METROPOLITAN FIRE SERVICE SOUTH AUSTRALIA

SUPER INFO
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Funds SA Quarterly investment commentary 31 December 2023

December quarter investment update

SA Metropolitan Fire Service Superannuation Scheme delivered positive investment returns for all investment options in the December 2023 quarter.

Investment markets continued to have ups and downs. Listed share markets fell in October and then had strong gains in November and December. This resulted in the High Growth Option returning 4.1% for the quarter and still providing a robust return of 9.5% over the last 12 months.

Performance to 31 December 2023

Investment option	3 months %	1 year %	3 years % p.a.	5 years % p.a.
Cash	0.9	3.4	1.5	1.3
Capital Defensive	2.8	5.4	0.9	2.4
Conservative	3.3	6.7	2.0	3.6
Moderate	3.9	8.1	3.6	5.0
Balanced	4.1	9.2	5.2	6.7
High Growth	4.1	9.5	6.0	7.7

Returns are based on SA Metropolitan Fire Service Superannuation Scheme unit pricing formula.

For the past year, financial market performance has been driven by changes in inflation and speculation around how central banks will respond with interest rates. This quarter was no different. Listed shares fell in October, and then had solid gains in November and December due to inflation in the US being lower than expected. Lower inflation increases the probability that interest rates have peaked and may provide global central banks the capacity to cut interest rates. To date, economic growth has been resilient and remains positive.

Australian shares delivered a strong return over the December quarter, notwithstanding some volatility. Multiple sectors returned over 10%, including Real Estate, Healthcare, Financials, and Materials. Energy and Utilities were the only sectors that had negative returns.

Global developed market equities were also positive as the inflation rate slowed leading to expectations of interest rate cuts. US equities were particularly strong over the quarter, Information Technology, Real Estate and Consumer Discretionary the best performing sectors. The Energy sector was the notable laggard with oil prices weaker over the quarter.

Bonds also had positive returns. With higher interest rates, bonds are providing increased cash payments that are supporting their performance.

Navigating Prolonged Market Volatility

History shows that in times of economic uncertainty, we can expect investment markets to be volatile.

Key concerns are inflation, interest rates and economic growth. Inflation has moderated from its recent peak but remains at elevated levels. High interest rates have broader consequences for the economy, affecting both consumers and businesses. The Reserve Bank of Australia is projecting lower than average economic growth over the next year.

Funds SA continually monitors financial markets closely and positioned the portfolio to navigate through the current market and economic conditions, with long term investment objectives.

What does this mean for your super?

It is important to remember that your superannuation is a long-term investment. Pleasingly, our investment options continue to provide strong long-term returns over 5 and 10 years.

We encourage our members to seek financial advice before making any changes to their superannuation investments.

Contribution caps and other superannuation thresholds: indexed figures

The Australian Taxation Office has confirmed which of the various superannuation contribution caps and other thresholds it administers will be indexed from 1 July 2024.

Indexed caps and thresholds include:

- The concessional contributions cap will increase from $27,500 to $30,000.
- The non-concessional contributions cap will increase from $110,000 to $120,000.
- The Capital Gains Tax cap amount will increase from $1,705,000 to $1,780,000 (this is the lifetime cap on non-concessional contributions that can be excluded from the non-concessional contributions cap).
- The lower income threshold for the Government co-contribution will increase to $45,400 (up from $43,445) and the higher income threshold will increase to $60,400 (up from $58,445).
- the maximum superannuation contributions base for superannuation guarantee (SG) purposes will increase from $62,270 to $65,070 (this is the maximum limit on any individual employee's earnings base for each quarter of a financial year; employers do not have to provide the minimum SG support for earnings above this limit).
- The general transfer balance cap remains at $1,900,000.

Review of Surplus Distribution Policy

At the March 2024 SAMFS Superannuation Scheme Board Meeting a periodical review of the Scheme's Surplus Distribution Policy was undertaken.

Following the surplus allocation on 1 July 2023, there was some confusion amongst a number of members as to why they received a different surplus distribution allocation compared to colleagues where they had been in the Scheme for the same length of time, performed the same duties and been paid the same salary over the period.

The Board has reviewed all aspects of the policy and determined to implement an alternative allocation methodology for future surplus distributions.

Surplus assets will be proportionately distributed to eligible Members by the increase in each Member's Defined Benefit Accrued Retirement Benefit since the date of the previous surplus distribution. "Accrued Retirement Benefit" means a calculation of the member's accrued retirement multiple multiplied by their final average salary at the date of the actuarial review. For any eligible Members that have joined the Scheme since the date of the previous surplus distribution, the increase in their Defined Benefit Accrued Retirement Benefit will be equal to the full value of their Defined Benefit Accrued Retirement Benefit at the effective date of the actuarial review that determines a surplus distribution is to occur.

For the first Surplus Distribution after 1 July 2022, the surplus assets are to be proportionately distributed to eligible Members by the increase in each Members' Defined Benefit vested benefit as at 1 July 2022 to their Defined Benefit Accrued Retirement Benefit at the Surplus Distribution Calculation Date. This is to allow for the movement between different surplus allocation methodologies.

A member's Defined Benefit vested benefit is calculated differently depending on whether they are under or over the age of 50.

- Pre age 50: Resignation Benefit = Member Account x (1 + Vesting). Vesting is nil for the first five years and then increases by 5% per annum up to a maximum of 1 after 25 years. Therefore after 25 years of service the Resignation Benefit is 2 x Member Account. For completeness, the Member Account is the accumulation with investment earnings of standard member defined benefit contributions.
- Post age 50: Early Retirement Benefit = Accrued Retirement Multiple x Final Average Salary.

For late retirees who are over age 60, the Defined Benefit vested benefit will continue to be used for the surplus allocation. This is because the Defined Benefit Accrued Retirement Benefit no longer accrues in the same way as those who are under age 60.

Super on paid parental leave

The government has announced that parents with babies born from 1 July 2025 will be paid 12% super on the government funded parental leave pay if eligible.

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