Performance Summary

SA Metropolitan Fire Service Super Scheme – Members

January 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 January 2023

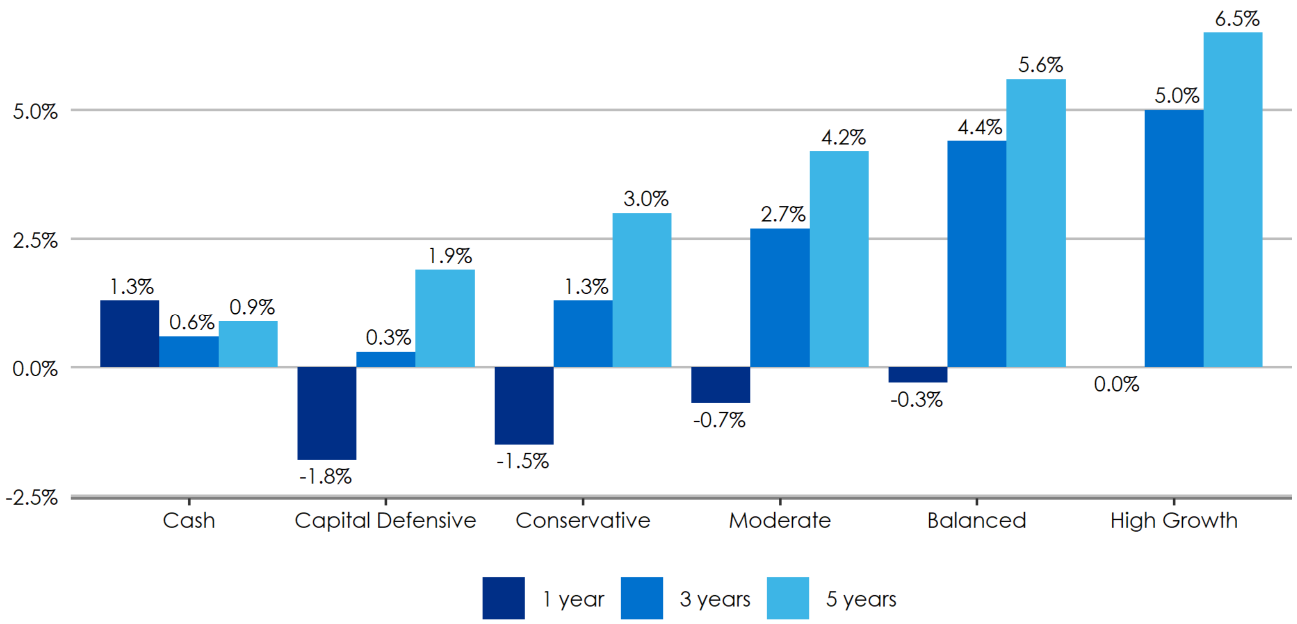
Returns are net of fees and tax

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	1.3	1.3	0.6	0.9	1.1	1.5
Capital Defensive	1.9	2.4	3.2	-1.8	0.3	1.9	2.7	3.0
Conservative	2.6	3.1	4.5	-1.5	1.3	3.0	4.0	4.3
Moderate	3.1	3.5	5.5	-0.7	2.7	4.2	5.4	5.6
Balanced	3.5	3.8	6.5	-0.3	4.4	5.6	6.9	6.9
High Growth	3.8	4.2	7.4	0.0	5.0	6.5	8.3	8.4

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 January 2023

Returns are net of fees and tax



Key drivers of performance:

- All diversified investment options had a positive month.
- For the lower risk investment options, positive performance was spread across asset classes with the largest contribution coming from Fixed Interest asset classes, followed by Equities.
- Performance of the higher risk investment options was predominately driven by domestic and global listed Equities.
- Within Australian Equities, the Materials sector performed strongly with most commodity prices rising, improved sentiment from China's reopening and a positive response to mining company quarterly reports, all driving returns.
- International Equities also performed well, falling inflation and positive investor sentiment leading into corporate earnings releases supported returns.
- Fixed Interest, Inflation-Linked Securities and Credit all performed well. Bond yields fell, and credit spreads tightened during the month.
- At the time of writing, the RBA had increased the Official Cash Rate from 3.10% to 3.35% (7 February 2023). The market is pricing in an end to the tightening cycle by the second half 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 31 January 2023

Asset class	Cash %	Capital Defensive %	Conservative %	Moderate %	Balanced %	High Growth %
Cash	100.0	18.7	14.5	9.3	7.3	5.3
Fixed Interest	0.0	38.6	23.3	15.3	8.2	0.0
Inflation-Linked Securities Taxable	0.0	14.7	14.7	9.7	4.2	0.0
Diversified Strategies Income	0.0	10.7	14.6	11.5	7.5	6.7
Property Taxable	0.0	6.4	9.3	9.3	10.2	15.2
Australian Equities Taxable	0.0	5.4	11.4	18.6	25.4	29.4
International Equities Taxable	0.0	5.7	12.1	20.1	26.1	31.6
Diversified Strategies Growth Taxable	0.0	0.0	0.0	6.2	11.0	11.8
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 general financial market performance. The market indices used in the below table 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 below table is not reflective of Funds SA performance and should not be used for comparison purposes.

Table 3: Major market index returns to 31 January 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	0.3	0.8	1.4	1.5	0.6	1.0	1.3	1.7
Australian Government	2.9	1.9	2.4	-6.6	-3.2	1.2	1.4	2.4
Australian Inflation-Linked	4.8	4.5	6.7	-4.9	-0.6	2.8	2.6	3.3
Global Treasuries	1.7	1.6	-2.0	-9.0	-3.3	0.3	0.9	2.6
Global Inflation-Linked	2.0	1.7	-4.5	-14.9	-2.4	0.9	2.2	2.6
Credit								
Global Credit	2.9	6.0	0.3	-10.7	-3.5	0.3	1.8	2.8
Global High-Yield	3.6	7.7	7.7	-7.3	-1.5	0.7	4.3	4.2
Emerging Market Debt	3.1	10.7	6.1	-11.3	-4.1	-0.4	2.4	1.8
Property								
Australian Listed Property	8.1	9.7	12.3	-4.6	-0.3	6.1	6.5	8.9
Equities								
Australian Equities	6.3	9.5	16.5	11.6	6.0	8.5	10.3	8.7
Global Equities	6.5	6.8	9.4	-5.9	8.1	7.4	10.6	10.2
US Equities	6.3	5.8	8.7	-8.2	9.9	9.5	13.3	12.7
European Equities	7.0	11.3	13.2	1.0	6.0	5.1	7.5	7.2
Japanese Equities	4.5	2.5	6.7	6.6	8.2	4.2	7.1	10.1
Asia (ex Japan) Equities	6.9	22.4	3.4	-7.0	3.8	0.8	8.0	5.3
Emerging Market Equities	6.6	16.7	4.5	-8.0	3.8	1.6	8.4	5.5
Global Small Companies	9.7	12.7	15.6	-2.9	7.2	4.7	10.0	8.7
Currency								
Australian Dollar vs Developed Market Basket	3.0	7.5	1.2	1.5	2.3	-1.8	0.0	-3.0

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

January was a strong month for equity and bond markets. Both markets rallied with inflation and central bank expectations continuing to be the predominant force behind market movement. Equity markets were also bolstered by the reopening of China's economy and the end to its zero-COVID policies, and significantly improved sentiment in Europe.

Global and Australian equities returned 6.5% (local currency) and 6.3% (local currency), respectively. The end of China's zero-COVID policy supported a more positive economic growth outlook with increased expectations for a stronger recovery of the Chinese economy. This is expected to benefit Chinese trading partners and provided support to global and Australian equity markets. The US, Europe, and Australian equity markets were also encouraged by data points indicating global inflation is slowing.

Declines in inflation, particularly in the US, fuelled optimism the US Federal Reserve may be nearing the end of the tightening cycle. Global bond yields fell, and prices rose in response, with global Treasuries ending the month 1.7% higher (hedged, AUD). While headline inflation fell in December for the US and Europe, Australia's December inflation report came in at 7.8% year-over-year, the highest rate seen since 1990. However, many economists believe this represents the peak for inflation in Australia for this cycle. This view pushed Australian government bond prices higher with the index returning 2.9% for the month.

Despite the falls in inflation in many parts of the developed world, global central banks continued to signal their commitment to bring inflation back to target. The US Federal Reserve noted that "a restrictive policy stance would need to be maintained until the incoming data provided confidence that inflation was on a sustained downward path to 2 per cent". The European Central Bank and Bank of England echoed similar sentiment. Interestingly, market expectations for rate hikes have diverged from what central banks have indicated with the market anticipating a pivot in policy earlier than central bank guidance.