Performance Summary

SA Metropolitan Fire Service Super Scheme – Members

July 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 July 2024

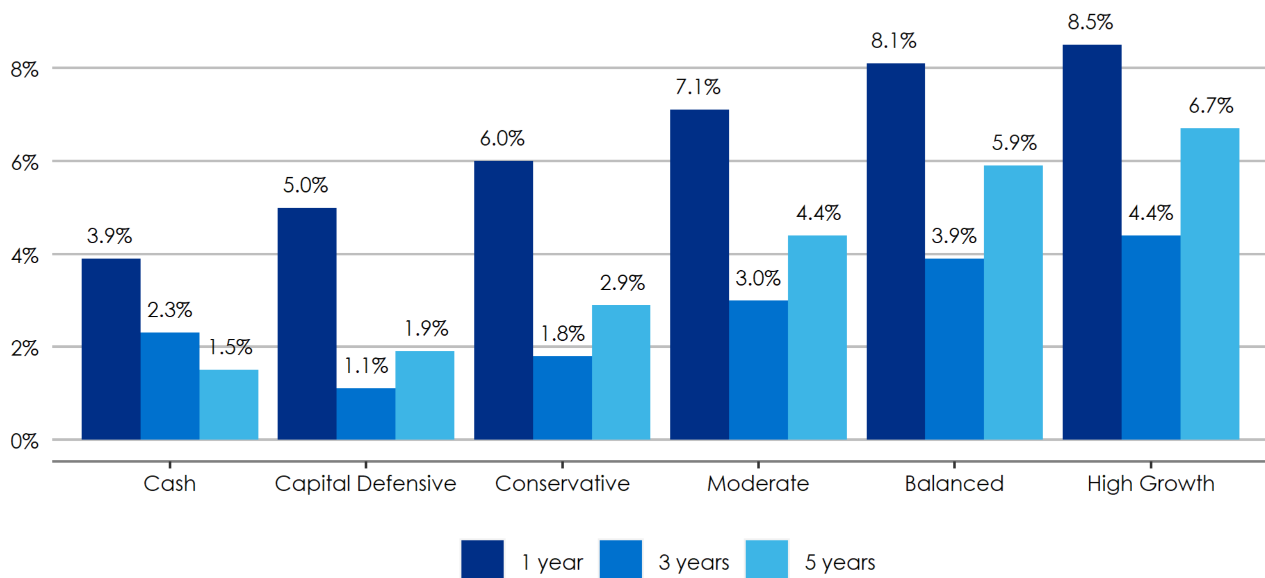
Returns are net of fees and tax

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	0.3	3.9	2.3	1.5	1.6	1.7
Capital Defensive	1.2	2.0	1.2	5.0	1.1	1.9	2.6	3.0
Conservative	1.4	2.3	1.4	6.0	1.8	2.9	3.8	4.1
Moderate	1.8	2.9	1.8	7.1	3.0	4.4	5.1	5.3
Balanced	2.1	3.4	2.1	8.1	3.9	5.9	6.5	6.6
High Growth	2.4	3.5	2.4	8.5	4.4	6.7	7.6	7.7

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 July 2024

Returns are net of fees and tax



Key drivers of performance:

- All investment options provided positive absolute returns for the month of July.
- For the Moderate, Balanced, High-Growth, and Socially Responsible investment options positive performance was driven by the International and Australian Equities asset classes.
- For the Capital Defensive and Conservative investment options, the Fixed Interest asset class delivered strong performance as bond yields fell (value increased) on the back of easing inflationary pressures.
- Most major global equity markets delivered positive performance. In the US, softer employment and inflation figures brought forward expectations for rate cuts by the Federal Reserve which pushed interest rate sensitive sectors such as Banks and Real Estate higher
- Market volatility spiked, triggered by a sizeable rotation from large to small cap companies which also saw Value (lower valued companies) significantly outperform Growth (companies priced for strong future earnings growth), and Small Caps outperform Mid-Large cap companies.
- The International Equities asset class slightly underperformed the benchmark. Being underweight the technology-heavy mega-cap stocks was additive as the sector fell during the month. Investors questioned whether the massive investment in AI by these companies would be repaid via earnings growth. Negative stock selection in French luxury discretionary companies as well as Indian Financials detracted from performance.
- Australian Equities had a strong July, recording its largest monthly gain for the year-to-date. At the end of the month, weaker than expected inflation alleviated fears of further interest rate hikes, and bond markets began pricing the prospect of rate cuts. Interest rate sensitive sectors including Real Estate and Financials performed well. Consumer Discretionary was the best performing sector for the month, buoyed by stage 3 income tax cuts beginning to flow through to consumers.
- The Australian Equities asset class outperformed the benchmark driven by an overweight to Consumer Discretionary, and positive stock selection in Information Technology, in particular being overweight IRESS. Stock selection was also positive in Materials, driven by underweights to Fortescue and BHP who struggled as commodity prices remained weak due to concerns around the strength of the Chinese economy and lack of stimulus measures for its ailing property market.

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 July 2024

Asset class	Cash %	Capital Defensive %	Conservative %	Moderate %	Balanced %	High Growth %
Australian Equities	0.0	4.8	9.9	17.8	25.1	30.3
International Equities	0.0	7.7	14.6	25.2	33.8	38.5
Private Markets	0.0	1.1	2.0	2.8	4.7	6.4
Property	0.0	5.3	5.9	5.4	6.8	10.4
Infrastructure	0.0	7.9	6.8	4.5	5.4	4.8
Alternatives	0.0	4.1	4.1	2.9	2.0	0.0
Credit	0.0	3.0	7.4	7.4	6.4	6.9
Fixed Interest	0.0	49.7	35.9	24.1	12.1	0.0
Cash	100.0	16.6	13.4	9.8	3.7	2.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Foreign Currency	**0.0**	**5.1**	**10.3**	**14.7**	**21.3**	**26.3**
Foreign Currency Hedge*	**0.0**	**2.7**	**4.6**	**8.2**	**10.1**	**9.5**

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 July 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	4.1	6.0	4.1	13.3	7.1	7.5	9.3	8.0
International Equities	3.9	7.5	3.9	20.9	10.0	12.3	13.1	12.8
Australian Unlisted Property	0.2	-4.3	0.2	-10.4	-0.4	0.8	3.3	5.7
Credit	1.3	2.9	1.3	9.3	1.6	2.2	2.8	3.9
Global Fixed Interest	1.9	3.4	1.9	3.8	-4.4	-1.8	0.8	2.2
Australian Fixed Interest	1.3	2.3	1.3	6.2	1.3	1.4	2.1	2.4
Cash	0.4	1.1	0.4	4.4	2.6	1.7	1.7	1.9
Foreign Currency (AUD v. Developed Markets)	-2.9	-0.2	-2.9	-3.3	-3.8	-1.9	-3.2	-2.9

Note:

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

Equity returns are expressed in AUD.

Financial market commentary

Markets were stronger in July. US equities were higher with the S&P500 +1.2%, the MSCI All Cap World index +1.2%, the MSCI Europe index +1.0%. The S&P/ASX 300 rose 4.1% in July.

The strength was broad-based. Value significantly outperformed Growth and the smaller companies outpaced large cap as evidenced by the Russell 2000 index gaining 10.1% over the period. Developed Markets outperformed Emerging Markets. The Magnificent Seven took a breather in July with the technology heavy NASDAQ falling 0.7%.

Bonds were significantly stronger with global developed 10-year benchmark government bond yields falling dramatically. The US 10-year yield fell 32 basis points to 4.1%, the Canadian 10-year benchmark yield fell 28 basis points to 3.2%, and Australia's 10-year benchmark bond yield fell 30 basis points to 4.1%. Corporate bonds and the credit asset class more broadly also rose in value over the month. The Australian Dollar fell 2.0% against the US Dollar.

Economics, inflation trends, and Central bank policy expectations where the stories of the month. Risk markets, such as equity and credit markets moved higher in July. The US led the charge after softer than expected employment and CPI (inflation) data releases for June, caused the market to bring forward expectations for the US Federal Reserve to rate cuts. Market participants now anticipate a policy rate cut as early as September. Comments mid-month by the US Federal Reserve Chair were interpreted as supportive to this view.

Australian economic data released during July was interpreted in a similar vein to the US. The much anticipated second quarter headline CPI remained steady at 3.8% year-on-year and the annualised unemployment rate for June was stable at 4.1%. Investors now anticipate at least one 25 basis point rate cut by March 2025.

The rally in bonds and credit in July pushed the interest rate sensitive sectors of the markets higher. Locally, that translated into strong performance from the Financials, Consumer Staples, Telcos and Healthcare sectors. Resources and Materials fell.

Whilst most developed markets moved in sync with one another, Japan bucked the trend and introduced volatility into markets late in the month. The Bank of Japan surprised most with a 25-basis point increase in its policy rate which caused the Japanese Yen to move markedly higher against the US dollar. The combination of higher borrowing rates and a higher exchange rate put extreme pressure on the popular "carry trade", which has long been a hedge fund staple (borrow cheap Yen, convert to US dollars and invest in higher yielding assets). It has been widely reported since, that the deterioration in the trade economics has seen forced unwind trades.

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