Performance Summary

SA Metropolitan Fire Service Super Scheme – Members

August 2024

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 investment options offered under the Scheme.

Performance

The table and chart below show Funds SA's Taxable investment option returns based on the post-tax unit pricing model.

Table 1: Taxable investment option returns to 31 August 2024

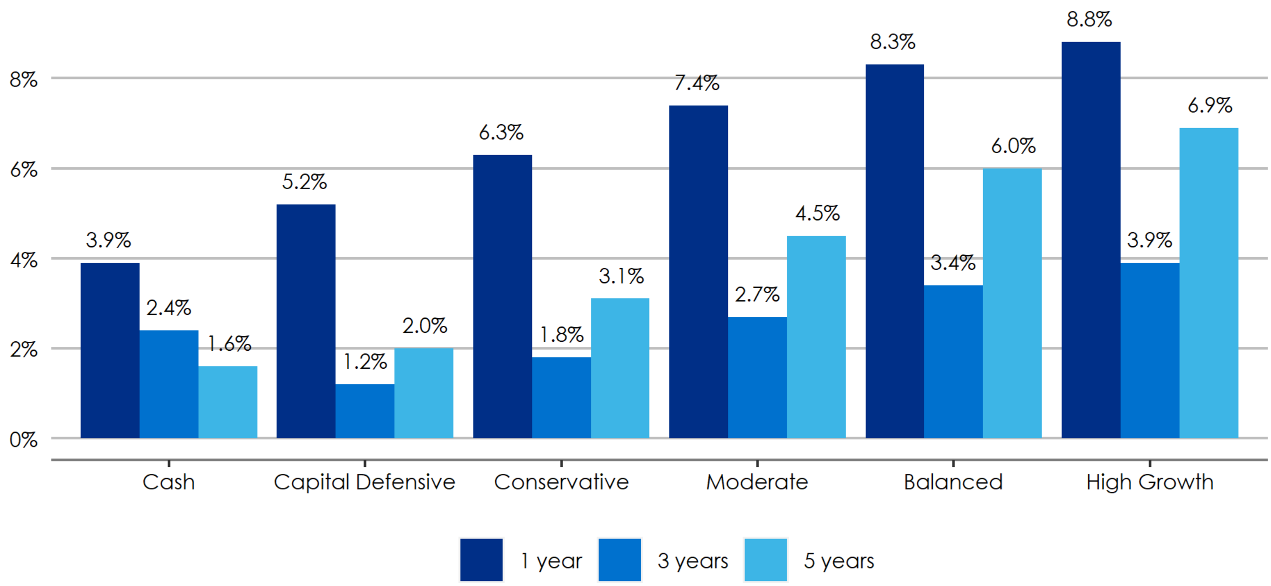
Returns are net of fees and tax

Investment option	1 month %	3 months %	FYTD %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Cash	0.3	1.0	0.7	3.9	2.4	1.6	1.6	1.7
Capital Defensive	0.6	2.0	1.8	5.2	1.2	2.0	2.6	3.0
Conservative	0.5	2.2	1.9	6.3	1.8	3.1	3.8	4.1
Moderate	0.4	2.5	2.2	7.4	2.7	4.5	5.1	5.2
Balanced	0.3	2.7	2.4	8.3	3.4	6.0	6.5	6.5
High Growth	0.3	2.8	2.7	8.8	3.9	6.9	7.5	7.6

Note: The Taxable investment options were established in March 2005, with the exception of the Moderate investment option (established in June 2006).

Chart 1: Taxable investment options annualised returns to 31 August 2024

Returns are net of fees and tax



Key drivers of performance:

- All investment options produced positive returns for the month, driven by the Australian Equities and Fixed Interest asset classes.
- The Australian Equities asset class delivered +0.8% for the month, outperforming the benchmark by +0.4%. Outperformance was driven by positive stock selection in Health Care, in particular being overweight ResMed and Fisher & Paykel who reported results ahead of the market's expectations. Strong stock selection in Consumer Discretionary, being overweight the Communication Services sector also contributed to outperformance.
- The Fixed Interest asset class was also a source of positive returns as bond yields fell (value increased). The key catalysts for bond yield falls were the expectation that the US Federal Reserve's rate cutting cycle is imminent and concerns over slowing global growth.
- The International Equities asset class was the key detractor to performance, courtesy of the AUD appreciating against the USD by circa +4%. The asset class outperformed the asset class benchmark.
- The foreign currency hedge provided positive returns, offsetting most of the currency movement impacting the International Equities asset class.

Effective asset allocation

The effective asset allocation of the Funds SA Taxable investment options is shown in the table below.

Table 2: Effective asset allocation as at 31 August 2024

Asset class	Cash %	Capital Defensive %	Conservative %	Moderate %	Balanced %	High Growth %
Australian Equities	0.0	4.8	10.0	18.1	25.4	31.1
International Equities	0.0	7.7	14.9	23.8	32.2	38.8
Private Markets	0.0	1.1	2.0	2.8	4.7	6.4
Property	0.0	5.3	5.9	5.4	6.9	10.6
Infrastructure	0.0	8.0	6.9	4.5	5.5	5.0
Alternatives	0.0	5.5	5.4	3.9	3.1	0.0
Credit	0.0	1.5	5.5	6.8	6.0	7.0
Fixed Interest	0.0	49.6	36.3	24.5	12.8	0.0
Cash	100.0	16.4	13.2	10.2	3.4	1.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Foreign Currency	**0.0**	**5.0**	**10.2**	**15.0**	**21.1**	**26.9**
Foreign Currency Hedge*	**0.0**	**2.7**	**4.7**	**8.6**	**9.9**	**9.3**

Due to rounding, the sum of the individual numbers within the table may not equal the totals quoted.

* The partial foreign currency hedge is the exposure converted back into Australian Dollars from investing in International Equities to achieve the Foreign Currency strategic allocation.

All other asset classes that have international investments are typically fully currency hedged.

Financial market snapshot

The table below summarises broad financial market performance.

Table 3: Major market index returns to 31 August 2024

Market Index	1 month %	3 months %	FYTD %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Australian Equities	0.4	5.6	4.6	14.6	6.4	8.1	9.2	8.0
International Equities	-1.3	4.4	2.5	17.9	8.4	12.1	12.7	12.4
Australian Unlisted Property	0.3	-4.2	0.5	-10.4	-0.5	0.8	3.2	5.6
Credit	1.3	3.1	2.6	10.8	1.8	2.6	2.9	4.0
Global Fixed Interest	1.3	4.2	3.2	5.0	-4.0	-2.1	1.0	2.2
Australian Fixed Interest	0.8	2.5	2.2	6.2	1.6	1.5	2.2	2.4
Cash	0.4	1.1	0.8	4.4	2.7	1.8	1.8	1.9
Foreign Currency (AUD v. Developed Markets)	3.0	0.8	0.1	3.2	-2.7	-0.8	-2.7	-2.7

Note:

Returns hedged to the Australian Dollar: Global Fixed Interest, Credit.

Equity returns are expressed in AUD.

Financial market commentary

August began with a bang with global equity market indices plummeting over the first few trading days, triggered by the release of weaker than anticipated July US Non-farm payrolls data. The US equity market quickly jumped to the conclusion that the US Federal Reserve might be too slow to cut interest rates, leading to concerns that the world's largest economy might be headed for a hard landing. The S&P500 index fell more than 6.0% in the first three trading days and as a group, the Magnificent Seven fell 10.0% in the first week. Defensive sectors outperformed the cyclical sectors such as Materials and Energy.

The most dramatic move was the Japanese equity market, it recorded the second highest sell-off since the 1987 Black Monday crash, falling by 12.0% in a single trading day. The move was exacerbated by the Bank of Japan's earlier decisions to increase official interest rates by 0.25% and reduce its bond buying program. The market's measure of volatility, the VIX, spiked and government bond yields fell sharply as investors moved quickly into defensive assets. The US dollar was markedly weaker against all major currencies. The US dollar index, the DXY index, fell 2.3% in August. The AUD rose 4.6% against the USD, from $0.65 to $0.68 over the month.

It was a short-lived sell-off. By the middle of the month major developed equities markets had, on average, bounced back to where they closed at the end of July. Most equity indices closed higher at end of August. The recovery could be attributed to several reasons including solid, broad-based, US Q2 company earnings releases, the July CPI data release was in line with consensus estimates, and various US Federal Reserve comments around rate cuts and confirming a focus on achieving strong labour market outcomes.

Key equity indices at the end of August were mostly higher (in local currency terms): S&P500 +2.3%, NASDAQ +0.7%, Russell 2000 (small cap) +1.6%, MSCI World +1.9%, MSCI Europe ex-UK +1.4%, FTSE +0.5%, TOPIX -2.9%, MSCI Asia Ex-JP +2.0%, S&P/ASX 300 +0.4%.

Bonds and credit were stronger too. The US 10-year government bond yield falling to 3.9% (4.1% 31 July) and the Australian 10-year government bond 4.0% (4.1%). Major credit indices were strong over the period, buoyed by lower government bond yields and good US company earnings. The US yield steepened (or "uninverted") during the month as measured by the difference (spread) between the US 2-year and US 10-year government bonds. Since mid-2022, US 2-year bonds have yielded more than the 10-year reflecting a high inflation, rising interest rate environment. At the end of August, the spread was near zero indicating that the market is beginning to price in an aggressive easing cycle beginning with a 0.25% cut in US Fed Funds Target rate at the September meeting.

More global central banks cut interest rates in August including the UK, New Zealand, and Sweden. Australia's Reserve Bank appears to be fighting the trend, maintaining a hawkish tone in its market releases in August.

Looking ahead, inflation, employment and key manufacturing data will likely continue to keep markets on edge. Equity valuations remain evaluated relative to history such that any surprises may invoke more extreme responses. China’s role as a global economic growth driver over the last decade will remain under the microscope given the reported deteriorating state of its property sectors and slowing manufacturing sectors and potential impact on key commodity and metals prices.