Performance Summary

SA Metropolitan Fire Service Super Scheme – Members

December 2022

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 December 2022

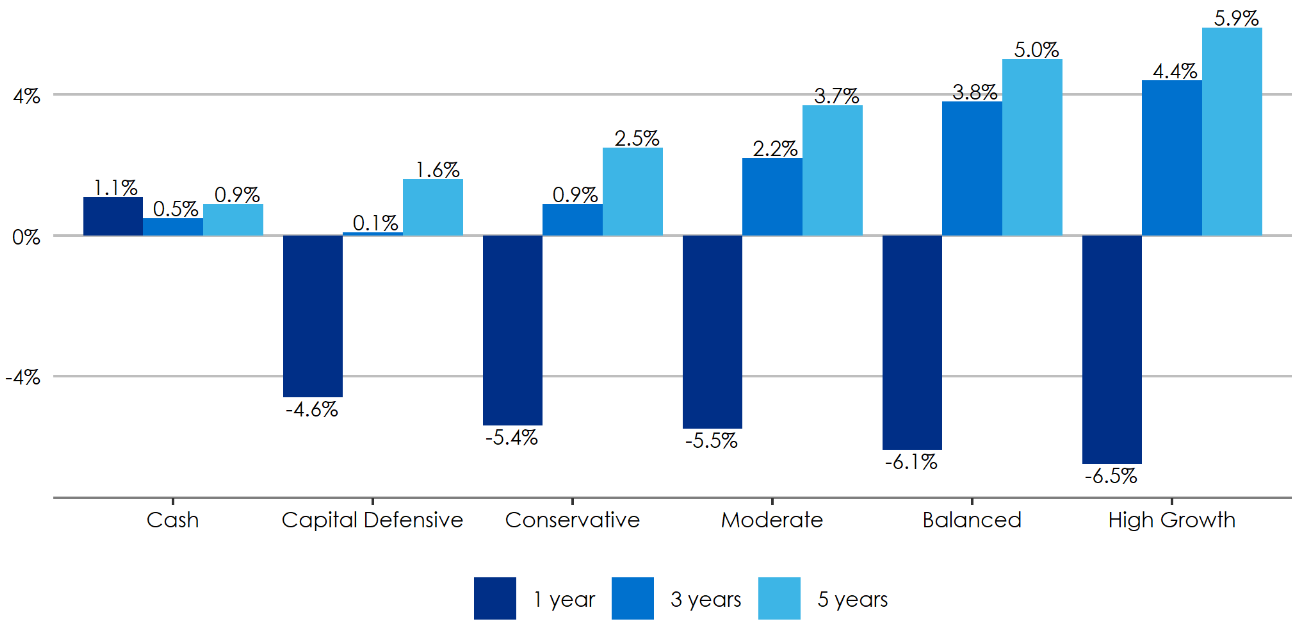
Returns are net of fees and tax

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	0.2	0.7	1.0	1.1	0.5	0.9	1.1	1.5
Capital Defensive	-0.9	1.8	1.2	-4.6	0.1	1.6	2.4	2.9
Conservative	-1.4	2.6	1.9	-5.4	0.9	2.5	3.5	4.2
Moderate	-1.9	3.1	2.3	-5.5	2.2	3.7	4.7	5.4
Balanced	-2.4	3.8	2.9	-6.1	3.8	5.0	6.1	6.7
High Growth	-2.7	4.2	3.4	-6.5	4.4	5.9	7.3	8.3

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 to 31 December 2022

Returns are net of fees and tax



Key drivers of performance:

- Aside from the Cash investment option, returns for the month were negative across all investment options amid considerable uncertainty surrounding the outlook for 2023.
- International and Australian Equities were key detractors from all investment options. Equity markets reacted negatively to growing sentiment that a recession may result in 2023.
- Fixed Interest was also a detractor as the market lowered its expectations of a change in central bank policy, causing long-end bond yields to rise.
- The Reserve Bank of Australia (RBA) increased the Official Cash Rate (OCR) by 0.25%, from 2.85% to 3.10%.

Asset allocation

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

Table 2: Asset allocation as at 31 December 2022

Asset class	Cash %	Capital Defensive %	Conservative %	Moderate %	Balanced %	High Growth %
Cash	100.0	20.9	15.3	9.2	5.3	4.5
Fixed Interest	0.0	37.6	23.5	15.5	8.5	0.0
Inflation-Linked Securities Taxable	0.0	14.6	14.6	10.6	4.1	0.0
Diversified Strategies Income	0.0	10.8	14.9	11.7	7.8	6.9
Property Taxable	0.0	5.5	8.5	9.5	11.1	15.7
Australian Equities Taxable	0.0	4.9	10.9	17.7	25.6	27.7
International Equities Taxable	0.0	5.7	12.3	19.2	26.6	32.0
Diversified Strategies Growth Taxable	0.0	0.0	0.0	6.5	11.0	13.1
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 31 December 2022

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	0.2	0.7	1.2	1.3	0.5	1.0	1.3	1.7
Australian Government	-2.4	0.2	-0.5	-10.2	-3.3	0.5	1.2	2.1
Australian Inflation-Linked	-2.7	3.7	1.8	-10.4	-1.0	1.8	2.0	2.8
Global Treasuries	-1.7	-0.2	-3.7	-11.7	-3.2	-0.2	1.0	2.4
Global Inflation-Linked	-2.8	-0.1	-6.4	-18.3	-2.1	0.2	2.3	2.5
Credit								
Global Credit	-0.9	2.4	-2.6	-15.5	-3.8	-0.4	1.5	2.5
Global High-Yield	-0.1	6.0	3.9	-12.6	-2.6	0.1	3.6	4.0
Emerging Market Debt	0.4	7.4	2.9	-16.5	-4.5	-1.0	2.0	1.3
Property								
Australian Listed Property	-4.0	11.6	3.9	-20.1	-0.8	3.8	5.5	8.5
Equities								
Australian Equities	-3.3	9.1	9.6	-1.8	5.5	7.1	8.4	8.6
Global Equities	-5.1	7.5	2.7	-16.0	5.8	6.9	8.8	10.0
US Equities	-5.8	7.6	2.3	-18.1	7.7	9.4	11.5	12.6
European Equities	-2.7	10.4	5.8	-8.5	3.1	3.9	5.7	7.0
Japanese Equities	-4.7	3.3	2.1	-2.8	5.9	3.5	5.3	10.6
Asia (ex Japan) Equities	-0.9	8.2	-3.3	-15.4	0.1	0.7	5.9	4.8
Emerging Market Equities	-1.9	6.7	-1.9	-15.2	0.5	1.7	6.6	5.0
Global Small Companies	-3.5	11.1	5.4	-18.3	3.0	3.5	7.3	8.4
Currency								
Australian Dollar vs Developed Market Basket	0.6	4.3	-1.7	-3.9	-0.3	-2.1	-0.8	-3.2

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

The calendar year ended in volatile fashion, which has been a consistent feature for financial markets throughout the year. Bond and equity markets declined in December due to considerable economic uncertainty and growing consensus for a US-led recession in 2023.

Economic indicators suggested inflation may have peaked across large parts of the developed world and central banks have responded by slowing the magnitude of rate increases. The US Federal Reserve (the Fed), the Bank of Canada, the European Central Bank (ECB) and the Bank of England all raised rates by 0.50%, while the Reserve Bank of Australia (RBA) hiked by 0.25%. The Bank of Japan joined other central banks in tightening monetary policy, however, this was unexpected and drove a sell-off in bonds.

Central banks reiterated their commitment to bring inflation back to target, trying to dampen market speculation of a near-term policy pivot. The ECB is lagging the Fed in the tightening cycle, and a clear shift was made by ECB President Lagarde advocating for large, sustained increases in interest rates over the period ahead. Global bonds fell 1.7% as central banks continue their commitment to battle inflation with higher interest rates.

There is growing sentiment that economies will weaken into a recession in 2023, no matter what happens to interest rates, and markets reacted negatively. Global equities (in local currency terms) fell by 5.1%, driven by US Technology and Discretionary sectors. Australian equities returned -3.3%, with all sectors falling. Asia (ex-Japan) equities fared better than other equity markets, on optimism that China's earlier-than-expected reopening after tough COVID lockdowns will support China's economic growth.