Performance Summary

SA Metropolitan Fire Service Super Scheme – Members

August 2023

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 2023

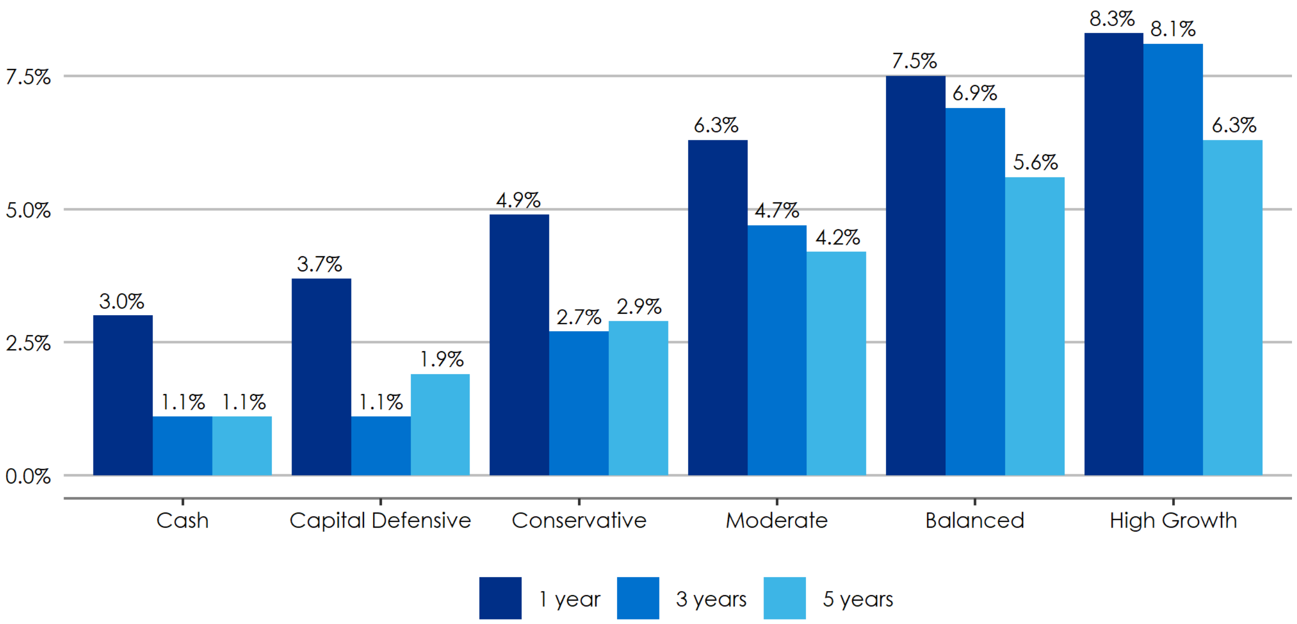
Returns are net of fees and tax

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	0.9	0.6	3.0	1.1	1.1	1.3	1.5
Capital Defensive	0.3	0.9	1.2	3.7	1.1	1.9	2.4	3.0
Conservative	0.2	1.4	1.3	4.9	2.7	2.9	3.6	4.2
Moderate	0.1	2.0	1.4	6.3	4.7	4.2	4.9	5.5
Balanced	0.1	2.6	1.7	7.5	6.9	5.6	6.4	6.7
High Growth	0.1	2.9	1.9	8.3	8.1	6.3	7.7	8.0

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 2023

Returns are net of fees and tax



Key drivers of performance:

- All diversified investment options delivered low, positive returns. Investment options with sizeable allocations to Fixed Interest produced the highest returns for the month.
- Unlisted growth assets were a positive contributor to performance. Infrastructure led the way, followed by Private Markets and Property.
- Returns within the Fixed Interest asset class were mixed. Rising bond yields for long dated bonds resulted in negative returns. However, this was offset by positive returns from falling bond yields for shorter dated bonds.
- The International Equities asset class delivered positive returns and benefitted from the fall in the Australian Dollar during the month, but this was partly offset by currency hedging.
- The Australian Equities asset class detracted from returns, weighed down by concerns of a meaningful slow-down within China's economy, the possibility of higher interest rates for longer than expected and emerging weakness in the domestic economy.

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 2023

Asset class	Cash %	Capital Defensive %	Conservative %	Moderate %	Balanced %	High Growth %
Australian Equities	0.0	5.1	10.0	18.0	25.1	28.9
International Equities	0.0	5.7	12.2	20.2	26.2	31.4
Private Markets	0.0	1.1	2.1	3.1	5.3	7.2
Property	0.0	6.0	7.0	7.0	8.8	13.6
Infrastructure	0.0	4.3	4.0	3.5	5.1	5.1
Alternatives	0.0	3.9	3.9	2.8	1.9	0.0
Credit	0.0	3.2	7.5	7.4	6.5	7.5
Fixed Interest	0.0	51.5	35.6	23.5	11.8	0.0
Cash	100.0	19.3	17.7	14.3	9.3	6.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

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 broad financial market performance.

Table 3: Major market index returns to 31 August 2023

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	-0.8	3.9	2.1	9.0	10.5	7.0	8.5	7.9
International Equities	1.2	6.6	3.6	20.8	12.1	9.9	11.8	12.2
Australian Unlisted Property	0.2	-2.8	0.5	-1.3	6.1	4.3	6.2	7.9
Credit	0.0	3.6	1.5	6.2	0.7	1.7	2.5	4.1
Global Fixed Interest	0.1	-1.7	0.0	-1.3	-5.4	-0.3	-0.1	2.6
Australian Fixed Interest	0.9	0.8	1.7	4.0	-0.1	1.3	1.5	2.2
Cash	0.4	1.0	0.7	3.4	1.2	1.2	1.4	1.7

Note:

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

Equity returns are expressed in AUD.

Financial market commentary

Investment markets are absorbing the possibility that interest rates could be higher for longer and that China's economic outlook continues to weaken. This impacted both equity and bond markets.

Equity markets had a challenging month with the Australian equities market, and both international developed and emerging markets all falling. August was reporting season for many listed companies. While results for 2023 and guidance for 2024 were better than anticipated, economic data continues to weaken which led to analysts downgrading forward looking earnings. Emerging equity markets were impacted by weakness in China's economy and concern around their Property sector.

The Australian Dollar fell by circa 3.5% due two key factors. Firstly, the expected interest rate differential between Australia and the US has widened. Markets are pricing possible interest rate cuts by the Reserve Bank of Australia in 2024. By contrast, there is reduced expectation that the US Federal Reserve will cut interest rates in 2024, avoiding a deep recession. Secondly, concerns around China's economy, leading to a weaker outlook for Australian exports with lower commodity prices.

Bond market movements were mixed during the month, Australian bond and credit markets outperformed global equivalents.

In Australia, bond yield movements were subdued. Short-dated bonds delivered positive returns as the market repriced, removing expectations for additional rate rises by the RBA.

In early August, longer dated US bonds experienced a sharp sell-off but recovered some of the losses late in the month. A number of factors contributed to the decline – increased bond issuance, resilient economic data and continued debate that interest rates may stay elevated. The Bank of England raised its policy rate to 5.25% as expected and indicated economic data would be a key determinant for future action.