Performance Summary

Police Super – Members

February 2023

Funds SA is responsible for investing the assets of the SA Police Superannuation Pension Scheme and the Super SA Triple S options, which members of the Pension Scheme can also salary sacrifice into. In this summary, Funds SA provides an overview of the performance of these investments.

Performance

The Pension Scheme invests in the Funds SA Defined Benefit Strategy. The table and chart below show the Defined Benefit Strategy and Super SA Triple S option returns after deduction of all fees and costs.

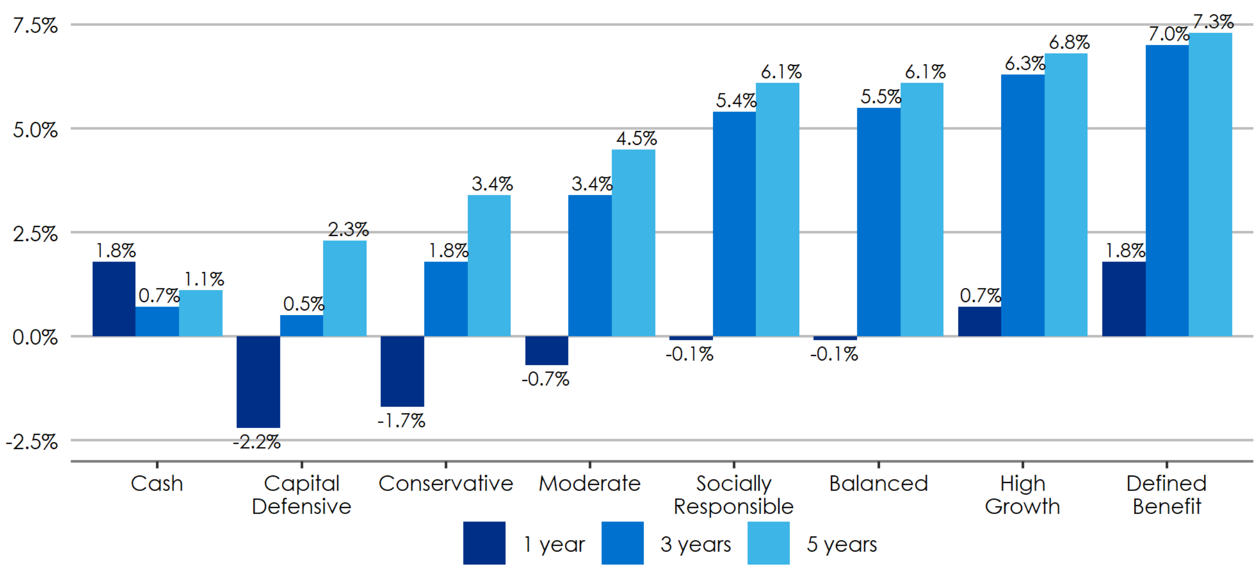
Table 1: Defined Benefit Strategy and Super SA Triple S investment options returns to 28 February 2023

Returns are net of fees and gross of 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	0.3	0.8	1.7	1.8	0.7	1.1	1.4	1.8
Capital Defensive	-0.6	0.6	3.0	-2.2	0.5	2.3	3.2	3.7
Conservative	-0.6	0.6	4.2	-1.7	1.8	3.4	4.6	4.9
Moderate	-0.6	0.6	5.3	-0.7	3.4	4.5	5.9	6.2
Socially Responsible	0.2	0.8	7.3	-0.1	5.4	6.1	7.1	7.1
Balanced	-0.5	0.6	6.6	-0.1	5.5	6.1	7.6	7.6
High Growth	-0.4	0.8	7.5	0.7	6.3	6.8	9.0	8.9
Defined Benefit Strategy	-0.2	0.8	5.7	1.8	7.0	7.3	8.9	8.7

Chart 1: Defined Benefit Strategy and Super SA Triple S investment options annualised returns to 28 February 2023

Returns are net of fees and gross of tax



Key drivers of performance:

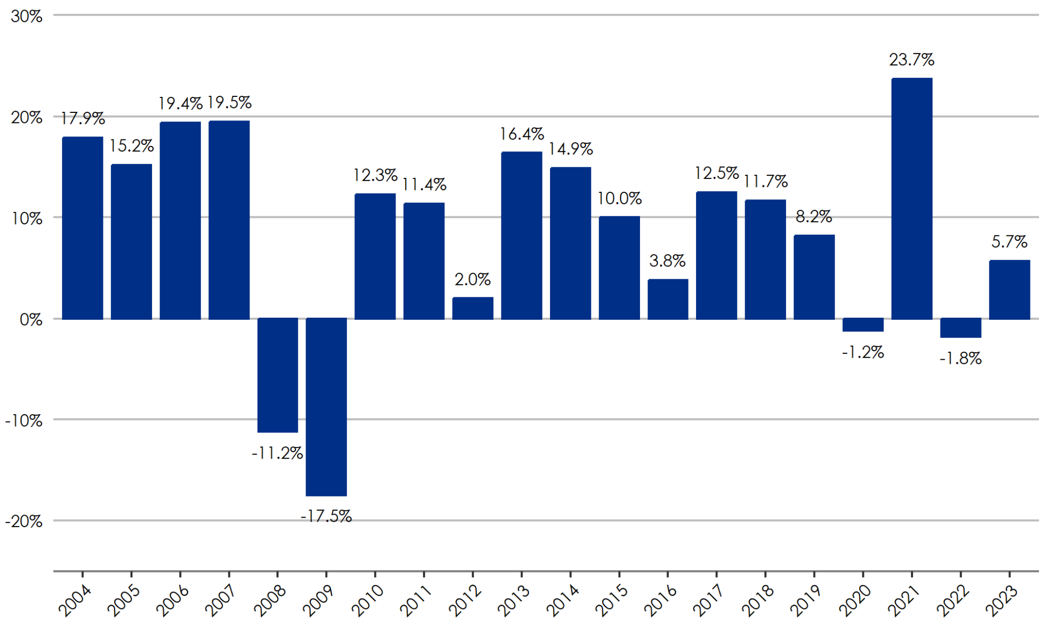
- The Cash investment option generated positive returns for the month. Money market yields moved higher over the month as markets increased their expectations for further rate hikes.
- The Socially Responsible investment option was the only diversified investment option to generate positive performance for the month, benefiting from Information Technology companies posting strong quarterly earnings.
- 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.

Historical performance

The chart below shows the financial year returns of the Defined Benefit Strategy since its inception.

Chart 2: Defined Benefit Strategy financial year returns

Returns are net of fees and gross of tax



2023 is FYTD to 28 February 2023.

Asset allocation

The Pension Scheme is invested in a well-diversified strategy, including more than 200 Australian shares, 1500 International shares and 130 properties. Investments are managed by over 40 investment managers globally.

The asset allocation of the Defined Benefit Strategy and Super SA Triple S options are shown in the table below.

Table 2: Asset allocation as at 28 February 2023

Asset class	Cash %	Capital Defensive %	Conservative %	Moderate %	Socially Responsible %	Balanced %	High Growth %	Defined Benefit %
Cash	100.0	19.9	15.5	10.6	6.7	8.3	7.1	2.6
Fixed Interest	0.0	38.1	23.3	15.4	16.9	8.4	0.0	0.0
Inflation-Linked Securities Tax-Exempt	0.0	10.4	10.5	9.5	0.0	4.2	0.0	0.0
Diversified Strategies Income	0.0	10.7	14.6	11.5	0.0	7.8	6.7	13.4
Property Tax-Exempt	0.0	6.3	8.9	8.9	13.9	9.9	14.9	18.1
Australian Equities Tax-Exempt	0.0	5.2	9.2	16.2	26.8	22.0	25.9	20.1
International Equities Tax-Exempt	0.0	5.5	12.9	21.8	30.4	28.8	34.2	28.4
Diversified Strategies Growth Tax-Exempt	0.0	4.0	5.0	6.2	5.4	10.7	11.3	17.5
Total	**100.0**	**100.0**	**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.

Note: The Diversified Strategies Income asset class comprises Investment-Grade Credit, Credit, Defensive Alternatives, and Growth Alternatives, while the Diversified Strategies Growth asset class comprises Private Equity and Core Infrastructure.

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.