |
| Global High Yield <sup>(1)</sup>             | 0.0        | -0.8        | 0.0       | 2.7         | 9.3               | 11.2              |
| Emerging Market Debt <sup>(4)</sup>          | 0.4        | -1.8        | 0.4       | -1.3        | 2.2               | 5.8               |
| <b>Property</b>                              |            |             |           |             |                   |                   |
| Australian Listed Property                   | 5.7        | 4.2         | 5.7       | 21.0        | 18.3              | 15.2              |
| <b>Equities<sup>(3)</sup></b>                |            |             |           |             |                   |                   |
| Australian Equities                          | 4.3        | -0.8        | 4.3       | 5.5         | 14.8              | 9.4               |
| Global Equities                              | 2.5        | 0.7         | 2.5       | 12.0        | 17.4              | 13.1              |
| US Equities                                  | 2.1        | 1.4         | 2.1       | 11.2        | 17.6              | 16.2              |
| European Equities                            | 4.4        | 0.0         | 4.4       | 13.8        | 15.7              | 10.1              |
| Japanese Equities                            | 1.8        | 4.2         | 1.8       | 31.7        | 34.1              | 16.6              |
| Asia (ex Japan) Equities                     | -4.9       | -9.6        | -4.9      | -0.7        | 8.2               | 5.8               |
| Emerging Market Equities                     | -4.3       | -8.7        | -4.3      | -1.0        | 6.8               | 5.1               |
| Global Small Companies                       | 0.6        | 1.4         | 0.6       | 13.8        | 20.2              | 14.9              |
| <b>Currency<sup>(5)</sup></b>                |            |             |           |             |                   |                   |
| Australian Dollar vs Developed Market Basket | -4.6       | -6.7        | -4.6      | -16.4       | -9.4              | -3.1              |

(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 July 2015 are summarised below.

### Equity Markets

Despite facing a number of significant headwinds and a period of higher volatility, developed market equities performed strongly in July, boosted in aggregate by an initial resolution of Greek sovereign debt issues and news that Chinese policymakers would do more to support the rapidly falling Chinese equity market.

Global markets sold off heavily at the start of the month as the Greek people voted in a referendum to reject the terms of the reform package offered by their European creditors. The referendum result, and the ensuing political standoff, saw an escalation of fears of an immediate Greek default and exit from the Eurozone, before an amended reform plan was ultimately passed by the Greek parliament several weeks later. Negotiations for a €86 billion bailout package are continuing, but this new interim deal has allowed the Greek banking system to re-open and sparked a meaningful rally in European equity markets over the second half of the month.

The ongoing struggle of Chinese policymakers in dealing with a highly volatile and collapsing Chinese equity market was another key driver of global equity market performance this month. Already feeling the pressure of a slowing domestic economy, policymakers unveiled a raft of measures over the month aimed at supporting the fragile equity market, including a surprise interest rate cut, large scale purchasing of equities by state-owned investment companies, and the suspension of any new share issues until markets stabilise. Nevertheless, these policies have proven to be largely unsuccessful thus far, with the Shanghai Composite falling a further 14% over the month.

Commodity prices slumped again in July, causing sharp falls in emerging market equities and other commodity-related equity sectors. Crude oil markets saw the largest moves this month, with Brent oil futures falling nearly 18%, as prices reacted to both slower global demand and excess supply issues. A softer economic outlook in China and other emerging markets were the major drivers from the demand side, while on the supply side, the finalisation of an agreement with Iran over economic sanctions and the Islamic Republic's nuclear ambitions could see an increase in market supply, while surprising resilience of the US shale industry and indications that OPEC is unlikely to cut production also placed downward pressure on prices. The moves were not restricted to energy, with other commodities also moving sharply lower over the month. Copper and iron ore were both down 10% this month, with copper particularly notable as it has traditionally been a good indicator of global growth.

The Australian equity market was one of the strongest performing markets this month, despite further falls in commodity prices and concerns over the Chinese economy. While these developments weighed heavily on the materials and energy sectors, the more defensive segments of the market continued to benefit from a solid outlook for these sectors and low domestic interest rates which boosted investor sentiment and fuelled another leg in the ongoing 'search for yield' trade.

## Debt Markets

Global government bond markets posted strong returns in July, with bond yields finishing the month materially lower in most major markets. These moves were driven by growing concerns over the economic growth outlook in China and other emerging markets, and declining inflation expectations, in large part driven by a sharp fall in oil prices and other economically-sensitive commodities. Meanwhile, heightened uncertainty surrounding Greece's negotiations with its European creditors and the collapsing Chinese equity market saw a renewed demand for the relatively safety of government bonds, placing further downward pressure on bond yields.

Non-government debt markets also posted positive returns in July, although underperformed government bonds. While these markets benefited from falling government bond yields, heightened risk aversion surrounding events in Europe and China saw the risk premium demanded for holding these assets widen modestly over the month. This effect was especially pronounced in those higher risk segments of the market or those with closer links to commodities, such as US high yield corporate bonds and emerging market debt.

## Currency

Currency markets experienced higher volatility in July, with most major currencies falling against the US dollar. The USD's broad based strength can be attributed to relatively hawkish commentary from the US Federal Reserve, which the market seemingly interpreted as a confirmation that the Fed is still expecting to raise interest rates later in 2015. Meanwhile, the Australian dollar reached its lowest level since 2009 as ongoing concerns around the strength of the Chinese economy combined with ongoing commodity price weakness to send the AUD broadly lower against its global peers.

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