# Performance Summary

SA Metropolitan Fire Service Super Scheme – Members

September 2021

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 September 2021

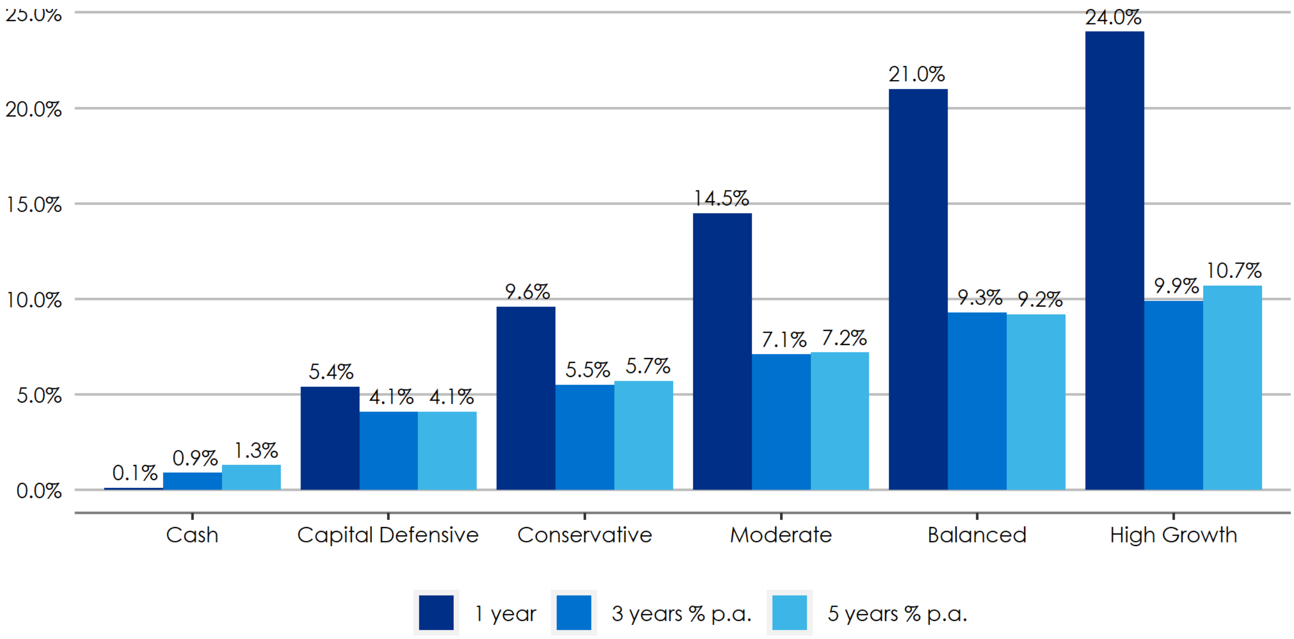
Returns are net of fees and gross of tax

| 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 | 0.0 | 0.0 | 0.0 | 0.1 | 0.9 | 1.3 | 1.6 | 2.2 |
| Capital Defensive | -0.8 | 0.3 | 0.3 | 5.4 | 4.1 | 4.1 | 4.3 | 4.9 |
| Conservative | -0.9 | 0.6 | 0.6 | 9.6 | 5.5 | 5.7 | 5.6 | 6.6 |
| Moderate | -1.0 | 1.3 | 1.3 | 14.5 | 7.1 | 7.2 | 7.0 | 8.0 |
| Balanced | -1.1 | 1.9 | 1.9 | 21.0 | 9.3 | 9.2 | 8.7 | 9.6 |
| High Growth | -1.1 | 2.2 | 2.2 | 24.0 | 9.9 | 10.7 | 10.0 | 11.3 |

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, net of fees to September 2021

Returns are net of fees and gross of tax



Key drivers of performance during September 2021:

- Returns for September were negative across all investment options except the Cash investment option.
- The International Equities and Australian Equities asset classes were dominant detractors to performance. International equity returns were impacted by capacity constraints and supply chain disruptions, along with negative investor sentiment over rising inflation. Australian equity returns were impacted by continued weakness in commodity prices.
- Fixed Interest provided no cushioning for the more defensive-oriented investment options. The prospect of higher inflation and rising expectations of central banks increasing interest rates, led to rising yields and negative returns from fixed interest assets.
- Property was a slight positive contributor, valuations improved as investor demand for office and industrial assets remains buoyant.
- Diversified Strategies Growth (DSG) also added some value for more growth-orientated options as a result of June quarter revaluations from Private Equity and rollforward valuations on Core Infrastructure.
- The Reserve Bank of Australia (RBA) Cash Rate is very low, and likely to be low for some time, it is expected the Cash investment option will return close to zero over the medium-term after fees and taxes.

## Asset allocation

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

**Table 2: Asset allocation as at September 2021**

| Asset class | Cash % | Capital Defensive % | Conservative % | Moderate % | Balanced % | High Growth % |
|---|---|---|---|---|---|---|
| Cash | 100.0 | 13.6 | 10.3 | 9.2 | 4.3 | 3.3 |
| Fixed Interest | 0.0 | 36.5 | 22.6 | 14.5 | 7.5 | 0.0 |
| Diversified Strategies Income | 0.0 | 17.3 | 18.4 | 12.2 | 8.2 | 6.5 |
| Inflation-Linked Securities Taxable | 0.0 | 14.8 | 14.9 | 10.9 | 5.0 | 0.0 |
| Property Taxable | 0.0 | 4.7 | 7.9 | 8.9 | 11.0 | 15.2 |
| Australian Equities Taxable | 0.0 | 5.5 | 11.5 | 18.5 | 26.5 | 29.6 |
| International Equities Taxable | 0.0 | 7.6 | 14.5 | 20.1 | 28.3 | 34.1 |
| Diversified Strategies Growth Taxable | 0.0 | 0.0 | 0.0 | 5.8 | 9.2 | 11.2 |
| **Total** | **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.

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# Financial market snapshot

The table below summarises financial market performance.

### Table 3: Major market index returns to September 2021

| 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. |
|---|---|---|---|---|---|---|---|---|
| **Cash and Fixed Income** | | | | | | | | |
| Australian Cash | 0.0 | 0.0 | 0.0 | 0.0 | 0.8 | 1.2 | 1.5 | 2.1 |
| Australian Government | -1.8 | 0.4 | 0.4 | -2.3 | 4.3 | 2.9 | 4.0 | 4.2 |
| Australian Inflation-Linked | -2.6 | -0.4 | -0.4 | 0.6 | 5.3 | 3.8 | 4.3 | 5.0 |
| Global Treasuries | -1.1 | 0.0 | 0.0 | -1.9 | 3.7 | 2.4 | 3.8 | 4.7 |
| Global Inflation-Linked | -1.6 | 2.1 | 2.1 | 3.9 | 6.4 | 4.1 | 5.5 | 5.6 |
| **Credit** | | | | | | | | |
| Global Credit | -1.0 | 0.0 | 0.0 | 1.2 | 5.4 | 3.8 | 4.6 | 5.8 |
| Global High-Yield | -0.7 | 0.1 | 0.1 | 9.3 | 4.8 | 4.9 | 5.7 | 8.3 |
| Emerging Market Debt | -2.0 | -0.5 | -0.5 | 3.9 | 5.6 | 3.6 | 4.5 | 5.5 |
| **Property** | | | | | | | | |
| Australian Listed Property | -1.9 | 4.8 | 4.8 | 30.7 | 9.2 | 7.7 | 11.2 | 13.5 |
| **Equities** | | | | | | | | |
| Australian Equities | -1.9 | 1.8 | 1.8 | 30.9 | 9.9 | 10.5 | 9.3 | 10.8 |
| Global Equities | -3.7 | 0.6 | 0.6 | 29.0 | 13.0 | 13.8 | 11.1 | 13.6 |
| US Equities | -4.7 | 0.6 | 0.6 | 30.0 | 16.0 | 16.9 | 14.0 | 16.6 |
| European Equities | -3.0 | 0.5 | 0.5 | 26.9 | 7.3 | 8.2 | 6.8 | 9.6 |
| Japanese Equities | 4.4 | 5.2 | 5.2 | 28.4 | 6.5 | 11.5 | 8.6 | 12.7 |
| Asia (ex Japan) Equities | -3.4 | -8.5 | -8.5 | 14.1 | 8.9 | 10.2 | 8.1 | 9.0 |
| Emerging Market Equities | -2.8 | -6.6 | -6.6 | 17.2 | 9.8 | 10.8 | 8.4 | 9.0 |
| Global Small Companies | -3.3 | -1.7 | -1.7 | 39.5 | 10.8 | 12.4 | 10.6 | 13.0 |
| **Currency** | | | | | | | | |
| Australian Dollar vs Developed Market Basket | -0.9 | -3.3 | -3.3 | 0.8 | -0.2 | -1.2 | -2.2 | -2.2 |

Note:

Returns hedged to the Australian Dollar: Global Treasuries, Global Inflation-Linked, Global Credit, Global High-Yield.

Equity returns are expressed in local currency.

Emerging Market Debt is hedged to the US Dollar.

Currency: A positive number represents appreciation of the Australian Dollar. A negative number represents a depreciation of the Australian Dollar.

# Financial market commentary

Global equity markets retracted from their historic highs. Concerns relating to rising interest rates, inflation fears, supply chain issues, and uncertainty relating to the Chinese property market stemming from the heavily indebted Evergrande Group, all contributed to falls on international equity markets.

Increased inflation expectations coupled with expectations that US Federal Reserve (the Fed) will bring forward interest rate hikes, saw global bond yields materially rise over September. The Fed have maintained the narrative of "transitory" inflation. At its September meeting, the Fed signalled the tapering of bond purchases noting the conditions for tapering have been "all but met" but no formal decision was made. However, Chairman Jerome Powell noted the Committee expect to taper bond purchases fully by mid-2022. In addition to the concerns mentioned above, the taper comments saw US shares sell off, with the S&P 500 finishing the month 3.6% down from its August peak in AUD terms.

Central banks around the world followed the Fed, with the European Central Bank (the ECB) signalling tapering but also deferring a formal decision to their December meeting while leaving policy rates unchanged. The Bank of England (the BoE) also maintained policy rates however was more concerned with continued supply constraints and global inflationary pressures.

Domestically, weakness in commodity prices led to falls in the Australian share market. The Reserve Bank of Australia (RBA) maintained the Official Cash Rate at 0.10%, in line with the central bank's stance on interest rates, and consistent with market expectations. During the September meeting, the RBA confirmed it would begin tapering their bond purchases in the first week of September on the basis that the economy is seen returning "to its pre-Delta path by mid-2022" and as "a number of other central banks are tapering". Recognising that GDP would decline materially in the September quarter after the extended lockdowns in New South Wales and Victoria, the RBA maintained its commitment to a flexible approach to the bond purchase program and providing accommodative conditions to support the recovery.

The Delta variant of COVID-19 continued to pose major challenges for economies around the world, particularly in areas with low vaccination coverage forcing hard lockdowns. Vaccine rollouts continue to be focused on populations reaching 70% to 80% vaccination coverage and progress to date has been successful in breaking the exponential case trajectory seen globally last year.