

Performance Summary

SA Metropolitan Fire Service Superannuation Scheme

May 2020



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

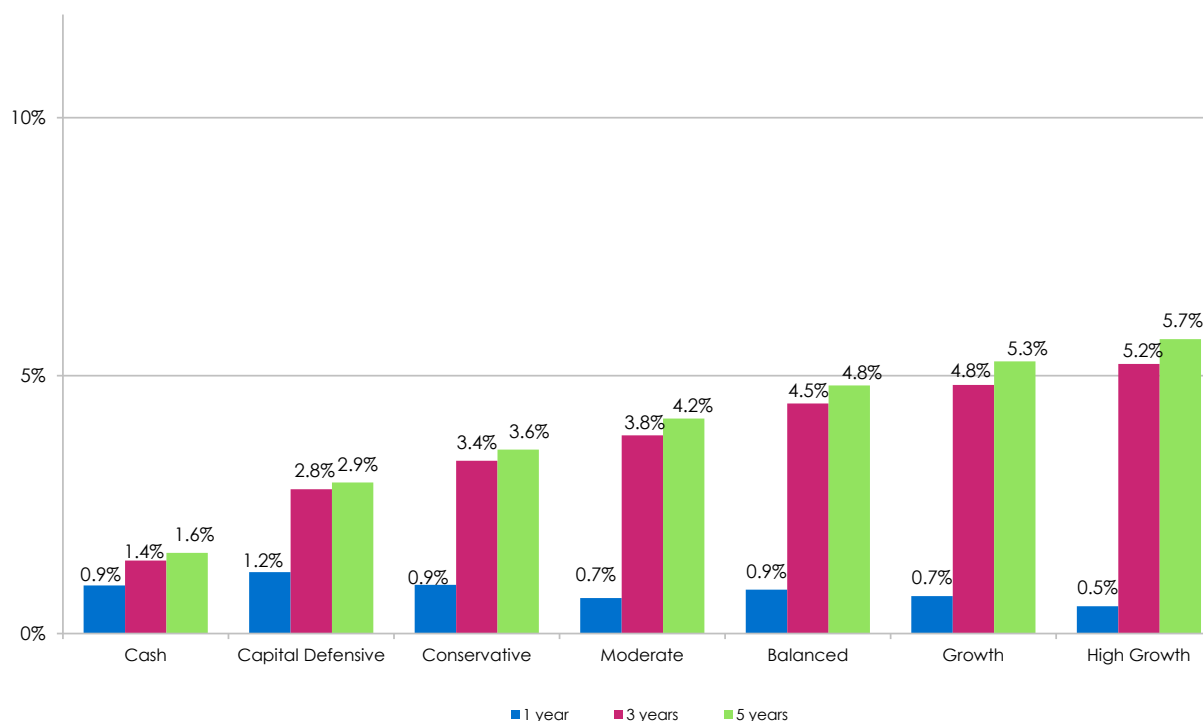
The table and chart below show Funds SA's Taxable funds returns based on the post tax unit pricing model detailed in the SLA.

Table 1: Taxable funds returns net of fees and tax to 31 May 2020¹

	1 mth %	3 mths %	FYTD %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Cash	0.0	0.1	0.8	0.9	1.4	1.6	1.8	2.4
Capital Defensive	1.1	-1.8	0.2	1.2	2.8	2.9	3.6	4.5
Conservative	1.7	-2.8	-0.5	0.9	3.4	3.6	4.6	5.5
Moderate	1.9	-3.6	-1.2	0.7	3.8	4.2	5.5	6.1
Balanced	2.3	-4.0	-1.4	0.9	4.5	4.8	6.4	6.8
Growth	2.5	-4.4	-1.7	0.7	4.8	5.3	7.0	7.4
High Growth	2.6	-5.0	-2.3	0.5	5.2	5.7	7.7	8.0

1. The taxable funds were established in March 2005, with the exception of the Moderate fund (established in June 2006)

Chart 1: Taxable funds annualised returns net of fees and tax to 31 May 2020



Key drivers of performance during May 2020 included:

- For the second straight month sharemarkets delivered strong returns.
- The push to re-open economies by progressively relaxing economic and social restrictions supported financial markets.
- Small but positive returns across defensive asset classes.

All investment options delivered positive returns for the month, with the environment being most favourable for portfolios with higher allocations to growth assets, particularly shares.

Asset Allocation

The asset allocation of the investment options is shown in the table below.

Table 2: Asset allocation as at 31 May 2020

	Cash	Capital					High
	%	Defensive	Conservative	Moderate	Balanced	Growth	Growth
	%	%	%	%	%	%	%
Cash	100.0	17.6	12.6	12.3	10.2	9.4	4.1
Short-Term Fixed Interest	0.0	29.9	17.9	7.0	2.0	0.0	0.0
Long-Term Fixed Interest	0.0	4.3	4.3	8.3	5.3	0.0	0.0
Inflation-Linked Securities	0.0	14.3	14.3	11.3	5.4	0.0	0.0
Taxable							
Diversified Strategies Income	0.0	15.1	16.1	9.9	5.9	10.6	9.7
Property Taxable	0.0	5.3	8.3	9.0	10.9	12.6	14.7
Australian Equities Taxable	0.0	5.1	11.1	15.6	22.5	24.4	26.2
International Equities Taxable	0.0	7.9	14.3	18.0	25.2	28.3	30.5
International Passive Equities	0.0	0.3	1.1	1.7	2.6	2.9	2.9
Taxable							
Diversified Strategies Growth	0.0	0.0	0.0	6.9	9.9	11.8	11.8
Taxable							
Total	100.0	100.0	100.0	100.0	100.0	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 financial market performance.

Table 3: Major market index returns to 31 May 2020

	1 mth %	3 mths %	FYTD %	1 Year %	3 Years % p.a.	5 Years % p.a.	7 Years % pa	10 Years % pa
Cash and fixed income								
Australian Cash	0.0	0.2	0.8	1.0	1.6	1.8	2.0	2.7
Australian Government	0.1	-0.1	4.1	5.2	5.6	4.7	4.9	5.6
Australian Inflation-Linked	2.3	-3.2	1.3	1.2	4.1	3.4	4.3	6.1
Global Treasuries ⁽¹⁾	-0.1	0.5	5.2	6.5	4.8	4.6	5.2	6.1
Global Inflation-Linked ⁽¹⁾	1.6	0.8	5.8	6.4	4.7	5.2	5.2	6.7
Credit								
Global Credit ^{(1),(2)}	1.3	-1.8	3.9	5.8	4.5	4.7	5.2	6.8
Global High-Yield ⁽¹⁾	4.8	-6.4	-5.5	-2.9	1.1	4.0	5.0	8.3
Emerging Market Debt ⁽⁴⁾	5.7	-5.5	-1.4	1.7	2.2	4.2	3.8	5.7
Property								
Australian Listed Property	7.1	-21.1	-19.7	-16.4	1.2	4.1	7.7	9.4
Equities⁽³⁾								
Australian Equities	4.6	-9.7	-9.8	-6.5	4.5	4.3	6.7	7.2
Global Equities	4.7	0.9	0.9	6.9	6.1	6.0	8.6	9.7
US Equities	4.8	3.6	5.4	12.8	10.2	9.9	11.6	13.2
European Equities	3.9	-5.3	-8.7	-4.5	-1.0	1.3	4.6	6.0
Japanese Equities	6.6	4.2	3.2	6.2	2.4	0.7	6.8	8.1
Asia (ex Japan) Equities	-0.7	-4.7	-4.6	0.5	2.4	2.8	5.0	5.8
Emerging Market Equities	0.7	-4.6	-4.6	-0.2	3.2	3.7	5.1	5.6
Global Small Companies	7.0	-3.6	-7.1	-2.0	1.9	3.7	7.3	9.3
Currency⁽⁵⁾								
Australian Dollar vs Developed Market Basket	1.7	2.3	-4.7	-4.3	-3.6	-2.7	-4.4	-2.0

(1) Australian dollar return (hedged)

(2) Includes obligations of corporates, supranational agencies, and other government-

(3) Local currency return

(4) Hedged to USD

(5) A positive number represents appreciation of the Australian dollar. A negative number represents depreciation.

Commentary

Sharemarkets

The impact of the COVID-19 pandemic continued to dominate markets with increasing focus on how countries would begin to relax their lockdown measures and the flow-on affect to economies. Whilst economic data has been weak, the relaxation in lockdown measures was viewed positively by investors, helping to extend the rebound in sharemarkets, decreasing volatility and providing support to growth-oriented portfolios with higher allocations to shares. Despite the first steps being taken to exit lockdown, and some positive news on a potential vaccine, it is still too early to say with confidence how the public health outlook will evolve.

In the US, economic data for April showed unemployment reaching 14.7%, the highest-level post-World War 2. US corporate reports for Q1 2020 confirmed earnings contracted by around 14% relative to Q1 2019. The expectation is for Q2 2020 GDP to be considerably worse than Q1 2020.

In Europe, attention focused on a European Union wide recovery plan. The plan would allow the European Commission to borrow EUR 750 billion in financial markets, equivalent to around 5.4% of EU GDP.

In some emerging economies, the number of reported COVID-19 cases has been trending down, and economies are starting to reopen, particularly in parts of Asia including China, and South Korea. By contrast, large increases in COVID-19 cases in India and Brazil have put pressure on their economies.

Escalating trade tensions between China and Australia, along with the reopening of the economy took some of the focus away from COVID-19. The Reserve Bank of Australia (RBA) Governor told a Senate inquiry that the economic downturn from COVID-19 may not be as severe as predicted. The RBA's quarterly statement on monetary policy revealed they expect the economy to contract 6% in calendar 2020.

Debt Markets

The general theme among central banks continues to be the maintenance of historically low interest rates and flooding the market with liquidity in attempts to shield economies from the impact of COVID-19. This support helped deliver small but positive returns across defensive asset classes.

Last month we saw the US Federal Reserve react quickly by increasing its balance sheet purchases, however, it made no meaningful adjustments to policy at its May meeting. The European Central Bank, under the terms of its purchase programs, bought over EUR 125 billion in government and corporate bonds over the past month. In Australia, the Cash Rate was maintained at an historic low of 0.25% and the RBA has said it will do whatever necessary to ensure bond markets remain functional.

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