Performance Summary

SA Metropolitan Fire Service Super Scheme – Members

May 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 May 2022

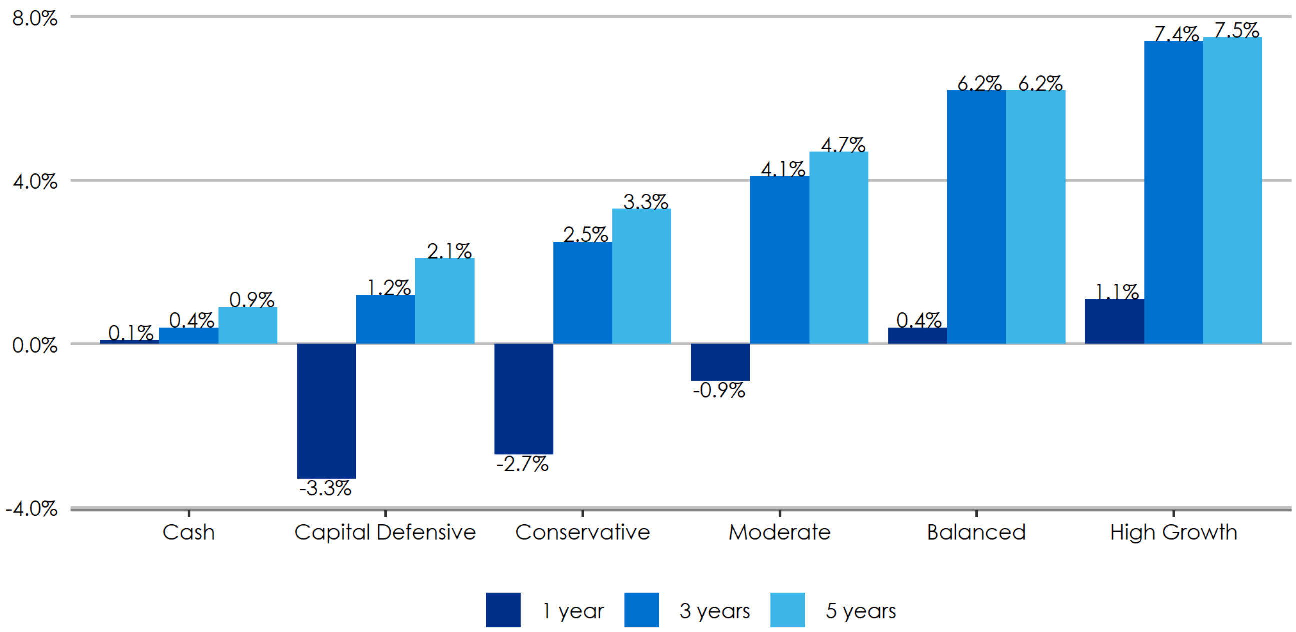
Returns are net of fees and tax

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	0.0	0.0	0.1	0.1	0.4	0.9	1.1	1.6
Capital Defensive	-0.6	-2.4	-3.6	-3.3	1.2	2.1	2.4	3.3
Conservative	-0.8	-2.4	-3.4	-2.7	2.5	3.3	3.5	4.8
Moderate	-1.0	-2.1	-2.2	-0.9	4.1	4.7	4.7	6.2
Balanced	-1.3	-2.0	-1.5	0.4	6.2	6.2	6.0	7.6
High Growth	-1.4	-1.8	-1.0	1.1	7.4	7.5	7.2	9.4

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 May 2022

Returns are net of fees and tax



Key drivers of performance:

- Returns across all investment options were negative as investment markets continued to navigate a range of challenges.
- The Australian Equities asset class was the largest detractor across all investment options as concerns over economic growth and the Reserve Bank of Australia (RBA) increasing rates to combat inflation created headwinds for all sectors of the Australian equity market.
- The International Equities asset class was only slightly negative as Energy stocks rallied, partially offsetting negative performance in other areas of the market.
- Fixed Interest, Inflation-Linked Securities, and Credit asset classes were down. While higher-than-expected inflation prints dominated concerns at the beginning of the month, attention has now shifted to the risk of recession.
- Diversified Strategies Growth offered small positive returns for the growth-oriented investment options. Core Infrastructure benefited from some roll forward valuations however positive re-valuations in Private Markets are slowing amidst weakness in equity markets.
- The RBA increased the Official Cash Rate (OCR) 0.25% from 0.10% to 0.35%. The market is pricing an aggressive tightening cycle with the OCR expected to increase to 3% by the end of the year.
- At the time of writing, the RBA had increased the OCR from 0.35% to 0.85% (8 June 2022).

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 May 2022

Asset class	Cash %	Capital Defensive %	Conservative %	Moderate %	Balanced %	High Growth %
Cash	100.0	11.4	8.4	6.9	2.2	2.8
Fixed Interest	0.0	39.2	25.2	17.2	10.2	0.0
Inflation-Linked Securities Taxable	0.0	14.9	14.9	10.9	4.9	0.0
Diversified Strategies Income	0.0	17.1	18.1	12.2	8.2	6.9
Property Taxable	0.0	5.4	8.5	9.4	11.3	15.6
Australian Equities Taxable	0.0	5.3	11.2	18.2	26.2	29.5
International Equities Taxable	0.0	6.7	13.7	19.8	28.1	34.4
Diversified Strategies Growth Taxable	0.0	0.0	0.0	5.5	8.9	10.8
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 financial market performance.

Table 3: Major market index returns to 31 May 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	0.0	0.0	0.0	0.0	0.4	1.0	1.3	1.8
Australian Government	-1.0	-6.4	-9.6	-8.7	-2.2	0.9	1.6	2.3
Australian Inflation-Linked	-2.2	-7.8	-8.3	-7.6	-0.5	1.9	2.0	2.9
Global Treasuries	-0.6	-5.0	-7.1	-6.7	-0.8	1.1	2.0	3.3
Global Inflation-Linked	-3.5	-7.8	-4.7	-4.4	1.8	2.6	3.6	3.9
Credit								
Global Credit	0.1	-6.4	-10.8	-9.9	-0.5	1.2	2.3	3.8
Global High-Yield	-0.4	-4.8	-9.6	-8.8	0.4	1.5	3.5	5.8
Emerging Market Debt	0.2	-6.4	-14.5	-13.8	-1.5	0.1	2.0	3.0
Property								
Australian Listed Property	-8.6	-6.6	-0.9	4.6	3.1	6.3	7.0	11.2
Equities								
Australian Equities	-2.8	3.1	2.4	4.7	8.0	9.0	7.6	10.3
Global Equities	-0.2	-4.2	-3.6	-1.4	13.0	10.0	8.8	12.0
US Equities	0.2	-5.2	-2.6	-0.3	16.4	13.4	12.2	14.4
European Equities	-0.3	-0.3	0.2	1.9	7.8	4.9	4.9	9.0
Japanese Equities	0.8	2.9	0.9	1.9	11.1	6.7	4.2	12.8
Asia (ex Japan) Equities	0.2	-5.3	-18.6	-18.0	6.2	5.1	4.6	7.0
Emerging Market Equities	-0.1	-5.6	-16.1	-15.4	6.8	6.1	5.6	7.1
Global Small Companies	0.1	-6.6	-13.3	-12.9	9.9	7.4	7.1	10.5
Currency								
Australian Dollar vs Developed Market Basket	1.5	0.7	-1.5	-3.8	1.5	-0.4	-0.7	-2.2

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

Investment markets continued to be challenged in May as investors navigated:

- higher inflation expectations and tighter monetary policy,
- rising risks to economic growth and the possibility of recession,
- the ongoing Russia-Ukraine conflict, and
- lockdowns in China.

Central banks continued to increase rates to combat rising inflation. The Reserve Bank of Australia (RBA) raised the Official Cash Rate (OCR) 0.25% from 0.10% to 0.35%, the first increase since November 2010. Governor Philip Lowe noted the Board agreed it was time to start the process of normalising monetary conditions stating that "inflation has picked up more quickly, and to a higher level, than was expected". In response, Australian bond yields rose, and the market continued to price in an aggressive tightening cycle with the OCR expected to increase to 3% by the end of the year.

The US Federal Reserve (The Fed) also increased rates by 0.50% as expected. Comments from some Fed members throughout the month indicated 0.50% hikes in the next couple of months remain appropriate. In response, the market is now pricing another two sequential 0.50% hikes in June and July. The US continues to record stronger-than-expected inflation; however, toward the end of the month, the market narrative shifted from inflation to slower growth and speculation whether central banks will lift rates into a possible recession.

The impact of higher-than-expected inflation data and central banks increasing rates reverberated through equity markets with the Australian market taking the biggest hit, falling 2.7%. Other major equity markets, while experiencing some intra-month volatility, were mainly flat although produced negative returns in Australian Dollar terms.

Europe continues to be challenged by the war in Ukraine with flow-on effects impacting the broader economy. Gas pipelines remain disrupted through Ukraine as Europe decided to embargo Russian seaborne oil. The resultant elevated energy prices are expected to continue to drive consumer inflation higher.