

Investment commentary

December quarter investment update

The SA Metropolitan Fire Service Scheme (Scheme) performed strongly in the quarter ended 31 December 2024 (refer Table 1). Figure 1 illustrates the annual performance of the investment options over the last 5 years.

The High Growth investment option, the scheme default for SA Metropolitan Fire Service, returned +2.5% for the quarter, taking the 1-year return to 11.2%. The key driver of the High Growth return was the International Equities asset class which rose more than 9.0% over the period.

Table 1. SAMFS Taxable investment options at 31 December 2024

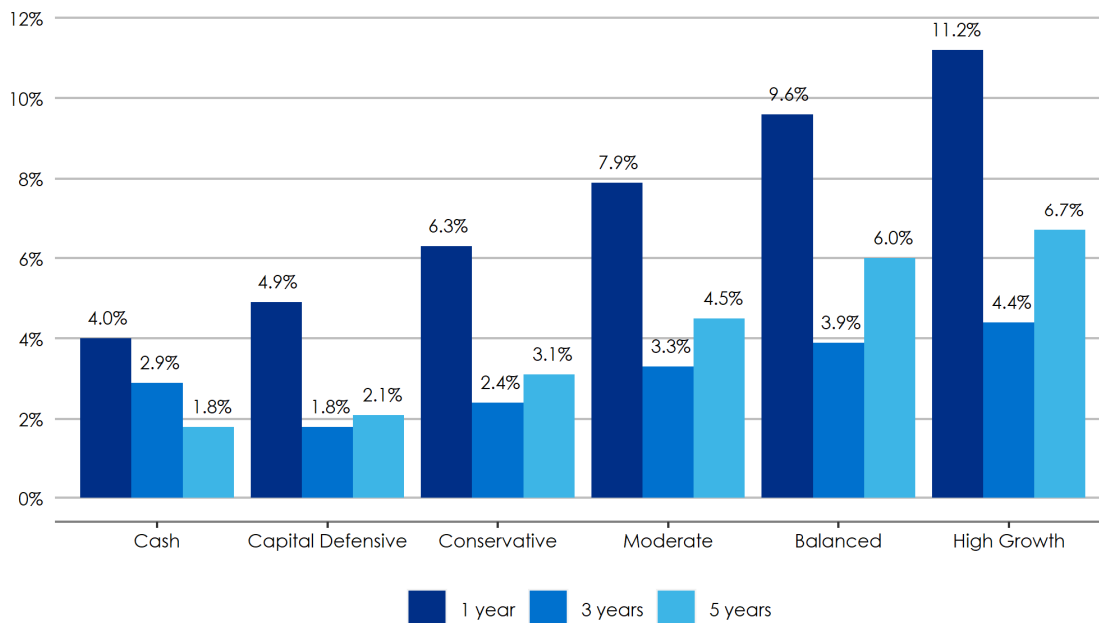
Returns are net of fees and tax¹

Investment option ²	3 months %	FYTD %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Cash	1.0	2.1	4.0	2.9	1.8	1.7	1.7
Capital Defensive	0.9	3.3	4.9	1.8	2.1	2.6	2.9
Conservative	1.2	3.9	6.3	2.4	3.1	3.7	4.1
Moderate	1.4	4.6	7.9	3.3	4.5	4.9	5.3
Balanced	1.9	5.4	9.6	3.9	6.0	6.3	6.5
High Growth	2.5	6.4	11.2	4.4	6.7	7.1	7.7

Note. 1. Returns are net of fees and tax, based on the post-tax unit pricing model detailed in the Memorandum of Agreement between SAMFS and Funds SA. 2. Due to rounding, the excess return shown may not exactly equal the difference between the portfolio and benchmark returns.

Figure 1. Taxable investment options annualised returns to 31 December 2024

Returns are net of fees and tax



Source: Funds SA

For the 3-month period to 31 December 2024 all Scheme Investment Options produced strong returns.

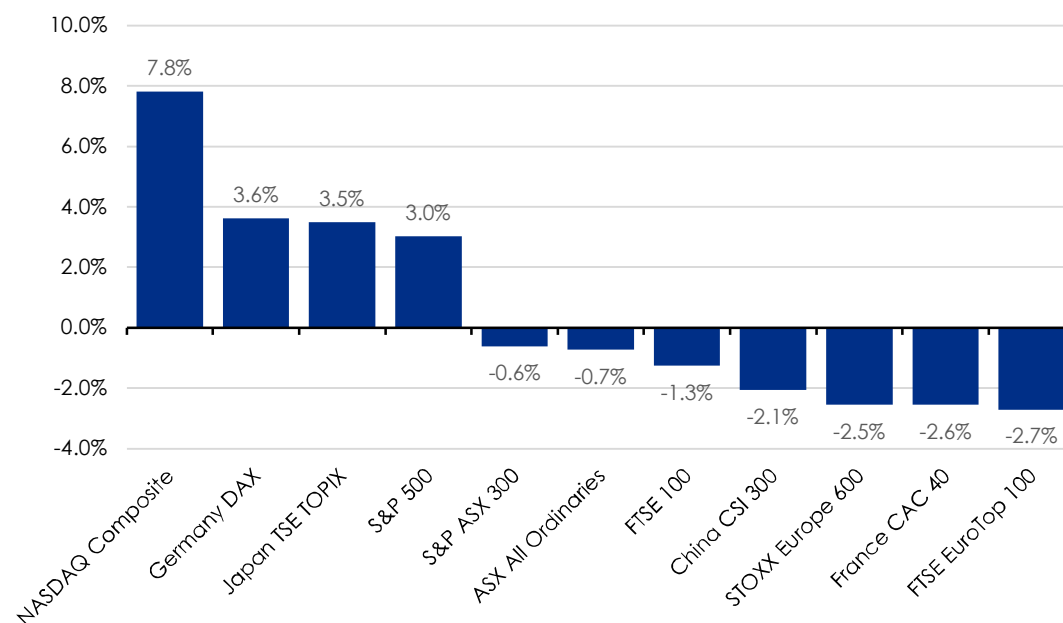
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The International Equities asset class¹ was the standout contributor to investment option returns, gaining more than 9.0% over the period, taking the asset class 1-year return to a staggering gain of over 25.0%. In contrast, the Australian Equities asset class² fell over the 3-months and has returned 10.4% over 1-year. The Private markets and Infrastructure assets also material contributors to investment option performance, rising 6.1% and 5.1% respectively to the end of December. The Fixed Interest asset class fell 2.6% over the quarter on the back of the significant increase in global government bond yields.

Listed equities performance is illustrated in Figure 2. US equities were primarily responsible for the strong International Equities asset class return for the quarter, the most notable being the NASDAQ return of 7.8% for the period. Tesla's 56.5% share price increase and the continued bullish sentiment around Artificial Intelligence (AI) drove the 'mega cap' technology stocks and the NASDAQ higher.

Figure 2. Global listed equities performance

Price returns for the quarter ended 31 December 2024



Source: FactSet, Funds SA

Global bond yields rose (prices fell) over the quarter. The Australian 10-year government bond yield increased to 4.4% from 4.0% while the US 10-year equivalent increased to 4.6% from 3.7%. The rise in yields was mainly driven by investor fears that the policies of the incoming Trump administration in the US would likely be inflationary and put further pressure on the US fiscal deficit. The knock-on impact saw the market moderate its views on number of US Federal Reserve policy rate cuts expected in 2025.

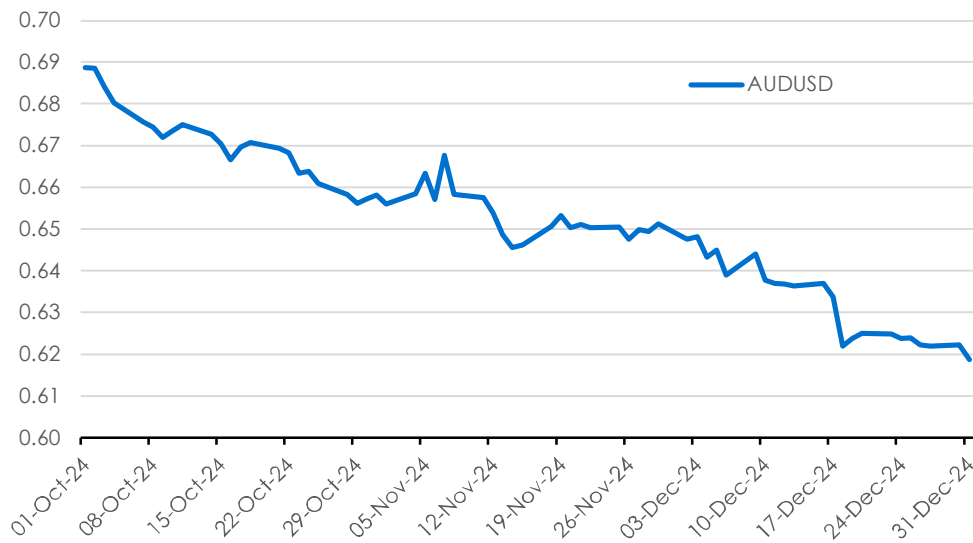
Perhaps the biggest story for the December quarter was the gain in the US dollar (USD) which rose against all major currencies, including the Australian dollar (AUD), on the back of rising US government bond yields. The AUDUSD fell more than 9% over the period from 0.6900 (AUD per USD) to 0.6200 (refer Figure 3). A weaker AUD impacts the countries terms of trade, making imports more expensive.

¹ International Equities Taxable asset class.

² Australian Equities Taxable asset class

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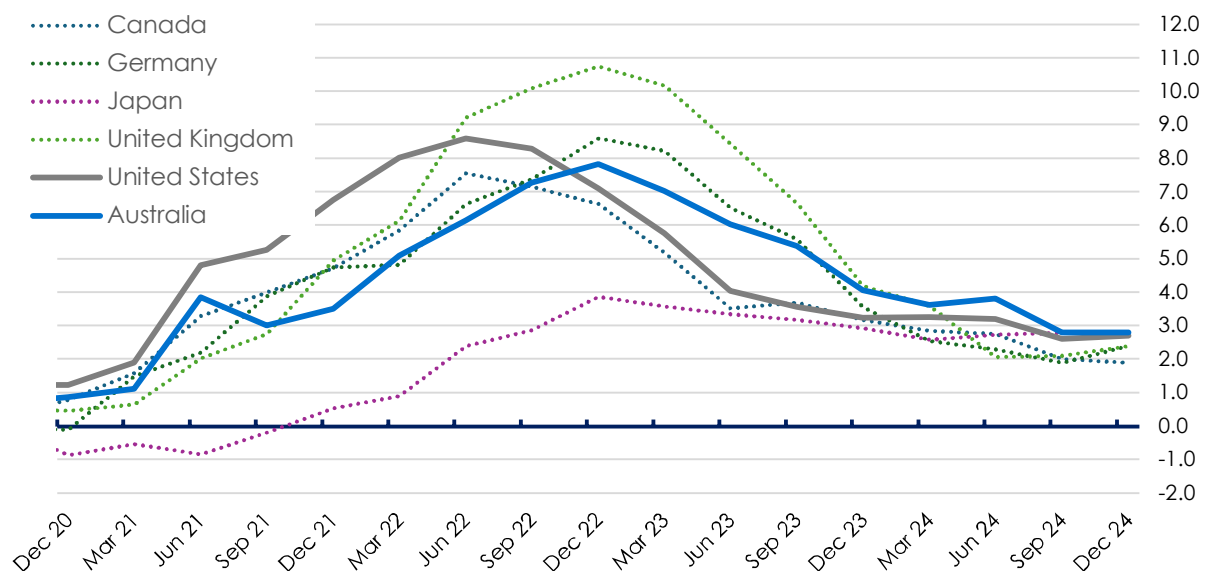
Figure 3. Australian dollar relative to the US dollar



Source: FactSet, Funds SA

Economic data continues to be closely monitored by investors as they search for signals that may influence Australian monetary policy decisions. The critical signal is the RBA's preferred measure of inflation, the CPI trimmed mean. The December quarter release, headline CPI 2.4% and trimmed mean 3.2% annualised, showed further signs that inflation is contained and within the RBA's tolerance.

Figure 4. Global inflation



Source: Fact Set, Funds SA

At the time of writing the market believes that there is greater than 90% probability that the RBA will reduce the official cash rate by 25 basis points to 4.10%.

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External risk factors are increasingly more prevalent, none more so than the policies of the new US administration. The impact of tariffs imposed on major economies by the US could have major ripple effects across supply chains the world over.

There has been no material change to the investment views at Funds SA. The team is still positive on markets more broadly, maintaining a neutral to marginal overweight to growth assets across the investment options and is alert to the evolving risk environment.

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