OFFICIAL: SENSITIVE

# Performance Summary

SA Metropolitan Fire Service Super Scheme – Members

February 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 28 February 2023

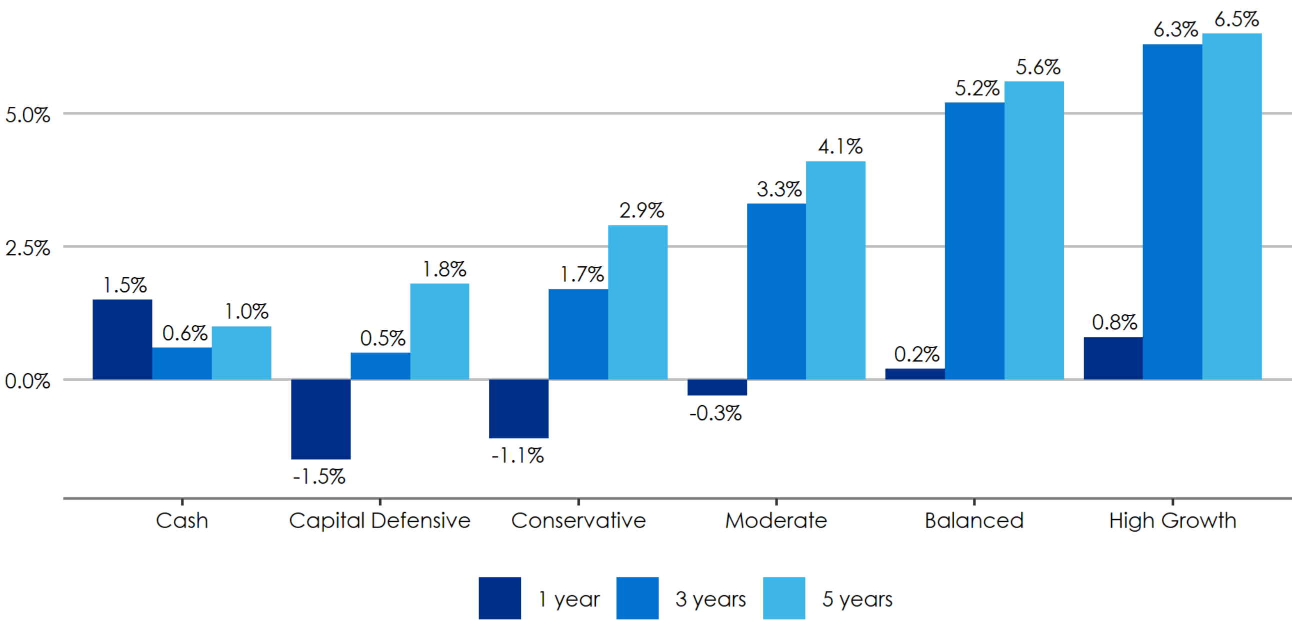
Returns are net of fees and tax

| 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 | 0.2 | 0.7 | 1.5 | 1.5 | 0.6 | 1.0 | 1.2 | 1.5 |
| Capital Defensive | -0.5 | 0.5 | 2.7 | -1.5 | 0.5 | 1.8 | 2.6 | 2.9 |
| Conservative | -0.5 | 0.6 | 3.9 | -1.1 | 1.7 | 2.9 | 3.9 | 4.1 |
| Moderate | -0.5 | 0.6 | 4.9 | -0.3 | 3.3 | 4.1 | 5.3 | 5.4 |
| Balanced | -0.5 | 0.5 | 6.0 | 0.2 | 5.2 | 5.6 | 6.8 | 6.6 |
| High Growth | -0.4 | 0.7 | 7.0 | 0.8 | 6.3 | 6.5 | 8.3 | 8.1 |

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 28 February 2023

Returns are net of fees and tax



Key drivers of performance:

- The Cash investment option generated positive returns for the month. Money market yields moved higher over the month as markets increased their expectations for further rate hikes.
- Australian Equities and Fixed Interest asset classes were consistent detractors across the investment options. Inflation and central bank expectations continuing to dictate market movement.
- Australian Equities were impacted by a weak reporting season with a larger share of companies missing profit expectations from rising costs, namely inflationary pressures, and labour costs. The Materials and Financials sectors were the largest detractors within the index, while the Industrials, Information Technology and Consumer Staple sectors performed better.
- While global equity markets fell, Funds SA's International Equities asset class was flat for the month and did not detract from the performance of the investment options. This was due to a currency effect as the Australian Dollar depreciated against the US Dollar.
- Fixed Interest, Inflation-Linked Securities and Credit all produced negative performance as bond yields rose. Markets priced for yields to stay higher for longer on the back of resilient growth and inflation data, and doubt that inflation would return to central bank targets quickly.
- Favourable regulatory outcomes for regulated assets contributed positively to Core Infrastructure along with exposure to overseas assets.
- Lower risk investment options were impacted most by the collective weakness across asset classes. Higher risk options were impacted by Australian Equities and benefited from allocations to Core Infrastructure and Property.
- The Reserve Bank of Australia (RBA) increased the Official Cash Rate (OCR) 0.25% from 3.10% to 3.35%. At the time of writing, the RBA had increased the Official Cash Rate from 3.35% to 3.60% (7 March 2023). The market continues to price an aggressive tightening cycle with the OCR expected to increase to around 4% by the middle of the year.

## Asset allocation

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

**Table 2: Asset allocation as at 28 February 2023**

| Asset class | Cash % | Capital Defensive % | Conservative % | Moderate % | Balanced % | High Growth % |
|---|---|---|---|---|---|---|
| Cash | 100.0 | 19.2 | 14.8 | 10.7 | 7.7 | 6.1 |
| Fixed Interest | 0.0 | 38.3 | 23.3 | 15.4 | 8.5 | 0.0 |
| Inflation-Linked Securities Taxable | 0.0 | 11.8 | 11.3 | 9.8 | 5.3 | 0.0 |
| Diversified Strategies Income | 0.0 | 10.8 | 14.7 | 11.7 | 7.8 | 6.8 |
| Property Taxable | 0.0 | 6.4 | 8.9 | 8.9 | 10.0 | 14.9 |
| Australian Equities Taxable | 0.0 | 5.1 | 11.1 | 18.1 | 25.0 | 29.0 |
| International Equities Taxable | 0.0 | 5.5 | 11.9 | 19.7 | 25.8 | 31.2 |
| Diversified Strategies Growth Taxable | 0.0 | 3.0 | 4.0 | 5.7 | 10.0 | 12.0 |
| **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 general financial market performance. The market indices used in the table below are different to the indices that Funds SA uses to target and measure the performance of its asset classes and investment options. As a result, the table below is not reflective of Funds SA performance and should not be used for comparison purposes.

### Table 3: Major market index returns to 28 February 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. |
|---|---|---|---|---|---|---|---|---|
| **Cash and Fixed Income** | | | | | | | | |
| Australian Cash | 0.2 | 0.8 | 1.7 | 1.8 | 0.7 | 1.1 | 1.3 | 1.7 |
| Australian Government | -1.6 | -1.1 | 0.8 | -6.9 | -4.1 | 0.8 | 1.0 | 2.2 |
| Australian Inflation-Linked | -2.2 | -0.2 | 4.4 | -5.9 | -1.3 | 2.3 | 2.2 | 2.9 |
| Global Treasuries | -1.4 | -1.5 | -3.4 | -9.3 | -4.2 | 0.0 | 0.5 | 2.3 |
| Global Inflation-Linked | -2.0 | -2.8 | -6.4 | -16.8 | -3.4 | 0.5 | 1.8 | 2.4 |
| **Credit** | | | | | | | | |
| Global Credit | -2.5 | -0.5 | -2.2 | -11.0 | -4.6 | 0.0 | 1.3 | 2.4 |
| Global High-Yield | -1.6 | 1.8 | 5.9 | -6.6 | -1.5 | 0.5 | 3.9 | 4.0 |
| Emerging Market Debt | -2.2 | 1.2 | 3.8 | -8.2 | -4.5 | -0.4 | 1.8 | 1.6 |
| **Property** | | | | | | | | |
| Australian Listed Property | -0.4 | 3.3 | 11.9 | -6.4 | 1.2 | 6.7 | 6.0 | 8.4 |
| **Equities** | | | | | | | | |
| Australian Equities | -2.5 | 0.2 | 13.5 | 6.5 | 7.9 | 7.9 | 10.1 | 7.9 |
| Global Equities | -1.6 | -0.5 | 7.7 | -4.9 | 10.6 | 7.9 | 10.6 | 9.8 |
| US Equities | -2.4 | -2.3 | 6.1 | -7.7 | 12.1 | 9.8 | 12.9 | 12.3 |
| European Equities | 1.4 | 5.5 | 14.8 | 5.7 | 9.5 | 6.2 | 8.0 | 7.2 |
| Japanese Equities | 0.9 | 0.4 | 7.6 | 8.3 | 12.3 | 5.1 | 8.8 | 9.8 |
| Asia (ex Japan) Equities | -5.0 | 0.7 | -1.8 | -9.7 | 2.7 | 0.6 | 7.3 | 4.8 |
| Emerging Market Equities | -4.6 | -0.4 | -0.3 | -10.1 | 3.5 | 1.5 | 7.7 | 5.1 |
| Global Small Companies | -2.5 | 3.2 | 12.8 | -5.5 | 9.8 | 5.0 | 9.5 | 8.4 |
| **Currency** | | | | | | | | |
| Australian Dollar vs Developed Market Basket | -3.5 | 0.1 | -2.3 | -4.6 | 1.9 | -2.0 | -0.5 | -3.3 |

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

Inflation and central bank expectations continued to drive market movement in February. Stronger than expected economic data fuelled speculation that interest rates may be higher for longer and dampened expectations central banks may pivot their policy approach. Bond yields rose and equity markets fell in response, with global treasuries ang global equities returning -1.4% and -1.6% in local currency, respectively.

Developed market central banks continued to raise rates to bring inflation back to target. The US Federal Reserve (the Fed) and the RBA increased rates by 0.25% and both the European Central Bank and Bank of England raised rates by 0.50%. The consensus amongst central banks was that further rate increases are needed to bring inflation under control. Increased market volatility reflects increasing concern of a central bank induced recession caused by a policy overshoot.

Global equity markets fell following comments from Fed Chair, Jerome Powell, suggesting a higher-for-longer approach could mean there may not be a pivot lower for the remainder of 2023. It was clear the markets had priced in less interest rate rises and therefore reacted negatively to the prospect of more. Emerging markets struggled following a reversal of strong returns made by China and Hong Kong in previous months as well as escalating geopolitical tensions with the US. The European market was an outlier, providing positive returns for the month. The combination of China reopening and a fall in European energy prices bolstered European equity markets.