

Performance Summary



SA Metropolitan Fire Service Super Scheme – Members
December 2021

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 2021

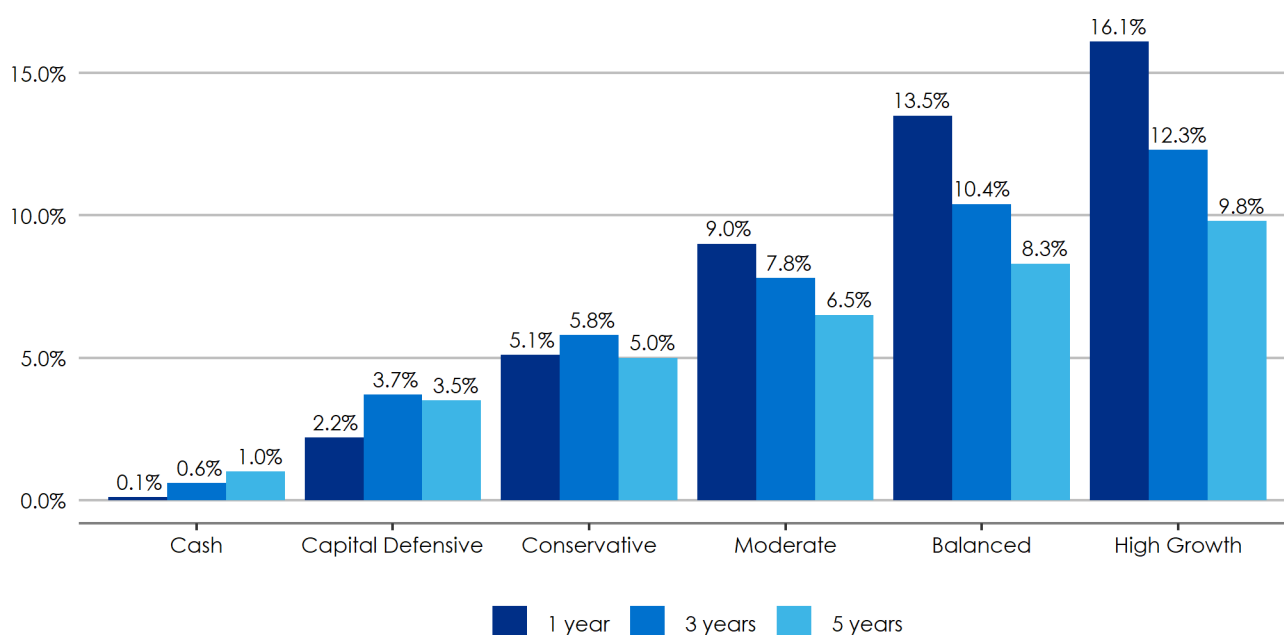
Returns are net of fees and tax

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	0.0	0.1	0.6	1.0	1.3	1.7
Capital Defensive	0.6	0.2	0.5	2.2	3.7	3.5	3.4	4.1
Conservative	1.0	0.9	1.4	5.1	5.8	5.0	4.8	5.7
Moderate	1.4	1.6	2.8	9.0	7.8	6.5	6.1	7.1
Balanced	1.8	2.3	4.1	13.5	10.4	8.3	7.7	8.6
High Growth	2.2	3.0	5.1	16.1	12.3	9.8	9.2	10.5

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 2021

Returns are net of fees and tax



Key drivers of performance during December 2021:

- Returns were positive across all investment options; equity asset classes predominately drove returns.
- Well diversified Australian and International equity asset classes enabled positive performance. Stock selection within the Technology sectors was a contributor for both asset classes.
- Diversified Strategies Growth added value for the more growth-orientated investment options. Receipt of positive September quarter valuations for fund-of-fund investments, specifically Venture Capital and Non-Core Infrastructure assets. A key contributor for Core Infrastructure was an improvement in operating outlook for airport assets.
- The Diversified Strategies Income asset class contributed positive returns. Key contributors came from small tightening of credits spreads benefiting credit and macro strategies which were long equity and commodities.
- Longer dated bond yields rose sharply during the month, as the market priced in the likelihood of sustained higher inflation. Leading to negative performance for Fixed Interest.
- Higher than expected inflation was positive for the Inflation-Linked Securities asset class which delivered positive contribution to performance for the more conservative investment options.
- The Socially Responsible Investment option had a strong month; exposure to equities, specifically Health Care Equipment & Services and Materials sectors, and exposure to Social Infrastructure driving performance.
- The Reserve Bank of Australia kept the Official Cash Rate (OCR) very low, and consequently the Cash investment option is likely to be low for some time. It is expected that the Cash investment option will return close to zero over the medium-term after fees and taxes.

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 2021

Asset class	Cash %	Capital Defensive %	Conservative %	Moderate %	Balanced %	High Growth %
Cash	100.0	12.7	9.7	8.4	3.8	3.1
Fixed Interest	0.0	36.9	22.9	14.9	7.9	0.0
Inflation-Linked Securities Taxable	0.0	14.8	14.8	10.8	4.9	0.0
Diversified Strategies Income	0.0	17.0	18.0	12.0	8.0	6.4
Property Taxable	0.0	4.9	8.0	8.8	10.8	15.0
Australian Equities Taxable	0.0	5.6	11.6	18.6	26.5	29.6
International Equities Taxable	0.0	8.0	15.0	20.3	28.4	34.2
Diversified Strategies Growth Taxable	0.0	0.0	0.0	6.1	9.6	11.7
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.

Financial market snapshot

The table below summarises financial market performance.

Table 3: Major market index returns to 31 December 2021

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	0.6	1.1	1.4	1.9
Australian Government	0.0	-1.5	-1.1	-3.1	2.8	3.4	3.1	3.8
Australian Inflation-Linked	2.2	2.3	1.8	1.2	5.5	4.8	3.8	4.8
Global Treasuries	-0.7	0.1	0.1	-2.0	3.0	2.9	3.3	4.5
Global Inflation-Linked	-1.4	3.2	5.4	5.5	7.3	5.1	5.5	5.5
Credit								
Global Credit	-0.2	0.0	0.0	-1.1	5.3	4.2	4.3	5.6
Global High-Yield	1.6	-0.5	-0.4	2.2	5.8	4.6	5.8	7.6
Emerging Market Debt	1.4	0.0	-0.5	-1.5	6.1	4.5	4.8	5.0
Property								
Australian Listed Property	5.2	10.1	15.3	27.0	13.4	9.9	11.0	14.1
Equities								
Australian Equities	2.7	2.2	4.0	17.5	14.0	9.9	9.1	10.8
Global Equities	4.0	8.1	8.7	24.2	21.5	14.5	11.9	13.6
US Equities	4.5	11.0	11.7	28.7	26.1	18.5	14.9	16.6
European Equities	5.1	6.5	7.1	22.6	14.1	8.4	7.8	9.5
Japanese Equities	3.4	-1.5	3.7	12.9	12.9	8.1	7.4	13.0
Asia (ex Japan) Equities	1.0	-1.4	-9.7	-3.1	11.8	10.7	7.6	8.5
Emerging Market Equities	1.5	-0.8	-7.4	0.1	12.3	10.9	8.3	8.4
Global Small Companies	3.8	2.1	0.3	15.2	19.1	12.4	10.5	12.4
Currency								
Australian Dollar vs Developed Market Basket	2.0	1.0	-2.3	-3.9	0.9	-0.3	-1.4	-2.6

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

Concerns relating to the severity of the Omicron COVID variant abated, based on data from other countries showing patients with Omicron had less severe illness than Delta. Investors looked through the increasing waves of infection and reinstatement of restrictions disrupting economic activity. Market volatility increased as investors digested higher than expected inflation data and waited to see what the US Federal Reserve (the Fed) December meeting may bring regarding interest rate movements. Expectations that interest rates may rise sooner, more frequently than anticipated, and other development market central banks may follow the path of the Fed, started to be priced into bond markets. Indeed, the Bank of England (BoE) surprised by hiking the Bank Rate by 0.15% to 0.25%. Most had expected the BoE to defer its signalled rate hike to 2022, however, inflation concerns dominated leading to bond market volatility. Longer dated government bonds yields rose sharply, leading to a sell-off in bonds.

In equity markets, there was some rotation away from growth stocks toward more defensive stocks such as AREITs, Banks and Materials. But overall domestic and international equity markets finished the month and year with strong positive performance. Emerging markets, particularly China faced a challenging month amid ongoing regulatory crackdowns, significantly impacting the technology and property sectors and presenting broader implications for private enterprise.

Commodity prices were up for the month, supporting the Materials sector in the Australian equity market. This was on the back of demand optimism and China indicating their focus on economic stability in 2022.

The Australian Dollar rose over the month, detracting from some of the positive international equity gains.

At their December Board meeting, the Reserve Bank of Australia (RBA) continued to hold the OCR at 0.1%. The RBA reiterated their commitment "to maintaining highly supportive monetary conditions" to return to full employment in Australia and inflation consistent with the target range of 2-3%. The focus at the next meeting in meeting will be on three criteria: the actions of other central banks, how the Australian bond market would be functioning, and expected progress towards the full employment and inflation goals.

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