Performance Summary

SA Metropolitan Fire Service Super Scheme – Members

June 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 30 June 2023

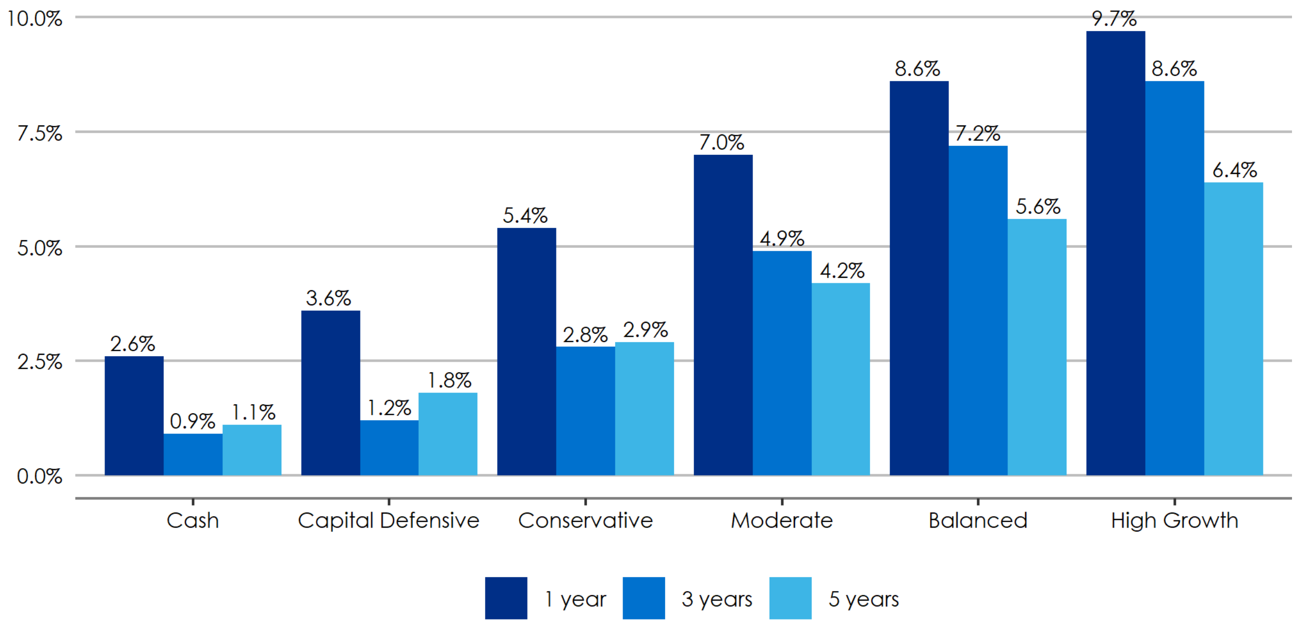
Returns are net of fees and tax

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	0.8	2.6	2.6	0.9	1.1	1.2	1.5
Capital Defensive	-0.3	-0.1	3.6	3.6	1.2	1.8	2.4	3.0
Conservative	0.1	0.5	5.4	5.4	2.8	2.9	3.7	4.3
Moderate	0.5	1.1	7.0	7.0	4.9	4.2	5.0	5.5
Balanced	0.9	1.7	8.6	8.6	7.2	5.6	6.5	6.8
High Growth	1.0	2.1	9.7	9.7	8.6	6.4	7.9	8.2

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 30 June 2023

Returns are net of fees and tax



Key drivers of performance:

- With the exception of the Capital Defensive investment option, all investment options delivered strong positive returns for the month.
- International equities performed strongly on the back of hopes of a soft landing, disinflation, and optimism within the technology sector associated with Artificial Intelligence (AI).
- Australian equities benefited from rallies in the Materials and Financial sectors through the month.
- The Credit asset class benefitted from significant narrowing of spreads.
- Property was a large and consistent detractor across the investment options, primarily due to lower valuations across office and retail markets.
- For the lower risk investment options Fixed Interest was also a detractor. Bond yields rose (prices fell) during the month as central banks continued to flag future rate rises to ensure inflation continues on a downward trajectory.
- The Reserve Bank of Australia (RBA) increased the Official Cash Rate (OCR) 0.25% to 4.10%. At the time of writing, the RBA chose not to change the OCR (4 July 2023). The market is currently pricing further tightening and expects higher cash rates for longer.

Asset allocation

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

Table 2: Asset allocation as at 30 June 2023

Asset class	Cash %	Capital Defensive %	Conservative %	Moderate %	Balanced %	High Growth %
Cash	100.0	21.8	18.7	14.2	9.7	5.0
Fixed Interest	0.0	36.7	20.7	14.6	6.9	0.0
Inflation-Linked Securities Taxable	0.0	8.8	8.8	5.8	4.9	0.0
Diversified Strategies Income	0.0	12.9	17.2	13.2	8.4	7.5
Property Taxable	0.0	6.1	8.3	8.2	8.9	13.8
Australian Equities Taxable	0.0	4.8	9.9	17.9	25.0	29.4
International Equities Taxable	0.0	5.4	12.1	20.1	26.1	32.1
Diversified Strategies Growth Taxable	0.0	3.4	4.4	6.0	10.1	12.2
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 30 June 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	1.7	1.0	14.4	14.4	11.1	7.1	8.9	8.5
International Equities	2.9	7.0	20.5	20.5	12.2	10.4	11.8	12.4
Australian Unlisted Property	-3.3	-2.8	-1.3	-1.3	6.1	4.5	6.3	7.9
Credit	2.0	2.2	8.0	8.0	0.7	1.2	2.8	4.2
Global Fixed Interest	-1.8	-3.0	-1.2	-1.2	-5.6	-0.1	0.1	2.7
Australian Fixed Interest	-0.9	-0.8	3.0	3.0	-0.6	1.1	1.3	2.1
Cash	0.3	0.9	2.9	2.9	1.0	1.2	1.3	1.7

Note:

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

Equity returns are expressed in AUD.

Financial market commentary

Fears of a potential recession abated, which helped listed equity and credit assets perform well. The US Congress approved legislation to suspend the US debt ceiling until 2025, removing one source of uncertainty.

Inflation and central bank action continue to be a source of uncertainty. Economies globally showed some signs that higher interest rates are starting have the desired effect. Inflation moderated in a number of regions, unemployment increased slightly but still reflects a tight labour market, while GDP in some regions declined by a small margin. Economic data shows a reasonable level of resilience within economies. Inflation still remains higher than desired, and most developed market central banks raised interest rates and flagged more rises are likely, leading global bond markets to fall by -1.8% during June. The Bank of Japan and US Federal Reserve were the exception to the rate rising trend and held rates in June.

Australian bonds fell -0.9% reflecting the June rate rise which surprised markets. Bond yields adjusted significantly higher to reflect a higher peak of the interest rate cycle and the possibility rates may stay higher for longer.

Improved economic growth forecasts have led to increased expectations for corporate earnings to remain stable. Within Credit markets, spreads have narrowed significantly although downgrades and defaults have started to tick up, albeit from low levels.

Developed market equities, particularly Japan and the US, led the rally. The Japanese equity market reached its highest level in circa 30 years. Factors supporting the strong market include persistent investment from foreign investors, recovery post-pandemic, expectations of corporate governance reforms to improve corporate value, and Yen weakness as a result of the Bank of Japan's cautious approach to inflation and interest rates.

In the US, technology stocks buoyed by enthusiasm around AI developments and related opportunities were the key driver. This momentum flowed through to South Korea, Taiwan, and the Eurozone. Expected earnings for Eurozone Financials were also strong, supporting European equities.

The Australian equity market's sectors Materials and Financial rallied through the month. These reflected a more resilient Australian economy supported by recent economic data and higher commodity prices despite some weakness in Chinese economic activity.