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**Government
of South Australia**



Funds SA 2020-21 Annual Report

FUNDS SA

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To:

Hon Rob Lucas MLC

Treasurer

This annual report will be presented to Parliament to meet the statutory reporting requirements of *Superannuation Funds Management Corporation of South Australia 1995 (Act) (Part7, s30)* and the requirements of Premier and Cabinet Circular *PC013 Annual Reporting*.

This report is verified to be accurate for the purposes of annual reporting to the Parliament of South Australia.

Submitted on behalf of Funds SA by:

Jo Townsend

Chief Executive Officer

Date_____

Signature _____

From the Chief Executive Officer

Despite the uncertainty regarding short-to-medium term economic growth from the COVID-19 pandemic, the past financial year produced some extraordinary investment outcomes for investors. All investment options produced strong returns and have fully recovered from the severe market falls inflicted by the COVID-19 pandemic in early 2020.

It was a pivotal year for Funds SA, having completed changes to the Long-Term Strategic Asset Allocation (LTSA) for the investment options. In addition, a range of asset class specific initiatives was approved, and we made significant progress to uplift our responsible investment approach.

As more than 50% funds under management resides in the Balanced Tax-Exempt investment option, it is pleasing to report the option delivered its highest ever 1-year return of 21.9%; an outcome that compares favourably within the very competitive Australian institutional investment management environment.

There were many positive contributors to this excellent performance, ranging from the timely implementation of the decision to increase the strategic asset allocation to growth assets, through to the repositioning of investment arrangements within the individual asset classes. The standout contribution for the year was the International Equities Tax-Exempt asset class returning 37.1%, which is 7.3% above the asset class's benchmark.

The Funds SA Board approved an updated version of the Strategic Plan to take us through to 2024 that is largely an extension of existing themes: enhancing investment performance, developing valued partnerships, providing operational excellence and agility, and fostering a culture of innovation and high performance. These Strategic Themes are the key drivers that enable us to continually move toward our Vision of delivering a world-class investment experience.

In partnership with our new custodian and the previous incumbent, we completed the transition of custodian services to Northern Trust in October 2020, providing significant internal efficiencies.

Our continued focus on improving outcomes for clients underpins the evolution of the Corporation in the face of the impending introduction of "Choice of Fund" for Super SA members, and more broadly, an increasingly challenging financial markets setting.

Underpinning the achievement and drive toward our strategic goals is our people. We have been successful in recruiting and retaining a relatively small but highly experienced number of investment and financial sector professionals. We are now a team of 60 based in Adelaide, managing a globally diversified portfolio in excess of \$41 billion. We are proud that Funds SA is the largest funds manager based in South Australia – we are locally based, globally connected.

We would like to thank our clients for their support over the past year; our Board, for their unique insights and guidance; and our employees, for their adaptability in continuing to embrace the flexible working arrangements that have continued to be necessary.

(Signature)

Jo Townsend

Chief Executive Officer

Funds SA

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Overview: about the agency

Our strategic focus

Our Purpose	<p>Funds SA was established in July 1995 under the <i>Superannuation Funds Management Corporation of South Australia Act 1995</i> (Funds SA Act). It became the successor organisation to the South Australian Superannuation Fund Investment Trust.</p> <p>Funds SA's role as set down in the Funds SA Act is to invest and manage the funds of South Australia's public sector superannuation schemes and approved authorities pursuant to strategies formulated by the Corporation.</p>
Our Vision	Deliver a world-class investment experience.
Our Values	<p>Our clients are at the core of everything we do.</p> <p>Our people are collaborative and professional.</p> <p>We encourage innovation and diverse ideas.</p> <p>We uphold the trust others place in us.</p> <p>We strive to achieve excellence in all that we do.</p>
Our functions, objectives and deliverables	<p><u>Objective:</u></p> <p>The objective of the Corporation is to achieve the highest return possible on investment of the funds whilst having proper regard for:</p> <ul style="list-style-type: none"> • the need to maintain the risks relating to investment at an acceptable level; • the need for liquidity in the funds; and • such other matters as are prescribed by regulation. <p><u>Strategic Themes:</u></p> <ol style="list-style-type: none"> 1. Superior Investment Performance 2. Valued partnerships with Clients and Stakeholders 3. Organisational Excellence and Agility 4. A Culture of Innovation and High Performance

Our organisational structure



Changes to the agency

No substantial changes to structure in 2020-21.

Our Minister

The Hon Rob Lucas MLC is the Responsible Minister for Funds SA.

S. 21 of the *Superannuation Funds Management Corporation of South Australia Act 1995* states that Funds SA is subject to the direction and control of the Minister however Ministerial directions must not include a direction to Funds SA in relation to an investment decision, dealing with property or the exercise of a voting right.

Our Executive team

Ms Jo Townsend, Chief Executive Officer

Jo Townsend is Funds SA's Chief Executive Officer and is responsible for the day-to-day management of the Corporation.

Mr John Piteo, Chief Operating Officer

John Piteo is Funds SA's Chief Operating Officer. He is responsible for leading the investment implementation, investment operations, risk and analytics, fund accounting and IT teams.

Mr Richard Friend, Chief Investment Officer

Richard Friend is Funds SA's Chief Investment Officer and leads the Funds SA investment team, with responsibility for the development and implementation of investment strategy, and management of the Funds SA investment options.

Mr Tony Keenan, Executive Manager, Corporate Engagement

Tony Keenan is the Executive Manager, Corporate Engagement. His role focuses on client and stakeholder engagement, strategy and communications, building on the reputation of Funds SA as a respected funds management organisation.

Ms Jacki Kittel, Executive Manager, People and Organisational Performance

Jacki Kittel is the Executive Manager, People and Organisational Performance with responsibility for Funds SA's People and Culture strategy, and the design and execution of Corporate Strategy.

Mr Tony Burrill, Executive Manager, Governance, Risk & Compliance

Tony Burrill is Executive Manager, Governance, Risk and Compliance, responsible for the implementation of Funds SA's enterprise risk management framework, corporate governance, and compliance function including policies and standards. His role also coordinates the secretarial functions to the Board, Audit and Risk Committee and oversees the outsourced Internal Audit function.

Legislation administered by the agency

Superannuation Funds Management Corporation of South Australia Act 1995

Other related agencies (within the Minister's area/s of responsibility)

- Department of Treasury and Finance
- Lifetime Support Authority
- South Australian Government Finance Authority

The agency's performance

Performance at a glance

Funds SA Tax-Exempt investment option investment returns, periods to 30 June 2021, returns net of fees and gross of tax.

Funds SA investment option	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Cash	0.1	1.0	1.4	1.7	2.3
Capital Defensive	6.7	4.6	4.7	4.6	5.5
Conservative	11.2	6.1	6.4	6.0	6.9
Moderate	15.5	7.4	7.8	7.2	7.9
Balanced	21.9	9.5	9.8	8.9	9.3
High Growth	24.8	10.0	11.3	10.1	10.5
Socially Responsible	21.6	8.9	9.0	7.9	8.6
Defined Benefit	23.7	9.8	10.7	9.6	10.0
LSA Strategy	23.7	9.8	9.8	8.5	n.a.
SAFA Investment Strategy	21.4	9.3	10.2	9.2	9.7

Funds SA Taxable investment option investment returns, periods to 30 June 2021, returns net of fees and gross of tax.

Funds SA investment option	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Cash	0.1	1.0	1.4	1.7	2.3
Capital Defensive	6.4	4.3	4.4	4.4	5.1
Conservative	10.8	5.7	6.0	5.7	6.4
Moderate	15.3	7.1	7.5	7.0	7.5
Balanced	21.7	9.3	9.5	8.6	8.9
High Growth	24.7	10.0	11.0	9.9	10.1
Socially Responsible	21.6	8.9	9.0	7.9	8.6

Agency contribution to whole of Government objectives

Key objective	Agency's contribution
More jobs	<p>Eight new roles were introduced within the Corporation in the 2020-2021 FY in accordance with our medium-term Workforce Plan.</p> <p>These additional roles support Funds SA's strategic themes of Superior Investment Performance through the development of dynamic and innovative investment strategies to increase Investment Performance over the long-term, and Organisational Excellence and Agility, through enhanced systems for investment and operational decision making.</p>
Lower costs	Continually reviewing and refining our investment approach to obtain value-for-money outcomes.
Better Services	Added significant capability across investment management, IT, data, and systems.

Agency specific objectives and performance

The object of the Corporation in performing its functions is to achieve the highest return possible on investment of the funds while having proper regard for:

- (a) the need to maintain the risks relating to investment at an acceptable level; and
- (b) the need for liquidity in the funds; and
- (c) such other matters as are prescribed by regulation.

Through the investment return on the Defined Benefit strategy, Funds SA has made a positive contribution to the management of the State's liabilities associated with the defined benefit scheme.

Agency objectives	Indicators	Performance
Investment of Defined Benefit funds.	<p>The objective of the Defined Benefit investments is stated below:</p> <p>The Defined Benefit investment option is structured for investors with an investment horizon of at least 10 years. Over this period, it aims to earn a return averaging 4.5% in excess of the rate of inflation. There is no guarantee, however, that the objective will be met. This is because financial markets are volatile and future returns may vary from returns earned in the past. Indeed, for funds with exposure to growth assets there is a material likelihood that returns may be negative in any particular year.</p>	<p>Since inception (June 1995) the Defined Benefit Strategy has returned 10% p.a., 6.2% above the rate of inflation (30 June 2021 inflation rate 3.8%). However, annual returns may be volatile. Using the Standard Risk Measure developed by ASFA and the FSC, its risk level is classified as 'high' (Risk Band 6) meaning that a negative return might be expected to occur between 4 and 6 years in 20.</p>

Corporate performance summary

Funds SA investment option performance vs. investment objective, for periods to 30 June 2020, returns net of fees*.

Funds SA investment option	Investment horizon	Target return % p.a.	Tax-Exempt investment option performance % p.a.	Taxable investment option performance % p.a.
Cash ¹	0+ years	RBA cash rate	0.1	0.1
Capital Defensive	2+ years	(CPI + 1.0%) = 2.8	4.0	3.6
Conservative	4+ years	(CPI + 2.0%) = 3.7	6.2	5.7
Moderate	6+ years	(CPI + 3.0%) = 4.7	7.1	6.8
Balanced	10+ years	(CPI + 3.5%) = 5.6	9.3	8.9
High Growth	10+ years	(CPI + 4.5%) = 6.6	10.5	10.1
Defined Benefit	10+ years	(CPI + 4.5%) = 6.3	10.0	n.a.
SAFA Investment Strategy	8+ years	(CPI + 4.0%) = 6.0	9.9	n.a.

*Target returns and investment option performance are expressed over the stated investment horizon for each investment option. Note where elements of the investment objectives have changed over time, the target return series reflects a combination of the former and current objectives.

The LSA Strategy was established in 2015 and does not have the history to meet the investment horizon of 10+ years, therefore is not included in the table above.

¹ The Cash investment option performance is assessed over 1-year rolling periods.

Employment opportunity programs

Program name	Performance
Graduate Program	<p>The Graduate Program has been extremely successful over many years. Throughout 2020-2021, Funds SA continued to employ 6 graduates (3 female and 3 male). Within the financial year, three of those graduates progressed into Analyst and Accountant positions at the end of their graduate tenure.</p> <p>All the graduates participate in the DTF Graduate Development Program, as well as key development activities both within Funds SA and external programs and events to build industry exposure and knowledge.</p>
Flexible work arrangements	As at 30 June 2021, Funds SA had 7 part-time staff, and 1 full-time staff member who utilises purchased leave.
Disability Access and Inclusion	Funds SA's approach supports equal opportunity, promotes psychological health, and provides appropriate workplace adaptation for people with disabilities. In 2020-2021, Funds SA did not employ any persons with a disability requiring workplace adaptation.

Agency performance management and development systems

Performance management and development system	Performance
<p>Funds SA is committed to implementing effective performance management and development that will support meaningful, regular conversations between managers and staff that lead to optimising and continuously improving performance.</p>	<p>Performance Management is conducted biannually following the Direction of the Premier, achieving a 100% completion rate for Interim Reviews completed in January of all Funds SA staff.</p> <p>Annual Performance reviews are in progress and the expected completion rate for the 2020-21 review is in the range of 97%-100%, as has been the case previous years.</p>
<p>Leadership and Professional Skills Development</p>	<p>Funds SA delivered a suite of targeted development programs for the following key areas in 2020-2021:</p> <p>Embedding Innovation Workshop: Supporting the development of all employees in Design Thinking principles to contribute to building innovation across the organisation.</p> <p>New Managers Program: Supporting fundamental management skills for employees new to leadership in Funds SA.</p> <p>Leading Annual PDPs: Supporting all Managers in the fundamental skills for effective Performance Development conversations and reviews under the Funds SA Performance Management framework.</p> <p>Leadership Coaching: Goals-focused coaching for key leadership roles to drive individual and team achievements.</p>

Work health, safety and return to work programs

Program name	Performance
<p>Work Health and Safety - Funds SAs policies promote psychological Health and Wellbeing through the promotion of the Employee Assistance Programs (EAP) and other Wellness offerings.</p>	<p>Funds SA is committed to maintaining a healthy and safe work environment.</p> <p>Funds SA's Work Health and Safety (WHS) policy is approved by the Board.</p> <p>WHS Risk Management is integrated in normal operations and encompass workplace inspections, Employee Assistance Programs (EAP) and a Wellbeing program including offerings such as yearly Influenza Vaccinations and subsidy for Corporate Cup.</p> <p>In 2020-2021, there were no workplace injuries, no lost time or notifiable incidents, and no improvement or prohibition notices were served.</p>
<p>Wellbeing Program</p>	<p>Funds SA actively supports health and wellbeing across the organisation with a Wellbeing Program. Activities under the 2020-2021 program included:</p> <p>An online event for Lifeline's Stress Down Day with promotion of mental health awareness; online morning tea and mindfulness and yoga sessions; email reminders to encourage physical activity and encouragement of ongoing connection between teams.</p> <p>R U Ok day? morning tea session, encouraging connection and interaction, with further communication and resources to all staff on 'keeping the conversation going.'</p> <p>SuperFriend delivered an online presentation "Introduction to workplace mental health and wellbeing" which was available to all staff.</p> <p>An online event for Mental Health Australia's 'Mental Health Week', including daily promotion of mental health resources, podcasts and articles.</p> <p>A Wellbeing Wednesday email distributed regularly, providing communication regarding nutrition, physical and mental health.</p> <p>Commenced work with SuperFriend to undertake an organisational health check in order to audit current practices and determine strategies for enhancements of wellbeing approaches across the Corporation.</p>

COVID-19 response	<p>The emphasis on employee health, wellbeing and WHS has adapted to address the changes to circumstances as a result of working from home during the pandemic.</p> <p>In response to the changing circumstances, Funds SA continued to review and distribute an internal guideline in accordance with advice from the Department of Health, SA Health, Safework Australia and the Office of the Commissioner for Public Sector Employment.</p> <p>Funds SA staff were able to work from home effectively during the year in line with advice from the Office for the Commissioner for Public Sector employment. Work From Home agreements and WHS checklists were implemented for all staff working from home.</p> <p>Regular communication with staff has focused on addressing the physical and mental health impacts of COVID-19 and changes to circumstances as a result of working from home during the pandemic.</p> <p>The majority of staff have continued to access work from home arrangements on a part-time basis in line with individual team needs and agreements.</p> <p>An additional Employee Engagement Survey distributed in 2020 revealed extremely positive results regarding the Corporation's response to COVID-19. The Agreement Rate for the COVID-19 Response category was 94%, with an overall employee Index Score of 89% and completion rate of 92% achieved.</p>
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Workplace injury claims	Current year 2020-21	Past year 2019-20	% Change (+ / -)
Total new workplace injury claims	0	1	-100%
Fatalities	0	0	0%
Seriously injured workers*	0	0	0%
Significant injuries (where lost time exceeds a working week, expressed as frequency rate per 1000 FTE)	0	0	0%

**number of claimants assessed during the reporting period as having a whole person impairment of 30% or more under the Return to Work Act 2014 (Part 2 Division 5)*

Work health and safety regulations	Current year 2020-21	Past year 2019-20	% Change (+ / -)
Number of notifiable incidents (<i>Work Health and Safety Act 2012, Part 3</i>)	0	0	0%
Number of provisional improvement, improvement and prohibition notices (<i>Work Health and Safety Act 2012 Sections 90, 191 and 195</i>)	0	0	0%

Return to work costs**	Current year 2020-21	Past year 2019-20	% Change (+ / -)
Total gross workers compensation expenditure (\$)	4939	9070	-45%
Income support payments – gross (\$)	0	0	0%

**before third party recovery

Executive employment in the agency

Executive classification	Number of executives
Executive	32

Data for previous years is available at: <https://data.sa.gov.au/data/dataset/funds-sa-annual-reporting-information/resource/3e286512-8038-4486-a038-97f9ce5abf2e>

The [Office of the Commissioner for Public Sector Employment](#) has a [workforce information](#) page that provides further information on the breakdown of executive gender, salary and tenure by agency.

Financial performance

Financial performance at a glance

The following is a brief summary of the overall financial position of the agency. The information is unaudited. Full audited financial statements for 2020-2021 are attached to this report.

Statement of Comprehensive Income	2020-21 Actual \$000s	2019-20 Actual \$000s
Total Income	19,797	13,976
Total Expenses	17,809	13,841
Net Result	1,988	135
Total Comprehensive Result	1,988	135

Statement of Financial Position	2020-21 Actual \$000s	2019-20 Actual \$000s
Current assets	13,761	11,200
Non-current assets	3,391	2,715
Total assets	17,152	13,915
Current liabilities	3,292	2,319
Non-current liabilities	2,946	2,670
Total liabilities	6,238	4,989
Net assets	10,914	8,926
Equity	10,914	8,926

Consultants disclosure

The following is a summary of external consultants that have been engaged by the agency, the nature of work undertaken, and the actual payments made for the work undertaken during the financial year.

Consultancies with a contract value below \$10,000 each

Consultancies	Purpose	\$ Actual payment
All consultancies below \$10,000 each - combined	Various	23,964.60

Consultancies with a contract value above \$10,000 each

Consultancies	Purpose	\$ Actual payment
HRM Matters	Employment matters	70,950.00
Vine Partners	Recruitment	184,161.78
Robert Walters	Recruitment	81,728.42
Alexander Hughes	Recruitment	18,750.00
Finite IT Recruitment Solutions	Recruitment	36,333.50
Shoreline	Advisory	1,060,026.23
Watermark	Recruitment	52,900.00
McGuirk	Employment matters	25,600.00
CyberOps	Cyber security advisory	15,000.00
Gray Andreotti	Commercial advisory	41,090.00
Kaizen	Recruitment	29,900.00
Evolve	Recruitment	18,658.50
	Total	1,635,098.43

Data for previous years is available at: <https://data.sa.gov.au/data/dataset/funds-sa-annual-reporting-information/resource/569c9c21-2ed1-4e77-a5c8-256169b77b0f>

See also the [Consolidated Financial Report of the Department of Treasury and Finance](#) for total value of consultancy contracts across the South Australian Public Sector.

Contractors disclosure

The following is a summary of external contractors that have been engaged by the agency, the nature of work undertaken, and the actual payments made for work undertaken during the financial year.

Contractors with a contract value below \$10,000

Contractors	Purpose	\$ Actual payment
All contractors below \$10,000 each - combined	Various	27,010.28

Contractors with a contract value above \$10,000 each

Contractors	Purpose	\$ Actual payment
HRM Matters	Learning and development workshop facilitation	15,415.00
Entrée Recruitment	Employment matters, temporary staff	54,769.70
Scott Lawrence	Employment matters, temporary staff	188,157.59
Clark Family Trust	Employment matters, temporary staff	10,500.00
Crown Solicitor's Office	Employment matters, out-posted lawyer	124,827.00
Red Bass	IT implementation services	13,700.00
Matrix IDMS	IT implementation services	419,540.50
Robert Walters	Employment matters, temporary staff	226,620.75
Nuago	IT support services	120,741.52
Paxus	Employment matters, temporary staff	51,792.36
Pernix	IT implementation services	218,912.03
Finite	Employment matters, temporary staff	353,315.06
Talent	Employment matters, temporary staff	101,689.34
BDO	Employment matters, temporary staff	95,810.00
PWC	Internal audit	198,279.74
Nation Creative	Marketing/branding	10,625.00
D & P Smyth	Employment matters, temporary staff	158,928.97
CyberOps	IT implementation services	15,775.00

Contractors	Purpose	\$ Actual payment
Artis Group	IT implementation services	73,140.00
EGM Recruitment	Employment matters, temporary staff	30,461.27
University of Adelaide	Learning and development workshop facilitation	38,295.99
	Total	2,521,296.82

The details of South Australian Government-awarded contracts for goods, services, and works are displayed on the SA Tenders and Contracts website. [View the agency list of contracts.](#)

The website also provides details of [across government contracts.](#)

Risk management

Fraud detected in the agency

There have been no instances of fraud detected for the financial year 2020-21.

NB: Fraud reported includes actual and reasonably suspected incidents of fraud.

Strategies implemented to control and prevent fraud

Funds SA has a Fraud and Corruption Control Framework in place for which employees periodically receive training.

Public interest disclosure

Number of occasions on which public interest information has been disclosed to a responsible officer of the agency under the *Public Interest Disclosure Act 2018*:

Nil.

Note: Disclosure of public interest information was previously reported under the *Whistleblowers Protection Act 1993* and repealed by the *Public Interest Disclosure Act 2018* on 1/7/2019.

Reporting required under any other act or regulation

Act or Regulation	Requirement
<p>Superannuation Funds Management Corporation of South Australia Act 1995</p>	<p>Section 29 – Progress reports in relation to performance plan</p> <p>(1) Within 1 month after 31 December in each financial year the Corporation must prepare and give to the Minister—</p> <ul style="list-style-type: none"> (a) a report on its progress in achieving the target for the rate of return on investment and management of the public sector superannuation funds set out in the relevant performance plan for that year; and (b) separate reports in relation to each approved authority on its progress in achieving the target for the rate of return on investment and management of the nominated funds of the approved authority set out in the performance plan for the authority for that year. <p>(2) Within 1 month after the end of each financial year the Corporation must prepare and give to the Minister—</p> <ul style="list-style-type: none"> (a) a report on the extent to which it has achieved the target for the rate of return on investment and management of the public sector superannuation funds set out in the relevant performance plan for that year; and (b) separate reports in relation to each approved authority on the extent to which it has achieved the target for the rate of return on investment and management of the nominated funds of the approved authority set out in the performance plan for the authority for that year. <p>(3) The Corporation must give a copy of each report prepared under subsections (1)(a) and (2)(a) to each of the superannuation boards.</p> <p>(4) The Corporation must give a copy of each report prepared in respect of an approved authority under subsections (1)(b) and (2)(b) to the approved authority to which the report relates.</p> <p>(5) If, during a financial year, the Corporation is of the opinion that the target in relation to the public sector superannuation funds or the nominated funds of an approved authority for that year is not achievable or a strategy set out in a performance plan should be</p>

Act or Regulation	Requirement
	<p>modified or abandoned because a factor affecting or influencing the investment or management of the public sector superannuation funds or the nominated funds of an approved authority has changed or a new factor has arisen, the Corporation must prepare a report in relation to the matter.</p> <p>(6) A report under subsection (5) must—</p> <ul style="list-style-type: none"> (a) describe the factor concerned; and (b) explain why the target is not achievable or the strategy should be modified or abandoned; and (c) be prepared and given to— <ul style="list-style-type: none"> (i) the Minister; and (ii) if the report relates to the public sector superannuation funds—each of the superannuation boards; and (iii) if the report relates to an approved authority—the relevant approved authority, as soon as practicable after the Corporation forms its opinion on those matters. <p>Section 30—Annual report</p> <p>(1) The Corporation must, on or before 30 September in each year, prepare and give to the Minister a report on the performance of its function during the preceding financial year.</p> <p>(2) The report must—</p> <ul style="list-style-type: none"> (a) include each performance plan for the financial year and the Corporation's reports under section 29 for that year; and (c) include the audited accounts and financial statements of the Corporation and the funds; and (d) include a copy of the valuations of the funds made as at the end of the relevant financial year; and (e) set out the Corporation's views as to the factors that will affect or influence the investment and management of the funds in the current year; and

Act or Regulation	Requirement
	<p>(f) set out any disclosure made during the preceding financial year by a director of an interest in a matter decided or under consideration by the board of the Corporation; and</p> <p>(g) include the prescribed information relating to the remuneration of the chief executive officer and other executives of the Corporation; and</p> <p>(h) include any other information required by or under the provisions of this or any other Act.</p> <p>(3) The Corporation must give a copy of the report to each of the superannuation boards and each approved authority.</p> <p>(4) The Minister must cause a copy of the report to be laid before both Houses of Parliament within 12 sitting days after his or her receipt of the report.</p>

Audited Accounts for the financial year 2020-21

See Appendix: Financial Statements.

Performance Plans for the financial year 2020-21

See Attachment 1.

Half-Yearly Performance Report for the six months ended 31 December 2020

See Attachment 2.

Half-Yearly Performance Report for the twelve months ended 30 June 2021

See Attachment 3.

Factors that will affect or influence the investment and management of the funds

There are a number of themes and risks associated with financial markets that we have considered in the investment, and management of the investment options for the coming year.

- The health and economic recovery from the COVID-19 pandemic.
- The impact of the measures taken by governments to reduce the spread of COVID-19 on the global economy and investment markets.
- The path and reaction to eventual reduction and rollback of stimulus measures from governments and central banks.
- Valuations of assets within different investment markets.
- Challenging geo-political regions - Middle East, South China Sea, Taiwan.
- Development of global trade relationships, particularly US – China, and its potential effects on Australia.
- Funds SA's existing investment option structures and liquidity demands.

Funds SA believes volatility in financial markets can be best managed by:

- designing an investment strategy appropriate to the time horizon of the investment objective;
- maintaining diversification within the investment options; and,
- remaining flexible with regards to strategy implementation.

Public complaints

Number of public complaints reported

Funds SA did not receive any complaints during the 2020-21 Financial Year.

Funds SA established its complaints handling framework during 2016-17. Since its establishment, Funds SA has received no complaints.

Data for previous years is available at: <https://data.sa.gov.au/data/dataset/funds-sa-annual-reporting-information/resource/ad1641c6-9f57-4701-bba0-2c7b551324da>

Service Improvements

Funds SA has not received any complaints and as such, Funds SA has not made any service improvements as a result of a complaint.

Compliance Statement

Funds SA is compliant with Premier and Cabinet Circular 039 – complaint management in the South Australian public sector	Y
Funds SA has communicated the content of PC 039 and the agency's related complaints policies and procedures to employees.	Y

Appendix: Audited financial statements 2020-21



Our ref: A21/216

20 September 2021

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Superannuation Funds Management Corporation of South Australia
Level 20
25 Grenfell Street
ADELAIDE SA 5000

Dear Mr Laband

Audit of Superannuation Funds Management Corporation of South Australia for the year to 30 June 2021

We have completed the audit of your accounts for the year ended 30 June 2021. Two key outcomes from the audit are the:

- 1** Independent Auditor's Report on your agency's financial report
- 2** audit management letter recommending you address identified weaknesses.

1 Independent Auditor's Report

We are returning the financial statements for Superannuation Funds Management Corporation of South Australia, with the Independent Auditor's Report. This report is unmodified.

My annual report to Parliament indicates that we have issued an unmodified Independent Auditor's Report on your financial statements.

2 Audit management letter

As the audit did not identify any significant matters requiring management attention, we will not issue any audit management letters. Opportunities for improvement identified during the audit will be discussed with management.

What the audit covered

Our audits meet statutory audit responsibilities under the *Public Finance and Audit Act 1987* and the Australian Auditing Standards.

Our audit covered the principal areas of the agency's financial operations and included test reviews of systems, processes, internal controls and financial transactions. Some notable areas were:

- investment policy and strategy approval and compliance
- investment allocations and redemptions
- investment income and valuation
- custodian and fund management
- corporate income and expenses
- corporate assets and leases.

Particular attention was given to the accounting treatment for a lease modification under AASB 16 *Leases*, and the disclosure of the change in accounting policy for investment expenditure. We concluded that the financial report was prepared in accordance with the financial reporting framework in this respect.

I would like to thank the staff and management of your agency for their assistance during this year's audit.

Yours sincerely



Andrew Richardson

Auditor-General

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To the Chairman, Board of Directors Superannuation Funds Management Corporation of South Australia

Opinion

I have audited the financial report of the Superannuation Funds Management Corporation of South Australia for the financial year ended 30 June 2021.

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Superannuation Funds Management Corporation of South Australia as at 30 June 2021, its financial performance and its cash flows for the year then ended in accordance with relevant Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2021
- a Statement of Financial Position as at 30 June 2021
- a Statement of Changes in Equity for the year ended 30 June 2021
- a Statement of Cash Flows for the year ended 30 June 2021
- Schedule 1: Asset Class Funds Under Management for the year ended 30 June 2021
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Chairman, Board of Directors, the Chief Executive Officer, the Chief Operating Officer and the Chair, Audit and Risk Committee.

Basis for opinion

I conducted the audit in accordance with the *Public Finance and Audit Act 1987* and Australian Auditing Standards. My responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial report' section of my report. I am independent of the Superannuation Funds Management Corporation of South Australia. The *Public Finance and Audit Act 1987* establishes the independence of the Auditor-General. In conducting the audit, the relevant ethical requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* have been met.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Chief Executive Officer and Board of Directors for the financial report

The Chief Executive Officer is responsible for the preparation of the financial report that gives a true and fair view in accordance with relevant Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and the Australian Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Chief Executive Officer is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the assessment indicates that it is not appropriate.

The Board of Directors is responsible for overseeing the entity's financial reporting process.

Auditor's responsibilities for the audit of the financial report

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 28 of the *Superannuation Funds Management Corporation of South Australia Act 1995*, I have audited the financial report of the Superannuation Funds Management Corporation of South Australia for the financial year ended 30 June 2021.

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

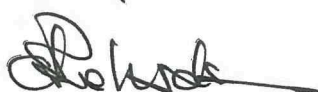
As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Superannuation Funds Management Corporation of South Australia's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive Officer
- conclude on the appropriateness of the Chief Executive Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify the opinion. My conclusion is based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

My report refers only to the financial report described above and does not provide assurance over the integrity of electronic publication by the entity on any website nor does it provide an opinion on other information which may have been hyperlinked to/from the report.

I communicate with the Chief Executive Officer and Board of Directors about, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit.



Andrew Richardson

Auditor-General

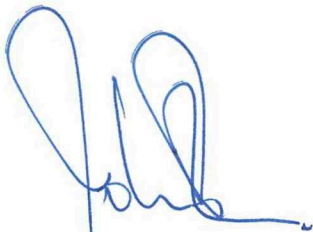
20 September 2021

Funds SA
Financial Statements for the year ended 30 June 2021

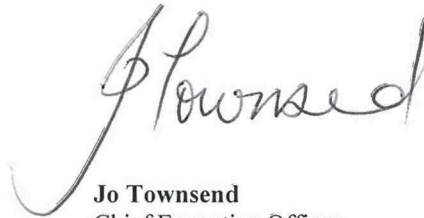
Certification of the Financial Statements

We certify that the:

- financial statements of Funds SA:
 - are in accordance with the accounts and records of Funds SA;
 - comply with relevant Treasurer's Instructions;
 - comply with relevant Australian Accounting Standards; and
 - present a true and fair view of the financial position of Funds SA as at 30 June 2021 and the results of its operations and cash flows for the financial year.
- internal controls employed by Funds SA for the financial year over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the reporting period and there are reasonable grounds to believe Funds SA will be able to pay its debts as and when they become due and payable.



John Piteo
Chief Operating Officer



Jo Townsend
Chief Executive Officer

Approved by a resolution of the Board of Directors dated 14th September 2021.



Kathryn Presser
Chair of Audit and Risk Committee



Paul Laband
Chairman, Board of Directors

Funds SA
Financial Statements for the year ended 30 June 2021

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2021

	Note No.	2021 \$'000	2020 \$'000
Income			
Administration fee revenue	2.1	19,795	13,903
Interest		2	31
Other income	2.2	-	42
Total Income		19,797	13,976
Expenses			
Employee benefits costs	3.3	10,749	9,623
Supplies and services	4.1	6,209	3,656
Depreciation	4.3	835	535
Lease interest expense	4.4	16	27
Total Expenses		17,809	13,841
Net Surplus		1,988	135
Total Comprehensive Result		1,988	135
The Net Surplus and Comprehensive Result are attributable to the SA Government as owner			

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Funds SA

Financial Statements for the year ended 30 June 2021

STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Note No.	2021 \$'000	2020 \$'000
Current Assets			
Cash and cash equivalents	5.1	7,327	3,412
Receivables	5.2	5,939	7,390
Other assets	6.3	495	398
Total Current Assets		13,761	11,200
Non-Current Assets			
Property, plant and equipment	6.1	1,525	1,005
Right of use assets	7.1	1,866	1,710
Investments in Funds SA Unit Trusts	12	-	-
Total Non-Current Assets		3,391	2,715
Total Assets		17,152	13,915
Current Liabilities			
Payables	8.1	1,740	1,110
Employee benefits	3.4	1,098	937
Lease liabilities	7.3	454	272
Total Current Liabilities		3,292	2,319
Non-Current Liabilities			
Payables	8.1	115	102
Employee benefits	3.4	1,210	1,098
Lease liabilities	7.3	1,621	1,470
Total Non-Current Liabilities		2,946	2,670
Total Liabilities		6,238	4,989
Net Assets		10,914	8,926

Funds SA

Financial Statements for the year ended 30 June 2021

STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Note No.	2021 \$'000	2020 \$'000
Equity			
Retained earnings		10,914	8,926
Total Equity		10,914	8,926
The total equity is attributable to the SA Government as owner			
Unrecognised contractual commitments	10.1		
Contingent assets and liabilities	10.2		

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Funds SA
Financial Statements for the year ended 30 June 2021

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2021

	Retained Earnings	Total
	\$'000	\$'000
Balance at 30 June 2019	8,791	8,791
Total comprehensive result for 2019-20	135	135
Balance at 30 June 2020	8,926	8,926
Total comprehensive result for 2020-21	1,988	2,006
Balance at 30 June 2021	10,914	10,932
Changes in equity are attributable to the SA Government as owner		

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Funds SA

Financial Statements for the year ended 30 June 2021

STATEMENT OF CASHFLOWS

For the year ended 30 June 2021

	Note No.	2021 \$'000	2020 \$'000
Cash flows from Operating Activities			
Cash inflows			
Fees and charges		23,250	11,360
Interest received		2	39
Other income		-	42
Cash generated from operations		23,252	11,441
Cash outflows			
Employee benefit payments		(10,409)	(9,137)
Supplies and services		(6,754)	(4,160)
GST paid to the ATO		(977)	(940)
Lease interest payments		(16)	(27)
Cash used in operations		(18,156)	(14,264)
Net cash provided by operating activities	9	5,096	(2,823)
Cash flows from Investing Activities			
Cash inflows			
Proceeds from sale of property, plant and equipment		3	-
Proceeds from lease incentives		150	-
Cash generated from investing activities		153	-
Cash outflows			
Purchase of property, plant and equipment		(925)	(265)
Cash used in investing activities		(925)	(265)
Net cash used in investing activities		(772)	(265)
Cash flows from financing activities			
Cash outflows			
Repayment of lease principal		(409)	(301)
Cash used in financing activities		(409)	(301)
Net cash used in financing activities		(409)	(301)

Funds SA
Financial Statements for the year ended 30 June 2021

STATEMENT OF CASHFLOWS
For the year ended 30 June 2021

	Note No.	2021 \$'000	2020 \$'000
Net increase (decrease) in cash and cash equivalents		3,915	(3,389)
Cash and cash equivalents at the beginning of the financial year		3,412	6,801
Cash and cash equivalents at the end of the financial year	5.1	7,327	3,412

The above Statement of Cashflows should be read in conjunction with the accompanying notes.

Funds SA

Financial Statements for the year ended 30 June 2021

SCHEDULE 1: ASSET CLASS FUNDS UNDER MANAGEMENT

This schedule provides information in relation to assets under Funds SA's management as at balance date. The disclosure of this information is voluntary. The basis of valuation of asset class investments is fair value as required under *AASB13 Fair Value Measurement*. The sources of valuations are provided below.

This schedule provides the following information:

- Statement of Income and Expenses of Assets Under Management
- Statement of Net Assets Under Management
- Fair Value of Financial Assets and Liabilities
- Financial Instruments and Management of Portfolio Risk

Change In Accounting Policy – Statement of Income and Expenses of Assets Under Management

In prior periods the 'expenses' disclosure in the Statement of Income and Expenses of Assets Under Management included all directly paid fees and base and performance fees incurred indirectly by underlying investment vehicles invested in by each asset class. For the financial year ended 30 June 2021 Funds SA has changed its accounting policy relating to this disclosure to now only include expenses that are directly paid by each asset class. This change has been made as these expenses are not incurred by Funds SA's asset classes and are represented in the net asset value of the underlying investment vehicle.

This change has resulted in a restatement of the comparative information in the 30 June 2020 Statement of Income and Expenses of Assets Under Management with a reclassification of indirectly incurred investment expenses from the expense item to unrealised gains (losses). There is no impact to the net operating result (i.e. the Total) of any asset class or in aggregate. The net financial effect of this accounting policy change is a decrease in total expenses of \$169,112,000 (2019-20 \$91,582,000) and a decrease in unrealised gain / (losses) of \$169,112,000 (2019-20 \$91,582,000).

Income and Expenses Descriptions

Rent, Interest & Dividends

Rent

Rent received on the directly held real estate assets covered by Funds SA's Internally Managed Inflation Linked Securities.

Interest

Interest received on a range of directly held securities including cash at bank, term deposits, promissory notes and bonds.

Dividends/ Distributions

Dividends are received on directly held Australian and International shareholdings.

Distributions are received from investments in listed and unlisted unit trusts and private equity investments.

Funds SA

Financial Statements for the year ended 30 June 2021

Realised Gains/ (Losses)

Realised gains / (losses) represents realised gains and losses over either cost for those investments which had been acquired and disposed of within the financial period, or over market values previously brought to account where the investments disposed of were held at the commencement of the period.

Unrealised Gains/ (Losses)

Unrealised gains / (losses) represents unrealised gains and losses, over either cost for those investments acquired during the period, or over market value at the commencement of the period for those investments acquired prior to the commencement of the period and held at balance date.

Expenses

Fees and charges directly invoiced and paid by each asset class for the reporting period. Expenses include directly paid fund manager base and performance fees, Funds SA administration fees, custody costs, asset consulting fees, legal fees, tax and audit costs.

Investment Valuation Sources

Discretely Managed Portfolios

Discretely Managed Portfolios

Funds SA's custodian, Northern Trust, has valued each portfolio using market prices applicable at balance date.

Managed Funds

Pooled Funds / Unlisted Unit Trusts

Investments in pooled funds and other unlisted unit trusts have been valued by Funds SA's custodian in accordance with the valuations supplied by the relevant fund managers. Valuations used are the net asset values of the pooled funds and other unlisted units trusts at balance date.

Private Equity

The value of private equity investments is generally based on the most recent fund valuations supplied by the relevant fund managers (adjusted for cashflows). For the 2019-20 reporting period, Funds SA adopted adjusted valuations for a small number of private equity investments to ensure that these investments were carried at fair value as the fund managers' most recent fund valuations did not fully reflect the economic and market impacts of COVID 19 at that time.

Currency Hedge and Futures Overlay

The values of the currency hedge and futures overlays, as at balance date, are supplied by Funds SA's custodian and represents either the payable or receivable associated with closing out the contracts in place on balance date.

Internally Managed Investments

Internally Managed Inflation Linked Securities

These investments, the returns of which are linked to movements in either the Consumer Price Index or Average Weekly Earnings, have been valued using the discounted cash flow method. The valuation as at balance date was performed by an independent valuer, ICE Data Services.

Funds SA
Financial Statements for the year ended 30 June 2021
SCHEDULE 1: ASSET CLASS FUNDS UNDER MANAGEMENT (continued)

STATEMENT OF INCOME AND EXPENSES OF ASSETS UNDER MANAGEMENT

For the year ended 30 June 2021

Asset class	Rent, Interest & Dividends \$'000	Realised gains / (losses) \$'000	Unrealised gains / (losses) \$'000	Expenses \$'000	TOTAL \$'000
Australian Equities Tax-Exempt	170,598	387,758	1,164,452	(31,216)	1,691,592
Australian Equities Passive Tax-Exempt	3,874	245	22,397	(90)	26,426
Australian Equities Taxable	36,137	65,941	253,314	(6,759)	348,633
Australian Equities Passive Taxable	812	-	9,722	(48)	10,486
International Equities Tax-Exempt	198,545	1,230,343	1,461,668	(55,570)	2,834,986
International Equities Passive Tax-Exempt	11,378	6,452	133,879	(588)	151,121
International Equities Taxable	32,527	175,841	247,005	(9,467)	445,906
International Equities Passive Taxable	2,782	1,698	34,202	(368)	38,314
Property Tax-Exempt	24,218	-	369,438	(2,855)	390,801
Property Taxable	4,000	-	64,776	(553)	68,223
Diversified Strategies Growth Tax-Exempt	262,863	192,036	155,408	(3,647)	606,660
Diversified Strategies Growth Taxable	40,923	43,921	30,276	(667)	114,453
Diversified Strategies Income	110,281	165,770	45,596	(27,665)	293,982
Inflation Linked Securities Tax-Exempt	29,891	-	3,037	(1,680)	31,248
Inflation Linked Securities Taxable	38,899	10,049	6,091	(2,095)	52,944
Long Term Fixed Interest	32,769	33,903	(90,712)	(2,691)	(26,731)
Short Term Fixed Interest	18,228	1,971	(9,695)	(1,417)	9,087
Cash	4,963	(98)	208	(722)	4,351
Socially Responsible	7,741	8,821	16,808	(332)	33,038
Fixed Interest (MAC)	283	241	(487)	-	37
TOTAL	1,031,712	2,324,892	3,917,383	(148,430)	7,125,557

Funds SA
Financial Statements for the year ended 30 June 2021
SCHEDULE 1: ASSET CLASS FUNDS UNDER MANAGEMENT (continued)
STATEMENT OF INCOME AND EXPENSES OF ASSETS UNDER MANAGEMENT
For the year ended 30 June 2020

Asset class	Rent, Interest & Dividends \$'000	Realised gains / (losses) \$'000	Unrealised gains / (losses) \$'000	Expenses \$'000	TOTAL \$'000
Australian Equities Tax-Exempt	202,778	(119,883)	(451,613)	(21,735)	(390,453)
Australian Equities Taxable	70,125	(51,340)	(94,942)	(3,300)	(79,457)
International Equities Tax-Exempt	171,300	375,804	(126,163)	(29,990)	390,951
International Equities Passive Tax-Exempt	8,151	1,913	(13,419)	(357)	(3,712)
International Equities Taxable	46,798	14,034	1,701	(5,082)	57,451
International Equities Passive Taxable	1,972	(887)	(1,601)	(224)	(740)
Property Tax-Exempt	32,915	-	(182,925)	(2,288)	(152,298)
Property Taxable	5,050	-	(31,184)	(427)	(26,561)
Diversified Strategies Growth Tax-Exempt	252,162	(51,004)	(224,805)	(3,792)	(27,439)
Diversified Strategies Growth Taxable	31,519	(12,359)	(21,344)	(652)	(2,836)
Diversified Strategies Income	76,928	(64,673)	(206,561)	(26,021)	(220,327)
Inflation Linked Securities Tax-Exempt	30,396	-	1,864	(1,771)	30,489
Inflation Linked Securities Taxable	38,752	37,502	(48,906)	(2,355)	24,993
Long Term Fixed Interest	43,707	133,743	(100,482)	(3,357)	73,611
Short Term Fixed Interest	25,238	9,540	(3,405)	(1,338)	30,035
Cash	21,385	-	(689)	(372)	20,324
Socially Responsible	5,742	-	(7,267)	(117)	(1,642)
Diversified Strategies Income (MAC)	1,440	498	(719)	(74)	1,145
Fixed Interest (MAC)	3,099	(180)	(229)	(152)	2,538
TOTAL	1,069,457	272,708	(1,512,689)	(103,404)	(273,928)

Funds SA
Financial Statements for the year ended 30 June 2021

STATEMENT OF NET ASSETS UNDER MANAGEMENT

As at 30 June 2021

Asset class	Discretely Managed Portfolios \$'000	Managed Funds \$'000	Internally Managed Investments \$'000	Currency Hedge and Futures Overlay \$'000	Other Assets \$'000	Liabilities \$'000	Total \$'000
Australian Equities Tax-Exempt	7,359,606	-	-	-	540	(8,023)	7,352,123
Australian Equities Passive Tax-Exempt	226,503	-	-	-	86	(58)	226,531
Australian Equities Taxable	1,523,733	-	-	-	10	(1,751)	1,521,992
Australian Equities Passive Taxable	-	105,534	-	-	33	(30)	105,537
International Equities Tax-Exempt	9,610,016	845,496	-	(70,475)	3,246	(19,892)	10,368,391
International Equities Passive Tax-Exempt	687,418	-	-	(5,198)	958	(236)	682,942
International Equities Taxable	1,543,536	128,839	-	(7,358)	1,364	(3,493)	1,662,888
International Equities Passive Taxable	188,301	-	-	(852)	844	(103)	188,190
Property Tax-Exempt	-	4,121,177	-	-	2,868	(721)	4,123,324
Property Taxable	-	758,224	-	-	1,841	(154)	759,911
Diversified Strategies Growth Tax-Exempt	-	2,924,789	-	(51,586)	264,252	(1,219)	3,136,236
Diversified Strategies Growth Taxable	-	487,471	-	(9,031)	29,359	(231)	507,568
Diversified Strategies Income	1,483,356	2,654,508	-	(43,783)	983	(6,831)	4,088,233
Inflation Linked Securities Tax-Exempt	-	-	317,734	-	2,531	(61)	320,204
Inflation Linked Securities Taxable	912,630	434,727	-	-	52	(629)	1,346,780
Long Term Fixed Interest	1,623,036	-	-	-	23	(1,100)	1,621,959
Short Term Fixed Interest	931,684	-	-	-	1	(608)	931,077
Cash	2,127,506	-	-	-	5,323	(280)	2,132,549
Socially Responsible	142,572	11,202	-	(584)	44	(94)	153,140
TOTAL	28,359,897	12,471,967	317,734	(188,867)	314,358	(45,514)	41,229,575

Funds SA
Financial Statements for the year ended 30 June 2021
STATEMENT OF NET ASSETS UNDER MANAGEMENT

As at 30 June 2020

	Discretely Managed Portfolios	Managed Funds	Internally Managed Investments	Currency Hedge and Futures Overlay	Other Assets	Liabilities	Total
Asset class	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Australian Equities Tax-Exempt	5,551,973	-	-	-	1,552	(5,707)	5,547,818
Australian Equities Taxable	1,169,042	-	-	10,877	217	(97,132)	1,083,004
International Equities Tax-Exempt	7,194,945	625,610	-	19,200	2,161	(127,126)	7,714,790
International Equities Passive Tax-Exempt	494,498	-	-	3,056	1,000	(179)	498,375
International Equities Taxable	1,011,681	214,156	-	6,888	1,277	(2,269)	1,231,733
International Equities Passive Taxable	118,116	-	-	2,020	649	(89)	120,696
Property Tax-Exempt	-	3,524,668	-	-	64	(922)	3,523,810
Property Taxable	-	601,029	-	-	12	(189)	600,852
Diversified Strategies Growth Tax-Exempt	-	2,672,985	-	7,799	8,293	(950)	2,688,127
Diversified Strategies Growth Taxable	-	422,699	-	7,114	3,126	(200)	432,739
Diversified Strategies Income	1,108,036	2,103,367	-	(12,346)	507	(6,144)	3,193,420
Inflation Linked Securities Tax-Exempt	-	-	315,008	-	(3,672)	(104)	311,232
Inflation Linked Securities Taxable	801,902	418,491	-	-	64	(829)	1,219,628
Long Term Fixed Interest	1,309,331	-	-	-	69	(1,022)	1,308,378
Short Term Fixed Interest	872,020	-	-	-	39	(362)	871,697
Cash	-	3,331,091	-	-	211,759	(214)	3,542,636
Socially Responsible	-	139,904	-	-	25	(62)	139,867
Fixed Interest (MAC)	67,544	-	-	-	5	(74)	67,475
TOTAL	19,699,088	14,054,000	315,008	44,608	227,147	(243,574)	34,096,277

Funds SA

Financial Statements for the year ended 30 June 2021

SCHEDULE 1: ASSET CLASS FUNDS UNDER MANAGEMENT (continued)

Fair Value Hierarchy

In accordance with the disclosure requirements under *AASB 13 Fair Value Measurement*, Funds SA has adopted the fair value hierarchy disclosures for the funds under management as at 30 June 2021. This requires the disclosure of investments using a fair value hierarchy that reflects the subjectivity of the inputs used in valuing the investments.

The fair value hierarchy adopted by Funds SA has the following levels:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Other - Although not specifically required by AASB 13, 'Other' includes accrued expenses and GST payable (to the ATO) / receivable (from the ATO) for each asset class and is included for completeness purposes only.

As per AASB 13 paragraph 73, "the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement". For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the investment.

The determination of what constitutes 'observable' requires judgement. Funds SA considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, and provided by independent sources that are actively involved in the relevant market.

The table below sets out Funds SA's investments (by asset class) measured at fair value according to the fair value hierarchy at 30 June 2021.

Funds SA
Financial Statements for the year ended 30 June 2021
SCHEDULE 1: ASSET CLASS FUNDS UNDER MANAGEMENT (continued)

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES					
As at 30 June 2021					
Financial assets and liabilities through profit or loss	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Other \$'000	Total \$'000
Australian Equities Tax-Exempt	7,357,326	(54)	-	(5,149)	7,352,123
Australian Equities Passive Tax-Exempt	226,587	-	-	(56)	226,531
Australian Equities Taxable	1,523,184	(12)	-	(1,180)	1,521,992
Australian Equities Passive Taxable	32	105,534	-	(29)	105,537
International Equities Tax-Exempt	9,595,484	778,662	-	(5,755)	10,368,391
International Equities Passive Tax-Exempt	687,906	(5,198)	-	234	682,942
International Equities Taxable	1,542,333	122,126	-	(1,571)	1,662,888
International Equities Passive Taxable	189,008	(852)	-	34	188,190
Property Tax-Exempt	115,330	314,740	3,693,925	(671)	4,123,324
Property Taxable	37,831	51,902	670,322	(144)	759,911
Diversified Strategies Growth Tax-Exempt	264,241	(51,586)	2,924,755	(1,174)	3,136,236
Diversified Strategies Growth Taxable	29,366	(9,031)	487,455	(222)	507,568
Diversified Strategies Income	93,252	4,001,735	-	(6,754)	4,088,233
Inflation Linked Securities*	690,065	658,120	317,734	1,065	1,666,984
Long Term Fixed Interest	1,611,190	11,844	-	(1,075)	1,621,959
Short Term Fixed Interest	448,716	482,911	-	(550)	931,077
Cash	2,049,692	83,135	-	(278)	2,132,549
Socially Responsible	142,577	(584)	11,198	(51)	153,140
Total	26,604,120	6,543,392	8,105,389	(23,326)	41,229,575

* Inflation Linked Securities includes the externally and internally managed inflation linked securities from both the Inflation Linked Securities Tax-Exempt and Inflation Linked Securities Taxable asset classes.

There were no transfers of assets between Levels 1, 2 or 3 during the year ended 30 June 2021.

Funds SA
Financial Statements for the year ended 30 June 2021
SCHEDULE 1: ASSET CLASS FUNDS UNDER MANAGEMENT (continued)

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES					
As at 30 June 2020					
Financial assets and liabilities through profit or loss	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Other \$'000	Total \$'000
Australian Equities Tax-Exempt	5,551,747	118	-	(4,047)	5,547,818
Australian Equities Taxable	1,179,982	25	-	(97,003)	1,083,004
International Equities Tax-Exempt	7,196,579	633,929	-	(115,718)	7,714,790
International Equities Passive Tax-Exempt	495,301	3,056	-	18	498,375
International Equities Taxable	1,011,641	221,026	-	(934)	1,231,733
International Equities Passive Taxable	118,709	2,020	-	(33)	120,696
Property Tax-Exempt	170,863	235,046	3,118,816	(915)	3,523,810
Property Taxable	29,205	38,760	533,074	(187)	600,852
Diversified Strategies Growth Tax-Exempt	8,288	7,799	2,672,985	(945)	2,688,127
Diversified Strategies Growth Taxable	3,124	31,798	398,014	(197)	432,739
Diversified Strategies Income	82,762	3,116,769	-	(6,111)	3,193,420
Inflation Linked Securities*	471,115	745,490	315,008	(753)	1,530,860
Long Term Fixed Interest	1,290,263	19,119	-	(1,004)	1,308,378
Short Term Fixed Interest	511,687	360,337	-	(327)	871,697
Cash	3,331,225	-	-	211,411	3,542,636
Socially Responsible	24	139,904	-	(61)	139,867
Diversified Strategies Income (MAC)	-	-	-	-	-
Fixed Interest (MAC)	36,594	30,952	-	(71)	67,475
Total	21,489,109	5,586,148	7,037,897	(16,877)	34,096,277

* Inflation Linked Securities includes the externally and internally managed inflation linked securities from both the Inflation Linked Securities Tax-Exempt and Inflation Linked Securities Taxable asset classes.

Funds SA
Financial Statements for the year ended 30 June 2021
SCHEDULE 1: ASSET CLASS FUNDS UNDER MANAGEMENT (continued)

The following table shows a reconciliation of the movement in the fair value of financial instruments categorised within Level 3 between the beginning and the end of the reporting period.

	Opening Balance - 1 July 2020	Purchases	Disposals	Unrealised Gains / (Losses)	Closing Balance - 30 June 2021
Level 3 Financial Assets and Liabilities	\$'000	\$'000	\$'000	\$'000	\$'000
Property Tax-Exempt	3,118,816	258,040	(167,737)	484,806	3,693,925
Property Taxable	533,074	76,399	(23,979)	84,828	670,322
Diversified Strategies Growth Tax-Exempt	2,672,985	465,571	(179,989)	(33,812)	2,924,755
Diversified Strategies Growth Taxable	398,014	88,020	(24,872)	26,293	487,455
Inflation Linked Securities*	315,008	-	-	2,726	317,734
Socially Responsible	-	11,666	(961)	493	11,198
Total	7,037,897	899,696	(397,538)	565,334	8,105,389

* Inflation Linked Securities includes the externally and internally managed inflation linked securities from both the Inflation Linked Securities Tax-Exempt and Inflation Linked Securities Taxable asset classes.

Level 1

Investments whose values are based on quoted market prices in active markets, and therefore classified within Level 1, include listed equities and developed market nominal sovereign bonds.

Level 1 also includes cash at bank, term deposits, bank bills, promissory notes and interest receivable on these investments.

Level 2

Investments that trade in markets that are not considered to be sufficiently active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include investment-grade corporate bonds, certain non-US sovereign bonds, over-the-counter derivatives (including the foreign currency hedge overlay) and certain unlisted unit trusts where the nature of the underlying investments allows for ready transaction of units at the observable price.

Level 3

Investments classified within Level 3 have significant unobservable inputs, as they are infrequently traded. As observable prices are not available for these investments, Funds SA has used industry standard valuation techniques to derive fair value. Level 3 investments include certain directly held non traded index-linked securities and unlisted unit trusts where the underlying investments have been valued using an appraisal methodology and the unit price is provided for predominantly valuation rather than transactional purposes.

Funds SA

Financial Statements for the year ended 30 June 2021

SCHEDULE 1: ASSET CLASS FUNDS UNDER MANAGEMENT (continued)

Other

Although not specifically required by AASB 13, 'Other' includes other asset class assets and liabilities that do not fit into the Level 1 -3 categories, this includes accrued expenses, payables and receivables (including GST) for each asset class and is included in the above disclosure for completeness purposes only.

Financial Instruments and Management of Portfolio Risk

Use of derivative financial instruments

Derivatives can be defined as financial contracts whose value depend on, or are derived from other specific assets, liabilities, reference rates or indices. Funds SA uses derivatives to manage portfolio risk and to facilitate the implementation of investment strategies efficiently and cost effectively. Funds SA use a variety of derivative instruments, such as over the counter swap agreements, currency forward rate agreements and exchange-traded futures and options.

Derivatives are an authorised investment within certain mandates managed by Funds SA's external investment managers, for the purposes described above.

The fair value of all derivative positions as at 30 June 2021 is incorporated within the Statement of Net Assets Under Management in Schedule 1.

Market Risk

Market risk is the risk that investment returns generated by the different financial markets will be volatile and will underperform long-term expectations over the short / medium term.

Funds SA manages the risk of financial market volatility through the adherence to two principles:

- ensuring a diversity of exposures to different financial markets and sub-markets; and
- ensuring asset allocations for different investment options are consistent with the time horizon of each.

Liquidity Risk

Three types of liquidity risk are inherent in Funds SA's investment activities. The first is the risk that client redemption requests are unable to be satisfied due to the inability to liquidate investments. The second is the risk that significant transaction costs will be incurred in liquidating investments to meet clients' cash redemption requirements. The third is that investment returns may be below expectations due to the portfolio's asset positioning being negatively impacted.

Funds SA manages liquidity risk as follows:

- Firstly, by giving careful consideration to the expected net cash redemption requirements of Funds SA's clients. The allocation to cash in the strategic asset allocation of each investment option is set at a level sufficient to manage expected cash redemptions.
- Secondly, a large proportion of each investment option is invested in highly liquid investments such as actively traded equities, unit trusts or securities with short-term maturities.
- Thirdly, monitoring the liquidity of the fund on a daily basis to ensure prospective client cash outflows and switches can be met.

Funds SA

Financial Statements for the year ended 30 June 2021

SCHEDULE 1: ASSET CLASS FUNDS UNDER MANAGEMENT (continued)

Currency Risk

Funds SA's foreign currency exposure arises from its investment in assets denominated in foreign currencies.

Funds SA's strategic policy for the management of its foreign currency exposure is as follows:

- Foreign currency exposures in the Diversified Strategies Growth Tax-Exempt, Diversified Strategies Growth Taxable, Diversified Strategies Income, Long Term Fixed Interest and Inflation Linked Securities Taxable asset classes are fully hedged to Australian dollars.
- Foreign currency exposures over the developed markets component of the International Equities Tax-Exempt, International Equities Taxable, International Equities Passive Tax-Exempt and International Equities Passive Taxable asset classes are partly hedged to Australian dollars.

For the purpose of managing foreign currency risk, within defined constraints, the exposure to foreign currency can be varied from the strategic policy stated above.

Interest Rate Risk

Interest rate risk is the risk that a movement in interest rates will cause the value of interest rate sensitive securities to underperform expectations.

Funds SA manages interest rate risk through:

- ensuring asset allocations for different investment options are consistent with the time horizon of each; and
- the use of specialist external investment managers to manage Funds SA's cash and fixed interest portfolios.

Funds SA
Financial Statements for the year ended 30 June 2021

NOTE INDEX

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Funds SA

Financial Statements for the year ended 30 June 2021

Note 1 About Funds SA

1.1 Reporting entity

The financial report covers the Superannuation Funds Management Corporation of South Australia (Funds SA or the Corporation) as an individual reporting entity. Funds SA is a statutory authority of the State of South Australia, established pursuant to the *Superannuation Funds Management Corporation of South Australia Act 1995* (hereinafter referred to as the Funds SA Act).

In accordance with *AASB 1054 Australian Additional Disclosures*, Funds SA has applied Australian Accounting Standards that are applicable to for-profit entities.

1.2 Objective

Under Section 5 of the Funds SA Act, the functions of Funds SA are:

- (a) to invest and manage -
 - (i) the public sector superannuation funds; and
 - (ii) the nominated funds of approved authorities, pursuant to strategies formulated by the Corporation;
- (ab) to invest and manage other funds (if any) established by the Corporation for the purposes of the operation of any Act pursuant to strategies formulated by the Corporation;
- (b) such other functions as are assigned to the Corporation by this or any other Act.

Under Section 7 of the Funds SA Act, the objective of the Corporation in performing its functions is to achieve the highest return possible on investment of the funds while having proper regard for -

- (a) the need to maintain the risks relating to investment at an acceptable level; and
- (b) the need for liquidity in the funds; and
- (c) such other matters as are prescribed by regulation.

1.3 Purpose of the financial statements

The purpose of the financial statements is to discharge Funds SA's reporting obligations in respect of its financial affairs under Section 26(1) of the Funds SA Act, and in respect of each of the funds, as required by Section 26(2) of the Funds SA Act.

As at 30 June 2021, Funds SA managed the following funds:

Public Sector Superannuation Funds:

- South Australian Superannuation Scheme:
 - South Australian Superannuation Fund (Old Scheme Division)
 - South Australian Superannuation Fund (New Scheme Division)
 - South Australian Superannuation Scheme - Employer Contribution Accounts
- Police Superannuation Scheme:
 - Police Superannuation Fund (Old Scheme Division)
 - Police Superannuation Scheme - Employer Contribution Account

Funds SA

Financial Statements for the year ended 30 June 2021

Purpose of the financial statements (continued)

- Southern State Superannuation Scheme:
 - Southern State Superannuation Fund
- Super SA Retirement Investment Fund:
 - Super SA Flexible Rollover Product
 - Super SA Income Stream
- Parliamentary Superannuation Scheme
- Judges' Pension Scheme
- Governors' Pension Scheme

Eligible Superannuation Funds:

- South Australian Ambulance Service Superannuation Scheme
- South Australian Metropolitan Fire Service Superannuation Scheme

Nominated Funds of Approved Authorities:

- South Australian Government Financing Authority
- Adelaide Cemeteries Authority
- Motor Accident Commission
- Lifetime Support Authority
- Health Services Charitable Gifts Board
- The University of Adelaide Endowment Fund
- Legal Services Commission
- Construction Industry Training Board

Other (Established by the Public Corporation (Southern Select Super Corporation) Regulations 2012)

- Super SA Select

1.4 Basis of preparation

The financial statements are general purpose financial statements prepared in compliance with:

- section 23 of the *Public Finance and Audit Act 1987*;
- Treasurer's Instructions and Accounting Policy Statements issued by the Treasurer under the *Public Finance and Audit Act 1987*; and
- relevant Australian Accounting Standards.

The financial statements are prepared based on a 12 month reporting period and presented in Australian currency. The historical cost convention is used unless a different measurement basis is specifically disclosed in the note associated with the item measured.

Funds SA's Statement of Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity have been prepared on an accruals basis. The Statement of Cashflows has been prepared on a cash basis.

Funds SA

Financial Statements for the year ended 30 June 2021

Basis of preparation (continued)

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2021 and the comparative information presented.

1.5 Format and content of Funds SA's financial statements

The Statement of Financial Position does not incorporate the funds under management as assets of Funds SA. The Statement of Comprehensive Income does not incorporate the investment revenue and expenses.

The financial statements of the client funds are disclosed separately under Note 13 in accordance with section 26(2) of the Funds SA Act.

Controlled entities have not been consolidated into Funds SA's Statement of Financial Position as they form part of the asset classes under management. Accordingly, they are incorporated within the asset class financial information in Schedule 1.

1.6 Impact of new and revised accounting standards and policies

Funds SA has assessed the impact of new and changed Australian Accounting Standards for the 2020-21 reporting period and determined that there was no effect on Funds SA.

1.7 Rounding

All amounts in the financial statements and accompanying notes have been rounded to the nearest thousand dollars (\$'000).

1.8 Comparative information

The presentation and classification of items in the financial statements are consistent with prior periods except where a specific Accounting Policy Statement or Australian Accounting Standard has required a change.

Where presentation or classification of items in the financial statements have been amended, comparative figures have been adjusted to conform to changes in presentation or classification in these financial statements unless impracticable.

1.9 Assets and liabilities

Assets and liabilities have been classified according to their nature and have not been offset unless required or permitted by a specific accounting standard, or where offsetting reflects the substance of the transaction or other event.

Assets and liabilities that are to be consumed or realised as part of the normal operating cycle have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

1.10 Insurance

Funds SA has arranged, through South Australian Financing Authority (SAFA), to insure all major risks of Funds SA. The excess payable under this arrangement varies depending on each class of insurance held.

Funds SA

Financial Statements for the year ended 30 June 2021

1.11 Taxation

Funds SA is liable for payroll tax, fringe benefits tax and goods and services tax (GST)

Income, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods or services is not recoverable from the Australian Taxation Office, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and
- payables and receivables, which are stated with the amount of GST included.

1.13 Significant transactions with related entities

Related party transactions

Funds SA is controlled by the SA Government. Related parties of Funds SA include all key management personnel and their close family members, all public authorities that are consolidated into the whole of government financial statements and other interests of the Government. Related party transactions are further disclosed at note 3.1.

Significant transactions with government related entities

Significant transactions with SA Government related entities are identified throughout this report and in addition Funds SA has incurred expenses of \$466,000 (\$397,000) relating to Payroll tax. This amount is paid to Revenue SA, an entity within the SA Government.

Asset class funds under management

Funds SA's significant transactions with SA Government related client entities are disclosed in note 13. This relates to receipts and payments with Funds SA's clients.

Funds SA, in its capacity as manager of the asset class funds under management, may enter into significant transactions with the SA Government as part of its ordinary investment activities. These transactions are reported through Schedule 1 and are arm's length in nature.

Funds SA

Financial Statements for the year ended 30 June 2021

Note 2 Income

2.1 Administration fee revenue

	2021	2020
	\$'000	\$'000
Administration fee revenue	19,795	13,903
Total administration fee revenue	19,795	13,903

The administration fee revenue is derived from the provision of funds management services to Funds SA clients. The administration fee rate is determined annually based upon cost recovery of Funds SA's budgeted administration expenses for the upcoming financial year. The fee is calculated as a percentage of average funds under management, for each quarter and is charged in arrears. The market value of the funds under management depends upon the performance of the underlying investments, which are linked to the performance of global financial markets. Funds SA's management of market risk in relation to the administration fee revenue is disclosed at note 11.1.

Payment terms are 30 days from the issue date of the invoice. Funds SA's performance obligations are satisfied on an ongoing basis. The revenue is recognised when it is probable that the flow of economic benefits to Funds SA will occur and can be reliably measured in accordance with *AASB15 Revenues From Contracts With Customers*.

2.2 Other income

	2021	2020
	\$'000	\$'000
Advisory services revenue	-	42
Total other income	-	42

Funds SA provided advisory services to the Department of Treasury and Finance on a cost recovery basis in 2019-20. Funds SA did not provide any such advisory services during the year ended 30 June 2021.

Funds SA

Financial Statements for the year ended 30 June 2021

Note 3 Board, committees and employees

3.1 Key management personnel

The key management personnel are the Minister, governing board directors and executive management who have responsibility for the strategic direction and management of Funds SA. Total compensation for key management personnel was \$2,651,000 in 2020-21 and \$2,589,000 in 2019-20.

The following persons held positions of authority and responsibility for planning, directing and controlling the activities of Funds SA, directly or indirectly during the financial year.

Jo Townsend	Chief Executive Officer
John Piteo	Chief Operating Officer
Richard Friend	Chief Investment Officer
Jacki Kittel	Executive Manager, People & Organisational Performance
Tony Burrill	Executive Manager, Governance, Risk & Compliance
Tony Keenan	Executive Manager, Corporate Engagement

Refer to note 3.2 for the list of governing board directors.

Key management personnel remuneration

	2021	2020
	\$'000	\$'000
Salaries and other short-term employee benefits	2,423	2,369
Post-employment benefits	228	220
Total	2,651	2,589

Transactions with key management personnel and other related parties

During the 2020-21 year there were no other transactions with key management personnel and other related parties.

Funds SA

Financial Statements for the year ended 30 June 2021

3.2 Board and committee members

The following persons held the position of board director throughout the 2020-21 financial year.

Director	Funds SA Board	Sub-Committees ⁽¹⁾	
		Audit and Risk Committee	Human Resources Committee
Paul Laband	Chair	✓	✓
Jane Jeffreys	✓	-	Chair
Robert Patterson	✓	✓	-
Kathryn Presser (reappointed 2 December 2020)	✓	Chair (reappointed 10 December 2020)	-
Bill Griggs	✓	-	✓
Judith Smith	✓	✓	-
Leah York ⁽²⁾ (reappointed 10 June 2021)	✓	-	✓

⁽¹⁾ **Sub-Committees**

Funds SA has established 2 sub-committees where directors receive remuneration for their membership.

⁽²⁾ Leah York's term ended on 30 May 2021, reappointment to the position of board director occurred on 10 June 2021.

Board and committee remuneration

	Number of board directors	
	2021	2020
The number of governing board directors whose remuneration received or receivable falls within the following bands:		
\$40,000 - \$59,999	6	6
\$80,000 - \$99,999	1	1
Total number of governing directors	7	7

Remuneration of members reflects all costs of performing board/committee member duties including sitting fees, superannuation contributions, salary sacrifice benefits, fringe benefits and any fringe benefits tax paid or payable in respect of those benefits. The total remuneration received or receivable by members was \$368,000 (2019-20: \$370,000).

Funds SA

Financial Statements for the year ended 30 June 2021

3.3 Employee benefits expenses	2021	2020
	\$'000	\$'000
Salaries and wages	8,807	7,675
Board and committee fees	336	338
Employee leave entitlements	200	341
Employment on-costs	1,406	1,269
Total employee benefits expenses	10,749	9,623

Employee benefits expenses include all costs related to employment including wages and salaries, non-monetary benefits and leave entitlements. These are recognised when incurred.

Remuneration of employees

The number of employees whose remuneration received or receivable falls within the following bands:

	2021	2020
\$154 001 to \$174 000	4	4
\$174 001 to \$194 000	4	3
\$194 001 to \$214 000	4	1
\$214 001 to \$234 000	1	1
\$234 001 to \$254 000	2	1
\$254 001 to \$274 000	1	1
\$274 001 to \$294 000	1	1
\$314 001 to \$334 000	1	1
\$354 001 to \$374 000	3	3
\$394 001 to \$414 000	1	1
\$454 001 to \$474 000	1	-
\$474 001 to \$494 000	-	1
\$534 001 to \$554 000	-	1
\$594 000 to \$614 000	1	-
Total number of employees	24	19

Funds SA

Financial Statements for the year ended 30 June 2021

Employee benefits expenses (continued)

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year. Remuneration of employees reflects all costs of employment including salaries and wages, payments in lieu of leave, superannuation contributions, salary sacrifice benefits and fringe benefits and any fringe benefits tax paid or payable in respect of those benefits. The total remuneration received by these employees for the year was \$6,334,000 (\$5,257,000 for 2019-20).

3.4 Employee benefits liability

	2021	2020
	\$'000	\$'000
Current		
Accrued salaries and wages	296	223
Annual leave	748	571
Long service leave	43	122
Skills and experience retention leave	11	21
Total current employee benefits	1,098	937
Non-Current		
Long service leave	1,210	1,098
Total non-current employee benefits	1,210	1,098
Total employee benefits	2,308	2,035

Employee benefits accrue as a result of services provided up to the reporting date that remain unpaid. Long-term employee benefits are measured at present value and short-term employee benefits are measured at nominal amounts.

Salaries and wages, annual leave, skills and experience retention leave and sick leave

The liability for salary and wages is measured as the amount unpaid at the reporting date at remuneration rates current at reporting date.

The annual leave liability and the skills and experience retention leave liability are expected to be payable within twelve months and are measured at the undiscounted amount expected to be paid.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees is estimated to be less than the annual entitlement for sick leave.

Funds SA

Financial Statements for the year ended 30 June 2021

Employee benefits liability (continued)

Long service leave

The liability for long service leave is measured at the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

The actuarial assessment performed by the Department of Treasury and Finance has provided a basis for the measurement of long service leave and is based on actuarial assumptions on expected future salary and wage levels, experience of employee departures and periods of service. These assumptions are based on employee data over SA Government entities.

AASB 119 Employee Benefits requires the use of the yield on long-term Commonwealth Government bonds as the discount rate in the measurement of the long service leave liability. The yield on long-term Commonwealth Government bonds has increased from 2020 (0.75%) to 2021 (1.25%).

The actuarial assessment performed by the Department of Treasury and Finance retained the salary inflation rate at 2.5% for long service leave liability.

The net financial effect of the changes to actuarial assumptions in the current financial year is a decrease in the long service leave liability of \$161,000 and employee benefits expense of \$161,000. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of demographical and financial assumptions including the long-term discount rate.

This calculation is consistent with Funds SA's experience of employee retention and leave taken. Based on a survey of staff, the portion of the long service leave provision expected to be taken within 12 months of the reporting date is classified as current. The remaining portion of the long service leave provision is classified as non-current.

Funds SA
Financial Statements for the year ended 30 June 2021

Note 4 Expenses

4.1 Supplies and services

	2021	2020
	\$'000	\$'000
Information technology expenses	3,121	1,432
Human resource expenses	483	192
Contractors and temporary staff	1,401	845
Board expenses	82	30
Staff development	127	123
Subscriptions and publications	266	161
Internal audit fees	198	123
External audit fees ⁽¹⁾	131	116
Travel and accommodation	38	331
Legal and advisory expenses	175	153
Tenancy outgoings	65	42
Office supplies and printing	60	66
Other	62	42
Total supplies and services	6,209	3,656

⁽¹⁾ Audit fees paid / payable to the Auditor-General's Department relating to work performed under the Public Finance Audit Act were \$131,200 (\$115,600). No other services were provided by the Auditor-General's Department.

Supplies and services generally represent day-to-day running costs incurred in the normal operations of Funds SA. These items are recognised as an expense in the reporting period in which they are incurred.

Funds SA

Financial Statements for the year ended 30 June 2021

4.2 Consultants

The number and dollar amount of Consultancies paid/payable (included in supplies & services expense) that fell within the following bands:

	No.	2021 \$'000	No.	2020 \$'000
Below \$10,000	6	24	7	21
Above \$10,000	12	1,635	8	288
Total	18	1,659	15	309

4.3 Depreciation

	2021 \$'000	2020 \$'000
Depreciation		
Computer and office equipment	160	93
Leasehold improvements	238	109
Right of use asset – Office lease – 25 Grenfell Street Adelaide	429	325
Right of use asset – Vehicle lease	8	8
Total depreciation	835	535

All non-current assets, having a limited useful life, are systematically depreciated over their useful lives in a manner that reflects the consumption of their service potential.

Review of accounting estimates

Assets' residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, on an annual basis. Changes in the expected life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the time period or method, as appropriate.

Funds SA

Financial Statements for the year ended 30 June 2021

4.3 Depreciation (continued)

Useful life

Depreciation is calculated on a straight-line basis over the estimated useful life of the following classes of assets as follows:

Class of Asset	Useful Life (Years)
Leasehold improvements	Remaining Term of Lease
Computer and office equipment:	
▪ Computers, hardware and software	3 – 5 years
▪ Office furniture	10 years
Right of use assets	Term of lease

4.4 Lease interest expense

	2021	2020
	\$'000	\$'000
Interest expense on lease liabilities	16	27
Total lease interest expense	16	27

Funds SA

Financial Statements for the year ended 30 June 2021

Note 5 Financial Assets

5.1 Cash and cash equivalents

Cash is measured at nominal value.

	2021 \$'000	2020 \$'000
Commonwealth Bank account	7,326	3,411
Cash on Hand	1	1
Total cash and cash equivalents	7,327	3,412

5.2 Receivables

Receivables arise in the normal course of providing services to clients. Receivables and accrued revenues are non-interest bearing. Receivables are held with the objective of collecting the contractual cash flows and they are measured at amortised cost. As at 30 June 2021 there are no indications of impairment.

	2021 \$'000	2020 \$'000
Debtors*	5,939	7,389
Accrued Interest	-	1
Total receivables	5,939	7,390

*Debtors includes \$5,932,000 (\$7,349,000) from administration fee revenue receivable as at 30 June 2021.

Funds SA's management of credit risk is disclosed at note 11.1.

Funds SA

Financial Statements for the year ended 30 June 2021

Note 6 Non-financial assets

6.1 Property, plant and equipment

	2021	2020
	\$'000	\$'000
Leasehold improvements		
Leasehold improvements	1,913	1,065
Accumulated depreciation	(732)	(495)
Total leasehold improvements	1,181	570
Computer and office equipment		
Computer and office equipment	930	991
Accumulated depreciation	(586)	(610)
Total computer and office equipment	344	381
Capital work in progress	-	54
Total capital work in progress	-	54
Total property plant and equipment	1,525	1,005

Non-current tangible assets are initially recorded at cost or at the value of any liabilities assumed, plus any incidental costs involved with the acquisition. Subsequently these assets are recognised at historical cost less accumulated depreciation, which is deemed to approximate fair value. If at any time management considers that the carrying amount of an asset materially differs from its fair value, then the asset will be revalued. Detail about Funds SA's approach to fair value is set out in note 6.2 below.

Property, plant and equipment with a value equal to or in excess of \$1,000 is capitalised. A sample of property, plant and equipment is assessed for impairment annually.

Property, plant and equipment includes \$251,030 of fully depreciated assets that are still in use as at 30 June 2021.

All capital work in progress relating to fit out costs for the expansion of the office tenancy was completed during the 2020-21 financial year.

Funds SA

Financial Statements for the year ended 30 June 2021

6.1 Property, plant and equipment (continued)

Reconciliation of property, plant and equipment

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT

The following table shows the movement of property, plant and equipment during the year ended 30 June 2021

	Leasehold improvements \$'000	Computer and office equipment \$'000	Capital work in progress \$'000	Property, Plant and Equipment Total \$'000
Carrying amount at the beginning of the financial year	570	381	54	1,005
Additions	795	130	-	925
Disposals	-	(7)	-	(7)
Depreciation	(238)	(160)	-	(398)
Transfers between asset classes	54	-	(54)	-
Carrying amount at the end of the financial year	1,181	344	-	1,525

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT

The following table shows the movement of property, plant and equipment during the year ended 30 June 2020

	Leasehold improvements \$'000	Computer and office equipment \$'000	Capital work in progress \$'000	Property, Plant and Equipment Total \$'000
Carrying amount at the beginning of the financial year	659	283	-	942
Additions	20	191	54	265
Depreciation	(109)	(93)	-	(202)
Carrying amount at the end of the financial year	570	381	54	1,005

Funds SA

Financial Statements for the year ended 30 June 2021

6.2 Fair Value Hierarchy

Funds SA categorises non-financial assets measured at fair value into a hierarchy based on the level of inputs used in their valuation at 30 June 2021.

During the 2020-21 year, Funds SA had no valuations categorised into Level 1 or Level 2 and there were no transfers of assets between any of the fair value hierarchy levels.

Unobservable inputs used to derive Level 3 fair values are explained in Schedule 1. Although unobservable inputs were used in determining fair value, and are subjective, Funds SA considers that the overall valuation would not be materially affected by changes to existing assumptions. There were no changes in valuation techniques during 2020-21. The reconciliation of fair value measurements using significant unobservable inputs (Level 3) is represented by the reconciliation of property, plant and equipment above.

6.3 Other assets

Other assets include prepayments, these are prepaid amounts that relate to a benefit to be consumed in a later reporting period.

	2021	2020
	\$'000	\$'000
Prepayments	495	398
Total other assets	495	398

Funds SA
Financial Statements for the year ended 30 June 2021

Note 7 Leases

7.1 Right of use assets

	2021	2020
	\$'000	\$'000
Office lease – 25 Grenfell Street Adelaide		
Right of use assets	2,617	2,028
Accumulated depreciation	(754)	(325)
Total office lease – 25 Grenfell Street Adelaide	1,863	1,703
Vehicle lease		
Right of use assets	19	15
Accumulated depreciation	(16)	(8)
Total vehicle lease	3	7
Total right of use assets	1,866	1,710

Right of use assets are measured by applying the cost model.

Funds SA has the following leases:

- an office lease of floor space in a building located at 25 Grenfell Street, Adelaide. The office lease is for a non-cancellable period of 5 years from August 2020, with an option to extend the lease term by a further 5 years. Fixed rent reviews occur annually, rental payments are monthly in advance.
- a motor vehicle lease with the South Australian Government Financing Authority (SAFA) as part of a staff member's remuneration package.

Depreciation of the right of use assets is disclosed in note 4.3. The lease liabilities related to the right of use assets are presented in note 7.3 below.

Impairment

The right of use assets leased by Funds SA have been assessed for impairment. There was no indication of impairment. No impairment loss or reversal of impairment loss was recognised.

7.2 Lease modification

During the 2020-21 reporting period Funds SA entered into a new lease agreement to expand the existing floor space leased at 25 Grenfell Street, this lease replaced the lease in existence as at 30 June 2020. The new lease commenced on 1 August 2020, increased the scope of the previous lease by adding additional floor space and changed the consideration payable for the lease. The remaining conditions of the new lease agreement aligned with the previous lease, including the non-cancellable period and the option to extend the lease term.

Funds SA

Financial Statements for the year ended 30 June 2021

7.2 Lease modification (continued)

RECONCILIATION OF RIGHT OF USE ASSETS

The following table shows the movement of right of use assets during the year ended 30 June 2021

	Vehicle lease \$'000	Office lease \$'000	Right of use assets total \$'000
Carrying amount at the beginning of the financial year	7	1,703	1,710
Additions	4	662	666
Lease liability remeasurement	-	(73)	(73)
Depreciation	(8)	(429)	(437)
Carrying amount at the end of the financial year	3	1,863	1,866

7.3 Lease liabilities

	2021 \$'000	2020 \$'000
Current		
Office lease – 25 Grenfell Street Adelaide		
Lease liability	451	265
Vehicle lease		
Lease liability	3	7
Total current lease liabilities	454	272
Non-Current		
Office lease – 25 Grenfell Street Adelaide		
Lease liability	1,621	1,470
Total non- current borrowings	1,621	1,470
Total lease liabilities	2,075	1,742

Funds SA

Financial Statements for the year ended 30 June 2021

7.3 Lease liabilities (continued)

Current lease liabilities represent the present value of future lease payments due in 12 months. Non-current lease liabilities represent lease payments not due within 12 months. The right of use assets related to these lease liabilities are presented at note 7.1 above. The lease liabilities represent the non-cancellable period of the lease only, lease extension options, discussed at item 7.4, are not reflected in the lease liabilities. Total cash outflows relating to the repayment of leases for the reporting period were \$425,000 (\$328,000). Lease interest payments are disclosed at note 4.4.

7.4 Office lease term

The lease term of the office lease is based on the remaining non-cancellable period. The lease allows for an option to extend the lease term by a further 5 years. Upon commencement of the lease, the lease term was assessed and it was deemed not reasonably certain that Funds SA would exercise the option, as a result the lease term is based on the non-cancellable period only. Should the option to extend the lease term be exercised in the future, expected cash outflows for the extension term would be an additional \$3,723,000.

7.5 Maturity analysis

Contractual Maturities					
30 June 2021					
	Carrying Amount	Total Contractual Maturities			
	(Discounted)	(Undiscounted)	Within 1 year	1-5 years	More than 5
	30 June 2021	30 June 2021	(\$'000)	(\$'000)	years
					(\$'000)
Lease liabilities	2,075	2,103	462	1,641	-

The maturity analysis is based on undiscounted cash payments expected over the remaining assessment of the lease term.

Funds SA

Financial Statements for the year ended 30 June 2021

Note 8 Liabilities

Employee benefit liabilities are disclosed in note 3.4.

8.1 Payables

	2021	2020
	\$'000	\$'000
Current		
Creditors	463	270
GST payable	858	542
Accrued expenses	278	197
Employment on-costs	141	101
Total current payables	1,740	1,110
Non Current		
Employment on-costs	115	102
Total non current payables	115	102
Total payables	1,855	1,212

Creditors represent the amounts owing for goods and services received prior to the end of the reporting period that are unpaid at the end of the reporting period. Creditors include all unpaid invoices received relating to the normal operations of Funds SA.

Accrued expenses represent goods and services provided by suppliers during the period that are unpaid at the end of the reporting period and where an invoice has not been received.

Employment on-costs

Employment benefits on-costs include superannuation contributions and payroll tax with respect to outstanding liabilities for salaries and wages, long service leave, annual leave and skills and experience retention leave and are settled when the respective employee benefits that they relate to are discharged.

As a result of an actuarial assessment performed by the Department of Treasury and Finance, the proportion of long service leave expected to be taken as leave has remained at 42% in 2021. This rate is used in the employment on-cost calculation.

Interest rate and credit risk

All payables are measured at their nominal amount and are normally settled within 30 days from the date of the invoice or date the invoice is first received.

Funds SA
Financial Statements for the year ended 30 June 2021

Note 9 Cash flow reconciliation

	2021	2020
	\$'000	\$'000
Reconciliation of Net Cash provided by Operating Activities to Surplus:		
Net surplus	1,988	135
Add non-cash items		
Depreciation	835	535
(Gain) Loss on disposal of property, plant and equipment	3	-
Changes in Assets / Liabilities		
(Increase) / Decrease in receivables	1,451	(3,932)
(Increase) / Decrease in other assets	(97)	(219)
Increase / (Decrease) in payables	643	230
Increase / (Decrease) in employee benefits	273	428
Net cash (used)/ provided by operating activities	5,096	(2,823)

Funds SA

Financial Statements for the year ended 30 June 2021

Note 10 Outlook

10.1 Unrecognised contractual commitments

Commitments include operating commitments arising from contractual sources and are disclosed at their nominal value. Unrecognised contractual commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to the Australian Taxation Office. If GST is not payable to, or recoverable from the Australian Taxation Office, the commitments and contingencies are disclosed on a gross basis.

Funds SA does not have any unrecognised commitments.

10.2 Contingent assets and liabilities

Contingent assets and contingent liabilities are not recognised in the Statement of Financial Position, but are disclosed by way of a note and, if quantifiable, are measured at nominal value.

Funds SA is not aware of any contingent assets or liabilities.

10.3 Impact of standards and statements not yet effective

Funds SA has assessed the impact of new and changed Australian Accounting Standards and Interpretations not yet effective and have concluded that there will be no significant impacts to Funds SA.

10.4 Events after the reporting period

There were no significant events after the reporting period.

Funds SA

Financial Statements for the year ended 30 June 2021

Note 11 Financial Instruments

11.1 Financial risk management

Financial risk management in relation to the client funds under management is disclosed in Schedule 1.

Financial risk management in relation to Funds SA's corporate activities is disclosed below:

Funds SA's exposure to financial risk (liquidity risk, credit risk and market risk) is low due to the nature of the financial instruments held.

Liquidity risk and market risk

The administration fee that Funds SA charges to its clients to cover its administration expenses is calculated as a percentage of average funds under management valued at market value. The market value of these funds depends upon the valuation of the underlying investments, which are linked to the performance of global financial markets.

Funds SA manages this risk in three ways:

- Firstly, its administration fee is set at a level that conservatively allows for periods of prolonged low market values of funds under management; and
- Secondly, Funds SA has the ability to increase the administration fee should this action be necessary to cover administration expenses.
- Thirdly, Funds SA maintains adequate cash reserves to absorb corporate deficits should they arise over the short-term.

As Funds SA has the ability to amend the administration fee to ensure all administration expenses and liabilities of Funds SA are able to be satisfied as and when they fall due, the market risk is deemed to be immaterial and therefore a sensitivity analysis has not been undertaken.

Creditors are raised for all amounts billed but unpaid. Creditors are normally settled within 30 days. All payables are non-interest bearing. The carrying amount of payables approximates net fair value due to the amounts being payable on demand.

Credit risk

Receivables are normally settled within 30 days. Receivables and other assets are non-interest bearing. Based on past history, it is not anticipated that counterparties will fail to discharge their obligations as all counterparties are SA Government related entities. The carrying amount of receivables approximates fair value due to being receivable on demand. In addition, there is no concentration of credit risk.

11.2 Maturity analysis

Cash, receivables and payables all have a maturity of less than 12 months. Lease liabilities relate to Funds SA's office and vehicle leases and have a maturity greater than 12 months, refer to note 7.5. The carrying value less impairment provisions of receivables and payables is a reasonable approximation of their fair values due to the short-term nature of these financial instruments, refer to the table provided at note 11.3 below.

Funds SA

Financial Statements for the year ended 30 June 2021

11.3 Classification of financial instruments

Funds SA measures all financial instruments at amortised cost, the carrying amount is disclosed below.

Carrying Amount 30 June 2021

\$'000

Financial assets

Receivables	5,939
-------------	-------

Financial liabilities

Payables	506
----------	-----

Lease liabilities	2,075
-------------------	-------

Carrying Amount 30 June 2020

\$'000

Financial assets

Receivables	7,390
-------------	-------

Financial liabilities

Payables	276
----------	-----

Lease liabilities	1,742
-------------------	-------

The receivable and payable amounts disclosed above exclude amounts relating to statutory receivables and payables (e.g. Commonwealth, State and Local Government taxes, fees and charges; Auditor-General's Department audit fees).

Funds SA

Financial Statements for the year ended 30 June 2021

Note 12 Investments in Funds SA Unit Trusts

Funds SA have 22 unit trusts to manage the investments of Funds SA's tax-paying clients. A consolidated list of Funds SA's unit trusts is provided below.

Legal Name of Trust	Date established	Settled Sum
High Growth B Unit Trust	20 June 2008	\$10
Balanced B Unit Trust	20 June 2008	\$10
Moderate B Unit Trust	20 June 2008	\$10
Conservative B Unit Trust	20 June 2008	\$10
Capital Defensive B Unit Trust	20 June 2008	\$10
Cash Option B Unit Trust	20 June 2008	\$10
Australian Equities B Unit Trust	20 June 2008	\$10
International Equities B Unit Trust	20 June 2008	\$10
Property B Unit Trust	20 June 2008	\$10
Diversified Strategies Growth B Unit Trust	20 June 2008	\$10
Defensive Alternatives Unit Trust*	20 June 2008	\$10
Fixed Interest A&B Unit Trust	20 June 2008	\$10
Inflation Linked Securities A&B Unit Trust	20 June 2008	\$10
Cash A&B Unit Trust	20 June 2008	\$10
Socially Responsible Investment Asset Class Unit Trust	12 February 2010	\$10
Short Term Fixed Interest A&B Unit Trust	8 June 2010	\$10
Funds SA Property Holdings Trust	22 March 2016	\$10
Australian Equities Passive B Unit Trust	29 May 2019	\$10
International Equities Passive B Unit Trust	29 May 2019	\$10
Socially Responsible Investment Option Unit Trust	10 December 2020	\$10
DSG A Holdings Trust	15 February 2021	\$10
DSG B Holdings Trust	15 February 2021	\$10
	Total	\$220

*Formerly the Diversified Strategies Income A & B Unit Trust which changed its name to Defensive Alternatives Unit Trust on 30 June 2021

Funds SA

Financial Statements for the year ended 30 June 2021

Note 13 Client funds under management

Operation of Investment Portfolio

Funds SA operates a multi-layered unitisation structure to facilitate the administration of different investment strategies applying to the various client funds. For the year ending 30 June 2021, Funds SA managed a number of different investment options distinguished by differing strategic asset allocations, namely:

- | | |
|-------------------------|--|
| ▪ High Growth | ▪ Cash |
| ▪ Growth ⁽²⁾ | ▪ Socially Responsible |
| ▪ Balanced | ▪ Motor Accident Commission ⁽²⁾ |
| ▪ Moderate | ▪ Lifetime Support Authority Strategy ⁽¹⁾ |
| ▪ Conservative | ▪ Defined Benefit Strategy |
| ▪ Capital Defensive | ▪ SAFA Investment Strategy ⁽¹⁾ |

⁽¹⁾ These investment options are customised strategies available to the South Australian Government Financing Authority (SAFA), and Lifetime Support Authority only.

⁽²⁾ These investment options ceased during the 2020-21 reporting period.

Each client fund holds units in an investment option, which in turn holds units in each of the asset classes according to the strategic asset allocation for the investment option. Units are issued and redeemed periodically as transactions occur at unit prices calculated having regard to the market value of underlying investments.

Under section 26(2) of the Funds SA Act, Funds SA is required to “prepare separate financial statements in a form approved by the Minister in respect of each fund or authority in respect of each financial year”. In compliance with the Funds SA Act, the format of these financial statements has been approved by the Minister.

These client fund financial statements are explained and disclosed below:

- Each client fund’s allocation of total net investment income is disclosed in the Statement of Receipts and Payments. The amounts disclosed in the payments and receipts include client placements and redemptions in investment options inclusive of switches between investment options.
- The interest which each client fund holds in the unitised investment portfolio is disclosed in the Statement of Funds Under Management - by Investment Option.
- The indirect interest which each client fund holds in the asset classes is disclosed in the Statement of Funds Under Management - by Asset class.
- Australian Equities Tax-exempt, Australian Equities Passive Tax -exempt, International Equities Tax-exempt, International Equities Passive Tax-exempt, Property Tax-exempt, Diversified Strategies Growth Tax-exempt and Inflation Linked Securities Tax-exempt asset classes are available to untaxed clients only, whereas Australian Equities Taxable, Australian Equities Passive Taxable, International Equities Taxable, International Equities Passive Taxable, Property Taxable and Diversified Strategies Growth Taxable asset classes are available to taxed clients only. All other asset classes are available to both untaxed and taxed clients.

Note 13 provides financial statements in respect of each client fund under the management of Funds SA for the 2020-21 financial year.

Funds SA

Financial Statements for the year ended 30 June 2021

Client Funds Under Management (continued)

The valuation of the investments of each client fund under management has been valued at fair value in accordance with *AASB 13 Fair Value Measurement*. Funds SA considers fair value to be the Net Asset Value of units held in each investment option and asset class. Net Asset Value excludes any impacts of buy and sell spreads applicable to each investment option and asset class and is consistent with the valuation methodology adopted in Schedule 1 above.

Table of Contents – Client Funds Under Management	Note
South Australian Superannuation Scheme – Employer Contribution Accounts	13(a)
South Australian Superannuation Fund – Old Scheme Division	13(b)
South Australian Superannuation Fund – New Scheme Division	13(c)
Southern State Superannuation Fund	13(d)
Super SA Retirement Investment Fund – Super SA Flexible Rollover Product	13(e)
Super SA Retirement Investment Fund – Super SA Income Stream	13(f)
Parliamentary Superannuation Scheme	13(g)
Judges’ Pension Scheme	13(h)
Governors’ Pension Scheme	13(i)
South Australian Ambulance Service Superannuation Scheme	13(j)
Police Superannuation Scheme – Employer Contribution Account	13(k)
Police Superannuation Fund – Old Scheme Division	13(l)
South Australian Government Financing Authority (SAFA – Insurance Fund 1)	13(m)
South Australian Government Financing Authority (SAFA – Insurance Fund 2)	13(n)
South Australian Government Financing Authority (SAFA – Insurance Fund 3)	13(o)
South Australian Government Financing Authority (SAFA – Insurance Fund 4)	13(p)
Adelaide Cemeteries Authority	13(q)
Motor Accident Commission Compulsory Third Party Fund	13(r)
Motor Accident Commission Retained Premium Component	13(s)
South Australian Metropolitan Fire Service Superannuation Scheme	13(t)
Super SA Select	13(u)
Lifetime Support Authority	13(v)
Health Services Charitable Gifts Board – Pool Investment	13(w)

Funds SA

Financial Statements for the year ended 30 June 2021

Table of Contents – Client Funds Under Management (continued)

Health Services Charitable Gifts Board – Ray and Shirl Norman Cancer Research Trust	13(x)
Health Services Charitable Gifts Board – DE Brown Trust	13(y)
Health Services Charitable Gifts Board – P F Beinke Charitable Trust – Flinders Medical Centre (Pastoral Care Account)	13(z)
Health Services Charitable Gifts Board – P F Beinke Charitable Trust – Royal Adelaide Hospital (The Chapel Fund)	13(aa)
Health Services Charitable Gifts Board – P F Beinke Charitable Trust – Daw Park Repatriation Hospital (Pastoral Care Chapel Account)	13(ab)
The University of Adelaide Endowment Fund	13(ac)
Legal Services Commission	13(ad)
Construction Industry Training Fund	13(ae)

Funds SA
Financial Statements for the year ended 30 June 2021

13(a) South Australian Superannuation Scheme – Employer Contribution Accounts

Statement of Receipts and Payments

	2021	2020
	\$'000	\$'000
Funds Under Management at 1 July	2,553,989	2,857,354
Add: Receipts	439,025	367,267
Net Investment Income	584,248	(31,657)
	<u>1,023,273</u>	<u>335,610</u>
Less: Payments	<u>(624,320)</u>	<u>(638,975)</u>
Funds Under Management at 30 June	2,952,942	2,553,989

Statement of Funds Under Management - by Investment Option

Investment Option

Defined Benefit Strategy	<u>2,952,942</u>	<u>2,553,989</u>
Funds Under Management at 30 June	2,952,942	2,553,989

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Tax-Exempt	624,257	525,468
International Equities Tax-Exempt	932,024	789,868
Property Tax-Exempt	488,470	437,237
Diversified Strategies Growth Tax-Exempt	461,135	404,021
Diversified Strategies Income	396,839	330,298
Cash	<u>50,217</u>	<u>67,097</u>
Funds Under Management at 30 June	2,952,942	2,553,989

Funds SA
Financial Statements for the year ended 30 June 2021

13(b) South Australian Superannuation Fund – Old Scheme Division

Statement of Receipts and Payments

	2021	2020
	\$'000	\$'000
Funds Under Management at 1 July	1,504,458	1,615,913
Add: Receipts	50	3,010
Net Investment Income	343,162	(20,015)
	<u>343,212</u>	<u>(17,005)</u>
Less: Payments	<u>(117,190)</u>	<u>(94,450)</u>
Funds Under Management at 30 June	<u>1,730,480</u>	<u>1,504,458</u>

Statement of Funds Under Management - by Investment Option

Investment Option

Defined Benefit Strategy	<u>1,730,480</u>	<u>1,504,458</u>
Funds Under Management at 30 June	<u>1,730,480</u>	<u>1,504,458</u>

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Tax-Exempt	365,827	309,533
International Equities Tax-Exempt	546,183	465,281
Property Tax-Exempt	286,253	257,560
Diversified Strategies Growth Tax-Exempt	270,234	237,994
Diversified Strategies Income	232,555	194,566
Cash	<u>29,428</u>	<u>39,524</u>
Funds Under Management at 30 June	<u>1,730,480</u>	<u>1,504,458</u>

Funds SA
Financial Statements for the year ended 30 June 2021

13(c) South Australian Superannuation Fund – New Scheme Division

Statement of Receipts and Payments

	2021	2020
	\$'000	\$'000
Funds Under Management at 1 July	554,000	627,270
Add: Receipts	443,697	51,487
Net Investment Income	110,993	(4,174)
	<u>554,690</u>	<u>47,313</u>
Less: Payments	<u>(509,824)</u>	<u>(120,583)</u>
Funds Under Management at 30 June	598,866	554,000

Statement of Funds Under Management - by Investment Option

Investment Option

High Growth Tax-Exempt	8,472	23,418
Growth Tax-Exempt	-	391,741
Balanced Tax-Exempt	518,518	62,496
Moderate Tax-Exempt	22,995	24,988
Conservative Tax-Exempt	22,314	24,042
Capital Defensive Tax-Exempt	12,694	9,526
Cash Tax-Exempt	11,912	17,654
Socially Responsible Investment	<u>1,961</u>	<u>135</u>
Funds Under Management at 30 June	598,866	554,000

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Tax-Exempt	129,374	114,903
Australian Equities Passive Tax-Exempt	5,463	-
International Equities Tax-Exempt	177,516	157,795
International Equities Passive Tax-Exempt	16,300	14,723
Property Tax-Exempt	60,495	67,313
Property Taxable	147	-
Diversified Strategies Growth Tax-Exempt	39,517	46,962
Inflation-Linked Securities Tax-Exempt	32,898	11,774
Long-Term Fixed Interest	33,218	7,596
Short-Term Fixed Interest	17,756	9,999
Diversified Strategies Income	48,917	62,425
Cash	35,937	60,375
Socially Responsible	<u>1,328</u>	<u>135</u>
Funds Under Management at 30 June	598,866	554,000

Funds SA
Financial Statements for the year ended 30 June 2021

13(d) Southern State Superannuation Fund

Statement of Receipts and Payments

	2021 \$'000	2020 \$'000
Funds Under Management at 1 July	19,114,102	18,983,247
Add: Receipts	2,281,964	1,630,900
Net Investment Income	4,042,795	(119,554)
	<u>6,324,759</u>	<u>1,511,346</u>
Less: Payments	<u>(2,042,811)</u>	<u>(1,380,491)</u>
Funds Under Management at 30 June	23,396,050	19,114,102

Statement of Funds Under Management - by Investment Option

Investment Option

High Growth Tax-Exempt	2,890,431	1,435,455
Growth Tax-Exempt	-	713,321
Balanced Tax-Exempt	18,739,091	15,108,097
Moderate Tax-Exempt	574,516	444,577
Conservative Tax-Exempt	489,397	419,540
Capital Defensive Tax-Exempt	248,881	277,765
Cash Tax-Exempt	329,619	639,966
Socially Responsible Investment	124,115	75,381
	<u>23,396,050</u>	<u>19,114,102</u>
Funds Under Management at 30 June	23,396,050	19,114,102

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Tax-Exempt	5,204,205	3,787,802
Australian Equities Passive Tax-Exempt	219,842	-
International Equities Tax-Exempt	7,177,662	5,084,903
International Equities Passive Tax-Exempt	663,855	482,285
Property Tax-Exempt	2,507,296	2,108,094
Property Taxable	9,311	-
Diversified Strategies Growth Tax-Exempt	1,655,926	1,419,749
Inflation-Linked Securities Tax-Exempt	1,082,409	1,068,039
Long-Term Fixed Interest	1,164,404	969,417
Short-Term Fixed Interest	505,738	467,964
Diversified Strategies Income	1,942,105	1,473,583
Cash	1,179,215	2,176,885
Socially Responsible	84,082	75,381
	<u>23,396,050</u>	<u>19,114,102</u>
Funds Under Management at 30 June	23,396,050	19,114,102

Funds SA
Financial Statements for the year ended 30 June 2021

13(e) Super SA Retirement Investment Fund – Super SA Flexible Rollover Product

Statement of Receipts and Payments

	2021	2020
	\$'000	\$'000
Funds Under Management at 1 July	1,420,307	1,327,208
Add: Receipts	567,330	472,145
Net Investment Income	249,316	(13,812)
	<u>816,646</u>	<u>458,333</u>
Less: Payments	<u>(494,116)</u>	<u>(365,234)</u>
Funds Under Management at 30 June	1,742,837	1,420,307

Statement of Funds Under Management - by Investment Option

Investment Option

High Growth Taxable	262,960	76,427
Growth Taxable	-	121,473
Balanced Taxable	863,821	636,508
Moderate Taxable	216,998	169,677
Conservative Taxable	179,550	140,691
Capital Defensive Taxable	95,529	95,047
Cash Taxable	92,155	159,996
Socially Responsible Investment	31,824	20,488
	<u>1,742,837</u>	<u>1,420,307</u>
Funds Under Management at 30 June	1,742,837	1,420,307

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Taxable	346,923	236,928
Australian Equities Passive Taxable	23,983	-
International Equities Taxable	377,696	268,952
International Equities Passive Taxable	42,791	26,409
Property Taxable	169,449	130,892
Diversified Strategies Growth Taxable	115,890	94,769
Inflation-Linked Securities Taxable	106,577	85,594
Long-Term Fixed Interest	90,519	66,880
Short-Term Fixed Interest	77,579	76,442
Diversified Strategies Income	170,827	126,663
Cash	199,044	286,290
Socially Responsible	21,559	20,488
	<u>1,742,837</u>	<u>1,420,307</u>
Funds Under Management at 30 June	1,742,837	1,420,307

Funds SA

Financial Statements for the year ended 30 June 2021

13(f) Super SA Retirement Investment Fund – Super SA Income Stream

Statement of Receipts and Payments

	2021 \$'000	2020 \$'000
Funds Under Management at 1 July	3,742,446	3,619,505
Add: Receipts	1,145,068	1,088,982
Net Investment Income	648,528	(35,674)
	<u>1,793,596</u>	<u>1,053,308</u>
Less: Payments	<u>(1,031,933)</u>	<u>(930,367)</u>
Funds Under Management at 30 June	4,504,109	3,742,446

Statement of Funds Under Management - by Investment Option

Investment Option

High Growth Taxable	426,401	103,104
Growth Taxable	-	231,104
Balanced Taxable	2,224,586	1,741,487
Moderate Taxable	835,775	631,994
Conservative Taxable	607,802	467,486
Capital Defensive Taxable	209,793	238,676
Cash Taxable	134,264	286,772
Socially Responsible Investment	65,488	41,823
Funds Under Management at 30 June	4,504,109	3,742,446

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Taxable	888,882	629,796
Australian Equities Passive Taxable	62,540	-
International Equities Taxable	967,954	714,485
International Equities Passive Taxable	109,894	69,910
Property Taxable	432,662	350,198
Diversified Strategies Growth Taxable	287,661	246,391
Inflation-Linked Securities Taxable	320,969	261,629
Long-Term Fixed Interest	260,467	201,495
Short-Term Fixed Interest	229,252	228,869
Diversified Strategies Income	463,733	352,243
Cash	435,730	645,607
Socially Responsible	44,365	41,823
Funds Under Management at 30 June	4,504,109	3,742,446

Funds SA
Financial Statements for the year ended 30 June 2021

13(g) Parliamentary Superannuation Scheme

Statement of Receipts and Payments

	2021	2020
	\$'000	\$'000
Funds Under Management at 1 July	243,682	255,816
Add: Receipts	14,605	12,796
Net Investment Income	55,921	(2,974)
	<u>70,526</u>	<u>9,822</u>
Less: Payments	<u>(24,257)</u>	<u>(21,956)</u>
Funds Under Management at 30 June	289,951	243,682

Statement of Funds Under Management - by Investment Option

Investment Option

High Growth Tax-Exempt	12,320	5,231
Growth Tax-Exempt	-	1,967
Balanced Tax-Exempt	30,871	22,134
Moderate Tax-Exempt	1,045	905
Conservative Tax-Exempt	1	1
Capital Defensive Tax-Exempt	635	567
Cash	-	3,160
Socially Responsible Investment	2,665	2,040
Defined Benefit Strategy	242,414	207,677
	<u>289,951</u>	<u>243,682</u>
Funds Under Management at 30 June	289,951	243,682

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Tax-Exempt	61,571	49,243
Australian Equities Passive Tax-Exempt	436	-
International Equities Tax-Exempt	90,836	72,990
International Equities Passive Tax-Exempt	1,332	826
Property Tax-Exempt	45,287	39,222
Property Taxable	200	-
Diversified Strategies Growth Tax-Exempt	41,287	35,344
Inflation-Linked Securities Tax-Exempt	1,707	1,527
Long-Term Fixed Interest	2,379	1,420
Short-Term Fixed Interest	764	641
Diversified Strategies Income	36,545	29,421
Cash	5,802	11,008
Socially Responsible	1,805	2,040
	<u>289,951</u>	<u>243,682</u>
Funds Under Management at 30 June	289,951	243,682

Funds SA
Financial Statements for the year ended 30 June 2021

13(h) Judges' Pension Scheme

Statement of Receipts and Payments

	2021	2020
	\$'000	\$'000
Funds Under Management at 1 July	269,051	280,330
Add: Receipts	1,710	3,600
Net Investment Income	62,738	(3,551)
	<u>64,448</u>	<u>49</u>
Less: Payments	<u>(10,400)</u>	<u>(11,328)</u>
Funds Under Management at 30 June	323,099	269,051

Statement of Funds Under Management - by Investment Option

Investment Option

Defined Benefit Strategy	<u>323,099</u>	<u>269,051</u>
Funds Under Management at 30 June	323,099	269,051

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Tax-Exempt	68,304	55,356
International Equities Tax-Exempt	101,977	83,209
Property Tax-Exempt	53,446	46,061
Diversified Strategies Growth Tax-Exempt	50,456	42,562
Diversified Strategies Income	43,421	34,795
Cash	<u>5,495</u>	<u>7,068</u>
Funds Under Management at 30 June	323,099	269,051

Funds SA
Financial Statements for the year ended 30 June 2021

13(i) Governors' Pension Scheme

Statement of Receipts and Payments

	2021	2020
	\$'000	\$'000
Funds Under Management at 1 July	2,927	3,247
Add: Receipts	-	-
Net Investment Income	660	(37)
	<u>660</u>	<u>(37)</u>
Less: Payments	<u>(295)</u>	<u>(283)</u>
Funds Under Management at 30 June	<u>3,292</u>	<u>2,927</u>

Statement of Funds Under Management - by Investment Option

Investment Option

Defined Benefit Strategy	<u>3,292</u>	<u>2,927</u>
Funds Under Management at 30 June	<u>3,292</u>	<u>2,927</u>

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Tax-Exempt	696	602
International Equities Tax-Exempt	1,039	905
Property Tax-Exempt	545	501
Diversified Strategies Growth Tax-Exempt	514	463
Diversified Strategies Income	442	379
Cash	<u>56</u>	<u>77</u>
Funds Under Management at 30 June	<u>3,292</u>	<u>2,927</u>

Funds SA

Financial Statements for the year ended 30 June 2021

13(j) South Australian Ambulance Service Superannuation Scheme

Statement of Receipts and Payments

	2021 \$'000	2020 \$'000
Funds Under Management at 1 July	274,199	288,205
Add: Receipts	4,770	7,300
Net Investment Income	58,603	(1,586)
	<u>63,373</u>	<u>5,714</u>
Less: Payments	<u>(16,850)</u>	<u>(19,720)</u>
Funds Under Management at 30 June	320,722	274,199

Statement of Funds Under Management - by Investment Option

Investment Option

Balanced Taxable	<u>320,722</u>	<u>274,199</u>
Funds Under Management at 30 June	320,722	274,199

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Taxable	81,006	61,184
Australian Equities Passive Taxable	5,273	-
International Equities Taxable	85,851	67,372
International Equities Passive Taxable	9,764	7,024
Property Taxable	34,268	30,592
Diversified Strategies Growth Taxable	27,940	26,190
Inflation-Linked Securities Taxable	15,238	14,280
Long-Term Fixed Interest	18,925	16,870
Short-Term Fixed Interest	2,771	4,987
Diversified Strategies Income	25,010	19,414
Cash	<u>14,676</u>	<u>26,286</u>
Funds Under Management at 30 June	320,722	274,199

Funds SA

Financial Statements for the year ended 30 June 2021

13(k) Police Superannuation Scheme – Employer Contribution Account

Statement of Receipts and Payments

	2021 \$'000	2020 \$'000
Funds Under Management at 1 July	1,375,659	1,385,163
Add: Receipts	83,730	72,715
Net Investment Income	327,321	(18,269)
	<u>411,051</u>	<u>54,446</u>
Less: Payments	<u>(76,695)</u>	<u>(63,950)</u>
Funds Under Management at 30 June	<u>1,710,015</u>	<u>1,375,659</u>

Statement of Funds Under Management - by Investment Option

Investment Option

Defined Benefit Strategy	<u>1,710,015</u>	<u>1,375,659</u>
Funds Under Management at 30 June	<u>1,710,015</u>	<u>1,375,659</u>

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Tax-Exempt	361,500	283,033
International Equities Tax-Exempt	539,724	425,448
Property Tax-Exempt	282,868	235,510
Diversified Strategies Growth Tax-Exempt	267,038	217,619
Diversified Strategies Income	229,805	177,909
Cash	<u>29,080</u>	<u>36,140</u>
Funds Under Management at 30 June	<u>1,710,015</u>	<u>1,375,659</u>

Funds SA

Financial Statements for the year ended 30 June 2021

13(l) Police Superannuation Fund – Old Scheme Division

Statement of Receipts and Payments

	2021 \$'000	2020 \$'000
Funds Under Management at 1 July	567,096	597,729
Add: Receipts	-	-
Net Investment Income	131,132	(7,448)
	<u>131,132</u>	<u>(7,448)</u>
Less: Payments	<u>(27,255)</u>	<u>(23,185)</u>
Funds Under Management at 30 June	670,973	567,096

Statement of Funds Under Management - by Investment Option

Investment Option

Defined Benefit Strategy	<u>670,973</u>	<u>567,096</u>
Funds Under Management at 30 June	670,973	567,096

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Tax-Exempt	141,845	116,677
International Equities Tax-Exempt	211,776	175,385
Property Tax-Exempt	110,991	97,086
Diversified Strategies Growth Tax-Exempt	104,780	89,710
Diversified Strategies Income	90,171	73,340
Cash	<u>11,410</u>	<u>14,898</u>
Funds Under Management at 30 June	670,973	567,096

Funds SA

Financial Statements for the year ended 30 June 2021

13(m) South Australian Government Financing Authority (SAFA – Insurance Fund 1)

Statement of Receipts and Payments

	2021 \$'000	2020 \$'000
Funds Under Management at 1 July	602,463	615,322
Add: Receipts	30,000	53,000
Net Investment Income	123,506	(3,859)
	<u>153,506</u>	<u>49,141</u>
Less: Payments	<u>(115,000)</u>	<u>(62,000)</u>
Funds Under Management at 30 June	640,969	602,463

Statement of Funds Under Management - by Investment Option

Investment Option

SAFA Strategy	<u>640,969</u>	<u>602,463</u>
Funds Under Management at 30 June	640,969	602,463

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Tax-Exempt	129,401	117,931
International Equities Tax-Exempt	196,668	180,251
Property Tax-Exempt	80,457	79,171
Diversified Strategies Growth Tax-Exempt	61,175	59,338
Inflation-Linked Securities Tax-Exempt	37,587	36,306
Long-Term Fixed Interest	23,372	23,709
Diversified Strategies Income	98,991	89,954
Cash	<u>13,318</u>	<u>15,803</u>
Funds Under Management at 30 June	640,969	602,463

Funds SA

Financial Statements for the year ended 30 June 2021

13(n) South Australian Government Financing Authority (SAFA – Insurance Fund 2)

Statement of Receipts and Payments

	2021 \$'000	2020 \$'000
Funds Under Management at 1 July	11,142	15,119
Add: Receipts	9,000	-
Net Investment Income	2,117	23
	<u>11,117</u>	<u>23</u>
Less: Payments	<u>(7,000)</u>	<u>(4,000)</u>
Funds Under Management at 30 June	15,259	11,142

Statement of Funds Under Management - by Investment Option

Investment Option

Conservative Tax-Exempt	<u>15,259</u>	<u>11,142</u>
Funds Under Management at 30 June	15,259	11,142

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Tax-Exempt	1,647	1,202
Australian Equities Passive Tax-Exempt	70	-
International Equities Tax-Exempt	2,286	1,623
International Equities Passive Tax-Exempt	172	98
Property Tax-Exempt	1,138	925
Inflation-Linked Securities Tax-Exempt	2,289	1,665
Long-Term Fixed Interest	701	551
Short-Term Fixed Interest	2,699	1,987
Diversified Strategies Income	2,689	1,902
Cash	<u>1,568</u>	<u>1,189</u>
Funds Under Management at 30 June	15,259	11,142

Funds SA

Financial Statements for the year ended 30 June 2021

13(o) South Australian Government Financing Authority (SAFA – Insurance Fund 3)

Statement of Receipts and Payments

	2021 \$'000	2020 \$'000
Funds Under Management at 1 July	22,922	32,704
Add: Receipts	23,000	-
Net Investment Income	3,266	218
	<u>26,266</u>	<u>218</u>
Less: Payments	-	(10,000)
Funds Under Management at 30 June	49,188	22,922

Statement of Funds Under Management - by Investment Option

Investment Option

Conservative Tax-Exempt	<u>49,188</u>	<u>22,922</u>
Funds Under Management at 30 June	49,188	22,922

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Tax-Exempt	5,308	2,473
Australian Equities Passive Tax-Exempt	227	-
International Equities Tax-Exempt	7,364	3,340
International Equities Passive Tax-Exempt	556	202
Property Tax-Exempt	3,670	1,902
Inflation-Linked Securities Tax-Exempt	7,379	3,425
Long-Term Fixed Interest	2,260	1,134
Short-Term Fixed Interest	8,701	4,088
Diversified Strategies Income	8,667	3,912
Cash	<u>5,056</u>	<u>2,446</u>
Funds Under Management at 30 June	49,188	22,922

Funds SA

Financial Statements for the year ended 30 June 2021

13(p) South Australian Government Financing Authority (SAFA – Insurance Fund 4)

Statement of Receipts and Payments

	2021 \$'000	2020 \$'000
Funds Under Management at 1 July	142,293	-
Add: Receipts	-	140,000
Net Investment Income	9,080	2,293
	<u>9,080</u>	<u>142,293</u>
Less: Payments	<u>(20,000)</u>	<u>-</u>
Funds Under Management at 30 June	131,373	142,293

Statement of Funds Under Management - by Investment Option

Investment Option

Capital Defensive Tax-Exempt	<u>131,373</u>	<u>142,293</u>
Funds Under Management at 30 June	131,373	142,293

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Tax-Exempt	8,113	8,227
Australian Equities Passive Tax-Exempt	354	-
International Equities Tax-Exempt	10,440	10,377
International Equities Passive Tax-Exempt	444	102
Property Tax-Exempt	5,645	7,554
Inflation-Linked Securities Tax-Exempt	19,569	21,290
Long-Term Fixed Interest	6,138	7,049
Short-Term Fixed Interest	38,890	42,483
Diversified Strategies Income	21,763	22,891
Cash	<u>20,017</u>	<u>22,320</u>
Funds Under Management at 30 June	131,373	142,293

Funds SA
Financial Statements for the year ended 30 June 2021

13(q) Adelaide Cemeteries Authority

Statement of Receipts and Payments

	2021	2020
	\$'000	\$'000
Funds Under Management at 1 July	5,359	6,363
Add: Receipts	800	900
Net Investment Income	1,166	(4)
	<u>1,966</u>	<u>896</u>
Less: Payments	<u>(500)</u>	<u>(1,900)</u>
Funds Under Management at 30 June	<u>6,825</u>	<u>5,359</u>

Statement of Funds Under Management - by Investment Option

Investment Option

High Growth Tax-Exempt	4,364	3,497
Balanced Tax-Exempt	647	1,005
Moderate Tax-Exempt	862	-
Conservative Tax-Exempt	952	857
	<u>6,825</u>	<u>5,359</u>
Funds Under Management at 30 June	<u>6,825</u>	<u>5,359</u>

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Tax-Exempt	1,439	1,166
Australian Equities Passive Tax-Exempt	61	-
International Equities Tax-Exempt	2,027	1,578
International Equities Passive Tax-Exempt	187	139
Property Tax-Exempt	848	717
Diversified Strategies Growth Tax-Exempt	488	423
Inflation-Linked Securities Tax-Exempt	267	189
Long-Term Fixed Interest	154	102
Short-Term Fixed Interest	239	171
Diversified Strategies Income	813	602
Cash	302	272
	<u>6,825</u>	<u>5,359</u>
Funds Under Management at 30 June	<u>6,825</u>	<u>5,359</u>

Funds SA

Financial Statements for the year ended 30 June 2021

13(r) Motor Accident Commission Compulsory Third Party Fund

Statement of Receipts and Payments

	2021 \$'000	2020 \$'000
Funds Under Management at 1 July	44,019	61,587
Add: Receipts	44,048	-
Net Investment Income	2,312	1,532
	<u>46,360</u>	<u>1,532</u>
Less: Payments	<u>(68,948)</u>	<u>(19,100)</u>
Funds Under Management at 30 June	21,431	44,019

Statement of Funds Under Management - by Investment Option

Investment Option

Motor Accident Commission	-	44,019
Capital Defensive Tax-Exempt	21,431	-
Funds Under Management at 30 June	21,431	44,019

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Tax-Exempt	1,324	-
Australian Equities Passive Tax-Exempt	58	-
International Equities Tax-Exempt	1,703	-
International Equities Passive Tax-Exempt	72	-
Property Tax-Exempt	921	-
Inflation-Linked Securities Tax-Exempt	3,192	-
Long-Term Fixed Interest	1,001	-
Short-Term Fixed Interest	6,344	-
Diversified Strategies Income	3,550	-
MAC Fixed Interest	-	31,128
Cash	3,266	12,891
Funds Under Management at 30 June	21,431	44,019

Funds SA
Financial Statements for the year ended 30 June 2021

13(s) Motor Accident Commission Retained Premium Component

Statement of Receipts and Payments

	2021	2020
	\$'000	\$'000
Funds Under Management at 1 July	51,399	103,872
Add: Receipts	6,443	-
Net Investment Income	379	2,527
	<u>6,822</u>	<u>2,527</u>
Less: Payments	<u>(51,433)</u>	<u>(55,000)</u>
Funds Under Management at 30 June	<u>6,788</u>	<u>51,399</u>

Statement of Funds Under Management - by Investment Option

Investment Option

Motor Accident Commission	-	51,399
Capital Defensive Tax-Exempt	<u>6,788</u>	<u>-</u>
Funds Under Management at 30 June	<u>6,788</u>	<u>51,399</u>

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Tax-Exempt	419	-
Australian Equities Passive Tax-Exempt	18	-
International Equities Tax-Exempt	539	-
International Equities Passive Tax-Exempt	23	-
Property Tax-Exempt	292	-
Inflation-Linked Securities Tax-Exempt	1,011	-
Long-Term Fixed Interest	317	-
Short-Term Fixed Interest	2,010	-
Diversified Strategies Income	1,125	-
MAC Fixed Interest	-	36,347
Cash	<u>1,034</u>	<u>15,052</u>
Funds Under Management at 30 June	<u>6,788</u>	<u>51,399</u>

Funds SA
Financial Statements for the year ended 30 June 2021

13(t) South Australian Metropolitan Fire Service Superannuation Scheme

Statement of Receipts and Payments

	2021	2020
	\$'000	\$'000
Funds Under Management at 1 July	434,959	434,232
Add: Receipts	58,248	54,778
Net Investment Income	86,874	(2,953)
	<u>145,122</u>	<u>51,825</u>
Less: Payments	<u>(57,127)</u>	<u>(51,098)</u>
Funds Under Management at 30 June	522,954	434,959

Statement of Funds Under Management - by Investment Option

Investment Option

High Growth Taxable	364,316	6,546
Growth Taxable	-	296,982
Balanced Taxable	8,360	5,725
Moderate Taxable	9,111	7,362
Conservative Taxable	124,649	98,578
Capital Defensive Taxable	7,528	6,189
Cash Taxable	8,990	13,577
	<u>522,954</u>	<u>434,959</u>
Funds Under Management at 30 June	522,954	434,959

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Taxable	111,682	86,578
Australian Equities Passive Taxable	7,533	-
International Equities Taxable	127,053	101,798
International Equities Passive Taxable	14,079	9,888
Property Taxable	64,031	49,626
Diversified Strategies Growth Taxable	40,179	36,054
Inflation-Linked Securities Taxable	21,339	15,986
Long-Term Fixed Interest	7,781	6,443
Short-Term Fixed Interest	23,452	19,974
Diversified Strategies Income	66,823	55,520
Cash	39,002	53,092
	<u>522,954</u>	<u>434,959</u>
Funds Under Management at 30 June	522,954	434,959

Funds SA
Financial Statements for the year ended 30 June 2021

13(u) Super SA Select

Statement of Receipts and Payments

	2021	2020
	\$'000	\$'000
Funds Under Management at 1 July	10,775	9,393
Add: Receipts	23,042	3,306
Net Investment Income	3,352	(204)
	<u>26,394</u>	<u>3,102</u>
Less: Payments	<u>(3,864)</u>	<u>(1,720)</u>
Funds Under Management at 30 June	33,305	10,775

Statement of Funds Under Management - by Investment Option

Investment Option

Balanced Taxable	32,775	10,289
Cash Taxable	530	486
	<u>33,305</u>	<u>10,775</u>
Funds Under Management at 30 June	33,305	10,775

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Taxable	8,278	2,296
Australian Equities Passive Taxable	539	-
International Equities Taxable	8,773	2,528
International Equities Passive Taxable	998	264
Property Taxable	3,502	1,148
Diversified Strategies Growth Taxable	2,855	983
Inflation-Linked Securities Taxable	1,557	536
Long-Term Fixed Interest	1,934	633
Short-Term Fixed Interest	283	187
Diversified Strategies Income	2,556	728
Cash	2,030	1,472
	<u>33,305</u>	<u>10,775</u>
Funds Under Management at 30 June	33,305	10,775

Funds SA

Financial Statements for the year ended 30 June 2021

13(v) Lifetime Support Authority

Statement of Receipts and Payments

	2021 \$'000	2020 \$'000
Funds Under Management at 1 July	846,686	762,244
Add: Receipts	114,500	96,000
Net Investment Income	214,764	(11,558)
	<u>329,264</u>	<u>84,442</u>
Less: Payments	<u>-</u>	<u>-</u>
Funds Under Management at 30 June	1,175,950	846,686

Statement of Funds Under Management - by Investment Option

Investment Option

Lifetime Support Authority Strategy	<u>1,175,950</u>	<u>846,686</u>
Funds Under Management at 30 June	1,175,950	846,686

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Tax-Exempt	246,892	174,202
International Equities Tax-Exempt	368,622	261,839
Property Tax-Exempt	194,704	144,958
Diversified Strategies Growth Tax-Exempt	183,688	133,941
Diversified Strategies Income	156,952	109,502
Cash	<u>25,092</u>	<u>22,244</u>
Funds Under Management at 30 June	1,175,950	846,686

Funds SA

Financial Statements for the year ended 30 June 2021

13(w) Health Services Charitable Gifts Board – Pool Investment

Statement of Receipts and Payments

	2021 \$'000	2020 \$'000
Funds Under Management at 1 July	95,359	96,876
Add: Receipts	36,200	12,100
Net Investment Income	14,445	(538)
	<u>50,645</u>	<u>11,562</u>
Less: Payments	<u>(33,500)</u>	<u>(13,079)</u>
Funds Under Management at 30 June	112,504	95,359

Statement of Funds Under Management - by Investment Option

Investment Option

High Growth Taxable	1,087	-
Growth Taxable	-	10,151
Balanced Taxable	44,368	45,516
Moderate Taxable	30,504	-
Conservative Taxable	2,085	-
Capital Defensive Taxable	30,701	35,938
Cash Taxable	3,759	3,754
	<u>112,504</u>	<u>95,359</u>
Funds Under Management at 30 June	112,504	95,359

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Taxable	18,425	14,312
Australian Equities Passive Taxable	1,425	-
International Equities Taxable	20,000	16,619
International Equities Passive Taxable	2,307	1,558
Property Taxable	9,081	8,351
Diversified Strategies Growth Taxable	5,744	5,519
Inflation-Linked Securities Taxable	10,510	7,476
Long-Term Fixed Interest	7,045	4,661
Short-Term Fixed Interest	11,441	11,531
Diversified Strategies Income	12,652	10,308
Cash	13,874	15,024
	<u>112,504</u>	<u>95,359</u>
Funds Under Management at 30 June	112,504	95,359

Funds SA
Financial Statements for the year ended 30 June 2021

13(x) Health Services Charitable Gifts Board – Ray and Shirl Norman Cancer Research Trust

Statement of Receipts and Payments

	2021	2020
	\$'000	\$'000
Funds Under Management at 1 July	7,319	7,759
Add: Receipts	2,200	305
Net Investment Income	1,442	(64)
	<u>3,642</u>	<u>241</u>
Less: Payments	<u>(2,665)</u>	<u>(681)</u>
Funds Under Management at 30 June	8,296	7,319

Statement of Funds Under Management - by Investment Option

Investment Option

High Growth Taxable	5,459	-
Growth Taxable	-	6,365
Moderate Taxable	2,447	-
Cash Taxable	390	954
	<u>8,296</u>	<u>7,319</u>
Funds Under Management at 30 June	8,296	7,319

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Taxable	1,818	1,534
Australian Equities Passive Taxable	120	-
International Equities Taxable	2,053	1,786
International Equities Passive Taxable	228	181
Property Taxable	996	829
Diversified Strategies Growth Taxable	725	734
Inflation-Linked Securities Taxable	267	-
Long-Term Fixed Interest	223	-
Short-Term Fixed Interest	141	-
Diversified Strategies Income	910	761
Cash	815	1,494
	<u>8,296</u>	<u>7,319</u>
Funds Under Management at 30 June	8,296	7,319

Funds SA

Financial Statements for the year ended 30 June 2021

13(y) Health Services Charitable Gifts Board – DE Brown Trust

Statement of Receipts and Payments

	2021 \$'000	2020 \$'000
Funds Under Management at 1 July	266	287
Add: Receipts	-	1
Net Investment Income	28	-
	<u>28</u>	<u>1</u>
Less: Payments	-	(22)
Funds Under Management at 30 June	294	266

Statement of Funds Under Management - by Investment Option

Investment Option

Conservative Taxable	294	266
Funds Under Management at 30 June	294	266

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Taxable	32	29
Australian Equities Passive Taxable	3	-
International Equities Taxable	38	36
International Equities Passive Taxable	4	3
Property Taxable	23	22
Inflation-Linked Securities Taxable	44	38
Long-Term Fixed Interest	14	14
Short-Term Fixed Interest	49	47
Diversified Strategies Income	53	46
Cash	34	31
Funds Under Management at 30 June	294	266

Funds SA

Financial Statements for the year ended 30 June 2021

13(z) Health Services Charitable Gifts Board – P F Beinke Charitable Trust – Flinders Medical Centre (Pastoral Care Account)

Statement of Receipts and Payments

	2021 \$'000	2020 \$'000
Funds Under Management at 1 July	-	-
Add: Receipts	253	-
Net Investment Income	21	-
	<hr/> 274	<hr/> -
Less: Payments	<hr/> (1)	<hr/> -
Funds Under Management at 30 June	<hr/> 273	<hr/> -

Statement of Funds Under Management - by Investment Option

Investment Option

Conservative Taxable	<hr/> 273	<hr/> -
Funds Under Management at 30 June	<hr/> 273	<hr/> -

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Taxable	30	-
Australian Equities Passive Taxable	3	-
International Equities Taxable	36	-
International Equities Passive Taxable	4	-
Property Taxable	21	-
Inflation-Linked Securities Taxable	41	-
Long-Term Fixed Interest	13	-
Short-Term Fixed Interest	45	-
Diversified Strategies Income	49	-
Cash	31	-
	<hr/> 273	<hr/> -
Funds Under Management at 30 June	<hr/> 273	<hr/> -

Funds SA

Financial Statements for the year ended 30 June 2021

13(aa) Health Services Charitable Gifts Board – P F Beinke Charitable Trust – Royal Adelaide Hospital (The Chapel Fund)

Statement of Receipts and Payments

	2021 \$'000	2020 \$'000
Funds Under Management at 1 July	-	-
Add: Receipts	253	-
Net Investment Income	21	-
	<hr/> 274	<hr/> -
Less: Payments	<hr/> -	<hr/> -
Funds Under Management at 30 June	<hr/> 274	<hr/> -

Statement of Funds Under Management - by Investment Option

Investment Option

Conservative Taxable	<hr/> 274	<hr/> -
Funds Under Management at 30 June	<hr/> 274	<hr/> -

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Taxable	30	-
Australian Equities Passive Taxable	3	-
International Equities Taxable	36	-
International Equities Passive Taxable	4	-
Property Taxable	21	-
Inflation-Linked Securities Taxable	41	-
Long-Term Fixed Interest	13	-
Short-Term Fixed Interest	46	-
Diversified Strategies Income	49	-
Cash	<hr/> 31	<hr/> -
Funds Under Management at 30 June	<hr/> 274	<hr/> -

Funds SA

Financial Statements for the year ended 30 June 2021

Health Services Charitable Gifts Board – P F Beinke Charitable Trust – Daw Park
13(ab) Repatriation Hospital (Pastoral Care Chapel Account)

Statement of Receipts and Payments

	2021 \$'000	2020 \$'000
Funds Under Management at 1 July	-	-
Add: Receipts	253	-
Net Investment Income	21	-
	274	-
Less: Payments	(1)	-
Funds Under Management at 30 June	273	-

Statement of Funds Under Management - by Investment Option

Investment Option

Conservative Taxable	273	-
Funds Under Management at 30 June	273	-

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Taxable	30	-
Australian Equities Passive Taxable	3	-
International Equities Taxable	36	-
International Equities Passive Taxable	4	-
Property Taxable	21	-
Inflation-Linked Securities Taxable	41	-
Long-Term Fixed Interest	13	-
Short-Term Fixed Interest	45	-
Diversified Strategies Income	49	-
Cash	31	-
Funds Under Management at 30 June	273	-

Funds SA
Financial Statements for the year ended 30 June 2021

13(ac) The University of Adelaide Endowment Trust

Statement of Receipts and Payments

	2021	2020
	\$'000	\$'000
Funds Under Management at 1 July	191,594	192,692
Add: Receipts	223,893	4,800
Net Investment Income	46,409	(2,398)
	<u>270,302</u>	<u>2,402</u>
Less: Payments	<u>(232,857)</u>	<u>(3,500)</u>
Funds Under Management at 30 June	229,039	191,594

Statement of Funds Under Management - by Investment Option

Investment Option

High Growth Taxable	<u>229,039</u>	<u>191,594</u>
Funds Under Management at 30 June	229,039	191,594

Statement of Funds Under Management – by Asset class

Australian Equities Taxable	59,142	49,976
Australian Equities Passive Taxable	3,695	-
International Equities Taxable	66,915	57,595
International Equities Passive Taxable	7,384	5,439
Property Taxable	32,912	28,768
Diversified Strategies Growth Taxable	24,471	22,100
Diversified Strategies Income	26,146	20,985
Cash	<u>8,374</u>	<u>6,731</u>
Funds Under Management at 30 June	229,039	191,594

Funds SA

Financial Statements for the year ended 30 June 2021

13(ad) Legal Services Commission

Statement of Receipts and Payments

	2021 \$'000	2020 \$'000
Funds Under Management at 1 July	7,806	-
Add: Receipts	-	8,000
Net Investment Income	502	(194)
	<u>502</u>	<u>7,806</u>
Less: Payments	-	-
Funds Under Management at 30 June	8,308	7,806

Statement of Funds Under Management - by Investment Option

Investment Option

Capital Defensive Taxable	<u>8,308</u>	<u>7,806</u>
Funds Under Management at 30 June	8,308	7,806

Statement of Funds Under Management – by Asset class

Australian Equities Taxable	437	371
Australian Equities Passive Taxable	71	-
International Equities Taxable	495	562
International Equities Passive Taxable	64	23
Property Taxable	376	424
Inflation-Linked Securities Taxable	1,288	1,109
Long-Term Fixed Interest	417	404
Short-Term Fixed Interest	2,424	2,325
Diversified Strategies Income	1,384	1,275
Cash	<u>1,352</u>	<u>1,313</u>
Funds Under Management at 30 June	8,308	7,806

Funds SA

Financial Statements for the year ended 30 June 2021

13(ae) Construction Industry Training Fund

Statement of Receipts and Payments

	2021 \$'000	2020 \$'000
Funds Under Management at 1 July	-	-
Add: Receipts	22,500	-
Net Investment Income	442	-
	<u>22,942</u>	<u>-</u>
Less: Payments	<u>-</u>	<u>-</u>
Funds Under Management at 30 June	<u>22,942</u>	<u>-</u>

Statement of Funds Under Management - by Investment Option

Investment Option

High Growth Taxable	15,842	-
Moderate Taxable	7,100	-
	<u>22,942</u>	<u>-</u>
Funds Under Management at 30 June	<u>22,942</u>	<u>-</u>

Statement of Funds Under Management – by Asset class

Asset class

Australian Equities Taxable	5,277	-
Australian Equities Passive Taxable	347	-
International Equities Taxable	5,956	-
International Equities Passive Taxable	663	-
Property Taxable	2,890	-
Diversified Strategies Growth Taxable	2,103	-
Inflation-Linked Securities Taxable	775	-
Long-Term Fixed Interest	648	-
Short-Term Fixed Interest	408	-
Diversified Strategies Income	2,642	-
Cash	1,233	-
	<u>22,942</u>	<u>-</u>
Funds Under Management at 30 June	<u>22,942</u>	<u>-</u>

Attachments: 1, 2, and 3

Attachment 1

Performance Plans for the financial year 2020-21

Attachment 2

Performance Report for the six months ended 31 December 2020

Attachment 3

Performance Report for the twelve months ended 30 June 2021

Public Sector Superannuation Funds Performance Plan

2020-2021

October 2020



Government
of South Australia

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1. Introduction

This Performance Plan (Plan) is prepared in accordance with section 20 of the *Superannuation Funds Management Corporation of South Australia Act 1995* (Funds SA Act) and sets out Funds SA's approach to the investment and management of the State's public sector superannuation funds administered by Super SA and Police Super for the 2020-21 financial year.

Pursuant to the Funds SA Act, this Plan details:

- the target for the rate of return on investment and management of the funds;
- strategies for the achievement of that target;
- the factors that, in the opinion of Funds SA, will affect or influence the investment and management of the funds during the year;
- the anticipated operating costs to be incurred by Funds SA during the financial year; and
- such other matters that Funds SA thinks should be included in the Plan.

The Plan is the primary document for communicating with, and seeking feedback from, Funds SA's key stakeholders regarding planned initiatives and proposed strategies for managing the funds over the coming year.

References to additional information is included in Section 6.

Background

Funds SA's function is to invest and manage public sector superannuation funds¹. The South Australian Superannuation Board, Police Superannuation Board and South Australian Parliamentary Superannuation Board are responsible for administering the State's public sector superannuation funds.

Funds SA invests and manages the following public sector superannuation funds administered by Super SA:

1. Southern State Superannuation Scheme, comprising:
 - Southern State Superannuation Fund (Triple S).
2. South Australian Superannuation Scheme, comprising:
 - SA Superannuation Fund – Old (Pension Scheme) and New (Lump Sum member accumulation component) Scheme Divisions; and
 - SA Superannuation Scheme – Employer Contribution Account.
3. Super SA Retirement Investment Fund, comprising:
 - Super SA Flexible Rollover Product; and
 - Super SA Income Stream (including the Transition to Retirement Income Stream (TRIS)).
4. Parliamentary Superannuation Scheme (including the PSS3 Accumulation Division).
5. Judges' Pension Scheme.
6. Governors' Pension Scheme

¹ Detailed in the *Superannuation Act 1988*, the *Southern State Superannuation Act 2009*, the *Southern State Superannuation Regulations 2009*, the *Parliamentary Superannuation Act 1974*, the *Judges' Pensions Act 1971*, the *Governors' Pensions Act 1976*, the *Police Superannuation Act 1990* and the Funds SA Act.

Separate Performance Plans detail the investment arrangements for the SA Ambulance Service Superannuation Scheme and Super SA Select.

Funds SA invests and manages the following public sector superannuation funds administered by SA Police Super:

1. Police Superannuation Scheme, comprising:
 - Police Superannuation Fund – Old Scheme Division (Member contribution accounts); and
 - Police Superannuation Scheme – Employer Contribution Account.

Tax status

Funds SA offers a suite of Tax-Exempt and Taxable investment options designed to accommodate the varying tax statuses across clients.

The schemes listed above, except for the Super SA Flexible Rollover Product, Income Stream and TRIS, are constitutionally protected and do not pay income tax. These schemes invest in Funds SA's Tax-Exempt investment options.

The Super SA Flexible Rollover Product, Income Stream and TRIS schemes are subject to differing tax provisions and therefore invest in Funds SA's Taxable investment options.

Investment offerings

Investment choice

Members of certain State superannuation schemes have the option of investment choice to enable an individual to choose investments according to their risk appetite.

Investment choice is available for the following schemes/products:

- Southern State Superannuation Scheme (Triple S);
- South Australian Superannuation Scheme – Lump Sum member accumulation component only;
- Super SA Flexible Rollover Product;
- Super SA Income Stream (including TRIS); and
- Parliamentary Superannuation Scheme – PSS3 Accumulation Division only.

The State's public sector superannuation funds offer the following Funds SA investment options: Cash, Capital Defensive, Conservative, Moderate, Balanced, Growth, High Growth. In addition, a Socially Responsible option is offered which is managed by AMP Capital.

Default strategy

Super SA determines the default investment option for those members who have not selected an investment option. The current default for each scheme is outlined below.

Triple S

The current default option for Triple S is Funds SA's Balanced Tax-Exempt investment option.

A review of the default strategy was undertaken in 2019 following a request from Super SA for Funds SA to consider redesigning the investment strategy for the Triple S default option, acknowledging the changing competitive landscape affecting South Australian public sector superannuation.

The review resulted in Super SA expressing desired product characteristics for the default investment option. Key points included:

- Investment objective target of CPI + 3.5% with an increase in the minimum investment timeframe to 10 years consistent with peer funds.
- Introduction of peer relative performance measures when measured over the long-term.
- Investment fee target of 0.90% or lower for 2019-2020 with an aim of reducing fees further over time consistent with Super SA's competitive positioning.
- Increase in the strategic level of growth assets within the default option to 75%, but acceptance that the ultimate timing of implementation would be managed by Funds SA having regard to the current investment market cycle and investment option positioning. This Plan details progress towards the Long-Term Strategic Asset Allocation (LTSAA).
- Acceptance of greater volatility and reduced downside protection from the desired LTSAA.

The re-design of the default option for Triple S had flow-on implications for other Funds SA investment options. The general themes were an increase in the allocation to growth assets with a consequential increase in risk profile, and the targeting of lower fees.

Lump Sum Scheme

The default option for the Lump Sum Scheme member accumulation component is Funds SA's Growth Tax-Exempt investment option. As approved by the Super SA Board in June 2020, during the 2020-21 financial year, the default for the accumulation component of the Lump Sum Scheme will change to the Funds SA Balanced Tax-Exempt investment option.

Funds SA will work with Super SA to manage the change, having regard to the implementation of the LTSAA which was outlined in the 2019-20 Performance Plan.

Super SA Flexible Rollover Product and Income Stream (including TRIS)

The default option for the Super SA Flexible Rollover Product is Funds SA's Balanced Taxable investment option.

The default option for the Income Stream (including TRIS) is 60% of the Funds SA Moderate Taxable investment option and 40% of the Funds SA Conservative Taxable investment option. The implementation date was 22nd August 2019. Prior to this, the default was the Funds SA Balanced Taxable investment option.

Parliamentary Superannuation Scheme – PSS3 Accumulation Division only

The default option for the Parliamentary Superannuation Scheme – PSS3 Accumulation Division is Funds SA's Balanced Tax-Exempt investment option.

Defined Benefit

Funds SA invests and is responsible for the investment strategy of the State's defined benefit liability assets relating to the various schemes below:

- South Australian Superannuation Fund (excluding the Lump Sum Scheme member accumulation component);
- South Australian Superannuation Scheme – Employer Contribution Accounts;
- Parliamentary Superannuation Scheme (PSS1 & PSS2);
- Judges' Pension Scheme;
- Governors' Pension Scheme;
- Police Superannuation Fund; and
- Police Superannuation Scheme – Employer Contribution Account.

As at June 2019, the South Australian Government's defined benefit liabilities were approximately \$20.7 billion, with assets of the schemes listed above (managed by Funds SA) valued at \$6.9 billion: i.e., there is an underfunded superannuation liability of \$13.8 billion.

Since 1 July 1994, the State Government has undertaken a program that is intended to progressively fund its accumulated superannuation liabilities. This program has been set out over a 40-year period, with the intention of achieving complete funding of accumulated superannuation liabilities by the year 2034. The Government's Past Service Liability (PSL) payments (which are invested in the South Australian Superannuation Scheme – Employer Contribution Accounts and the Police Superannuation Scheme – Employer Contribution Account) and investment returns earned on the assets managed by Funds SA are expected to close the unfunded superannuation gap by 2034.

Prior to 1 January 2017, the defined benefit schemes invested in the Funds SA Growth Tax-Exempt investment option. From 1 January 2017, a tailored strategy was implemented for the various schemes.

2. Investment Objectives

The investment objectives state the aims of each investment option and are designed to help members with their investment decisions. The objectives have been developed having regard to the long-term performance and characteristics of financial markets, taking into account expert advice provided by Funds SA's specialist investment advisor (JANA²).

There is a reasonable probability that the target returns for each investment option will be achieved over its stated time horizon based on the investment strategies employed. Details of the statistical modelling undertaken are contained in Section 3. However, there is no guarantee the target returns will be met because financial markets are volatile and past performance is not a reliable indicator of future performance. Indeed, for investment options with exposure to growth assets, there is a material likelihood that returns may be negative in any particular year.

Changes to investment objectives

The 2020 Investment Strategy Review included an assessment of the appropriateness of the investment objectives for all investment options given the current economic and financial market environment. The investment objectives for all investment options remain appropriate, with the exception of the Capital Defensive investment option. The fall in cash rates and fixed interest yields to near zero, that comprise the majority of the option's asset allocation, have made the target return of CPI + 1.5% difficult to achieve over its 2-year time horizon. Therefore, the Funds SA Board has approved a lowering of the investment objective for the Capital Defensive investment option from CPI + 1.5% to CPI + 1%, with implementation to occur from 1 January 2021.

Table 1: Investment objectives*

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Cash	RBA cash rate	0+ years	Very low	Less than 0.5
Capital Defensive	CPI + 1% ³	2+ years	Low	0.5 to less than 1
Conservative	CPI + 2.0%	4+ years	Medium	2 to less than 3
Moderate	CPI + 3%	6+ years	Medium to High	3 to less than 4
Balanced	CPI + 3.5%	10+ years	High	4 to less than 6
Growth	CPI + 4%	10+ years	High	4 to less than 6
High Growth	CPI + 4.5%	10+ years	High	4 to less than 6
Socially Responsible ⁴	Similar to a growth fund		High	4 to less than 6
Defined Benefit	CPI + 4.5%	10+ years	High	4 to less than 6

*The Tax-Exempt and Taxable investment options have common labels and investment objectives.

² JANA Investment Advisers were appointed as Funds SA's primary asset consultant in 2017. JANA provides Funds SA with investment consulting on a broad range of investment strategy and research topics.

³ The Capital Defensive target return is proposed to be changed from CPI + 1.5% to CPI + 1% effective 1 January 2021.

⁴ The investment objectives for the Socially Responsible investment option are determined by the underlying investment manager, AMP Capital and are subject to change. As at 26 June 2020, the target return was CPI + 3.5% with an investment time horizon of 5+ years. Both the Tax-Exempt and Taxable Socially Responsible options invest in the same underlying fund, the AMP Capital Ethical Leaders Balanced Fund. The investment option has a responsible investment approach, focusing on investing in companies that contribute to a socially and environmentally sustainable world.

In addition to the above investment objective characteristics, Super SA has specified peer relative return objectives for the Balanced (default) investment option:

- to meet the average of six Super SA nominated competitor funds over a 10-year period; and
- to exceed the median fund in the Chant West Growth Fund survey over that timeframe

Consistent with Super SA's competitive positioning, the investment option also aims to reduce fees over time.

Note: The Standard Risk Measure is based on industry guidance and assigns risk labels to investment options that allow members to compare investment options based on the expected number of negative annual returns over any 20-year period. The Standard Risk Measure is not a complete assessment of all forms of investment risk. For example, it does not detail the likely size of a negative return or the potential for a positive return to be less than a member may require to meet their financial goals

3. Investment Strategy

Funds SA undertakes a formal Investment Strategy Review on an annual basis to assess the appropriateness of the Long-Term Strategic Asset Allocation (LTSAA) of the investment options. The objective is to construct LTSAA's that, if held over the long-term, have a reasonable likelihood of achieving the investment objectives – target return and risk.

The Funds SA Board has approved the Review's conclusion that the LTSAA's remains appropriate for all Funds SA's investment options.

The one change approved in the Review was an increase in the foreign currency exposure for each investment option.

Increase in foreign currency exposure

The current exceptionally low interest rate environment has reduced the ability of traditional defensive assets (e.g. fixed interest, inflation-linked securities, and cash), to shield investment options in periods when growth assets (e.g. equities) produce negative returns. For Australian investors, foreign currency can aid in reducing risk in the investment options in times of financial market stress or in global economic slowdowns as the Australian Dollar tends to fall against major currencies (e.g. USD) producing a positive return contribution for the investment options.

The increased exposure to foreign currency across all investment options (excluding Cash) will therefore moderately enhance the defensive characteristics of the investment options.

The following tables detail the proposed changes to the foreign currency exposures across Funds SA's investment options.

Table 2: Change in target foreign currency exposure for Funds SA's Tax-Exempt investment options

	Capital Defensive %	Conservative %	Moderate %	Balanced %	Growth %	High Growth %	Defined Benefit %
2019-20 (former) foreign currency exposure	5	10	14	22	23	23	20
2020-21 (new) foreign currency exposure	5	11	16	24	27	27	22

Table 3: Change in target foreign currency exposure for Funds SA's Taxable investment options

	Capital Defensive %	Conservative %	Moderate %	Balanced %	Growth %	High Growth %
2019-20 (former) foreign currency exposure	5	9	14	20	22	22
2020-21 (new) foreign currency exposure	6	11	17	24	27	27

Asset Allocation

The following tables detail the unchanged LTSAA for Funds SA's investment options.

Table 4: LTSAA for Funds SA's Tax-Exempt investment options

Asset class	Cash %	Capital Defensive %	Conservative %	Moderate %	Balanced %	Growth %	High Growth %
Cash	100	15	10	8	3	2	2
Short-Term Fixed Interest	0	30	18	7	2	0	0
Long-Term Fixed Interest	0	5	5	9	6	0	0
Inflation-Linked Securities Tax-Exempt	0	15	15	11	5	0	0
Diversified Strategies Income	0	17	18	12	8	12	12
Property Tax-Exempt	0	6	9	10	12	16	16
Australian Equities Tax-Exempt	0	5	10	16	23	24	24
International Equities Tax-Exempt	0	7	15	22	33	36	36
Diversified Strategies Growth Tax-Exempt	0	0	0	5	8	10	10
Total	100	100	100	100	100	100	100
Growth assets	0	25	40	55	75	85	85

Table 5: LTSAA for Funds SA's Taxable investment options

Asset class	Cash %	Capital Defensive %	Conservative %	Moderate %	Balanced %	Growth %	High Growth %
Cash	100	15	10	8	3	2	2
Short-Term Fixed Interest	0	30	18	7	2	0	0
Long-Term Fixed Interest	0	5	5	9	6	0	0
Inflation-Linked Securities Taxable	0	15	15	11	5	0	0
Diversified Strategies Income	0	17	18	12	8	12	12
Property Taxable	0	6	9	10	12	16	16
Australian Equities Taxable	0	5	11	17	26	27	27
International Equities Taxable	0	7	14	21	30	33	33
Diversified Strategies Growth Taxable	0	0	0	5	8	10	10
Total	100	100	100	100	100	100	100
Growth Assets	0	25	40	55	75	85	85

Progress on LTSAA Implementation

The 2019-20 Performance Plan detailed the material changes to the Moderate, Balanced, and Growth investment options as a result of the Triple S default option review.

As noted in the 2019-20 Performance Plan, the asset allocation of the Growth investment options is transitioning towards that of the High Growth investment options, as market conditions allow. As a result, the Growth and High Growth investment options will have different target returns but the same LTSAA, investment horizon, and risk label. Funds SA will work with Super SA as required to provide information regarding the progress of implementation to the LTSAA for the Growth option.

The following tables depicts progress that has been achieved to date.

Table 6: Progress towards the Balanced and Growth Tax-Exempt investment option LTSA's achieved to date

Asset class	Balanced Tax-Exempt			Growth Tax-Exempt		
	2018-19	Actual	LTSA	2018-19	Actual	LTSA
	SAA	(31 August 2020)		SAA	(31 August 2020)	
	%	%	%	%	%	%
Cash	2.0	8.9	3.0	2.0	7.9	2.0
Short-Term Fixed Interest	3.0	2.0	2.0	0.0	0.0	0.0
Long-Term Fixed Interest	8.0	6.0	6.0	4.0	0.0	0.0
Inflation-Linked Securities Tax-Exempt	9.0	5.9	5.0	6.0	0.0	0.0
Diversified Strategies Income	16.0	6.9	8.0	16.0	11.9	12.0
Property Tax-Exempt	12.0	11.0	12.0	14.0	13.0	16.0
Australian Equities Tax-Exempt	17.0	20.9	23.0	19.0	22.9	24.0
International Equities Tax-Exempt	25.0	31.0	33.0	29.0	35.0	36.0
Diversified Strategies Growth Tax-Exempt	8.0	7.4	8.0	10.0	9.4	10.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
Growth assets	65.0	68.4	75.0	75.0	80.3	85.0

Table 7: Progress towards the Balanced and Growth Taxable investment option LTSA's achieved to date

Asset class	Balanced Taxable			Growth Taxable		
	2018-19	Actual	LTSA	2018-19	Actual	LTSA
	SAA	(31 August 2020)		SAA	(31 August 2020)	
	%	%	%	%	%	%
Cash	2.0	8.0	3.0	2.0	7.0	2.0
Short-Term Fixed Interest	3.0	1.5	2.0	0.0	0.0	0.0
Long-Term Fixed Interest	8.0	5.9	6.0	4.0	0.0	0.0
Inflation-Linked Securities Taxable	9.0	6.1	5.0	6.0	0.0	0.0
Diversified Strategies Income	16.0	7.0	8.0	16.0	12.0	12.0
Property Taxable	12.0	11.0	12.0	14.0	12.9	16.0
Australian Equities Taxable	19.0	24.0	26.0	22.0	25.8	27.0
International Equities Taxable	23.0	27.3	30.0	26.0	31.2	33.0
Diversified Strategies Growth Taxable	8.0	9.2	8.0	10.0	11.2	10.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
Growth assets	65.0	69.6	75.0	75.0	81.3	85.0

Funds SA took advantage of the significant falls in equity markets due to the COVID-19 pandemic to make significant progress on the LTSA implementation by increasing the allocations to equities in March 2020.

Liquidity requirements also needed to be managed intensively during March as member switching into the Cash investment option was aggressive and large falls in the Australian Dollar required cash provisioning for potential losses from the partial currency hedging of overseas assets.

Sufficient cash has now been raised to complete the LTSAA implementation when an appropriate market opportunity presents itself.

Funds SA will continue to regularly monitor and actively manage the actual asset allocations for the investment options as part of this process.

Asset class ranges

Asset class ranges are used as the variation in asset class returns and illiquidity of some asset classes means that it is expected that the asset allocation will naturally fluctuate through time.

In the short to medium-term, valuations of asset classes can vary significantly from longer term averages based on investors' expectations of factors including: future economic growth and inflation; government and central bank policies; and technological change.

Funds SA's investment strategy is likely to use the asset class ranges more actively in 2020-21 via its Dynamic Asset Allocation (DAA) investment process. Funds SA aims to use DAA as a generator of incremental return and assist in risk management over the long-term by taking active, medium-term asset allocation positions.

Following receipt of Funds SA Board approval on 15 September 2020 to utilise the DAA approach, implementation has commenced.

The allowable ranges for the individual asset classes are +/- 10% from LTSAA, except Cash which is between 0 and 20%, as illustrated in the table below.

Table 8: Asset class ranges for Funds SA's investment options*

Asset class	Range %
Cash	0 to +20
Short-Term Fixed Interest	± 10
Long-Term Fixed Interest	± 10
Inflation-Linked Securities	± 10
Diversified Strategies Income	±10
Property	±10
Australian Equities	±10
International Equities	±10
Diversified Strategies Growth	±10

**Note where the LTSAA of a particular asset class is less than 10%, the asset class range is 0 to + 10%. That is, the allocation to any particular asset class cannot be negative.*

Asset allocation ranges for member disclosure

Wider asset class ranges were implemented for disclosure to members in 2019-20, as detailed in the table below, and these ranges remain appropriate. The wider ranges provide flexibility in the event of a significant market dislocation.

Table 9: Asset allocation ranges for disclosure to members for Tax-Exempt investment options

Asset class	Capital Defensive %	Conservative %	Moderate %	Balanced %	Growth %	High Growth %
Cash	0 - 25	0 - 20	0 - 20	0 - 20	0 - 20	0 - 20
Fixed Interest	20 - 55	10 - 45	0 - 30	0 - 25	0 - 15	0 - 15
Inflation-Linked Securities Tax-Exempt	5 - 25	5 - 25	0 - 25	0 - 15	0 - 10	0 - 10
Diversified Strategies Income	5 - 30	5 - 30	0 - 25	0 - 20	0 - 25	0 - 25
Property Tax-Exempt	0 - 20	0 - 20	0 - 20	0 - 25	5 - 30	5 - 30
Australian Equities Tax-Exempt	0 - 15	0 - 20	5 - 30	10 - 40	10 - 40	10 - 40
International Equities Tax-Exempt	0 - 20	5 - 25	10 - 35	20 - 45	20 - 50	20 - 50
Diversified Strategies Growth Tax-Exempt	n.a.	n.a.	0 - 15	0 - 20	0 - 20	0 - 20

Table 10: Asset allocation ranges for disclosure to members for Taxable investment options

Asset class	Capital Defensive %	Conservative %	Moderate %	Balanced %	Growth %	High Growth %
Cash	0 - 25	0 - 20	0 - 20	0 - 20	0 - 20	0 - 20
Fixed Interest	20 - 55	10 - 45	0 - 30	0 - 25	0 - 15	0 - 15
Inflation-Linked Securities Taxable	5 - 25	5 - 25	0 - 25	0 - 15	0 - 10	0 - 10
Diversified Strategies Income	5 - 30	5 - 30	0 - 25	0 - 20	0 - 25	0 - 25
Property Taxable	0 - 20	0 - 20	0 - 20	0 - 25	5 - 30	5 - 30
Australian Equities Taxable	0 - 15	0 - 25	5 - 30	10 - 40	10 - 40	10 - 40
International Equities Taxable	0 - 20	0 - 25	10 - 35	20 - 45	20 - 50	20 - 50
Diversified Strategies Growth Taxable	n.a.	n.a.	0 - 15	0 - 20	0 - 20	0 - 20

The aggregate allocation to growth assets continues to be managed within the following ranges:

Table 11: Growth ranges for Funds SA's investment options

Funds SA investment option	Strategic allocation %	Range %
Cash	n.a.	n.a.
Capital Defensive	25	10 - 40
Conservative	40	25 - 55
Moderate	55	40 - 70
Balanced	75	60 - 90
Growth	85	70 - 100
High Growth	85	70 - 100

Extreme market conditions may impact the ability to effectively implement strategy and cause asset allocations to drift outside ranges nominated. Although such times are infrequent, once such conditions are present, the allocation ranges may be temporarily suspended. Funds SA will notify clients of such moves should this occur.

Defined Benefit investment strategy

From 1 January 2017, a customised Defined Benefit investment strategy was established for the defined benefit assets targeting the long-term return of CPI + 4.5%. The Defined Benefit strategy has the same return target as Funds SA's High Growth investment option, but includes a higher allocation to unlisted assets – Property and Diversified Strategies Growth – rather than increasing exposure to listed equities, which tend to display a higher level of price volatility.

Following Funds SA's 2020 Investment Strategy Review, no changes are proposed to the LTSAA or asset allocation ranges for the Defined Benefit Strategy, shown below.

The target foreign currency exposure will increase to 22% from 20% to moderately enhance the defensive characteristics of the strategy.

Funds SA received Board approval on 15 September 2020 to utilise its Dynamic Asset Allocation (DAA) approach. The applicability to the Defined Benefit strategy will be discussed with the relevant stakeholders.

Table 12: Defined Benefit LTSAA and asset class ranges

Asset class	LTSAA %	Ranges %
Cash	2	± 20
Diversified Strategies Income	14	± 5
Property Tax-Exempt	18	± 5
Australian Equities Tax-Exempt	20	± 5
International Equities Tax-Exempt	30	± 5
Diversified Strategies Growth Tax-Exempt	16	± 5
Total	100	

Table 13: Defined Benefit growth ranges

Funds SA investment option	Strategic allocation %	Range %
Defined Benefit	80	70-100

It should be noted that extreme market conditions may impact the ability to effectively implement strategy and cause asset allocations to drift outside the ranges nominated. Although such times are infrequent, once such conditions are present, the allocation ranges may be temporarily suspended. Funds SA will notify clients of such moves should this occur.

Socially Responsible investment option

The SAA for the Socially Responsible investment option is determined by the investment option's investment manager, AMP Capital. The investment manager reviews the asset allocation at least annually, and it may change from time to time. Both the Tax-Exempt and Taxable Socially Responsible investment options invest in the same underlying fund, the AMP Capital Ethical Leaders Balanced Fund. The investment option seeks to avoid investing in companies that have material exposure to industries which are perceived to have a high negative social or environmental impact, including tobacco, armaments and munitions, nuclear power, gambling, alcohol, pornography, and live animal exports, as well as the most carbon intensive parts of the fossil fuel industry. The investment option also seeks to invest in areas that have a positive impact, such as clean tech and social infrastructure. AMP Capital also seeks to engage directly with companies on material responsible investment issues.

The SAA of the Socially Responsible investment option is as follows:

Table 14: Socially Responsible investment option SAA and ranges

Asset class	SAA %	Ranges %
Cash	2	0-20
Fixed Interest	25	0 – 45
Property	9	0 – 20
Australian Equities	25	15-40
International Equities	33	15-48
Alternatives	6	0-13
Total	100	

AMP Capital incorporates a dynamic asset allocation process into the management of the investment option. This is managed within the asset allocation ranges shown in the table above.

Expected performance characteristics

Quantitative analysis of the proposed investment strategies for the investment options has been undertaken using JANA's medium to long-term investment forecasts of risk and return.

The following tables show the expected average outcomes for each investment option. Note, in the event of extreme market environments actual outcomes may differ significantly from the expected outcomes stated below.

Table 15: Forecast risk/return profiles of Funds SA's Tax-Exempt investment options

	Cash ⁵	Capital Defensive	Conserva tive	Moderate	Balanced	Growth	High Growth	Socially Responsible
Target return (p.a.)	RBA cash rate	CPI + 1.0%	CPI + 2%	CPI + 3.0%	CPI + 3.5%	CPI + 4.0%	CPI + 4.5%	n.a.
Investment horizon (years)	0 +	2 +	4 +	6 +	10 +	10 +	10 +	10 +
Expected nominal return	0.3%	3.3%	4.5%	5.6%	7.0%	7.6%	7.6%	6.0%
Expected real return	-1.1%	1.9%	3.1%	4.2%	5.4%	6.0%	6.0%	3.5%
95% confidence interval for nominal return over 1-year ⁶	-1.6% to 2.3%	-3.6% to 10.4%	-5.3% to 14.5%	-8.4% to 19.4%	-12.4% to 26.7%	-13.4% to 29.2%	-13.4% to 29.2%	-13.9% to 25.7%
Nominal expected tail loss ⁷	-1.7%	-4.0%	-6.0%	-9.1%	-13.6%	-14.8%	-14.8%	-15.0%
Probability of achieving objective over investment horizon	100%	65.3%	67.6%	67.5%	72.3%	72.3%	67.2%	60.4%
ASFA/FSC Risk Label ⁸	Very Low	Low	Medium	Medium to High	High	High	High	High
ASFA frequency of negative annual returns (x years in 20)	Less than 0.5	0.5 to less than 1	2 to less than 3	3 to less than 4	4 to less than 6	4 to less than 6	4 to less than 6	4 to less than 6
Probability of a negative return in any year	NM ⁹	17.3%	18.9%	22.1%	24.1%	24.2%	24.2%	27.3%

Source: JANA. Based on JANA modelling as at 31 March 2020 using 10-year (medium-term and long-term lower for longer) capital market assumptions.

⁵ For the Cash investment option, forecast risk return statistics have been calculated assuming an investment horizon of 1-year

⁶ Represents the expected range of return outcomes for each investment option over a one-year period. Note there is approximately a 5% chance that returns could lie outside this range.

⁷ Represents the expected return when financial market conditions are very adverse. It is equal to the average expected return in the bottom 5% of return scenarios.

⁸ As per ASFA/FSC guidance using JANA longer term, or normative assumptions, calculated over 20 years, using the lower for longer model calibration and are gross of tax

⁹ Not meaningful. This is a nuance of the financial modelling. It is possible for the Cash investment option to suffer a negative return if there is a credit default of a major Australian institution or the RBA decides to make the cash rate negative.

Table 16: Forecast risk/return profile of the Defined Benefit Tax-Exempt investment option

Defined Benefit	
Target return (p.a.)	CPI + 4.5%
Investment horizon (years)	10 +
Expected nominal return	7.6%
Expected real return	5.1%
95% confidence interval for nominal return over 1 year	-11.8% to 27.4%
Nominal expected tail loss	-13.2%
Probability of achieving objective over investment horizon	68.1%
ASFA/FSC Risk Label ¹⁰	High
ASFA frequency of negative annual returns (x years in 20)	4 to less than 6
Probability of a negative return in any year	22.4%

Source: JANA. Based on JANA modelling as at 31 March 2020 using 10-year (medium-term and long-term lower for longer) capital market assumptions.

¹⁰ Based on JANA longer term, or normative assumptions, using the lower for longer model calibration.

Table 17: Forecast risk/return profiles of the Income Stream investment options

	Cash ¹¹	Capital Defensive	Conservative	Moderate	Balanced	Growth	High Growth	Socially Responsible
Target return (p.a.)	RBA cash rate	CPI + 1.0%	CPI + 2%	CPI + 3.0%	CPI + 3.5%	CPI + 4.0%	CPI + 4.5%	n.a.
Investment horizon (years)	0 +	2 +	4 +	6 +	10 +	10 +	10 +	10 +
Expected nominal return	0.3%	3.4%	4.7%	5.8%	7.3%	7.9%	7.9%	6.3%
Expected real return	-1.1%	2.0%	3.3%	4.4%	5.7%	6.3%	6.3%	3.8%
95% confidence interval for nominal return over 1-year	-1.6% to 2.2%	-3.4% to 10.2%	-5.4% to 14.5%	-8.3% to 19.6%	-11.9% to 27.0%	-13.1% to 29.6%	-13.1% to 29.6%	-13.4% to 26.2%
Nominal expected tail loss	-1.8%	-3.8%	-5.8%	-8.9%	-13.1%	-14.3%	-14.3%	-14.4%
Probability of achieving objective over investment horizon	100.0%	66.5%	69.8%	69.4%	75.2%	75.1%	70.3%	64.7%
ASFA/FSC Risk Label ¹²	Very Low	Low	Medium	Medium to High	High	High	High	High
ASFA frequency of negative annual returns (x years in 20)	Less than 0.5	0.5 to less than 1	2 to less than 3	3 to less than 4	4 to less than 6	4 to less than 6	4 to less than 6	4 to less than 6
Probability of a negative return in any year	NM ¹³	16.6%	17.9%	21.1%	23.1%	23.1%	23.1%	26.4%

Source: JANA Based on JANA modelling as at 31 March 2020 using 10-year (medium-term and long-term lower for longer) capital market assumptions. Data is gross of tax and includes the benefit of franking credits. .

¹¹ For the Cash investment option, forecast risk return statistics have been calculated assuming an investment horizon of 1-year

¹² As per ASFA/FSC guidance using JANA longer term, or normative assumptions, calculated over 20 years, using the lower for longer model calibration and are gross of tax

¹³ Not meaningful. This is a nuance of the financial modelling. It is possible for the Cash investment option to suffer a negative return if there is a credit default of a major Australian institution or the RBA decides to make the cash rate negative.

Table 18: Forecast risk/return profiles of the Flexible Rollover and TRIS Taxable investment options

	Cash ¹⁴	Capital Defensive	Conservative	Moderate	Balanced	Growth	High Growth	Socially Responsible
Target return (p.a.)	RBA cash rate	CPI + 1.0%	CPI + 2%	CPI + 3.0%	CPI + 3.5%	CPI + 4.0%	CPI + 4.5%	n.a.
Investment horizon (years)	0 +	2 +	4 +	6 +	10 +	10 +	10 +	10 +
Expected nominal return	0.3%	3.0%	4.1%	5.1%	6.4%	7.0%	7.0%	5.9%
Expected real return	-2.2%	0.5%	1.6%	2.6%	3.9%	4.5%	4.5%	3.0%
95% confidence interval for nominal return over 1-year	-1.7% to 2.3%	-3.9% to 9.9%	-5.8% to 14.0%	-8.7% to 19.0%	-13.4% to 26.2%	-14.5% to 28.3%	-14.5% to 28.3%	-14.2% to 25.2%
Nominal expected tail loss	-1.8%	-4.2%	-6.3%	-9.6%	-14.3%	-15.7%	-15.7%	-15.0%
Probability of achieving objective over investment horizon	100.0%	60.8%	62.8%	61.1%	66.4%	65.8%	60.5%	55.0%
ASFA/FSC Risk Label ¹⁵	Very Low	Low	Medium	Medium to High	High	High	High	High
ASFA frequency of negative annual returns (x years in 20)	Less than 0.5	0.5 to less than 1	2 to less than 3	3 to less than 4	4 to less than 6	4 to less than 6	4 to less than 6	4 to less than 6
Probability of a negative return in any year	NM ¹⁶	19.1%	20.7%	23.8%	26.2%	26.0%	26.0%	29.7%

Source: JANA. Based on JANA modelling as at 31 March 2020 using 10-year (medium-term and long-term lower for longer) capital market assumptions. Data is subject to 15% superannuation tax and includes the benefit of franking credits.

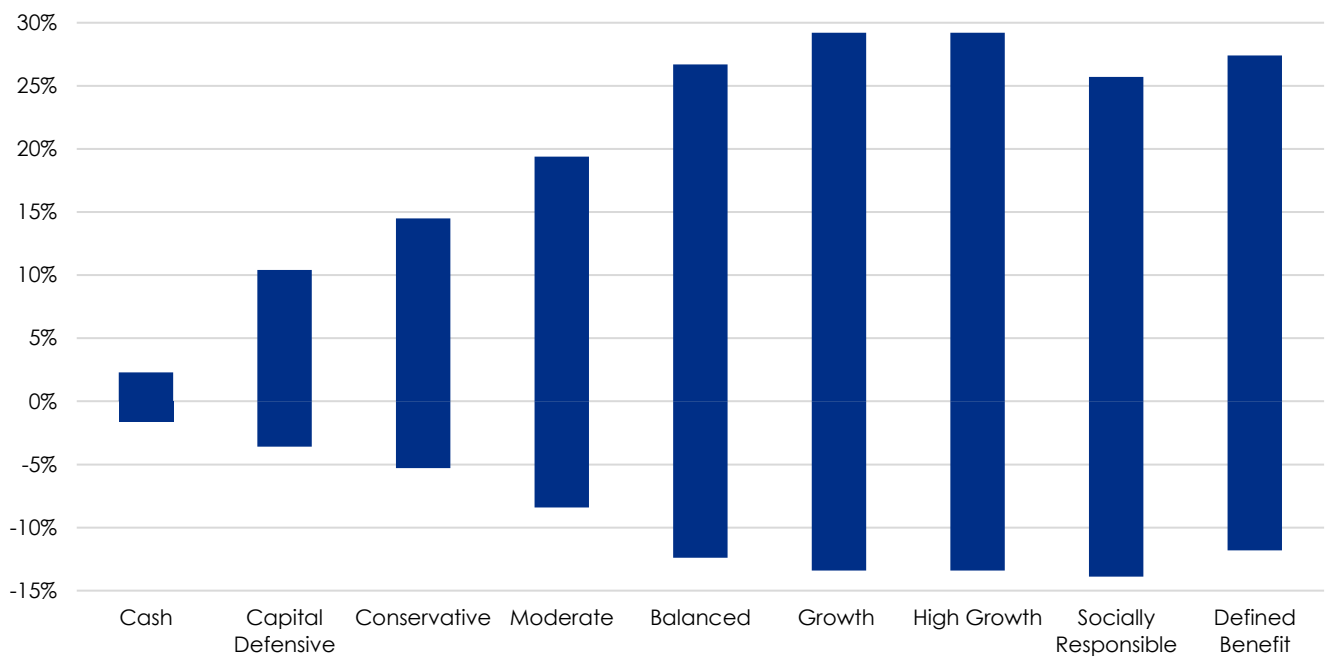
¹⁴ For the Cash investment option, forecast risk return statistics have been calculated assuming an investment horizon of 1-year

¹⁵ As per ASFA/FSC guidance using JANA longer term, or normative assumptions, calculated over 20 years, using the lower for longer model calibration and are gross of tax.

¹⁶ Not meaningful. This is a nuance of the financial modelling. It is possible for the Cash investment option to suffer a negative return if there is a credit default of a major Australian institution or the RBA decides to make the cash rate negative.

The following chart for the Tax-Exempt investment options shows the range of return outcomes over a one-year period is wider the further up the risk spectrum.

Chart 1: Expected range of returns over a one-year period – Tax-Exempt investment options



Source: JANA

Asset class strategies

Integral to the strategic asset allocation process is the development of investment strategies for each asset class, including the engagement of external investment managers.

Descriptions of the asset classes and their underlying investments are provided below.

Table 19: Funds SA asset classes

Asset class	Investments
Cash	Exposure to Australian short-term interest rate sensitive debt instruments, such as bank bills, that provide a high level of liquidity with minimal risk of capital loss.
Short-Term Fixed Interest	Exposure to Australian nominal debt instruments providing principal repayment at maturity, and coupon payments at regular intervals until maturity, with an average duration of around 2-3 years.
Long-Term Fixed Interest	Exposure to domestic and global debt instruments providing principal repayment at maturity, and coupon payments at regular intervals until maturity, with an average duration of around 7-8 years. International assets are hedged to the Australian Dollar.
Inflation-linked Securities	Exposure to debt securities providing a fixed rate of return in excess of an index related to the general level of prices in the economy, such as the Consumer Price Index or Average Weekly Earnings. International assets are hedged to the Australian Dollar.
Diversified Strategies Income	Investment opportunities with expected returns between that of bonds and equities, not readily classifiable within the other asset classes. Includes investments in investment grade credit, emerging market debt, high-yield securities and absolute return strategies. International assets are hedged to the Australian Dollar.
Property	Exposure to Australian listed and unlisted property
Australian Equities	Equity exposure to companies listed or about to be listed on the Australian Securities Exchange.
International Equities	Equity exposure to companies listed on international stock exchanges. Includes exposure to emerging markets and small companies. A portion of the developed markets component is hedged to the Australian Dollar.
Diversified Strategies Growth	Investment opportunities with expected returns in excess of the long-term expectation for listed equities, not classifiable within the other asset classes. Includes investments in private equity, opportunistic property, infrastructure, and other opportunities. International assets are hedged to the Australian Dollar.

To efficiently manage tax differences across clients, Tax-Exempt and Taxable asset classes have been established for Australian Equities, International Equities, Property, Diversified Strategies Growth and Inflation-Linked Securities. The investment options are managed to consistent investment objectives and similar underlying strategies. The remaining asset classes are common to all clients.

Information regarding external investment managers appointed by Funds SA can be found on our website.

Complementing the asset class strategies are a range of initiatives to enhance Funds SA's Responsible Investment approach across the investment platform.

Responsible Investment initiatives

Funds SA recognise Environmental, Social and Corporate Governance (ESG) issues are important to members and can materially influence investment outcomes.

We have developed a number of initiatives to enhance our responsible investment practices over a multi-year period. The focus will be on the following during 2020-21:

- Completion of a comprehensive Responsible Investment Framework including updating Funds SA's Board approved ESG Statement / Policy.
- Enhancing the ESG approach for selection and monitoring of external investment managers.
- Enhancing the assessment of climate change risks within the investment options.
- Enhancing the existing proxy voting approach that utilises the expertise of external investment managers to vote on all company resolutions. Initiatives include taking direct control of voting on material Australian Equities holdings and controversial issues, and engagement of a proxy advisor for independent assessment.
- Funds SA has appointed an external expert to assist Funds SA in understanding our 'Australian Modern Slavery' risks.
- Reviewing membership opportunities with relevant industry groups.
- Expanding data capabilities to assist with ESG security level information and analytics.

4. Factors Affecting 2020-21 Investment Strategy

There are a number of themes and risks associated with financial markets that we have considered in the investment, and management of the investment options for the coming year.

- The health and economic risks from the ongoing spread of COVID-19.
- The impact of the measures taken by governments to reduce the spread of COVID-19 on the global economy and investment markets.
- Development of government and central bank policies to assist economic recovery and financial market liquidity.
- The depth of Australian and global recessions, and likely shape of the economic recovery.
- Valuations of assets within different investment markets.
- US and European elections.
- Development of global trade relationships, particularly US – China, and its potential effects on Australia.
- Funds SA's existing investment option structures and liquidity demands.

Funds SA regularly monitors financial market valuations and risks, to assess the potential impact on the investment options and to determine if extreme market environments exist that could warrant a change to the strategy.

To complement our internal research, analysis and development of investment strategies, Funds SA engages JANA to provide specialist asset allocation advice, and an appraisal of medium to longer term risks and opportunities in markets. Funds SA also sources research via a number of key investment manager relationships and dedicated independent economic research organisations.

Funds SA believes volatility in financial markets can be best managed by:

- designing an investment strategy appropriate to the time horizon of the investment objective;
- maintaining diversification within the investment options; and,
- remaining flexible with regards to strategy implementation.

The investment strategies are generally based on a 2 to 10-year time horizon embracing longer term expectations for the risk and return relativities between the various asset classes. The analyses upon which the LTSAs are developed are based on these assumptions.

Funds SA considers that diversification and liquidity are key inputs in the development and management of the investment options:

- To minimise risk, Funds SA adopts risk management practices and diversification techniques at all levels: by asset class, investment manager and security. Thoughtful diversification enables the investment options to have acceptable levels of risk through a wide range of economic environments.

Nevertheless, over shorter periods and in extreme environments, investment options with high weightings to the most volatile asset classes, such as equities, will potentially deliver returns outside the normal range of expectations.

- Funds SA's investment options have appropriate levels of liquidity, meaning we can divest significant portions of an investment option at short notice, if required. We have established strict liquidity policy guidelines based on extensive stress testing scenarios, to ensure illiquidity risk remains manageable and clients can access funds relatively freely. In volatile markets this is an important capability.

5. Investment Management Costs

Funds SA applies standard industry guidelines in calculating and disclosing its investment management costs; namely:

- ASIC Regulatory Guide 97: Disclosing fees and costs in PDSs and other periodic statements (RG97); and,
- Corporations Regulations 2001 – Schedule 10 – Disclosures of Fees and Other Costs (Schedule 10).

Funds SA's investment management costs comprise fees paid directly to investment managers, including: performance fees; transactional and operational costs incurred by investment managers in implementing their particular mandates; investment management fees and costs incurred through interposed investment vehicles (including performance fees); asset consulting fees; custodian fees; legal and tax advisory fees; and Funds SA's corporate expenses.

Funds SA's investment management costs are presented as an Indirect Cost Ratio (ICR). The ICR expresses investment management costs as a percentage of average funds managed. Separate ICRs are calculated for each investment option.

Funds SA operates on a cost recovery basis, with all costs incurred fully reflected in the asset class unit prices.

Target ICRs for 2020-21

It has been agreed with Super SA Management that the Balanced (default) investment option target an ICR of 0.85% or lower for 2020-21. Consistent with this goal, the table below outlines the target ICRs for Funds SA's investment options for the 2020-21 financial year. The Defined Benefit strategy will retain its net-of-fees return target investment approach (versus adopting the relative competitive positioning approach being implemented across Funds SA's other investment options).

Table 20: Tax-Exempt and Taxable investment option target ICRs for the 2020-21 financial year

Funds SA Investment Option	2020-21 Target ICR*
Cash	0.05%
Capital Defensive	0.45%
Conservative	0.50%
Moderate	0.75%
Balanced	0.85%
Growth	1.00%
High Growth	1.05%
Socially Responsible	1.00%
Defined Benefit	1.30%

**It should be noted that the ICRs are targets only. The actual costs may vary due to a number of factors including asset allocations being different to modelled positions; growth in funds under management; changes to manager line-ups; changes to fee schedules; and, performance fees and transactional and operational costs being different to expectations.*

Buy/sell spreads

Buy/sell spreads are applied to the applications and redemptions of assets undertaken by Funds SA's clients. A buy/sell spread is an allowance for transaction costs such as brokerage and stamp duty, incurred in buying and selling the underlying assets of the investment options.

The purpose of the buy/sell spread is to protect existing clients bearing the costs associated with new and additional investments and withdrawals. It is not a management fee paid to Funds SA.

Buy/sell spreads vary depending on the types of assets held. The transaction cost approach, which is detailed in the Unit Pricing Policy and the buy/sell spreads are available via the Secure Login on the Funds SA website.

6. Other Matters

Strategic updates

The Funds SA 2020-2023 Strategic Plan sets out key initiatives that contribute to Funds SA's Vision; to deliver a world class investment experience. Some key initiatives include:

- **Dynamic Asset Allocation**

DAA capability development is well progressed with the aim of varying investment exposures across an investment cycle to increase return outcomes. DAA analysis tools have assisted progress on the implementation of the LTSAA, for relevant investment options, during 2019-20. It is expected that the DAA capability will be deployed during 2020-21, following Funds SA Board approval of the investment, implementation, and governance processes.

- **Responsible Investment**

A detailed outline of the Responsible Investment initiatives is available in Section 3.

- **Enhanced technology**

The enhancements to our technology capabilities has been invaluable during the COVID-19 pandemic.

- **Custodian transition**

Funds SA is undertaking a custodian transition to Northern Trust. It is expected this transition will be completed in October 2020. During the transition period we expect it will be business as usual and do not anticipate any material impact to clients.

Key documents

Heads of Government Agreement (HOGA)

The HOGA, which is signed by the Premier of South Australia and the Assistant Treasurer of the Commonwealth of Australia, formalises the exemption of certain public sector superannuation schemes from the Superannuation Industry (Supervision) Act 1993. The HOGA also gives recognition to the need to apply national standards to superannuation, without distinguishing between public and private sector employees.

Memorandum of Agreement

The Memorandum of Agreement agreed between Funds SA and each of its clients summarises the operational arrangements between the organisations. This document is reviewed periodically.

Client Related Policies and Documents

Cost Recovery Policy

This policy details the Funds SA Administration Fee for each financial year and the manner in which it is applied.

Illiquid Asset Allocation Policy

This policy details the way in which Funds SA manages the allocations to illiquid asset classes (includes Property and Diversified Strategies Growth).

Unit Pricing Policy

This policy describes the way in which Funds SA applies unit pricing and unit registry in administering the funds under its management. It also includes the transaction cost approach which details the buy/sell spreads for investment options and asset classes, and the manner and circumstances in which spreads are applied.

Governance Framework Document

This document details the key elements of Funds SA's governance structure and sets out the responsibilities of committees along with the various Board approved policies and procedures that guide Funds SA in pursuit of its goals.

Investment Implementation Framework Document

This document details Funds SA's approach to implementing and managing investment strategies, reviewing and monitoring investment strategies and investment managers, and Funds SA's risk and compliance structure.

The above policies and documents are available via the Secure Login on the Funds SA website.

Funds SA Environmental, Social and Governance Statement

This document describes the way in which Funds SA applies environmental, social and governance (ESG) concepts in the course of selecting and engaging with investment managers.

This statement is available on the Funds SA website.

Funds SA Director and Management Profiles

Profiles of Directors and key management personnel can be found on the Funds SA website.

Funds SA Disclaimer

The information within this article has been prepared in good faith by Funds SA. However, Funds SA does not warrant the accuracy of the information and to the extent permitted by law, disclaims responsibility for any loss or damage of any nature whatsoever which may be suffered by any person directly or indirectly through relying upon it whether that loss or damage is caused by any fault or negligence of Funds SA or otherwise. The information is not intended to constitute advice and persons should seek professional advice before relying on the information.

Lifetime Support Authority Performance Plan

2020-2021

October 2020



Government
of South Australia

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1. Introduction

This Performance Plan (Plan) is prepared in accordance with section 20 of the *Superannuation Funds Management Corporation of South Australia Act 1995* and sets out Funds SA's approach to the investment and management of the Lifetime Support Authority (the LSA) investments for the 2020-21 financial year.

Pursuant to the Funds SA Act, this Plan details:

- the target for the rate of return on investment and management of the funds;
- strategies for the achievement of that target;
- the factors that, in the opinion of Funds SA, will affect or influence the investment and management of the funds during the year;
- the anticipated operating costs to be incurred by Funds SA during the financial year; and
- such other matters that Funds SA thinks should be included in the Plan.

The Plan is the primary document for communicating with, and seeking feedback from, Funds SA's key stakeholders regarding planned initiatives and proposed strategies for managing the funds over the coming year.

References to additional information is included in Section 6.

Background

The Lifetime Support Authority (LSA) is able to invest assets of the Lifetime Support Scheme Fund (the LSS Fund) under section 42 of the *Motor Vehicle Accidents (Lifetime Support Scheme) Act 2013* (LSS Act) with Funds SA, subject to approval from the Minister responsible for Funds SA.

The Lifetime Support Authority of South Australia is a statutory authority established under the LSS Act. The LSA is an instrumentality of the Crown and holds its property on behalf of the Crown. Liabilities incurred or assumed by the LSA are guaranteed by the Treasurer.

The LSA operates the LSS Fund which commenced on 1 July 2014. The LSS Fund provides lifetime treatment, care and support needs for people who suffer very serious injuries in a motor vehicle accident in South Australia, on a no-fault basis.

The LSS Fund is funded by a levy collected on vehicle registrations. The amount collected each year is actuarially estimated, to fund the present and likely future liabilities of people who become participants in the LSS Fund due to motor vehicle injuries suffered and other matters including the payment of duty.

In June 2014, a regulation proclaiming the LSA as an approved authority for the purposes of the Funds SA Act, came into operation. This enables the LSA to place a certain amount of its investments with Funds SA. The LSA is able to determine how much of the assets from the LSS Fund to transfer to Funds SA for investing (Invested Funds), from time to time.

The LSA commenced investing with Funds SA on 1 July 2014.

Evolution of the LSA's investment strategies

A tailored long-term strategic asset allocation (the LSA Strategy) was implemented from 1 January 2017 and gradually increased exposure to growth assets and the risk/return profile to better meet the investment objective. An Investment Strategy Review (Review) of the LSA Strategy was undertaken in 2020 to determine if a change in asset allocation was required, this is discussed in section 2 and 3.

In constructing the LSA Strategy, Funds SA's pooled asset classes are used to attain the benefits of scale offered by Funds SA's centralised asset management model.

Prior to the establishment of the LSA Strategy, the LSA invested in the:

- Funds SA Conservative Tax-Exempt investment option (from 1 July 2014 to 31 March 2015); and the
- Funds SA Moderate Tax-Exempt investment option (from 1 April 2015 to 31 December 2016).

The LSA's decision to adopt relatively low levels of investment risk initially, reflected a lower tolerance for the risk of negative returns in the early years of operation (combined with other measures including reinsurance). Commencing with a conservative investment strategy and incrementally moving towards a growth-oriented strategy is consistent with the very long-term investment horizon of the LSS Fund.

Through the LSA's Finance and Investment Committee (the Committee), the LSA monitors investment performance on a quarterly basis and are actively involved in periodic reviews of the LSA Strategy.

Tax status

The LSA Strategy is included within Funds SA's Tax-Exempt investment option suite on the basis that it is an entity of the Crown.

We note that the LSA is subject to an Income Tax Equivalent regime as per a determination by the Treasurer from 1 July 2019. The LSA's status as a Crown entity is considered to be unaltered by this determination, and accordingly the LSA may continue to invest in the Funds SA Tax-Exempt investment option suite.

Key roles – LSA and Funds SA

The LSA is responsible for setting the investment objective, risk preferences and liquidity profile appropriate to the Invested Funds and provides advice to Funds SA on the nature and structure of the LSA's financial position including actual and potential future liabilities. The LSA may require an investment strategy review by Funds SA at any point in time which will consider the LSA's overall financial position, based on the information provided by LSA.

Funds SA is responsible for setting and implementing an investment strategy that targets the LSA's investment objective for the Invested Funds having regard for the LSA's stated target return, risk preferences, liquidity profile and the LSA's financial position.

Funds SA is able to provide strategic investment advice to the LSA, either directly or through its specialist investment advisor (JANA¹) as required.

The following table summarises the roles of the LSA and Funds SA.

Table 1: Investment model relating to the Invested Funds

Investment activity	LSA	Funds SA
Setting investment objectives (risk, return, timeframe, liquidity)	Responsible	
Investment strategy review:		Responsible*
Determining asset allocation		Responsible
Determining asset class objectives		Responsible
Determining manager line-up and implementation		Responsible

*Note Funds SA will annually review the LSA Strategy as part of the Performance Planning process. Further to this, the LSA may require Funds SA conduct a strategy review at any point in time.

¹ JANA Investment Advisers were appointed as Funds SA's primary asset consultant in 2017. JANA provides Funds SA with investment consulting on a broad range of investment strategy and research topics.

2. Investment Objectives

In May 2020, Funds SA in conjunction with JANA and LSA undertook the Review of the LSA Strategy, to determine if the investment objectives continued to be appropriate.

Following the Review, the LSA confirmed the investment objectives and resulting portfolio characteristics for the Invested Funds are appropriate.

Investment objective and resulting portfolio characteristics

Table 2: Investment objectives

Target return	Measure	Comment
Target return	Minimum of 6.25% p.a. over rolling 10-year periods	The target return is derived from the discount rate used in valuing future liabilities of the LSS Fund for the purpose of setting the LSS levy. The discount rate is 6.25%.

In order to achieve the above noted target return objective, the LSA Strategy is likely to exhibit the following characteristics.

Portfolio Characteristic	Measure	Comment
Risk	High	Very strong cashflows & current funding position allow a long-term high return / high risk investment approach.
Liquidity	Very Low (defined as the requirement to withdraw cash from Funds SA)	Cash inflow is very strong in early years of scheme, relative to the size of the LSS Funds' balance.
Timeframe	10 years +	Horizon is very long with scheme 40 years away from maturity.

There are a number of factors that contribute to the investment objectives and resulting portfolio characteristics, such as:

- The target return objective is based on the LSS Fund's actuarial model.
- Long dated liabilities and lifetime cost of participants is annuity like rather than lump sum payments.
- Liabilities are closely linked to attendant care services and medical cost inflation.
- Premium inflows are steady and the scheme is early in its establishment.

Table 3: Investment objectives and characteristics

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
LSA Strategy	6.25	10+ years	High	4 to less than 6

Note: The Standard Risk Measure is based on industry guidance and assigns risk labels to investment options that allow clients to compare investment options based on the expected number of negative annual returns over any 20-year period. The Standard Risk Measure is not a complete assessment of all forms of investment risk. For example, it does not detail the likely size of a negative return or the potential for a positive return to be less than a client may require to meet their financial goals.

3. Investment Strategy

In May 2020, Funds SA in conjunction with JANA and LSA, undertook the Review of the LSA Strategy to determine if:

- a change in asset allocation was required; and
- any changes were required to build toward the longer term (over the next 10 years) asset class allocation requirements within the LSA Strategy.

The outcome of the Review was:

- to maintain the current Long-Term Strategic Asset Allocation (LTSAA) for the LSA Strategy; and
- to increase the asset class allocation ranges to +/- 10% from LTSAA.

The LSA's investment strategy has been developed having regard to the long-term performance and characteristics of financial markets and taking into account expert advice provided by specialist investment advisor, JANA. The LSA strategy is considered appropriate for the following reasons:

- The strategy is tailored to the long-term liability structure and liquidity (cash flow) profile of the LSS Fund.
- The LSS Fund is in the early stages of growth, a key focus is having implementation flexibility to source assets for the LSA Strategy over the next 10-year period.
- A growth-asset orientated strategy provides the potential for higher returns but also higher risk.
- The LSA Strategy is in a good position to endure poor investment market conditions given strong cash flow. The recovery may be shorter and stronger, as certain assets may be bought at lower valuations and held through the market recovery period.
- Potential liquidity risks are expected to be manageable given the benefits of pooling assets at the asset class level and the LSA's strong cash flow and long-term investment horizon.
- Funds SA notes that the LSA is seeking the highest net of fee return, so does not consider fees to be a constraint in the construction of the LSA Strategy.

The objective is to construct a LTSAA that, if held over the long-term, has a reasonable likelihood of achieving the investment objectives – target return and risk. However, there is no guarantee that the target returns will be met because financial markets are volatile and past performance is not a reliable indicator of future performance. Indeed, for investment options with exposure to growth assets, there is a material likelihood that returns may be negative in any particular year.

Increase in foreign currency exposure

Subsequent to the Review undertaken with the LSA, the Funds SA Board made the decision to increase foreign currency exposure across most of the Funds SA investment options, including the LSA Strategy.

The current exceptionally low interest rate environment has reduced the ability of traditional defensive assets (e.g. fixed interest, inflation-linked securities, and cash), to shield investment options in periods when growth assets (e.g. equities) produce negative returns. For Australian investors, foreign currency can aid in reducing risk in the investment options in times of financial market stress or in global economic slowdowns as the Australian Dollar tends to fall against major currencies (e.g. USD) producing a positive return contribution for the investment options.

The increased exposure to foreign currency will therefore moderately enhance the defensive characteristics of the LSA Strategy.

The proposed change to foreign currency exposure is noted in the below table.

Table 4: Change in target foreign currency exposure for the LSA Strategy

	LSA Strategy %
2019-20 (former) foreign currency exposure	20
2020-21 (new) foreign currency exposure	22

Asset Allocation

The following table details the unchanged LTSAA for the LSA Strategy.

Table 5: LTSAA for the LSA Strategy

Asset class	LSA Strategy LTSAA %
Cash	2
Diversified Strategies Income	14
Property	18
Australian Equities ²	20
International Equities ³	30
Diversified Strategies Growth	16
Total	100
Growth Allocation	80

² Active exposure to Australian and International Equities

³ Active exposure to Australian and International Equities

Asset class ranges

The allowable ranges for the individual asset classes will increase from +/-5% to +/-10% from LTSAA, except Cash which is between 0 and 20%, as illustrated in the table below.

A range of +/-10% will provide increased flexibility and support implementation of the longer term (over 10 years) LSA Strategy.

- As the LSS Fund is still in the early stages of its growth phase, a key focus is on sourcing the assets to build the portfolio over the next 10-year period. This is particularly relevant for illiquid assets, specifically the Property and Diversified Strategies Growth asset classes where there are extended periods when purchasing assets at reasonable prices is challenging.
- The investment outcomes will likely be enhanced by focusing on building the long-term LSA Strategy by materially increasing the holdings of illiquid assets at times when they are available at reasonable prices and assessed to be more attractive than listed equities.

Asset allocation should be considered in the context of any asset class' position within its **allowable range** rather than against a single point LTSAA target.

Funds SA received Board approval on 15 September 2020 to utilise its Dynamic Asset Allocation (DAA) approach. The applicability of the approach will be discussed with the LSA.

Funds SA aims to use DAA as a generator of incremental return and assist in risk management over the long-term by taking active, medium-term asset allocation positions.

Table 6: Asset class allocation ranges for the LSA Strategy

Asset class	2019-20 Range	2020-21 Range	LSA Strategy
	%	%	2020-21 LTSAA Range %
Cash	0 to +20	0 to +20	0 – 20
Diversified Strategies Income	±5	±10	4 - 24
Property	±5	±10	8 - 28
Australian Equities	±5	±10	10 - 30
International Equities	±5	±10	20 - 40
Diversified Strategies Growth	±5	±10	6 - 26

The aggregate allocation to growth assets will continue to be managed within the following ranges:

Table 7: Growth ranges for the LSA Strategy

Investment option	Strategic allocation	Range
	%	%
LSA Strategy	80	70 - 100

Extreme market conditions may impact the ability to effectively implement strategy and cause asset allocations to drift outside rebalancing ranges. Although such times are infrequent, once such conditions are present, the allocation ranges may be temporarily suspended. Funds SA will notify all clients of such moves should this occur.

Expected performance characteristics

Quantitative analysis of the LSA Strategy for the Invested Funds has been undertaken using JANA's medium to long-term investment forecasts of risk and return.

The following table shows the expected average outcomes for the LSA Strategy. Note, in the event of extreme market environments actual outcomes may differ significantly from the expected outcomes stated below.

Table 8: Forecast risk/return profile of the LSA Strategy

	LSA Strategy
Target return objective	6.25%
Investment horizon (years)	10
Expected nominal return	7.7%
Expected real return	6.1%
Nominal standard deviation	10.1%
95% confidence interval for nominal return over 1 year ⁴	-12.2% to 27.9%
Nominal expected tail loss ⁵	-13.2%
Probability of achieving objective over investment horizon	68.5%
ASFA/FSC Risk Label ⁶	High
Probability of a negative return in any year (x years in 20)*	4

Note: Data is based on JANA modelling as at 31 March 2020 using 10-year (medium-term and long-term lower for longer) capital market assumptions.

* The probability of a negative return in any year is rounded to a whole number. The ASFA/FSC Risk label for High is an estimated number of negative annual returns likely over any 20-year period as 4 to less than 6.

⁴ The '95% confidence interval for nominal return over 1 year' represents the expected range of return outcomes for the LSA strategy over a one-year period. Noted that there is approximately a 5% chance that the return could lie outside of this range.

⁵ The 'nominal expected tail loss' represents the expected return when financial markets are very adverse. It is equal to the average expected return in the bottom 5% of return scenarios.

⁶ As per ASFA/FSC guidance.

Asset class strategies

Integral to the strategic asset allocation process is the development of investment strategies for each asset class, including the engagement of external investment managers.

Descriptions of the asset classes and their underlying investments are provided below.

Table 9: Funds SA asset classes

Asset class	Investments
Cash	Exposure to Australian short-term interest rate sensitive debt instruments, such as bank bills, that provide a high level of liquidity with minimal risk of capital loss.
Diversified Strategies Income	Investment opportunities with expected returns between that of bonds and equities, not readily classifiable within the other asset classes. Includes investments in investment grade credit, emerging market debt, high-yield securities and absolute return strategies. International assets are hedged to the Australian Dollar.
Property	Exposure to Australian listed and unlisted property
Australian Equities	Equity exposure to companies listed or about to be listed on the Australian Securities Exchange.
International Equities	Equity exposure to companies listed on international stock exchanges. Includes exposure to emerging markets and small companies. A portion of the developed markets component is hedged to the Australian Dollar.
Diversified Strategies Growth	Investment opportunities with expected returns in excess of the long-term expectation for listed equities, not classifiable within the other asset classes. Includes investments in private equity, opportunistic property, infrastructure, and other opportunities. International assets are hedged to the Australian Dollar.

Information regarding external investment managers appointed by Funds SA can be found on our website.

Complementing the asset class strategies are a range of initiatives to enhance Funds SA's Responsible Investment approach across the investment platform.

Responsible Investment initiatives

Funds SA recognise Environmental, Social and Corporate Governance (ESG) issues are important to clients and can materially influence investment outcomes.

We have developed a number of initiatives to enhance our responsible investment practices over a multi-year period. The focus will be on the following during 2020-21:

- Completion of a comprehensive Responsible Investment Framework including updating Funds SA's Board approved ESG Statement / Policy.
- Enhancing the ESG approach for selection and monitoring of external investment managers.
- Enhancing the assessment of climate change risks within the investment options.
- Enhancing the existing proxy voting approach that utilises the expertise of external investment managers to vote on all company resolutions. Initiatives include taking direct control of voting on material Australian Equities holdings and controversial issues, and engagement of a proxy advisor for independent assessment.
- Funds SA has appointed an external expert to assist Funds SA in understanding our 'Australian Modern Slavery' risks.
- Reviewing membership opportunities with relevant industry groups.
- Expanding data capabilities to assist with ESG security level information and analytics.

4. Factors Affecting 2020-21 Investment Strategy

There are a number of themes and risks associated with financial markets that we have considered in the investment, and management of the investment options for the coming year.

- The health and economic risks from the ongoing spread of COVID-19.
- The impact of the measures taken by governments to reduce the spread of COVID-19 on the global economy and investment markets.
- Development of government and central bank policies to assist economic recovery and financial market liquidity.
- The depth of Australian and global recessions, and likely shape of the economic recovery.
- Valuations of assets within different investment markets.
- US and European elections.
- Development of global trade relationships, particularly US – China, and its potential effects on Australia.
- Funds SA's existing investment option structures and liquidity demands.

Funds SA regularly monitors financial market valuations and risks, to assess the potential impact on the investment options and to determine if extreme market environments exist that could warrant a change to the strategy.

To complement our internal research, analysis and development of investment strategies, Funds SA engages JANA to provide specialist asset allocation advice, and an appraisal of medium to longer term risks and opportunities in markets. Funds SA also sources research via a number of key investment manager relationships and dedicated independent economic research organisations.

Funds SA believes volatility in financial markets can be best managed by:

- designing an investment strategy appropriate to the time horizon of the investment objective;
- maintaining diversification within the investment options; and
- remaining flexible with regards to strategy implementation.

The investment strategies are generally based on a 2 to 10-year time horizon embracing longer term expectations for the risk and return relativities between the various asset classes. The analyses upon which the LTSAA is developed are based on these assumptions.

Funds SA considers that diversification and liquidity are key inputs in the development and management of the investment options:

- To minimise risk, Funds SA adopts risk management practices and diversification techniques at all levels: by asset class, investment manager and security. Thoughtful diversification enables the investment options to have acceptable levels of risk through a wide range of economic environments.

Nevertheless, over shorter periods and in extreme environments, investment options with high weightings to the most volatile asset classes, such as equities, will potentially deliver returns outside the normal range of expectations.

- Funds SA's investment options have appropriate levels of liquidity, meaning we can divest significant portions of an investment option at short notice, if required. We have established strict liquidity policy guidelines based on extensive stress testing scenarios, to ensure illiquidity risk remains manageable and clients can access funds relatively freely. In volatile markets this is an important capability.

5. Investment Management Costs

Funds SA applies standard industry guidelines in calculating and disclosing its investment management costs; namely:

- ASIC Regulatory Guide 97: Disclosing fees and costs in PDSs and other periodic statements (RG97); and
- Corporations Regulations 2001 – Schedule 10 – Disclosures of Fees and Other Costs (Schedule 10).

Funds SA's investment management costs comprise fees paid directly to investment managers, including: performance fees; transactional and operational costs incurred by investment managers in implementing their particular mandates; investment management fees and costs incurred through interposed investment vehicles (including performance fees); asset consulting fees; custodian fees; legal and tax advisory fees; and Funds SA's corporate expenses.

Funds SA's investment management costs are presented as an Indirect Cost Ratio (ICR). The ICR expresses investment management costs as a percentage of average funds managed. Separate ICRs are calculated for each investment option.

Funds SA operates on a cost recovery basis, with all costs incurred fully reflected in the asset class unit prices.

Target ICRs for 2020-21

Table 10: LSA Strategy target ICR for the 2020-21 financial year

Investment Option	2020-21 Target ICR*
LSA Strategy	1.30%

*It should be noted that the ICR is a target only. The actual costs may vary due to a number of factors including asset allocations being different to modelled positions; growth in funds under management; changes to manager line-ups; changes to fee schedules; and, performance fees and transactional and operational costs being different to expectations.

Buy/sell spreads

Buy/sell spreads are applied to the applications and redemptions of assets undertaken by Funds SA's clients. A buy/sell spread is an allowance for transaction costs such as brokerage and stamp duty, incurred in buying and selling the underlying assets of the investment option.

The purpose of the buy/sell spread is to protect existing clients bearing the costs associated with new and additional investments and withdrawals. It is not a management fee paid to Funds SA.

Buy/sell spreads vary depending on the types of assets held. The transaction cost approach, which is detailed in the Unit Pricing Policy and the buy/sell spreads are available via the Secure Login on the Funds SA website.

6. Other Matters

Strategic updates

The Funds SA 2020-2023 Strategic Plan sets out key initiatives that contribute to Funds SA's vision; to deliver a world class investment experience. Some key initiatives include:

- **Dynamic Asset Allocation**

DAA capability development is well progressed with the aim of varying investment exposures across an investment cycle to increase return outcomes. DAA analysis tools have assisted progress on the implementation of the LTSAA, for relevant investment options, during 2019-20. It is expected that the DAA capability will be deployed during 2020-21, following Funds SA Board approval of the investment, implementation, and governance processes.

- **Responsible Investment**

A detailed outline of the Responsible Investment initiatives is available in Section 3.

- **Enhanced technology**

The enhancements to our technology capabilities has been invaluable during the COVID-19 pandemic.

- **Custodian transition**

Funds SA is undertaking a custodian transition to Northern Trust. It is expected this transition will be completed in October 2020. During the transition period we expect it will be business as usual and do not anticipate any material impact to clients.

Key documents

Memorandum of Agreement

The Memorandum of Agreement agreed between Funds SA and each of its clients summarises the operational arrangements between the organisations. This document is reviewed periodically.

Memorandum of Administrative Agreement

A Memorandum of Administrative Arrangement between the LSA, Funds SA and the Under Treasurer aims to clearly delineate and acknowledge the respective roles and responsibilities with respect to the management of the Invested Funds and provides a dispute resolution process which the parties agree to accommodate and utilise in good faith.

Client Related Policies and Documents

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This policy details the Funds SA Administration Fee for each financial year and the manner in which it is applied.

Illiquid Asset Allocation Policy

This policy details the way in which Funds SA manages the allocations to illiquid asset classes (includes Property and Diversified Strategies Growth).

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SAFA's Insurance Investments Performance Plan

2020-2021

October 2020



Government
of South Australia

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1. Introduction

This Performance Plan (Plan) is prepared in accordance with section 20 of the *Superannuation Funds Management Corporation of South Australia Act 1995* (Funds SA Act) and sets out Funds SA's approach to the investment and management of the South Australian Government Financing Authority's (SAFA) insurance investments for the 2020-21 financial year.

Pursuant to the Funds SA Act, this Plan details:

- the target for the rate of return on investment and management of the funds;
- strategies for the achievement of that target;
- the factors that, in the opinion of Funds SA, will affect or influence the investment and management of the funds during the year;
- the anticipated operating costs to be incurred by Funds SA during the financial year; and
- such other matters that Funds SA thinks should be included in the Plan.

The Plan is the primary document for communicating with, and seeking feedback from, Funds SA's key stakeholders regarding planned initiatives and proposed strategies for managing the funds over the coming year.

References to additional information is included in Section 6.

Background

SAFA acts as the captive insurer for the South Australian Government and operates under the trading name "SAicorp". It provides comprehensive insurance protection, insuring the risks of South Australian Government Agencies and provides insurance advice and assistance to those agencies. SAicorp is also responsible for reinsuring those risk in the Australian and International insurance markets and provides reinsurance to the private insurance market for South Australian Building Indemnity Insurance risks.

The normal commercial insurance operations of SAicorp are transacted through SAicorp Insurance Fund 1 (Fund 1), which is funded by premiums from agencies and investment income. Fund 1 covers claims arising from insurable events that occurred from 1 July 1994.

SAicorp Insurance Fund 2 (Fund 2) is used to fund liabilities arising from insurable incidents that occurred prior to 1 July 1994 that survive the *Limitation of Actions Act*, as well as a number of specific classes of risk that do not relate to SAicorp's normal insurance activities.

Since 1 July 2013, SAFA has been underwriting the risk relating to building indemnity insurance through reinsurance arrangements with private insurers. Premium income is collected from the private insurers net of commission, claims and other expenses and is allocated to SAicorp Insurance Fund 3 (Fund 3), which has been set aside solely for the administration of building indemnity insurance by SAFA.

On 24 October 2006, regulations proclaiming SAFA as an approved authority for the purposes of the Funds SA Act came into operation. The intent of this proclamation was to enable SAFA to place its insurance investments with Funds SA.

In April 2020, SAFA received approval from the Treasurer to invest nominated funds of SAicorp Insurance Fund 4 (Fund 4) in the Funds SA Capital Defensive Tax-Exempt investment option. Fund 4 relates to a National Redress Scheme associated with people that have experienced institutional child sexual abuse.

Fund 1, Fund 2, Fund 3 and Fund 4 are referred to as 'SAFA insurance investments'.

The investments of Fund 1 and Fund 2 were initially invested with Funds SA in 2007, while surplus funds for Fund 3 were invested with Funds SA in 2014. Fund 4 was funded on 15 May 2020.

Tax Status

SAFA insurance investments are not subject to Commonwealth income tax and accordingly, assets are invested in Funds SA's Tax-Exempt investment options.

2. Investment Objectives

SAicorp's financial objectives

The principal financial objectives of SAFA in relation to its captive insurance function are to:

- protect the State's finances from a very large property loss or civil liability claim, or a series of large losses or claims in a particular year;
- provide comprehensive insurance protection for Government portfolio groups, agencies and authorities at competitive and stable premiums;
- reduce the overall cost of risk to Government portfolio groups, agencies and authorities and the State; and
- invest the insurance funds in accordance with an acceptable investment strategy to ensure the insurance function's ongoing performance capability and financial viability.

Funds SA is able to provide strategic investment advice to SAFA, either directly or through its advisor JANA, to assist with the investment strategies of the SAFA insurance investments.

SAicorp Insurance Fund 1 (Fund 1)

The liabilities of Fund 1 are relatively long with an estimated undiscounted average mean term of 7.2 years. These liabilities are expected to increase, on average, at a rate greater than the rate of inflation.

As at 30 June 2020, 53% of the outstanding claim liabilities of Fund 1 related to medical malpractice claims which had an estimated undiscounted mean term to settlement of 8.3 years, 13% related to long tail claims (mostly civil liability claims other than medical malpractice) which had an estimated undiscounted mean term to settlement of 4.5 years and the remaining 34% related to short tail claims (mostly property claims) which had an estimated undiscounted mean term to settlement of 1.1 years.

In their actuarial review of Fund 1 liabilities as at 30 June 2020, Finity Consulting Pty Ltd (Finity) noted that the valuation models adopted make allowance for inflation, to the extent that it has been present in past trends. Finity has, however, made allowance for superimposed inflation¹, reflecting that the nature of superimposed inflation is that it tends to occur in "waves" and so may or may not be fully represented in the claims experience to date. A rate of 3% has been adopted for superimposed inflation.

Since investing with Funds SA, SAFA, with the Treasurer's approval, had adopted the Funds SA Growth Tax-Exempt investment option for Fund 1. Effective 1 July 2019, Fund 1 adopted a tailored strategy, the Funds SA 'SAFA Investment Strategy'. The genesis of the SAFA Investment Strategy was the Funds SA Growth Tax-Exempt investment option as reflected in the 2018-19 Performance Plan. Having a tailored investment strategy will provide flexibility into the future.

SAicorp Insurance Fund 2 (Fund 2)

The average term of the liabilities of Fund 2 is shorter than for Fund 1, with an estimated undiscounted mean term of 3.3 years. The cash flows are also likely to be more variable and subject to more volatility.

SAFA, with the Treasurer's approval, has adopted Funds SA's Conservative Tax-Exempt investment option for Fund 2.

¹Superimposed inflation refers to the level of inflation of claims costs in excess of normal inflation and it arises from such things as precedent setting court awards, changes in administrative procedures and changes in claimant behaviour.

SAicorp Insurance Fund 3 (Fund 3)

Building indemnity insurance is volatile and tends to fluctuate based on the general economic cycle and the state of the building industry. Finity has calculated that the liabilities of Fund 3 have an estimated undiscounted mean term of 1.6 years, with claims able to be made up to six or seven years from the date of the policy and payable even later than this. SAFA has adopted Funds SA's Conservative Tax-Exempt investment option for Fund 3, as its investment horizon best matches the payment horizon of the building indemnity insurance product.

SAicorp Insurance Fund 4 (Fund 4)

SAFA, with the Treasurer's approval, has adopted the Funds SA Capital Defensive Tax-Exempt investment option. Fund 4 relates to a National Redress Scheme associated with people that have experienced institutional child sexual abuse.

Funds SA investment objectives

The investment objectives state the aims of each investment option, and are designed to help clients with their investment decisions. The objectives have been developed having regard to the long-term performance and characteristics of financial markets, taking into account expert advice provided by Funds SA's specialist investment advisor JANA².

There is a reasonable probability that the target returns for each investment option will be achieved over its stated time horizon based on the investment strategies employed. Details of the statistical modelling undertaken are contained in Section 3. However, there is no guarantee that the target returns will be met because financial markets are volatile and past performance is not a reliable indicator of future performance. Indeed, for investment options with exposure to growth assets, there is a material likelihood that returns may be negative in any particular year.

Changes to investment objectives

The 2020 Investment Strategy Review included an assessment of the appropriateness of the investment objectives for all investment options given the current economic and financial market environment. The investment objectives for all investment options remain appropriate, with the exception of the Capital Defensive investment option. The fall in cash rates and fixed interest yields to near zero, that comprise the majority of the options asset allocation, have made the target return of CPI + 1.5% difficult to achieve over its 2-year time horizon. Therefore, the Funds SA Board has approved a lowering of the investment objective for the Capital Defensive investment option from CPI + 1.5% to CPI + 1%, with implementation to occur from 1 January 2021.

Table 1: Investment objectives

SAFA Fund	Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Fund 1	SAFA Investment Strategy	CPI + 4%	8+ years	Medium to High	3 to less than 4
Fund 2 & 3	Conservative	CPI + 2.0%	4+ years	Medium	2 to less than 3
Fund 4	Capital Defensive ³	CPI + 1%	2+ years	Low	0.5 to less than 1

² JANA Investment Advisers were appointed as Funds SA's primary asset consultant in 2017. JANA provides Funds SA with investment consulting on a broad range of investment strategy and research topics.

³ The Capital Defensive target return is proposed to be changed from CPI + 1.5% to CPI + 1% effective 1 January 2021.

Note: The Standard Risk Measure is based on industry guidance and assigns risk labels to investment options that allow clients to compare investment options based on the expected number of negative annual returns over any 20-year period. The Standard Risk Measure is not a complete assessment of all forms of investment risk. For example, it does not detail the likely size of a negative return or the potential for a positive return to be less than a client may require to meet their financial goals.

3. Investment Strategy

Funds SA undertakes a formal Investment Strategy Review on an annual basis to assess the appropriateness of the Long-Term Strategic Asset Allocation (LTSAA) of the investment options. The objective is to construct LTSAA's that, if held over the long-term, have a reasonable likelihood of achieving the investment objectives – target return and risk.

The Funds SA Board has approved the Review's conclusion that the LTSAA's remains appropriate for all Funds SA's investment options.

The one change approved in the Review was an increase in the foreign currency exposure for the Funds SA Conservative Tax-Exempt investment option and the SAFA Investment Strategy.

Increase in foreign currency exposure

The current exceptionally low interest rate environment has reduced the ability of traditional defensive assets (e.g. fixed interest, inflation-linked securities, and cash), to shield investment options in periods when growth assets (e.g. equities) produce negative returns. For Australian investors, foreign currency can aid in reducing risk in the investment options in times of financial market stress or in global economic slowdowns as the Australian Dollar tends to fall against major currencies (e.g. USD) producing a positive return contribution for the investment options.

The increased exposure to foreign currency across all investment options (excluding Cash and Capital Defensive) will therefore moderately enhance the defensive characteristics of the investment options.

The following table details the proposed changes to foreign currency exposure across Funds SA's investment options.

Table 2: Change in target foreign currency exposure for Funds SA's Tax-Exempt investment options

	Capital Defensive	Conservative	SAFA Investment Strategy
	%	%	%
2019-20 (former) foreign currency exposure	5	10	19
2020-21 (new) foreign currency exposure	5	11	21

Asset Allocation

The following table details the unchanged LTSAA for Funds SA's investment options.

Table 3: LTSAA for Funds SA's Tax-Exempt investment options

Asset class	Capital Defensive %	Conservative %	SAFA Investment Strategy %
Cash	15	10	2
Short-Term Fixed Interest	30	18	0
Long-Term Fixed Interest	5	5	4
Inflation-Linked Securities Tax-Exempt	15	15	6
Diversified Strategies Income	17	18	16
Property Tax-Exempt	6	9	14
Australian Equities Tax-Exempt	5	10	19
International Equities Tax-Exempt	7	15	29
Diversified Strategies Growth Tax-Exempt	0	0	10
Total	100	100	100
Growth assets	25	40	75

Asset class ranges

Asset class ranges are used as the variation in asset class returns and illiquidity of some asset classes means that it is expected that the asset allocation will naturally fluctuate through time.

In the short to medium-term, valuations of asset classes can vary significantly from longer-term averages based on investors' expectations of factors including: future economic growth and inflation; government and central bank policies; and technological change.

Funds SA's investment strategy is likely to use the asset class ranges more actively in 2020-21 via its Dynamic Asset Allocation (DAA) investment process. Funds SA aims to use DAA as a generator of incremental return and assist in risk management over the long-term by taking active, medium-term asset allocation positions.

Following receipt of Funds SA Board approval on 15 September 2020 to utilise the DAA approach, implementation has commenced across Funds SA's investment options i.e. the Capital Defensive and Conservative Tax-Exempt investment options. Funds SA will discuss the applicability of DAA for the SAFA Investment Strategy with SAFA.

The allowable ranges for the individual asset classes are +/- 10% from LTSAA for Funds SA's investment options and +/- 5% for the tailored SAFA Investment Strategy except Cash which is between 0 and 20%, as illustrated in the table below.

Table 4: Asset class ranges for Funds SA's investment options*

Asset class	Capital Defensive & Conservative %	SAFA Investment Strategy %
Cash	0 to +20	0 to +20
Short-Term Fixed Interest	± 10	± 5
Long-Term Fixed Interest	± 10	± 5
Inflation-Linked Securities	± 10	± 5
Diversified Strategies Income	±10	± 5
Property	±10	± 5
Australian Equities	±10	± 5
International Equities	±10	± 5
Diversified Strategies Growth	±10	± 5

*Note: For the Capital Defensive and Conservative investment options, where the LTSAA of a particular asset class is less than 10%, the asset class range is 0 to + 10%. For the SAFA Investment Strategy, where the LTSAA of a particular asset class is less than 5%, the asset class range is 0 to + 5%. That is, the allocation to any particular asset class cannot be negative.

The aggregate allocation to growth assets continues to be managed within the following ranges:

Table 5: Growth ranges for Funds SA's investment options

Funds SA investment option	Strategic allocation %	Range %
Capital Defensive	25	10 - 40
Conservative	40	25 - 55
SAFA Investment Strategy	75	65 - 85

Extreme market conditions may impact the ability to effectively implement strategy and cause asset allocations to drift outside ranges nominated. Although such times are infrequent, once such conditions are present, the allocation ranges may be temporarily suspended. Funds SA will notify clients of such moves should this occur.

Expected performance characteristics

Quantitative analysis of the proposed investment strategies for the investment options has been undertaken using JANA's medium to long-term investment forecasts of risk and return.

The following table shows the expected average outcomes for each investment option. Note, in the event of extreme market environments actual outcomes may differ significantly from the expected outcomes below.

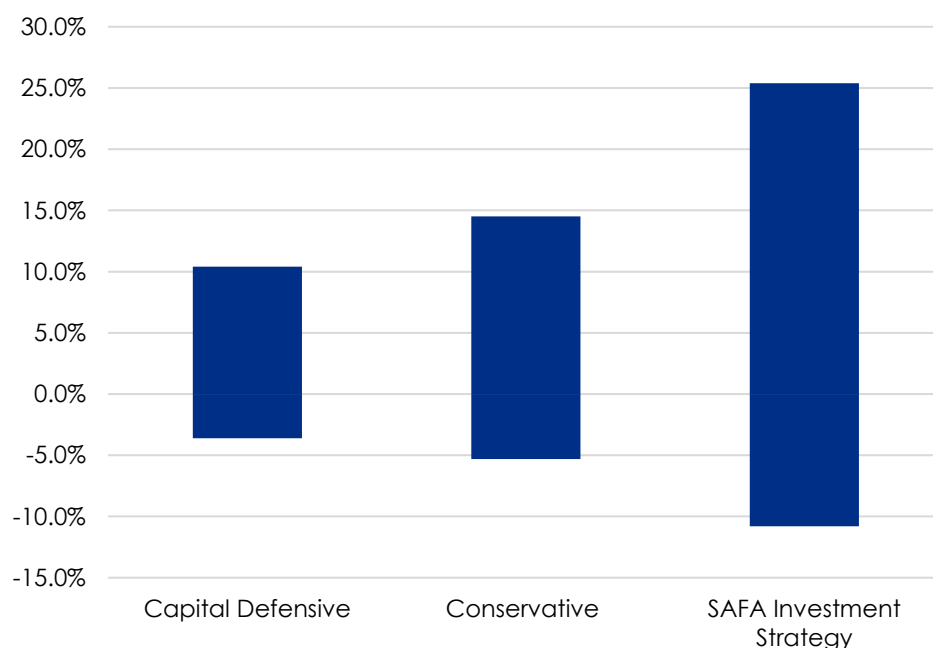
Table 6: Forecast risk/return profiles of Funds SA's Tax-Exempt investment options

	Capital Defensive	Conservative	SAFA Investment Strategy
Target return (p.a.)	CPI + 1.0%	CPI + 2%	CPI + 4.0%
Investment horizon (years)	2 +	4 +	8 +
Expected nominal return	3.3%	4.5%	7.2%
Expected real return	1.9%	3.1%	4.7%
95% confidence interval for nominal return over 1-year ⁴	-3.6% to 10.4%	-5.3% to 14.5%	-10.8 to 25.4%
Nominal expected tail loss ⁵	-4.0%	-6.0%	-11.9%
Probability of achieving objective over investment horizon	65.3%	67.6%	70.8%
ASFA/FSC Risk Label ⁶	Low	Medium	Medium to High
ASFA frequency of negative annual returns (x years in 20)	0.5 to less than 1	2 to less than 3	3 to less than 4
Probability of a negative return in any year	17.3%	18.9%	21.7%

Source: JANA. Based on JANA modelling as at 31 March 2020 using 10-year (medium-term and long-term lower for longer) capital market assumptions.

The following chart for the Tax-Exempt investment options shows the range of return outcomes over a one-year period is wider the further up the risk spectrum.

Chart 1: Expected range of returns over a one-year period – Tax-Exempt investment options



Source: JANA

⁴ Represents the expected range of return outcomes for each investment option over a one-year period. Note there is approximately a 5% chance that returns could lie outside this range.

⁵ Represents the expected return when financial market conditions are very adverse. It is equal to the average expected return in the bottom 5% of return scenarios.

⁶ As per ASFA/FSC guidance using JANA longer term, or normative assumptions, calculated over 20 years, using the lower for longer model calibration and are gross of tax.

Asset class strategies

Integral to the strategic asset allocation process is the development of investment strategies for each asset class, including the engagement of external investment managers.

Descriptions of the asset classes and their underlying investments are provided below.

Table 7: Funds SA asset classes

Asset class	Investments
Cash	Exposure to Australian short-term interest rate sensitive debt instruments, such as bank bills, that provide a high level of liquidity with minimal risk of capital loss.
Short-Term Fixed Interest	Exposure to Australian nominal debt instruments providing principal repayment at maturity and coupon payments at regular intervals until maturity, with an average duration of around 2-3 years.
Long-Term Fixed Interest	Exposure to domestic and global debt instruments providing principal repayment at maturity, and coupon payments at regular intervals until maturity, with an average duration of around 7-8 years. International assets are hedged to the Australian Dollar.
Inflation-linked Securities	Exposure to debt securities providing a fixed rate of return in excess of an index related to the general level of prices in the economy, such as the Consumer Price Index or Average Weekly Earnings. International assets are hedged to the Australian Dollar.
Diversified Strategies Income	Investment opportunities with expected returns between that of bonds and equities, not readily classifiable within the other asset classes. Includes investments in investment grade credit, emerging market debt, high-yield securities and absolute return strategies. International assets are hedged to the Australian Dollar.
Property	Exposure to Australian listed and unlisted property
Australian Equities	Equity exposure to companies listed or about to be listed on the Australian Securities Exchange.
International Equities	Equity exposure to companies listed on international stock exchanges. Includes exposure to emerging markets and small companies. A portion of the developed markets component is hedged to the Australian Dollar.
Diversified Strategies Growth	Investment opportunities with expected returns in excess of the long-term expectation for listed equities, not classifiable within the other asset classes. Includes investments in private equity, opportunistic property, infrastructure, and other opportunities. International assets are hedged to the Australian Dollar.

Information regarding external investment managers appointed by Funds SA can be found on our website.

Complementing the asset class strategies are a range of initiatives to enhance Funds SA's Responsible Investment approach across the investment platform.

Responsible Investment initiatives

Funds SA recognise Environmental, Social and Corporate Governance (ESG) issues are important to members and can materially influence investment outcomes.

We have developed a number of initiatives to enhance our responsible investment practices over a multi-year period. The focus will be on the following during 2020-21:

- Completion of a comprehensive Responsible Investment Framework including updating Funds SA's Board approved ESG Statement / Policy.
- Enhancing the ESG approach for selection and monitoring of external investment managers.
- Enhancing the assessment of climate change risks within the investment options.
- Enhancing the existing proxy voting approach that utilises the expertise of external investment managers to vote on all company resolutions. Initiatives include taking direct control of voting on material Australian Equities holdings and controversial issues, and engagement of a proxy advisor for independent assessment.
- Funds SA has appointed an external expert to assist Funds SA in understanding our 'Australian Modern Slavery' risks.
- Reviewing membership opportunities with relevant industry groups.
- Expanding data capabilities to assist with ESG security level information and analytics.

4. Factors Affecting 2020-21 Investment Strategy

There are a number of themes and risks associated with financial markets that we have considered in the investment, and management of the investment options for the coming year.

- The health and economic risks from the ongoing spread of COVID-19.
- The impact of the measures taken by governments to reduce the spread of COVID-19 on the global economy and investment markets.
- Development of government and central bank policies to assist economic recovery and financial market liquidity.
- The depth of Australian and global recessions, and likely shape of the economic recovery.
- Valuations of assets within different investment markets.
- US and European elections.
- Development of global trade relationships, particularly US – China, and its potential effects on Australia.
- Funds SA's existing investment option structures and liquidity demands.

Funds SA regularly monitors financial market valuations and risks, to assess the potential impact on the investment options and to determine if extreme market environments exist that could warrant a change to the strategy.

To complement our internal research, analysis and development of investment strategies, Funds SA engages JANA to provide specialist asset allocation advice, and an appraisal of medium to longer term risks and opportunities in markets. Funds SA also sources research via a number of key investment manager relationships and dedicated independent economic research organisations.

Funds SA believes volatility in financial markets can be best managed by:

- designing an investment strategy appropriate to the time horizon of the investment objective;
- maintaining diversification within the investment options; and,
- remaining flexible with regards to strategy implementation.

The investment strategies are generally based on a 2 to 10-year time horizon embracing longer term expectations for the risk and return relativities between the various asset classes. The analyses upon which the LTSAs are developed are based on these assumptions.

Funds SA considers that diversification and liquidity are key inputs in the development and management of the investment options:

- To minimise risk, Funds SA adopts risk management practices and diversification techniques at all levels: by asset class, investment manager and security. Thoughtful diversification enables the investment options to have acceptable levels of risk through a wide range of economic environments.

Nevertheless, over shorter periods and in extreme environments, investment options with high weightings to the most volatile asset classes, such as equities, will potentially deliver returns outside the normal range of expectations.

- Funds SA's investment options have appropriate levels of liquidity, meaning we can divest significant portions of an investment option at short notice, if required. We have established strict liquidity policy guidelines based on extensive stress testing scenarios, to ensure illiquidity risk remains manageable and clients can access funds relatively freely. In volatile markets this is an important capability.

5. Investment Management Costs

Funds SA applies standard industry guidelines in calculating and disclosing its investment management costs; namely:

- ASIC Regulatory Guide 97: Disclosing fees and costs in PDSs and other periodic statements (RG97); and,
- Corporations Regulations 2001 – Schedule 10 – Disclosures of Fees and Other Costs (Schedule 10).

Funds SA's investment management costs comprise fees paid directly to investment managers, including: performance fees; transactional and operational costs incurred by investment managers in implementing their particular mandates; investment management fees and costs incurred through interposed investment vehicles (including performance fees); asset consulting fees; custodian fees; legal and tax advisory fees; and Funds SA's corporate expenses.

Funds SA's investment management costs are presented as an Indirect Cost Ratio (ICR). The ICR expresses investment management costs as a percentage of average funds managed. Separate ICRs are calculated for each investment option.

Funds SA operates on a cost recovery basis, with all costs incurred fully reflected in the asset class unit prices.

Target ICRs for 2020-21

Table 8: Funds SA Tax-Exempt investment option target ICRs for the 2020-21 financial year

Funds SA Investment option	2020-21 Target ICR*
Capital Defensive	0.45%
Conservative	0.50%
SAFA Investment Strategy	1.05%

*It should be noted that the ICRs are targets only. The actual costs may vary due to a number of factors including asset allocations being different to modelled positions; growth in funds under management; changes to manager line-ups; changes to fee schedules; and, performance fees and transactional and operational costs being different to expectations.

Buy/sell spreads

Buy/sell spreads are applied to the applications and redemptions of assets undertaken by Funds SA's clients. A buy/sell spread is an allowance for transaction costs such as brokerage and stamp duty, incurred in buying and selling the underlying assets of the investment option.

The purpose of the buy/sell spread is to protect existing clients bearing the costs associated with new and additional investments and withdrawals. It is not a management fee paid to Funds SA.

Buy/sell spreads vary depending on the types of assets held. The transaction cost approach, which is detailed in the Unit Pricing Policy and the buy/sell spreads are available via the Secure Login on the Funds SA website.

6. Other Matters

Strategic updates

The Funds SA 2020-2023 Strategic Plan sets out key initiatives that contribute to Funds SA's Vision; to deliver a world class investment experience. Some key initiatives include:

- Dynamic Asset Allocation

DAA capability development is well progressed with the aim of varying investment exposures across an investment cycle to increase return outcomes. DAA analysis tools have assisted progress on the implementation of the LTSAA, for relevant investment options, during 2019-20. It is expected that the DAA capability will be deployed during 2020-21, following Funds SA Board approval of the investment, implementation, and governance processes.

- Responsible Investment

A detailed outline of the Responsible Investment initiatives is available in Section 3.

- Enhanced technology

The enhancements to our technology capabilities has been invaluable during the COVID-19 pandemic.

- Custodian transition

Funds SA is undertaking a custodian transition to Northern Trust. It is expected this transition will be completed in October 2020. During the transition period we expect it will be business as usual and do not anticipate any material impact to clients.

Key documents

Service Level Agreement

The Service Level Agreement agreed between Funds SA and each of its clients summarises the operational arrangements between the organisations. This document is reviewed periodically.

Client Related Policies and Documents

Cost Recovery Policy

This policy details the Funds SA Administration Fee for each financial year and the manner in which it is applied.

Illiquid Asset Allocation Policy

This policy details the way in which Funds SA manages the allocations to illiquid asset classes (includes Property and Diversified Strategies Growth).

Unit Pricing Policy

This policy describes the way in which Funds SA applies unit pricing and unit registry in administering the funds under its management. It also includes the transaction cost approach which details the buy/sell spreads for investment options and asset classes, and the manner and circumstances in which spreads are applied.

Governance Framework Document

This document details the key elements of Funds SA's governance structure and sets out the responsibilities of committees along with the various Board approved policies and procedures that guide Funds SA in pursuit of its goals.

Investment Implementation Framework Document

This document details Funds SA's approach to implementing and managing investment strategies, reviewing and monitoring investment strategies and investment managers, and Funds SA's risk and compliance structure.

The above policies and documents are available via the Secure Login on the Funds SA website.

Funds SA Environmental, Social and Governance Statement

This document describes the way in which Funds SA applies environmental, social and governance (ESG) concepts in the course of selecting and engaging with investment managers.

This statement is available on the Funds SA website.

Funds SA Director and Management Profiles

Profiles of Directors and key management personnel can be found on the Funds SA website.

Funds SA Disclaimer

The information within this article has been prepared in good faith by Funds SA. However, Funds SA does not warrant the accuracy of the information and to the extent permitted by law, disclaims responsibility for any loss or damage of any nature whatsoever which may be suffered by any person directly or indirectly through relying upon it whether that loss or damage is caused by any fault or negligence of Funds SA or otherwise. The information is not intended to constitute advice and persons should seek professional advice before relying on the information.

Half-Yearly Performance Report

Funds SA Investment Options

For the six months ended 31 December 2020



Government
of South Australia

EXECUTIVE SUMMARY

This report provides an overview of the performance of Funds SA's investment options for the six-month period ended 31 December 2020.

COVID-19 vaccine developments and continued Government and Central bank stimulus drove very strong returns.

- The Balanced Tax-Exempt investment option (and other investment options with high allocations to growth assets) achieved returns greater than 10% for the six months to 31 December 2020.
- Annual returns were more moderate (approximately 5%) as they included the severe market falls inflicted by the COVID-19 pandemic in February and March.
- Equity markets rebounded rapidly from COVID-19 led falls of 35% in February and March to reach record levels by the end of 2020 driven by investor confidence that vaccines will allow normal economic activity to resume later in 2021.
- Investors are expecting earnings to recover to 2019 levels by the end of 2021 with near zero interest rates and continued Government stimulus to support the economic recovery and asset prices.
- Whilst COVID-19 was the dominant theme impacting financial markets, the US election, and ongoing trade tensions with China were also significant.
- The Australian economy was officially confirmed in recession in the June Quarter, but strong growth in retail sales and a rapid improvement in the employment market indicates that a recovery is underway.
- Investor optimism grew from this improving economic activity and a preparedness to discount short term weakness in company earnings and focus on expected post-COVID earnings and valuations.
- Central banks left cash rates at historical lows (near zero) and controlled medium-term bond yields at very low levels to assist credit markets and encourage investors to increase risk in the search for adequate returns.
- Despite the large falls led by COVID-19 early in the year, the strong recovery over the past six months led to all Funds SA's investment options finishing the year with positive returns.

Funds SA's investment options delivered positive performance.

- All Funds SA's investment options delivered returns above their investment objectives for the six-month period ended 31 December 2020. Appendix 1 and 2 contain summaries for each Funds SA investment option.
- Funds SA's investment options returns ranged from 3.7% (one-year) and 4.7% (six months) for the Capital Defensive Tax-Exempt investment option to 5.9% (one-year) and 11.8% (six months) for the Growth Tax-Exempt investment option.
- Cash investment option returns were very low at 0.5% (one-year) and 0.1% (six months) as a result of the Australian Cash rate falling to near zero during the year.
- All asset classes provided a positive contribution to performance, International and Australian Equities returning 13-17% for the six months. Performance from Cash and Fixed Income asset classes was positive but very low given current cash rates and bond yields.

- Long-term performance continues to be positive and consistent with expectations. Since inception in 1995, the Balanced Tax-Exempt and Growth Tax-Exempt investment options have delivered 8.1% p.a. and 8.1% p.a. respectively. The State's Defined Benefit Strategy has returned 8.2% over the same period.
- Funds SA materially exceeded the median performance of comparable Funds over six and 12 months and is comparable over the longer term based on industry performance surveys (using Chant West survey of super funds with similar growth allocations).

Asset allocations were within the asset class ranges.

- As at 31 December 2020, the investment options asset allocations were within the asset class ranges specified in the Performance Plan.

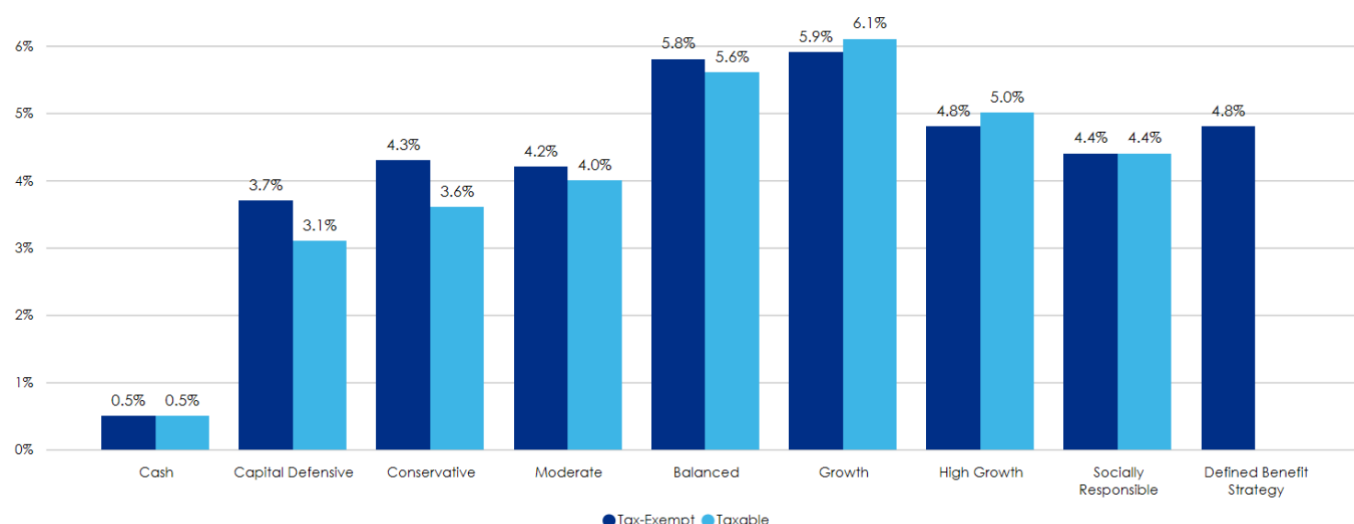
Funds under management¹

- Funds SA's total funds under management rose from \$34,084 million (m) as at 1 July 2020 to \$37,526m as at 31 December 2020. This was the result of net investor outflow of \$59.8m and investment gains of \$3,502m.

Investment Management Costs

- The Indirect Cost Ratios (ICRs), including performance fees and transactional and operational costs, tracked below the target ICR for the financial year-to-date for all investment options. Additional detail relating to investment management costs can be found in Section 4.

Chart 1: Funds SA Tax-Exempt and Taxable investment option returns for the 12 months ended 31 December 2020, returns net of fees and gross of tax



¹ All funds under management (FUM) values provided are based on Redemption value (RED).

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1. Financial Market Environment

COVID-19 vaccine developments and continued Government and Central bank stimulus drove very strong returns.

Whilst the past six months have been volatile in economic news flow, financial market returns were consistently strong as optimism around the recovery from COVID-19 and the alternative of locking in near zero cash returns increased the risk appetite of investors.

In the northern hemisphere, COVID-19 cases began increasing as winter approached and mutant strains of the virus were discovered. The pandemic continued to disrupt the economic recovery and countries began reinstating lockdowns. However, this did not affect the continued recovery in Equity markets with many hitting record levels.

In November, three main sources of investor uncertainty were alleviated; by positive COVID-19 vaccine announcements, the US election results, and better than expected third Quarter US company earnings reports. This was the beginning of a significant rally in risk assets as Governments also announced further stimulus packages to support businesses and consumers to support incomes.

Successful trial results from 2 COVID-19 vaccines were announced in November, and investors looked through increasing case numbers, focusing on vaccine rollouts and the potential return to normal economic activity.

The US election result was called with Joe Biden declared the President-Elect. While there were protests from the Republicans over the validity of the result, investors viewed Biden's success in a positive light and credit and equity markets were propelled higher.

The EU-UK Trade and Cooperation Agreement was finalised on the 24th of December, to formally facilitate Brexit. The effects of Brexit on the UK economy will become evident as the UK and Europe adapt to the new way of trading together.

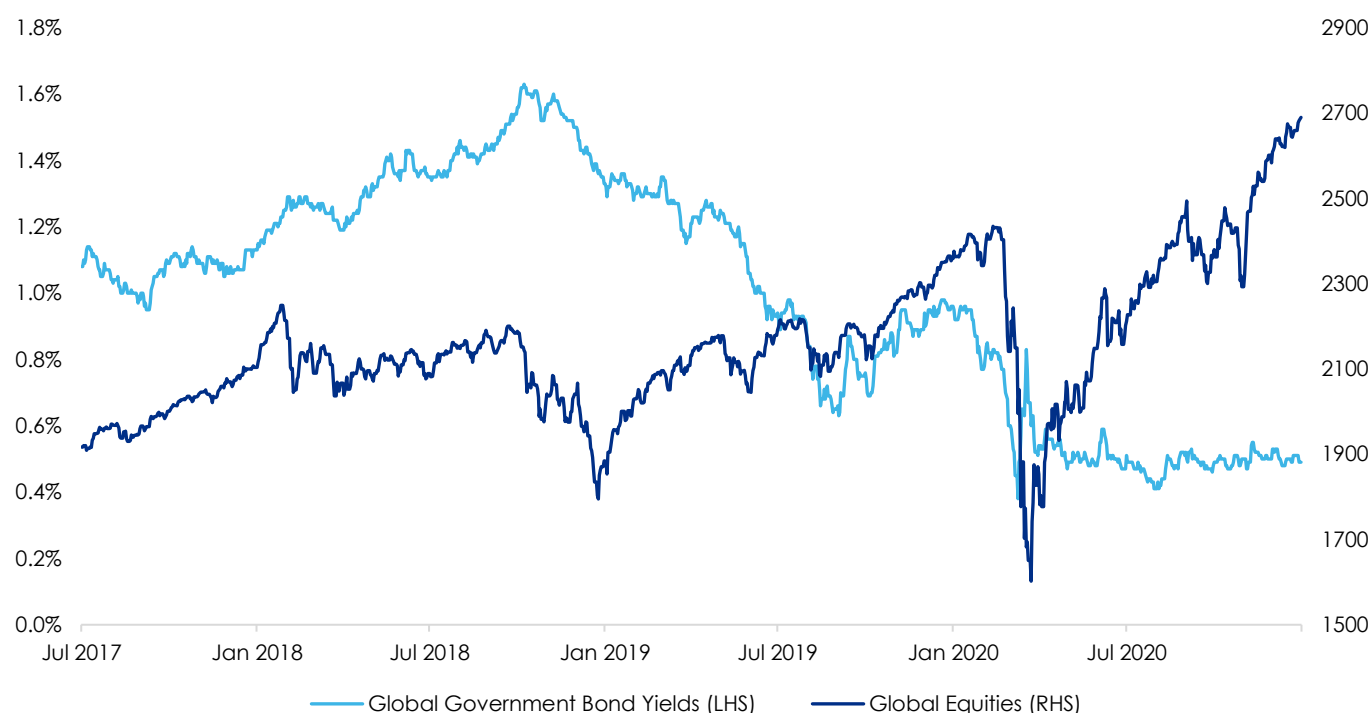
On the COVID-19 front, Australia fared better than our global peers, notwithstanding the substantial Victorian lockdown. The Reserve Bank of Australia reduced the Official Cash Rate to 0.1% in November and the Federal Government extended JobKeeper and JobSeeker support packages to help position the economy for recovery. In response to fiscal and monetary stimulus, consumer and business sentiment both improved. The Australian equity market was assisted by higher commodity prices, notably iron ore, driven by improving global GDP and strong demand from China.

China's economy accelerated in the second half of 2020 and is the only country to end the year with positive GDP growth. This was driven by industrial production due to demand from global consumers. Lockdowns caused consumers around the world to pivot away from spending on services and instead increased their purchases of goods. As China is a global manufacturer of many of those goods, it helped grow their economy.

All investment options delivered strong positive returns for the period, but growth-orientated investment options benefited the most from strong equity, credit, and unlisted markets. The defensive-oriented investment options were positive but crimped by significant weightings to the Cash and Fixed Interest asset classes. As cash rates moved to near zero and bond yields are anchored to low levels for the foreseeable future by central bank actions, return expectations for these asset classes remain muted.

The chart below depicts the themes discussed, with global equity markets falling sharply as the COVID-19 pandemic took hold, and the subsequent rally, whilst long-term sovereign bond yields remained flat.

Chart 2: Performance of developed market global equities and government bond yields to 31 December 2020*



*Source: Bloomberg

As a result of the factors identified earlier, six-month returns showed:

- Australian equities underperformed relative to most global equity markets in local currency terms. However, the AUD appreciated strongly against development market currencies, meaning returns were similar in AUD terms.
- The US equity market performed strongly, reflecting the technology heavy sector composition in the US that benefited from the impact of COVID-19. The Funds SA International Equities asset class materially outperformed its benchmark for the six months driven by strong stock selection by the managers.
- Cash and Fixed Interest produced slightly positive returns, although Inflation-Linked Securities performed well as expectations of future inflation increased.
- Non-government debt markets were strong. Those sectors perceived to be the highest risk, such as high-yield and emerging market debt, performed the strongest. This was due to a rebound in economic growth and a reduction in credit spreads.
- Australian listed property delivered strong returns, recovering some of the losses incurred at the start of the COVID-19 pandemic. While leasing activity, occupancy rates and improved patronage in shopping centres have supported the recovery, headwinds remain, with demand uncertainty for office space and structural shifts to online shopping continuing.
- Other unlisted markets, such as infrastructure and private equity, experienced valuation upgrades from conservative levels set in June.

- The Australian Dollar (AUD) appreciated by 12% against the US Dollar (USD) as investors increased their confidence in the global economic recovery, the US Federal Reserve emphasised that it would wait to see sustained inflation before increasing interest rates, and the US election result increased the prospect of further material government stimulus, all dragging the USD lower.

The following table shows the returns generated in different asset markets over periods to 31 December 2020.

Table 1: Major market index returns, periods to 31 December 2020*

Market Index	1 mth %	3 mths %	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	0.4	1.3	1.5	1.8	2.4
Australian Government	-0.4	-0.6	0.2	4.1	5.6	4.6	5.1	5.4
Australian Inflation-Linked	1.2	1.7	5.3	6.9	6.3	4.8	5.7	6.5
Global Treasuries	0.2	0.2	0.7	4.9	4.6	4.4	5.2	5.8
Credit								
Global Credit	0.4	2.3	3.9	6.7	5.5	5.9	5.9	6.7
Global High-Yield	1.9	6.5	10.0	3.5	4.0	7.4	6.1	8.1
Emerging Market Debt	1.8	5.5	7.9	5.9	4.9	6.8	5.8	6.0
Property								
Australian Listed Property	0.6	13.2	21.6	-4.0	5.8	7.4	11.0	11.3
Equities								
Australian Equities	1.3	13.8	13.7	1.7	6.9	8.8	7.4	7.7
Global Equities	3.5	12.4	19.9	13.5	10.2	11.6	9.9	10.6
US Equities	3.8	12.1	22.2	18.4	14.2	15.2	12.9	13.9
European Equities	2.2	10.3	10.6	-2.2	2.7	5.6	5.4	6.3
Japanese Equities	3.0	12.1	17.5	8.2	2.6	5.5	7.0	9.5
Asia (ex Japan) Equities	6.0	16.1	27.1	22.4	8.2	12.7	9.2	7.1
Chinese Equities	1.8	14.3	10.0	-3.8	-2.8	2.1	-0.1	-1.7
Emerging Market Equities	6.1	16.1	26.3	19.5	8.5	13.0	9.1	7.0
Global Small Companies	7.0	23.7	33.0	16.2	8.1	11.7	8.7	9.9
Currency								
Australian Dollar vs Developed Market Basket	3.9	5.9	9.0	7.4	-0.9	0.5	-1.5	-2.3
Commodities								
GSCI Energy	6.3	16.9	16.3	-46.3	-16.7	-6.2	-18.6	-12.7
GSCI Precious Metals	7.5	0.8	6.3	23.0	11.7	11.1	5.4	1.4

*Source: Bloomberg, Mercer

Note:

Returns for Global Treasuries, Global Credit and Global High-Yield are hedged to AUD.

Returns for Emerging Market Debt are hedged to USD.

Returns for Property and Equities are expressed in local currency.

Returns for Commodities are in USD.

2. Investment Performance

A number of uncertainties were alleviated during the past six months, and investors gained confidence to invest in risk assets. Against a backdrop of rising markets, driven by positive investor sentiment, record low cash and term interest rates, and rising expectations for improved economic growth, the Funds SA investment options delivered exceptionally strong positive returns.

Returns ranged from single mid-digits for the more defensive investment options and the growth-orientated investment options delivered low double-digit returns for the six-month period. All investment options finished the calendar year with low to mid-single digit returns; a remarkably good outcome considering the significant market falls and volatility at the beginning of 2020.

Every asset class was a positive contributor to the performance of all investment options for the six months to 31 December 2020. For most investment options, International Equities led the performance recovery, with Australian Equities, Diversified Strategies Growth, Diversified Strategies Income and Property also producing very strong returns. The contribution from the Cash and Fixed Interest asset classes was modest, as cash rates moved toward zero and bond yields anchored to low levels for the foreseeable future by central bank actions. Return expectations for these asset classes remain muted.

Table 2: Funds SA Tax-Exempt investment options investment returns, periods to 31 December 2020, returns net of fees and gross of tax

Funds SA investment option	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.	15 years % p.a.	20 years % p.a.
Cash	0.1	0.5	1.4	1.6	1.9	2.5	3.5	4.0
Capital Defensive	4.6	3.7	4.5	4.8	4.8	5.7	5.5	n.a.
Conservative	6.8	4.3	5.5	6.1	6.0	6.8	5.9	6.6
Moderate	8.3	4.2	6.1	7.0	6.9	7.5	n.a.	n.a.
Balanced	10.7	5.8	7.2	8.4	8.1	8.6	6.7	7.1
Growth	11.9	5.9	7.6	8.9	8.6	9.1	6.8	7.2
High Growth	12.0	4.8	7.6	9.4	9.0	9.5	7.0	7.3
Socially Responsible	10.8	4.4	6.7	7.0	6.9	7.8	n.a.	n.a.
Defined Benefit Strategy	11.5	4.8	7.5	9.0	8.6	9.1	6.9	7.2

Table 3: Funds SA Taxable investment options investment returns, periods to 31 December 2020, returns net of fees and gross of tax

Funds SA investment option	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.	15 years % p.a.
Cash	0.1	0.5	1.4	1.6	1.9	2.5	3.5
Capital Defensive	4.3	3.1	4.1	4.5	4.5	5.3	5.2
Conservative	6.4	3.6	5.0	5.7	5.6	6.4	5.7
Moderate	8.1	4.0	5.8	6.7	6.6	7.1	n.a.
Balanced	10.6	5.6	6.9	8.0	7.7	8.1	6.4
Growth	11.9	6.1	7.4	8.7	8.3	8.6	6.6
High Growth	12.1	5.0	7.5	9.2	8.8	9.1	6.9
Socially Responsible	10.8	4.4	6.7	7.0	6.9	7.8	n.a.

Performance relative to investment objective

The investment objective for each investment option is defined in the Performance Plan. The primary performance measure for each investment option is the investment objective which includes:

- a target return expressed as a margin over inflation;
- a time horizon over which there is a reasonable likelihood of achieving the target return; and
- a risk dimension expressed as the possible frequency of a negative annual return in any 20-year period.

The following table shows the return earned by each investment option against the respective target return, expressed over the relevant time horizon.

As the Socially Responsible investment option does not have a quantitative investment objective, it is not shown in the table below.

Table 4: Funds SA investment options vs investment objective, for periods ending 31 December 2020, returns net of fees*

Funds SA investment option	Investment horizon	Target return % p.a.	Tax-Exempt investment option performance % p.a.	Taxable investment option performance % p.a.
Cash	0+ years	RBA Cash Rate	0.5	0.5
Capital Defensive	2+ years	(CPI + 1.5%) = 2.5	5.8	5.2
Conservative	4+ years	(CPI + 2.0%) = 3.5	6.0	5.5
Moderate	6+ years	(CPI + 3.0%) = 4.6	6.6	6.3
Balanced	10+ years	(CPI + 3.5%) = 5.7	8.6	8.1
Growth	10+ years	(CPI + 4.0%) = 6.2	9.1	8.6
High Growth	10+ years	(CPI + 4.5%) = 6.7	9.5	9.1
Defined Benefit Strategy	10+ years	(CPI + 4.5%) = 6.4	9.1	n.a.

*Target returns and investment option performance are expressed over the stated investment horizon for each investment option. Note, where elements of the investment objectives have changed over time, the target return series reflects a combination of the former and current objectives.

Note: The Cash investment option performance is assessed over 1-year rolling periods.

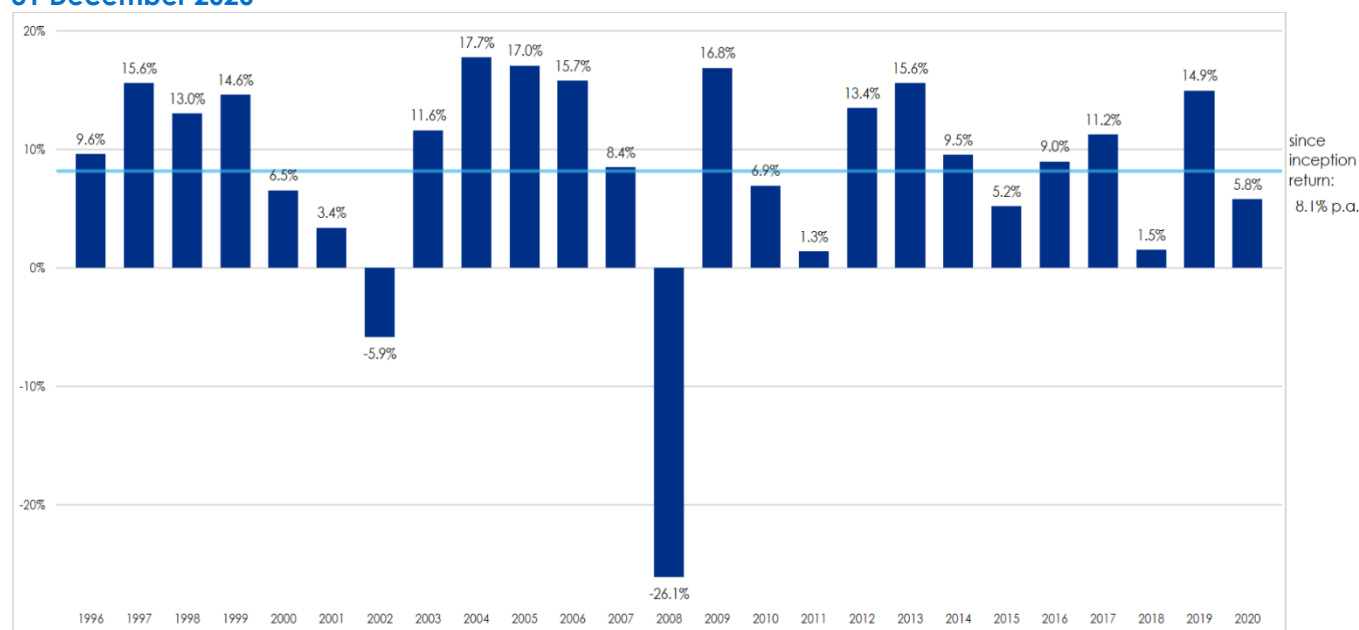
The risk characteristics of all investment options are in line with expectations

To articulate the risk profile, the investment objectives include an expectation of the frequency of negative returns in any 20-year period. The Balanced Tax-Exempt and Taxable investment options investment objective states that a negative annual return might occur between four and six years in 20. Chart 3 illustrates the Balanced Tax-Exempt investment option performance has been within expectations, recording 11 negative annual calendar year returns since 1996.

The risk characteristics of the other investment options are in line with expectations.

The volatility of returns is also illustrated in Chart 3. For growth-oriented investment options, shorter-term returns can be volatile, with calendar year returns ranging as high as 17.7% to a low of -26.1%. However, the annualised return since inception is 8.1% p.a.

Chart 3: Balanced Tax-Exempt investment option performance, annual calendar year returns to 31 December 2020



Investment option performance relative to benchmark was positive over the six months.

Benchmarks are constructed for the long-term, consistent with the investment objective of the investment options, and may not be an appropriate measure of short-term performance, especially during periods of extreme volatility. This is particularly relevant for benchmarks that have a cash plus approach.

For the six months to 31 December 2020, all Funds SA investment option outperformed their relevant benchmark.

International Equities, Diversified Strategies Income (DSI) and Diversified Strategies Growth (DSG) asset classes were consistently positive contributors to relative performance. Cash and Inflation-Linked Securities, in some instances, were very slight negative contributors to relative performance.

Key contributors:

- International Equities strongly outperformed its benchmark over the six months to December 2020. The outperformance was largely driven by a strong positive contribution from stock selection and exposure to managers that tended to have a growth bias, notably T Rowe Price, Harding Loevner, and Lord Abbett. The Emerging market managers also delivered a strong period of performance. Managers with value/quality bias struggled to contribute positively to the asset class but continued to perform in line with expectations.
- Within the DSI asset class, credit-orientated strategies and absolute return strategies both outperformed their respective benchmarks over the period, recovering from poor performance during the COVID-19 led downturn in February and March. The credit-orientated strategies added value through security and sector selection. The absolute return strategies adding value through exposure to risk assets.
- Within the DSG asset class, overseas private equity funds were the largest contributors to returns as the valuations of these assets began to recover from the write-downs caused by the COVID-19 pandemic earlier in the year.

Whilst the investment objectives are the primary return measure, performance relative to the benchmark aids in our ongoing analysis of:

- asset class strategy;
- manager performance; and
- manager composition.

Further discussion on each investment option is included in the appendices and asset class performance relative to their benchmarks is discussed in Section 3.

Performance vs. industry benchmarks

Performance against industry surveys² is monitored as a market reference for Funds SA's investment options, the example below provides comparison for the Funds SA Balanced option which is the default option for Super SA members. The comparisons should only be used as a rough guide given the difficulties associated with making 'like for like' comparisons as funds within the superannuation industry will have different investment strategies, objectives, and tax arrangements than can impact performance outcomes.

As the returns in the industry surveys are reported after the application of the 15% superannuation earnings tax, to achieve some degree of comparability for the Funds SA Balanced Tax-Exempt investment option, an estimated 'notional' tax rate on investment earnings is applied to the investment option's returns.

The Funds SA growth-oriented investment options are the most readily comparable to the Chant West industry surveys because the allocation to growth assets within these investment options is the closest to the industry survey median.

The Funds SA Balanced investment options outperformed the survey median return over six months.

Table 5: Funds SA Balanced Tax-Exempt investment option investment performance* vs. industry benchmark, returns net of fees and tax for periods to 31 December 2020

	Growth assets ³ %	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.	15 years % p.a.
Funds SA Balanced Tax-Exempt	73.5	10.1	5.7	6.7	7.6	7.3	7.8	6.1
Chant West Growth Median ⁴	61-80	8.7	3.7	6.2	7.5	7.4	7.8	6.4

*adjusted for notional tax.

Table 6: Funds SA Balanced Taxable investment option investment performance vs. industry benchmark, returns net of fees and tax for periods to 31 December 2020

	Growth assets ⁵ %	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.	15 years % p.a.
Funds SA Balanced Taxable	73.8	10.6	5.6	6.9	8.0	7.7	8.1	6.4
Chant West Growth Median ⁶	61-80	8.7	3.7	6.2	7.5	7.4	7.8	6.4

² Whilst the Chant West survey data used for comparisons comprises only superannuation funds, Funds SA considers the survey returns provide the most appropriate representation of what similar balanced/growth funds in the industry would achieve.

³ Specific growth asset exposure is not provided in the Chant West Media Release 19 January 2021, data as at 31 December 2021. Growth asset exposure is defined using Funds SA methodology for classification of growth and defensive assets.

⁴ Source: Chant West Pty Limited (www.chantwest.com.au) Media Release 19 January 2021. Funds SA Balanced option is categorised in the Growth category, which includes superannuation investment options with between 61% and 80% growth assets. For important information about the data provided by Chant West, refer last page of report.

⁵ The Balanced Taxable investment options are not surveyed by Chant West. Therefore, growth asset exposure for this investment option are defined using Funds SA methodology for classification of growth and defensive assets.

⁶ Source: Chant West Pty Limited (www.chantwest.com.au) Media Release 19 January 2021. Growth category includes superannuation investment options with between 61% and 80% growth assets. For important information about the data provided by Chant West, refer last page of report.

3. Asset Classes

Asset class development

Funds SA has established a range of asset classes which are the building blocks for the investment options. The Socially Responsible investment option does not invest in Funds SA's asset classes.

We continue to develop and expand our investment platform and asset classes to ensure we have the flexibility to meet a wide range of investment objectives and risk tolerances, with the aim of enhancing investment outcomes for clients.

During the past six months The Funds SA Board approved the implementation of a number of investment and asset class initiatives to support the pursuit of enhanced returns.

Active Asset Allocation

The Funds SA Board approved the Dynamic Asset Allocation (DAA) approach on the 15th September, and the approach has been utilised during the period.

Funds SA aims to use DAA as a generator of incremental return and assist in risk management over the long-term by taking active, medium-term asset allocation positions. As at 31 December 2020 there were no active asset allocation positions in place.

Listed Equities

- Funds SA began allocating to the Australian Equities Passive Tax-Exempt and Taxable asset classes.

Property

- The Funds SA Board approved investing directly into property markets.
- Benefits include more targeted portfolios, control over investment decisions, and higher returns if well executed.

Diversified Strategies Growth (DSG)

- The Funds SA Board approved an updated DSG strategy, and implementation has commenced.
- Part of the updated strategy includes a co-investment program; this has the dual aim of increasing returns and reducing costs.

Responsible Investment

In December 2020, the Funds SA Board approved three key initiatives to enhance Funds SA's responsible investment approach:

1. A new Responsible Investment Policy;
2. Becoming a signatory to the United Nations-supported Principles for Responsible Investment; and
3. Partial internalisation of proxy voting activities.

The new Responsible Investment Policy articulates Funds SA's enhanced responsible investment approach and replaces Funds SA's ESG Statement, this will be shared in due course.

Asset class performance

International and Australian Equities performed strongest over the six months to 31 December 2020.

Every asset class was a positive contributor to the investment option's performance.

International Equities led the performance recovery, closely followed by Australian Equities, Diversified Strategies Income, and Diversified Strategies Growth. Growth assets benefited from rising investor sentiment, record low cash and term interest rates, and rising expectations for improved economic growth. Some international equity markets, in particular the US market, have since reached new historic highs.

Muted returns from Cash and Government bond-oriented fixed interest asset classes.

As cash rates moved toward zero and bond yields anchored to low levels for the foreseeable future by central bank actions, returns from the Cash and Fixed Interest asset classes were negligible. Expected returns for these asset classes remains muted.

Asset class performance relative to benchmark was positive over the six-month period.

Funds SA measures the performance of each asset class against a benchmark. The benchmarks are the relevant market index or blend of indices. Where no reasonable market index is available, the index is expressed as a margin over cash. Benchmarks are constructed for the long-term, consistent with the investment objective of the investment options and may not be an appropriate measure of short-term performance, especially during periods of extreme volatility. This is particularly relevant for benchmarks that have a cash plus approach. The benchmark for each asset class is included in Appendix 3.

Most asset classes outperformed their relevant benchmarks over the six-month period. The DSG, International Equities, DSI and Property asset classes significantly outperformed their benchmarks. The Inflation-Linked Securities Taxable asset class was the only asset class to underperform its benchmark, albeit by a very small margin.

The benchmarks for DSG and DSI asset classes have a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the recent six-month period, as assets have increased in value and cash rates remain low.

Cash

The asset class returned 0.1% over the past six months, performing in line with its benchmark.

Short-Term Fixed Interest

The asset class returned 1.4% over the past six months, outperforming its benchmark which returned 0.9%. The outperformance was driven by security selection.

Long-Term Fixed Interest

The asset class returned 1.4% over the past six months, outperforming its benchmark which returned 0.4%. Both active managers contributed to this result, with active country and currency positioning adding value.

Inflation-Linked Securities - Tax-Exempt and Taxable

The Inflation-Linked Securities Tax-Exempt asset class returned 5.7% over the past six months, outperforming its benchmark which returned 4.3%. The internally managed assets were the key driver of outperformance.

The Inflation-Linked Securities Taxable asset class returned 3.6% over the past six months, underperforming its benchmark which returned 3.8%.

Diversified Strategies Income

The asset class returned 7.3% over the past six months, outperforming its benchmark which returned 3.9%. The credit-orientated strategies and absolute return strategies outperformed their respective benchmarks during this period. The credit-orientated strategies added value through security and sector selection. The absolute return strategies added value through exposure to risk assets.

Property Tax-Exempt and Taxable

The Property Tax-Exempt and Taxable asset classes were above their benchmarks for the six months to December 2020. The listed component has recovered some of the losses incurred at the start of the COVID-19 pandemic and has contributed to recent outperformance of the asset class.

Overall, whilst leasing activity in the core office markets has improved and physical occupancy increased, demand remains subdued and recent clusters of COVID-19 cases have contributed to ongoing uncertainty around future space requirements. As a result, effective rentals remain under pressure as incentives increased across all markets. Shopping centres have seen improved patronage in line with restrictions easing, however, the structural shift to online continues. Retail valuations have stabilised in recent months, although market rents and tenant demand remain a watch during the recovery phase.

Australian Equities Tax-Exempt and Taxable

The Australian Equities Tax-Exempt asset class delivered 14.3% and the Australian Equities Taxable asset class returned 14.4% over the six months, outperforming the benchmark return of 13.7%. Outperformance was driven by positive stock selection from several managers, including the broad cap managers, Vinva and Touchstone and very strong performance from First Sentier who provide small-mid cap exposure. Meanwhile, Northcape, Ethical Partners and Greencape detracted primarily as a result sector allocation.

International Equities Tax-Exempt and Taxable

The International Equities Tax-Exempt and Taxable asset classes outperformed their respective benchmarks over the six months to December 2020 by 4.5% and 5.0% respectively. The outperformance was largely driven by a strong positive contribution from stock selection and managers that tended to have a growth bias, notably T Rowe Price, Harding Loevner, and Lord Abbett. The emerging market managers also delivered a strong period of performance. Managers with value/quality bias struggled to contribute positively to the asset class but continued to perform in line with expectations.

Diversified Strategies Growth Tax-Exempt and Taxable

The Diversified Strategies Growth asset classes both generated returns above benchmark over the six months to December 2020. Overseas private equity funds were the largest contributors to returns as the valuations of these assets began to recover from the write-downs caused by the COVID-19 pandemic earlier in the year.

Table 7: Funds SA asset class returns, periods to 31 December 2020, portfolio returns are net of fees and gross of tax, benchmark returns are net of fees

Asset class		6 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.
Cash	Portfolio return	0.1	0.5	1.4	1.6	2.5
	Benchmark return	0.0	0.4	1.3	1.5	2.4
	Active return	0.1	0.1	0.1	0.1	0.1
Short-Term Fixed Interest	Portfolio return	1.4	3.9	3.7	3.2	4.1
	Benchmark return	0.9	2.8	3.2	2.9	3.9
	Active return	0.5	1.0	0.5	0.3	0.2
Long-Term Fixed Interest	Portfolio return	1.4	5.5	6.2	5.4	6.5
	Benchmark return	0.4	5.5	6.3	5.4	6.4
	Active return	1.0	-0.1	-0.2	0.0	0.1
Inflation-Linked Securities Tax-Exempt	Portfolio return	5.7	6.7	6.5	5.2	6.2
	Benchmark return	4.3	5.2	4.9	4.1	5.6
	Active return	1.5	1.5	1.7	1.1	0.6
Inflation-Linked Securities Taxable	Portfolio return	3.6	4.2	4.4	3.8	5.1
	Benchmark return	3.8	4.5	4.2	3.7	5.2
	Active return	-0.2	-0.3	0.1	0.1	-0.1
Diversified Strategies Income	Portfolio return	7.3	-0.6	1.8	3.9	5.5
	Benchmark return	3.9	4.0	4.3	5.3	6.3
	Active return	3.4	-4.6	-2.5	-1.5	-0.8
Property Tax-Exempt	Portfolio return	5.5	-3.1	5.1	7.9	9.2
	Benchmark return	2.8	-2.6	4.0	7.0	8.7
	Active return	2.7	-0.5	1.1	0.8	0.5
Australian Equities Tax-Exempt	Portfolio return	14.3	3.5	7.2	9.1	7.7
	Benchmark return	13.7	1.7	6.9	8.8	7.7
	Active return	0.5	1.8	0.3	0.3	0.0
International Equities Tax-Exempt	Portfolio return	17.4	14.4	11.9	13.0	13.2
	Benchmark return	12.9	7.5	10.2	11.9	12.0
	Active return	4.5	7.0	1.7	1.2	1.2
International Passive Equities Tax-Exempt	Portfolio return	13.2	7.6	n.a.	n.a.	n.a.
	Benchmark return	12.9	7.5	n.a.	n.a.	n.a.
	Active return	0.3	0.1	n.a.	n.a.	n.a.
Diversified Strategies Growth Tax-Exempt	Portfolio return	7.5	2.2	7.4	9.7	11.0
	Benchmark return	2.0	4.4	5.3	5.6	6.5
	Active return	7.5	2.2	7.4	9.7	11.0
Property Taxable	Portfolio return	5.5	-3.1	5.0	7.7	8.9
	Benchmark return	2.8	-2.6	4.0	7.0	8.7
	Active return	2.7	-0.5	1.0	0.6	0.1
Australian Equities Taxable	Portfolio return	14.4	3.6	7.3	9.3	7.6
	Benchmark return	13.7	1.7	6.9	8.8	7.7
	Active return	0.7	1.9	0.4	0.4	-0.1
International Equities Taxable	Portfolio return	17.2	14.2	11.6	12.6	12.9
	Benchmark return	12.2	6.7	10.0	11.7	12.0
	Active return	5.0	7.5	1.6	0.9	0.9
International Passive Equities Taxable	Portfolio return	12.2	6.5	n.a.	n.a.	n.a.
	Benchmark return	12.2	6.8	n.a.	n.a.	n.a.
	Active return	0.0	-0.3	n.a.	n.a.	n.a.
Diversified Strategies Growth Taxable	Portfolio return	10.6	6.2	8.4	10.3	11.0
	Benchmark return	2.0	4.4	5.3	5.6	6.5
	Active return	8.6	1.8	3.1	4.7	4.5

Note: Return data is not available for some time periods due to insufficient history.

Table 8: Funds SA Tax-Exempt asset class structure, as at 31 December 2020*

Asset class	Sub-asset class allocation		Investment managers
Cash	100%		Macquarie Investment Management
Short-Term Fixed Interest	100%	Australian	Macquarie Investment Management
Long-Term Fixed Interest	50%	Australian	BlackRock Investment Management
	50%	Global	Brandywine Global Colchester Global Investors
Inflation-Linked Securities Tax-Exempt	90%	Australian	Ardea Investment Management First Sentier Investors Funds SA
	10%	Global	Colchester Global Investors
Diversified Strategies Income ⁷	50%	Diversified Debt	Ares Management GMO & Co Macquarie Investment Management Oak Hill Advisors Putnam Investments Wellington Management Company
	50%	Absolute Return	Bridgewater Associates Brandywine Global GMO & Co LGT Capital Partners
Property Tax-Exempt	85%	Core Property	AMP Capital Dexus Wholesale Property GPT Funds Management Investa Funds Management ISPT Lend Lease
	15%	Non-Core Property	CorVal Partners Vanguard Vicinity Centres
Australian Equities Tax-Exempt	100%	Broad Market	Ethical Partners Funds Management First Sentier Investors Greencape Capital Northcape Capital Touchstone Asset Management Vinva Investment Management
Australian Equities Passive Tax-Exempt	100%	Passive	BlackRock Investment Management
International Equities Tax-Exempt	84%	Global Broad Market	Applied Quantitative Research Harding Loevner Harris Associates IFP LSV Asset Management Massachusetts Financial Services T Rowe Price
	3%	Small Companies	Lord Abbett Growth
	13%	Emerging Markets	LSV Asset Management Paradice Investment Management TT International Wellington Management Company
International Equities Passive Tax-Exempt	100%	Passive	BlackRock Investment Management
Diversified Strategies Growth Tax-Exempt ⁸	50%	Private Markets	33 Investment Managers
	50%	Infrastructure	5 Investment Managers
	0%	Other Opportunities	2 Investment Managers

*The asset class allocations and investment managers listed in the table above are subject to change.

⁷ International assets hedged to AUD.

⁸ International assets hedged to AUD.

Table 9: Funds SA Taxable asset class structure, as at 31 December 2020*

Asset class	Sub-asset class allocation		Investment managers
Cash	100%		Macquarie Investment Management
Short-Term Fixed Interest	100%	Australian	Macquarie Investment Management
Long-Term Fixed Interest	50%	Australian	BlackRock Investment Management
	50%	Global	Brandywine Global Colchester Global Investors
Inflation-Linked Securities Taxable	85%	Australian	Ardea Investment Management First Sentier Investors
	15%	Global	Colchester Global Investors
Diversified Strategies Income ⁹	50%	Diversified Debt	Ares Management GMO & Co Macquarie Investment Management Oak Hill Advisors Putnam Investments Wellington Management Company
	50%	Absolute Return	Bridgewater Associates Brandywine Global GMO & Co LGT Capital Partners
Property Taxable	85%	Core Property	AMP Capital Dexus Wholesale Property GPT Funds Management Investa Funds Management ISPT Lend Lease
	15%	Non-Core Property	CorVal Partners Vanguard Vicinity Centres
Australian Equities Taxable	100%	Broad Market	Ethical Partners Funds Management First Sentier Investors Greencape Capital Northcape Capital Touchstone Asset Management Vinva Investment Management
Australian Equities Passive Taxable	100%	Passive	BlackRock Investment Management
International Equities Taxable	84%	Global Broad Market	Applied Quantitative Research Harding Loevner Harris Associates IFP LSV Asset Management Massachusetts Financial Services T Rowe Price
	3%	Small Companies	Lord Abbett Growth
	13%	Emerging Markets	LSV Asset Management Paradise Investment Management TT International Wellington Management Company
International Equities Passive Taxable	100%	Passive	BlackRock Investment Management
Diversified Strategies Growth Taxable ¹⁰	50%	Private Markets	26 Investment Managers
	50%	Infrastructure	5 Investment Managers
	0%	Other Opportunities	3 Investment Managers

*The asset class allocations and investment managers listed in the table above are subject to change.

⁹ International assets hedged to AUD.

¹⁰ International assets hedged to AUD.

4. Investment Management Costs

Each Performance Plan includes the target costs for each investment option. Funds SA's investment management costs are presented as a percentage of average funds managed and referred to as an Indirect Cost Ratio (ICR).

The primary objective is to achieve the investment option's investment objectives over the long-term, net of all fees and costs. Managing costs is an important element of this objective, however, it does not drive the investment strategy and should not be looked at in isolation.

Regular benchmarking of expenditures against peer organisations is undertaken to ensure Funds SA's ongoing cost competitiveness.

Target ICRs for the 2020-21 financial year-to-date

Funds SA's fees for the 2020-21 financial year-to-date are shown in the tables below, along with comparisons to the original targets. The ICRs achieved were below the target ICRs for the six months to 31 December 2020, shown in the 'Difference' column.

Funds SA applies the standard industry guidelines in calculating and disclosing its investment management expenses, namely:

- ASIC Regulatory Guide 97: Disclosing fees and costs in PDSs and other periods statements (RG97); and
- Corporations Regulations 2001 – Schedule 10 – Disclosures of Fees and Other Costs.

Table 10: Tax-Exempt investment option actual and target ICRs for the 2020-21 financial year-to-date*

Investment option	Base fees %	Performance fees %	T & O costs %	Actual %	Target %	Difference %
Cash	0.02	0.00	0.00	0.02	0.03	0.00
Capital Defensive	0.17	0.01	0.02	0.20	0.23	-0.02
Conservative	0.20	0.01	0.03	0.24	0.25	-0.01
Moderate	0.23	0.04	0.04	0.31	0.38	-0.07
Balanced	0.26	0.06	0.05	0.37	0.43	-0.05
Growth	0.30	0.08	0.05	0.44	0.50	-0.06
High Growth	0.31	0.08	0.05	0.44	0.53	-0.08
Socially Responsible	0.33	0.01	0.08	0.41	0.50	-0.09
Defined Benefit	0.35	0.13	0.06	0.54	0.65	-0.11

*Note due to rounding, the sum of the individual numbers may not equal the total figures quoted.

Note: Transactional and operating costs. Includes costs such as: brokerage; stamp duty; transaction settlement costs; clearing costs; and spreads. Such costs are incurred in the normal course of investing, are deducted from the assets of the relevant asset class and investment option to which they relate and are reflected in the unit price.

Table 11: Taxable investment option actual and target ICRs for the 2020-21 financial year-to-date*

Investment option	Base fees %	Performance fees %	T & O costs %	Actual %	Target %	Difference %
Cash	0.02	0.00	0.00	0.02	0.03	0.00
Capital Defensive	0.17	0.01	0.03	0.20	0.23	-0.03
Conservative	0.20	0.01	0.04	0.24	0.25	-0.01
Moderate	0.25	0.05	0.04	0.34	0.38	-0.04
Balanced	0.29	0.07	0.05	0.41	0.43	-0.01
Growth	0.33	0.09	0.06	0.48	0.50	-0.02
High Growth	0.33	0.09	0.06	0.48	0.53	-0.04
Socially Responsible	0.33	0.01	0.08	0.41	0.50	-0.09

*Note due to rounding, the sum of the individual numbers may not equal the total figures quoted.

Note: Transactional and operating costs. Includes costs such as: brokerage; stamp duty; transaction settlement costs; clearing costs; and spreads. Such costs are incurred in the normal course of investing, are deducted from the assets of the relevant asset class and investment option to which they relate and are reflected in the unit price.

Funds SA has continued to actively manage its costs across each of its investment options for the period ended 31 December 2020. The ongoing monitoring and cost initiatives at Funds SA have resulted in all investment options, with the exception of Cash, to track below the ICR targets provided in the 2020-21 Performance Plan.

Performance fees

The majority of Funds SA's carried interest/performance fees recognised at 31 December related to unlisted assets within the Diversified Strategies Growth (DSG). However, it should be noted that the ICR calculation process involves some time delay due to the available cost information for international and domestic private equity funds. Funds SA recognises the latest available information as published by the relevant private equity managers, which include:

- for internationally domiciled funds, either expenses recognised by the fund for the six-month period ended 30 June 2020; and
- for domestic domiciled funds - the expense recognised by the fund for the six-month period ended 30 September 2020.

Consequently, the majority of the internationally domiciled funds valuations have not factored in the post COVID-19 rally in global markets from July 2020 to December 2020. Therefore, we expect that carried interest expenses across our growth-orientated investment options will increase over the remainder of the financial year, when formal unlisted manager valuations as at 31 December 2020 are finalised by 30 June 2021. These impacts will be incorporated in the 30 June 2021 ICR reporting process.

Appendix 1

Funds SA Tax-Exempt Investment Options



This Appendix provides a summary of the performance and composition of the following Funds SA Tax-Exempt investment options:

- Cash
- Capital Defensive
- Conservative
- Moderate
- Balanced
- Growth
- High Growth
- Socially Responsible
- Defined Benefit

Cash Tax-Exempt

Size	Inception	Indirect Cost Ratio (ICR) *	
		Actual	Target
\$454.0 million	31 March 2000	0.02%	0.03%

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Cash	RBA Cash Rate	0+ years	Very Low	Less than 0.5

Performance

Investment option performance against benchmark, returns net of fees for periods to 31 December 2020*

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	0.1	0.5	1.4	1.6	1.9	2.5
Benchmark return	0.0	0.4	1.3	1.5	1.8	2.4
Active return	0.1	0.2	0.2	0.2	0.2	0.2

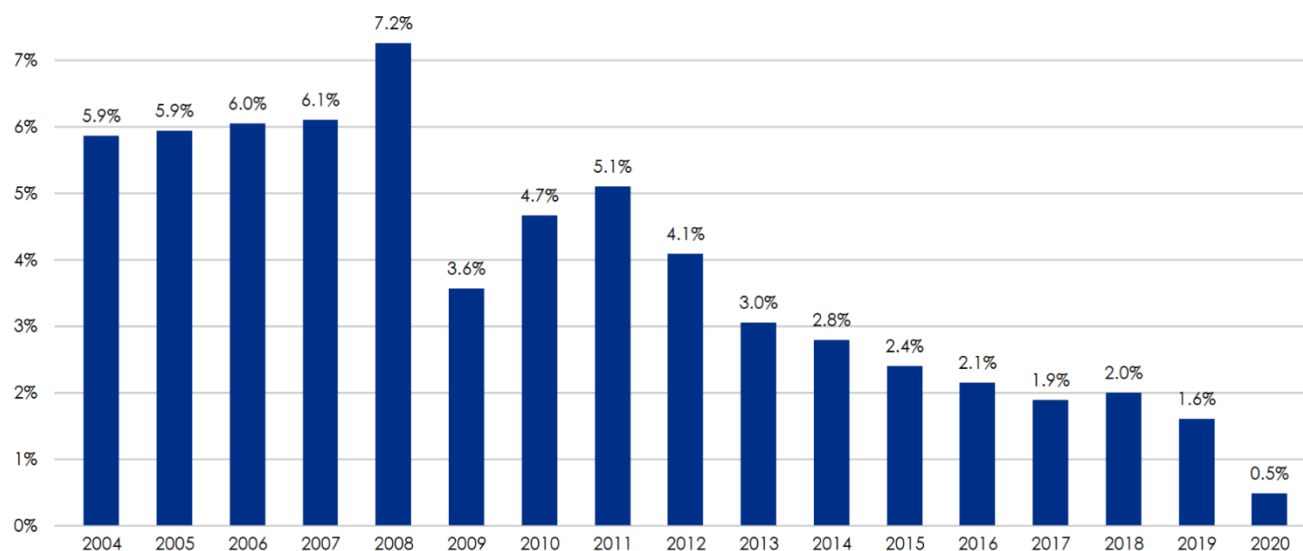
*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

The Cash investment option outperformed the benchmark by holding longer duration securities relative to the benchmark.

The returns of the Cash investment options are influenced by the Reserve Bank of Australia's (RBA) Official Cash Rate. During November, the RBA cut the official cash rate from 0.25% to 0.10%.

Investment option annual calendar year returns

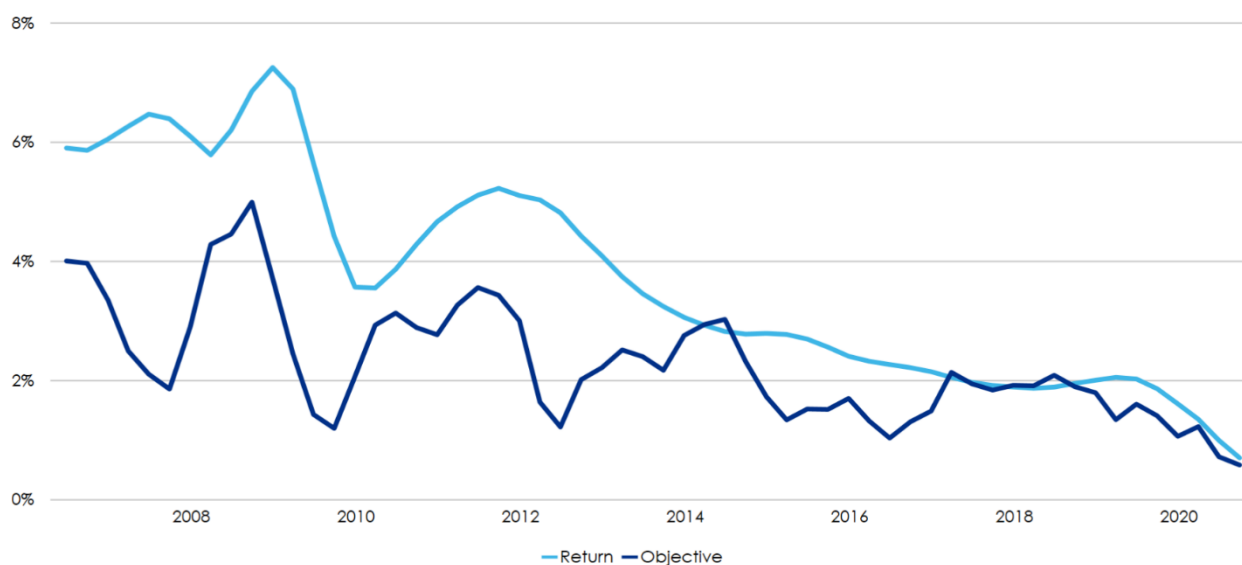
Returns net of fees to 31 December 2020



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective

1-year rolling returns, net of fees to 31 December 2020



Asset allocation

Cash Tax-Exempt investment option asset allocation as at 31 December 2020*

Asset class	Actual %	Strategic %	Variance %
Cash	100.0	100.0	0.0
Total	100.0	100.0	
Growth assets	0.0	0.0	0.0
Compliance with 2020-21 Performance Plan		Complies	

**Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.*

Capital Defensive Tax-Exempt

Indirect Cost Ratio (ICR) *			
Size	Inception	Actual	Target
\$465.8 million	31 August 2004	0.20%	0.23%

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard risk measure	Number of negative annual returns likely over any 20-year period
Capital Defensive	CPI + 1.5%	2+ years	Low	0.5 to 1

Performance

Investment option performance against benchmark, returns net of fees for periods to 31 December 2020 *

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 Years % p.a.
Investment option return	4.6	3.7	4.5	4.8	4.8	5.7
Benchmark return	3.3	3.5	4.4	4.7	4.8	5.5
Active return	1.3	0.2	0.1	0.1	0.0	0.2

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

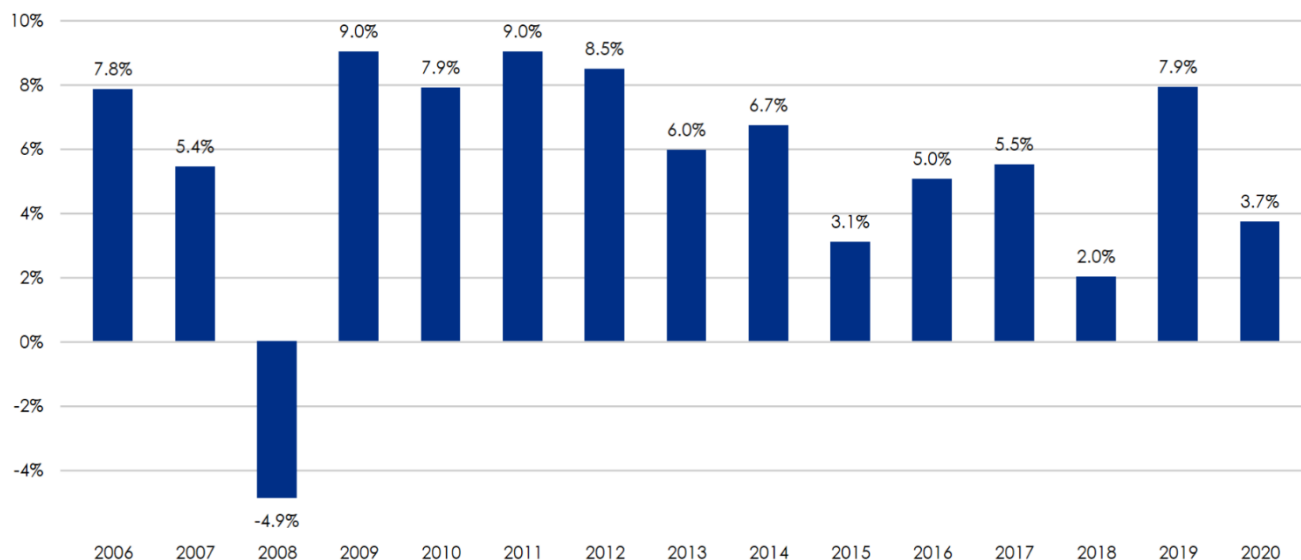
Diversified Strategies Income (DSI), International Equities, and Inflation-Linked Securities were the strongest contributors to the performance of the investment option for the six months ended 31 December 2020. Growth assets benefited from rising investor sentiment, record low cash and term interest rates and rising expectations for improved economic growth.

The defensive asset classes contributed positive but minimal returns given low cash rates and low bond yields.

Performance relative to benchmark was positive, predominately driven by DSI and International Equities. For DSI, the credit orientated strategies added value through security and sector selection and the Absolute Return strategies added value through exposure to risk assets. The DSI benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the recent six-month period, as asset values have increased, and cash rates remain low. International Equities benefited from strong stock selection and exposure to managers that tended to have a growth bias.

Investment option annual calendar year returns

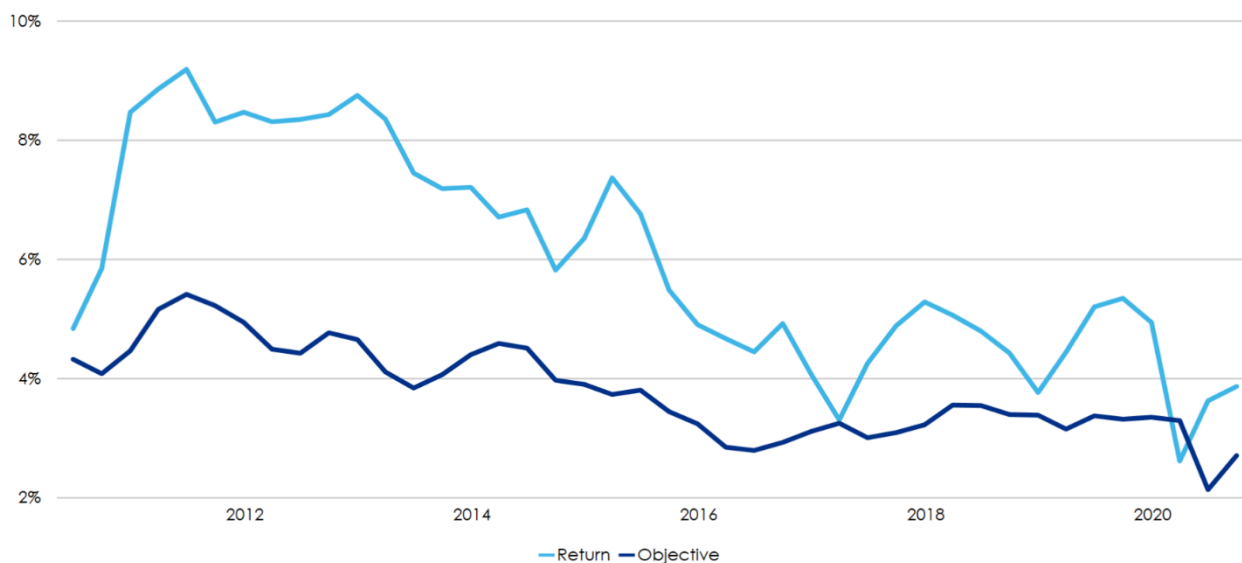
Returns net of fees to 31 December 2020



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective

2-year rolling returns, net of fees to 31 December 2020



Asset allocation

Capital Defensive Tax-Exempt investment option asset allocation as at 31 December 2020 *

Asset class	Actual %	Strategic %	Variance %
Cash	15.6	15.0	0.6
Short-Term Fixed Interest	29.8	30.0	-0.2
Long-Term Fixed Interest	4.6	5.0	-0.4
Inflation-Linked Securities Tax-Exempt	15.5	15.0	0.5
Diversified Strategies Income	17.1	17.0	0.1
Property Tax-Exempt	4.9	6.0	-1.1
Australian Equities Tax-Exempt	5.7	5.0	0.7
International Equities Tax-Exempt	6.6	7.0	-0.4
Total	100.0	100.0	
Growth assets	24.7	25.0	-0.3
Compliance with 2020-21 Performance Plan	Complies		

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Conservative Tax-Exempt

Size	Inception	Indirect Cost Ratio (ICR) *	
		Actual	Target
\$545.6 million	30 June 1999	0.24%	0.25%

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Conservative	CPI + 2.0%	4+ years	Medium	2 to 3

Performance

Investment option performance against benchmark, returns net of fees for periods to 31 December 2020 *

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	6.8	4.3	5.5	6.1	6.0	6.8
Benchmark return	5.1	4.1	5.3	5.9	6.0	6.6
Active return	1.7	0.2	0.1	0.1	0.0	0.2

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

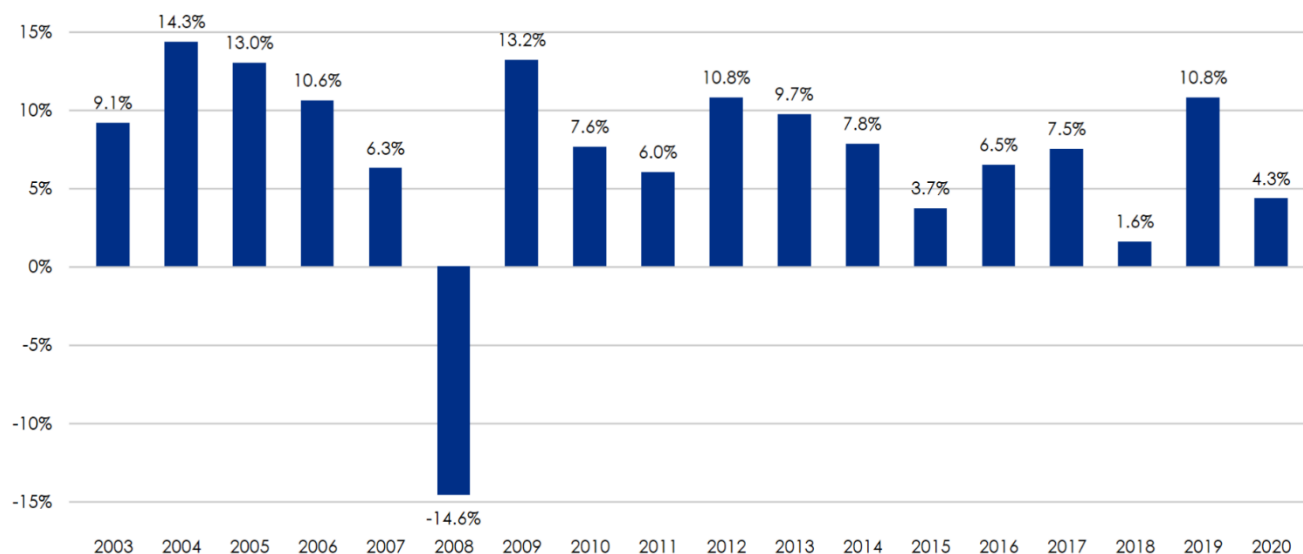
International Equities, Diversified Strategies Income (DSI), and Australian Equities were the strongest contributors to the performance of the investment option for the six months ended 31 December 2020. Growth assets benefited from rising investor sentiment, record low cash and term interest rates, and rising expectations for improved economic growth.

The defensive asset classes contributed positive but minimal returns given low cash rates and low bond yields.

Performance relative to benchmark was positive, predominately driven by DSI and International Equities. For DSI, the credit orientated strategies added value through security and sector selection, and the Absolute Return strategies added value through exposure to risk assets. The DSI benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the recent six-month period, as asset values have increased, and cash rates remain low. International Equities benefited from strong stock selection and exposure to managers that tended to have a growth bias.

Investment option annual financial year returns

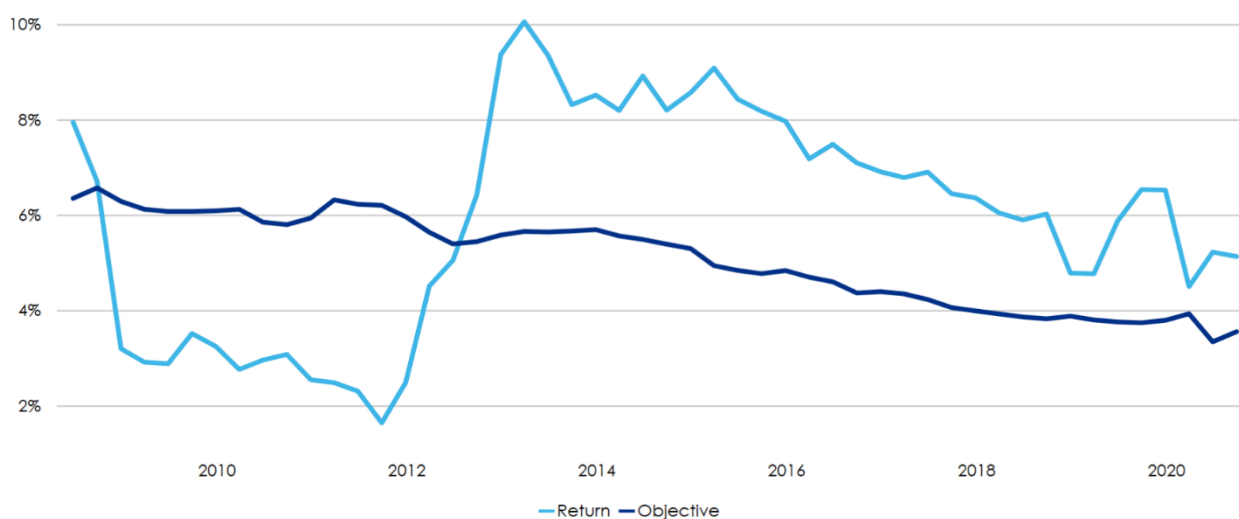
Returns net of fees to 31 December 2020



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective¹¹

4-year rolling returns, net of fees to 31 December 2020



¹¹ Note the target return was CPI +2.5% prior to 1 January 2016 and CPI +3% prior to 1 July 2013.

Asset allocation

Conservative Tax-Exempt investment option asset allocation as at 31 December 2020 *

Asset class	Actual %	Strategic %	Variance %
Cash	10.6	10.0	0.6
Short-Term Fixed Interest	17.8	18.0	-0.2
Long-Term Fixed Interest	4.6	5.0	-0.4
Inflation-Linked Securities Tax-Exempt	15.5	15.0	0.5
Diversified Strategies Income	18.1	18.0	0.1
Property Tax-Exempt	8.0	9.0	-1.0
Australian Equities Tax-Exempt	10.7	10.0	0.7
International Equities Tax-Exempt	14.6	15.0	-0.4
Total	100.0	100.0	
Growth assets	39.8	40.0	-0.2
Compliance with 2020-21 Performance Plan	Complies		

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Moderate Tax-Exempt

Size	Inception	Indirect Cost Ratio (ICR) *	
		Actual	Target
\$535.6 million	30 June 2006	0.31%	0.38%

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Moderate	CPI + 3.0%	6+ years	Medium to High	3 to 4

Performance

Investment option performance against benchmark, returns net of fees for periods to 31 December 2020 *

	6 months %	1 Year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	8.3	4.2	6.1	7.0	6.9	7.5
Benchmark return	6.4	4.8	6.1	6.9	6.8	7.2
Active return	1.9	-0.5	-0.1	0.2	0.1	0.3

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

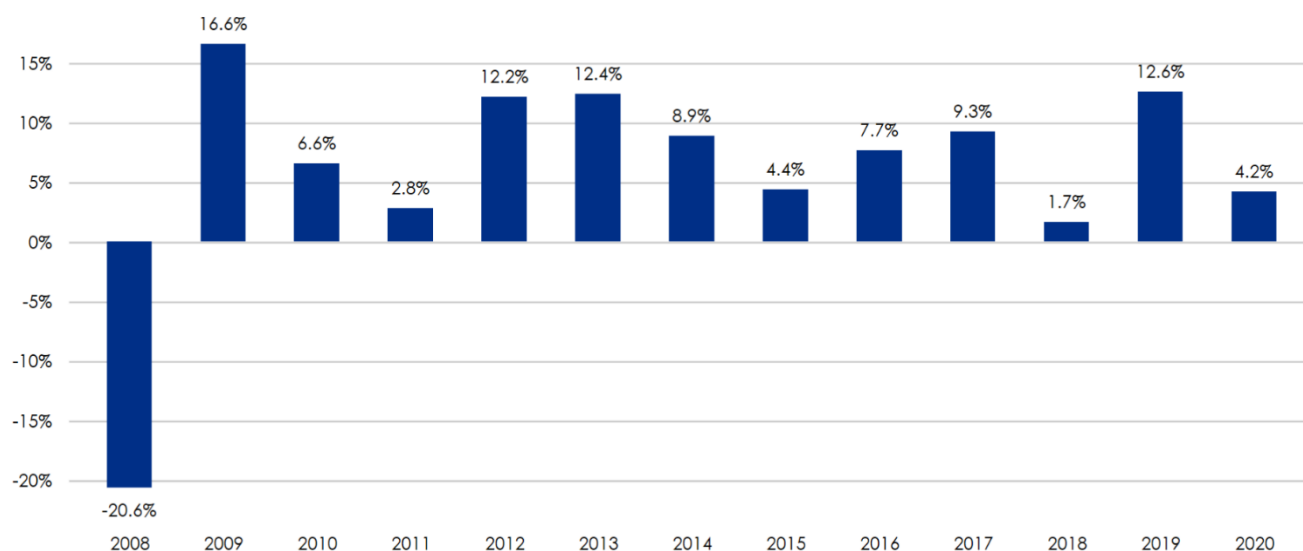
International Equities, Australian Equities, and Diversified Strategies Income (DSI) were the strongest contributors to the performance of the investment option for the six months ended 31 December 2020. Growth assets benefited from rising investor sentiment, record low cash and term interest rates, and rising expectations for improved economic growth.

The defensive asset classes contributed positive but minimal returns given low cash rates and low bond yields.

Performance relative to benchmark was positive, predominately driven by International Equities and DSI. International Equities benefited from strong stock selection and exposure to managers that tended to have a growth bias. For DSI, the credit orientated strategies added value through security and sector selection and the Absolute Return strategies added value through exposure to risk assets. The DSI benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the recent six-month period, as asset values have increased, and cash rates remain low.

Investment option annual calendar year returns

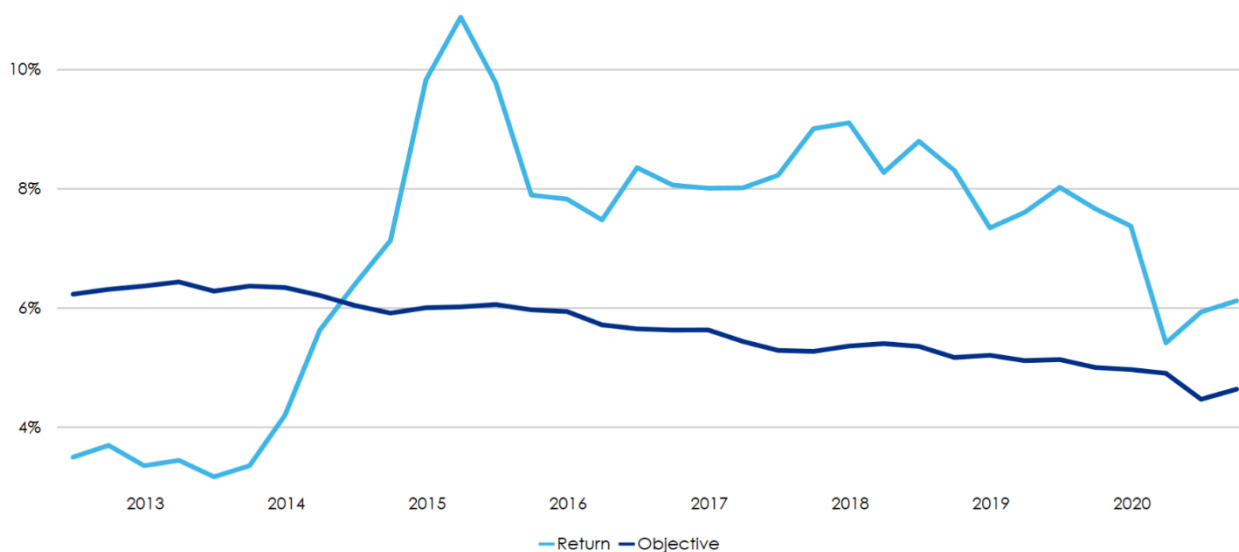
Returns net of fees to 31 December 2020



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective¹²

6-year rolling returns, net of fees to 31 December 2020



¹² Note the target return was CPI + 3.5% prior to 1 January 2016.

Asset allocation

Moderate Tax-Exempt investment option asset allocation as at 31 December 2020 *

Asset class	Actual %	Strategic %	Variance %
Cash	9.1	8.0	1.1
Short-Term Fixed Interest	6.8	7.0	-0.2
Long-Term Fixed Interest	8.6	9.0	-0.4
Inflation-Linked Securities Tax-Exempt	11.5	11.0	0.5
Diversified Strategies Income	12.1	12.0	0.1
Property Tax-Exempt	9.1	10.0	-0.9
Australian Equities Tax-Exempt	16.5	16.0	0.5
International Equities Tax-Exempt	22.0	22.0	0.0
Diversified Strategies Growth Tax-Exempt	4.3	5.0	-0.7
Total	100.0	100.0	
Growth assets	54.0	55.0	-1.0
Compliance with 2020-21 Performance Plan	Complies		

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Balanced Tax-Exempt

Size	Inception	Indirect Cost Ratio (ICR) *	
		Actual	Target
\$17,023.2 million	30 June 1995	0.37%	0.43%

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Balanced	CPI + 3.5%	10+ years	High	4 to 6

Performance

Investment option performance against benchmark, returns net of fees for periods to 31 December 2020 *

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	10.7	5.8	7.2	8.4	8.1	8.6
Benchmark return	8.5	6.2	7.2	8.1	7.8	8.1
Active return	2.2	-0.5	0.0	0.3	0.2	0.5

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

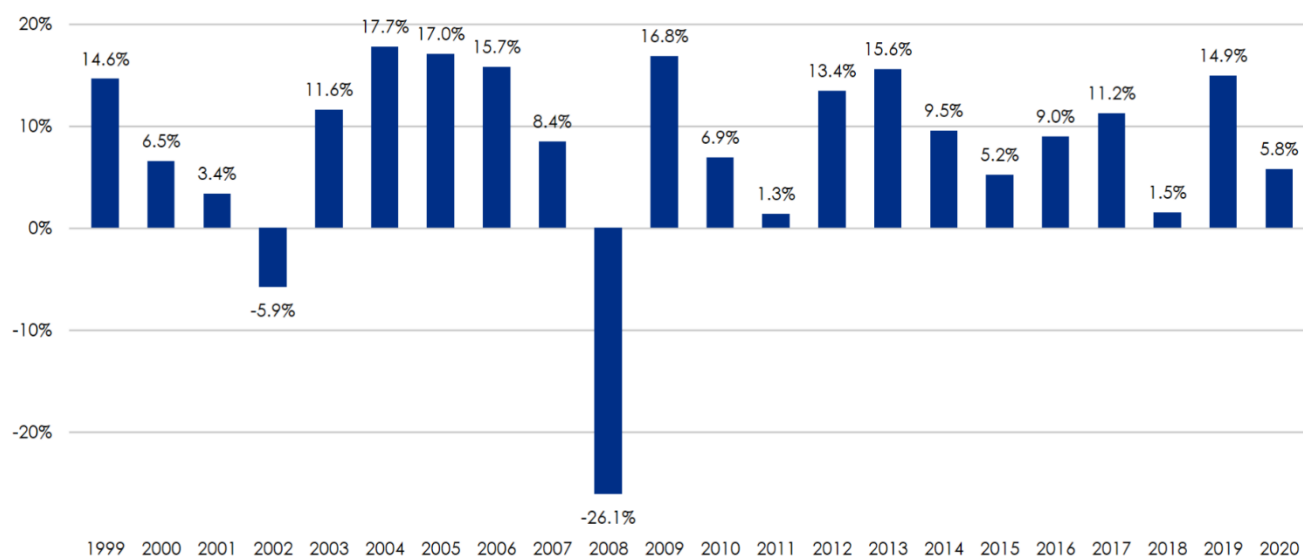
International Equities, Australian Equities, and Property were the strongest contributors to the performance of the investment option for the six months ended 31 December 2020. Growth assets benefited from rising investor sentiment, record low cash and term interest rates, and rising expectations for improved economic growth.

The defensive asset classes contributed positive but minimal returns given low cash rates and low bond yields.

Performance relative to benchmark was positive, predominately driven by International Equities and Diversified Strategies Growth (DSG). International Equities benefited from strong stock selection and exposure to managers that tended to have a growth bias. For DSG, overseas private equity funds were the largest contributors to returns as the valuations of these assets began to recover from the write-downs caused by the COVID-19 pandemic earlier in the year. The DSG benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the recent six-month period, as asset values have increased, and cash rates remain low.

Investment option annual calendar year returns

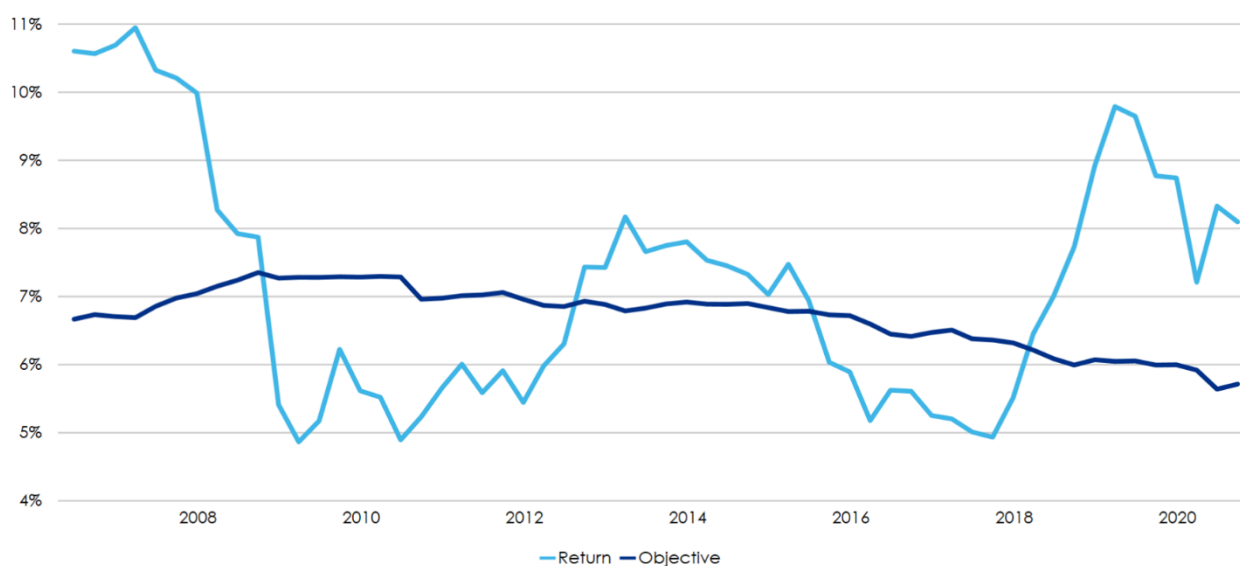
Returns net of fees to 31 December 2020



The number of negative annual returns are within the expected parameters of the investment objective.

Investment option performance relative to investment objective¹³

10-year rolling returns, returns net of fees to 31 December 2020



¹³ Note the target return for the Balanced Tax-Exempt investment option was CPI + 4% prior to 1 January 2016. The investment horizon was 7+ years prior to 1 July 2019.

Asset allocation

Balanced Tax-Exempt investment option asset allocation as at 31 December 2020 *

Asset class	Actual %	Strategic %	Variance %
Cash	3.8	3.0	0.8
Short-Term Fixed Interest	1.8	2.0	-0.2
Long-Term Fixed Interest	5.6	6.0	-0.4
Inflation-Linked Securities Tax-Exempt	5.5	5.0	0.5
Diversified Strategies Income	8.1	8.0	0.1
Property Tax-Exempt	11.2	12.0	-0.8
Australian Equities Tax-Exempt	23.5	23.0	0.5
International Equities Tax-Exempt	33.0	33.0	0.0
Diversified Strategies Growth Tax-Exempt	7.3	8.0	-0.7
Total	100.0	100.0	
Growth assets	73.5	75.0	-1.5
Compliance with 2020-21 Performance Plan	Complies		

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Growth Tax-Exempt

Size	Inception	Indirect Cost Ratio (ICR) *	
		Actual	Target
\$1,208.8 million	30 June 1995	0.44%	0.50%

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Growth	CPI + 4.0%	10+ years	High	4 to 6

Performance

Investment option performance against benchmark, returns net of fees for periods to 31 December 2020 *

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	11.9	5.9	7.6	8.9	8.6	9.1
Benchmark return	9.1	6.0	7.4	8.5	8.2	8.5
Active return	2.7	-0.1	0.1	0.4	0.4	0.6

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

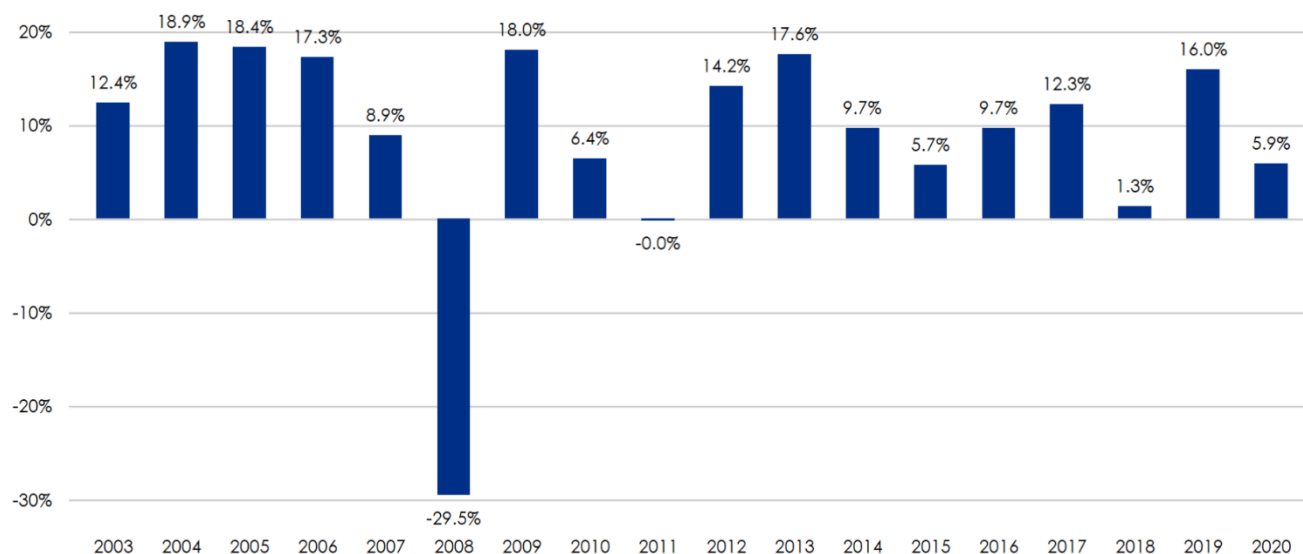
International Equities, Australian Equities, and Diversified Strategies Income were the strongest contributors to the performance of the investment option for the six months ended 31 December 2020. Growth assets benefited from rising investor sentiment, record low cash and term interest rates, and rising expectations for improved economic growth.

The defensive asset classes contributed positive but minimal returns given low cash rates and low bond yields.

Performance relative to benchmark was positive, predominately driven by International Equities and Diversified Strategies Growth (DSG). International Equities benefited from strong stock selection and exposure to managers that tended to have a growth bias. For DSG, overseas private equity funds were the largest contributors to returns as the valuations of these assets began to recover from the write-downs caused by the COVID-19 pandemic earlier in the year. The DSG benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the recent six-month period, as asset values have increased, and cash rates remain low.

Investment option annual calendar year returns

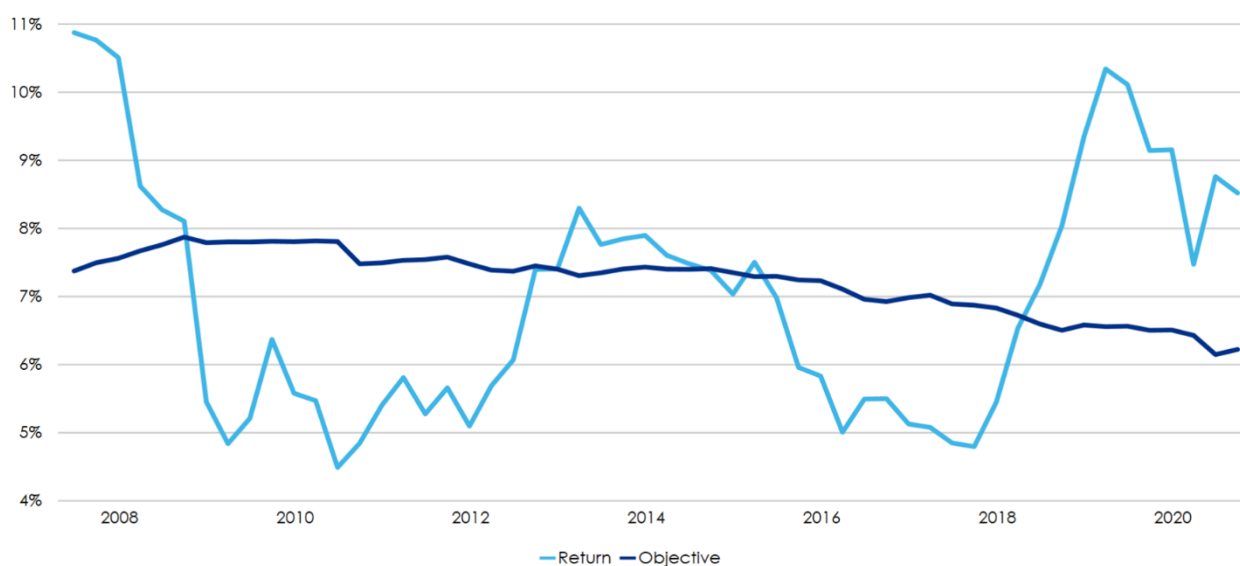
Returns net of fees to 31 December 2020



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective¹⁴

10-year rolling returns, net of fees to 31 December 2020



¹⁴ Note the target return for the Growth Tax-Exempt investment option was CPI + 4.5% prior to 1 January 2016. The investment horizon was 8+ years prior to 1 July 2019.

Asset allocation

Growth Tax-Exempt investment option asset allocation as at 31 December 2020 *

Asset class	Actual %	Strategic %	Variance %
Cash	3.8	2.0	1.8
Diversified Strategies Income	12.1	12.0	0.1
Property Tax-Exempt	13.2	16.0	-2.8
Australian Equities Tax-Exempt	25.5	24.0	1.5
International Equities Tax-Exempt	36.0	36.0	0.0
Diversified Strategies Growth Tax-Exempt	9.3	10.0	-0.7
Total	100.0	100.0	
Growth assets	83.6	85.0	-1.4
Compliance with 2020-21 Performance Plan	Complies		

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

High Growth Tax-Exempt

Size	Inception	Indirect Cost Ratio (ICR) *	
		Actual	Target
\$1,761.2 million	30 June 1999	0.44%	0.53%

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
High Growth	CPI + 4.5%	10+ years	High	4 to 6

Performance

Investment option performance against benchmark, returns net of fees for periods to 31 December 2020 *

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	12.0	4.8	7.6	9.4	9.0	9.5
Benchmark return	9.2	4.8	7.5	9.0	8.6	9.0
Active return	2.8	0.1	0.1	0.4	0.4	0.5

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

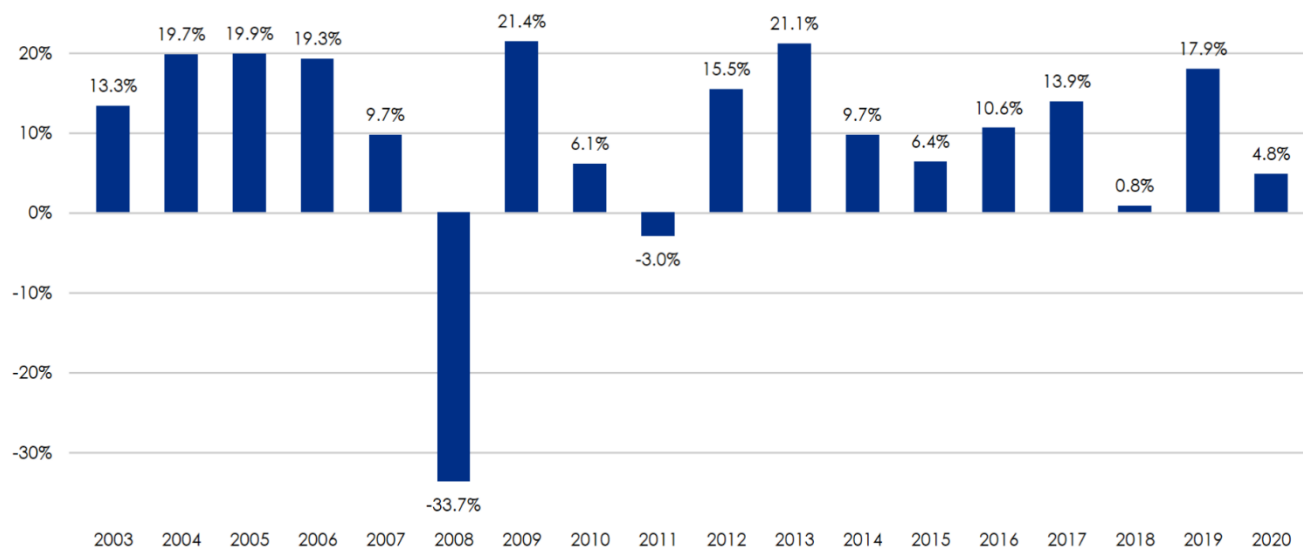
International Equities, Australian Equities, and Property were the strongest contributors to the performance of the investment option for the six months ended 31 December 2020. Growth assets benefited from rising investor sentiment, record low cash and term interest rates, and rising expectations for improved economic growth.

The defensive asset classes contributed positive but minimal returns given low cash rates and low bond yields.

Performance relative to benchmark was positive, predominately driven by International Equities and Diversified Strategies Growth (DSG). International Equities benefited from strong stock selection and exposure to managers that tended to have a growth bias. For DSG, overseas private equity funds were the largest contributors to returns as the valuations of these assets began to recover from the write-downs caused by the COVID-19 pandemic earlier in the year. The DSG benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the recent six-month period, as asset values have increased, and cash rates remain low.

Investment option annual calendar year returns

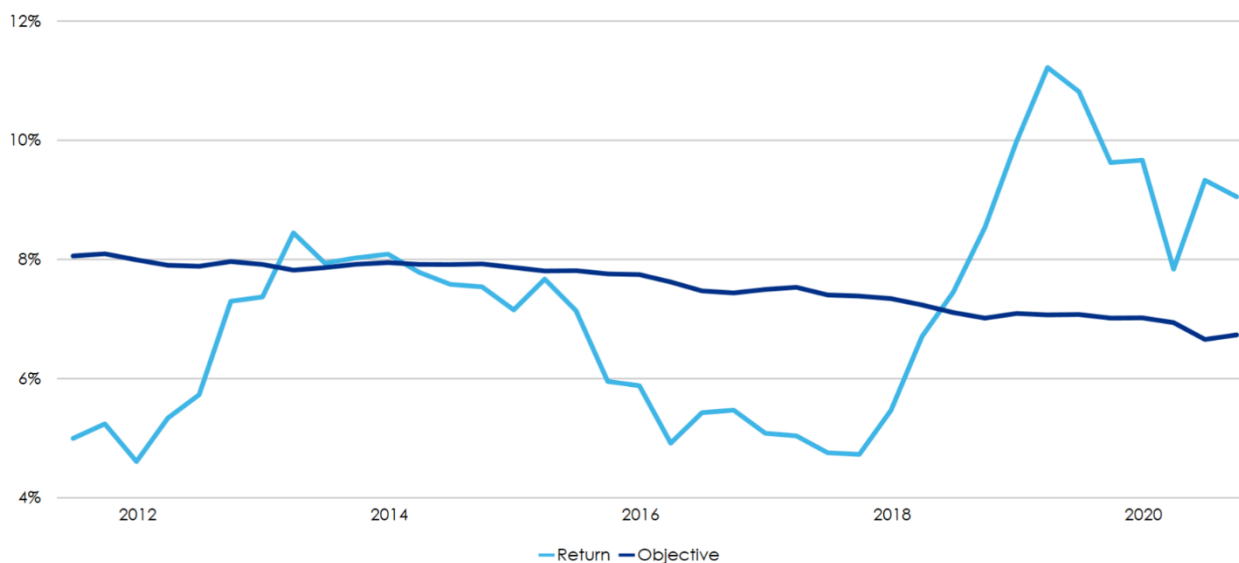
Returns net of fees to 31 December 2020



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective¹⁵

10-year rolling returns, net of fees to 31 December 2020



¹⁵ Note the target return for the High Growth Tax-Exempt investment option was CPI + 5% until December 2015. From January 2016 the target return was CPI + 4.5%.

Asset allocation

High Growth Tax-Exempt investment option asset allocation as at 31 December 2020 *

Asset class	Actual %	Strategic %	Variance %
Cash	2.9	2.0	0.9
Diversified Strategies Income	12.1	12.0	0.1
Property Tax-Exempt	15.3	16.0	-0.7
Australian Equities Tax-Exempt	24.5	24.0	0.5
International Equities Tax-Exempt	36.0	36.0	0.0
Diversified Strategies Growth Tax-Exempt	9.3	10.0	-0.7
Total	100.0	100.0	
Growth assets	83.7	85.0	-1.3
Compliance with 2020-21 Performance Plan	Complies		

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Socially Responsible Tax-Exempt

Size	Inception	Indirect Cost Ratio (ICR) *	
		Actual	Target
\$101.6 million	2 March 2009	0.41%	0.50%

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Socially Responsible	Similar to a growth fund	10+ years	High	4 to less than 6

Performance

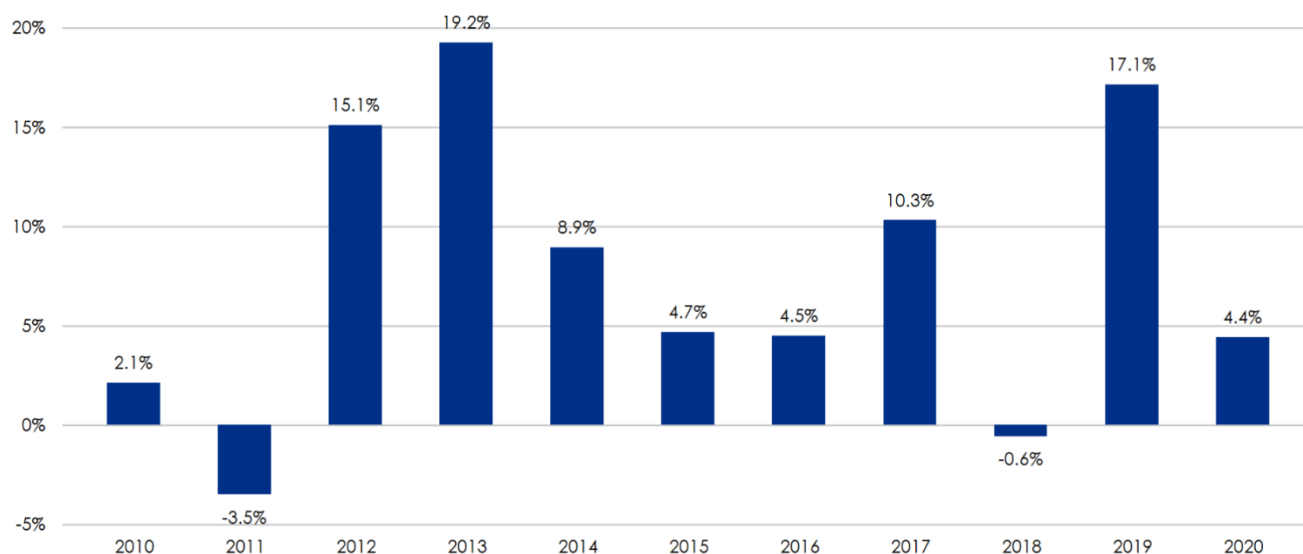
Investment option performance against benchmark, returns net of fees for periods to 31 December 2020 *

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	10.8	4.4	6.7	7.0	6.9	7.8
Benchmark return	9.4	5.3	7.4	8.3	8.0	8.5
Active return	1.4	-0.9	-0.7	-1.3	-1.1	-0.8

The Socially Responsible portfolio outperformed its benchmark for the six months to December 2020. Outperformance in the Australian Equities, International Equities, and Alternative Assets Growth portfolios contributed positively, while the overweight in Unlisted Property in favour of International Listed Property detracted.

Investment option annual calendar year returns

Returns net of fees to 31 December 2020



The volatility of annual returns is in line with expected parameters of the investment objective.

Asset allocation

The asset allocation is determined by the investment manager, AMP Capital. The asset allocation is within the ranges for the investment option.

Socially Responsible Tax-Exempt investment option asset allocation as at 31 December 2020*

Asset class	Actual %	Strategic %	Variance %
Cash	2.05	2.0	0.05
Fixed Interest	26.65	25.0	1.65
Property	6.67	9.0	-2.33
Australian Equities	26.44	25.0	1.44
International Equities	34.41	33.0	1.41
Alternatives	3.78	6.0	-2.22
Total	100	100	
Growth assets	71.30	73.0	1.7

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted. The Socially Responsible Tax-Exempt investment option invests in the AMP Capital Ethical Leaders Balanced fund and does not invest in the Funds SA asset classes. Therefore, the asset classes listed above are those managed by AMP Capital.

Defined Benefit Strategy

Size	Inception	Indirect Cost Ratio (ICR) *	
		Actual	Target
\$7,055.2 million	31 December 2016	0.54%	0.65%

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Defined Benefit Strategy	CPI + 4.5%	10+ years	High	4 to 6

Performance

Investment option performance against benchmark, returns net of fees for periods to 31 December 2020 *

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	11.5	4.8	7.5	9.0	8.6	9.1
Benchmark return	8.1	4.5	7.0	8.3	8.1	8.4
Active return	3.4	0.3	0.5	0.7	0.6	0.7

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

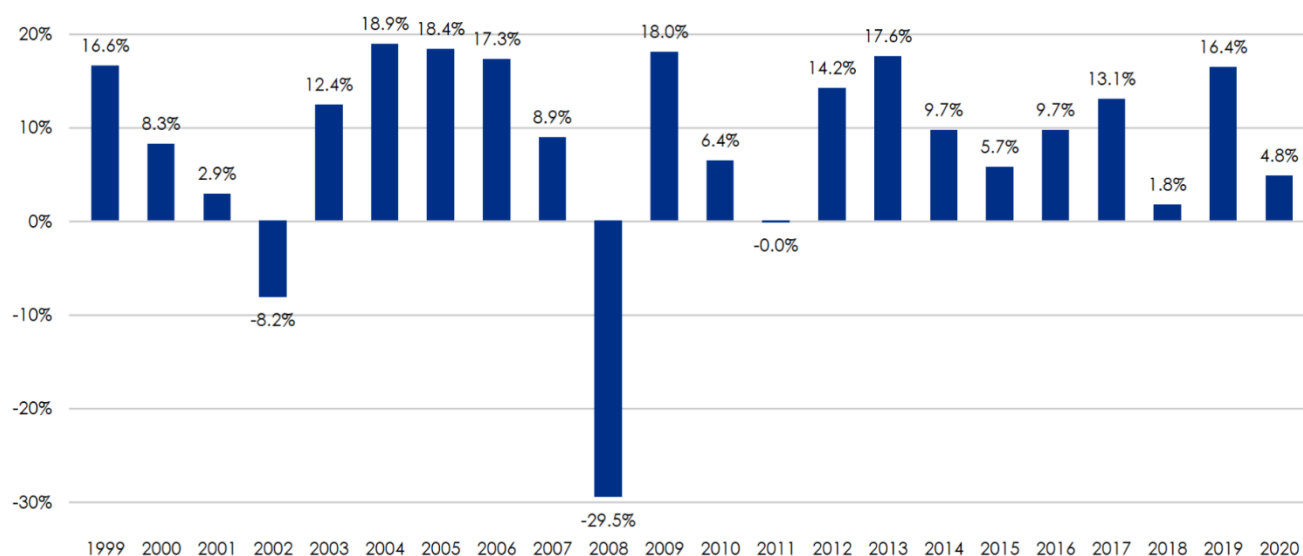
International Equities, Australian Equities, and Diversified Strategies Growth (DSG) were the strongest contributors to the performance of the investment option for the six months ended 31 December 2020. Growth assets benefited from rising investor sentiment, record low cash and term interest rates and rising expectations for improved economic growth.

The defensive asset classes contributed positive but minimal returns given low cash rates, and low bond yields.

Performance relative to benchmark was positive, predominately driven by International Equities and DSG. International Equities benefited from strong stock selection and exposure to managers that tended to have a growth bias. For DSG, overseas private equity funds were the largest contributors to returns as the valuations of these assets began to recover from the write-downs caused by the COVID-19 pandemic earlier in the year. The DSG benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the recent six-month period, as asset values have increased, and cash rates remain low.

Investment option annual calendar year returns

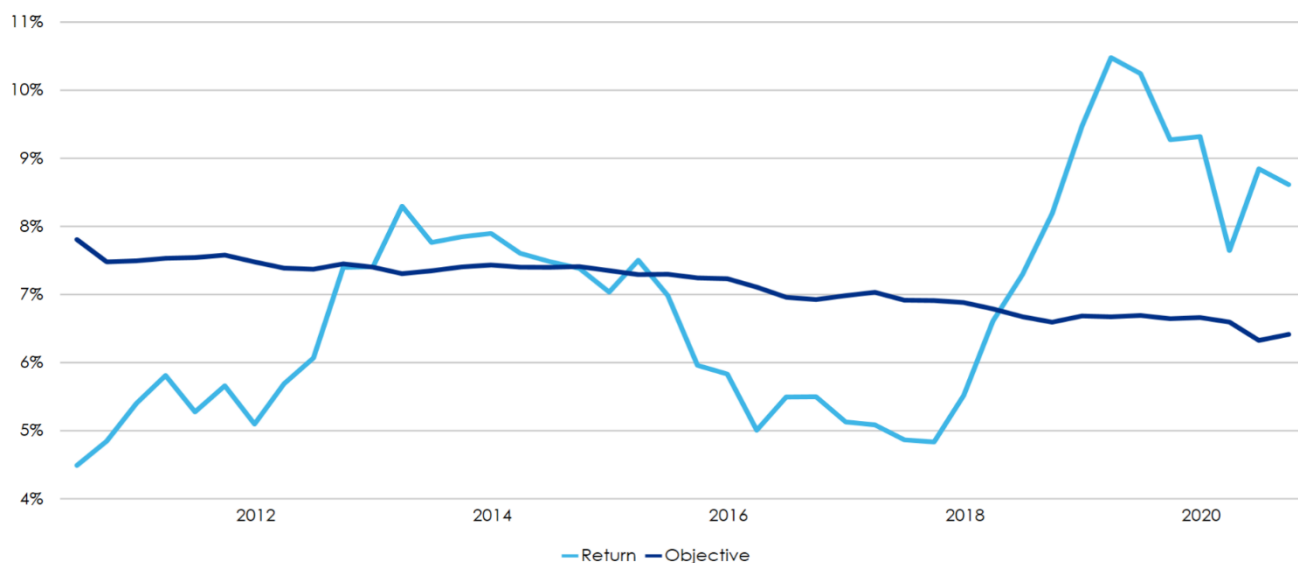
Returns net of fees to 31 December 2020



The number of negative annual returns are within the expected parameters of the investment objective.

Investment option performance relative to investment objective¹⁶

10-year rolling returns, net of fees to 31 December 2020



¹⁶ Note the inception of the Defined Benefit Strategy was the Funds SA Growth Tax-Exempt investment option, the target return was CPI + 4.5% until December 2015. From January 2016 the target return was CPI + 4%. From January 2017 the target return was CPI + 4.5%.

Asset allocation

Defined Benefit Strategy asset allocation as at 31 December 2020 *

Asset class	Actual %	Strategic %	Variance %
Cash	2.9	2.0	0.9
Diversified Strategies Income	14.1	14.0	0.1
Property Tax-Exempt	17.2	18.0	-0.8
Australian Equities Tax-Exempt	20.5	20.0	0.5
International Equities Tax-Exempt	30.0	30.0	0.0
Diversified Strategies Growth Tax-Exempt	15.2	16.0	-0.8
Total	100.0	100.0	
Growth assets	81.2	80.0	1.2
Compliance with 2020-21 Performance Plan	Complies		

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Appendix 2

Funds SA Taxable Investment Options



This Appendix provides further details on the performance and composition of the following Funds SA Taxable investment options:

- Cash
- Capital Defensive
- Conservative
- Moderate
- Balanced
- Growth
- High Growth
- Socially Responsible

Cash Taxable

Size	Inception	Indirect Cost Ratio (ICR) *	
		Actual	Target
\$320.1 million	31 March 2005	0.02%	0.03%

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Cash	RBA Cash Rate	0+ years	Very Low	Less than 0.5

Performance

Investment option performance against benchmark, returns net of fees for periods to 31 December 2020 *

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	0.1	0.5	1.4	1.6	1.9	2.5
Benchmark return	0.0	0.4	1.3	1.5	1.8	2.4
Active return	0.1	0.1	0.1	0.1	0.1	0.1

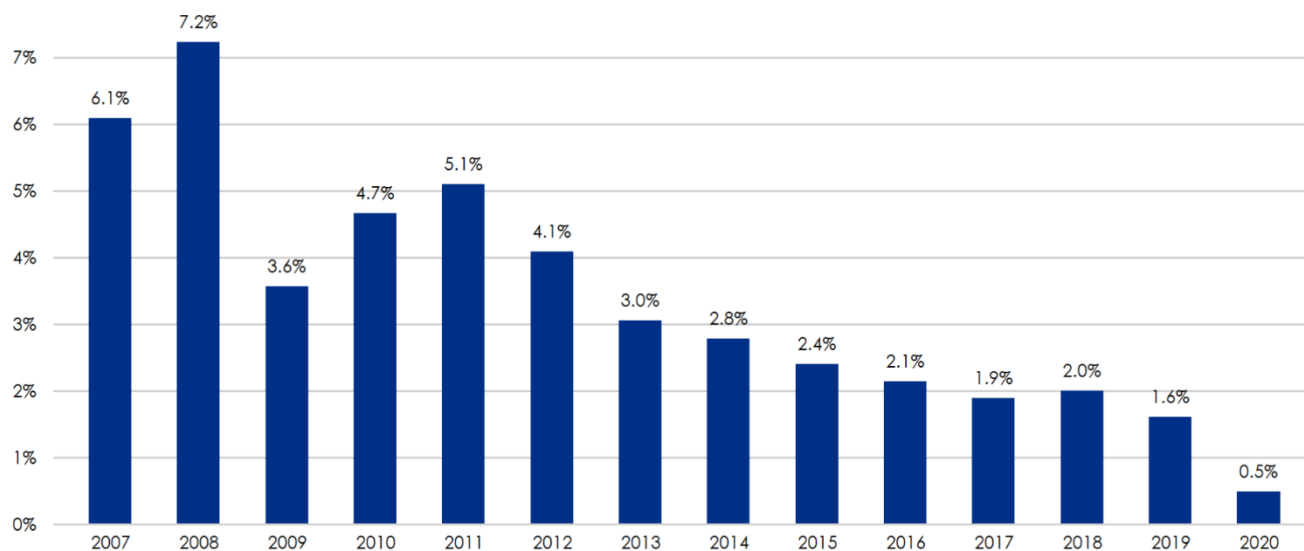
*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

The Cash investment option outperformed the benchmark by holding longer duration securities relative to the benchmark.

The returns of the Cash investment options are influenced by the Reserve Bank of Australia's (RBA) Official Cash Rate. During November, the RBA cut the official cash rate from 0.25% to 0.10%.

Investment option annual calendar year returns

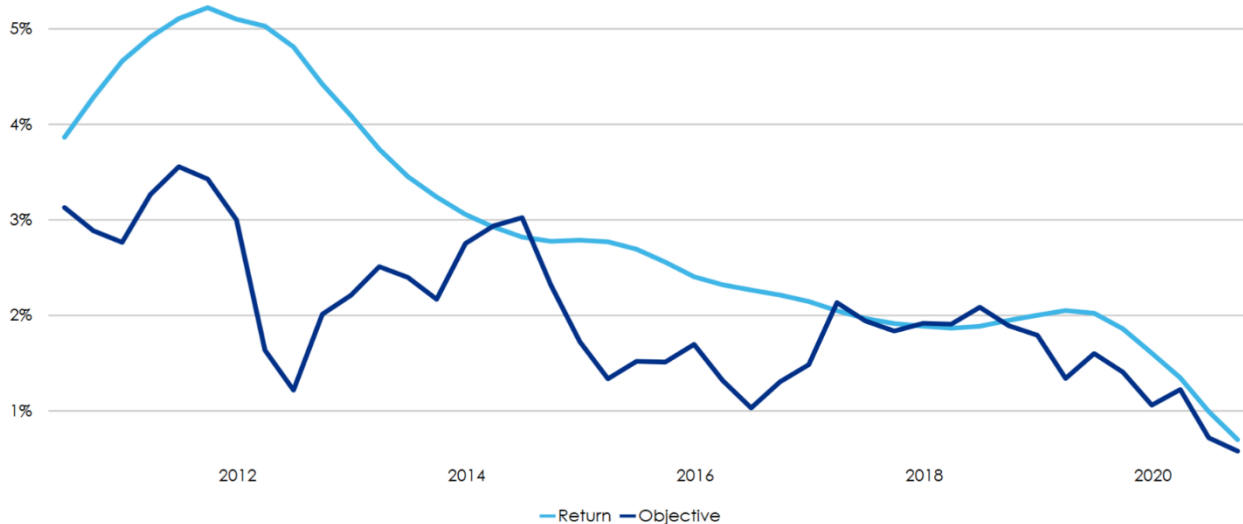
Returns net of fees to 31 December 2020



The number of negative annual returns are within the expected parameters of the investment objective.

Investment option performance relative to investment objective

1-year rolling returns, net of fees to 31 December 2020



Asset allocation

Cash Taxable investment option asset allocation as at 31 December 2020 *

Asset class	Actual %	Strategic %	Variance %
Cash	100.0	100.0	0.0
Total	100.0	100.0	
Growth assets	0.0	0.0	0.0
Compliance with 2020-21 Performance Plan		Complies	

**Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.*

Capital Defensive Taxable

Size	Inception	Indirect Cost Ratio (ICR) *	
		Actual	Target
\$382.7 million	31 March 2005	0.20%	0.23%

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard risk measure	Number of negative annual returns likely over any 20-year period
Capital Defensive	CPI + 1.5%	2+ years	Low	0.5 to 1

Performance

Investment option performance against benchmark, returns net of fees for periods to 31 December 2020 *

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	4.3	3.1	4.1	4.5	4.5	5.3
Benchmark return	3.2	3.3	4.3	4.6	4.7	5.4
Active return	1.1	-0.2	-0.1	-0.1	-0.2	-0.1

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

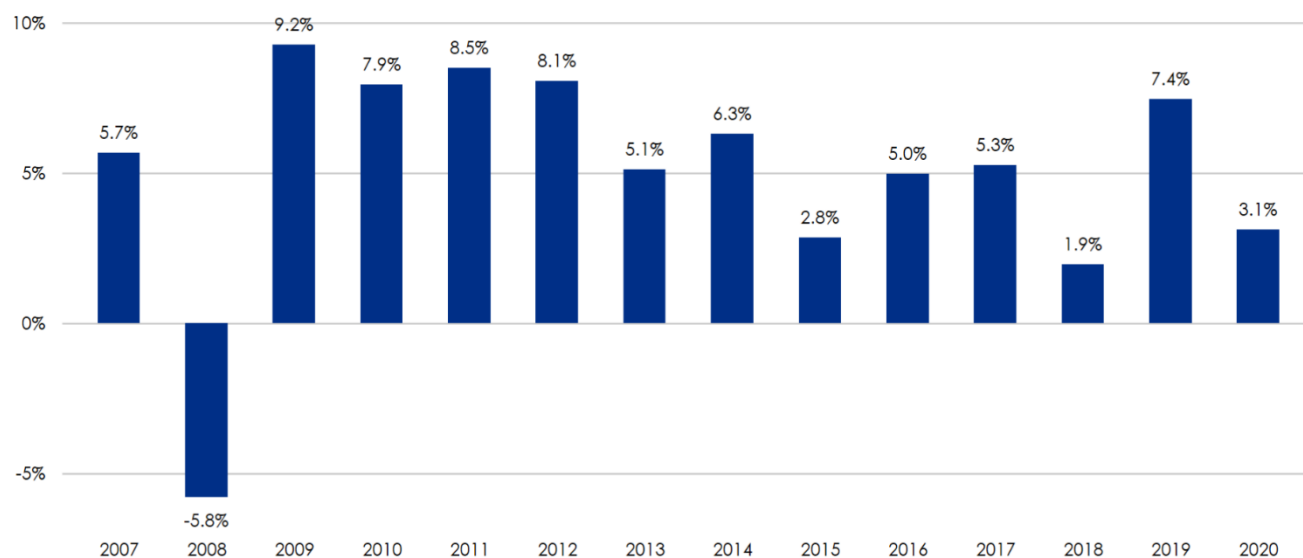
Diversified Strategies Income (DSI), International Equities, and Australian Equities were the strongest contributors to the performance of the investment option for the six months ended 31 December 2020. Growth assets benefited from rising investor sentiment, record low cash and term interest rates, and rising expectations for improved economic growth.

The defensive asset classes contributed positive but minimal returns given low cash rates and low bond yields.

Performance relative to benchmark was positive, predominately driven by DSI and International Equities. For DSI, the credit orientated strategies added value through security and sector selection and the Absolute Return strategies added value through exposure to risk assets. The DSI benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the recent six-month period, as asset values have increased, and cash rates remain low. International Equities benefited from strong stock selection and exposure to managers that tended to have a growth bias.

Investment option annual calendar year returns

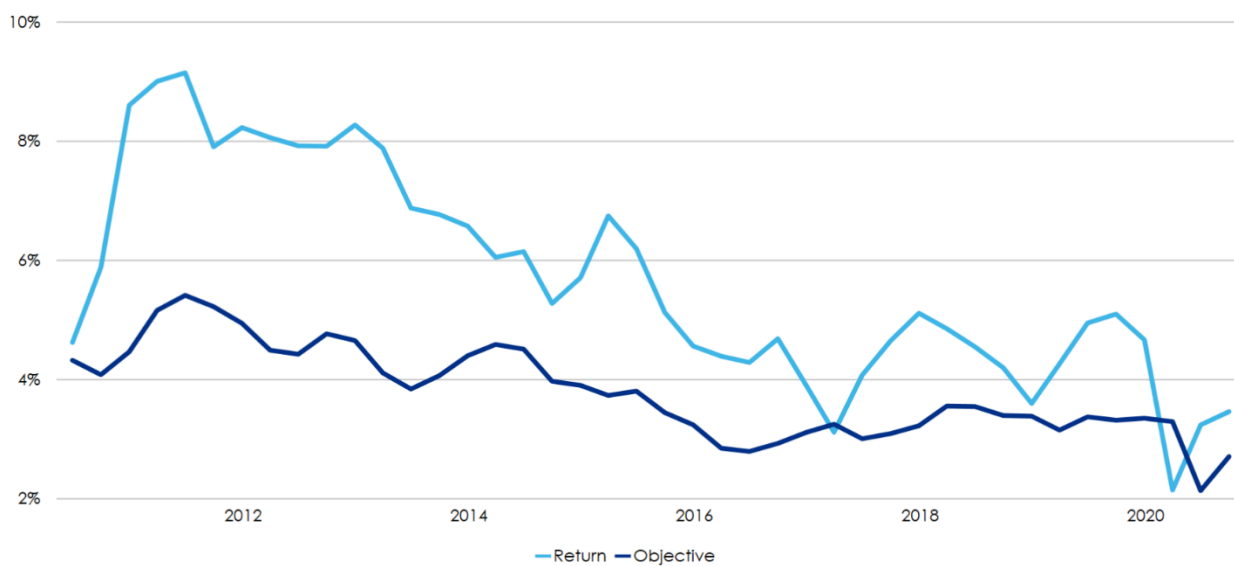
Returns net of fees to 31 December 2020



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective

2-year rolling returns, net of fees to 31 December 2020



Asset allocation

Capital Defensive Taxable investment option asset allocation as at 31 December 2020 *

Asset class	Actual %	Strategic %	Variance %
Cash	15.2	15.0	0.2
Short-Term Fixed Interest	29.4	30.0	-0.6
Long-Term Fixed Interest	5.0	5.0	0.0
Inflation-Linked Securities Taxable	15.4	15.0	0.4
Diversified Strategies Income	17.2	17.0	0.2
Property Taxable	5.1	6.0	-0.9
Australian Equities Taxable	5.3	5.0	0.3
International Equities Taxable	7.3	7.0	0.3
Total	100.0	100.0	
Growth assets	25.1	25.0	0.1
Compliance with 2020-21 Performance Plan	Complies		

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Conservative Taxable

Size	Inception	Indirect Cost Ratio (ICR) *	
		Actual	Target
\$814.2 million	31 March 2005	0.24%	0.25%

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Conservative	CPI + 2.0%	4+ years	Medium	2 to 3

Performance

Investment option performance against benchmark, returns net of fees for periods to 31 December 2020 *

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	6.4	3.6	5.0	5.7	5.6	6.4
Benchmark return	4.9	3.9	5.2	5.8	5.8	6.5
Active return	1.5	-0.2	-0.2	-0.1	-0.2	-0.1

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

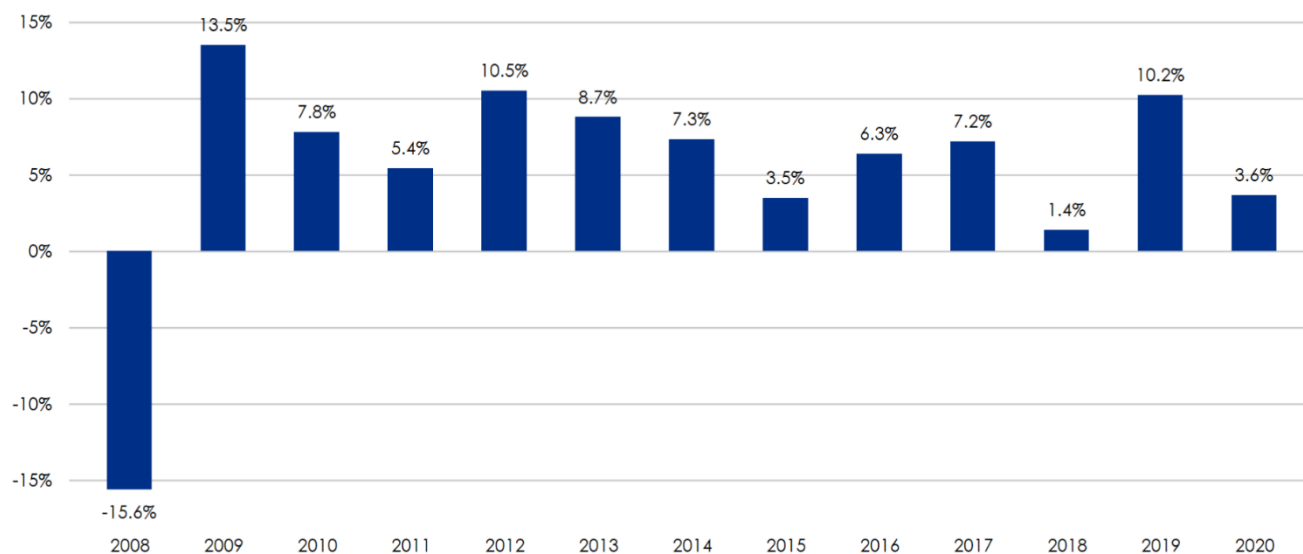
International Equities, Australian Equities, and Diversified Strategies Income (DSI) were the strongest contributors to the performance of the investment option for the six months ended 31 December 2020. Growth assets benefited from rising investor sentiment, record low cash and term interest rates, and rising expectations for improved economic growth.

The defensive asset classes contributed positive but minimal returns given low cash rates and low bond yields.

Performance relative to benchmark was positive, predominately driven by DSI and International Equities. For DSI, the credit orientated strategies added value through security and sector selection and the Absolute Return strategies added value through exposure to risk assets. The DSI benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the recent six-month period, as asset values have increased, and cash rates remain low. International Equities benefited from strong stock selection and exposure to managers that tended to have a growth bias.

Investment option annual calendar year returns

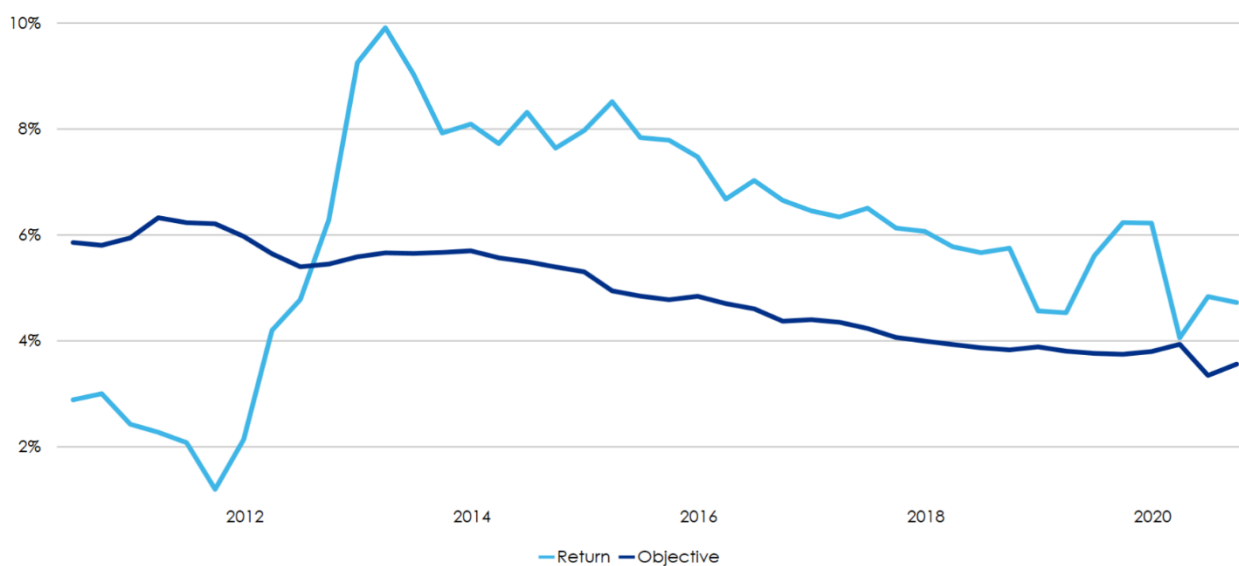
Returns net of fees to 31 December 2020



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective¹⁷

4-year rolling returns, net of fees to 31 December 2020



¹⁷ Note the target return was CPI + 2.5% prior to 1 January 2016 and CPI + 3% prior to 1 July 2013.

Asset allocation

Conservative Taxable investment option asset allocation as at 31 December 2020 *

Asset class	Actual %	Strategic %	Variance %
Cash	10.5	10.0	0.5
Short-Term Fixed Interest	17.2	18.0	-0.8
Long-Term Fixed Interest	5.0	5.0	0.0
Inflation-Linked Securities Taxable	15.3	15.0	0.3
Diversified Strategies Income	18.2	18.0	0.2
Property Taxable	8.2	9.0	-0.8
Australian Equities Taxable	11.2	11.0	0.2
International Equities Taxable	14.3	14.0	0.3
Total	100.0	100.0	
Growth assets	39.9	40.0	-0.1
Compliance with 2020-21 Performance Plan	Complies		

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Moderate Taxable

Size	Inception	Indirect Cost Ratio (ICR) *	
		Actual	Target
\$935.1 million	30 June 2006	0.34%	0.38%

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Moderate	CPI + 3.0%	6+ years	Medium to High	3 to 4

Performance

Investment option performance against benchmark, returns net of fees for periods to 31 December 2020 *

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	8.1	4.0	5.8	6.7	6.6	7.1
Benchmark return	6.2	4.5	6.0	6.8	6.7	7.1
Active return	1.9	-0.4	-0.2	0.0	-0.1	0.0

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

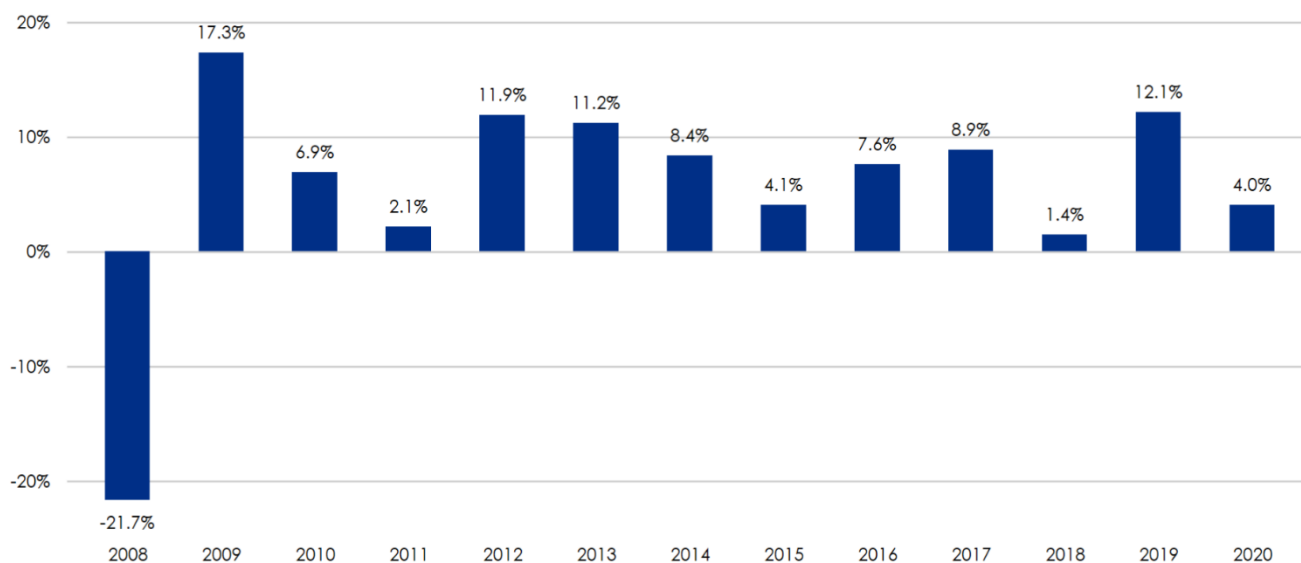
International Equities, Australian Equities, and Diversified Strategies Income were the strongest contributors to the performance of the investment option for the six months ended 31 December 2020. Growth assets benefited from rising investor sentiment, record low cash and term interest rates, and rising expectations for improved economic growth.

The defensive asset classes contributed positive but minimal returns given low cash rates and low bond yields.

Performance relative to benchmark was positive, predominately driven by International Equities and Diversified Strategies Growth (DSG). International Equities benefited from strong stock selection and exposure to managers that tended to have a growth bias. For DSG, overseas private equity funds were the largest contributors to returns as the valuations of these assets began to recover from the write-downs caused by the COVID-19 pandemic earlier in the year. The DSG benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the recent six-month period, as asset values have increased, and cash rates remain low.

Investment option annual calendar year returns

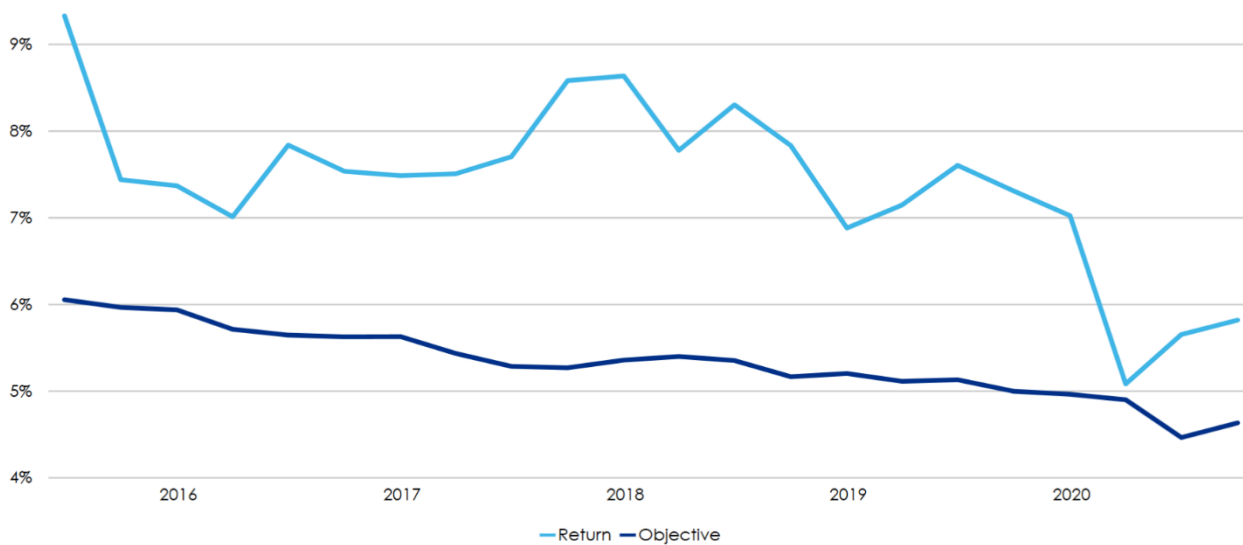
Returns net of fees to 31 December 2020



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective¹⁸

6-year rolling returns, net of fees to 31 December 2020



¹⁸ Note the target return was CPI + 3.5% prior to 1 January 2016.

Asset allocation

Moderate Taxable investment option asset allocation as at 31 December 2020 *

Asset class	Actual %	Strategic %	Variance %
Cash	8.3	8.0	0.3
Short-Term Fixed Interest	6.2	7.0	-0.8
Long-Term Fixed Interest	9.0	9.0	0.0
Inflation-Linked Securities Taxable	11.3	11.0	0.3
Diversified Strategies Income	12.2	12.0	0.2
Property Taxable	9.0	10.0	-1.0
Australian Equities Taxable	17.3	17.0	0.3
International Equities Taxable	20.3	21.0	-0.7
Diversified Strategies Growth Taxable	6.4	5.0	1.4
Total	100.0	100.0	
Growth assets	54.6	55.0	-0.4
Compliance with 2020-21 Performance Plan	Complies		

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Balanced Taxable

Size	Inception	Indirect Cost Ratio (ICR) *	
		Actual	Target
\$3,046.2 million	31 March 2005	0.41%	0.43%

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Balanced	CPI + 3.5%	10+ years	High	4 to 6

Performance

Investment option performance against benchmark, returns net of fees for periods to 31 December 2020 *

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	10.6	5.6	6.9	8.0	7.7	8.1
Benchmark return	8.3	5.9	7.1	7.9	7.7	8.0
Active return	2.3	-0.3	-0.1	0.1	0.0	0.1

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

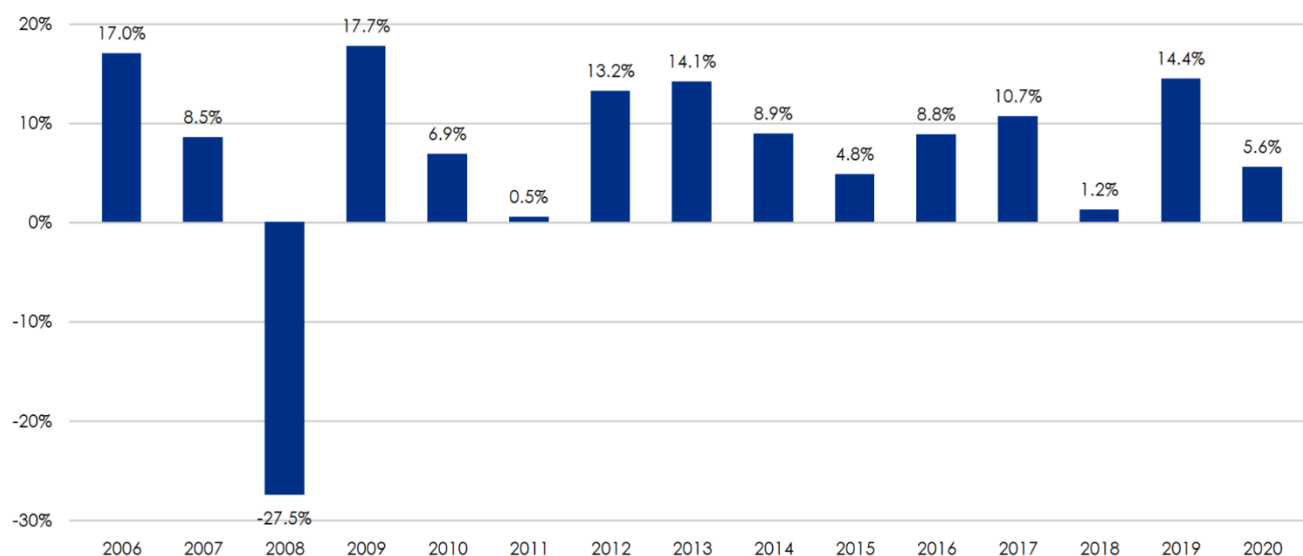
International Equities, Australian Equities, and Diversified Strategies Growth (DSG) were the strongest contributors to the performance of the investment option for the six months ended 31 December 2020. Growth assets benefited from rising investor sentiment, record low cash and term interest rates, and rising expectations for improved economic growth.

The defensive asset classes contributed positive but minimal returns given low cash rates and low bond yields.

Performance relative to benchmark was positive, predominately driven by International Equities and DSG. International Equities benefited from strong stock selection and exposure to managers that tended to have a growth bias. For DSG, overseas private equity funds were the largest contributors to returns as the valuations of these assets began to recover from the write-downs caused by the COVID-19 pandemic earlier in the year. The DSG benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the recent six-month period, as asset values have increased, and cash rates remain low.

Investment option annual calendar year returns

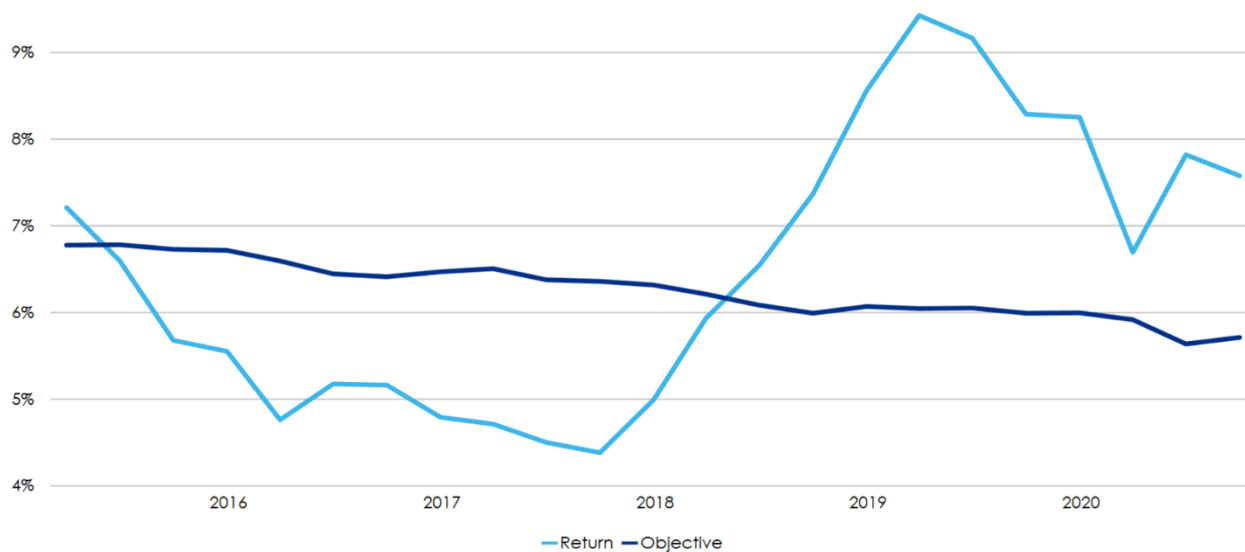
Returns net of fees to 31 December 2020



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective¹⁹

10-year rolling returns, net of fees to 31 December 2020



¹⁹ Note the target return was CPI + 4% prior to 1 January 2016. The investment horizon was 7+ years prior to 1 July 2019.

Asset allocation

Balanced Taxable investment option asset allocation as at 31 December 2020 *

Asset class	Actual %	Strategic %	Variance %
Cash	3.2	3.0	0.2
Short-Term Fixed Interest	1.2	2.0	-0.8
Long-Term Fixed Interest	6.0	6.0	0.0
Inflation-Linked Securities Taxable	5.3	5.0	0.3
Diversified Strategies Income	8.2	8.0	0.2
Property Taxable	11.1	12.0	-0.9
Australian Equities Taxable	26.2	26.0	0.2
International Equities Taxable	29.4	30.0	-0.6
Diversified Strategies Growth Taxable	9.4	8.0	1.4
Total	100.0	100.0	
Growth assets	73.8	75.0	-1.2
Compliance with 2020-21 Performance Plan	Complies		

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Growth Taxable

Size	Inception	Indirect Cost Ratio (ICR) *	
		Actual	Target
\$719.7 million	31 March 2005	0.48%	0.50%

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Growth	CPI + 4.0%	10+ years	High	4 to 6

Performance

Investment option performance against benchmark, returns net of fees for periods to 31 December 2020 *

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	11.9	6.1	7.4	8.7	8.3	8.6
Benchmark return	8.9	5.6	7.2	8.4	8.1	8.4
Active return	3.0	0.5	0.2	0.3	0.2	0.2

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

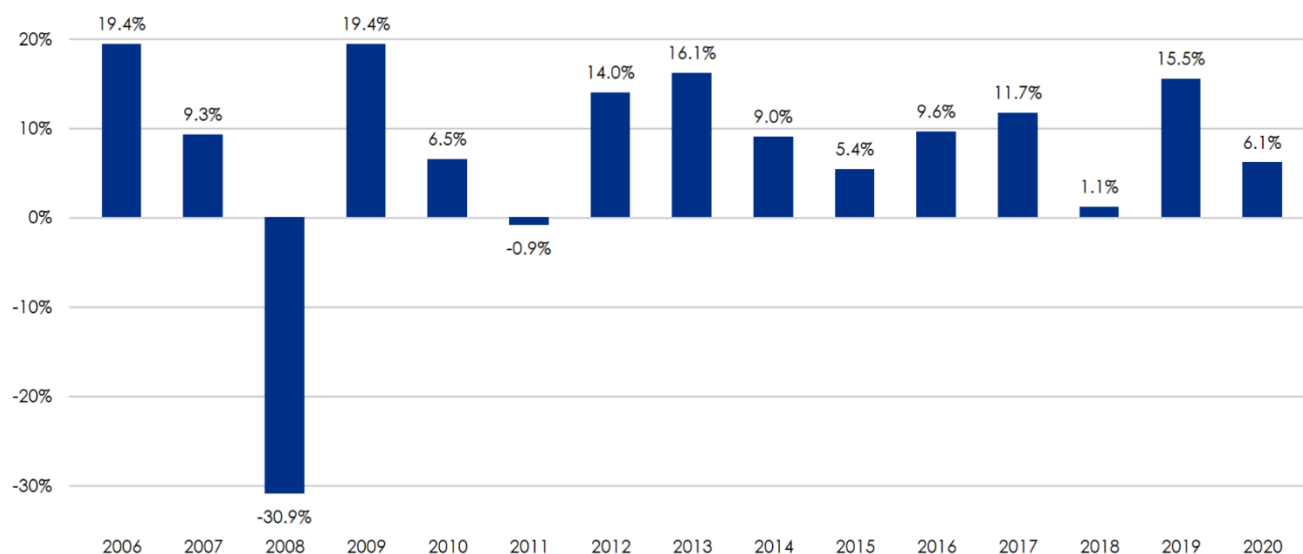
International Equities, Australian Equities, and Diversified Strategies Growth (DSG) were the strongest contributors to the performance of the investment option for the six months ended 31 December 2020. Growth assets benefited from rising investor sentiment, record low cash and term interest rates, and rising expectations for improved economic growth.

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Investment option annual calendar year returns

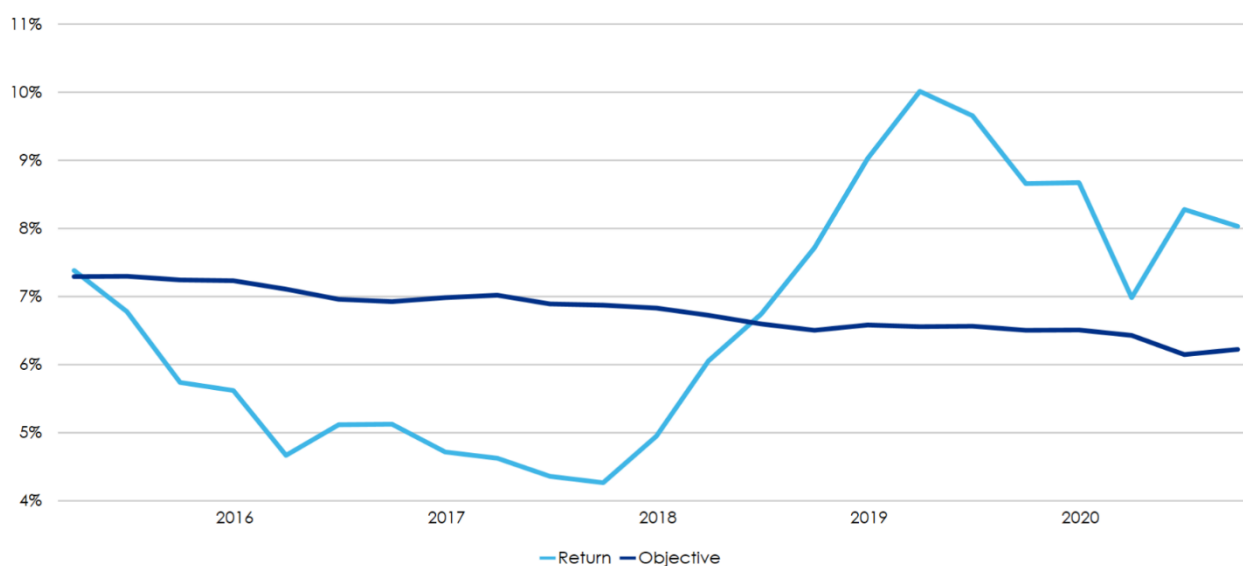
Returns net of fees to 31 December 2020



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective²⁰

10-year rolling returns, net of fees to 31 December 2020



²⁰ Note the target return was CPI + 4.5% prior to 1 January 2016. The investment horizon was 8+ years prior to 1 July 2019.

Asset allocation

Growth Taxable investment option asset allocation as at 31 December 2020 *

Asset class	Actual %	Strategic %	Variance %
Cash	3.2	2.0	1.2
Diversified Strategies Income	12.1	12.0	0.1
Property Taxable	13.0	16.0	-3.0
Australian Equities Taxable	28.0	27.0	1.0
International Equities Taxable	32.2	33.0	-0.8
Diversified Strategies Growth Taxable	11.4	10.0	1.4
Total	100.0	100.0	
Growth assets	83.5	85.0	-1.5
Compliance with 2020-21 Performance Plan		Complies	

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

High Growth Taxable

Size	Inception	Indirect Cost Ratio (ICR) *	
		Actual	Target
\$440.5 million	31 March 2005	0.48%	0.53%

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
High Growth	CPI + 4.5%	10+ years	High	4 to 6

Performance

Investment option performance against benchmark, returns net of fees for periods to 31 December 2020 *

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 Years % p.a.
Investment option return	12.1	5.0	7.5	9.2	8.8	9.1
Benchmark return	8.9	4.4	7.3	8.9	8.5	8.9
Active return	3.1	0.7	0.2	0.3	0.3	0.3

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

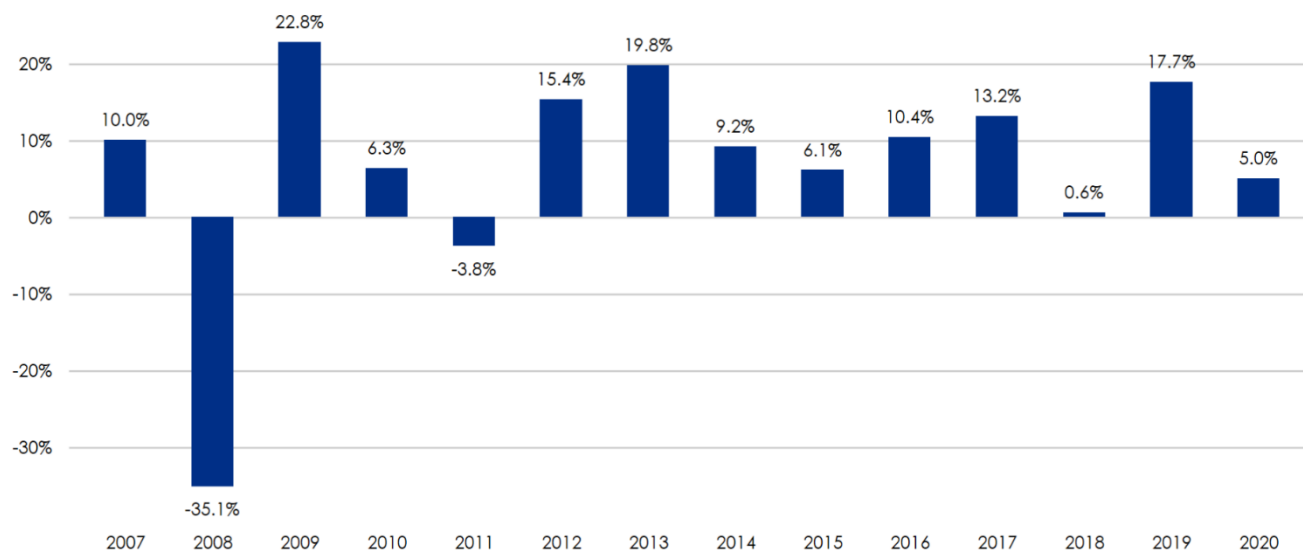
International Equities, Australian Equities, and Diversified Strategies Growth (DSG) were the strongest contributors to the performance of the investment option for the six months ended 31 December 2020. Growth assets benefited from rising investor sentiment, record low cash and term interest rates, and rising expectations for improved economic growth.

The defensive asset classes contributed positive but minimal returns given low cash rates and low bond yields.

Performance relative to benchmark was positive, predominately driven by International Equities and DSG. International Equities benefited from strong stock selection and exposure to managers that tended to have a growth bias. For DSG, overseas private equity funds were the largest contributors to returns as the valuations of these assets began to recover from the write-downs caused by the COVID-19 pandemic earlier in the year. The DSG benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the recent six-month period, as asset values have increased, and cash rates remain low.

Investment option annual calendar year returns

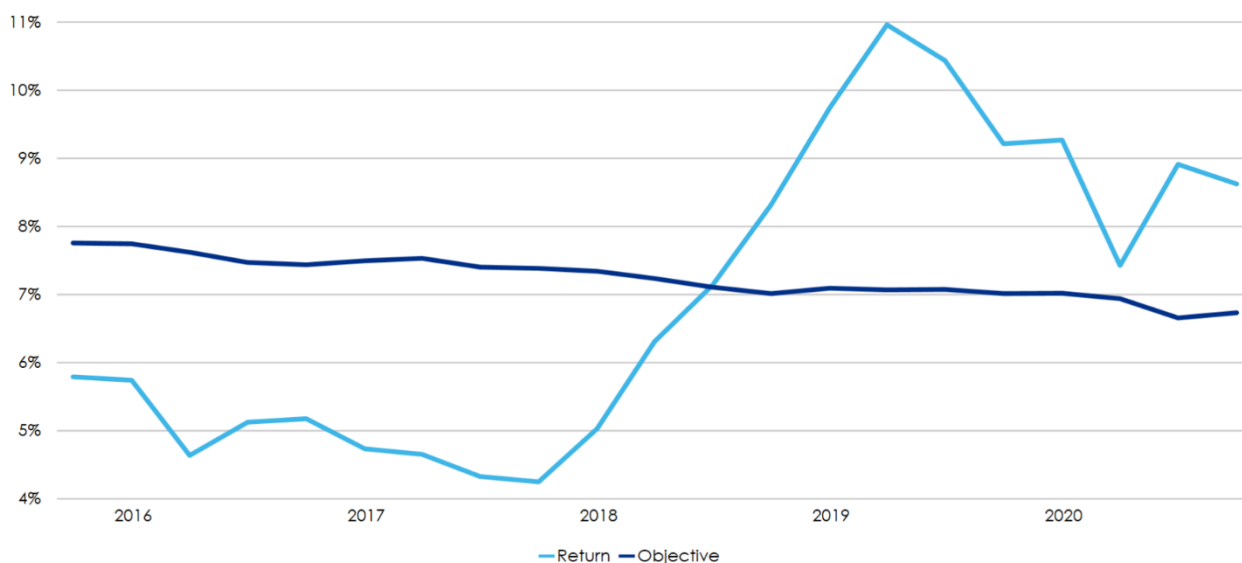
Returns net of fees to 31 December 2020



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective²¹

10-year rolling returns, net of fees to 31 December 2020



²¹ Note the target return for the High Growth Taxable investment option was CPI + 5% until December 2015. From January 2016 the target return was CPI + 4.5%.

Asset allocation

High Growth Taxable investment option asset allocation as at 31 December 2020 *

Asset class	Actual %	Strategic %	Variance %
Cash	2.2	2.0	0.2
Diversified Strategies Income	12.1	12.0	0.1
Property Taxable	15.0	16.0	-1.0
Australian Equities Taxable	27.1	27.0	0.1
International Equities Taxable	32.2	33.0	-0.8
Diversified Strategies Growth Taxable	11.4	10.0	1.4
Total	100.0	100.0	
Growth assets	83.6	85.0	-1.4
Compliance with 2020-21 Performance Plan		Complies	

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Socially Responsible Taxable

Size	Inception	Indirect Cost Ratio (ICR) *	
		Actual	Target
\$74.8 million	2 March 2009	0.41%	0.50%

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Socially Responsible	Similar to a growth fund	10+ years	High	4 to less than 6

Performance

Investment option performance against benchmark, returns net of fees for periods to 31 December 2020 *

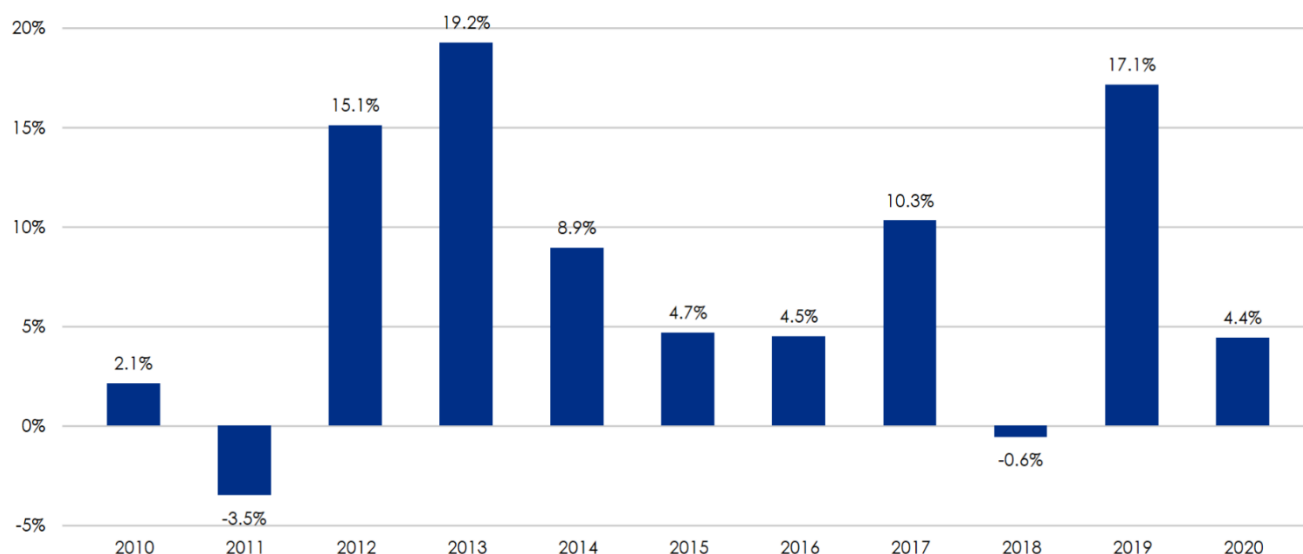
	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 Years % p.a.
Investment option return	10.8	4.4	6.7	7.0	6.9	7.8
Benchmark return	9.4	5.3	7.4	8.3	8.0	8.5
Active return	1.4	-0.9	-0.7	-1.3	-1.1	-0.8

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

The Socially Responsible portfolio outperformed its benchmark for the six months to December 2020. Outperformance in the Australian Equities, International Equities, and Alternative Assets Growth portfolios contributed positively, while the overweight in Unlisted Property in favour of International Listed Property detracted.

Investment option annual calendar year returns

Returns net of fees to 31 December 2020



The volatility of annual returns is in line with expected parameters of the investment objective.

Asset allocation

The asset allocation is determined by the investment manager, AMP Capital. The asset allocation is within the ranges for the investment option.

Socially Responsible Taxable investment option asset allocation as at 31 December 2020*

Asset class	Actual %	Strategic %	Variance %
Cash	2.05	2.0	0.05
Fixed Interest	26.65	25.0	1.65
Property	6.67	9.0	-2.33
Australian Equities	26.44	25.0	1.44
International Equities	34.41	33.0	1.41
Alternatives	3.78	6.0	-2.22
Total	100	100	
Growth assets	71.30	73.0	1.7

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted. The Socially Responsible Taxable investment option invests in the AMP Capital Ethical Leaders Balanced fund and does not invest in the Funds SA asset classes. Therefore, the asset classes listed above are those managed by AMP Capital.

Appendix 3

Asset Class Benchmarks



The following table details the asset class benchmarks as at 31 December 2020.

Funds SA asset class	Allocation %	Index
Cash	100	Bloomberg AusBond Bank Bill Index
Short-Term Fixed Interest	100	Bloomberg AusBond Composite Index 0-5 years
Long-Term Fixed Interest	50	Bloomberg AusBond Treasury Index 7+ years
	50	FTSE World Government Bond Index hedged into AUD
Inflation-Linked Securities Tax-Exempt and Taxable	100	Bloomberg AusBond Government Inflation Index 0-10 years
Diversified Strategies Income		<u>Diversified debt</u> High Yield 40 Merrill Lynch Global High Yield Index expressed in AUD (hedged) Leveraged Loans 40 Credit Suisse Leveraged Loan Index expressed in AUD (hedged) Emerging Market Debt: 20 JP Morgan EMBI Global Index expressed in AUD (hedged) <u>Absolute return</u> 60 Bloomberg AusBond Bank Bill Index + 3% p.a. 40 Bloomberg AusBond Bank Bill Index + 2% p.a.
Property Tax-Exempt and Taxable	100	Mercer / IPD Australia Unlisted Wholesale Property Fund Index
Australian Equities and Australian Equities Passive Tax-Exempt and Taxable	100	S&P/ASX 300 Accumulation Index
International Equities and International Equities Passive Tax-Exempt	100	Morgan Stanley Capital International (MSCI) All Countries World Index Ex-Australia net dividends reinvested in AUD and unhedged
	30	Currency Hedge: (MSCI World ex-Australia Index Hedged minus MSCI World ex-Australia Unhedged), net dividends reinvested and in AUD (Developed Markets weight of the portfolio benchmark)
International Equities and International Equities Passive Taxable	100	Morgan Stanley Capital International (MSCI) All Countries World Index Ex-Australia net dividends reinvested in AUD and unhedged.
	22	Currency Hedge: (MSCI World ex-Australia Index Hedged minus MSCI World ex-Australia Unhedged), net dividends reinvested and in AUD (Developed Markets weight of the portfolio benchmark)
Diversified Strategies Growth Tax-Exempt and Taxable	100	Bloomberg AusBond Bank Bill Index plus 4% p.a.

Disclaimers



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Half-Yearly Performance Report

Funds SA Investment Option

Lifetime Support Authority Strategy

For the six months ending 31 December 2020



Government
of South Australia

EXECUTIVE SUMMARY

This report provides an overview of the performance of the Lifetime Support Authority Strategy (LSA Strategy) for the six-month period ended 31 December 2020.

COVID-19 vaccine developments and continued Government and Central bank stimulus drove very strong returns.

- Funds SA's investment options with high allocations to growth assets achieved returns greater than 10% for the six months to 31 December 2020.
- Annual returns were more moderate (approximately 5%) as they included the severe market falls inflicted by the COVID-19 pandemic in February and March.
- Equity markets rebounded rapidly from COVID-19 led falls of 35% in February and March to reach record levels by the end of 2020 driven by investor confidence that vaccines will allow normal economic activity to resume later in 2021.
- Investors are expecting earnings to recover to 2019 levels by the end of 2021 with near zero interest rates and continued Government stimulus to support the economic recovery and asset prices.
- Whilst COVID-19 was the dominant theme impacting financial markets, the US election, and ongoing trade tensions with China were also significant.
- The Australian economy was officially confirmed in recession in the June Quarter, but strong growth in retail sales and a rapid improvement in the employment market indicates that a recovery is underway.
- Investor optimism grew from this improving economic activity and a preparedness to discount short term weakness in company earnings and focus on expected post-COVID earnings and valuations.
- Central banks left cash rates at historical lows (near zero) and controlled medium term bond yields at very low levels to assist credit markets and encourage investors to increase risk in the search for adequate returns.
- Despite the large falls led by COVID-19 early in the year, the strong recovery over the past six months led to all Funds SA's investment options finishing the year with positive returns.

The LSA Strategy delivered positive performance

- The LSA Strategy delivered double digit returns of 11.4% for the six months to 31 December 2020.
- All asset classes provided a positive contribution to performance, International and Australian Equities returning 13-17% for the six months. Performance from Cash and Fixed Income asset classes was positive but very low given current cash rates and bond yields.
- Long-term performance continues to be positive across all time periods to 31 December 2020.

Asset allocations were within the asset class ranges

- As at 31 December 2020, the LSA Strategy's asset allocation was within the asset class ranges specified within the Performance Plan.

Funds under management¹

- Funds SA's total funds under management rose from \$34,084 million (m) as at 1 July 2020 to \$37,526m as at 31 December 2020. This was the result of net investor outflow of \$59.8m and investment gains of \$3,502m.

Investment Management Costs

- The Indirect Cost Ratio (ICR) tracked below the target ICR for the financial year-to-date. Additional detail relating to investment management costs can be found in Section 5.

¹ All funds under management (FUM) values provided are based on Redemption value (RED).

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1. Financial Market Environment

COVID-19 vaccine developments and continued Government and Central bank stimulus drove very strong returns.

Whilst the past six months have been volatile in economic news flow, financial market returns were consistently strong as optimism around the recovery from COVID-19 and the alternative of locking in near zero Cash returns increased the risk appetite of investors.

In the northern hemisphere, COVID-19 cases began increasing as winter approached and mutant strains of the virus were discovered. The pandemic continued to disrupt the economic recovery and countries began reinstating lockdowns. However, this did not affect the continued recovery in Equity markets with many hitting record levels.

In November, three main sources of investor uncertainty were alleviated; by positive COVID-19 vaccine announcements, the US election results, and better than expected third Quarter US company earnings reports. This was the beginning of a significant rally in risk assets as Governments also announced further stimulus packages to support businesses and consumers to support incomes.

Successful trial results from 2 COVID-19 vaccines were announced in November, and investors looked through increasing case numbers, focusing on vaccine rollouts and the potential return to normal economic activity.

The US election result was called with Joe Biden declared the President-Elect. While there were protests from the Republicans over the validity of the result, investors viewed Biden's success in a positive light and credit and equity markets were propelled higher.

The EU-UK Trade and Cooperation Agreement was finalised on the 24th of December, to formally facilitate Brexit. The effects of Brexit on the UK economy will become evident as the UK and Europe adapt to the new way of trading together.

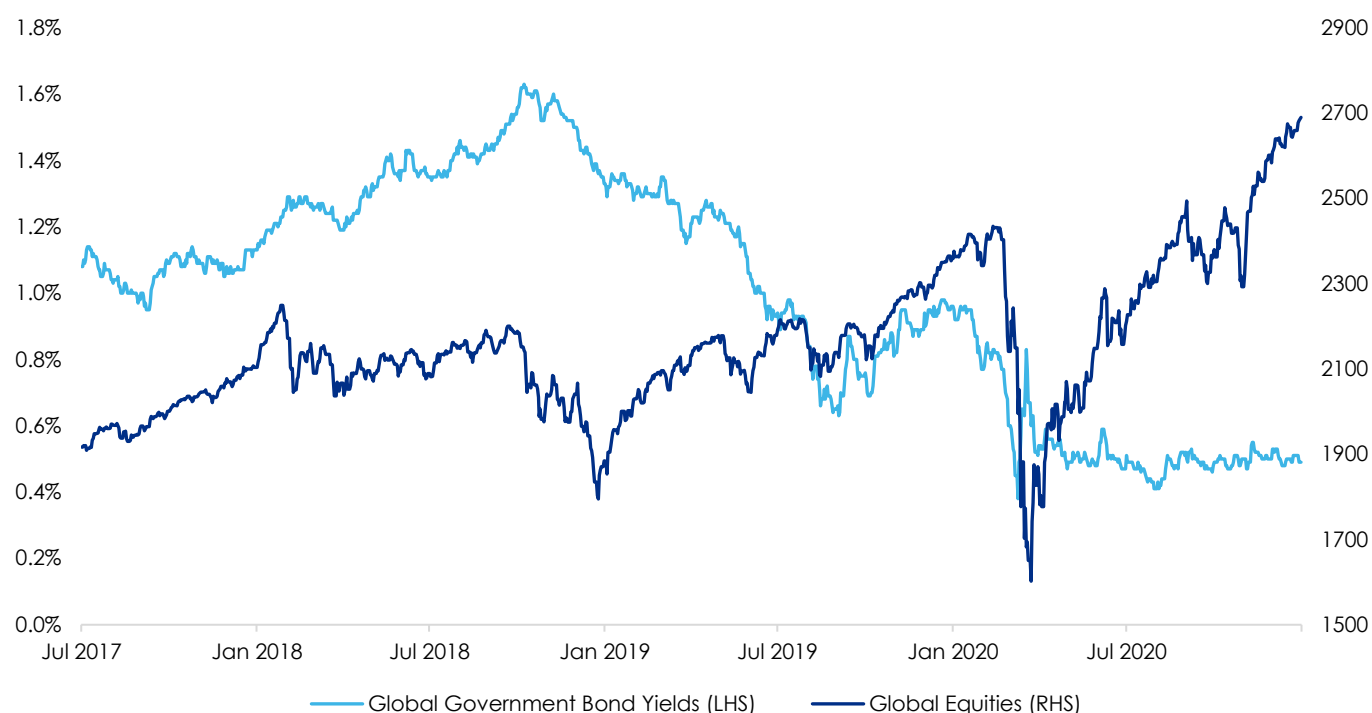
On the COVID-19 front, Australia fared better than our global peers, notwithstanding the substantial Victorian lockdown. The Reserve Bank of Australia reduced the Official Cash Rate to 0.1% in November and the Federal Government extended JobKeeper and JobSeeker support packages to help position the economy for recovery. In response to fiscal and monetary stimulus, consumer and business sentiment both improved. The Australian equity market was assisted by higher commodity prices, notably iron ore, driven by improving global GDP and strong demand from China.

China's economy accelerated in the second half of 2020 and is the only country to end the year with positive GDP growth. This was driven by industrial production due to demand from global consumers. Lockdowns caused consumers around the world to pivot away from spending on services and instead increased their purchases of goods. As China is a global manufacturer of many of those goods, it helped grow their economy.

All investment options delivered strong positive returns for the period, but growth-orientated investment options benefited the most from strong equity, credit, and unlisted markets. The defensive-oriented investment options were positive but crimped by significant weightings to the Cash and Fixed Interest asset classes. As cash rates moved to near zero and bond yields are anchored to low levels for the foreseeable future by central bank actions, return expectations for these asset classes remain muted.

The chart below depicts the themes discussed, with global equity markets falling sharply as the COVID-19 pandemic took hold, and the subsequent rally, whilst long-term sovereign bond yields remained flat.

Chart 1: Performance of developed market global equities and government bond yields to 31 December 2020*



*Source: Bloomberg

As a result of the factors identified earlier, six-month returns showed:

- Australian equities underperformed relative to most global equity markets in local currency terms. However, the AUD appreciated strongly against development market currencies, meaning returns were similar in AUD terms.
- The US equity market performed strongly, reflecting the technology heavy sector composition in the US that benefited from the impact of COVID-19. The Funds SA International Equities portfolio materially outperformed its benchmark for the six months driven by strong stock selection by the Managers.
- Cash and Fixed Interest produced slightly positive returns, although Inflation Linked Securities performed well as expectations of future inflation increased.
- Non-government debt markets were strong. Those sectors perceived to be the highest risk, such as high-yield and emerging market debt, performed the strongest. This was due to a rebound in economic growth and a reduction in credit spreads.
- Australian listed property delivered strong returns, recovering some of the losses incurred at the start of the COVID-19 pandemic. While leasing activity, occupancy rates and improved patronage in shopping centres have supported the recovery, headwinds remain, with demand uncertainty for office space and structural shifts to online shopping continuing.
- Other unlisted markets, such as infrastructure and private equity, experienced valuation upgrades from conservative levels set in June.

- The Australian Dollar (AUD) appreciated by 12% against the US Dollar (USD) as investors increased their confidence in the global economic recovery, the US Federal Reserve emphasised that it would wait to see sustained inflation before increasing interest rates, and the US election result increased the prospect of further material government stimulus, all dragging the USD lower.

The following table shows the returns generated in different asset markets over periods to 31 December 2020.

Table 1: Major market index returns, periods to 31 December 2020*

Market Index	1 mth %	3 mths %	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	0.4	1.3	1.5	1.8	2.4
Australian Government	-0.4	-0.6	0.2	4.1	5.6	4.6	5.1	5.4
Australian Inflation-Linked	1.2	1.7	5.3	6.9	6.3	4.8	5.7	6.5
Global Treasuries	0.2	0.2	0.7	4.9	4.6	4.4	5.2	5.8
Credit								
Global Credit	0.4	2.3	3.9	6.7	5.5	5.9	5.9	6.7
Global High-Yield	1.9	6.5	10.0	3.5	4.0	7.4	6.1	8.1
Emerging Market Debt	1.8	5.5	7.9	5.9	4.9	6.8	5.8	6.0
Property								
Australian Listed Property	0.6	13.2	21.6	-4.0	5.8	7.4	11.0	11.3
Equities								
Australian Equities	1.3	13.8	13.7	1.7	6.9	8.8	7.4	7.7
Global Equities	3.5	12.4	19.9	13.5	10.2	11.6	9.9	10.6
US Equities	3.8	12.1	22.2	18.4	14.2	15.2	12.9	13.9
European Equities	2.2	10.3	10.6	-2.2	2.7	5.6	5.4	6.3
Japanese Equities	3.0	12.1	17.5	8.2	2.6	5.5	7.0	9.5
Asia (ex Japan) Equities	6.0	16.1	27.1	22.4	8.2	12.7	9.2	7.1
Chinese Equities	1.8	14.3	10.0	-3.8	-2.8	2.1	-0.1	-1.7
Emerging Market Equities	6.1	16.1	26.3	19.5	8.5	13.0	9.1	7.0
Global Small Companies	7.0	23.7	33.0	16.2	8.1	11.7	8.7	9.9
Currency								
Australian Dollar vs Developed Market Basket	3.9	5.9	9.0	7.4	-0.9	0.5	-1.5	-2.3
Commodities								
GSCI Energy	6.3	16.9	16.3	-46.3	-16.7	-6.2	-18.6	-12.7
GSCI Precious Metals	7.5	0.8	6.3	23.0	11.7	11.1	5.4	1.4

*Source: Bloomberg, Mercer

Note:

Returns for Global Treasuries, Global Credit and Global High-Yield are hedged to AUD.

Returns for Emerging Market Debt are hedged to USD.

Returns for Property and Equities are expressed in local currency.

Returns for Commodities are in USD.

2. LSA Strategy Investment Performance

A number of uncertainties were alleviated during the past six months, and investors gained confidence to invest in risk assets. Against a backdrop of rising markets, driven by positive investor sentiment, record low cash and term interest rates, and rising expectations for improved economic growth, the Funds SA investment options delivered exceptionally strong positive returns.

Returns ranged from single mid-digits for the more defensive investment options and the growth-orientated investment options delivered low double-digit returns for the six-month period. All investment options finished the calendar year with low to mid-single digit returns; a remarkably good outcome considering the significant market falls and volatility at the beginning of 2020.

Every asset class was a positive contributor to the performance of all investment options for the six months to 31 December 2020. For most investment options, International Equities led the performance recovery, with Australian Equities, Diversified Strategies Growth, Diversified Strategies Income and Property also producing very strong returns. The contribution from the Cash and Fixed Interest asset classes was modest, as cash rates moved toward zero and bond yields anchored to low levels for the foreseeable future by central bank actions. Return expectations for these asset classes remain muted.

Table 2: LSA Strategy returns, periods to 31 December 2020, returns net of fees

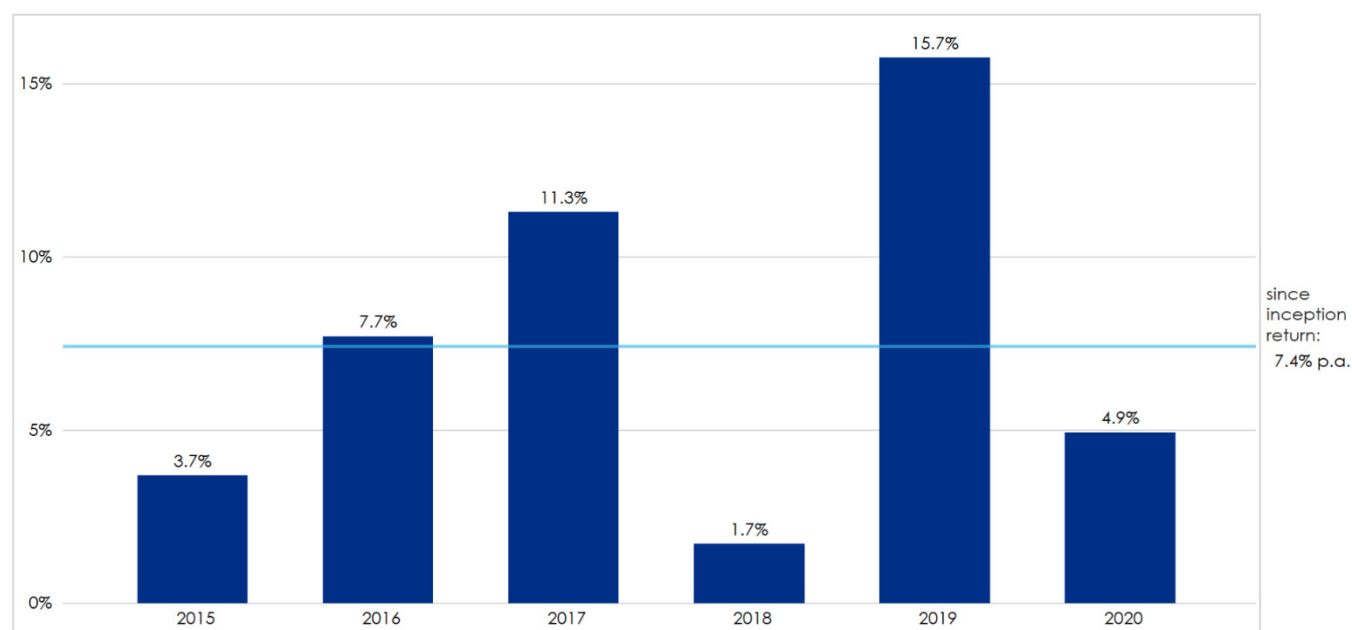
Description	6 months %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.	Since Inception % p.a.
LSA nominal return	11.4	4.9	10.2	7.3	8.2	7.4
Investment objective	3.1	6.2	6.2	6.2	6.2	6.2
Active return	8.3	-1.3	3.9	1.0	1.9	1.2

Note: The performance in the table above reflects the movement in the LSA Strategy from investing in the Funds SA Conservative Tax-Exempt investment option to the Moderate Tax-Exempt investment option to a customised strategy from 1 July 2017.

The primary return measure for the LSA Strategy is the target return, as defined in the 2020-21 Performance Plan, as a minimum of 6.25% over rolling 10-year periods.

The LSA Strategy is ahead of the investment objective over the longer term and the risk characteristics of the strategy are in line with expectations. The volatility of returns is illustrated in Chart 2.

Chart 2: LSA Strategy annual returns as at 31 December 2020, net of fees



Investment option performance relative to the benchmark was positive over the six months.

Benchmarks are constructed for the long-term, consistent with the investment objective of the investment options, and may not be an appropriate measure of short-term performance, especially during periods of extreme volatility. This is particularly relevant for benchmarks that have a cash plus approach.

For the six months to 31 December 2020, the LSA Strategy outperformed its relevant benchmark.

International Equities, Diversified Strategies Income (DSI) and Diversified Strategies Growth (DSG) asset classes were positive contributors to relative performance. Cash was a slight negative contributor to relative performance.

Key contributors:

- International Equities strongly outperformed its benchmark over the six months to December 2020. The outperformance was largely driven by a strong positive contribution from stock selection and exposure to managers that tended to have a growth bias, notably T Rowe Price, Harding Loevner, and Lord Abbett. The Emerging market managers also delivered a strong period of performance. Managers with value/quality bias struggled to contribute positively to the asset class but continued to perform in line with expectations.
- Within the DSI asset class, credit-orientated strategies and absolute return strategies both outperformed their respective benchmarks over the period, recovering from poor performance during the COVID-19 led downturn in February and March. The credit-orientated strategies added value through security and sector selection. The absolute return strategies adding value through exposure to risk assets.
- Within the DSG asset class, overseas private equity funds were the largest contributors to returns as the valuations of these assets began to recover from the write-downs caused by the COVID-19 pandemic earlier in the year.

Whilst the investment objectives are the primary return measure, performance relative to the benchmark aids in our ongoing analysis of:

- asset class strategy;
- manager performance; and
- manager composition.

Further discussion on asset class performance relative to their benchmarks is included in Section 4.

Table 3: LSA Strategy returns vs. benchmark, periods to 31 December 2020, returns net of fees

Description	6 months %	1 Year %	2 Years % p.a.	3 Years % p.a.	5 Years % p.a.	Since Inception % p.a.
Portfolio return	11.4	4.9	10.2	7.3	8.2	7.4
Benchmark return	8.1	4.5	9.7	6.9	7.7	7.2
Active return	3.4	0.5	0.5	0.4	0.4	0.3

Note: due to rounding, the active returns shown may not exactly equal the difference between the fund and the benchmark returns.

3. Asset Allocation

The LSA Strategy invests in common asset classes according to the LTSAA as outlined in the 2020-21 Performance Plan.

Asset allocations were within the asset class ranges as at 31 December 2020.

Table 4: LSA Strategy asset allocation as at 31 December 2020

Asset class	Actual %	LTSAA Target %	Variance %
Cash	2.92	2.0	0.92
Inflation-Linked Securities Tax-Exempt	0.00	0.0	0.00
Diversified Strategies Income	14.10	14.0	0.10
Property Tax-Exempt	17.21	18.0	-0.79
Australian Equities Tax-Exempt	20.54	20.0	0.54
International Equities Tax-Exempt	30.00	30.0	0.00
Diversified Strategies Growth Tax-Exempt	15.24	16.0	-0.76
Total	100.00	100.0	
Growth assets	81.18	80.0	1.18

4. Asset Classes

Asset class development

Funds SA has established a range of asset classes which are the building blocks for the investment options.

We continue to develop and expand our investment platform and asset classes to ensure we have the flexibility to meet a wide range of investment objectives and risk tolerances, with the aim of enhancing investment outcomes for clients.

During the past six months the Funds SA Board approved the implementation of a number of investment and asset class initiatives to support the pursuit of enhanced returns.

Active Asset Allocation

The Funds SA Board approved the Dynamic Asset Allocation (DAA) approach on the 15th of September, and the approach has been utilised during the period.

Funds SA aims to use DAA as a generator of incremental return and assist in risk management over the long-term by taking active, medium-term asset allocation positions. As at 31 December 2020 there were no active asset allocation positions in place.

Listed Equities

- Funds SA began allocating to the Australian Equities Passive Tax-Exempt asset classes for relevant investment options.

Property

- The Funds SA Board approved investing directly into property markets.
- Benefits include more targeted portfolios, control over investment decisions, and higher returns if well executed.

Diversified Strategies Growth (DSG)

- The Funds SA Board approved an updated DSG strategy, and implementation has commenced.
- Part of the updated strategy includes a co-investment program; this has the dual aim of increasing returns and reducing costs.

Responsible Investment

In December 2020, the Funds SA Board approved three key initiatives to enhance Funds SA's responsible investment approach:

1. A new Responsible Investment Policy;
2. Becoming a signatory to the United Nations-supported Principles for Responsible Investment; and
3. Partial internalisation of proxy voting activities.

The new Responsible Investment Policy articulates Funds SA's enhanced responsible investment approach and replaces Funds SA's ESG Statement, this will be shared in due course.

Asset class performance

International and Australian Equities performed strongest over the six months to 31 December 2020.

Every asset class was a positive contributor to the investment option's performance.

International Equities led the performance recovery, closely followed by Australian Equities, Diversified Strategies Income, and Diversified Strategies Growth. Growth assets benefited from rising investor sentiment, record low cash and term interest rates, and rising expectations for improved economic growth. Some international equity markets, in particular the US market, have since reached new historic highs.

Muted returns from Cash and Government bond-oriented fixed interest asset classes.

As cash rates moved toward zero and bond yields anchored to low levels for the foreseeable future by central bank actions, returns from the Cash and Fixed Interest asset classes were negligible. Expected returns for these asset classes remains muted.

Asset class performance relative to benchmark was positive over the six-month period.

Funds SA measures the performance of each asset class against a benchmark. The benchmarks are the relevant market index or blend of indices. Where no reasonable market index is available, the index is expressed as a margin over cash. Benchmarks are constructed for the long-term, consistent with the investment objective of the investment options and may not be an appropriate measure of short-term performance, especially during periods of extreme volatility. This is particularly relevant for benchmarks that have a cash plus approach. The benchmark for each asset class is included in Appendix 1.

All asset classes outperformed their relevant benchmarks over the six-month period. The DSG, International Equities, DSI and Property asset classes significantly outperformed their benchmarks.

The benchmarks for DSG and DSI asset classes have a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the recent six-month period, as assets have increased in value and cash rates remain low.

Cash

The asset class returned 0.1% over the past six months, performing in line with its benchmark.

Diversified Strategies Income

The asset class returned 7.3% over the past six months, outperforming its benchmark which returned 3.9%. The credit-orientated strategies and absolute return strategies outperformed their respective benchmarks during this period. The credit-orientated strategies added value through security and sector selection. The absolute return strategies added value through exposure to risk assets.

Property Tax-Exempt

The Property Tax-Exempt asset class was above the benchmark for the six months to December 2020. The listed component has recovered some of the losses incurred at the start of the COVID-19 pandemic and has contributed to recent outperformance of the asset class.

Overall, whilst leasing activity in the core office markets has improved and physical occupancy increased, demand remains subdued and recent clusters of COVID-19 cases have contributed to ongoing uncertainty around future space requirements. As a result, effective rentals remain under pressure as incentives increased across all markets. Shopping centres have seen improved patronage in line with restrictions easing, however, the structural shift to online continues. Retail valuations have

stabilised in recent months, although market rents and tenant demand remain a watch during the recovery phase.

Australian Equities Tax-Exempt

The Australian Equities Tax-Exempt asset class delivered 14.3% over the six months, outperforming the benchmark return of 13.7%. Outperformance was driven by positive stock selection from several managers, including the broad cap managers, Vinva and Touchstone and very strong performance from First Sentier who provide small-mid cap exposure. Meanwhile, Northcape, Ethical Partners and Greencap detracted primarily as a result sector allocation.

International Equities Tax-Exempt

The International Equities Tax-Exempt asset class outperformed the benchmark over the six months to December 2020 by 4.5%. The outperformance was largely driven by a strong positive contribution from stock selection and managers that tended to have a growth bias, notably T Rowe Price, Harding Loevner, and Lord Abbett. The emerging market managers also delivered a strong period of performance. Managers with value/quality bias struggled to contribute positively to the asset class but continued to perform in line with expectations.

Diversified Strategies Growth Tax-Exempt

The Diversified Strategies Growth asset class generated returns above benchmark over the six months to December 2020. Overseas private equity funds were the largest contributors to returns as the valuations of these assets began to recover from the write-downs caused by the COVID-19 pandemic earlier in the year.

Table 5: Funds SA asset class returns, periods to 31 December 2020, portfolio returns are net of fees and gross of tax, benchmark returns are net of fees

Asset class		6 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.
Cash	Portfolio return	0.1	0.5	1.4	1.6	2.5
	Benchmark return	0.0	0.4	1.3	1.5	2.4
	Active return	0.1	0.1	0.1	0.1	0.1
Diversified Strategies Income	Portfolio return	7.3	-0.6	1.8	3.9	5.5
	Benchmark return	3.9	4.0	4.3	5.3	6.3
	Active return	3.4	-4.6	-2.5	-1.5	-0.8
Property Tax-Exempt	Portfolio return	5.5	-3.1	5.1	7.9	9.2
	Benchmark return	2.8	-2.6	4.0	7.0	8.7
	Active return	2.7	-0.5	1.1	0.8	0.5
Australian Equities Tax-Exempt	Portfolio return	14.3	3.5	7.2	9.1	7.7
	Benchmark return	13.7	1.7	6.9	8.8	7.7
	Active return	0.5	1.8	0.3	0.3	0.0
International Equities Tax-Exempt	Portfolio return	17.4	14.4	11.9	13.0	13.2
	Benchmark return	12.9	7.5	10.2	11.9	12.0
	Active return	4.5	7.0	1.7	1.2	1.2
Diversified Strategies Growth Tax-Exempt	Portfolio return	7.5	2.2	7.4	9.7	11.0
	Benchmark return	2.0	4.4	5.3	5.6	6.5
	Active return	7.5	2.2	7.4	9.7	11.0

Table 6: Funds SA Tax-Exempt asset class structure, as at 31 December 2020*

Asset class	Sub-asset class allocation		Investment managers
Cash	100%		Macquarie Investment Management
Diversified Strategies Income ²	50%	Diversified Debt	Ares Management GMO & Co Macquarie Investment Management Oak Hill Advisors Putnam Investments Wellington Management Company
	50%	Absolute Return	Bridgewater Associates Brandywine Global GMO & Co LGT Capital Partners
Property Tax-Exempt	85%	Core Property	AMP Capital Dexus Wholesale Property GPT Funds Management Investa Funds Management ISPT Lend Lease
	15%	Non-Core Property	CorVal Partners Vanguard Vicinity Centres
Australian Equities Tax-Exempt	100%	Broad Market	Ethical Partners Funds Management First Sentier Investors Greencape Capital Northcape Capital Touchstone Asset Management Vinva Investment Management
International Equities Tax-Exempt	84%	Global Broad Market	Applied Quantitative Research Harding Loevner Harris Associates IFP LSV Asset Management Massachusetts Financial Services T Rowe Price
	3%	Small Companies	Lord Abbett Growth
	13%	Emerging Markets	LSV Asset Management Paradice Investment Management TT International Wellington Management Company
Diversified Strategies Growth Tax-Exempt ³	50%	Private Markets	33 Investment Managers
	50%	Infrastructure	5 Investment Managers
	0%	Other Opportunities	2 Investment Managers

*The asset class allocations and investment managers listed in the table above are subject to change.

² International assets hedged to AUD.

³ International assets hedged to AUD.

5. Investment Management Costs

The Performance Plan includes the target costs for the investment option. Funds SA's investment management costs are presented as a percentage of average funds managed and referred to as an Indirect Cost Ratio (ICR).

The primary objective is to achieve the investment option's investment objectives over the long-term, net of all fees and costs. Managing costs is an important element of this objective however it does not drive the investment strategy and should not be looked at in isolation.

Regular benchmarking of expenditures against peer organisations is undertaken to ensure Funds SA's ongoing cost competitiveness.

Target ICR for the 2020-21 financial year-to-date

Funds SA's fees for the 2020-21 financial year-to-date are shown in the table below, along with a comparison to the original target. The ICR achieved was below the target ICR for the six months to 31 December 2020, shown in the 'Difference' column.

Funds SA applies the standard industry guidelines in calculating and disclosing its investment management expenses, namely:

- ASIC Regulatory Guide 97: Disclosing fees and costs in PDSs and other periods statements (RG97); and
- Corporations Regulations 2001 – Schedule 10 – Disclosures of Fees and Other Costs.

Table 7: LSA Strategy, actual and target ICR for the 2020-21 financial year-to-date*

Investment Option	Base fees %	Performance fees %	T & O costs %	Actual %	Target %	Difference %
LSA Strategy	0.35	0.13	0.06	0.54	0.65	-0.11

*Note due to rounding, the sum of the individual numbers may not equal the total figures quoted.

Funds SA has continued to actively manage its costs across each of its investment options for the period ended 31 December 2020. The ongoing monitoring and cost initiatives at Funds SA have resulted in all investment options, with the exception of Cash, to track below the ICR targets provided in the 2020-21 Performance Plan.

Performance fees

The majority of Funds SA's carried interest/performance fees recognised at 31 December related to unlisted assets within the Diversified Strategies Growth (DSG). However, it should be noted that the ICR calculation process involves some time delay due to the available cost information for international and domestic private equity funds. Funds SA recognises the latest available information as published by the relevant private equity managers, which include:

- for internationally domiciled funds, either expenses recognised by the fund for the six-month period ended 30 June 2020; and
- for domestic domiciled funds - the expense recognised by the fund for the six-month period ended 30 September 2020.

Consequently, the majority of the internationally domiciled funds valuations have not factored in the post COVID-19 rally in global markets from July 2020 to December 2020. Therefore, we expect that carried interest expenses across our growth-orientated investment options will increase over the remainder of the financial year, when formal unlisted manager valuations as at 31 December 2020 are finalised by 30 June 2021. These impacts will be incorporated in the 30 June 2021 ICR reporting process.

Appendix 1

Asset Class Benchmarks



The following table details the asset class benchmarks as at 31 December 2020.

Funds SA asset class	Allocation %	Index
Cash	100	Bloomberg AusBond Bank Bill Index
Diversified Strategies Income		<u>Diversified Debt</u> High Yield 40 Merrill Lynch Global High Yield Index expressed in AUD (hedged) Leveraged Loans 40 Credit Suisse Leveraged Loan Index expressed in AUD (hedged) Emerging Market Debt: 20 JP Morgan EMBI Global Index expressed in AUD (hedged) <u>Absolute Return</u> 60 Bloomberg AusBond Bank Bill Index + 3% p.a. 40 Bloomberg AusBond Bank Bill Index + 2% p.a.
Property Tax-Exempt	100	Mercer / IPD Australia Unlisted Wholesale Property Fund Index
Australian Equities Tax-Exempt	100	S&P/ASX 300 Accumulation Index
International Equities Tax-Exempt	100	Morgan Stanley Capital International (MSCI) All Countries World Index Ex-Australia net dividends reinvested in AUD and unhedged
	30	<i>Currency Hedge:</i> (MSCI World ex-Australia Index Hedged minus MSCI World ex-Australia Unhedged), net dividends reinvested and in AUD (Developed Markets weight of the portfolio benchmark)
Diversified Strategies Growth Tax-Exempt	100	Bloomberg AusBond Bank Bill Index plus 4% p.a.

Disclaimers



Funds SA Disclaimer

The information within this report has been prepared in good faith by Funds SA. However, Funds SA does not warrant the accuracy of the information and to the extent permitted by law, disclaims responsibility for any loss or damage of any nature whatsoever which may be suffered by any person directly or indirectly through relying upon it whether that loss or damage is caused by any fault or negligence of Funds SA or otherwise. The information is not intended to constitute advice and persons should seek professional advice before relying on the information.

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The blended returns are calculated by Funds SA using end of day index level values licensed from MSCI ("MSCI Data"). For the avoidance of doubt, MSCI is not the benchmark "administrator" for, or a "contributor", "submitter" or "supervised contributor" to, the blended returns, and the MSCI Data is not considered a "contribution" or "submission" in relation to the blended returns, as those terms may be defined in any rules, laws, regulations, legislation or international standards. MSCI Data is provided "AS IS" without warranty or liability and no copying or distribution is permitted. MSCI does not make any representation regarding the advisability of any investment or strategy and does not sponsor, promote, issue, sell or otherwise recommend or endorse any investment or strategy, including any financial products or strategies based on, tracking or otherwise utilizing any MSCI Data, models, analytics or other materials or information.

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Half-Yearly Performance Report

Funds SA Investment Options

SAFA Insurance Investments

For the six months ending 31 December 2020



Government
of South Australia

EXECUTIVE SUMMARY

This report provides an overview of the performance of Funds SA Capital Defensive and Conservative Tax-Exempt investment options and the SAFA Investment Strategy for the six-month period ending 31 December 2020.

COVID-19 vaccine developments and continued Government and Central bank stimulus drove very strong returns.

- Funds SAs investment options with high allocations to growth assets achieved returns greater than 10% for the six months to 31 December 2020.
- Annual returns were more moderate (approximately 5%) as they included the severe market falls inflicted by the COVID-19 pandemic in February and March.
- Equity markets rebounded rapidly from COVID-19 led falls of 35% in February and March to reach record levels by the end of 2020 driven by investor confidence that vaccines will allow normal economic activity to resume later in 2021.
- Investors are expecting earnings to recover to 2019 levels by the end of 2021 with near zero interest rates and continued Government stimulus to support the economic recovery and asset prices.
- Whilst COVID-19 was the dominant theme impacting financial markets, the US election, and ongoing trade tensions with China were also significant.
- The Australian economy was officially confirmed in recession in the June Quarter, but strong growth in retail sales and a rapid improvement in the employment market indicates that a recovery is underway.
- Investor optimism grew from this improving economic activity and a preparedness to discount short term weakness in company earnings and focus on expected post-COVID earnings and valuations. vaccinations.
- Central banks left cash rates at historical lows (near zero) and controlled medium term bond yields at very low levels to assist credit markets and encourage investors to increase risk in the search for adequate returns.
- Despite the large falls led by COVID-19 early in the year, the strong recovery over the past six months led to all Funds SA's investment options finishing the year with positive returns.

Funds SA's investment options delivered positive performance.

- All Funds SA's investment options delivered returns above their investment objectives for the six-month period ended 31 December 2020. Appendix 1 details summaries for the Funds SA Capital Defensive, Conservative Tax-Exempt investment options and the SAFA Investment Strategy.
- All asset classes provided a positive contribution to performance, International and Australian Equities returning 13-17% for the six months. Performance from Cash and Fixed Income asset classes was positive but very low given current cash rates and bond yields.
- Long-term performance continues to be positive across all investment options.

Asset allocations were within the asset class ranges

- As at 31 December 2020, the investment options asset allocations were within the asset class ranges specified in the Performance Plan.

Funds under management¹

- Funds SA's total funds under management rose from \$34,084 million (m) as at 1 July 2020 to \$37,526m as at 31 December 2020. This was the result of net investor outflow of \$59.8m and investment gains of \$3,502m.

Investment Management Costs

- The Indirect Cost Ratios (ICRs), including performance fees and transactional and operational costs, tracked below the target ICR for the financial year-to-date for all investment options. Additional detail relating to investment management costs can be found in Section 4.

¹ All funds under management (FUM) values provided are based on Redemption value (RED).

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1. Financial Market Environment

COVID-19 vaccine developments and continued Government and Central bank stimulus drove very strong returns.

Whilst the past six months have been volatile in economic news flow, financial market returns were consistently strong as optimism around the recovery from COVID-19 and the alternative of locking in near zero Cash returns increased the risk appetite of investors.

In the northern hemisphere, COVID-19 cases began increasing as winter approached and mutant strains of the virus were discovered. The pandemic continued to disrupt the economic recovery and countries began reinstating lockdowns. However, this did not affect the continued recovery in Equity markets with many hitting record levels.

In November, three main sources of investor uncertainty were alleviated; by positive COVID-19 vaccine announcements, the US election results, and better than expected third Quarter US company earnings reports. This was the beginning of a significant rally in risk assets as Governments also announced further stimulus packages to support businesses and consumers to support incomes.

Successful trial results from two COVID-19 vaccines were announced in November, and investors looked through increasing case numbers, focusing on vaccine rollouts and the potential return to normal economic activity.

The US election result was called with Joe Biden declared the President-Elect. While there were protests from the Republicans over the validity of the result, investors viewed Biden's success in a positive light and credit and equity markets were propelled higher.

The EU-UK Trade and Cooperation Agreement was finalised on the 24th of December, to formally facilitate Brexit. The effects of Brexit on the UK economy will become evident as the UK and Europe adapt to the new way of trading together.

On the COVID-19 front, Australia fared better than our global peers, notwithstanding the substantial Victorian lockdown. The Reserve Bank of Australia reduced the Official Cash Rate to 0.1% in November and the Federal Government extended JobKeeper and JobSeeker support packages to help position the economy for recovery. In response to fiscal and monetary stimulus, consumer and business sentiment both improved. The Australian equity market was assisted by higher commodity prices, notably iron ore, driven by improving global GDP and strong demand from China.

China's economy accelerated in the second half of 2020 and is the only country to end the year with positive GDP growth. This was driven by industrial production due to demand from global consumers. Lockdowns caused consumers around the world to pivot away from spending on services and instead increased their purchases of goods. As China is a global manufacturer of many of those goods, it helped grow their economy.

All investment options delivered strong positive returns for the period, but growth-orientated investment options benefited the most from strong equity, credit, and unlisted markets. The defensive-oriented investment options were positive but crimped by significant weightings to the Cash and Fixed Interest asset classes. As cash rates moved to near zero and bond yields are anchored to low levels for the foreseeable future by central bank actions, return expectations for these asset classes remain muted.

The chart below depicts the themes discussed, with global equity markets falling sharply as the COVID-19 pandemic took hold, and the subsequent rally, whilst long-term sovereign bond yields remained flat.

Chart 1: Performance of developed market global equities and government bond yields to 31 December 2020*



*Source: Bloomberg

As a result of the factors identified earlier, six-month returns showed:

- Australian equities underperformed relative to most global equity markets in local currency terms. However, the AUD appreciated strongly against development market currencies, meaning returns were similar in AUD terms.
- The US equity market performed strongly, reflecting the technology heavy sector composition in the US that benefited from the impact of COVID-19. The Funds SA International Equities portfolio materially outperformed its benchmark for the six months driven by strong stock selection by the Managers.
- Cash and Fixed Interest produced slightly positive returns, although Inflation Linked Securities performed well as expectations of future inflation increased.
- Non-government debt markets were strong. Those sectors perceived to be the highest risk, such as high-yield and emerging market debt, performed the strongest. This was due to a rebound in economic growth and a reduction in credit spreads.
- Australian listed property delivered strong returns, recovering some of the losses incurred at the start of the COVID-19 pandemic. While leasing activity, occupancy rates and improved patronage in shopping centres have supported the recovery, headwinds remain, with demand uncertainty for office space and structural shifts to online shopping continuing.
- Other unlisted markets, such as infrastructure and private equity, experienced valuation upgrades from conservative levels set in June.

- The Australian Dollar (AUD) appreciated by 12% against the US Dollar (USD) as investors increased their confidence in the global economic recovery, the US Federal Reserve emphasised that it would wait to see sustained inflation before increasing interest rates, and the US election result increased the prospect of further material government stimulus, all dragging the USD lower.

The following table shows the returns generated in different asset markets over periods to 31 December 2020.

Table 1: Major market index returns, periods to 31 December 2020*

Market Index	1 mth %	3 mths %	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	0.4	1.3	1.5	1.8	2.4
Australian Government	-0.4	-0.6	0.2	4.1	5.6	4.6	5.1	5.4
Australian Inflation-Linked	1.2	1.7	5.3	6.9	6.3	4.8	5.7	6.5
Global Treasuries	0.2	0.2	0.7	4.9	4.6	4.4	5.2	5.8
Credit								
Global Credit	0.4	2.3	3.9	6.7	5.5	5.9	5.9	6.7
Global High-Yield	1.9	6.5	10.0	3.5	4.0	7.4	6.1	8.1
Emerging Market Debt	1.8	5.5	7.9	5.9	4.9	6.8	5.8	6.0
Property								
Australian Listed Property	0.6	13.2	21.6	-4.0	5.8	7.4	11.0	11.3
Equities								
Australian Equities	1.3	13.8	13.7	1.7	6.9	8.8	7.4	7.7
Global Equities	3.5	12.4	19.9	13.5	10.2	11.6	9.9	10.6
US Equities	3.8	12.1	22.2	18.4	14.2	15.2	12.9	13.9
European Equities	2.2	10.3	10.6	-2.2	2.7	5.6	5.4	6.3
Japanese Equities	3.0	12.1	17.5	8.2	2.6	5.5	7.0	9.5
Asia (ex Japan) Equities	6.0	16.1	27.1	22.4	8.2	12.7	9.2	7.1
Chinese Equities	1.8	14.3	10.0	-3.8	-2.8	2.1	-0.1	-1.7
Emerging Market Equities	6.1	16.1	26.3	19.5	8.5	13.0	9.1	7.0
Global Small Companies	7.0	23.7	33.0	16.2	8.1	11.7	8.7	9.9
Currency								
Australian Dollar vs Developed Market Basket	3.9	5.9	9.0	7.4	-0.9	0.5	-1.5	-2.3
Commodities								
GSCI Energy	6.3	16.9	16.3	-46.3	-16.7	-6.2	-18.6	-12.7
GSCI Precious Metals	7.5	0.8	6.3	23.0	11.7	11.1	5.4	1.4

*Source: Bloomberg, Mercer

Note:

Returns for Global Treasuries, Global Credit and Global High-Yield are hedged to AUD.

Returns for Emerging Market Debt are hedged to USD.

Returns for Property and Equities are expressed in local currency.

Returns for Commodities are in USD.

2. Investment Performance

A number of uncertainties were alleviated during the past six months, and investors gained confidence to invest in risk assets. Against a backdrop of rising markets, driven by positive investor sentiment, record low cash and term interest rates, and rising expectations for improved economic growth, the Funds SA investment options delivered exceptionally strong positive returns.

Returns ranged from single mid-digits for the more defensive investment options and the growth-orientated investment options delivered low double-digit returns for the six-month period. All investment options finished the calendar year with low to mid-single digit returns; a remarkably good outcome considering the significant market falls and volatility at the beginning of 2020.

Every asset class was a positive contributor to the performance of all investment options for the six months to 31 December 2020. For most investment options, International Equities led the performance recovery, with Australian Equities, Diversified Strategies Growth, Diversified Strategies Income and Property also producing very strong returns. The contribution from the Cash and Fixed Interest asset classes was modest, as cash rates moved toward zero and bond yields anchored to low levels for the foreseeable future by central bank actions. Return expectations for these asset classes remain muted.

Table 2: Tax-Exempt investment options, investment returns for periods to 31 December 2020, returns net of fees and gross of tax

Funds SA investment option	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.	15 years % p.a.	20 years % p.a.
Capital Defensive	4.6	3.7	4.5	4.8	4.8	5.7	5.5	n.a.
Conservative	6.8	4.3	5.5	6.1	6.0	6.8	5.9	6.6
SAFA Investment Strategy	11.0	5.3	7.3	8.8	8.5	9.0	6.8	7.2

* Note the inception of the SAFA Investment Strategy was 1 July 2019, the prior history relates to the Funds SA Growth Tax-Exempt investment option.

Performance relative to investment objective

The investment objective for each investment option is defined in the Performance Plan. The primary performance measure for each investment option is the investment objective which includes:

- a target return expressed as a margin over inflation (except Cash);
- a time horizon over which there is a reasonable likelihood of achieving the target return; and
- a risk dimension expressed as the possible frequency of a negative annual return in any 20-year period.

The following table shows the return earned by each investment option against the respective target return, expressed over the relevant time horizon.

Table 3: Funds SA investment options and SAFA Investment Strategy vs investment objective, for periods ending 31 December 2020, returns net of fees*

Funds SA investment option	Investment horizon	Target return % p.a.	Tax-Exempt Investment option performance % p.a.
Capital Defensive	2+ years	(CPI + 1.5%) = 2.5	5.8
Conservative	4+ years	(CPI + 2.0%) = 3.5	6.0
SAFA Investment Strategy	8+ years	(CPI + 4.0%) = 5.9	9.6

* Target returns and investment option performance are expressed over the stated investment horizon for each investment option. Note, where elements of the investment objectives have changed over time, the target return series reflects a combination of the former and current objectives.

Note: The Cash investment option performance is assessed over 1-year rolling periods.

Investment option performance relative to benchmark was positive over the six months

Benchmarks are constructed for the long-term, consistent with the investment objective of the investment options, and may not be an appropriate measure of short-term performance, especially during periods of extreme volatility. This is particularly relevant for benchmarks that have a cash plus approach.

For the six months to 31 December 2020, all Funds SA investment option outperformed their relevant benchmark.

International Equities, Diversified Strategies Income (DSI) and Diversified Strategies Growth (DSG) asset classes were consistently positive contributors to relative performance. Cash and Inflation-Linked Securities, in some instances, were very slight negative contributors to relative performance.

Key contributors:

- International Equities strongly outperformed its benchmark over the six months to December 2020. The outperformance was largely driven by a strong positive contribution from stock selection and exposure to managers that tended to have a growth bias, notably T Rowe Price, Harding Loevner, and Lord Abbett. The Emerging market managers also delivered a strong period of performance. Managers with value/quality bias struggled to contribute positively to the asset class but continued to perform in line with expectations.
- Within the DSI asset class, credit-orientated strategies and absolute return strategies both outperformed their respective benchmarks over the period, recovering from poor performance during the COVID-19 led downturn in February and March. The credit-orientated strategies added value through security and sector selection. The absolute return strategies adding value through exposure to risk assets.
- Within the DSG asset class, overseas private equity funds were the largest contributors to returns as the valuations of these assets began to recover from the write-downs caused by the COVID-19 pandemic earlier in the year.

Whilst the investment objectives are the primary return measure, performance relative to the benchmark aids in our ongoing analysis of:

- asset class strategy;
- manager performance; and
- manager composition.

Further discussion on each investment option is included in the appendices and asset class performance relative to their benchmarks is discussed in Section 3.

3. Asset Classes

Asset class development

Funds SA has established a range of asset classes which are the building blocks for the investment options.

We continue to develop and expand our investment platform and asset classes to ensure we have the flexibility to meet a wide range of investment objectives and risk tolerances, with the aim of enhancing investment outcomes for clients.

During the past six months the Funds SA Board approved the implementation of a number of investment and asset class initiatives to support the pursuit of enhanced returns.

Active Asset Allocation

The Funds SA Board approved the Dynamic Asset Allocation (DAA) approach on the 15th of September, and the approach has been utilised during the period.

Funds SA aims to use DAA as a generator of incremental return and assist in risk management over the long-term by taking active, medium-term asset allocation positions. As at 31 December 2020 there were no active asset allocation positions in place.

Listed Equities

- Funds SA began allocating to the Australian Equities Passive Tax-Exempt asset class.

Property

- The Funds SA Board approved investing directly into property markets.
- Benefits include more targeted portfolios, control over investment decisions, and higher returns if well executed.

Diversified Strategies Growth (DSG)

- The Funds SA Board approved an updated DSG strategy, and implementation has commenced.
- Part of the updated strategy includes a co-investment program; this has the dual aim of increasing returns and reducing costs.

Responsible Investment

In December 2020, the Funds SA Board approved three key initiatives to enhance Funds SA's responsible investment approach:

1. A new Responsible Investment Policy;
2. Becoming a signatory to the United Nations-supported Principles for Responsible Investment; and
3. Partial internalisation of proxy voting activities.

The new Responsible Investment Policy articulates Funds SA's enhanced responsible investment approach and replaces Funds SA's ESG Statement, this will be shared in due course.

Asset class performance

International and Australian Equities performed strongest over the six months to 31 December 2020.

Every asset class was a positive contributor to the investment option's performance.

International Equities led the performance recovery, closely followed by Australian Equities, Diversified Strategies Income (DSI), and Diversified Strategies Growth (DSG). Growth assets benefited from rising investor sentiment, record low cash and term interest rates, and rising expectations for improved economic growth. Some international equity markets, in particular the US market, have since reached new historic highs.

Muted returns from Cash and Government bond-oriented fixed interest asset classes.

As cash rates moved toward zero and bond yields anchored to low levels for the foreseeable future by central bank actions, returns from the Cash and Fixed Interest asset classes were negligible. Expected returns for these asset classes remains muted.

Asset class performance relative to benchmark was positive over the six-month period.

Funds SA measures the performance of each asset class against a benchmark. The benchmarks are the relevant market index or blend of indices. Where no reasonable market index is available, the index is expressed as a margin over cash. Benchmarks are constructed for the long-term, consistent with the investment objective of the investment options and may not be an appropriate measure of short-term performance, especially during periods of extreme volatility. This is particularly relevant for benchmarks that have a cash plus approach. The benchmark for each asset class is included in Appendix 2.

Most asset classes outperformed their relevant benchmarks over the six-month period. The DSG, International Equities, DSI and Property asset classes significantly outperformed their benchmarks.

The benchmarks for DSG and DSI asset classes have a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the recent six-month period, as assets have increased in value and cash rates remain low.

Cash

The asset class returned 0.1% over the past six months, performing in line with its benchmark.

Short-Term Fixed Interest

The asset class returned 1.4% over the past six months, outperforming its benchmark which returned 0.9%. The outperformance was driven by security selection.

Long-Term Fixed Interest

The asset class returned 1.4% over the past six months, outperforming its benchmark which returned 0.4%. Both active managers contributed to this result, with active country and currency positioning adding value.

Inflation-Linked Securities Tax-Exempt

The Inflation-Linked Securities Tax-Exempt asset class returned 5.7% over the past six months, outperforming its benchmark which returned 4.3%. The internally managed assets were the key driver of outperformance.

Diversified Strategies Income

The asset class returned 7.3% over the past six months, outperforming its benchmark which returned 3.9%. The credit-orientated strategies and absolute return strategies outperformed their respective benchmarks during this period. The credit-orientated strategies added value through security and sector selection. The absolute return strategies added value through exposure to risk assets.

Property Tax-Exempt

The Property Tax-Exempt asset class was above benchmark for the six months to December 2020. The listed component has recovered some of the losses incurred at the start of the COVID-19 pandemic and has contributed to recent outperformance of the asset class.

Overall, whilst leasing activity in the core office markets has improved and physical occupancy increased, demand remains subdued and recent clusters of COVID-19 cases have contributed to ongoing uncertainty around future space requirements. As a result, effective rentals remain under pressure as incentives increased across all markets. Shopping centres have seen improved patronage in line with restrictions easing, however, the structural shift to online continues. Retail valuations have stabilised in recent months, although market rents and tenant demand remain a watch during the recovery phase.

Australian Equities Tax-Exempt

The Australian Equities Tax-Exempt asset class delivered 14.3% over the six months, outperforming the benchmark return of 13.7%. Outperformance was driven by positive stock selection from several managers, including the broad cap managers, Vinva and Touchstone and very strong performance from First Sentier who provide small-mid cap exposure. Meanwhile, Northcape, Ethical Partners and Greencape detracted primarily as a result sector allocation.

International Equities Tax-Exempt

The International Equities Tax-Exempt asset class outperformed the benchmark over the six months to December 2020 by 4.5%. The outperformance was largely driven by a strong positive contribution from stock selection and managers that tended to have a growth bias, notably T Rowe Price, Harding Loevner, and Lord Abbett. The emerging market managers also delivered a strong period of performance. Managers with value/quality bias struggled to contribute positively to the asset class but continued to perform in line with expectations.

Diversified Strategies Growth Tax-Exempt

The Diversified Strategies Growth asset class generated returns above benchmark over the six months to December 2020. Overseas private equity funds were the largest contributors to returns as the valuations of these assets began to recover from the write-downs caused by the COVID-19 pandemic earlier in the year.

Table 4: Funds SA asset class returns, periods to 31 December 2020, portfolio returns are net of fees and gross of tax, benchmark returns are net of fees

Asset class		6 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.
Cash	Portfolio return	0.1	0.5	1.4	1.6	2.5
	Benchmark return	0.0	0.4	1.3	1.5	2.4
	Active return	0.1	0.1	0.1	0.1	0.1
Short-Term Fixed Interest	Portfolio return	1.4	3.9	3.7	3.2	4.1
	Benchmark return	0.9	2.8	3.2	2.9	3.9
	Active return	0.5	1.0	0.5	0.3	0.2
Long-Term Fixed Interest	Portfolio return	1.4	5.5	6.2	5.4	6.5
	Benchmark return	0.4	5.5	6.3	5.4	6.4
	Active return	1.0	-0.1	-0.2	0.0	0.1
Inflation-Linked Securities Tax-Exempt	Portfolio return	5.7	6.7	6.5	5.2	6.2
	Benchmark return	4.3	5.2	4.9	4.1	5.6
	Active return	1.5	1.5	1.7	1.1	0.6
Diversified Strategies Income	Portfolio return	7.3	-0.6	1.8	3.9	5.5
	Benchmark return	3.9	4.0	4.3	5.3	6.3
	Active return	3.4	-4.6	-2.5	-1.5	-0.8
Property Tax-Exempt	Portfolio return	5.5	-3.1	5.1	7.9	9.2
	Benchmark return	2.8	-2.6	4.0	7.0	8.7
	Active return	2.7	-0.5	1.1	0.8	0.5
Australian Equities Tax-Exempt	Portfolio return	14.3	3.5	7.2	9.1	7.7
	Benchmark return	13.7	1.7	6.9	8.8	7.7
	Active return	0.5	1.8	0.3	0.3	0.0
International Equities Tax-Exempt	Portfolio return	17.4	14.4	11.9	13.0	13.2
	Benchmark return	12.9	7.5	10.2	11.9	12.0
	Active return	4.5	7.0	1.7	1.2	1.2
International Passive Equities Tax-Exempt	Portfolio return	13.2	7.6	n.a.	n.a.	n.a.
	Benchmark return	12.9	7.5	n.a.	n.a.	n.a.
	Active return	0.3	0.1	n.a.	n.a.	n.a.
Diversified Strategies Growth Tax-Exempt	Portfolio return	7.5	2.2	7.4	9.7	11.0
	Benchmark return	2.0	4.4	5.3	5.6	6.5
	Active return	7.5	2.2	7.4	9.7	11.0

Note: Return data is not available for some time periods due to insufficient history.

Table 5: Funds SA Tax-Exempt asset class structure, as at 31 December 2020 *

Asset class	Sub-asset class allocation		Investment managers
Cash	100%		Macquarie Investment Management
Short-Term Fixed Interest	100%	Australian	Macquarie Investment Management
Long-Term Fixed Interest	50%	Australian	BlackRock Investment Management
	50%	Global	Brandywine Global Colchester Global Investors
Inflation-Linked Securities Tax-Exempt	90%	Australian	Ardea Investment Management First Sentier Investors Funds SA
	10%	Global	Colchester Global Investors
Diversified Strategies Income ²	50%	Diversified Debt	Ares Management GMO & Co Macquarie Investment Management Oak Hill Advisors Putnam Investments Wellington Management Company
	50%	Absolute Return	Bridgewater Associates Brandywine Global GMO & Co LGT Capital Partners
Property Tax-Exempt	85%	Core Property	AMP Capital Dexus Wholesale Property GPT Funds Management Investa Funds Management ISPT Lend Lease
	15%	Non-Core Property	CorVal Partners Vanguard Vicinity Centres
Australian Equities Tax-Exempt	100%	Broad Market	Ethical Partners Funds Management First Sentier Investors Greencape Capital Northcape Capital Touchstone Asset Management Vinva Investment Management
Australian Equities Passive Tax-Exempt	100%	Passive	BlackRock Investment Management
International Equities Tax-Exempt	84%	Global Broad Market	Applied Quantitative Research Harding Loevner Harris Associates IFP LSV Asset Management Massachusetts Financial Services T Rowe Price
	3%	Small Companies	Lord Abbett Growth
	13%	Emerging Markets	LSV Asset Management Paradice Investment Management TT International Wellington Management Company
International Equities Passive Tax-Exempt	100%	Passive	BlackRock Investment Management
Diversified Strategies Growth Tax-Exempt ³	50%	Private Markets	33 Investment Managers
	50%	Infrastructure	5 Investment Managers
	0%	Other Opportunities	2 Investment Managers

* The asset class allocations and investment managers listed in the table above are subject to change.

² International assets hedged to AUD

³ International assets hedged to AUD

4. Investment Management Costs

Each Performance Plan includes the target costs for each investment option. Funds SA's investment management costs are presented as a percentage of average funds managed and referred to as an Indirect Cost Ratio (ICR).

The primary objective is to achieve the investment option's investment objectives over the long-term, net of all fees and costs. Managing costs is an important element of this objective, however, it does not drive the investment strategy and should not be looked at in isolation.

Regular benchmarking of expenditures against peer organisations is undertaken to ensure Funds SA's ongoing cost competitiveness.

Target ICRs for the 2020-21 financial year-to-date

Funds SA's fees for the 2020-21 financial year-to-date are shown in the tables below, along with comparisons to the original targets. The ICRs achieved were below the target ICRs for the six months to 31 December 2020 shown in the 'Difference' column.

Funds SA applies the standard industry guidelines in calculating and disclosing its investment management expenses, namely:

- ASIC Regulatory Guide 97: Disclosing fees and costs in PDSs and other periods statements (RG97); and
- Corporations Regulations 2001 – Schedule 10 – Disclosures of Fees and Other Costs.

Table 6: Tax-Exempt investment option actual and target ICRs for the 2020-21 financial year-to-date*

Investment option	Base fees %	Performance fees %	T & O costs %	Actual %	Target %	Difference %
Capital Defensive	0.17	0.01	0.02	0.20	0.23	-0.02
Conservative	0.20	0.01	0.03	0.24	0.25	-0.01
SAFA Investment Strategy	0.31	0.08	0.05	0.45	0.53	-0.08

*Note due to rounding, the sum of the individual numbers may not equal the total figures quoted.

Note: Transactional and operating costs. Includes costs such as: brokerage; stamp duty; transaction settlement costs; clearing costs; and spreads. Such costs are incurred in the normal course of investing, are deducted from the assets of the relevant asset class and investment option to which they relate and are reflected in the unit price.

Funds SA has continued to actively manage its costs across each of its investment options for the period ended 31 December 2020. The ongoing monitoring and cost initiatives at Funds SA have resulted in all investment options, with the exception of Cash, to track below the ICR targets provided in the 2020-21 Performance Plan.

Performance fees

The majority of Funds SA's carried interest/performance fees recognised at 31 December related to unlisted assets within the Diversified Strategies Growth (DSG). However, it should be noted that the ICR calculation process involves some time delay due to the available cost information for international and domestic private equity funds. Funds SA recognises the latest available information as published by the relevant private equity managers, which include:

- for internationally domiciled funds, either expenses recognised by the fund for the six-month period ended 30 June 2020; and
- for domestic domiciled funds - the expense recognised by the fund for the six-month period ended 30 September 2020.

Consequently, the majority of the internationally domiciled funds valuations have not factored in the post COVID-19 rally in global markets from July 2020 to December 2020. Therefore, we expect that carried interest expenses across our growth-orientated investment options will increase over the remainder of the financial year, when formal unlisted manager valuations as at 31 December 2020 are finalised by 30 June 2021. These impacts will be incorporated in the 30 June 2021 ICR reporting process.

Appendix 1

Funds SA Tax-Exempt Investment Options and SAFA Investment Strategy



This Appendix provides a summary of the performance and composition of the following Funds SA Tax-Exempt investment options:

- Capital Defensive
- Conservative
- SAFA Investment Strategy

Capital Defensive Tax-Exempt

Indirect Cost Ratio (ICR) *			
Size	Inception	Actual	Target
\$465.8 million	31 August 2004	0.20%	0.23%

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard risk measure	Number of negative annual returns likely over any 20-year period
Capital Defensive	CPI + 1.5%	2+ years	Low	0.5 to 1

Performance

Investment option performance against benchmark, returns net of fees for periods to 31 December 2020 *

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 Years % p.a.
Investment option return	4.6	3.7	4.5	4.8	4.8	5.7
Benchmark return	3.3	3.5	4.4	4.7	4.8	5.5
Active return	1.3	0.2	0.1	0.1	0.0	0.2

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

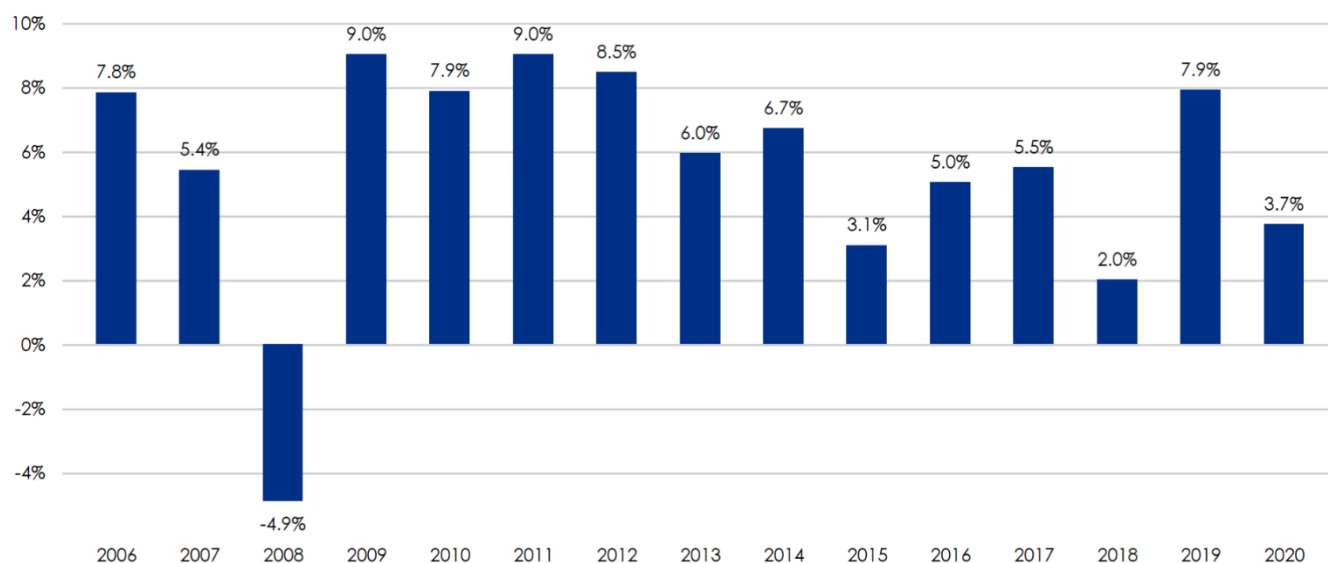
Diversified Strategies Income (DSI), International Equities, and Inflation-Linked Securities were the strongest contributors to the performance of the investment option for the six months ended 31 December 2020. Growth assets benefited from rising investor sentiment, record low cash and term interest rates and rising expectations for improved economic growth.

The defensive asset classes contributed positive but minimal returns given low cash rates and low bond yields.

Performance relative to benchmark was positive, predominately driven by DSI and International Equities. For DSI, the credit orientated strategies added value through security and sector selection and the Absolute Return strategies added value through exposure to risk assets. The DSI benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the recent six-month period, as asset values have increased and cash rates remain low. International Equities benefited from strong stock selection and exposure to managers that tended to have a growth bias.

Investment option annual calendar year returns

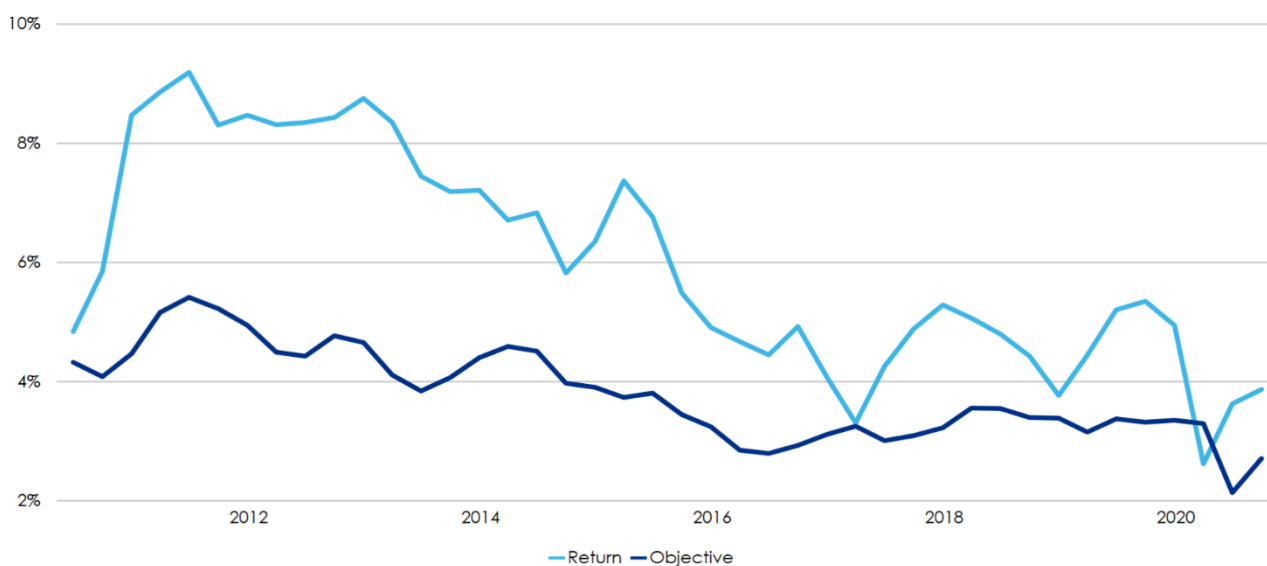
Returns net of fees to 31 December 2020



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective

2-year rolling returns, net of fees to 31 December 2020



Asset allocation

Capital Defensive Tax-Exempt investment option asset allocation as at 31 December 2020 *

Asset class	Actual %	Strategic %	Variance %
Cash	15.6	15.0	0.6
Short-Term Fixed Interest	29.8	30.0	-0.2
Long-Term Fixed Interest	4.6	5.0	-0.4
Inflation-Linked Securities Tax-Exempt	15.5	15.0	0.5
Diversified Strategies Income	17.1	17.0	0.1
Property Tax-Exempt	4.9	6.0	-1.1
Australian Equities Tax-Exempt	5.7	5.0	0.7
International Equities Tax-Exempt	6.6	7.0	-0.4
Total	100.0	100.0	
Growth assets	24.7	25.0	-0.3
Compliance with 2020-21 Performance Plan	Complies		

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Conservative Tax-Exempt

Size	Inception	Indirect Cost Ratio (ICR) *	
		Actual	Target
\$545.6 million	30 June 1999	0.24%	0.25%

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Conservative	CPI + 2.0%	4+ years	Medium	2 to 3

Performance

Investment option performance against benchmark, returns net of fees for periods to 31 December 2020 *

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	6.8	4.3	5.5	6.1	6.0	6.8
Benchmark return	5.1	4.1	5.3	5.9	6.0	6.6
Active return	1.7	0.2	0.1	0.1	0.0	0.2

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

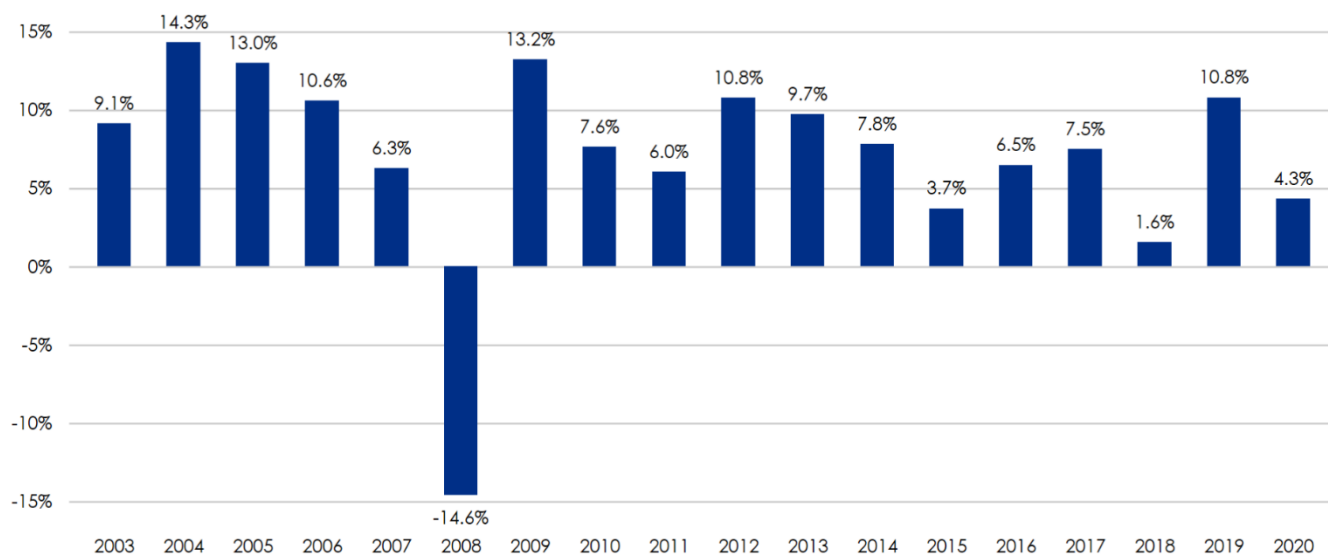
International Equities, Diversified Strategies Income (DSI), and Australian Equities were the strongest contributors to the performance of the investment option for the six months ended 31 December 2020. Growth assets benefited from rising investor sentiment, record low cash and term interest rates, and rising expectations for improved economic growth.

The defensive asset classes contributed positive but minimal returns given low cash rates and low bond yields.

Performance relative to benchmark was positive, predominately driven by DSI and International Equities. For DSI, the credit orientated strategies added value through security and sector selection, and the Absolute Return strategies added value through exposure to risk assets. The DSI benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the recent six-month period, as asset values have increased, and cash rates remain low. International Equities benefited from strong stock selection and exposure to managers that tended to have a growth bias.

Investment option annual calendar year returns

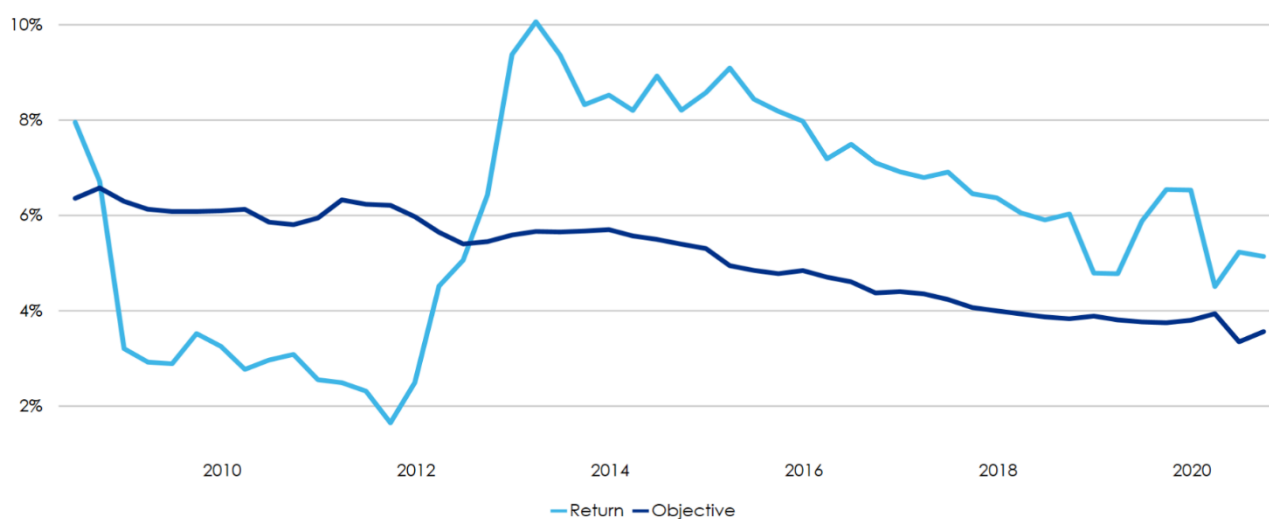
Returns net of fees to 31 December 2020



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective⁴

4-year rolling returns, net of fees to 31 December 2020



⁴ Note the target return was CPI +2.5% prior to 1 January 2016 and CPI +3% prior to 1 July 2013.

Asset allocation

Conservative Tax-Exempt investment option asset allocation as at 31 December 2020 *

Asset class	Actual %	Strategic %	Variance %
Cash	10.6	10.0	0.6
Short-Term Fixed Interest	17.8	18.0	-0.2
Long-Term Fixed Interest	4.6	5.0	-0.4
Inflation-Linked Securities Tax-Exempt	15.5	15.0	0.5
Diversified Strategies Income	18.1	18.0	0.1
Property Tax-Exempt	8.0	9.0	-1.0
Australian Equities Tax-Exempt	10.7	10.0	0.7
International Equities Tax-Exempt	14.6	15.0	-0.4
Total	100.0	100.0	
Growth assets	39.8	40.0	-0.2
Compliance with 2020-21 Performance Plan	Complies		

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

SAFA Investment Strategy

Size	Inception	Indirect Cost Ratio (ICR) *	
		Actual	Target
\$628.4 million	1 July 2017	0.45%	0.53%

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
SAFA Investment Strategy	CPI + 4.0%	8+ years	Medium to High	3 to less than 4

Performance

Investment option performance against benchmark, returns net of fees for periods to 31 December 2020

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	11.0	5.3	7.3	8.8	8.5	9.0
Benchmark return	7.9	4.8	7.0	8.3	8.0	8.4
Active return	3.1	0.4	0.3	0.5	0.4	0.6

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns. The inception of the SAFA Investment Strategy was 1 July 2019, returns reflect investment in the Funds SA Growth Tax-Exempt investment option prior to the establishment of the SAFA Investment Strategy.

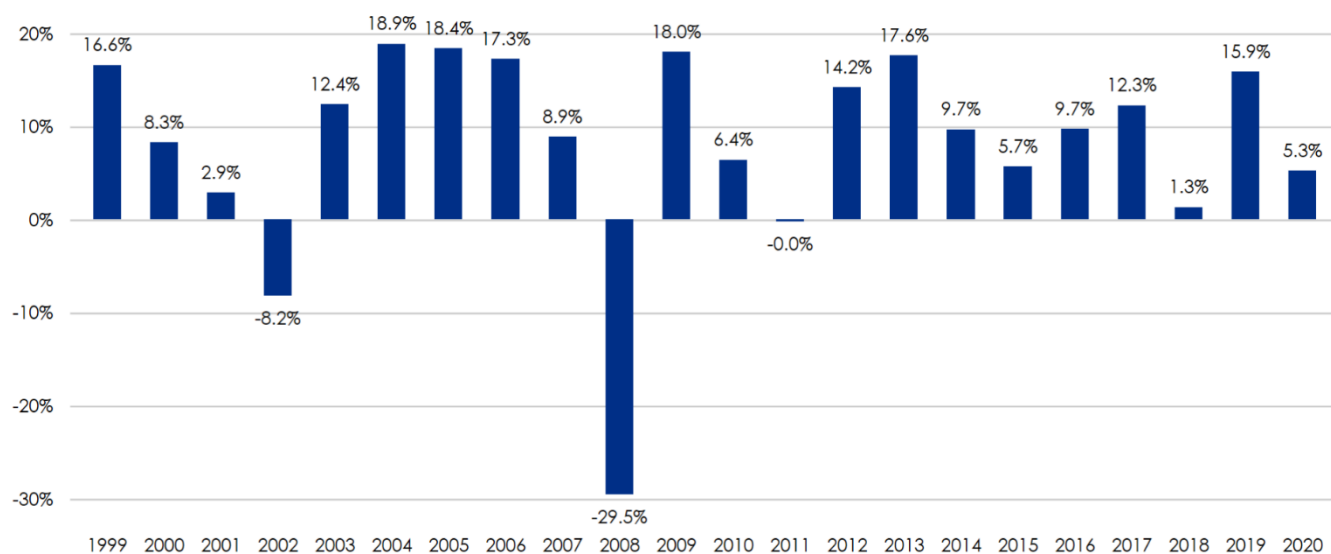
International Equities, Australian Equities, and Diversified Strategies Income were the strongest contributors to the performance of the investment option for the six months ended 31 December 2020. Growth assets benefited from rising investor sentiment, record low cash and term interest rates, and rising expectations for improved economic growth.

The defensive asset classes contributed positive but minimal returns given low cash rates and low bond yields.

Performance relative to benchmark was positive, predominately driven by International Equities and Diversified Strategies Growth (DSG). International Equities benefited from strong stock selection and exposure to managers that tended to have a growth bias. For DSG, overseas private equity funds were the largest contributors to returns as the valuations of these assets began to recover from the write-downs caused by the COVID-19 pandemic earlier in the year. The DSG benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the recent six-month period, as asset values have increased, and cash rates remain low.

Investment option annual calendar year returns*

Returns net of fees to 31 December 2020

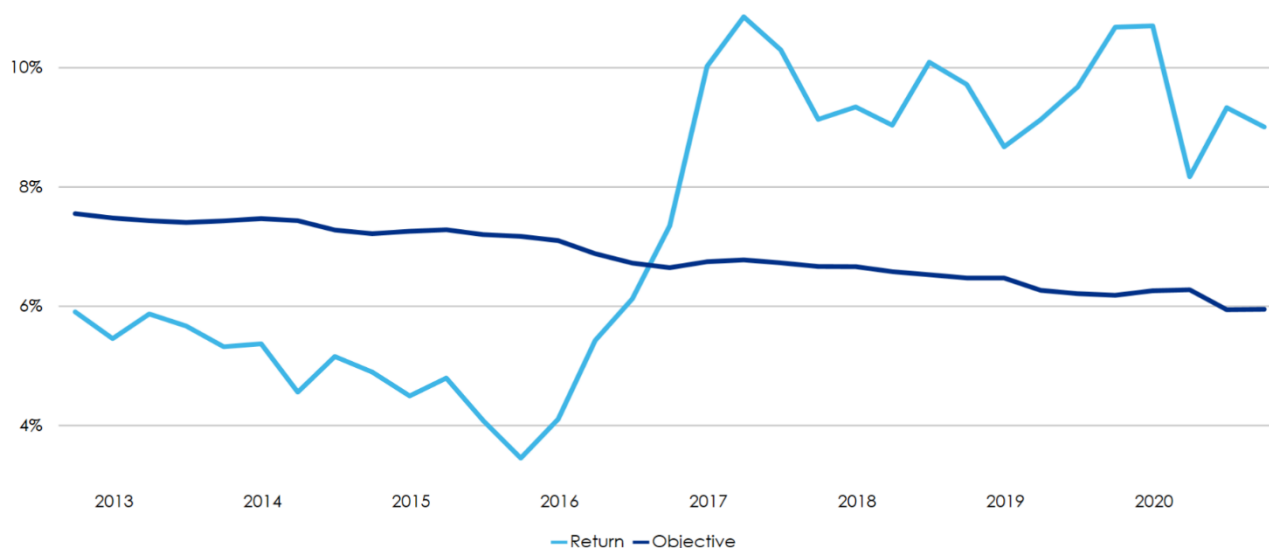


* The inception of the SAFA Investment Strategy was 1 July 2019, the prior history relates to the Funds SA Growth Tax-Exempt investment option.

The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective

8-year rolling returns, net of fees to 31 December 2020



Asset allocation

SAFA Investment Strategy asset allocation as at 31 December 2020 *

Asset class	Actual %	Strategic %	Variance %
Cash	2.9	2.0	0.9
Long-Term Fixed Interest	3.6	4.0	-0.4
Inflation-Linked Securities Tax-Exempt	6.5	6.0	0.5
Diversified Strategies Income	16.1	16.0	0.1
Property Tax-Exempt	13.1	14.0	-0.9
Australian Equities Tax-Exempt	19.5	19.0	0.5
International Equities Tax-Exempt	29.0	29.0	0.0
Diversified Strategies Growth Tax-Exempt	9.3	10.0	-0.7
Total	100.0	100.0	
Growth assets	72.8	75.0	-2.2
Compliance with 2020-21 Performance Plan	Complies		

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Appendix 2

Asset Class Benchmarks



The following table details the asset class benchmarks as at 31 December 2020.

Funds SA asset class	Allocation %	Index
Cash	100	Bloomberg AusBond Bank Bill Index
Short-Term Fixed Interest	100	Bloomberg AusBond Composite Index 0-5 years
Long-Term Fixed Interest	50	Bloomberg AusBond Treasury Index 7+ years
	50	FTSE World Government Bond Index hedged into AUD
Inflation-Linked Securities Tax-Exempt	100	Bloomberg AusBond Government Inflation Index 0-10 years
Diversified Strategies Income		<u>Diversified debt</u>
		High Yield
	40	Merrill Lynch Global High Yield Index expressed in AUD (hedged)
		Leveraged Loans
	40	Credit Suisse Leveraged Loan Index expressed in AUD (hedged)
		Emerging Market Debt:
	20	JP Morgan EMBI Global Index expressed in AUD (hedged)
		<u>Absolute return</u>
	60	Bloomberg AusBond Bank Bill Index + 3% p.a.
	40	Bloomberg AusBond Bank Bill Index + 2% p.a.
Property Tax-Exempt	100	Mercer / IPD Australia Unlisted Wholesale Property Fund Index
Australian Equities and Australian Equities Passive Tax-Exempt	100	S&P/ASX 300 Accumulation Index
International Equities and International Equities Passive Tax-Exempt	100	Morgan Stanley Capital International (MSCI) All Countries World Index Ex-Australia net dividends reinvested in AUD and unhedged
	30	<i>Currency Hedge:</i> (MSCI World ex-Australia Index Hedged minus MSCI World ex-Australia Unhedged), net dividends reinvested and in AUD (Developed Markets weight of the portfolio benchmark)
Diversified Strategies Growth Tax-Exempt	100	Bloomberg AusBond Bank Bill Index plus 4% p.a.

Disclaimers



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Half-Yearly Performance Report

Funds SA investment options

For the twelve months ending 30 June 2021



Government
of South Australia

EXECUTIVE SUMMARY

This report provides an overview of the performance of Funds SA's investment options for the 12-month period ending 30 June 2021.

2021 has been the year of recovery.

- All investment option's annual returns have fully recovered from the severe market falls inflicted by the COVID-19 pandemic in early 2020.
- The investment options with higher allocations to growth assets achieved returns greater than 20% for the 12 months to 30 June 2021, the best one-year financial year return since inception.
- The strength in equity markets was driven by improving economic activity and corporate earnings, improving employment, rising commodity prices, accommodative monetary and fiscal policy, and vaccine rollouts lifting investor confidence.
- Central banks provided clear intent to leave cash rates at historical lows (near zero) for the foreseeable future and control medium-term bond yields at very low levels to assist the economic recovery. But they have also flagged they are beginning to think about the discussions of tapering.
- Whilst COVID-19 continues to be a dominating theme, oscillating between emerging new strains and vaccine rollouts, the focus of financial markets has begun to shift to consider reflation, and how governments globally may wind back stimulus programs and normalise interest rates.

Funds SA's investment options delivered positive performance.

- All Funds SA's investment options delivered returns above their investment objectives for the 12-month period ended 30 June 2021. The exception was the Cash investment option which was in line with its investment objective. Appendices 1 and 2 contain summaries for each Funds SA investment option.
- Funds SA diversified investment option returns over 1-year ranged from 6.7% for the Capital Defensive Tax-Exempt investment option to 24.8% for the High Growth Tax-Exempt investment option.
- The 1-year Cash investment option returns were very low at 0.1%, as a result of the Australian Cash rate falling to near zero during the year.
- International and Australian Equities provided the strongest positive contribution to performance over the 1-year period, returning 29-37%. Performance from Cash and Short-Term Fixed Income asset classes was positive but very low given current cash rates and bond yields. Long-Term Fixed Interest was the only asset class to deliver negative returns as bond yields started to drift upwards over the past six months.
- Long-term performance continues to be positive and this year, above expectations. Since inception in 1995, the Balanced Tax-Exempt investment option has delivered 8.4% p.a. The State's Defined Benefit Strategy has returned 8.4% p.a. over the same period.
- Funds SA exceeded the median performance of comparable superannuation funds over 12 months and returns are similar over the longer term based on industry performance surveys (using Chant West survey of super funds with similar growth allocations).

Asset allocations were within the asset class ranges.

- As at 30 June 2021, the investment options asset allocations were within the asset class ranges specified in the Performance Plan.
- During the financial year the Growth investment option merged with the High Growth investment option having achieved alignment of the asset allocation during the year.

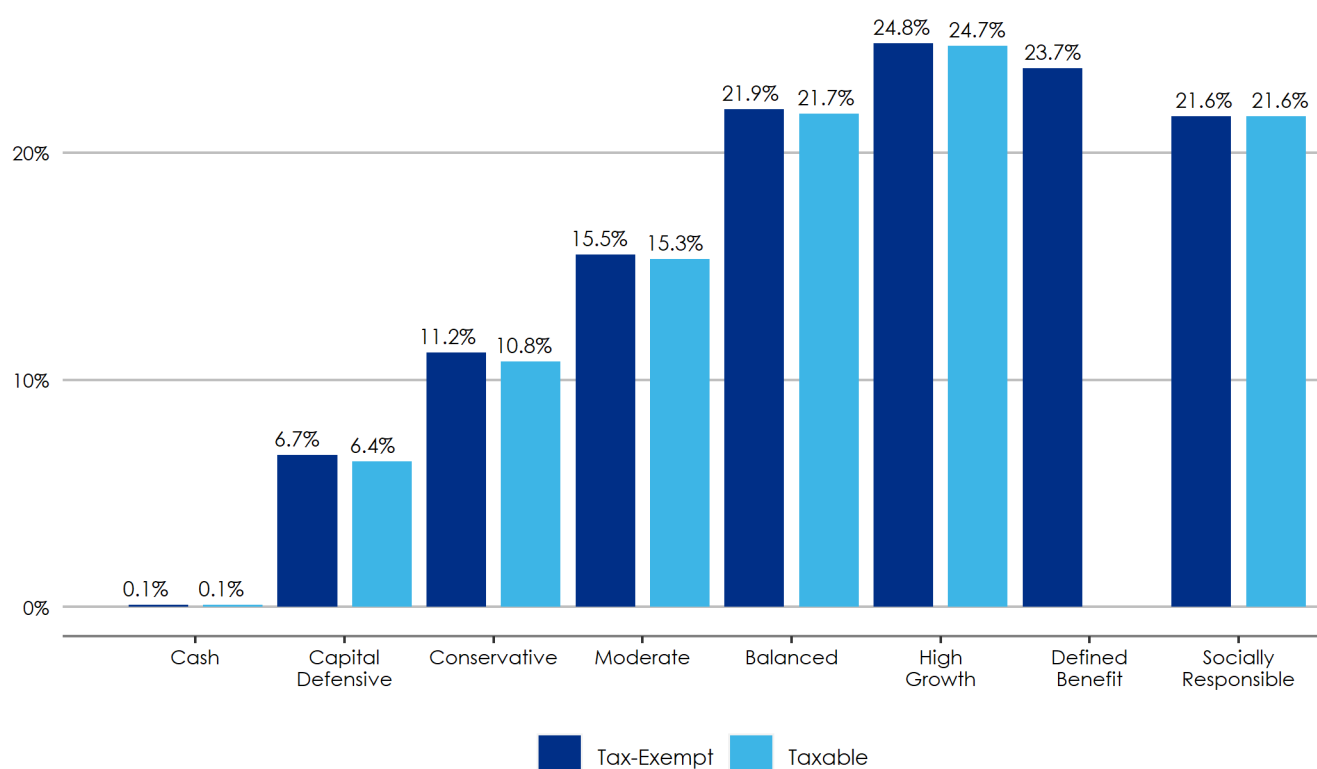
Funds under management¹

- Funds SA's total funds under management rose from \$34,084 million (m) as at 1 July 2020 to \$41,223m as at 30 June 2021. This was the result of net investor inflow of \$7.7m and investment gains of \$7,131m.

Investment Management Costs

- The Indirect Cost Ratios (ICRs), including performance fees and transactional and operational costs, tracked below the target ICR for the financial year for most Tax-Exempt investment options and some of the Taxable investment options. Additional detail relating to investment management costs can be found in Section 4.

Chart 1: Funds SA Tax-Exempt and Taxable investment option returns for the 12 months ending 30 June 2021, returns net of fees and gross of tax



¹ All funds under management (FUM) values provided are based on Redemption value (RED).

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1. Financial market environment

COVID-19 vaccine rollouts and continued government and central bank stimulus drove very strong returns.

Overall financial market performance delivered strong returns as optimism around the global vaccine rollout, recovery from COVID-19 and the alternative of locking in near zero cash returns increased the risk appetite of investors. The financial market recovery has been exceptional and fast.

Globally, accommodative monetary policy has provided the foundation for the economic and financial market recovery. Central banks have provided clear intent to leave cash rates at historical lows (near zero) for the foreseeable future and control medium-term bond yields at very low levels.

In the US, with all the electoral contention behind them, the Biden administration approved stimulus packages pushed US equity markets to all-time highs and gave credit markets a boost. It was a similar theme across the world, with Governments continuing to provide fiscal stimulus to support consumers and recovering economies.

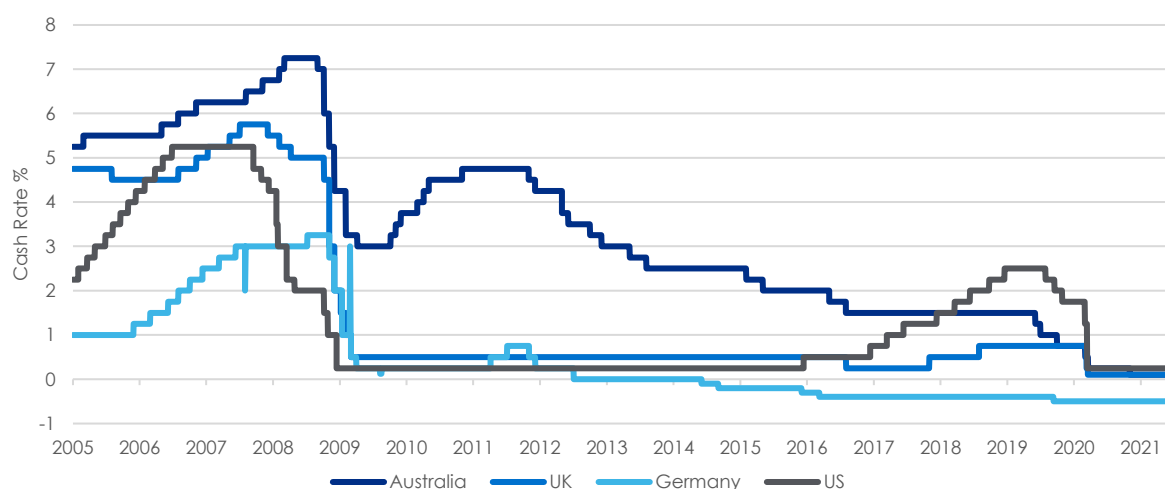
Progressively, economic data continued to improve with manufacturing activity and corporate earnings increasing, falling levels of unemployment, rising commodity prices, pockets of wage growth and vaccine rollouts lifting investor and business confidence.

With monetary and fiscal policies supporting economies, financial markets have largely looked through negative COVID-19 news, such as the emergence of mutant strains, sporadic lockdowns, disruptions to supply chains and economic recovery. The global vaccine rollout has been a beacon of hope and a path for countries and economies to open and return to a form of normal activity, lessening the need to enter into restrictive and protracted lockdowns.

With an improving economic backdrop, bond yields began to creep higher as investor began to question how committed central banks were to maintaining low rates for an extended period of time. Central Banks, particularly the US Federal Reserve expressed confidence that higher inflation would be transitory, reinforcing their expectation to hold rates low until 2023 and signalled the beginning of discussions on tapering bond purchases.

The Reserve Bank of Australia (RBA) cut the official cash rate to 0.10% in November 2020. More recently, the RBA decided to taper the quantitative easing program slightly but reiterated the RBA does not expect to increase interest rates until at least 2024.

Chart 2: Demonstrates the sharp cuts to the cash rates.



Source: Funds SA, Bloomberg

While the larger and more developed countries have experienced economic and health recoveries, many of the emerging market countries have not been so fortunate. Vaccine supply has been low and restrictive measures remain, hampering recovery. But financial markets have looked through the slow recovery and emerging market equities have delivered returns as strong as those in developed markets.

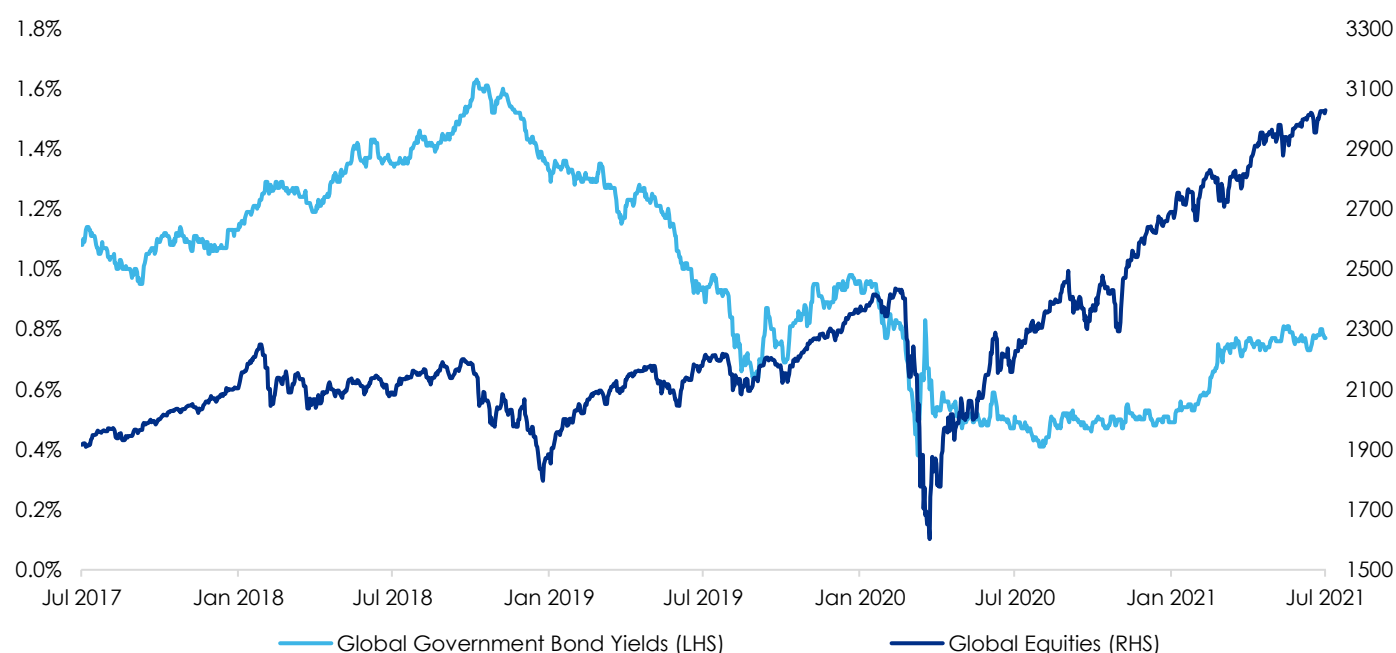
All of the aforementioned factors have helped push equity markets to new highs, generated positive returns in credit markets, improved valuations in private markets, and bonds yields crept up during the year.

Although COVID-19 continues to be a dominating theme, oscillating between emerging new strains and vaccine rollouts, the focus of financial markets has begun to shift to consider reflation, and how governments globally may wind back stimulus programs and normalise interest rates. All are for the year ahead.

All investment options delivered positive returns for the period, but growth-orientated investment options benefited the most from strong equity, credit, and unlisted markets. The defensive-oriented investment options were positive but crimped by significant weightings to the Cash and Fixed Interest asset classes. As cash rates move to near zero and bond yields are anchored to low levels for the foreseeable future by central bank actions, return expectations for these asset classes remain muted.

The chart below depicts the themes discussed, global equity markets marking a V-shaped recovery from the lows in March and continued to move higher through to the end of the financial year, and long-term sovereign bond yields trended higher.

Chart 3: Performance of developed market global equities and government bond yields to 30 June 2021



*Source: Bloomberg

In summary, the main factors driving 12-month returns:

- Australian equities produced strong returns, but still underperformed relative to most global equity markets in local currency and AUD terms. The AUD appreciated strongly against developed market currencies.
- The US equity market performed strongly, reflecting the rotation to more economically sensitive stocks that benefit from the improving economic environment. The Funds SA International Equities asset class materially outperformed its benchmark for the year, driven by strong stock selection by investment managers and aided by manager configuration changes.
- Australian listed property delivered strong returns, with premium office assets and the industrial sector leading the rebound.
- Cash provided very low positive returns as cash rates were maintained at very low levels.
- Longer duration fixed interest produced negative returns as bond yields trended higher through the year as economic circumstances improved.
- Inflation-Linked Securities performed well as expectations of future inflation increased.
- Non-government debt markets were strong. Those sectors perceived to be the highest risk, such as high-yield and emerging market debt, performed the strongest. This was due to a rebound in economic growth and a reduction in credit spreads.
- Other unlisted markets, such as infrastructure and private equity, had valuation upgrades from the conservative levels set in June 2020.

The following table shows the returns generated in different asset markets over periods to 30 June 2021.

Table 1: Major market index returns, periods to 30 June 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	0.1	0.1	1.0	1.3	1.6	2.2
Australian Government	1.0	1.9	-1.9	-1.9	4.3	3.0	4.1	4.8
Australian Inflation-Linked	0.8	3.3	4.6	4.6	5.3	4.1	4.5	5.8
Global Treasuries	0.4	0.6	-1.4	-1.4	3.6	2.4	4.1	5.2
Global Inflation-Linked	0.3	2.8	3.0	3.0	5.3	4.5	5.4	5.9
Credit								
Global Credit	1.0	2.1	2.7	2.7	5.7	4.2	4.8	6.1
Global High-Yield	0.8	2.9	12.8	12.8	5.5	6.1	5.5	7.7
Emerging Market Debt	0.9	3.9	6.8	6.8	6.5	4.4	4.4	5.3
Property								
Australian Listed Property	5.6	10.7	33.9	33.9	8.2	6.2	10.6	12.0
Equities								
Australian Equities	2.3	8.5	28.5	28.5	9.8	11.3	8.9	9.2
Global Equities	2.3	7.6	36.9	36.9	14.7	14.7	11.2	11.7
US Equities	2.3	8.5	40.8	40.8	18.7	17.6	14.1	14.8
European Equities	1.6	6.5	26.6	26.6	7.6	9.3	6.7	7.5
Japanese Equities	1.0	-0.3	28.0	28.0	6.9	11.9	8.7	10.9
Asia (ex Japan) Equities	0.7	3.3	36.4	36.4	11.8	14.1	9.5	8.0
Emerging Market Equities	0.9	3.9	36.5	36.5	12.4	14.0	9.6	8.0
Global Small Companies	0.5	5.7	52.6	52.6	12.3	14.4	9.8	10.6
Currency								
Australian Dollar vs Developed Market Basket	-2.3	-1.8	7.3	7.3	0.1	0.0	-2.4	-2.7
Commodities								
GSCI Energy	9.6	22.1	72.6	72.6	-10.5	-0.7	-14.5	-9.7
GSCI Precious Metals	-7.0	3.5	-0.5	-0.5	11.1	4.8	3.0	0.1

*Source: Bloomberg, Mercer

Note:

Returns for Global Treasuries, Global Credit and Global High-Yield are hedged to AUD.

Returns for Emerging Market Debt are hedged to USD.

Returns for Property and Equities are expressed in local currency.

Returns for Commodities are in USD.

2. Investment performance

All Funds SA investment options delivered exceptionally strong positive returns having fully recovered from the severe market falls inflicted by the COVID-19 pandemic. The recovery has been very strong, predominately driven by equity markets, private markets, and credit markets. The only exception is the Cash investment option which delivered low returns in line with the RBA cash rate.

Returns ranged from mid-digits for the more defensive investment options to returns in the mid-20s for growth-orientated investment options. The speed and magnitude of this result is remarkable considering the significant market falls and volatility at the beginning of 2020.

The only asset class that did not contribute to positive performance for the investment options was Long-Term Fixed Interest asset class. For most investment options, International Equities led the performance recovery, with Australian Equities, Diversified Strategies Growth, Diversified Strategies Income and Property also producing very strong returns. The contribution from the Cash asset class was minimal as cash rates moved toward zero. The Long-Term Fixed Interest asset class was negative as bond yields began trending higher, while being held at low levels for the foreseeable future by central bank actions. Return expectations for cash and fixed interest remain muted, and we would not expect the spectacular returns from the other asset classes to be repeated next year.

Table 2: Funds SA Tax-Exempt investment options investment returns, periods to 30 June 2021, returns net of fees and gross of tax

Investment option	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.	15 years % p.a.	20 years % p.a.
Cash	0.0	0.1	1.0	1.4	1.7	2.3	3.3	3.8
Capital Defensive	2.0	6.7	4.6	4.7	4.6	5.5	5.4	n.a.
Conservative	4.1	11.2	6.1	6.4	6.0	6.9	5.9	6.6
Moderate	6.6	15.5	7.4	7.8	7.2	7.9	6.4	n.a.
Balanced	10.1	21.9	9.5	9.8	8.9	9.3	7.0	7.4
High Growth	11.4	24.8	10.0	11.3	10.1	10.5	7.3	7.7
Defined Benefit	11.0	23.7	9.8	10.7	9.6	10.0	7.2	7.6
Socially Responsible	9.8	21.6	8.9	9.0	7.9	8.6	n.a.	n.a.

Table 3: Funds SA Taxable investment options investment returns, periods to 30 June 2021, returns net of fees and gross of tax

Investment option	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.	15 years % p.a.
Cash	0.0	0.1	1.0	1.4	1.7	2.3	3.3
Capital Defensive	2.0	6.4	4.3	4.4	4.4	5.1	5.1
Conservative	4.1	10.8	5.7	6.0	5.7	6.4	5.6
Moderate	6.6	15.3	7.1	7.5	7.0	7.5	6.0
Balanced	10.0	21.7	9.3	9.5	8.6	8.9	6.6
High Growth	11.3	24.7	10.0	11.0	9.9	10.1	7.1
Socially Responsible	9.8	21.6	8.9	9.0	7.9	8.6	n.a.

Performance relative to investment objective

The investment objective for each investment option is defined in the 2020-21 Performance Plan. The primary performance measure for each investment option is the investment objective which includes:

- a target return expressed as a margin over inflation;
- a time horizon over which there is a reasonable likelihood of achieving the target return; and
- a risk dimension expressed as the possible frequency of a negative annual return in any 20-year period.

The following table shows the return earned by each investment option against the respective target return, expressed over the relevant time horizon.

As the Socially Responsible investment option did not have a quantitative investment objective in the 2020-21 Performance Plan, it is not shown in the table below.

Table 4: Funds SA investment options vs investment objective, for periods ending 30 June 2021, returns net of fees*

Investment option	Investment horizon	Investment objective % p.a.	Tax-Exempt investment option performance % p.a.	Taxable investment option performance % p.a.
Cash	0+ years	RBA Cash Rate	0.1	0.1
Capital Defensive	2+ years	(CPI + 1.0%) = 2.8	4.0	3.6
Conservative	4+ years	(CPI + 2.0%) = 3.7	6.2	5.7
Moderate	6+ years	(CPI + 3.0%) = 4.7	7.1	6.8
Balanced	10+ years	(CPI + 3.5%) = 5.6	9.3	8.9
High Growth	10+ years	(CPI + 4.5%) = 6.6	10.5	10.1
Defined Benefit Strategy	10+ years	(CPI + 4.5%) = 6.3	10.0	n.a.

*Target returns and investment option performance are expressed over the stated investment horizon for each investment option. Note where elements of the investment objectives have changed over time, the target return series reflects a combination of the former and current objectives.

Note: The Cash investment option performance is assessed over 1-year rolling periods.

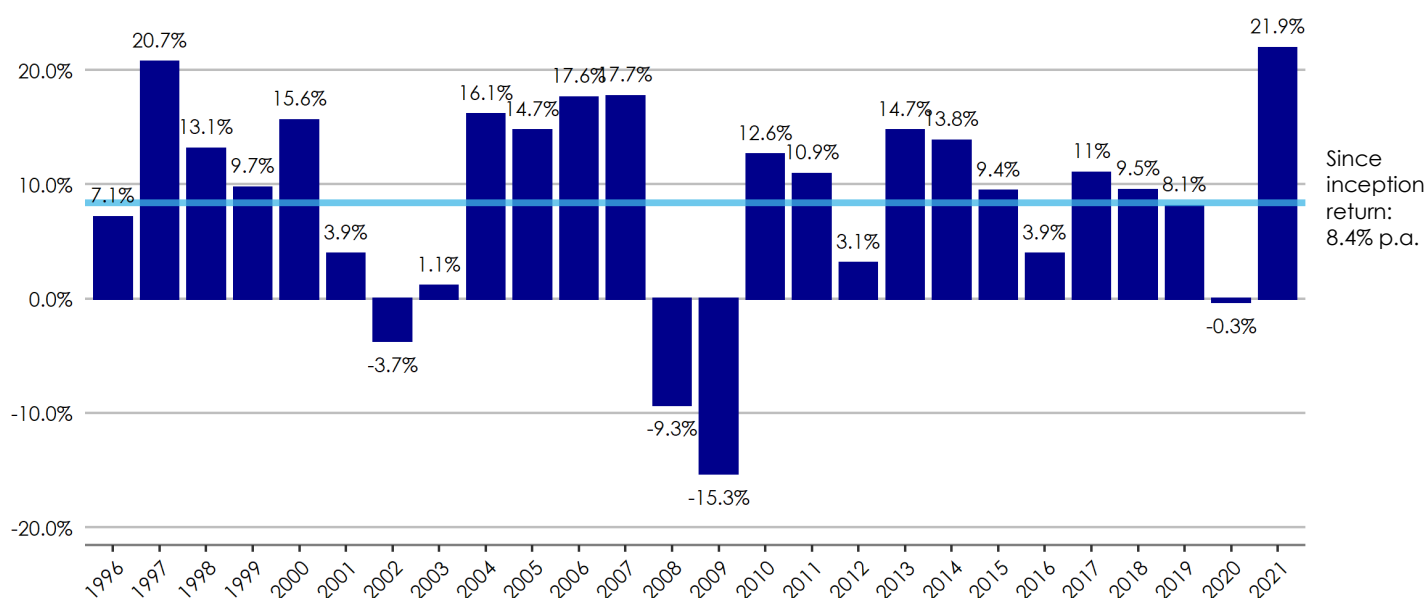
The risk characteristics of all investment options are in line with expectations

To articulate the risk profile, the investment objectives include an expectation of the frequency of negative returns in any 20-year period. The Balanced Tax-Exempt and Taxable investment options investment objective states that a negative annual return might occur between four and six years in 20. Chart 4 illustrates that the Balanced Tax-Exempt investment option performance has been within expectations, recording four negative annual returns since inception.

The risk characteristics of the other investment options are in line with expectations.

The volatility of returns is also illustrated in Chart 4. For growth-oriented investment options, shorter-term returns can be volatile, with financial year returns ranging as high as 21.9% to a low of -15.3%. The annualised return since inception is 8.4% p.a.

Chart 4: Balanced Tax-Exempt investment option performance since inception, annual financial year returns to 30 June 2021



Investment option performance relative to benchmark was positive over the 12 months.

Benchmarks are constructed for the long-term, consistent with the investment objective of the investment options, and may not be an appropriate measure of short-term performance, especially during periods of extreme volatility. This is particularly relevant for benchmarks that have a cash plus approach.

All Funds SA investment options outperformed their relevant benchmark, with the exception of the Cash investment option which performed in line with the benchmark.

International and Australian Equities, Diversified Strategies Growth (DSG) and Diversified Strategies Income (DSI) asset classes were consistent positive contributors to relative performance. Detailed discussion of asset class performance is provided in Section 3.

Whilst the investment objectives are the primary return measure, performance relative to the benchmark aids in our ongoing analysis of:

- asset class strategy;
- manager performance; and
- manager composition.

Further discussion on the relative performance for each investment option is included in the appendices.

Performance vs. industry benchmarks

Performance against industry surveys² is monitored as a market reference for Funds SA's investment options; the example below providing comparison for the Funds SA Balanced option that is the default option for Super SA members. The comparisons should only be used as a guide given the difficulties associated with making 'like-for-like' comparisons, as funds within the superannuation industry will have

² Whilst the Chant West survey data used for comparisons comprises only superannuation funds, Funds SA considers the survey returns provide the most appropriate representation of what similar balanced/growth funds in the industry would achieve.

different investment strategies, objectives, and tax arrangements than can impact performance outcomes.

As the returns in the industry surveys are reported after the application of tax, to achieve some degree of comparability for the Funds SA Balanced Tax-Exempt investment option, an estimated 'notional' tax rate on investment earnings is applied to the investment option returns.

Table 5: Funds SA Balanced Tax-Exempt investment option investment performance* vs. industry benchmark, returns net of fees and tax for periods to 30 June 2021

	Growth assets ³ %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.	15 years % p.a.
Funds SA Balanced Tax-Exempt	75.5	19.5	8.6	8.9	8.0	8.4	6.4
Chant West Growth (61-80) Median ⁴	72.9	18.0	7.9	8.8	8.2	8.6	6.5

*adjusted for notional tax

For the Funds SA Balanced taxable investment option, an estimated effective tax rate on investment earnings is applied to the investment option returns.

Table 6: Funds SA Balanced Taxable investment option investment performance vs. industry benchmark, returns net of fees and tax for periods to 30 June 2021

	Growth assets ⁵ %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.	15 years % p.a.
Funds SA Balanced Taxable	75.0	19.5	8.4	8.5	7.7	8.0	5.9
Chant West Growth (61-80) Median ⁶	72.9	18.0	7.9	8.8	8.2	8.6	6.5

³ Specific growth asset exposure is not provided in the Chant West Media Release (19 July 2021), data as at 30 June 2021. Growth asset exposure for the Funds SA investment option is defined using Funds SA methodology for classification of growth and defensive assets.

⁴ Source: Chant West Pty Limited (www.chantwest.com.au) Media Release (19 July 2021). Funds SA Balanced option is categorised in the Growth category, which includes superannuation investment options with between 61% and 80% growth assets. For important information about the data provided by Chant West, refer last page of report.

⁵ The Balanced Taxable investment options are not surveyed by Chant West. Therefore, growth asset exposure for this investment option are defined using Funds SA methodology for classification of growth and defensive assets.

⁶ Source: Chant West Pty Limited (www.chantwest.com.au) Media Release 19 July 2021. Growth category includes superannuation investment options with between 61% and 80% growth assets. For important information about the data provided by Chant West, refer last page of report.

3. Asset classes

Funds SA has established a range of asset classes which are the building blocks for the investment options. Each investment option invests in common asset classes according to the Long-Term Strategic Asset Allocation (LTSAA) determined for each option.

The asset allocations for each Funds SA investment option are detailed in the appendices. All allocations were within the asset class ranges as at 30 June 2021.

Asset class performance

International and Australian Equities performed strongest over the 12 months to 30 June 2021.

Most asset classes were a positive contributor to the investment option performance.

International Equities led the performance recovery, closely followed by Australian Equities, Diversified Strategies Growth, and Diversified Strategies Income.

Growth assets benefited from global vaccine rollouts, improving economic activity, rising investor sentiment, record low cash and term interest rates and supportive fiscal policy. A number of international equity markets, in particular the US market, reached new historic highs.

Muted returns from Cash and Government bond-oriented fixed interest asset classes.

As cash rates moved toward zero, returns from the Cash asset class were negligible. Long-Term Fixed Interest asset class was negative as bond yields began trending higher, while being held at low levels for the foreseeable future by central bank actions. Expected returns for these asset classes remains muted.

Asset class performance relative to benchmark was positive over the 12-month period.

Funds SA measures the performance of each asset class against a benchmark. The benchmarks are the relevant market index or blend of indices. Where no reasonable market index is available, the index is expressed as a margin over cash. The benchmark for each asset class is included in Appendix 3.

Most asset classes outperformed their relevant benchmarks over the 12-month period. International Equities and DSG were exceptionally strong. Inflation-Linked Securities Taxable and International Passive Equities Taxable were the only two asset classes to underperform their benchmarks, albeit by a very small margin.

The benchmarks for DSG and DSI asset classes have a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the recent 12-month period, as assets have increased in value and cash rates remain low.

Cash

The asset class returned 0.1% performing in line with its benchmark.

Short-Term Fixed Interest

The asset class returned 1.0% outperforming its benchmark which returned 0.7%. The outperformance came from security selection.

Long-Term Fixed Interest

The asset class returned -2.0% outperforming its benchmark which returned -2.6%. Both active managers contributed, with active country and currency positioning adding value.

Inflation-Linked Securities - Tax-Exempt and Taxable

The Inflation-Linked Securities Tax-Exempt asset class returned 5.8% outperforming its benchmark return of 4.4%. The internally managed assets contributed significantly to the outperformance.

The Inflation-Linked Securities Taxable asset class returned 4.1% underperforming its benchmark that returned 4.3%. Despite domestic active managers outperforming their individual benchmarks, through relative value opportunities and security selection, the cumulative effect wasn't enough to outperform the asset class benchmark.

Diversified Strategies Income

The asset class returned 8.3%, outperforming its 5.3% benchmark return. Both the diversified debt component and absolute return strategies outperformed their respective benchmarks. The absolute return strategies outperformed due to their "risk on" positioning.

Property Tax-Exempt and Taxable

The Property Tax-Exempt and Taxable asset classes outperformed their benchmarks by 2.5% and 2.4% respectively. Performance was driven by a rebound in listed Real Estate Investment Trusts (A'REIT's). Offshore demand for premium office assets continues driving yields towards record lows which is offsetting weakness in leasing demand. The industrial sector has been a clear beneficiary of the COVID-19 pandemic with growing demand for logistics facilities to cater for online shopping. Conversely the retail sector has been the most severely impacted by the pandemic but is showing signs of stabilisation both in rentals and yields.

Australian Equities Tax-Exempt and Taxable

The Australian Equities Tax-Exempt and Taxable asset classes outperformed the benchmark by 0.9% and 1.1% respectively. At the sector level, underweight allocations to the weak performing Utilities and Healthcare sectors helped relative performance, as did strong stock selection within a range of sectors such as Materials, Industrial, Staples and Discretionary. This was partly offset by overweight allocation to the relatively weak Industrials sector, Cash, and an underweight allocation to the strong performing Financials sector. Relative performance was also partly hurt by weak stock selection in the Financials and Information Technology sectors.

Australian Passive Equities Tax-Exempt and Taxable

The Australian Passive Equities Tax-Exempt asset classes was flat against benchmark and in line with expectations. The performance differential between the Tax-Exempt and Taxable asset class is due to different underlying investment structures and fee differences between them.

International Equities Tax-Exempt and Taxable

The International Equities Tax-Exempt and Taxable asset classes delivered exceptionally strong performance, outperforming the benchmark by 7.2% (Tax-Exempt) and 7.5% (Taxable) net of fee returns. In general, the outperformance was driven by stock selection in the developed market strategies benefiting from a change in regime where more economically sensitive stocks outperformed the broader market. In addition, the relative outperformance was aided by manager configuration changes. At the sector level, the value add from an underweight allocation to Utilities and Real Estate was partially offset by the value detracted from an overweight to Health Care.

International Passive Equities Tax-Exempt and Taxable

The International Passive Equities Tax-Exempt asset class performed in line with expectations. The difference between the Tax-Exempt and Taxable Passive asset classes is due to currency hedging and the different hedge ratios applied to each asset class.

Diversified Strategies Growth Tax-Exempt and Taxable

The Diversified Strategies Growth Tax-Exempt and Taxable asset classes outperformed the benchmark by 19.7% and 24.2% respectively. The more growth exposed areas of the asset class (such as private equity) contributed the most to this result, as these assets recovered the valuation write-downs that occurred at the onset of the COVID-19 pandemic.

Table 7: Funds SA asset class returns, periods to 30 June 2021, portfolio returns are net of fees and gross of tax, benchmark returns are net of fees

Asset class		6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Cash	Portfolio return	0.0	0.1	1.0	1.4	1.7	2.3
	Benchmark return	0.0	0.1	1.0	1.3	1.6	2.2
	Excess return	0.0	0.1	0.1	0.1	0.1	0.1
Short-Term Fixed Interest	Portfolio return	-0.4	1.0	3.1	2.7	2.9	3.7
	Benchmark return	-0.2	0.7	2.7	2.4	2.8	3.5
	Excess return	-0.2	0.3	0.4	0.3	0.2	0.1
Long-Term Fixed Interest	Portfolio return	-3.4	-2.0	4.5	3.0	4.5	5.8
	Benchmark return	-2.9	-2.6	4.8	3.1	4.9	5.8
	Excess return	-0.4	0.5	-0.3	-0.1	-0.4	-0.0
Inflation-Linked Securities Tax-Exempt	Portfolio return	0.0	5.7	5.7	4.9	4.4	5.6
	Benchmark return	0.2	4.4	4.3	3.7	3.8	5.0
	Excess return	-0.1	1.3	1.4	1.2	0.6	0.6
Diversified Strategies Income	Portfolio return	0.9	8.3	2.5	3.0	3.3	5.0
	Benchmark return	1.4	5.3	4.9	4.4	4.7	6.0
	Excess return	-0.5	3.0	-2.4	-1.4	-1.4	-0.9
Property Tax-Exempt	Portfolio return	5.1	10.8	5.0	7.5	9.0	9.3
	Benchmark return	5.4	8.3	4.2	6.8	8.5	8.9
	Excess return	-0.3	2.5	0.8	0.7	0.5	0.4
Australian Equities Tax-Exempt	Portfolio return	13.2	29.4	10.1	11.7	9.1	9.2
	Benchmark return	13.0	28.5	9.8	11.3	8.9	9.2
	Excess return	0.2	0.9	0.3	0.4	0.3	-0.0
International Equities Tax-Exempt	Portfolio return	16.7	37.1	16.2	16.7	14.0	14.6
	Benchmark return	14.9	29.8	13.7	15.1	12.8	13.4
	Excess return	1.8	7.3	2.5	1.6	1.2	1.3
Australian Equities Passive Tax-Exempt	Portfolio return	13.0	n.a.	n.a.	n.a.	n.a.	n.a.
	Benchmark return	13.0	n.a.	n.a.	n.a.	n.a.	n.a.
	Excess return	-0.0	n.a.	n.a.	n.a.	n.a.	n.a.
International Equities Passive Tax-Exempt	Portfolio return	14.8	30.0	n.a.	n.a.	n.a.	n.a.
	Benchmark return	14.9	29.8	n.a.	n.a.	n.a.	n.a.
	Excess return	-0.1	0.2	n.a.	n.a.	n.a.	n.a.
Diversified Strategies Growth Tax-Exempt	Portfolio return	15.1	23.8	10.0	11.5	11.6	11.6
	Benchmark return	2.0	4.1	5.0	5.3	5.7	6.3
	Excess return	13.1	19.7	5.0	6.2	6.0	5.4
Inflation-Linked Securities Taxable	Portfolio return	0.4	4.1	3.8	3.6	3.4	4.6
	Benchmark return	0.5	4.3	3.8	3.4	3.5	4.7
	Excess return	-0.0	-0.2	0.0	0.2	-0.1	-0.1

Asset class		6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Property Taxable	Portfolio return	5.0	10.8	4.9	7.3	8.8	8.9
	Benchmark return	5.4	8.3	4.2	6.8	8.5	8.9
	Excess return	-0.3	2.4	0.7	0.5	0.2	0.0
Australian Equities Taxable	Portfolio return	13.3	29.6	10.2	11.8	9.3	9.1
	Benchmark return	13.0	28.5	9.8	11.3	8.9	9.2
	Excess return	0.3	1.1	0.4	0.5	0.4	-0.1
International Equities Taxable	Portfolio return	16.5	36.6	16.0	16.2	13.8	14.4
	Benchmark return	15.1	29.1	13.6	14.9	12.8	13.4
	Excess return	1.4	7.5	2.4	1.3	1.0	1.0
Australian Equities Passive Taxable	Portfolio return	12.5	n.a.	n.a.	n.a.	n.a.	n.a.
	Benchmark return	13.0	n.a.	n.a.	n.a.	n.a.	n.a.
	Excess return	-0.5	n.a.	n.a.	n.a.	n.a.	n.a.
International Equities Passive Taxable	Portfolio return	14.8	28.8	n.a.	n.a.	n.a.	n.a.
	Benchmark return	15.1	29.1	n.a.	n.a.	n.a.	n.a.
	Excess return	-0.3	-0.3	n.a.	n.a.	n.a.	n.a.
Diversified Strategies Growth Taxable	Portfolio return	15.9	28.2	11.4	12.1	11.9	11.7
	Benchmark return	2.0	4.1	5.0	5.3	5.7	6.3
	Excess return	13.9	24.2	6.4	6.7	6.2	5.4

Note: Return data is not available for some time periods due to insufficient history.

Table 8: Funds SA Tax-Exempt asset class structure, as at 30 June 2021*

Asset class	Sub-asset class allocation		Investment managers
Cash	100%		Macquarie Investment Management
Short-Term Fixed Interest	100%	Australian	Macquarie Investment Management
Long-Term Fixed Interest	50%	Australian	BlackRock Investment Management
	50%	Global	Brandywine Global Colchester Global Investors
Inflation-Linked Securities Tax-Exempt	90%	Australian	Ardea Investment Management First Sentier Investors Funds SA
	10%	Global	Colchester Global Investors
Diversified Strategies Income ⁷	50%	Diversified Debt	Ares Management GMO & Co Macquarie Investment Management Oak Hill Advisors Putnam Investments Wellington Management Company
	50%	Absolute Return	Bridgewater Associates Brandywine Global GMO & Co LGT Capital Partners
Property Tax-Exempt	85%	Core Property	AMP Capital Dexus Wholesale Property GPT Funds Management Investa Funds Management ISPT Lend Lease
	15%	Non-Core Property	CorVal Partners Vanguard Vicinity Centres
Australian Equities Tax-Exempt	100%	Broad Market	Ethical Partners Funds Management First Sentier Investors Greencape Capital Northcape Capital Touchstone Asset Management Vinva Investment Management
Australian Equities Passive Tax-Exempt	100%	Passive	BlackRock Investment Management
International Equities Tax-Exempt	84%	Global Broad Market	Harding Loevner Harris Associates IFP LSV Asset Management Massachusetts Financial Services T Rowe Price
	3%	Small Companies	Lord Abbett Growth
	13%	Emerging Markets	LSV Asset Management Paradice Investment Management TT International Wellington Management Company
International Equities Passive Tax-Exempt	100%	Passive	BlackRock Investment Management
Diversified Strategies Growth Tax-Exempt ⁸	50%	Private Markets	36 Investment Managers
	50%	Core Infrastructure	2 Investment Managers

*The asset class allocations and investment managers listed in the table above are subject to change.

⁷ International assets hedged to AUD.

⁸ International assets hedged to AUD.

Table 9: Funds SA Taxable asset class structure, as at 30 June 2021*

Asset class	Sub-asset class allocation		Investment managers
Cash	100%		Macquarie Investment Management
Short-Term Fixed Interest	100%	Australian	Macquarie Investment Management
Long-Term Fixed Interest	50%	Australian	BlackRock Investment Management
	50%	Global	Brandywine Global Colchester Global Investors
Inflation-Linked Securities Taxable	85%	Australian	Ardea Investment Management First Sentier Investors
	15%	Global	Colchester Global Investors
Diversified Strategies Income ⁹	50%	Diversified Debt	Ares Management GMO & Co Macquarie Investment Management Oak Hill Advisors Putnam Investments Wellington Management Company
	50%	Absolute Return	Bridgewater Associates Brandywine Global GMO & Co LGT Capital Partners
Property Taxable	85%	Core Property	AMP Capital Dexus Wholesale Property GPT Funds Management Investa Funds Management ISPT Lend Lease
	15%	Non-Core Property	CorVal Partners Vanguard Vicinity Centres
Australian Equities Taxable	100%	Broad Market	Ethical Partners Funds Management First Sentier Investors Greencape Capital Northcape Capital Touchstone Asset Management Vinva Investment Management
Australian Equities Passive Taxable	100%	Passive	BlackRock Investment Management
International Equities Taxable	84%	Global Broad Market	Harding Loevner Harris Associates IFP LSV Asset Management Massachusetts Financial Services T Rowe Price
	3%	Small Companies	Lord Abbett Growth
	13%	Emerging Markets	LSV Asset Management Paradice Investment Management TT International Wellington Management Company
International Equities Passive Taxable	100%	Passive	BlackRock Investment Management
Diversified Strategies Growth Taxable ¹⁰	50%	Private Markets	36 Investment Managers
	50%	Infrastructure	2 Investment Managers

*The asset class allocations and investment managers listed in the table above are subject to change.

⁹ International assets hedged to AUD.

¹⁰ International assets hedged to AUD.

4. Investment management costs

Each Performance Plan includes the target costs for each investment option. Funds SA's investment management costs are presented as a percentage of average funds managed and referred to as an Indirect Cost Ratio (ICR).

The primary objective is to achieve the investment option's investment objectives over the long-term, net of all fees and costs. Managing costs is an important element of this objective, however, it does not drive the investment strategy and should not be looked at in isolation.

Regular benchmarking of expenditures against peer organisations is undertaken to ensure Funds SA's ongoing cost competitiveness.

Target ICRs for the 2020-21 financial year

Funds SA's fees for the 2020-21 financial year are shown in the tables below, along with comparisons to the original targets.

The ICRs achieved for the Tax-Exempt investment options were below the target ICRs for the 12 months to 30 June 2021, shown in the 'Difference' column, the exception being the Cash and Conservative investment options which were in line with the target.

The Taxable Capital Defensive, Conservative, Moderate and Socially Responsible investment options were in line or below the target ICR. The other Taxable investment options were above the target ICR. This was primarily due to the higher allocations to the Diversified Strategies Growth asset class which recognised a large level of performance fees following the significant post COVID-19 rally in global markets.

Funds SA applies the standard industry guidelines in calculating and disclosing its investment management expenses, namely:

- ASIC Regulatory Guide 97: Disclosing fees and costs in PDSs and other periods statements (RG97); and
- Corporations Regulations 2001 – Schedule 10 – Disclosures of Fees and Other Costs.

Funds SA has elected to disclose its ICR's in accordance with the new RG97 disclosure requirements, which is also consistent with industry peers. This is to calculate the performance fee component of an ICR based on the 5-year average of performance fees incurred. The previous requirement was to base performance fees on the prior year expense only.

Table 10: Tax-Exempt investment option actual and target ICRs for the 2020-21 financial year*

Investment option	Base fees %	Performance fees %	T & O costs %	Actual %	Target %	Difference %
Cash	0.05	0.00	0.00	0.05	0.05	0.00
Capital Defensive	0.36	0.02	0.03	0.42	0.45	-0.03
Conservative	0.44	0.02	0.04	0.50	0.50	0.00
Moderate	0.51	0.10	0.05	0.66	0.75	-0.09
Balanced	0.60	0.16	0.06	0.82	0.85	-0.03
High Growth	0.71	0.20	0.07	0.98	1.05	-0.07
Socially Responsible	0.54	0.03	0.19	0.75	1.00	-0.25
Defined Benefit	0.83	0.33	0.07	1.23	1.30	-0.07

*Note due to rounding, the sum of the individual numbers may not equal the total figures quoted.

Note: Transactional and operating costs. Includes costs such as: brokerage; stamp duty; transaction settlement costs; clearing costs; and spreads. Such costs are incurred in the normal course of investing, are deducted from the assets of the relevant asset class and investment option to which they relate and are reflected in the unit price.

Table 11: Taxable investment option actual and target ICRs for the 2020-21 financial year*

Investment option	Base fees %	Performance fees %	T & O costs %	Actual %	Target %	Difference %
Cash	0.05	0.00	0.00	0.05	0.05	0.00
Capital Defensive	0.37	0.02	0.03	0.41	0.45	-0.04
Conservative	0.43	0.02	0.04	0.50	0.50	0.00
Moderate	0.56	0.14	0.04	0.73	0.75	-0.02
Balanced	0.65	0.19	0.06	0.90	0.85	0.05
High Growth	0.76	0.24	0.06	1.06	1.05	0.01
Socially Responsible	0.54	0.03	0.19	0.75	1.00	-0.25

*Note due to rounding, the sum of the individual numbers may not equal the total figures quoted.

Note: Transactional and operating costs. Includes costs such as: brokerage; stamp duty; transaction settlement costs; clearing costs; and spreads. Such costs are incurred in the normal course of investing, are deducted from the assets of the relevant asset class and investment option to which they relate and are reflected in the unit price.

ICR comparison to industry

The following table shows the ICRs for the Funds SA investment options against the survey results released by researcher Chant West in March 2021.

Investment option	Tax-Exempt Actual ICR %	Taxable Actual ICR %	Chant West Average ¹¹ %
Cash	0.05	0.05	n.a.
Capital Defensive	0.42	0.41	0.61
Conservative	0.50	0.50	0.61
Moderate	0.66	0.73	0.69
Balanced	0.82	0.90	0.79
High Growth	0.98	1.06	0.84
Socially Responsible	0.75	0.75	0.79
Defined Benefit	1.23	n.a.	0.84

¹¹ Source: Chant West Pty Ltd. Super Fund Fee Survey March 2021, overall average fee by segment.

Appendix 1

Funds SA Tax-Exempt investment options



This Appendix provides a summary of the performance and composition of the following Funds SA Tax-Exempt investment options:

- Cash
- Capital Defensive
- Conservative
- Moderate
- Balanced
- High Growth
- Socially Responsible
- Defined Benefit

Cash Tax-Exempt

Size	Inception	Indirect Cost Ratio (ICR)*	
		Actual	Target
\$341.5 million	31 March 2000	0.05	0.05

*ICRs are inclusive of T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Cash	RBA Cash Rate	0+ years	Very Low	Less than 0.5

Performance

Investment option performance against benchmark, returns net of fees for periods to 30 June 2021*

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	0.0	0.1	1.0	1.4	1.7	2.3
Benchmark return	0.0	0.1	1.0	1.3	1.6	2.2
Active return	0.0	0.1	0.1	0.1	0.1	0.1

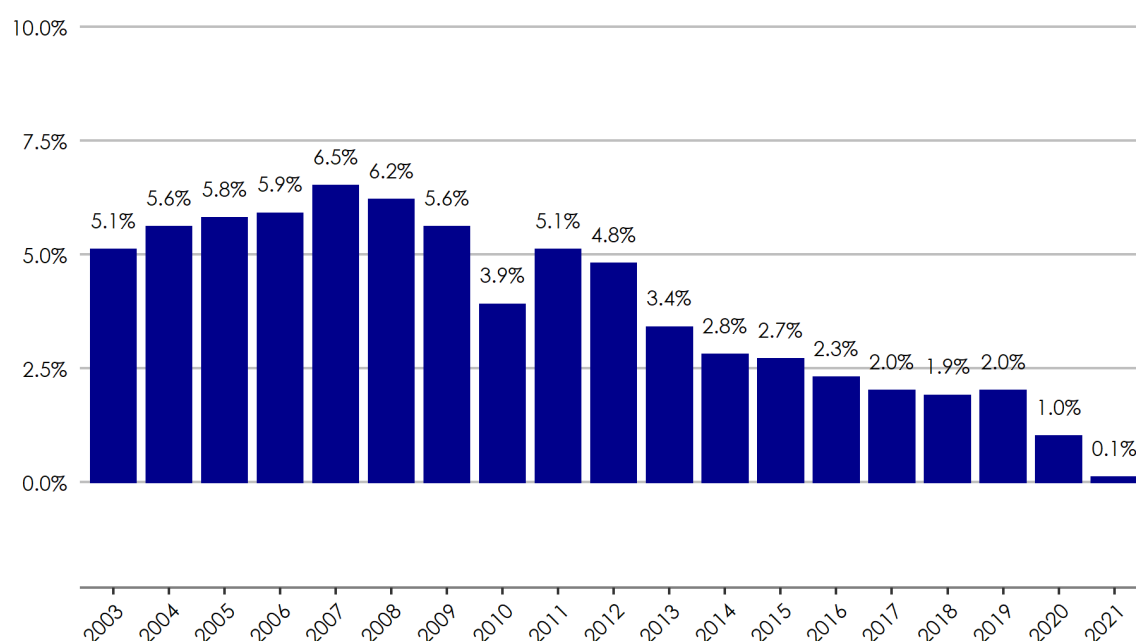
*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

The Cash investment option performed in line with the benchmark.

The returns of the Cash investment options are influenced by the RBA Official Cash Rate. During November, the RBA cut the official cash rate from 0.25% to 0.10%. The RBA has reiterated they do not expect to increase interest rates until at least 2024.

Investment option annual financial year returns

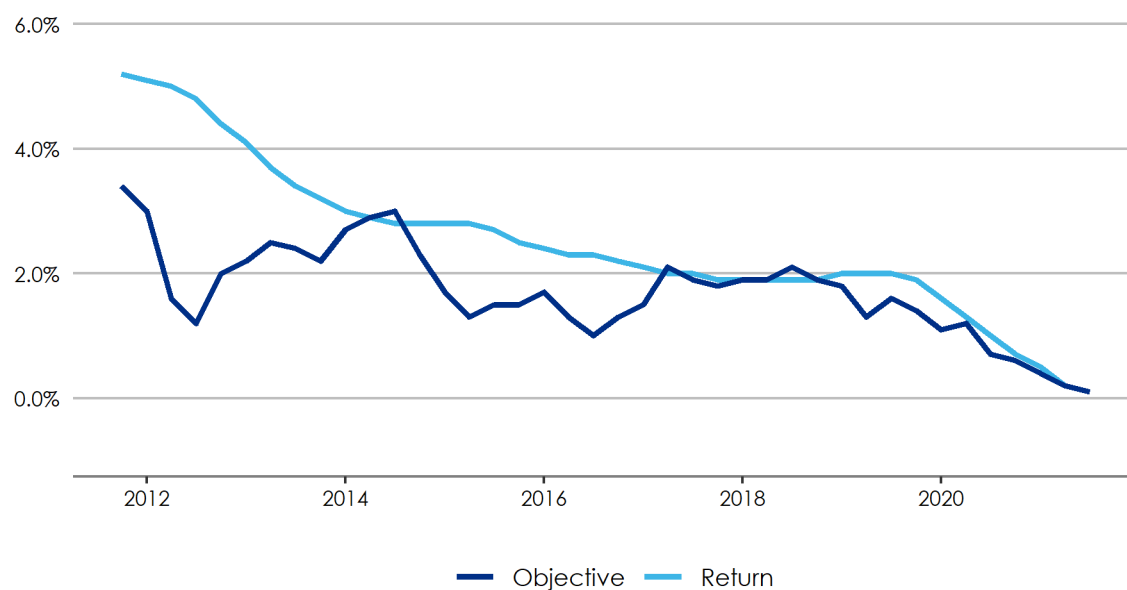
Returns net of fees to 30 June



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective

1-year rolling returns, net of fees to 30 June 2021



Asset allocation

Cash Tax-Exempt investment option asset allocation as at 30 June 2021*

Asset class	Actual %	Strategic %	Variance %
Cash	100.0	100.0	0.0
Total	100.0	100.0	
Compliance with 2020-21 Performance Plan			
		Complies	

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Capital Defensive Tax-Exempt

Size	Inception	Indirect Cost Ratio (ICR)*	
		Actual	Target
\$421.7 million	31 August 2004	0.42	0.45

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Capital Defensive	CPI + 1.0%	2+ years	Low	0.5 to 1

Performance

Investment option performance against benchmark, returns net of fees for periods to 30 June 2021*

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	2.0	6.7	4.6	4.7	4.6	5.5
Benchmark return	2.0	5.4	4.5	4.4	4.6	5.3
Active return	0.0	1.3	0.1	0.3	0.0	0.2

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

International Equities, Australian Equities and Diversified Strategies Income (DSI) were the strongest contributors to the performance of the investment option for the 12 months ended 30 June 2021. Equity and credit markets benefited from global vaccine rollouts, improving economic activity, rising investor sentiment, record low cash and term interest rates and supportive fiscal policy.

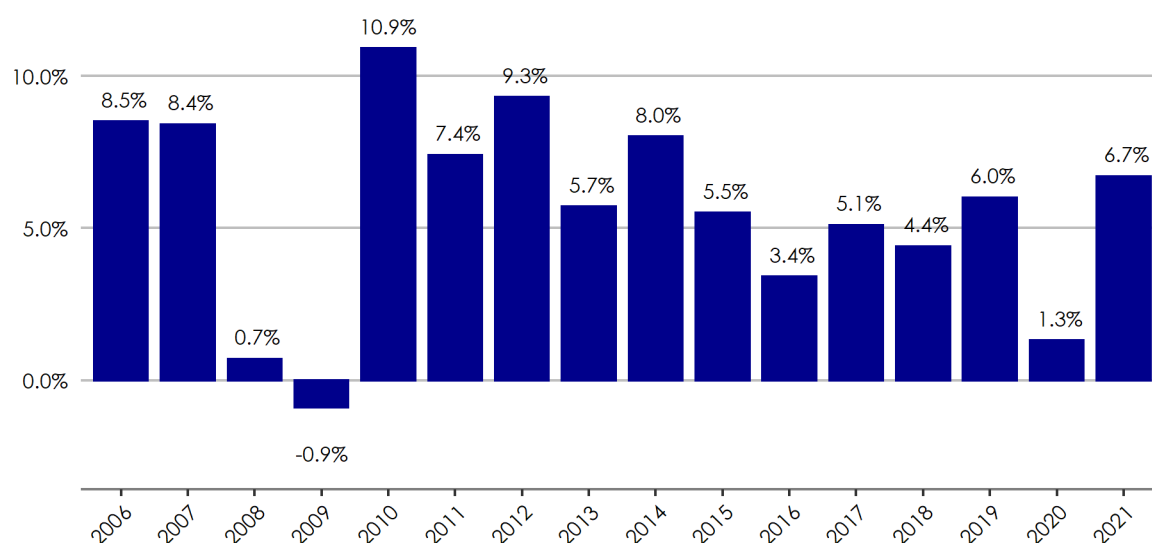
The defensive asset classes contributed positive, but minimal returns given low cash rates and low, upward trending bond yields, predominately at the long end of the yield curve. Having a larger allocation to Short-Term Fixed Interest provided positive return to offset the negative performance from Long-Term Fixed Interest.

Performance relative to benchmark was positive, predominately driven by International Equities, DSI and Inflation-Linked Securities. International Equities had an exceptional year, benefitting from strong stock selection in the developed market strategies and manager configuration changes. For DSI, the credit orientated strategies added value through security and sector selection and the Absolute Return strategies added value through exposure to risk assets. The internally managed assets within the Inflation-Linked Securities asset class significantly outperformed.

The DSI benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the 12-month period, as asset values have increased, and cash rates remain low.

Investment option annual financial year returns

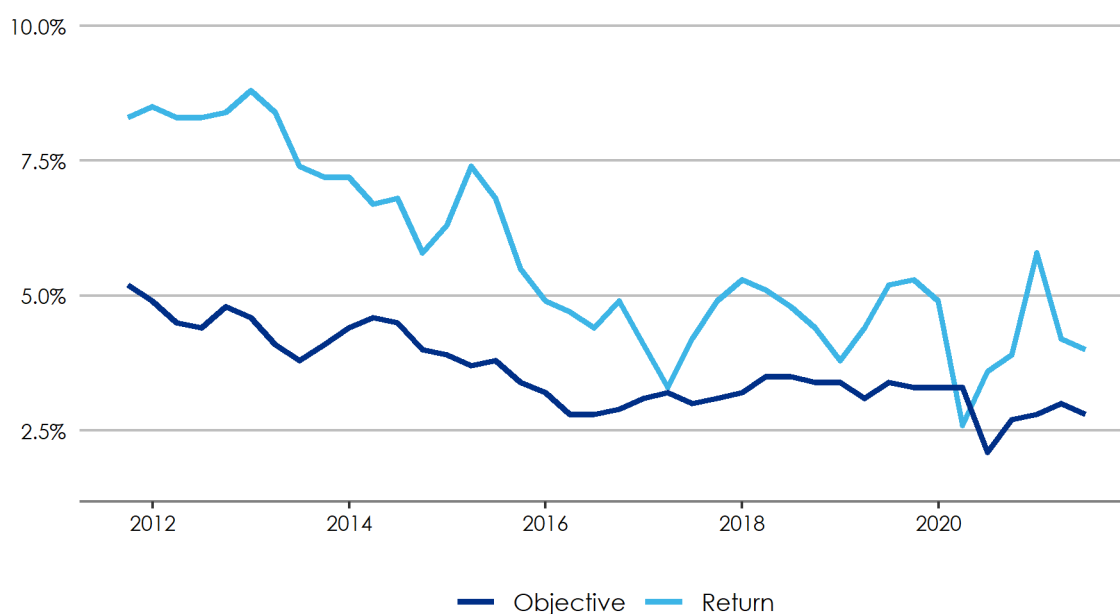
Returns net of fees to 30 June



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective¹²

2-year rolling returns, net of fees to 30 June 2021



¹² Note the target return was CPI +1.5% prior to 1 January 2021.

Asset allocation

Capital Defensive Tax-Exempt investment option asset allocation as at 30 June 2021*

Asset class	Actual %	Strategic %	Variance %
Cash	15.3	15.0	0.3
Short-Term Fixed Interest	29.6	30.0	-0.4
Long-Term Fixed Interest	4.7	5.0	-0.3
Inflation-Linked Securities Tax-Exempt	14.9	15.0	-0.1
Diversified Strategies Income	16.5	17.0	-0.5
Property Tax-Exempt	4.3	6.0	-1.7
Australian Equities Tax-Exempt	6.4	5.0	1.4
International Equities Tax-Exempt	8.3	7.0	1.3
Total	100.0	100.0	
Growth assets	26.4	25.0	1.4
Compliance with 2020-21 Performance Plan	Complies		

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Conservative Tax-Exempt

Size	Inception	Indirect Cost Ratio (ICR)*	
		Actual	Target
\$577.0 million	30 June 1999	0.50	0.50

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Conservative	CPI + 2.0%	4+ years	Medium	2 to 3

Performance

Investment option performance against benchmark, returns net of fees for periods to 30 June 2021*

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	4.1	11.2	6.1	6.4	6.0	6.9
Benchmark return	4.1	9.4	6.0	6.1	6.0	6.7
Active return	0.0	1.8	0.1	0.3	0.0	0.2

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

International Equities, Australian Equities and Diversified Strategies Income (DSI) were the strongest contributors to the performance of the investment option for the 12 months ended 30 June 2021. Equity and credit markets benefited from global vaccine rollouts, improving economic activity, rising investor sentiment, record low cash and term interest rates and supportive fiscal policy.

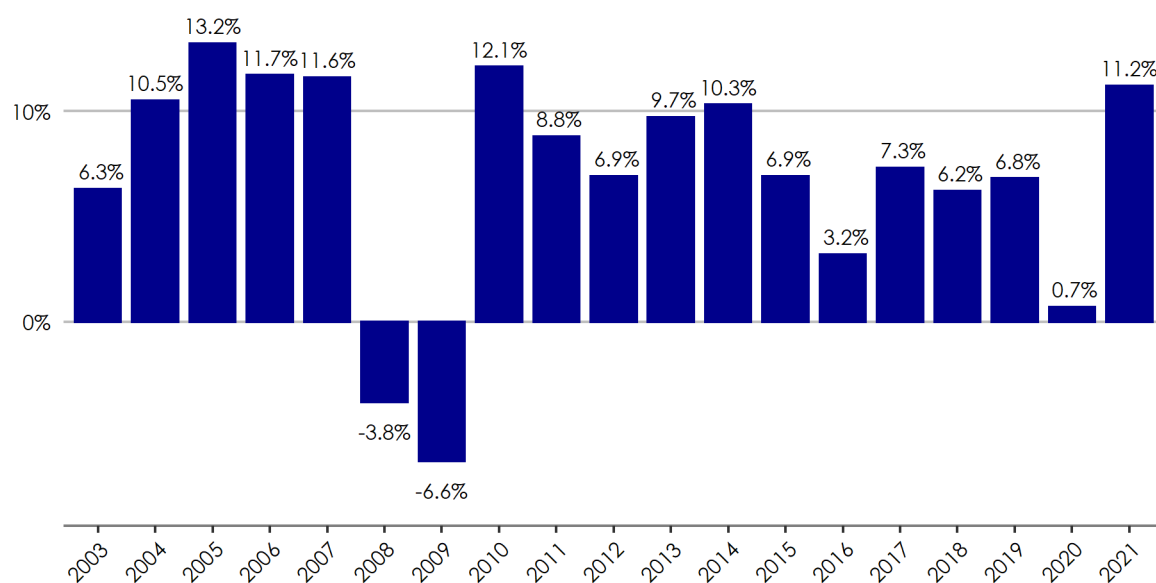
The defensive asset classes contributed positive, but minimal returns given low cash rates and low, upward trending bond yields, predominately at the long end of the yield curve. Having a larger allocation to Short-Term Fixed Interest provided positive returns to offset the negative performance from Long-Term Fixed Interest.

Performance relative to benchmark was positive, predominately driven by International Equities, DSI and Inflation-Linked Securities. International Equities had an exceptional year, benefitting from strong stock selection in the developed market strategies and manager configuration changes. For DSI, the credit orientated strategies added value through security and sector selection and the Absolute Return strategies added value through exposure to risk assets. The internally managed assets within the Inflation-Linked Securities asset class significantly outperformed.

The DSI benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the 12-month period, as asset values have increased, and cash rates remain low.

Investment option annual financial year returns

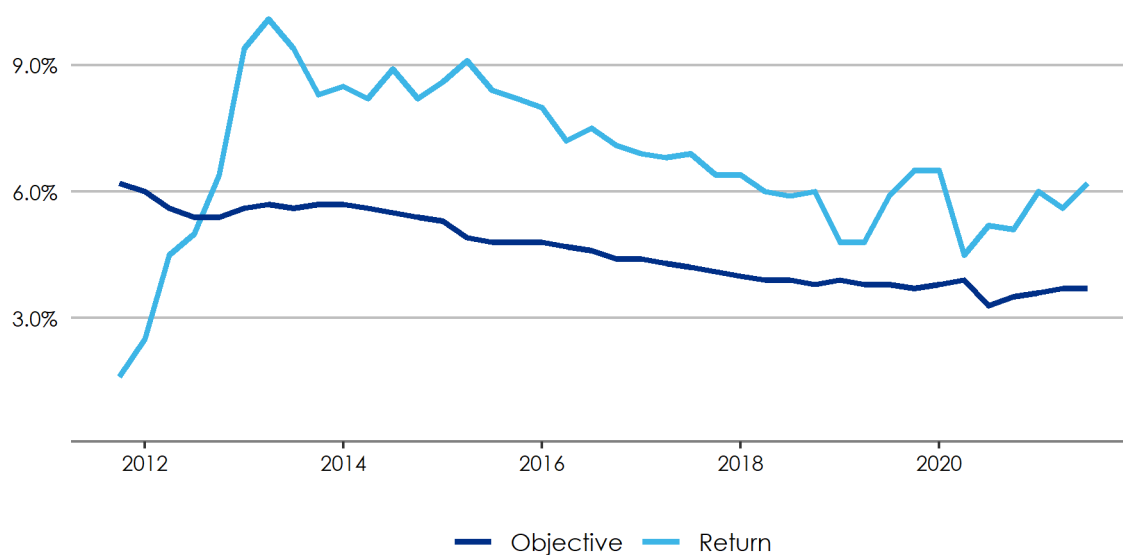
Returns net of fees to 30 June



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective¹³

4-year rolling returns, net of fees to 30 June 2021



¹³ Note the target return was CPI +2.5% prior to 1 January 2016 and CPI +3% prior to 1 July 2013.

Asset allocation

Conservative Tax-Exempt investment option asset allocation as at 30 June 2021*

Asset class	Actual %	Strategic %	Variance %
Cash	10.3	10.0	0.3
Short-Term Fixed Interest	17.7	18.0	-0.3
Long-Term Fixed Interest	4.6	5.0	-0.4
Inflation-Linked Securities Tax-Exempt	15.0	15.0	0.0
Diversified Strategies Income	17.6	18.0	-0.4
Property Tax-Exempt	7.5	9.0	-1.5
Australian Equities Tax-Exempt	11.2	10.0	1.2
International Equities Tax-Exempt	16.1	15.0	1.1
Total	100.0	100.0	
Growth assets	41.3	40.0	1.3
Compliance with 2020-21 Performance Plan		Complies	

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Moderate Tax-Exempt

Size	Inception	Indirect Cost Ratio (ICR)*	
		Actual	Target
\$599.4 million	30 June 2006	0.66	0.75

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Moderate	CPI + 3.0%	6+ years	Medium to High	3 to 4

Performance

Investment option performance against benchmark, returns net of fees for periods to 30 June 2021*

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	6.6	15.5	7.4	7.8	7.2	7.9
Benchmark return	5.8	12.6	7.2	7.4	7.0	7.5
Active return	0.8	2.9	0.2	0.4	0.2	0.4

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

International Equities, Australian Equities and Diversified Strategies Income (DSI) were the strongest contributors to the performance of the investment option for the 12 months ended 30 June 2021. Equity and credit markets benefited from global vaccine rollouts, improving economic activity, rising investor sentiment, record low cash and term interest rates and supportive fiscal policy.

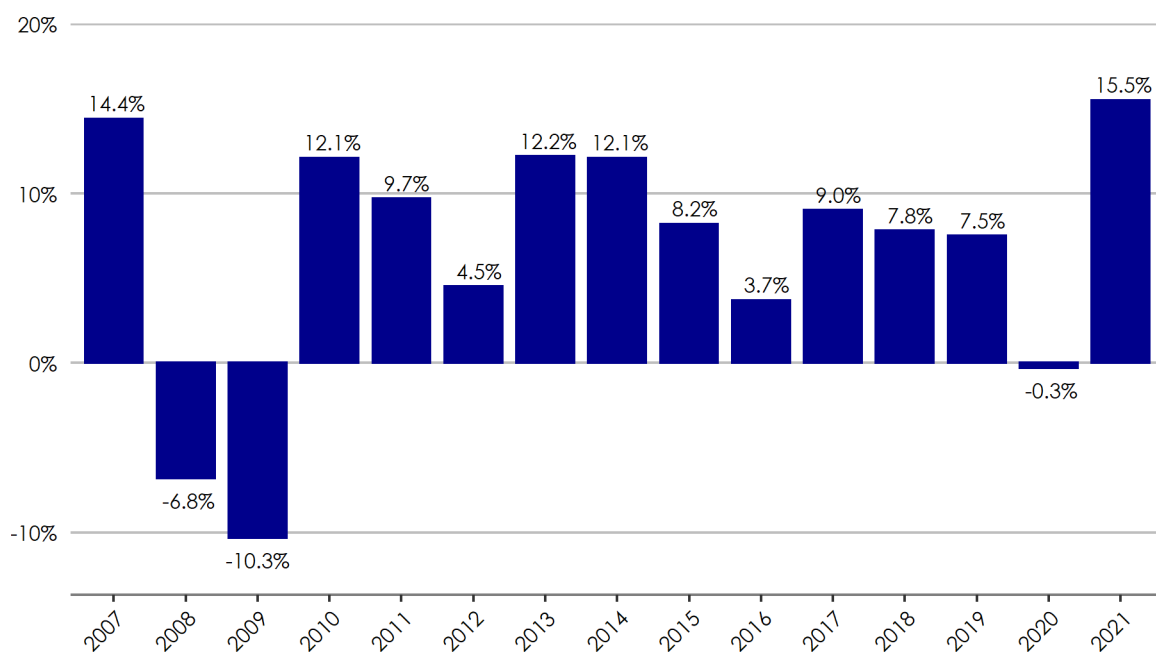
The defensive asset classes slightly detracted from performance, given low cash rates and low, upward trending bond yields, predominately at the long end of the yield curve. The larger allocation to Long-Term Fixed Interest compared Short-Term Fixed Interest was a small detractor.

Performance relative to benchmark was positive, predominately driven by International Equities, Diversified Strategies Growth (DSG) and DSI. International Equities had an exceptional year, benefitting from strong stock selection in the developed market strategies and manager configuration changes. For DSG, the more growth exposed areas of the asset class (such as private equity) recovered the valuation write-downs that occurred at the onset of the COVID-19 pandemic. For DSI, the credit orientated strategies added value through security and sector selection and the Absolute Return strategies added value through exposure to risk assets.

The DSG and DSI benchmarks have a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the 12-month period, as asset values have increased, and cash rates remain low.

Investment option annual financial year returns

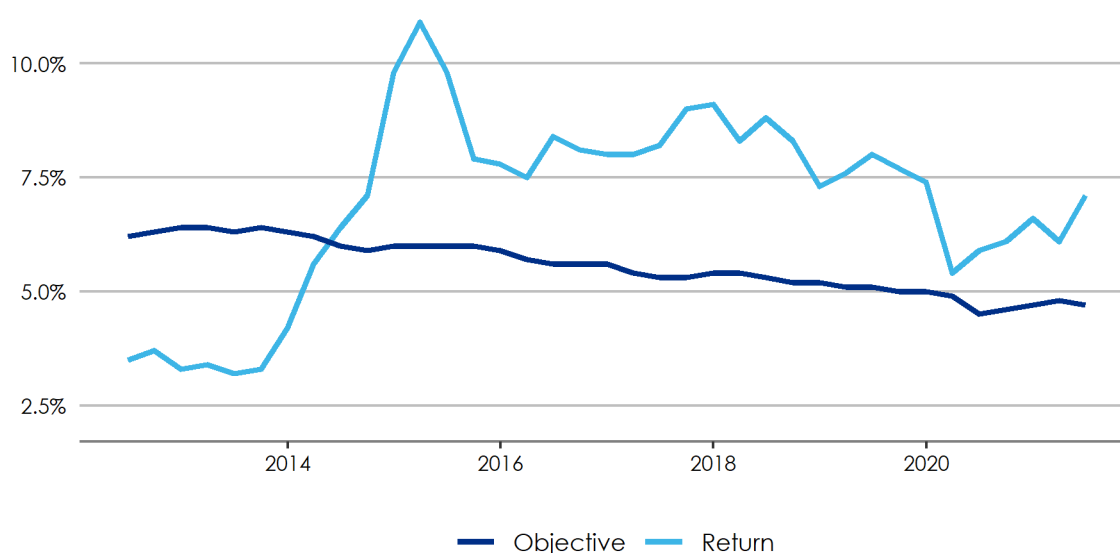
Returns net of fees to 30 June



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective¹⁴

6-year rolling returns, net of fees to 30 June 2021



¹⁴ Note the target return was CPI + 3.5% prior to 1 January 2016.

Asset allocation

Moderate Tax-Exempt investment option asset allocation as at 30 June 2021*

Asset class	Actual %	Strategic %	Variance %
Cash	8.4	8.0	0.4
Short-Term Fixed Interest	6.9	7.0	-0.1
Long-Term Fixed Interest	8.6	9.0	-0.4
Inflation-Linked Securities Tax-Exempt	10.8	11.0	-0.2
Diversified Strategies Income	11.5	12.0	-0.5
Property Tax-Exempt	8.6	10.0	-1.4
Australian Equities Tax-Exempt	17.2	16.0	1.2
International Equities Tax-Exempt	23.7	22.0	1.7
Diversified Strategies Growth Tax-Exempt	4.3	5.0	-0.7
Total	100.0	100.0	
Growth assets	55.9	55.0	0.9
Compliance with 2020-21 Performance Plan		Complies	

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Balanced Tax-Exempt

Size	Inception	Indirect Cost Ratio (ICR)*	
		Actual	Target
\$19,287.2 million	30 June 1995	0.82	0.85

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Balanced	CPI + 3.5%	10+ years	High	4 to 6

Performance

Investment option performance against benchmark, returns net of fees for periods to 30 June 2021*

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	10.1	21.9	9.5	9.8	8.9	9.3
Benchmark return	8.6	17.8	9.1	9.1	8.5	8.8
Active return	1.5	4.1	0.4	0.7	0.4	0.5

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

International Equities, Australian Equities and Diversified Strategies Growth (DSG) were the strongest contributors to the performance of the investment option for the 12 months ended 30 June 2021. Equity and credit markets benefited from global vaccine rollouts, improving economic activity, rising investor sentiment, record low cash and term interest rates and supportive fiscal policy. As economic conditions rebounded, private markets experienced improved valuations.

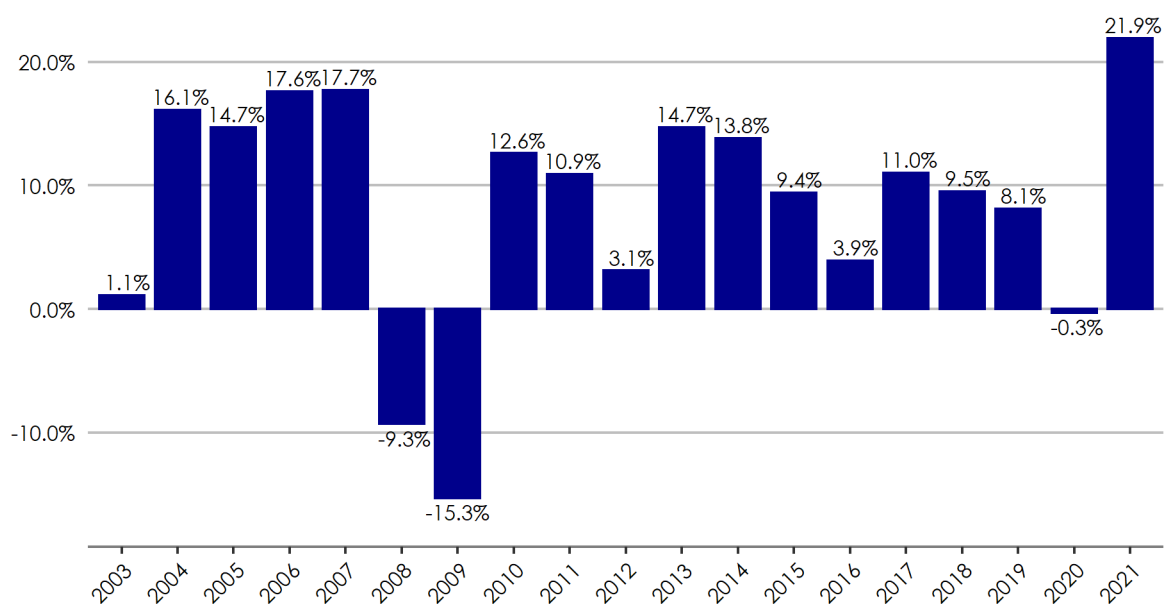
The defensive asset classes slightly detracted from performance, given low cash rates and low, upward trending bond yields, predominately at the long end of the yield curve. The larger allocation to Long-Term Fixed Interest compared Short-Term Fixed Interest was a small detractor.

Performance relative to benchmark was positive, predominately driven by International Equities, Diversified Strategies Growth (DSG) and Australian Equities. International Equities had an exceptional year, benefitting from strong stock selection in the developed market strategies and manager configuration changes. For DSG, the more growth exposed areas of the asset class (such as private equity) recovered the valuation write-downs that occurred at the onset of the COVID-19 pandemic. Australian Equities benefited from strong stock selection across various sectors and specific underweights to Utilities and Healthcare.

The DSG benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the 12-month period, as asset values have increased, and cash rates remain low.

Investment option annual financial year returns

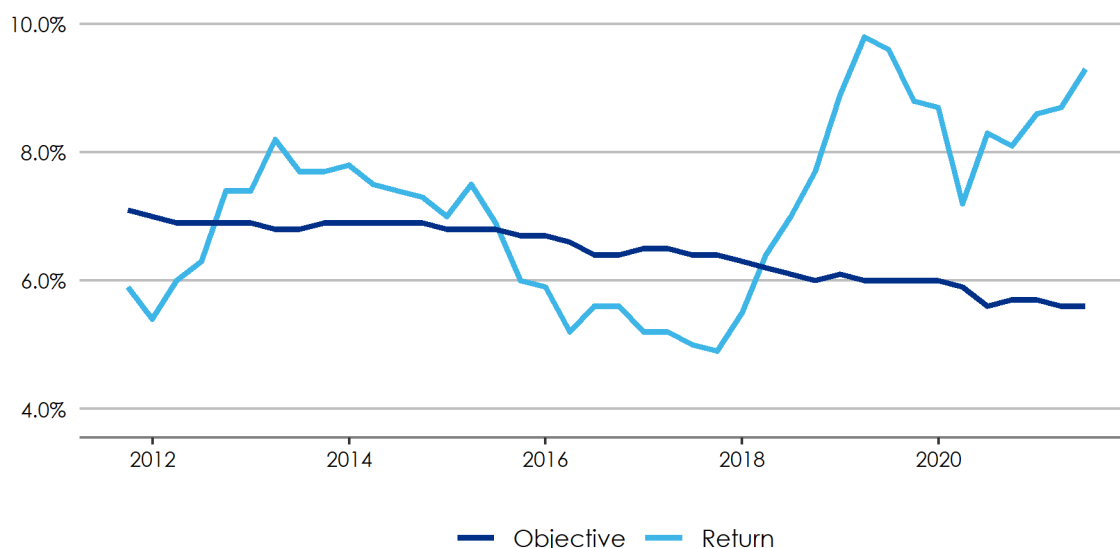
Returns net of fees to 30 June



The number of negative annual returns are within the expected parameters of the investment objective.

Investment option performance relative to investment objective¹⁵

10-year rolling returns, returns net of fees to 30 June 2021



¹⁵ Note the target return for the Balanced Tax-Exempt investment option was CPI + 4% prior to 1 January 2016. The investment horizon was 7+ years prior to 1 July 2019.

Asset allocation

Balanced Tax-Exempt investment option asset allocation as at 30 June 2021*

Asset class	Actual %	Strategic %	Variance %
Cash	3.4	3.0	0.4
Short-Term Fixed Interest	1.6	2.0	-0.4
Long-Term Fixed Interest	5.6	6.0	-0.4
Inflation-Linked Securities Tax-Exempt	4.9	5.0	-0.1
Diversified Strategies Income	7.6	8.0	-0.4
Property Tax-Exempt	10.6	12.0	-1.4
Australian Equities Tax-Exempt	24.2	23.0	1.2
International Equities Tax-Exempt	34.8	33.0	1.8
Diversified Strategies Growth Tax-Exempt	7.3	8.0	-0.7
Total	100.0	100.0	
Growth assets	75.5	75.0	0.5
Compliance with 2020-21 Performance Plan		Complies	

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

High Growth Tax-Exempt

Size	Inception	Indirect Cost Ratio (ICR)*	
		Actual	Target
\$2,915.3 million	30 June 1999	0.98	1.05

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
High Growth	CPI + 4.5%	10+ years	High	4 to 6

Performance

Investment option performance against benchmark, returns net of fees for periods to 30 June 2021*

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	11.4	24.8	10.0	11.3	10.1	10.5
Benchmark return	9.7	19.8	9.5	10.5	9.5	9.8
Active return	1.7	5.0	0.5	0.8	0.6	0.7

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

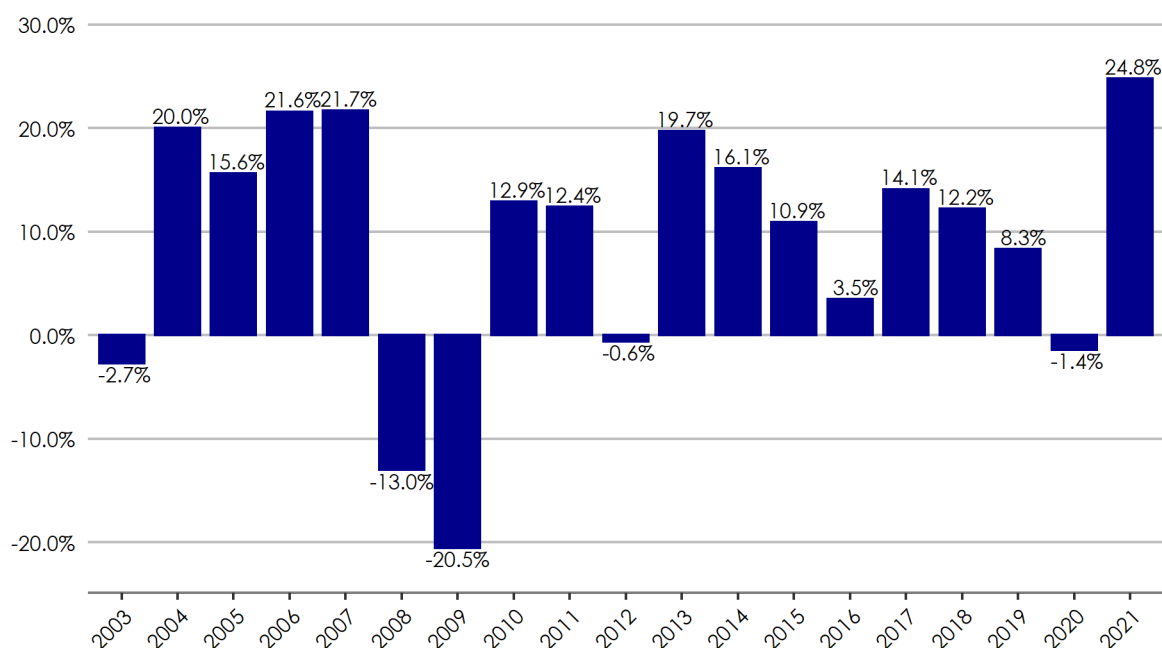
International Equities, Australian Equities and Diversified Strategies Growth (DSG) were the strongest contributors to the performance of the investment option for the 12 months ended 30 June 2021. Equity and credit markets benefited from global vaccine rollouts, improving economic activity, rising investor sentiment, record low cash and term interest rates, and supportive fiscal policy. As economic conditions rebounded, private markets experienced improved valuations.

Performance relative to benchmark was positive, predominately driven by International Equities, Diversified Strategies Growth (DSG) and Australian Equities. International Equities had an exceptional year, benefitting from strong stock selection in the developed market strategies and manager configuration changes. For DSG, the more growth exposed areas of the asset class (such as private equity) recovered the valuation write-downs that occurred at the onset of the COVID-19 pandemic. Australian Equities benefited from strong stock selection across various sectors and specific underweights to Utilities and Healthcare.

The DSG benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the 12-month period, as asset values have increased, and cash rates remain low.

Investment option annual financial year returns

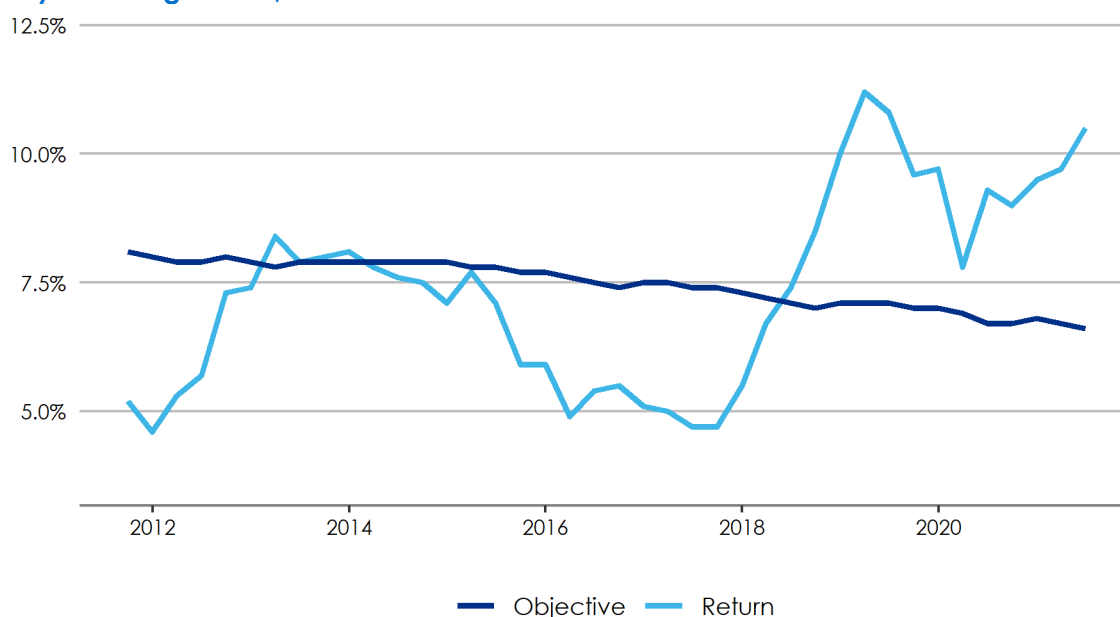
Returns net of fees to 30 June



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective¹⁶

10-year rolling returns, net of fees to 30 June 2021



¹⁶ Note the target return for the High Growth Tax-Exempt investment option was CPI + 5% until December 2015. From January 2016 the target return was CPI + 4.5%.

Asset allocation

High Growth Tax-Exempt investment option asset allocation as at 30 June 2021*

Asset class	Actual %	Strategic %	Variance %
Cash	2.5	2.0	0.5
Diversified Strategies Income	11.4	12.0	-0.6
Property Tax-Exempt	14.6	16.0	-1.4
Australian Equities Tax-Exempt	24.9	24.0	0.9
International Equities Tax-Exempt	37.4	36.0	1.4
Diversified Strategies Growth Tax-Exempt	9.3	10.0	-0.7
Total	100.0	100.0	
Growth assets	84.9	85.0	-0.1
Compliance with 2020-21 Performance Plan		Complies	

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Socially Responsible Tax-Exempt

Size	Inception	Indirect Cost Ratio (ICR)*	
		Actual	Target
\$128.7 million	2 March 2009	0.75	1.00

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Socially Responsible	Similar to a growth fund	10+ years	High	4 to less than 6

Performance

Investment option performance against benchmark, returns net of fees for periods to 30 June 2021*

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	9.8	21.6	8.9	9.0	7.9	8.6
Benchmark return	9.4	19.6	9.6	9.7	8.8	9.3
Active return	0.4	2.0	-0.7	-0.7	-0.9	-0.7

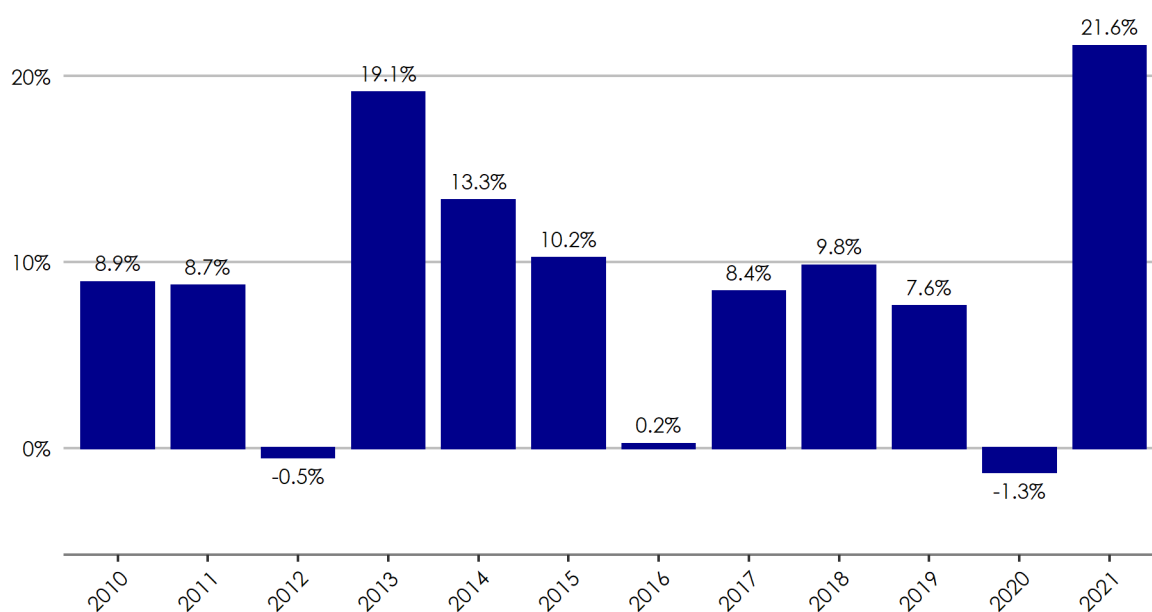
*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

During 2020-21 the Socially Responsible investment option underwent a manager restructure. AMP Capital was removed as the underlying manager and Funds SA commenced managing this investment option in the same way as other options.

The Socially Responsible investment option outperformed its benchmark by 2%. Outperformance was driven by Australian equities and growth alternative assets. However, this was slightly offset by underperformance in the property sector over the period.

Investment option annual financial year returns

Returns net of fees to 30 June



The volatility of annual returns is in line with expected parameters of the investment objective.

Asset allocation

The Socially Responsible Tax-Exempt investment option is a commonly held investment option within the Socially Responsible Taxable investment option. The Socially Responsible Tax-Exempt and Taxable investment options have the same asset allocation and invest in the same Taxable asset classes.

Socially Responsible Tax-Exempt investment option asset allocation as at 30 June 2021*

Asset class	Actual %	Strategic %	Variance %
Cash	5.3	3.0	2.3
Long-Term Fixed Interest	19.4	20.0	-0.6
Property Taxable	10.0	12.0	-2.0
Australian Equities Taxable	29.5	28.0	1.5
International Equities Taxable	33.4	32.0	1.4
Diversified Strategies Growth Taxable	2.4	5.0	-2.6
Total	100.0	100.0	
Growth assets	68.6	70.0	-1.4
Compliance with 2020-21 Performance Plan		Complies	

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Defined Benefit Strategy

Size	Inception	Indirect Cost Ratio (ICR)*	
		Actual	Target
\$7,632.5 million	31 December 2016	1.23	1.30

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Defined Benefit Strategy	CPI + 4.5%	10+ years	High	4 to 6

Performance

Investment option performance against benchmark, returns net of fees for periods to 30 June 2021*

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	11.0	23.7	9.8	10.7	9.6	10.0
Benchmark return	8.5	17.3	8.7	9.4	8.7	9.1
Active return	2.5	6.5	1.1	1.3	0.9	0.9

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

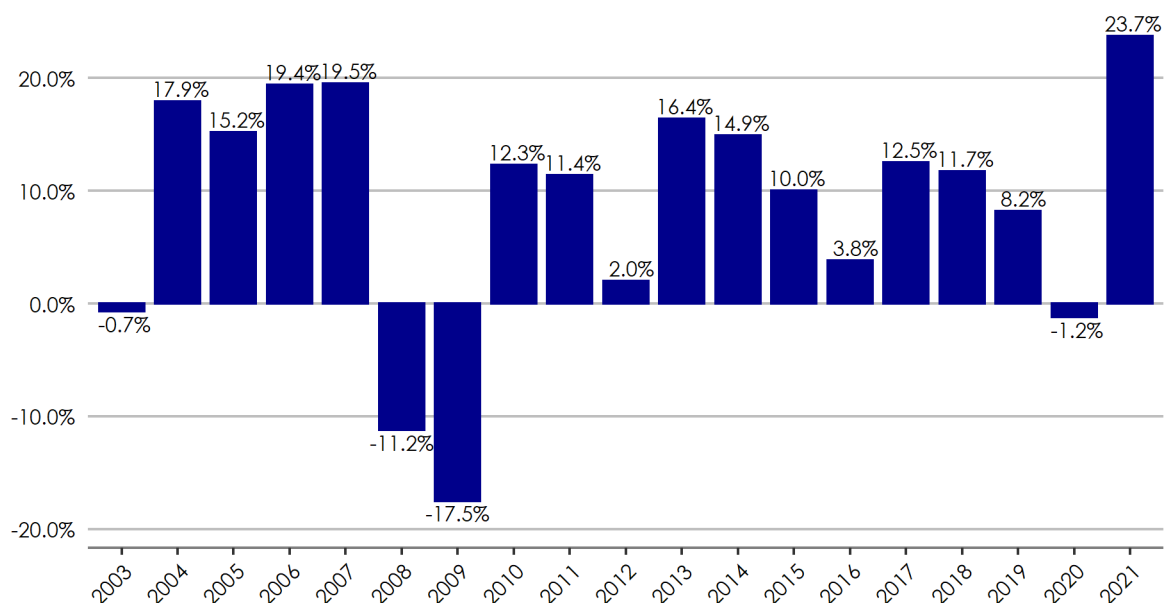
International Equities, Australian Equities and Diversified Strategies Growth (DSG) were the strongest contributors to the performance of the investment option for the 12 months ended 30 June 2021. Equity and credit markets benefited from global vaccine rollouts, improving economic activity, rising investor sentiment, record low cash and term interest rates and supportive fiscal policy. As economic conditions rebounded, private markets experienced improved valuations.

Performance relative to benchmark was positive, predominately driven by Diversified Strategies Growth (DSG), International Equities and Australian Equities. Within DSG, the more growth exposed areas of the asset class (such as private equity) recovered the valuation write-downs that occurred at the onset of the COVID-19 pandemic. International Equities had an exceptional year, benefitting from strong stock selection in the developed market strategies and manager configuration changes. Australian Equities benefited from strong stock selection across various sectors and specific underweights to Utilities and Healthcare.

The DSG benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the 12-month period, as asset values have increased, and cash rates remain low.

Investment option annual financial year returns

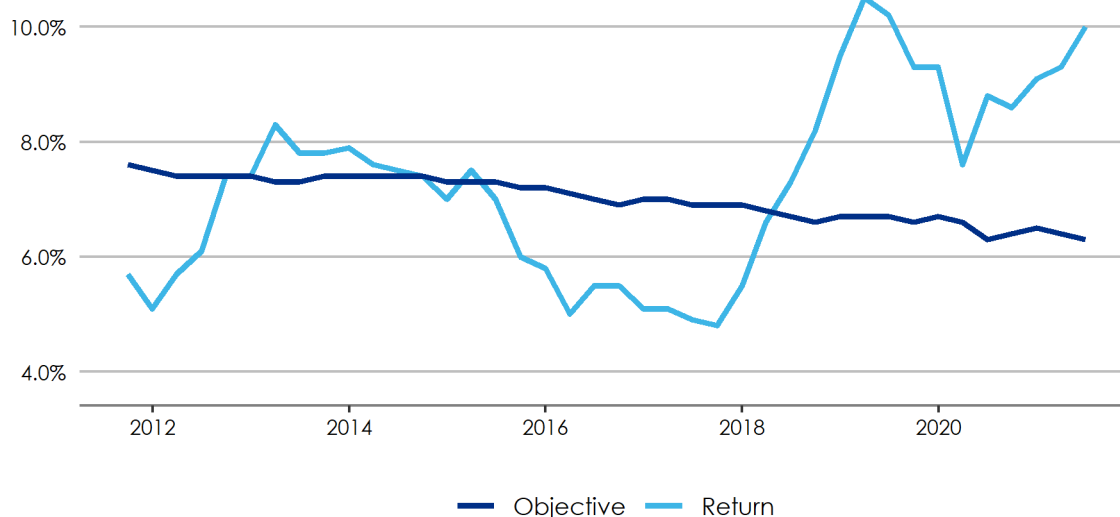
Returns net of fees to 30 June



The number of negative annual returns are within the expected parameters of the investment objective.

Investment option performance relative to investment objective¹⁷

10-year rolling returns, net of fees to 30 June 2021



¹⁷ Note the inception of the Defined Benefit Strategy was the Funds SA Growth Tax-Exempt investment option, the target return was CPI + 4.5% until December 2015. From January 2016 the target return was CPI + 4%. From January 2017 the target return was CPI + 4.5%.

Asset allocation

Defined Benefit Strategy asset allocation as at 30 June 2021*

Asset class	Actual %	Strategic %	Variance %
Cash	1.7	2.0	-0.3
Diversified Strategies Income	13.4	14.0	-0.6
Property Tax-Exempt	16.6	18.0	-1.4
Australian Equities Tax-Exempt	21.1	20.0	1.1
International Equities Tax-Exempt	31.6	30.0	1.6
Diversified Strategies Growth Tax-Exempt	15.6	16.0	-0.4
Total	100.0	100.0	
Growth assets	83.2	80.0	3.2
Compliance with 2020-21 Performance Plan		Complies	

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Appendix 2

Funds SA Taxable investment options



This Appendix provides further details on the performance and composition of the following Funds SA Taxable investment options:

- Cash
- Capital Defensive
- Conservative
- Moderate
- Balanced
- High Growth
- Socially Responsible

Cash Taxable

Size	Inception	Indirect Cost Ratio (ICR)*	
		Actual	Target
\$240.1 million	31 March 2005	0.05	0.05

*ICRs are inclusive of T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Cash	RBA Cash Rate	0+ years	Very Low	Less than 0.5

Performance

Investment option performance against benchmark, returns net of fees for periods to 30 June 2021*

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	0.0	0.1	1.0	1.4	1.7	2.3
Benchmark return	0.0	0.1	1.0	1.3	1.6	2.2
Active return	0.0	0.1	0.1	0.1	0.1	0.1

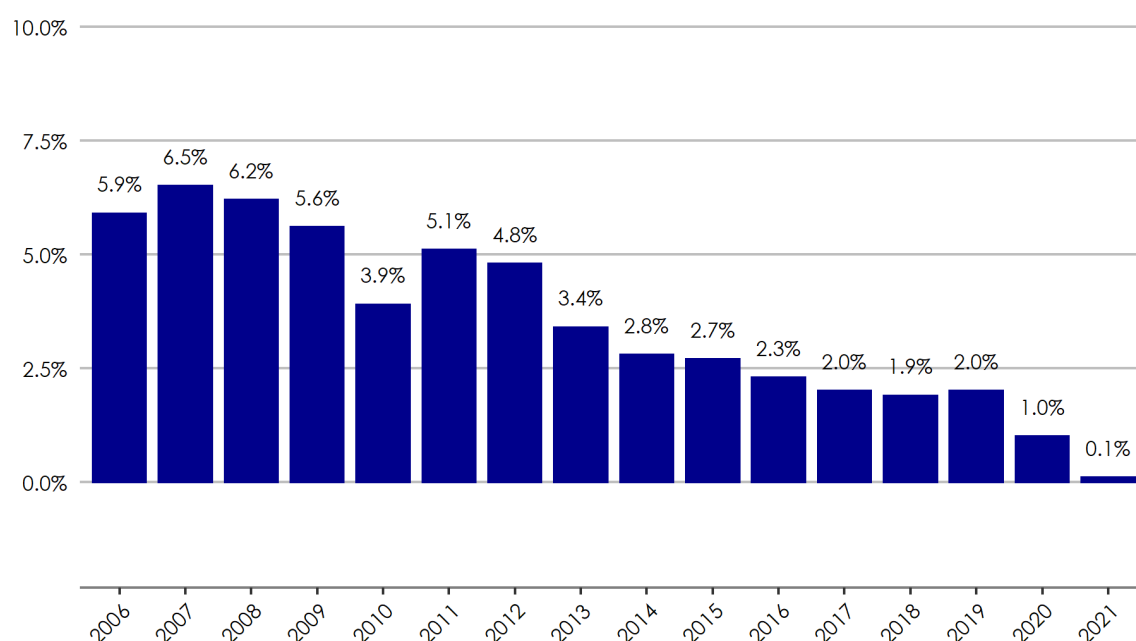
*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

The Cash investment option performed in line with the benchmark.

The returns of the Cash investment options are influenced by the Reserve Bank of Australia (RBA) Official Cash Rate. During November, the RBA cut the official cash rate from 0.25% to 0.10%. The RBA has reiterated they do not expect to increase interest rates until at least 2024.

Investment option annual financial year returns

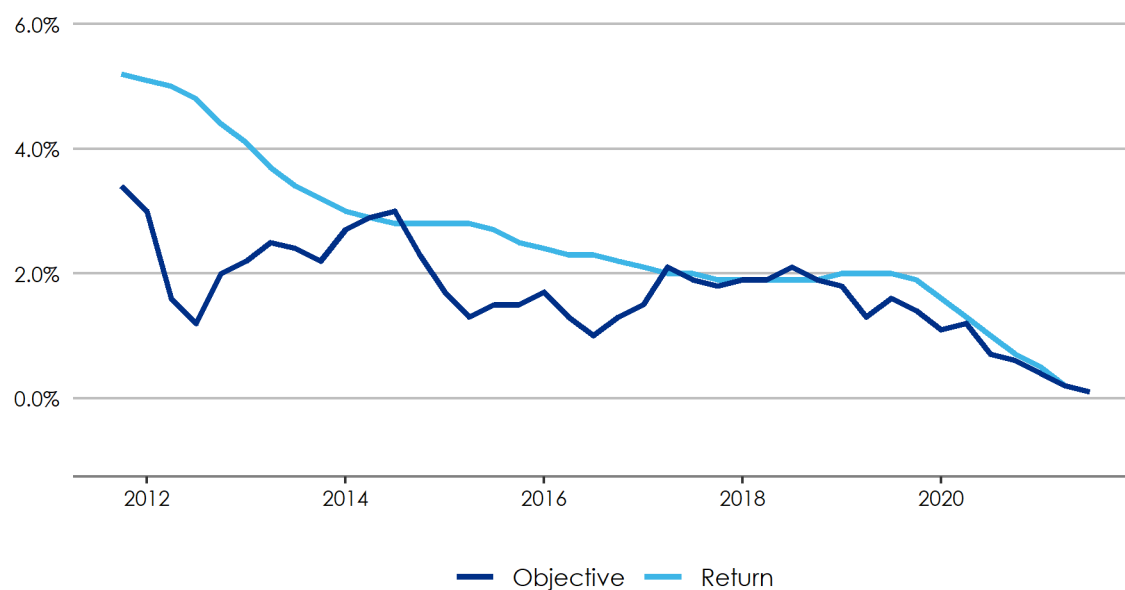
Returns net of fees to 30 June



The number of negative annual returns are within the expected parameters of the investment objective.

Investment option performance relative to investment objective

1-year rolling returns, net of fees to 30 June 2021



Asset allocation

Cash Taxable investment option asset allocation as at 30 June 2021*

Asset class	Actual %	Strategic %	Variance %
Cash	100.0	100.0	0.0
Total	100.0	100.0	
Compliance with 2020-21 Performance Plan			
		Complies	

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Capital Defensive Taxable

Size	Inception	Indirect Cost Ratio (ICR)*	
		Actual	Target
\$351.8 million	31 March 2005	0.41	0.45

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Capital Defensive	CPI + 1.0%	2+ years	Low	0.5 to 1

Performance

Investment option performance against benchmark, returns net of fees for periods to 30 June 2021*

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	2.0	6.4	4.3	4.4	4.4	5.1
Benchmark return	2.1	5.4	4.4	4.4	4.5	5.2
Active return	-0.1	1.1	-0.1	0.0	-0.2	-0.1

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

International Equities, Australian Equities and Diversified Strategies Income (DSI) were the strongest contributors to the performance of the investment option for the 12 months ended 30 June 2021. Equity and credit markets benefited from global vaccine rollouts, improving economic activity, rising investor sentiment, record low cash and term interest rates, and supportive fiscal policy.

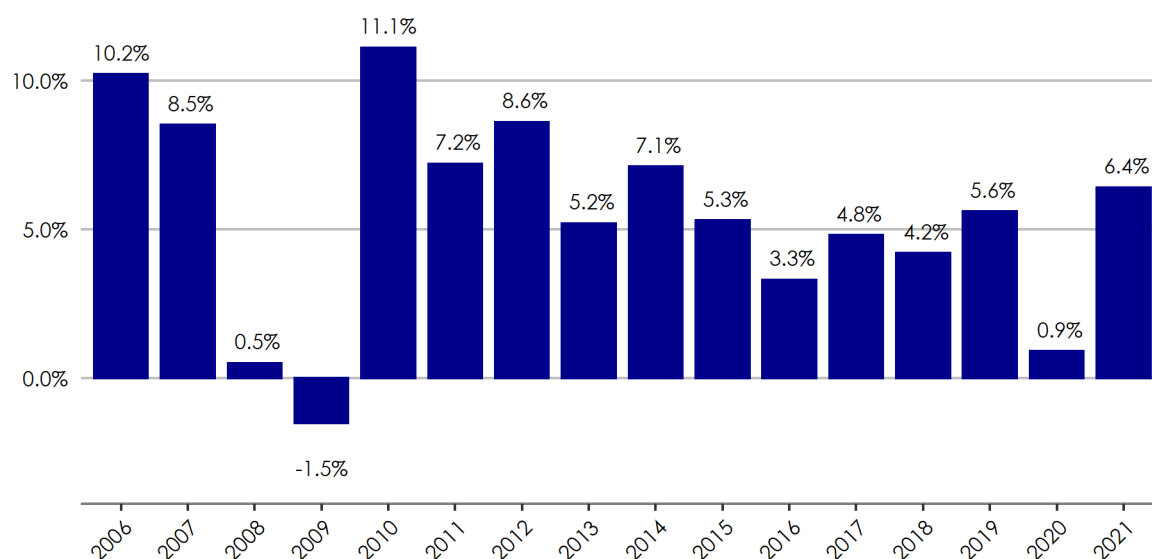
The defensive asset classes contributed positive, but minimal returns given low cash rates and low, upward trending bond yields, predominately at the long end of the yield curve. Having a larger allocation to Short-Term Fixed Interest provided positive return to offset the negative performance from Long-Term Fixed Interest.

Performance relative to benchmark was positive, predominately driven by International Equities, DSI and Short-Term Fixed Interest. International Equities had an exceptional year, benefitting from strong stock selection in the developed market strategies and manager configuration changes. For DSI, the credit orientated strategies added value through security and sector selection and the Absolute Return strategies added value through exposure to risk assets. Short-Term Fixed Interest benefited from security selection.

The DSI benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the 12-month period, as asset values have increased, and cash rates remain low.

Investment option annual financial year returns

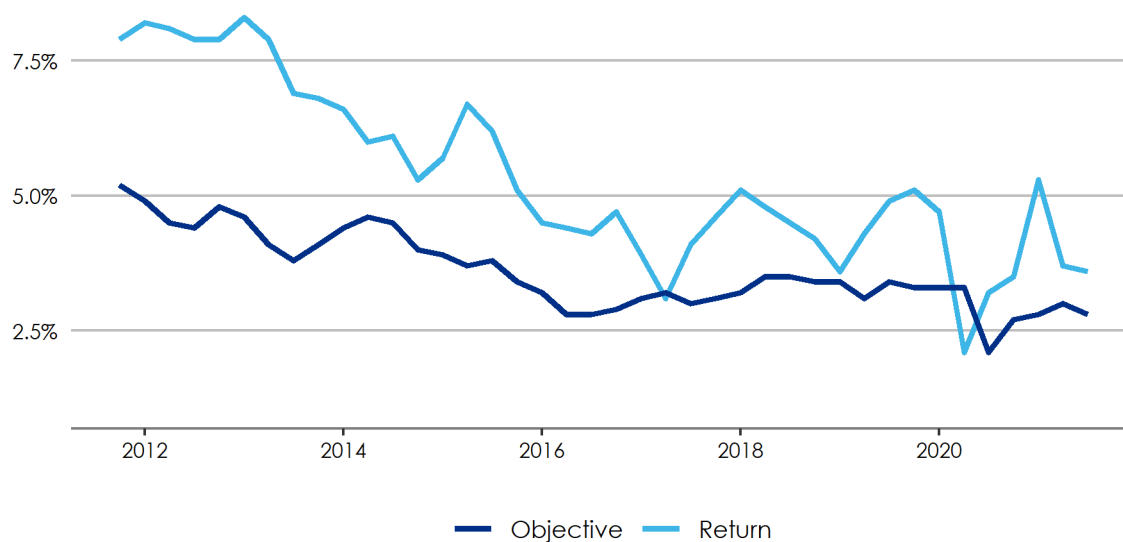
Returns net of fees to 30 June



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective¹⁸

2-year rolling returns, net of fees to 30 June 2021



¹⁸ Note the target return was CPI +1.5% prior to 1 January 2021.

Asset allocation

Capital Defensive Taxable investment option asset allocation as at 30 June 2021*

Asset class	Actual %	Strategic %	Variance %
Cash	16.3	15.0	1.3
Short-Term Fixed Interest	29.2	30.0	-0.8
Long-Term Fixed Interest	5.0	5.0	0.0
Inflation-Linked Securities Taxable	15.5	15.0	0.5
Diversified Strategies Income	16.6	17.0	-0.4
Property Taxable	4.5	6.0	-1.5
Australian Equities Taxable	6.1	5.0	1.1
International Equities Taxable	6.7	7.0	-0.3
Total	100.0	100.0	
Growth assets	24.8	25.0	-0.2
Compliance with 2020-21 Performance Plan		Complies	

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Conservative Taxable

Size	Inception	Indirect Cost Ratio (ICR)*	
		Actual	Target
\$914.8 million	31 March 2005	0.50	0.50

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Conservative	CPI + 2.0%	4+ years	Medium	2 to 3

Performance

Investment option performance against benchmark, returns net of fees for periods to 30 June 2021*

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	4.1	10.8	5.7	6.0	5.7	6.4
Benchmark return	4.1	9.2	5.8	6.0	5.9	6.6
Active return	0.0	1.6	-0.1	0.0	-0.2	-0.1

**Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

International Equities, Australian Equities and Diversified Strategies Income (DSI) were the strongest contributors to the performance of the investment option for the 12 months ended 30 June 2021. Equity and credit markets benefited from global vaccine rollouts, improving economic activity, rising investor sentiment, record low cash and term interest rates, and supportive fiscal policy.

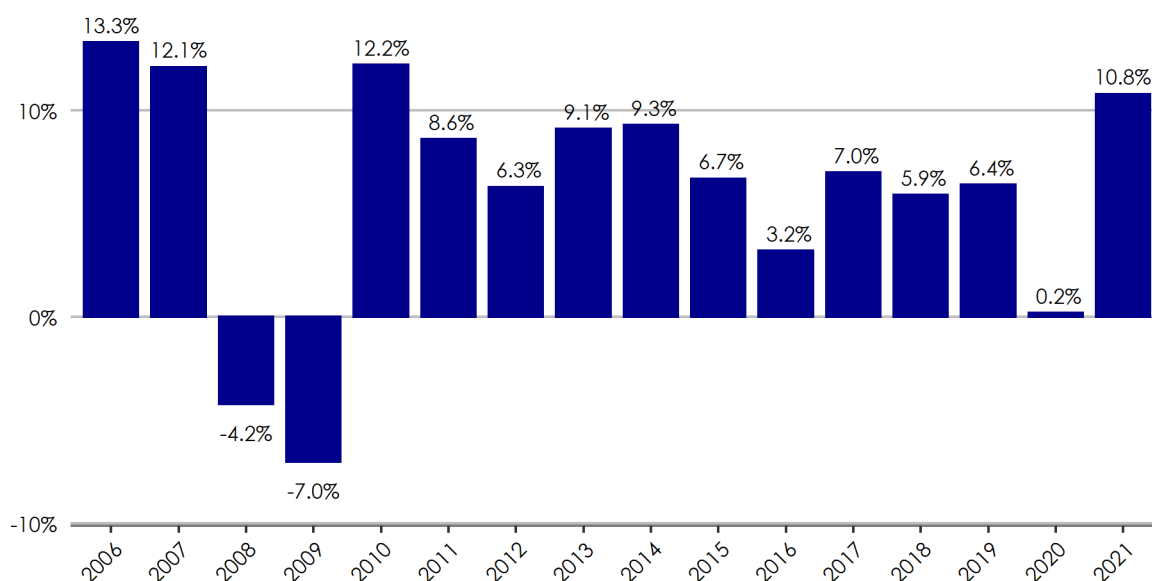
The defensive asset classes contributed positive, but minimal returns given low cash rates and low, upward trending bond yields, predominately at the long end of the yield curve. Having a larger allocation to Short-Term Fixed Interest provided positive return to offset the negative performance from Long-Term Fixed Interest.

Performance relative to benchmark was positive, predominately driven by International Equities, DSI and Short-Term Fixed Interest. International Equities had an exceptional year, benefitting from strong stock selection in the developed market strategies and manager configuration changes. For DSI, the credit orientated strategies added value through security and sector selection and the Absolute Return strategies added value through exposure to risk assets. Short-Term Fixed Interest benefited from security selection.

The DSI benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the 12-month period, as asset values have increased, and cash rates remain low.

Investment option annual financial year returns

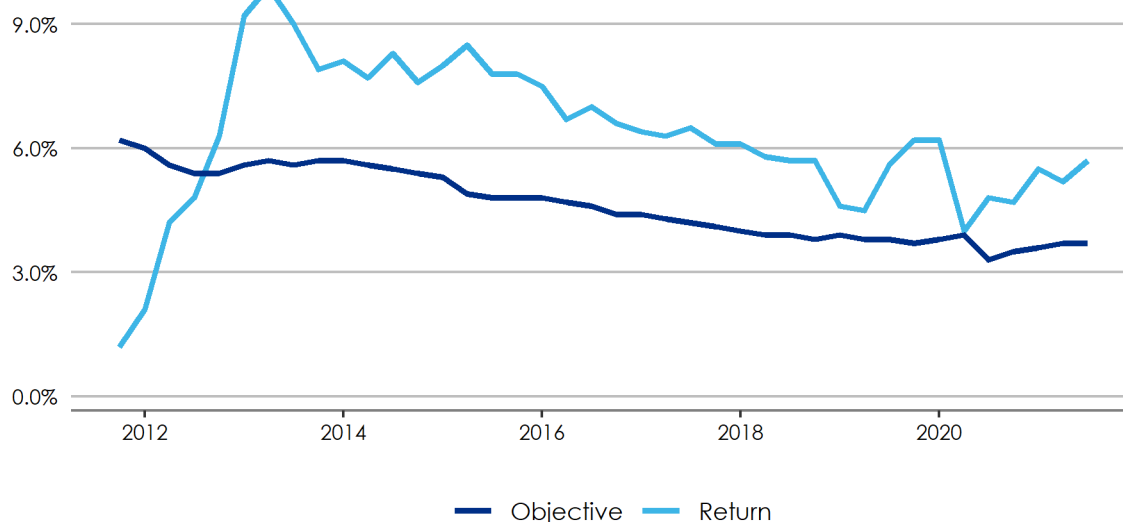
Returns net of fees to 30 June



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective¹⁹

4-year rolling returns, net of fees to 30 June 2021



¹⁹ Note the target return was CPI + 2.5% prior to 1 January 2016 and CPI + 3% prior to 1 July 2013.

Asset allocation

Conservative Taxable investment option asset allocation as at 30 June 2021*

Asset class	Actual %	Strategic %	Variance %
Cash	11.4	10.0	1.4
Short-Term Fixed Interest	16.6	18.0	-1.4
Long-Term Fixed Interest	4.9	5.0	-0.1
Inflation-Linked Securities Taxable	15.1	15.0	0.1
Diversified Strategies Income	17.8	18.0	-0.2
Property Taxable	7.8	9.0	-1.2
Australian Equities Taxable	12.0	11.0	1.0
International Equities Taxable	14.5	14.0	0.5
Total	100.0	100.0	
Growth assets	40.9	40.0	0.9
Compliance with 2020-21 Performance Plan	Complies		

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Moderate Taxable

Size	Inception	Indirect Cost Ratio (ICR)*	
		Actual	Target
\$1,101.5 million	30 June 2006	0.73	0.75

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Moderate	CPI + 3.0%	6+ years	Medium to High	3 to 4

Performance

Investment option performance against benchmark, returns net of fees for periods to 30 June 2021*

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	6.6	15.3	7.1	7.5	7.0	7.5
Benchmark return	5.8	12.4	7.1	7.3	7.0	7.4
Active return	0.8	2.9	0.0	0.2	0.0	0.1

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

International Equities, Australian Equities and Diversified Strategies Growth (DSG) were the strongest contributors to the performance of the investment option for the 12 months ended 30 June 2021. Equity and credit markets benefited from global vaccine rollouts, improving economic activity, rising investor sentiment, record low cash and term interest rates, and supportive fiscal policy. As economic conditions rebounded, private markets experienced improved valuations.

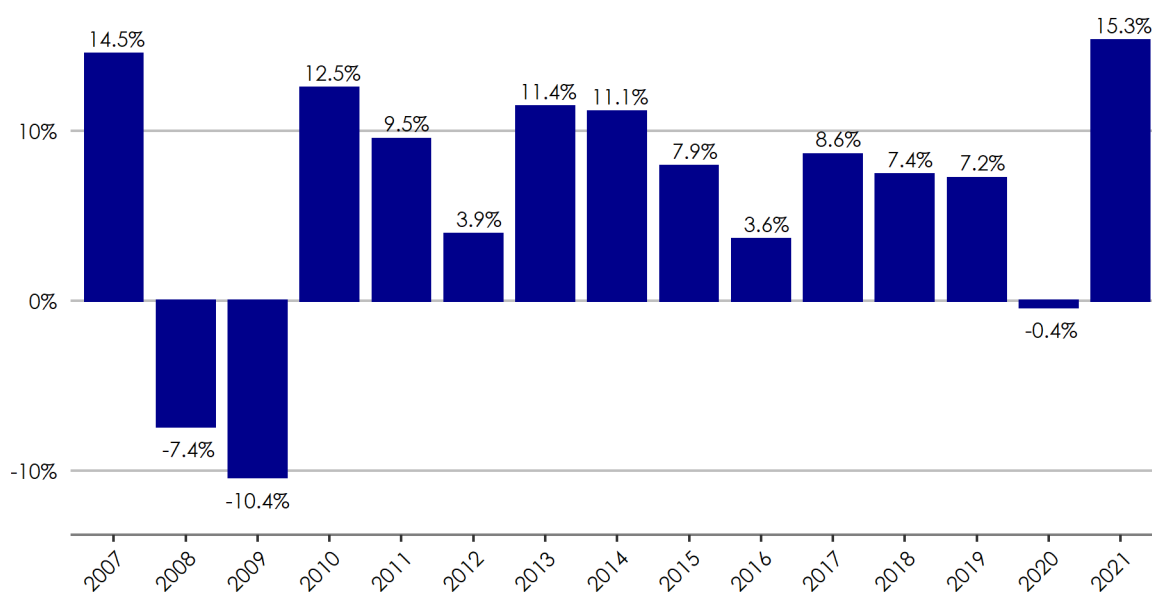
The defensive asset classes slightly detracted from performance, given low cash rates and low, upward trending bond yields, predominately at the long end of the yield curve. The larger allocation to Long-Term Fixed Interest compared Short-Term Fixed Interest was a small detractor.

Performance relative to benchmark was positive, predominately driven by DSG, International Equities, Diversified Strategies Income (DSI). Within DSG, the more growth exposed areas of the asset class (such as private equity) recovered the valuation write-downs that occurred at the onset of the COVID-19 pandemic. International Equities had an exceptional year, benefitting from strong stock selection in the developed market strategies and manager configuration changes. For DSI, the credit orientated strategies added value through security and sector selection and the Absolute Return strategies added value through exposure to risk assets.

The DSG and DSI benchmarks have a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the 12-month period, as asset values have increased, and cash rates remain low.

Investment option annual financial year returns

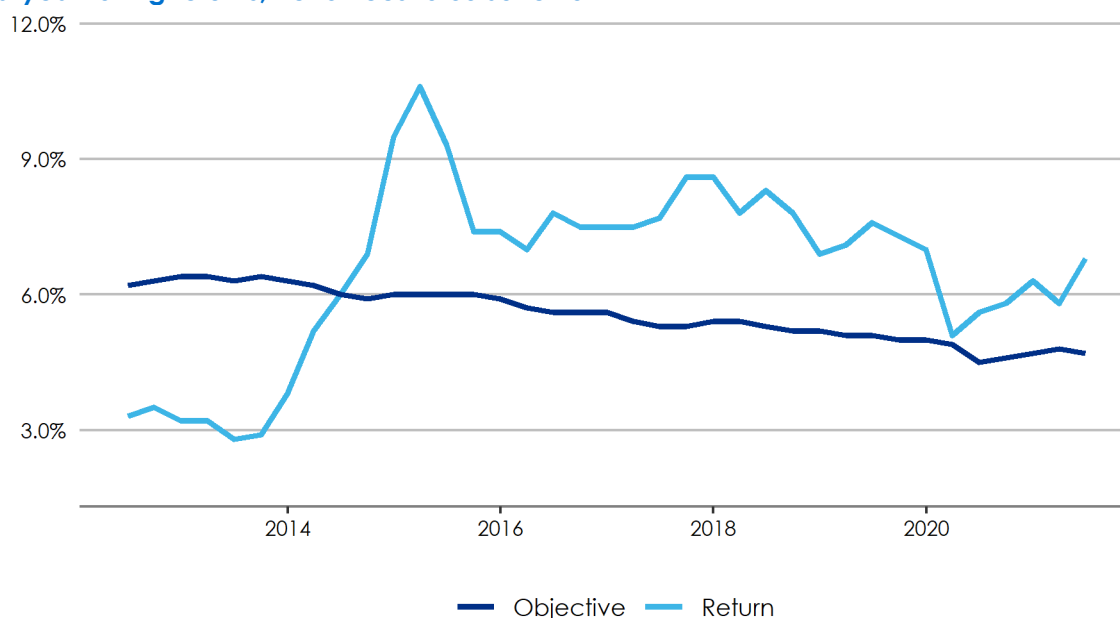
Returns net of fees to 30 June



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective²⁰

6-year rolling returns, net of fees to 30 June 2021



²⁰ Note the target return was CPI + 3.5% prior to 1 January 2016.

Asset allocation

Moderate Taxable investment option asset allocation as at 30 June 2021*

Asset class	Actual %	Strategic %	Variance %
Cash	9.2	8.0	1.2
Short-Term Fixed Interest	5.8	7.0	-1.2
Long-Term Fixed Interest	9.1	9.0	0.1
Inflation-Linked Securities Taxable	10.9	11.0	-0.1
Diversified Strategies Income	11.7	12.0	-0.3
Property Taxable	8.6	10.0	-1.4
Australian Equities Taxable	18.0	17.0	1.0
International Equities Taxable	20.8	21.0	-0.2
Diversified Strategies Growth Taxable	5.8	5.0	0.8
Total	100.0	100.0	
Growth assets	55.5	55.0	0.5
Compliance with 2020-21 Performance Plan		Complies	

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Balanced Taxable

Size	Inception	Indirect Cost Ratio (ICR)*	
		Actual	Target
\$3,492.9 million	31 March 2005	0.90	0.85

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Balanced	CPI + 3.5%	10+ years	High	4 to 6

Performance

Investment option performance against benchmark, returns net of fees for periods to 30 June 2021*

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	10.0	21.7	9.3	9.5	8.6	8.9
Benchmark return	8.6	17.6	9.0	9.0	8.3	8.7
Active return	1.4	4.0	0.3	0.5	0.2	0.2

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

International Equities, Australian Equities and Diversified Strategies Growth (DSG) were the strongest contributors to the performance of the investment option for the 12 months ended 30 June 2021. Equity and credit markets benefited from global vaccine rollouts, improving economic activity, rising investor sentiment, record low cash and term interest rates, and supportive fiscal policy. As economic conditions rebounded, private markets experienced improved valuations.

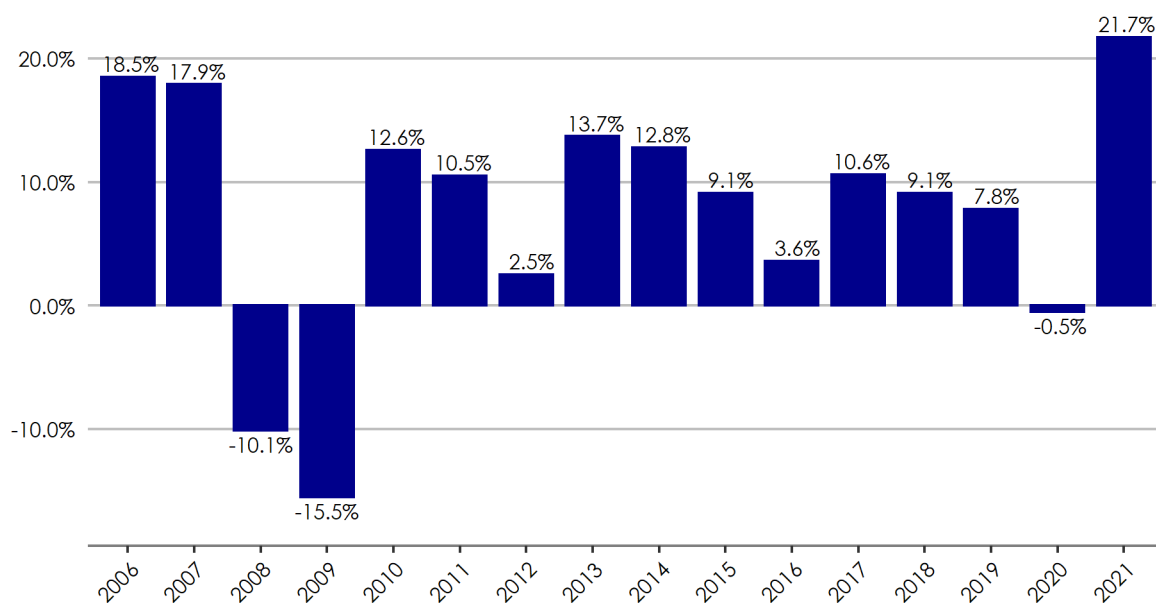
The defensive asset classes slightly detracted from performance, given low cash rates and low, upward trending bond yields, predominately at the long end of the yield curve. The larger allocation to Long-Term Fixed Interest compared Short-Term Fixed Interest was a small detractor.

Performance relative to benchmark was positive, predominately driven by DSG, International Equities, Diversified Strategies Income (DSI). Within DSG, the more growth exposed areas of the asset class (such as private equity) recovered the valuation write-downs that occurred at the onset of the COVID-19 pandemic. International Equities had an exceptional year, benefitting from strong stock selection in the developed market strategies and manager configuration changes. For DSI, the credit orientated strategies added value through security and sector selection and the Absolute Return strategies added value through exposure to risk assets.

The DSG and DSI benchmarks have a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the 12-month period, as asset values have increased, and cash rates remain low.

Investment option annual financial year returns

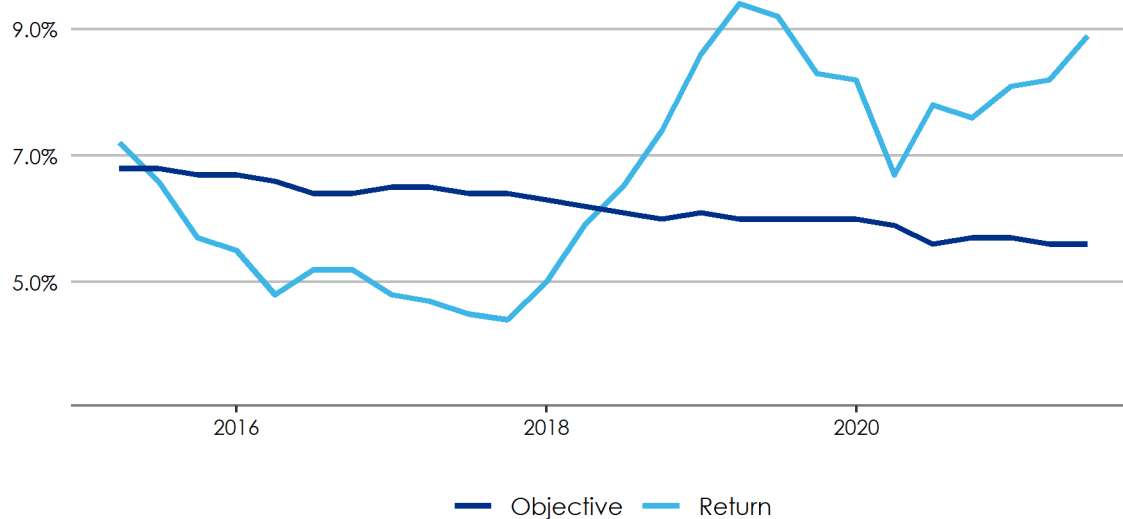
Returns net of fees to 30 June



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective²¹

10-year rolling returns, net of fees to 30 June 2021



²¹ Note the target return was CPI + 4% prior to 1 January 2016. The investment horizon was 7+ years prior to 1 July 2019.

Asset allocation

Balanced Taxable investment option asset allocation as at 30 June 2021*

Asset class	Actual %	Strategic %	Variance %
Cash	4.6	3.0	1.6
Short-Term Fixed Interest	0.9	2.0	-1.1
Long-Term Fixed Interest	5.9	6.0	-0.1
Inflation-Linked Securities Taxable	4.8	5.0	-0.2
Diversified Strategies Income	7.8	8.0	-0.2
Property Taxable	10.7	12.0	-1.3
Australian Equities Taxable	26.9	26.0	0.9
International Equities Taxable	29.8	30.0	-0.2
Diversified Strategies Growth Taxable	8.7	8.0	0.7
Total	100.0	100.0	
Growth assets	75.0	75.0	0.0
Compliance with 2020-21 Performance Plan		Complies	

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

High Growth Taxable

Size	Inception	Indirect Cost Ratio (ICR)*	
		Actual	Target
\$1,304.5 million	31 March 2005	1.06	1.05

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
High Growth	CPI + 4.5%	10+ years	High	4 to 6

Performance

Investment option performance against benchmark, returns net of fees for periods to 30 June 2021*

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	11.3	24.7	10.0	11.0	9.9	10.1
Benchmark return	9.7	19.5	9.3	10.3	9.3	9.7
Active return	1.6	5.2	0.7	0.7	0.5	0.4

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

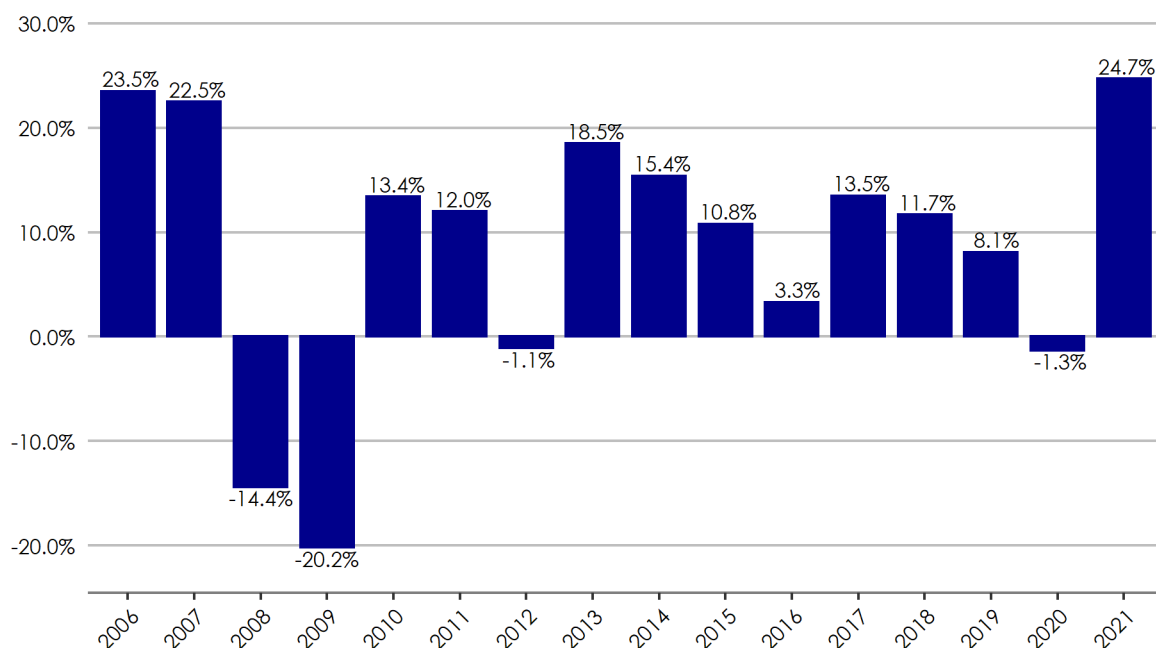
International Equities, Australian Equities and Diversified Strategies Growth (DSG) were the strongest contributors to the performance of the investment option for the 12 months ended 30 June 2021. Equity and credit markets benefited from global vaccine rollouts, improving economic activity, rising investor sentiment, record low cash and term interest rates, and supportive fiscal policy. As economic conditions rebounded, private markets experienced improved valuations.

Performance relative to benchmark was positive, predominately driven by DSG, International Equities, and Australian Equities. Within DSG, the more growth exposed areas of the asset class (such as private equity) recovered the valuation write-downs that occurred at the onset of the COVID-19 pandemic. International Equities had an exceptional year, benefitting from strong stock selection in the developed market strategies and manager configuration changes. Australian Equities benefited from strong stock selection across various sectors and specific underweights to Utilities and Healthcare.

The DSG benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the 12-month period, as asset values have increased, and cash rates remain low.

Investment option annual financial year returns

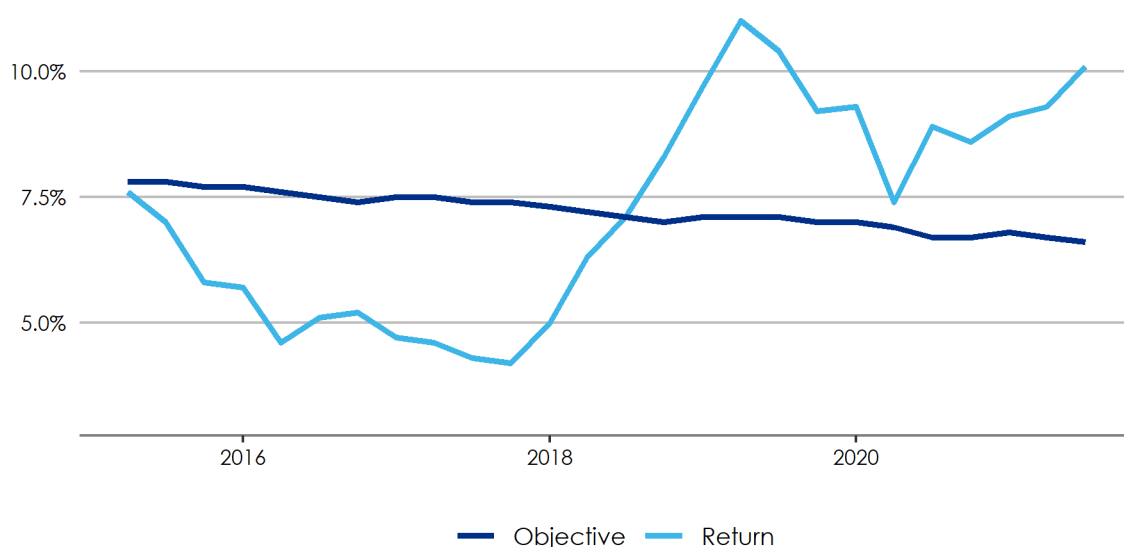
Returns net of fees to 30 June



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective²²

10-year rolling returns, net of fees to 30 June 2021



²² Note the target return for the High Growth Taxable investment option was CPI + 5% until December 2015. From January 2016 the target return was CPI + 4.5%.

Asset allocation

High Growth Taxable investment option asset allocation as at 30 June 2021*

Asset class	Actual %	Strategic %	Variance %
Cash	3.7	2.0	1.7
Diversified Strategies Income	11.4	12.0	-0.6
Property Taxable	14.4	16.0	-1.6
Australian Equities Taxable	27.5	27.0	0.5
International Equities Taxable	32.4	33.0	-0.6
Diversified Strategies Growth Taxable	10.7	10.0	0.7
Total	100.0	100.0	
Growth assets	84.0	85.0	-1.0
Compliance with 2020-21 Performance Plan		Complies	

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Socially Responsible Taxable

Size	Inception	Indirect Cost Ratio (ICR)*	
		Actual	Target
\$97.3 million	2 March 2009	0.75	1.00

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Socially Responsible	Similar to a growth fund	10+ years	High	4 to less than 6

Performance

Investment option performance against benchmark, returns net of fees for periods to 30 June 2021*

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	9.8	21.6	8.9	9.0	7.9	8.6
Benchmark return	9.4	19.6	9.6	9.7	8.8	9.3
Active return	0.4	2.0	-0.7	-0.7	-0.9	-0.7

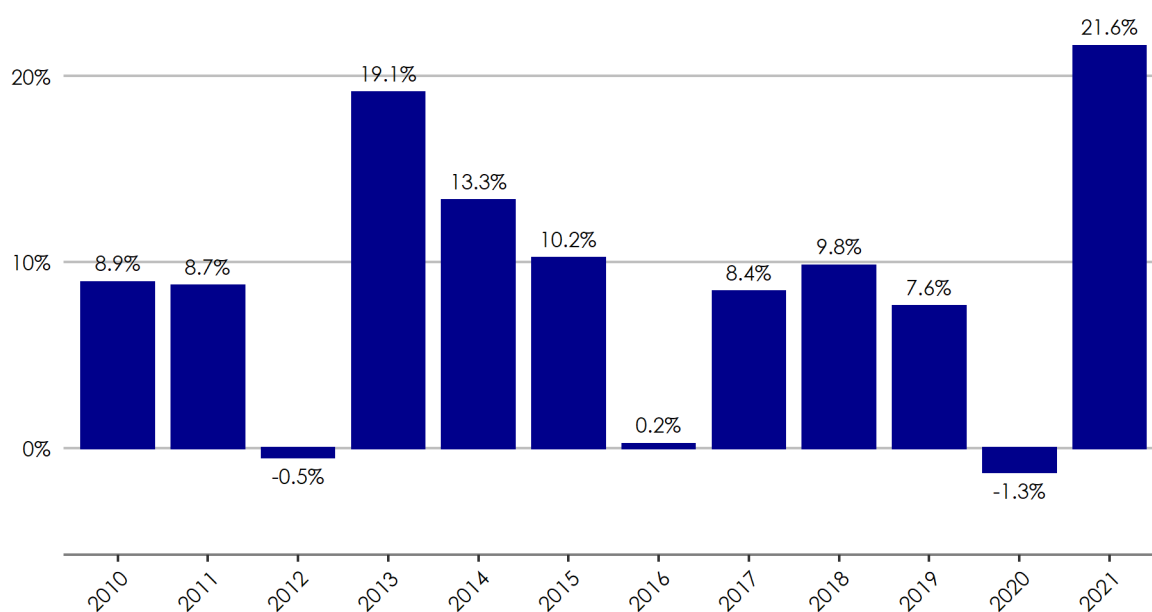
*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

During 2020-21 the Socially Responsible investment option underwent a manager restructure. AMP Capital was removed as the underlying manager and Funds SA commenced managing this investment option in the same way as other options.

The Socially Responsible investment option outperformed its benchmark by 2%. Outperformance was driven by Australian equities and growth alternative assets. However, this was slightly offset by underperformance in the property sector over the period.

Investment option annual financial year returns

Returns net of fees to 30 June



The volatility of annual returns is in line with expected parameters of the investment objective.

Asset allocation

Socially Responsible Taxable investment option asset allocation as at 30 June 2021*

Asset class	Actual %	Strategic %	Variance %
Cash	5.3	3.0	2.3
Long-Term Fixed Interest	19.4	20.0	-0.6
Property Taxable	10.0	12.0	-2.0
Australian Equities Taxable	29.5	28.0	1.5
International Equities Taxable	33.4	32.0	1.4
Diversified Strategies Growth Taxable	2.4	5.0	-2.6
Total	100.0	100.0	
Growth assets	68.6	70.0	-1.4
Compliance with 2020-21 Performance Plan		Complies	

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Appendix 3

Asset class benchmarks



The following table details the asset class benchmarks as at 30 June 2021.

Funds SA asset class	Allocation	
	%	Index
Cash	100	Bloomberg AusBond Bank Bill Index
Short-Term Fixed Interest	100	Bloomberg AusBond Composite Index 0-5 years
Long-Term Fixed Interest	50	Bloomberg AusBond Treasury Index 7+ years
	50	FTSE World Government Bond Index hedged into AUD
Inflation-Linked Securities Tax-Exempt		<u>Tradeable Securities</u>
	70	Bloomberg AusBond Government Inflation Index 0-10 years
	30	<u>Structured Securities</u> Bloomberg AusBond Inflation Index
Inflation-Linked Securities Taxable	100	Bloomberg AusBond Government Inflation Index 0-10 years
Diversified Strategies Income		<u>Diversified debt</u>
		High Yield
	40	Merrill Lynch Global High Yield Index expressed in AUD (hedged)
		Leveraged Loans
	40	Credit Suisse Leveraged Loan Index expressed in AUD (hedged)
		Emerging Market Debt:
	20	JP Morgan EMBI Global Index expressed in AUD (hedged)
		<u>Absolute return</u>
	60	Bloomberg AusBond Bank Bill Index + 3% p.a.
	40	Bloomberg AusBond Bank Bill Index + 2% p.a.
Property Tax-Exempt and Taxable	100	Mercer / IPD Australia Unlisted Wholesale Property Fund Index
Australian Equities and Australian Equities Passive Tax-Exempt and Taxable	100	S&P/ASX 300 Accumulation Index
International Equities and International Equities Passive Tax-Exempt	100	Morgan Stanley Capital International (MSCI) All Countries World Index Ex-Australia net dividends reinvested in AUD and unhedged
	30	<i>Currency Hedge:</i> (MSCI World ex-Australia Index Hedged minus MSCI World ex-Australia Unhedged), net dividends reinvested and in AUD (Developed Markets weight of the portfolio benchmark)
International Equities and International Equities Passive Taxable	100	Morgan Stanley Capital International (MSCI) All Countries World Index Ex-Australia net dividends reinvested in AUD and unhedged.
	22	<i>Currency Hedge:</i> (MSCI World ex-Australia Index Hedged minus MSCI World ex-Australia Unhedged), net dividends reinvested and in AUD (Developed Markets weight of the portfolio benchmark)
Diversified Strategies Growth Tax-Exempt and Taxable	100	Bloomberg AusBond Bank Bill Index plus 4% p.a.

Disclaimers



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Half-Yearly Performance Report

Funds SA investment option

Lifetime Support Authority Strategy

For the twelve months ending 30 June 2021



EXECUTIVE SUMMARY

This report provides an overview of the performance for the Lifetime Support Authority Strategy (LSA Strategy) for the 12-month period ending 30 June 2021.

2021 has been the year of recovery.

- All investment option's annual returns have fully recovered from the severe market falls inflicted by the COVID-19 pandemic in early 2020.
- The investment options with higher allocations to growth assets, such as the LSA Strategy, achieved returns greater than 20% for the 12 months, the best one-year financial year return since inception.
- The strength in equity markets was driven by improving economic activity and corporate earnings, improving employment, rising commodity prices, accommodative monetary and fiscal policy, and vaccine rollouts lifting investor confidence.
- Central banks provided clear intent to leave cash rates at historical lows (near zero) for the foreseeable future and control medium-term bond yields at very low levels to assist the economic recovery. But they have also flagged they are beginning to think about the discussions of tapering.
- Whilst COVID-19 continues to be a dominating theme, oscillating between emerging new strains and vaccine rollouts, the focus of financial markets has begun to shift to consider reflation, and how governments globally may wind back stimulus programs and normalise interest rates.

The LSA Strategy delivered positive performance.

- The LSA Strategy delivered returns above its investment objectives for the 12-month period ended 30 June 2021.
- International and Australian Equities provided the strongest positive contribution to performance, returning 29-37%. Performance from Cash was positive but very low given current cash rates.
- Long-term performance continues to be positive and this year, above expectations.

Asset allocations were within the asset class ranges.

- As at 30 June 2021, the LSA Strategy's asset allocations was within the asset class ranges specified within the Performance Plan.

Funds under management¹

- Funds SA's total funds under management rose from \$34,084 million (m) as at 1 July 2020 to \$41,223m as at 30 June 2021. This was the result of net investor inflow of \$7.7m and investment gains of \$7,131m.

Investment Management Costs

- The Indirect Cost Ratio (ICR), including performance fees and transactional and operational costs, tracked below the target ICR for the financial year. Additional detail relating to investment management costs can be found in Section 5.

¹ All funds under management (FUM) values provided are based on Redemption value (RED).

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1. Financial market environment

COVID-19 vaccine rollouts and continued government and central bank stimulus drove very strong returns.

Overall financial market performance delivered strong returns as optimism around the global vaccine rollout, recovery from COVID-19 and the alternative of locking in near zero cash returns increased the risk appetite of investors. The financial market recovery has been exceptional and fast.

Globally, accommodative monetary policy has provided the foundation for the economic and financial market recovery. Central banks have provided clear intent to leave cash rates at historical lows (near zero) for the foreseeable future and control medium-term bond yields at very low levels.

In the US, with all the electoral contention behind them, the Biden administration approved stimulus packages pushed US equity markets to all-time highs and gave credit markets a boost. It was a similar theme across the world, with Governments continuing to provide fiscal stimulus to support consumers and recovering economies.

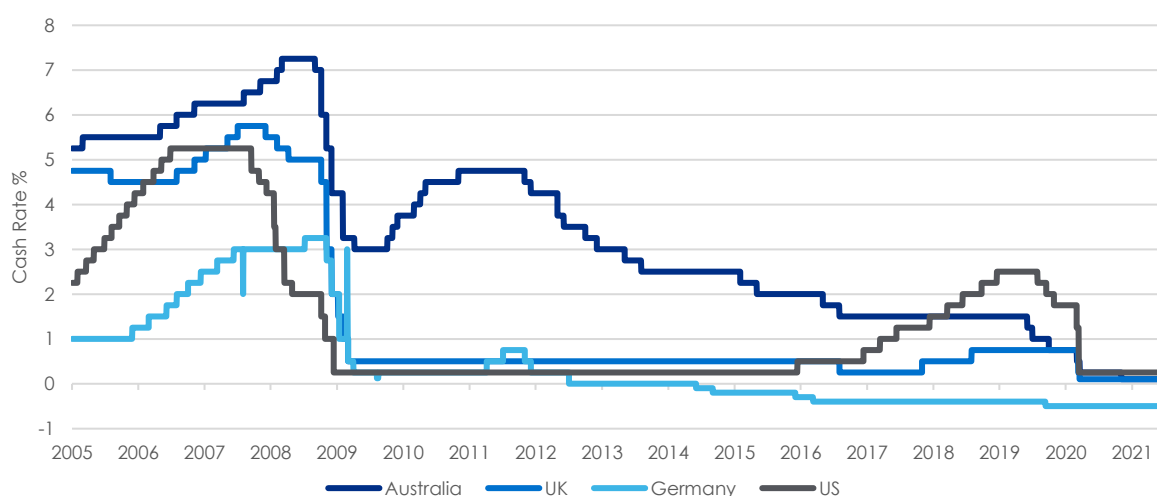
Progressively, economic data continued to improve with manufacturing activity and corporate earnings increasing, falling levels of unemployment, rising commodity prices, pockets of wage growth and vaccine rollouts lifting investor and business confidence.

With monetary and fiscal policies supporting economies, financial markets have largely looked through negative COVID-19 news, such as the emergence of mutant strains, sporadic lockdowns, disruptions to supply chains and economic recovery. The global vaccine rollout has been a beacon of hope and a path for countries and economies to open and return to a form of normal activity, lessening the need to enter into restrictive and protracted lockdowns.

With an improving economic backdrop, bond yields began to creep higher as investor began to question how committed central banks were to maintaining low rates for an extended period of time. Central Banks, particularly the US Federal Reserve, expressed confidence that higher inflation would be transitory, reinforcing their expectation to hold rates low until 2023 and signalled the beginning of discussions on tapering bond purchases.

The Reserve Bank of Australia (RBA) cut the official cash rate to 0.10% in November 2020. More recently, the RBA decided to taper the quantitative easing program slightly but reiterated the RBA does not expect to increase interest rates until at least 2024.

Chart 1: Demonstrates the sharp cuts to the cash rates.



Source: Funds SA, Bloomberg

While the larger and more developed countries have experienced economic and health recoveries, many of the emerging market countries have not been so fortunate. Vaccine supply has been low and restrictive measures remain, hampering recovery. But financial markets have looked through the slow recovery and emerging market equities have delivered returns as strong as those in developed markets.

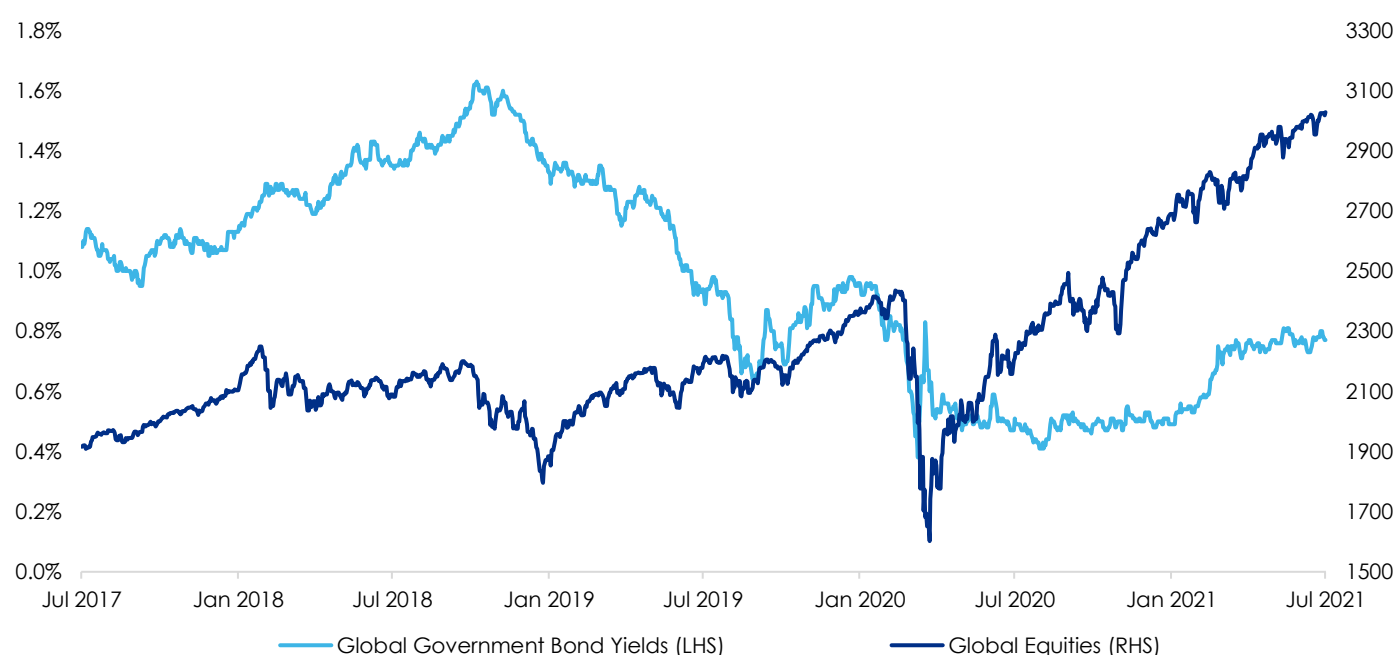
All of the aforementioned factors have helped push equity markets to new highs, generated positive returns in credit markets, improved valuations in private markets, and bonds yields crept up during the year.

Although COVID-19 continues to be a dominating theme, oscillating between emerging new strains and vaccine rollouts, the focus of financial markets has begun to shift to consider reflation, and how governments globally may wind back stimulus programs and normalise interest rates. All remain risks for the year ahead.

All investment options delivered positive returns for the period, but growth-orientated investment options benefited the most from strong equity, credit, and unlisted markets. The defensive-oriented investment options were positive but crimped by significant weightings to the Cash and Fixed Interest asset classes. As cash rates move to near zero and bond yields are anchored to low levels for the foreseeable future by central bank actions, return expectations for these asset classes remain muted.

The chart below depicts the themes discussed, global equity markets marking a V-shaped recovery from the lows in March and continued to move higher through to the end of the financial year, and long-term sovereign bond yields trended higher.

Chart 2: Performance of developed market global equities and government bond yields to 30 June 2021



*Source: Bloomberg

In summary, the main factors driving 12-month returns:

- Australian equities produced strong returns, but still underperformed relative to most global equity markets in local currency and AUD terms. The AUD appreciated strongly against developed market currencies
- The US equity market performed strongly, reflecting the rotation to more economically sensitive stocks that benefit from the improving economic environment. The Funds SA International Equities asset class materially outperformed its benchmark for the year, driven by strong stock selection by investment managers and aided by manager configuration changes.
- Australian listed property delivered strong returns, with premium office assets and the industrial sector leading the rebound.
- Cash provided very low positive returns as cash rates were maintained at very low levels.
- Longer duration fixed interest produced negative returns as bond yields trended higher through the year as economic circumstances improved.
- Inflation-Linked Securities performed well as expectations of future inflation increased.
- Non-government debt markets were strong. Those sectors perceived to be the highest risk, such as high-yield and emerging market debt, performed the strongest. This was due to a rebound in economic growth and a reduction in credit spreads.
- Other unlisted markets, such as infrastructure and private equity, had valuation upgrades from the conservative levels set in June 2020.

The following table shows the returns generated in different asset markets over periods to 30 June 2021.

Table 1: Major market index returns, periods to 30 June 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	0.1	0.1	1.0	1.3	1.6	2.2
Australian Government	1.0	1.9	-1.9	-1.9	4.3	3.0	4.1	4.8
Australian Inflation-Linked	0.8	3.3	4.6	4.6	5.3	4.1	4.5	5.8
Global Treasuries	0.4	0.6	-1.4	-1.4	3.6	2.4	4.1	5.2
Global Inflation-Linked	0.3	2.8	3.0	3.0	5.3	4.5	5.4	5.9
Credit								
Global Credit	1.0	2.1	2.7	2.7	5.7	4.2	4.8	6.1
Global High-Yield	0.8	2.9	12.8	12.8	5.5	6.1	5.5	7.7
Emerging Market Debt	0.9	3.9	6.8	6.8	6.5	4.4	4.4	5.3
Property								
Australian Listed Property	5.6	10.7	33.9	33.9	8.2	6.2	10.6	12.0
Equities								
Australian Equities	2.3	8.5	28.5	28.5	9.8	11.3	8.9	9.2
Global Equities	2.3	7.6	36.9	36.9	14.7	14.7	11.2	11.7
US Equities	2.3	8.5	40.8	40.8	18.7	17.6	14.1	14.8
European Equities	1.6	6.5	26.6	26.6	7.6	9.3	6.7	7.5
Japanese Equities	1.0	-0.3	28.0	28.0	6.9	11.9	8.7	10.9
Asia (ex Japan) Equities	0.7	3.3	36.4	36.4	11.8	14.1	9.5	8.0
Emerging Market Equities	0.9	3.9	36.5	36.5	12.4	14.0	9.6	8.0
Global Small Companies	0.5	5.7	52.6	52.6	12.3	14.4	9.8	10.6
Currency								
Australian Dollar vs Developed Market Basket	-2.3	-1.8	7.3	7.3	0.1	0.0	-2.4	-2.7
Commodities								
GSCI Energy	9.6	22.1	72.6	72.6	-10.5	-0.7	-14.5	-9.7
GSCI Precious Metals	-7.0	3.5	-0.5	-0.5	11.1	4.8	3.0	0.1

*Source: Bloomberg, Mercer

Note:

Returns for Global Treasuries, Global Credit and Global High-Yield are hedged to AUD.

Returns for Emerging Market Debt are hedged to USD.

Returns for Property and Equities are expressed in local currency.

Returns for Commodities are in USD.

2. LSA Strategy investment performance

All Funds SA investment options delivered exceptionally strong positive returns having fully recovered from the severe market falls inflicted by the COVID-19 pandemic. The recovery has been very strong, predominately driven by equity markets, private markets, and credit markets.

Returns ranged from mid-digits for the more defensive investment options to returns in the mid-20s for growth-orientated investment options. The speed and magnitude of this result is remarkable considering the significant market falls and volatility at the beginning of 2020.

Performance relative to investment objective

The investment objective for each investment option is defined in the 2020-21 Performance Plan. The primary performance measure for each investment option is the investment objective which includes:

- a target return expressed as a margin over inflation;
- a time horizon over which there is a reasonable likelihood of achieving the target return; and
- a risk dimension expressed as the possible frequency of a negative annual return in any 20-year period.

The LSA Strategy outperformed the investment objective. International Equities led the performance recovery, with Australian Equities, Property, Diversified Strategies Growth, and Diversified Strategies Income also producing very strong returns. Equity and credit markets benefited from global vaccine rollouts, improving economic activity, rising investor sentiment, record low cash and term interest rates, and supportive fiscal policy. As economic conditions rebounded, private markets experienced improved valuations. The contribution from the Cash asset class was minimal as cash rates moved toward zero. Return expectations for cash and fixed interest remain muted, and we would not expect the spectacular returns from the other asset classes to be repeated next year.

Table 2: LSA Strategy returns, periods to 30 June 2021, returns net of fees

Description	6 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception % p.a.
LSA nominal return	11.0	23.7	9.8	9.8	8.5
Investment objective	3.1	6.2	6.2	6.2	6.2
Active return	7.9	17.4	3.5	3.6	2.2

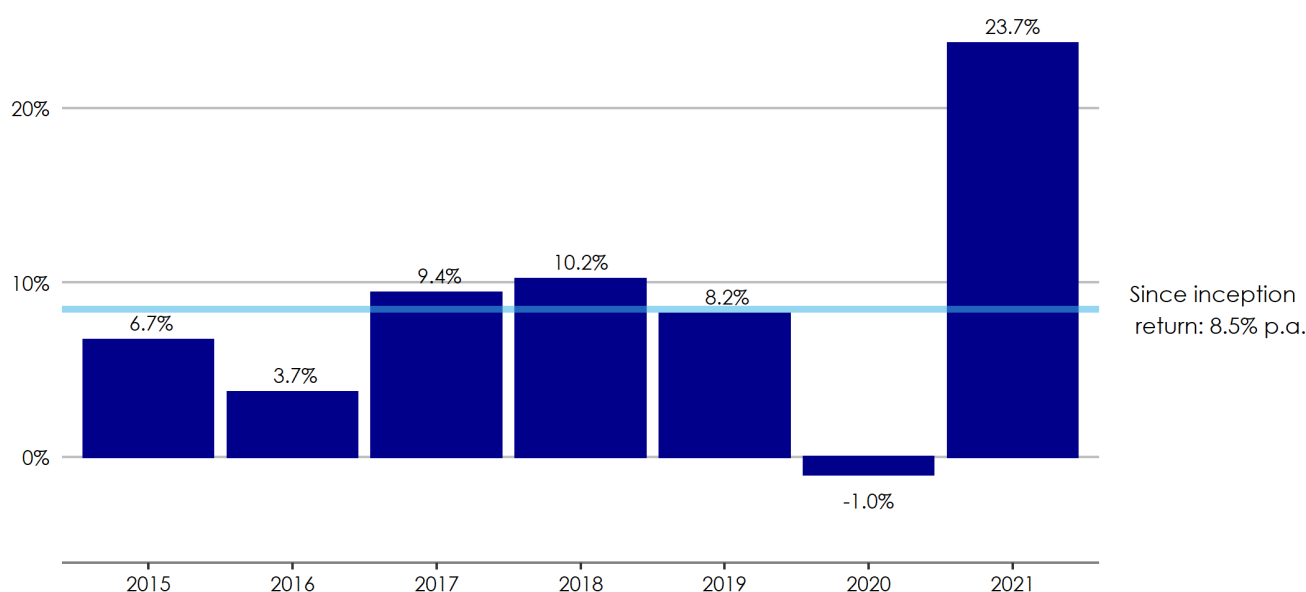
Note: The performance in the table above reflects the movement in the LSA Strategy from investing in the Funds SA Conservative Tax-Exempt investment option to the Moderate Tax-Exempt investment option to a customised strategy from 1 July 2017.

The risk characteristics of the LSA Strategy are in line with expectations

To articulate the risk profile, the investment objective includes an expectation of the frequency of negative returns in any 20-year period. The LSA Strategy investment objective states that a negative annual return might occur between four and six years in 20. Chart 3 illustrates the investment option performance has been within expectations, recording one negative annual return since inception.

The volatility of returns is also illustrated in Chart 3. Shorter-term returns can be volatile, with financial year returns ranging as high as 23.7% to a low of -1.0%. The annualised return since inception is 8.5% p.a. ahead of the target return over the longer term.

Chart 3: LSA Strategy annual financial returns as at 30 June 2021, net of fees



Performance relative to the tailored benchmark was positive over the 12 months.

Benchmarks are constructed for the long-term, consistent with the investment objective of the investment option, and may not be an appropriate measure of short-term performance, especially during periods of extreme volatility. This is particularly relevant for benchmarks that have a cash plus approach.

Whilst the investment objectives are the primary return measure, performance relative to the benchmark aids in our ongoing analysis of:

- asset class strategy;
- manager performance; and
- manager composition.

The LSA Strategy outperformed its benchmark, predominately driven by Diversified Strategies Growth (DSG), International Equities, and Australian Equities. Within DSG, the more growth exposed areas of the asset class (such as private equity) recovered the valuation write-downs that occurred at the onset of the COVID-19 pandemic. International Equities had an exceptional year, benefitting from strong stock selection in the developed market strategies and manager configuration changes. Australian Equities benefited from strong stock selection across various sectors and specific underweights to Utilities and Healthcare.

The DSG benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the 12-month period, as asset values have increased, and cash rates remain low.

Table 3: LSA Strategy returns vs. benchmark, periods to 30 June 2021, returns net of fees

Description	6 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception % p.a.
Portfolio return	11.0	23.7	9.8	9.8	8.5
Benchmark return	8.5	17.3	8.7	8.8	7.9
Active return	2.5	6.4	1.1	1.0	0.6

Note: due to rounding, the active returns shown may not exactly equal the difference between the fund and the benchmark returns.

3. Asset allocation

The LSA Strategy invests in common asset classes according to the Long-Term Strategic Asset Allocation as outlined in the 2020-21 Performance Plan.

Asset allocations were within the asset class ranges as at 30 June 2021.

Table 4: LSA Strategy asset allocation as at 30 June 2021

Asset class	Actual %	Strategic %	Variance %
Cash	2.1	2.0	0.1
Diversified Strategies Income	13.3	14.0	-0.7
Property Tax-Exempt	16.6	18.0	-1.4
Australian Equities Tax-Exempt	21.0	20.0	1.0
International Equities Tax-Exempt	31.3	30.0	1.3
Diversified Strategies Growth Tax-Exempt	15.6	16.0	-0.4
Total	100.0	100.0	
Growth assets	82.8	80.0	2.8
Compliance with 2020-21 Performance Plan		Complies	

4. Asset classes

Funds SA has established a range of asset classes which are the building blocks for the LSA Strategy.

Asset class performance

International and Australian Equities performed strongest over the 12 months to 30 June 2021.

Every asset class was a positive contributor to the LSA Strategy's performance.

International Equities led the performance recovery, closely followed by Australian Equities, Diversified Strategies Growth, and Property.

Growth assets benefited from global vaccine rollouts, improving economic activity, rising investor sentiment, record low cash and term interest rates, and supportive fiscal policy. A number of international equity markets, in particular the US market, reached new historic highs.

Asset class performance relative to benchmark was positive over the 12-month period.

Funds SA measures the performance of each asset class against a benchmark. The benchmarks are the relevant market index or blend of indices. Where no reasonable market index is available, the index is expressed as a margin over cash. The benchmark for each asset class is included in Appendix 1.

All asset classes outperformed their relevant benchmarks over the 12-month period. International Equities and DSG were exceptionally strong.

The benchmarks for DSG and DSI asset classes have a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the recent 12-month period, as assets have increased in value and cash rates remain low.

Cash

The asset class returned 0.1% performing in line with its benchmark.

Diversified Strategies Income

The asset class returned 8.3%, outperforming its 5.3% benchmark return. Both the diversified debt component and absolute return strategies outperformed their respective benchmarks. The absolute return strategies outperformed due to their "risk on" positioning.

Property Tax-Exempt

The Property Tax-Exempt asset class outperformed its benchmarks by 2.5%. Performance was driven by a rebound in listed Real Estate Investment Trusts (A'REIT's). Offshore demand for premium office assets continues driving yields towards record lows which is offsetting weakness in leasing demand. The industrial sector has been a clear beneficiary of the COVID-19 pandemic with growing demand for logistics facilities to cater for online shopping. Conversely the retail sector has been the most severely impacted by the pandemic but is showing signs of stabilisation both in rentals and yields.

Australian Equities Tax-Exempt

The Australian Equities Tax-Exempt asset class outperformed the benchmark by 0.9%. At the sector level, underweight allocations to the weak performing Utilities and Healthcare sectors helped relative performance, as did strong stock selection within a range of sectors such as Materials, Industrial, Staples and Discretionary. This was partly offset by overweight allocation to the relatively weak Industrials sector, Cash, and an underweight allocation to the strong performing Financials sector. Relative performance was also partly hurt by weak stock selection in the Financials and Information Technology sectors.

International Equities Tax-Exempt

The International Equities Tax-Exempt asset class delivered exceptionally strong performance, outperforming the benchmark by 7.2% net of fee returns. In general, the outperformance was driven by stock selection in the developed market strategies benefiting from a change in regime where more economically sensitive stocks outperformed the broader market. In addition, the relative outperformance was aided by manager configuration changes. At the sector level, the value add from an underweight allocation to Utilities and Real Estate was partially offset by the value detracted from an overweight to Health Care.

Diversified Strategies Growth Tax-Exempt

The Diversified Strategies Growth Tax-Exempt asset class outperformed the benchmark by 19.7%. The more growth exposed areas of the asset class (such as private equity) contributed the most to this result, as these assets recovered the valuation write-downs that occurred at the onset of the COVID-19 pandemic.

Table 5: Funds SA Tax-Exempt asset class returns, periods to 30 June 2021, portfolio returns are net of fees and gross of tax, benchmark returns are net of fees

		6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Cash	Portfolio return	0.0	0.1	1.0	1.4	1.7	2.3
	Benchmark return	0.0	0.1	1.0	1.3	1.6	2.2
	Excess return	0.0	0.1	0.1	0.1	0.1	0.1
Diversified Strategies Income	Portfolio return	0.9	8.3	2.5	3.0	3.3	5.0
	Benchmark return	1.4	5.3	4.9	4.4	4.7	6.0
	Excess return	-0.5	3.0	-2.4	-1.4	-1.4	-0.9
Property Tax-Exempt	Portfolio return	5.1	10.8	5.0	7.5	9.1	9.3
	Benchmark return	5.4	8.3	4.2	6.8	8.5	8.9
	Excess return	-0.3	2.5	0.8	0.7	0.5	0.4
Australian Equities Tax-Exempt	Portfolio return	13.2	29.4	10.1	11.7	9.2	9.2
	Benchmark return	13.0	28.5	9.8	11.3	8.9	9.2
	Excess return	0.2	0.9	0.3	0.4	0.3	-0.0
International Equities Tax-Exempt	Portfolio return	16.7	37.1	16.2	16.7	14.0	14.6
	Benchmark return	14.9	29.8	13.7	15.1	12.8	13.4
	Excess return	1.8	7.3	2.5	1.6	1.2	1.3
Diversified Strategies Growth Tax-Exempt	Portfolio return	15.1	23.8	10.0	11.5	11.7	11.6
	Benchmark return	2.0	4.1	5.0	5.3	5.7	6.3
	Excess return	13.1	19.7	5.0	6.2	6.0	5.4

Table 6: Funds SA Tax-Exempt asset class structure, as at 30 June 2021*

Asset class	Sub-asset class allocation		Investment managers
Cash	100%		Macquarie Investment Management
Diversified Strategies Income ²	50%	Diversified Debt	Ares Management GMO & Co Macquarie Investment Management Oak Hill Advisors Putnam Investments Wellington Management Company
	50%	Absolute Return	Bridgewater Associates Brandywine Global GMO & Co LGT Capital Partners
Property Tax-Exempt	85%	Core Property	AMP Capital Dexus Wholesale Property GPT Funds Management Investa Funds Management ISPT Lend Lease
	15%	Non-Core Property	CorVal Partners Vanguard Vicinity Centres
Australian Equities Tax-Exempt	100%	Broad Market	Ethical Partners Funds Management First Sentier Investors Greencape Capital Northcape Capital Touchstone Asset Management Vinva Investment Management
International Equities Tax-Exempt	84%	Global Broad Market	Harding Loevner Harris Associates IFP LSV Asset Management Massachusetts Financial Services T Rowe Price
	3%	Small Companies	Lord Abbett Growth
	13%	Emerging Markets	LSV Asset Management Paradice Investment Management TT International Wellington Management Company
Diversified Strategies Growth Tax-Exempt ³	50%	Private Markets	36 Investment Managers
	50%	Core Infrastructure	2 Investment Managers

*The asset class allocations and investment managers listed in the table above are subject to change.

² International assets hedged to AUD.

³ International assets hedged to AUD.

5. Investment management costs

The Performance Plan includes the target costs for the investment option. Funds SA's investment management costs are presented as a percentage of average funds managed and referred to as an Indirect Cost Ratio (ICR).

The primary objective is to achieve the investment option's investment objectives over the long-term, net of all fees and costs. Managing costs is an important element of this objective, however, it does not drive the investment strategy and should not be looked at in isolation.

Regular benchmarking of expenditures against peer organisations is undertaken to ensure Funds SA's ongoing cost competitiveness.

Target ICRs for the 2020-21 financial year

Funds SA's fees for the 2020-21 financial year are shown in the tables below, along with comparisons to the original targets.

The ICR achieved for the LSA Strategy were below the target ICR for the 12 months to 30 June 2021, shown in the 'Difference' column.

Funds SA applies the standard industry guidelines in calculating and disclosing its investment management expenses, namely:

- ASIC Regulatory Guide 97: Disclosing fees and costs in PDSs and other periods statements (RG97); and
- Corporations Regulations 2001 – Schedule 10 – Disclosures of Fees and Other Costs.

Funds SA has elected to disclose its ICRs in accordance with the new RG97 disclosure requirements, which is also consistent with industry peers. This is to calculate the performance fee component of an ICR based on the 5-year average of performance fees incurred. The previous requirement was to base performance fees on the prior year expense only.

Table 7: LSA Strategy, actual and target ICR for the 2020-21 financial year*

Investment option	Base fees %	Performance fees %	T & O costs %	Actual %	Target %	Difference %
LSA Strategy	0.83	0.33	0.07	1.23	1.30	-0.07

*Note due to rounding, the sum of the individual numbers may not equal the total figures quoted.

Note: Transactional and operating costs. Includes costs such as: brokerage; stamp duty; transaction settlement costs; clearing costs; and spreads. Such costs are incurred in the normal course of investing, are deducted from the assets of the relevant asset class and investment option to which they relate and are reflected in the unit price.

Appendix 1

Asset class benchmarks



The following table details the asset class benchmarks as at 30 June 2021.

Funds SA asset class	Allocation	
	%	Index
Cash	100	Bloomberg AusBond Bank Bill Index
Diversified Strategies Income		<u>Diversified debt</u>
		High Yield
	40	Merrill Lynch Global High Yield Index expressed in AUD (hedged)
		Leveraged Loans
	40	Credit Suisse Leveraged Loan Index expressed in AUD (hedged)
		Emerging Market Debt:
	20	JP Morgan EMBI Global Index expressed in AUD (hedged)
		<u>Absolute return</u>
	60	Bloomberg AusBond Bank Bill Index + 3% p.a.
	40	Bloomberg AusBond Bank Bill Index + 2% p.a.
Property Tax-Exempt	100	Mercer / IPD Australia Unlisted Wholesale Property Fund Index
Australian Tax-Exempt	100	S&P/ASX 300 Accumulation Index
International Equities Tax-Exempt	100	Morgan Stanley Capital International (MSCI) All Countries World Index Ex-Australia net dividends reinvested in AUD and unhedged
	30	Currency Hedge: (MSCI World ex-Australia Index Hedged minus MSCI World ex-Australia Unhedged), net dividends reinvested and in AUD (Developed Markets weight of the portfolio benchmark)
Diversified Strategies Growth Tax-Exempt	100	Bloomberg AusBond Bank Bill Index plus 4% p.a.

Disclaimers



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The blended returns are calculated by Funds SA using end of day index level values licensed from MSCI ("MSCI Data"). For the avoidance of doubt, MSCI is not the benchmark "administrator" for, or a "contributor", "submitter" or "supervised contributor" to, the blended returns, and the MSCI Data is not considered a "contribution" or "submission" in relation to the blended returns, as those terms may be defined in any rules, laws, regulations, legislation, or international standards. MSCI Data is provided "AS IS" without warranty or liability and no copying or distribution is permitted. MSCI does not make any representation regarding the advisability of any investment or strategy and does not sponsor, promote, issue, sell or otherwise recommend or endorse any investment or strategy, including any financial products or strategies based on, tracking, or otherwise utilizing any MSCI Data, models, analytics or other materials or information.

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Half-Yearly Performance Report

Funds SA investment options

SAFA Insurance Investments

For the twelve months ending 30 June 2021



EXECUTIVE SUMMARY

This report provides an overview of the performance of Funds SA's investment options for the 12-month period ending 30 June 2021.

2021 has been the year of recovery.

- All investment option's annual returns have fully recovered from the severe market falls inflicted by the COVID-19 pandemic in early 2020.
- The investment options with higher allocations to growth assets achieved returns greater than 20% for the 12 months to 30 June 2021, the best one-year financial year return since inception.
- The strength in equity markets was driven by improving economic activity and corporate earnings, improving employment, rising commodity prices, accommodative monetary and fiscal policy, and vaccine rollouts lifting investor confidence.
- Central banks provided clear intent to leave cash rates at historical lows (near zero) for the foreseeable future and control medium-term bond yields at very low levels to assist the economic recovery. But they have also flagged they are beginning to think about the discussions of tapering.
- Whilst COVID-19 continues to be a dominating theme, oscillating between emerging new strains and vaccine rollouts, the focus of financial markets has begun to shift to consider reflation, and how governments globally may wind back stimulus programs and normalise interest rates.

Funds SA's investment options delivered positive performance.

- The Funds SA's investment options delivered returns above their investment objectives for the 12-month period ended 30 June 2021. Appendix 1 contains summaries for each Funds SA investment option.
- Funds SA diversified investment option returns over 1-year ranged from 6.7% for the Capital Defensive Tax-Exempt investment option to 21.5% for the SAFA Investment Strategy.
- International and Australian Equities provided the strongest positive contribution to performance over the one-year period, returning 29-37%. Performance from Cash and Short-Term Fixed Income asset classes was positive but very low given current cash rates and bond yields. Long-Term Fixed Interest was the only asset class to deliver negative returns as bond yields started to drift upwards over the past six months.
- Long-term performance continues to be positive and this year, above expectations.

Asset allocations were within the asset class ranges.

- As at 30 June 2021, the investment options asset allocations were within the asset class ranges specified in the Performance Plan.

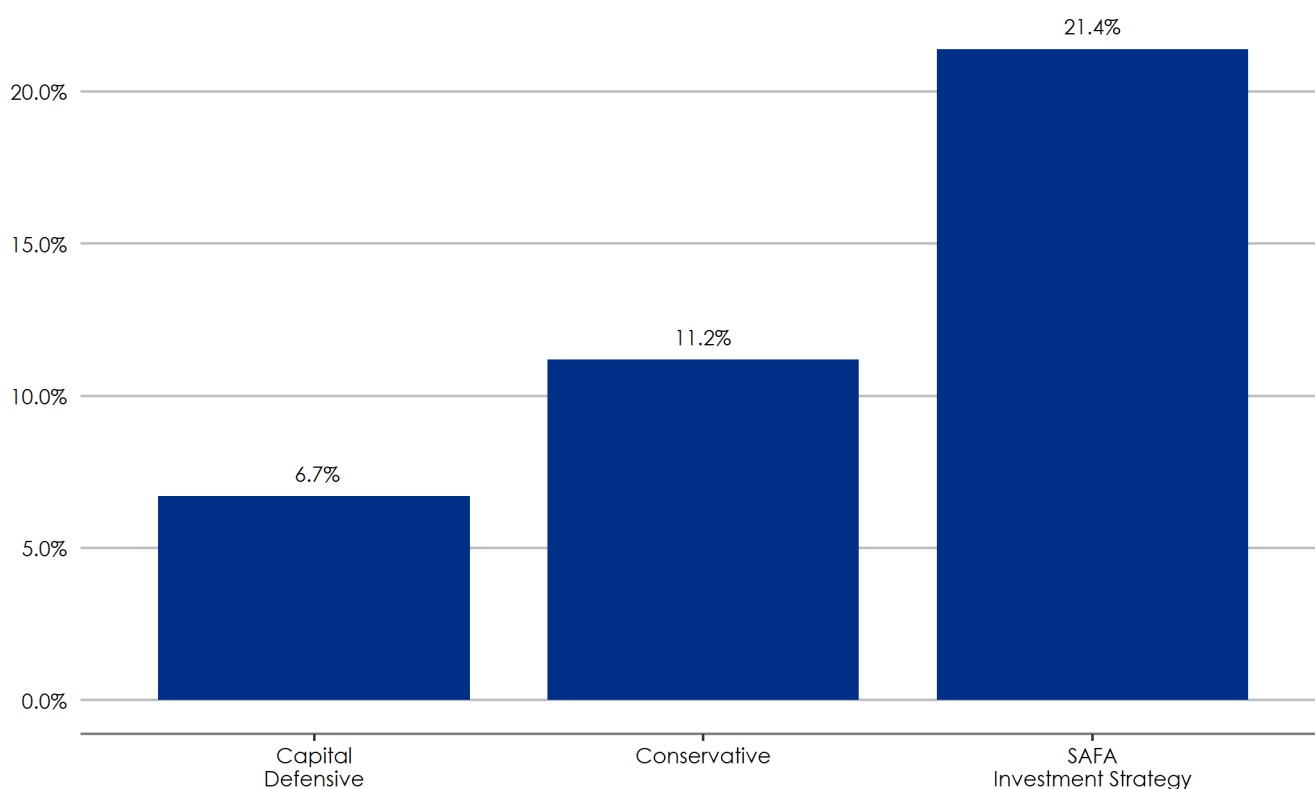
Funds under management¹

- Funds SA's total funds under management rose from \$34,084 million (m) as at 1 July 2020 to \$41,223m as at 30 June 2021. This was the result of net investor inflow of \$7.7m and investment gains of \$7,131m.

Investment Management Costs

- The Indirect Cost Ratios (ICRs), including performance fees and transactional and operational costs, tracked below the target ICR for the financial year. Additional detail relating to investment management costs can be found in Section 4.

Chart 1: Funds SA Tax-Exempt investment option returns for the 12 months ending 30 June 2021, returns net of fees and gross of tax



¹ All funds under management (FUM) values provided are based on Redemption value (RED).

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1. Financial market environment

COVID-19 vaccine rollouts and continued government and central bank stimulus drove very strong returns.

Overall financial market performance delivered strong returns as optimism around the global vaccine rollout, recovery from COVID-19 and the alternative of locking in near zero cash returns increased the risk appetite of investors. The financial market recovery has been exceptional and fast.

Globally, accommodative monetary policy has provided the foundation for the economic and financial market recovery. Central banks have provided clear intent to leave cash rates at historical lows (near zero) for the foreseeable future and control medium-term bond yields at very low levels.

In the US, with all the electoral contention behind them, the Biden administration approved stimulus packages pushed US equity markets to all-time highs and gave credit markets a boost. It was a similar theme across the world, with Governments continuing to provide fiscal stimulus to support consumers and recovering economies.

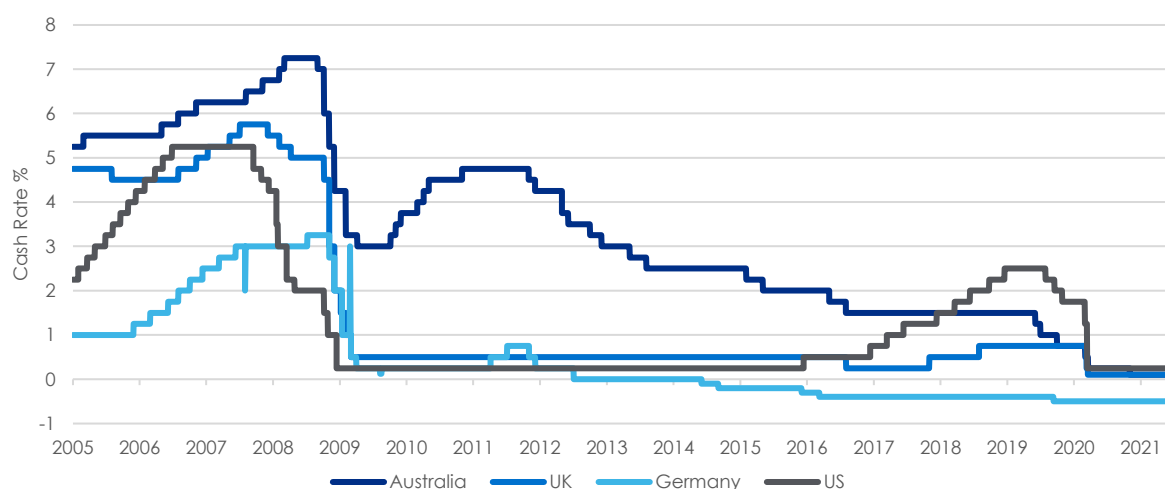
Progressively, economic data continued to improve with manufacturing activity and corporate earnings increasing, falling levels of unemployment, rising commodity prices, pockets of wage growth and vaccine rollouts lifting investor and business confidence.

With monetary and fiscal policies supporting economies, financial markets have largely looked through negative COVID-19 news, such as the emergence of mutant strains, sporadic lockdowns, disruptions to supply chains and economic recovery. The global vaccine rollout has been a beacon of hope and a path for countries and economies to open and return to a form of normal activity, lessening the need to enter into restrictive and protracted lockdowns.

With an improving economic backdrop, bond yields began to creep higher as investor began to question how committed central banks were to maintaining low rates for an extended period of time. Central Banks, particularly the US Federal Reserve expressed confidence that higher inflation would be transitory, reinforcing their expectation to hold rates low until 2023 and signalled the beginning of discussions on tapering bond purchases.

The Reserve Bank of Australia (RBA) cut the official cash rate to 0.10% in November 2020. More recently, the RBA decided to taper the quantitative easing program slightly but reiterated the RBA does not expect to increase interest rates until at least 2024.

Chart 2: Demonstrates the sharp cuts to the cash rates.



Source: Funds SA, Bloomberg

While the larger and more developed countries have experienced economic and health recoveries, many of the emerging market countries have not been so fortunate. Vaccine supply has been low and restrictive measures remain, hampering recovery. But financial markets have looked through the slow recovery and emerging market equities have delivered returns as strong as those in developed markets.

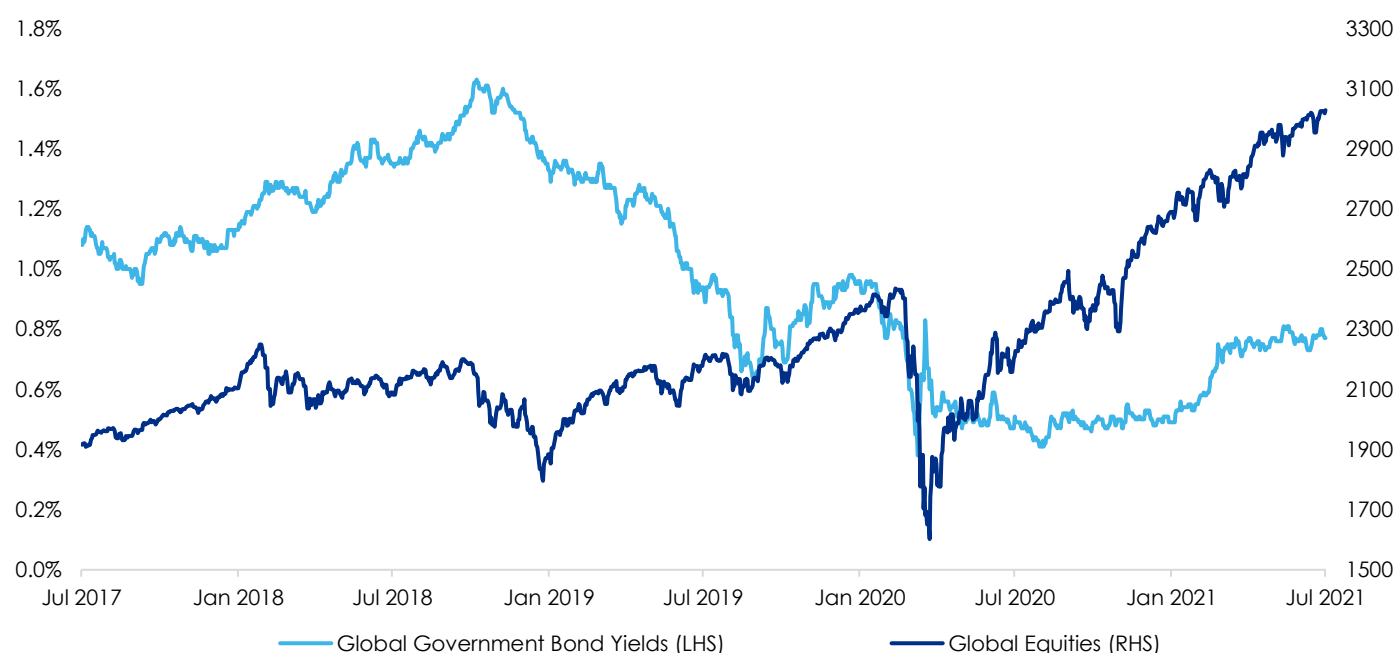
All of the aforementioned factors have helped push equity markets to new highs, generated positive returns in credit markets, improved valuations in private markets, and bonds yields crept up during the year.

Although COVID-19 continues to be a dominating theme, oscillating between emerging new strains and vaccine rollouts, the focus of financial markets has begun to shift to consider reflation, and how governments globally may wind back stimulus programs and normalise interest rates. All remain risks for the year ahead.

All investment options delivered positive returns for the period, but growth-orientated investment options benefited the most from strong equity, credit, and unlisted markets. The defensive-oriented investment options were positive but crimped by significant weightings to the Cash and Fixed Interest asset classes. As cash rates move to near zero and bond yields are anchored to low levels for the foreseeable future by central bank actions, return expectations for these asset classes remain muted.

The chart below depicts the themes discussed, global equity markets marking a V-shaped recovery from the lows in March and continued to move higher through to the end of the financial year, and long-term sovereign bond yields trended higher.

Chart 3: Performance of developed market global equities and government bond yields to 30 June 2021



*Source: Bloomberg

In summary, the main factors driving 12-month returns:

- Australian equities produced strong returns, but still underperformed relative to most global equity markets in local currency and AUD terms. The AUD appreciated strongly against developed market currencies
- The US equity market performed strongly, reflecting the rotation to more economically sensitive stocks that benefit from the improving economic environment. The Funds SA International Equities asset class materially outperformed its benchmark for the year, driven by strong stock selection by investment managers and aided by manager configuration changes.
- Australian listed property delivered strong returns, with premium office assets and the industrial sector leading the rebound.
- Cash provided very low positive returns as cash rates were maintained at very low levels.
- Longer duration fixed interest produced negative returns as bond yields trended higher through the year as economic circumstances improved.
- Inflation-Linked Securities performed well as expectations of future inflation increased.
- Non-government debt markets were strong. Those sectors perceived to be the highest risk, such as high-yield and emerging market debt, performed the strongest. This was due to a rebound in economic growth and a reduction in credit spreads.
- Other unlisted markets, such as infrastructure and private equity, had valuation upgrades from the conservative levels set in June 2020.

The following table shows the returns generated in different asset markets over periods to 30 June 2021.

Table 1: Major market index returns, periods to 30 June 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	0.1	0.1	1.0	1.3	1.6	2.2
Australian Government	1.0	1.9	-1.9	-1.9	4.3	3.0	4.1	4.8
Australian Inflation-Linked	0.8	3.3	4.6	4.6	5.3	4.1	4.5	5.8
Global Treasuries	0.4	0.6	-1.4	-1.4	3.6	2.4	4.1	5.2
Global Inflation-Linked	0.3	2.8	3.0	3.0	5.3	4.5	5.4	5.9
Credit								
Global Credit	1.0	2.1	2.7	2.7	5.7	4.2	4.8	6.1
Global High-Yield	0.8	2.9	12.8	12.8	5.5	6.1	5.5	7.7
Emerging Market Debt	0.9	3.9	6.8	6.8	6.5	4.4	4.4	5.3
Property								
Australian Listed Property	5.6	10.7	33.9	33.9	8.2	6.2	10.6	12.0
Equities								
Australian Equities	2.3	8.5	28.5	28.5	9.8	11.3	8.9	9.2
Global Equities	2.3	7.6	36.9	36.9	14.7	14.7	11.2	11.7
US Equities	2.3	8.5	40.8	40.8	18.7	17.6	14.1	14.8
European Equities	1.6	6.5	26.6	26.6	7.6	9.3	6.7	7.5
Japanese Equities	1.0	-0.3	28.0	28.0	6.9	11.9	8.7	10.9
Asia (ex Japan) Equities	0.7	3.3	36.4	36.4	11.8	14.1	9.5	8.0
Emerging Market Equities	0.9	3.9	36.5	36.5	12.4	14.0	9.6	8.0
Global Small Companies	0.5	5.7	52.6	52.6	12.3	14.4	9.8	10.6
Currency								
Australian Dollar vs Developed Market Basket	-2.3	-1.8	7.3	7.3	0.1	0.0	-2.4	-2.7
Commodities								
GSCI Energy	9.6	22.1	72.6	72.6	-10.5	-0.7	-14.5	-9.7
GSCI Precious Metals	-7.0	3.5	-0.5	-0.5	11.1	4.8	3.0	0.1

*Source: Bloomberg, Mercer

Note:

Returns for Global Treasuries, Global Credit and Global High-Yield are hedged to AUD.

Returns for Emerging Market Debt are hedged to USD.

Returns for Property and Equities are expressed in local currency.

Returns for Commodities are in USD.

2. Investment performance

The Funds SA investment options delivered exceptionally strong positive returns having fully recovered from the severe market falls inflicted by the COVID-19 pandemic. The recovery has been very strong, predominately driven by equity markets, private markets and credit markets.

Returns ranged from mid-digits for the more defensive investment options to returns in the mid-20s for growth-orientated investment options. The speed and magnitude of this result is remarkable considering the significant market falls and volatility at the beginning of 2020.

The only asset class that did not contribute to positive performance for the investment options was Long-Term Fixed Interest asset class. For most investment options, International Equities led the performance recovery, with Australian Equities, Diversified Strategies Growth, Diversified Strategies Income and Property also producing very strong returns. The contribution from the Cash asset class was minimal as cash rates moved toward zero. The Long-Term Fixed Interest asset class was negative as bond yields began trending higher, while being held at low levels for the foreseeable future by central bank actions. Return expectations for cash and fixed interest remain muted, and we would not expect the spectacular returns from the other asset classes to be repeated next year.

Table 2: Tax-Exempt investment options relating to SAFA, investment returns for periods to 30 June 2021, returns net of fees and gross of tax*

Investment option	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.	15 years % p.a.	20 years % p.a.
Capital Defensive	2.0	6.7	4.6	4.7	4.6	5.5	5.4	n.a.
Conservative	4.1	11.2	6.1	6.4	6.0	6.9	5.9	6.6
SAFA Investment Strategy	9.4	21.4	9.3	10.2	9.2	9.7	7.0	7.5

**Note the inception of the SAFA Investment Strategy was 1 July 2019, the prior history relates to the Funds SA Growth Tax-Exempt investment option.*

Performance relative to investment objective

The investment objective for each investment option is defined in the 2020-21 Performance Plan. The primary performance measure for each investment option is the investment objective which includes:

- a target return expressed as a margin over inflation;
- a time horizon over which there is a reasonable likelihood of achieving the target return; and,
- a risk dimension expressed as the possible frequency of a negative annual return in any 20-year period.

The following table shows the return earned by each investment option against the respective target return, expressed over the relevant time horizon.

Table 3: Funds SA investment options and SAFA Investment Strategy vs investment objective, for periods ending 30 June 2021, returns net of fees*

Investment option	Investment horizon	Investment objective % p.a.	Tax-Exempt investment option performance % p.a.
Capital Defensive	2+ years	(CPI + 1.0%) = 2.8	4.0
Conservative	4+ years	(CPI + 2.0%) = 3.7	6.2
SAFA Investment Strategy	8+ years	(CPI + 4.0%) = 6.0	9.9

*Target returns and investment option performance are expressed over the stated investment horizon for each investment option. Note where elements of the investment objectives have changed over time, the target return series reflects a combination of the former and current objectives.

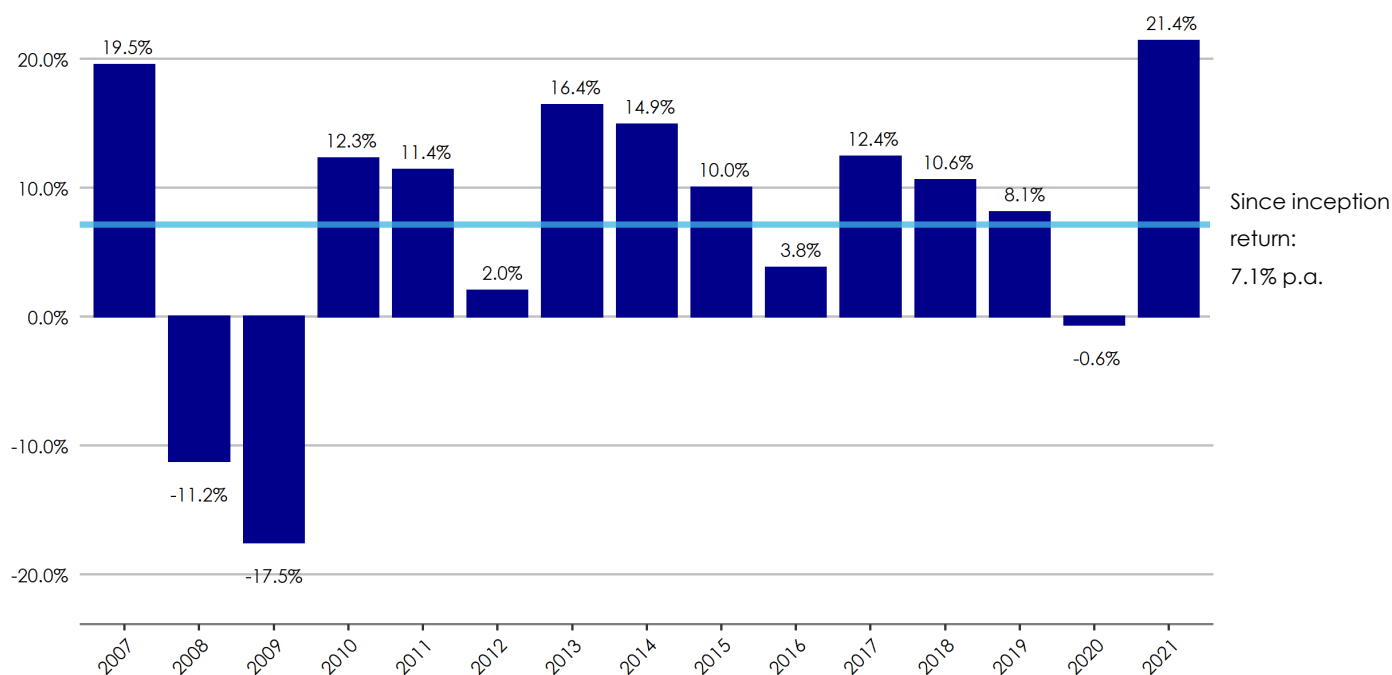
The risk characteristics of all investment options are in line with expectations

To articulate the risk profile, the investment objectives include an expectation of the frequency of negative returns in any 20-year period. The SAFA Investment Strategy investment objective states that a negative annual return might occur between four and six years in 20. Chart 4 illustrates the SAFA Investment Strategy performance has been within expectations, recording three negative annual returns since inception.

The risk characteristics of the other investment options are in line with expectations.

The volatility of returns is also illustrated in Chart 4. For growth-oriented investment options, shorter-term returns can be volatile, with financial year returns ranging as high as 21.4% to a low of -17.5%. The annualised return since inception is 7.1% p.a.

Chart 4: SAFA Investment Strategy performance since inception*, annual financial year returns to 30 June



* Inception date used is 31 May 2007 (closest month end from the initial SAFA investment). The SAFA Investment Strategy was inceptioned 1 July 2019. Historical returns reflect investment in the Funds SA Growth Tax-Exempt investment option prior to the establishment of the SAFA Investment Strategy.

Investment option performance relative to benchmark was positive over the 12 months.

Benchmarks are constructed for the long-term, consistent with the investment objective of the investment options, and may not be an appropriate measure of short-term performance, especially during periods of extreme volatility. This is particularly relevant for benchmarks that have a cash plus approach.

The Funds SA investment options outperformed their relevant benchmark.

International and Australian Equities, Diversified Strategies Growth (DSG) and Diversified Strategies Income (DSI) asset classes were consistent positive contributors to relative performance. Detailed discussion of asset class performance is provided in Section 3.

Whilst the investment objectives are the primary return measure, performance relative to the benchmark aids in our ongoing analysis of:

- asset class strategy;
- manager performance; and
- manager composition.

Further discussion on the relative performance for each investment option is included in Appendix 1.

3. Asset classes

Funds SA has established a range of asset classes which are the building blocks for the investment options. Each investment option invests in common asset classes according to the Long-Term Strategic Asset Allocation (LTSAA) determined for each option.

The asset allocations for each Funds SA investment option are detailed in Appendix 1. All allocations were within the asset class ranges as at 30 June 2021.

Asset class performance

International and Australian Equities performed strongest over the 12 months to 30 June 2021.

Most asset classes were a positive contributor to the investment options performance.

International Equities led the performance recovery, closely followed by Australian Equities, Diversified Strategies Growth, and Diversified Strategies Income.

Growth assets benefited from global vaccine rollouts, improving economic activity, rising investor sentiment, record low cash and term interest rates and supportive fiscal policy. A number of international equity markets, in particular the US market, reached new historic highs.

Muted returns from Cash and Government bond-oriented fixed interest asset classes.

As cash rates moved toward zero, returns from the Cash asset class were negligible. Long-Term Fixed Interest asset class was negative as bond yields began trending higher, while being held at low levels for the foreseeable future by central bank actions. Expected returns for these asset classes remains muted.

Asset class performance relative to benchmark was positive over the 12-month period.

Funds SA measures the performance of each asset class against a benchmark. The benchmarks are the relevant market index or blend of indices. Where no reasonable market index is available, the index is expressed as a margin over cash. The benchmark for each asset class is included in Appendix 2.

Most asset classes outperformed their relevant benchmarks over the 12-month period. International Equities and DSG were exceptionally strong.

The benchmarks for DSG and DSI asset classes have a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the recent 12-month period, as assets have increased in value and cash rates remain low.

Cash

The asset class returned 0.1% performing in line with its benchmark.

Short-Term Fixed Interest

The asset class returned 1.0% outperforming its benchmark which returned 0.7%. The outperformance came from security selection.

Long-Term Fixed Interest

The asset class returned -2.0% outperforming its benchmark which returned -2.6%. Both active managers contributed, with active country and currency positioning adding value.

Inflation-Linked Securities Tax-Exempt

The Inflation-Linked Securities Tax-Exempt asset class returned 5.8% outperforming its benchmark return of 4.4%. The internally managed assets contributed significantly to the outperformance.

Diversified Strategies Income

The asset class returned 8.3%, outperforming its 5.3% benchmark return. Both the diversified debt component and absolute return strategies outperformed their respective benchmarks. The absolute return strategies outperformed due to their “risk on” positioning.

Property Tax-Exempt

The Property Tax-Exempt asset class outperformed its benchmarks by 2.5%. Performance was driven by a rebound in listed Real Estate Investment Trusts (A' REIT's). Offshore demand for premium office assets continues driving yields towards record lows which is offsetting weakness in leasing demand. The industrial sector has been a clear beneficiary of the COVID-19 pandemic with growing demand for logistics facilities to cater for online shopping. Conversely the retail sector has been the most severely impacted by the pandemic but is showing signs of stabilisation both in rentals and yields.

Australian Equities Tax-Exempt

The Australian Equities Tax-Exempt asset class outperformed the benchmark by 0.9%. At the sector level, underweight allocations to the weak performing Utilities and Healthcare sectors helped relative performance, as did strong stock selection within a range of sectors such as Materials, Industrial, Staples and Discretionary. This was partly offset by overweight allocation to the relatively weak Industrials sector, Cash, and an underweight allocation to the strong performing Financials sector. Relative performance was also partly hurt by weak stock selection in the Financials and Information Technology sectors.

Australian Passive Equities Tax-Exempt

The Australian Passive Equities Tax-Exempt asset classes was flat against benchmark and in line with expectations.

International Equities Tax-Exempt

The International Equities Tax-Exempt asset class delivered exceptionally strong performance, outperforming the benchmark by 7.2% net of fee returns. In general, the outperformance was driven by stock selection in the developed market strategies benefiting from a change in regime where more economically sensitive stocks outperformed the broader market. In addition, the relative outperformance was aided by manager configuration changes. At the sector level, the value add from an underweight allocation to Utilities and Real Estate was partially offset by the value detracted from an overweight to Health Care.

International Passive Equities Tax-Exempt

The International Passive Equities Tax-Exempt asset class performed in line with expectations.

Diversified Strategies Growth Tax-Exempt

The Diversified Strategies Growth Tax-Exempt asset class outperformed the benchmark by 19.7%. The more growth exposed areas of the asset class (such as private equity) contributed the most to this result, as these assets recovered the valuation write-downs that occurred at the onset of the COVID-19 pandemic.

Table 4: Funds SA asset class returns, periods to 30 June 2021, portfolio returns are net of fees and gross of tax, benchmark returns are net of fees

		6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Cash	Portfolio return	0.0	0.1	1.0	1.4	1.7	2.3
	Benchmark return	0.0	0.1	1.0	1.3	1.6	2.2
	Excess return	0.0	0.1	0.1	0.1	0.1	0.1
Short-Term Fixed Interest	Portfolio return	-0.4	1.0	3.1	2.7	2.9	3.7
	Benchmark return	-0.2	0.7	2.7	2.4	2.8	3.5
	Excess return	-0.2	0.3	0.4	0.3	0.2	0.1
Long-Term Fixed Interest	Portfolio return	-3.4	-2.0	4.5	3.0	4.5	5.8
	Benchmark return	-2.9	-2.6	4.8	3.1	4.9	5.8
	Excess return	-0.4	0.5	-0.3	-0.1	-0.4	-0.0
Inflation-Linked Securities Tax-Exempt	Portfolio return	0.0	5.7	5.7	4.9	4.4	5.6
	Benchmark return	0.2	4.4	4.3	3.7	3.8	5.0
	Excess return	-0.1	1.3	1.4	1.2	0.6	0.6
Diversified Strategies Income	Portfolio return	0.9	8.3	2.5	3.0	3.3	5.0
	Benchmark return	1.4	5.3	4.9	4.4	4.7	6.0
	Excess return	-0.5	3.0	-2.4	-1.4	-1.4	-0.9
Property Tax-Exempt	Portfolio return	5.1	10.8	5.0	7.5	9.1	9.3
	Benchmark return	5.4	8.3	4.2	6.8	8.5	8.9
	Excess return	-0.3	2.5	0.8	0.7	0.5	0.4
Australian Equities Tax-Exempt	Portfolio return	13.2	29.4	10.1	11.7	9.2	9.2
	Benchmark return	13.0	28.5	9.8	11.3	8.9	9.2
	Excess return	0.2	0.9	0.3	0.4	0.3	-0.0
International Equities Tax-Exempt	Portfolio return	16.7	37.1	16.2	16.7	14.0	14.6
	Benchmark return	14.9	29.8	13.7	15.1	12.8	13.4
	Excess return	1.8	7.3	2.5	1.6	1.2	1.3
Australian Equities Passive Tax-Exempt	Portfolio return	13.0	n.a.	n.a.	n.a.	n.a.	n.a.
	Benchmark return	13.0	n.a.	n.a.	n.a.	n.a.	n.a.
	Excess return	-0.0	n.a.	n.a.	n.a.	n.a.	n.a.
International Equities Passive Tax-Exempt	Portfolio return	14.8	30.0	n.a.	n.a.	n.a.	n.a.
	Benchmark return	14.9	29.8	n.a.	n.a.	n.a.	n.a.
	Excess return	-0.1	0.2	n.a.	n.a.	n.a.	n.a.
Diversified Strategies Growth Tax-Exempt	Portfolio return	15.1	23.8	10.0	11.5	11.7	11.6
	Benchmark return	2.0	4.1	5.0	5.3	5.7	6.3
	Excess return	13.1	19.7	5.0	6.2	6.0	5.4

Table 5: Funds SA Tax-Exempt asset class structure, as at 30 June 2021*

Asset class	Sub-asset class allocation		Investment managers
Cash	100%		Macquarie Investment Management
Short-Term Fixed Interest	100%	Australian	Macquarie Investment Management
Long-Term Fixed Interest	50%	Australian	BlackRock Investment Management
	50%	Global	Brandywine Global Colchester Global Investors
Inflation-Linked Securities Tax-Exempt	90%	Australian	Ardea Investment Management First Sentier Investors Funds SA
	10%	Global	Colchester Global Investors
Diversified Strategies Income ²	50%	Diversified Debt	Ares Management GMO & Co Macquarie Investment Management Oak Hill Advisors Putnam Investments Wellington Management Company
	50%	Absolute Return	Bridgewater Associates Brandywine Global GMO & Co LGT Capital Partners
Property Tax-Exempt	85%	Core Property	AMP Capital Dexus Wholesale Property GPT Funds Management Investa Funds Management ISPT Lend Lease
	15%	Non-Core Property	CorVal Partners Vanguard Vicinity Centres
Australian Equities Tax-Exempt	100%	Broad Market	Ethical Partners Funds Management First Sentier Investors Greencape Capital Northcape Capital Touchstone Asset Management Vinva Investment Management
Australian Equities Passive Tax-Exempt	100%	Passive	BlackRock Investment Management
International Equities Tax-Exempt	84%	Global Broad Market	Harding Loevner Harris Associates IFP LSV Asset Management Massachusetts Financial Services T Rowe Price
	3%	Small Companies	Lord Abbett Growth
	13%	Emerging Markets	LSV Asset Management Paradice Investment Management TT International Wellington Management Company
International Equities Passive Tax-Exempt	100%	Passive	BlackRock Investment Management
Diversified Strategies Growth Tax-Exempt ³	50%	Private Markets	36 Investment Managers
	50%	Core Infrastructure	2 Investment Managers

*The asset class allocations and investment managers listed in the table above are subject to change.

² International assets hedged to AUD.

³ International assets hedged to AUD.

4. Investment management costs

Each Performance Plan includes the target costs for each investment option. Funds SA's investment management costs are presented as a percentage of average funds managed and referred to as an Indirect Cost Ratio (ICR).

The primary objective is to achieve the investment option's investment objectives over the long-term, net of all fees and costs. Managing costs is an important element of this objective, however, it does not drive the investment strategy and should not be looked at in isolation.

Regular benchmarking of expenditures against peer organisations is undertaken to ensure Funds SA's ongoing cost competitiveness.

Target ICRs for the 2020-21 financial year

Funds SA's fees for the 2020-21 financial year are shown in the tables below, along with comparisons to the original targets.

The ICRs achieved were below the target ICRs for the 12 months to 30 June 2021, shown in the 'Difference' column, the exception being the Conservative investment options which were in line with the target.

Funds SA applies the standard industry guidelines in calculating and disclosing its investment management expenses, namely:

- ASIC Regulatory Guide 97: Disclosing fees and costs in PDSs and other periodic statements (RG97); and
- Corporations Regulations 2001 – Schedule 10 – Disclosures of Fees and Other Costs.

Funds SA has elected to disclose its ICRs in accordance with the new RG97 disclosure requirements, which is also consistent with industry peers. This is to calculate the performance fee component of an ICR based on the 5-year average of performance fees incurred. The previous requirement was to base performance fees on the prior year expense only.

Table 6: Tax-Exempt investment option actual and target ICRs for the 2020-21 financial year*

Investment option	Base fees %	Performance fees %	T & O costs %	Actual %	Target %	Difference %
Capital Defensive	0.36	0.02	0.03	0.42	0.45	-0.03
Conservative	0.44	0.02	0.04	0.50	0.50	0.00
SAFA Investment Strategy	0.71	0.21	0.07	0.99	1.05	-0.06

*Note due to rounding, the sum of the individual numbers may not equal the total figures quoted.

Note: Transactional and operating costs. Includes costs such as: brokerage; stamp duty; transaction settlement costs; clearing costs; and spreads. Such costs are incurred in the normal course of investing, are deducted from the assets of the relevant asset class and investment option to which they relate and are reflected in the unit price.

Appendix 1

Funds SA Tax-Exempt investment options and SAFA Investment Strategy



This Appendix provides a summary of the performance and composition of the following Funds SA Tax-Exempt investment options:

- Capital Defensive
- Conservative
- SAFA Investment Strategy

Capital Defensive Tax-Exempt

Size	Inception	Indirect Cost Ratio (ICR)*	
		Actual	Target
\$421.7 million	31 August 2004	0.42	0.45

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Capital Defensive	CPI + 1.0%	2+ years	Low	0.5 to 1

Performance

Investment option performance against benchmark, returns net of fees for periods to 30 June 2021*

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	2.0	6.7	4.6	4.7	4.6	5.5
Benchmark return	2.0	5.4	4.5	4.4	4.6	5.3
Active return	0.0	1.3	0.1	0.3	0.0	0.2

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

International Equities, Australian Equities, and Diversified Strategies Income (DSI) were the strongest contributors to the performance of the investment option for the 12 months ended 30 June 2021. Equity and credit markets benefited from global vaccine rollouts, improving economic activity, rising investor sentiment, record low cash and term interest rates, and supportive fiscal policy.

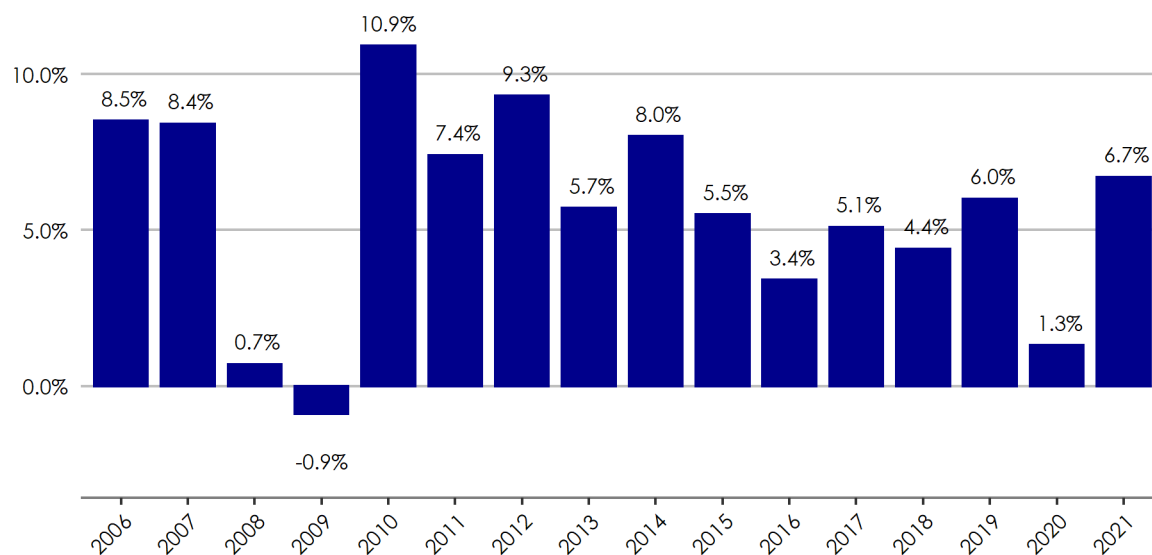
The defensive asset classes contributed positive, but minimal returns given low cash rates and low, upward trending bond yields, predominately at the long end of the yield curve. Having a larger allocation to Short-Term Fixed Interest provided positive return to offset the negative performance from Long-Term Fixed Interest.

Performance relative to benchmark was positive, predominately driven by International Equities, DSI and Inflation-Linked Securities. International Equities had an exceptional year, benefitting from strong stock selection in the developed market strategies and manager configuration changes. For DSI, the credit orientated strategies added value through security and sector selection and the Absolute Return strategies added value through exposure to risk assets. The internally managed assets within the Inflation-Linked Securities asset class significantly outperformed.

The DSI benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the 12-month period, as asset values have increased, and cash rates remain low.

Investment option annual financial year returns

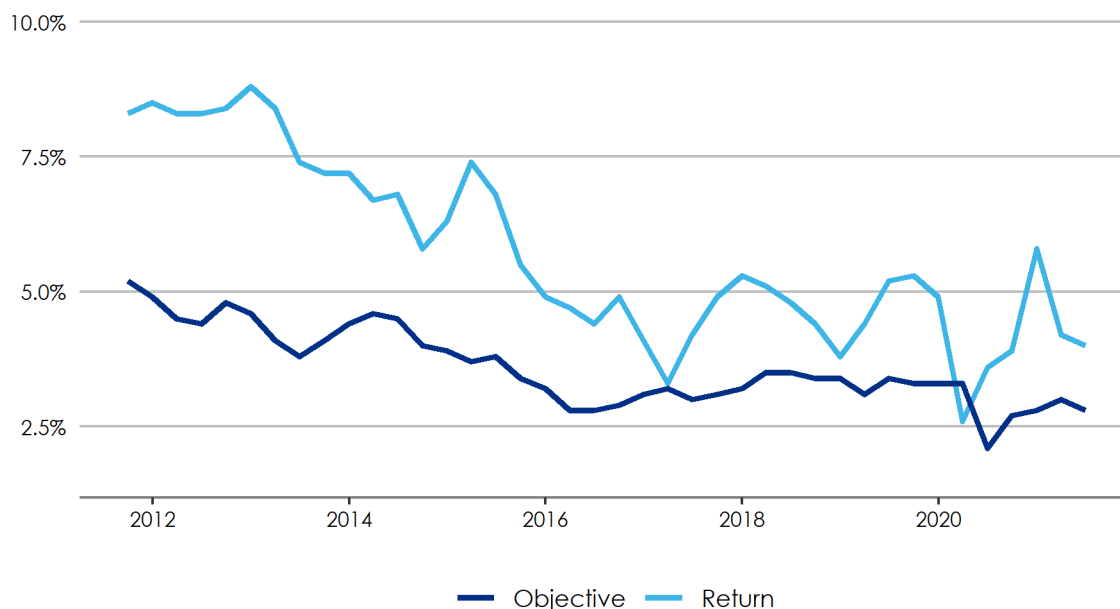
Returns net of fees to 30 June



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective⁴

2-year rolling returns, net of fees to 30 June 2021



⁴ Note the target return was CPI + 1.5% prior to 1 January 2021.

Asset allocation

Capital Defensive Tax-Exempt investment option asset allocation as at 30 June 2021*

Asset class	Actual %	Strategic %	Variance %
Cash	15.3	15.0	0.3
Short-Term Fixed Interest	29.6	30.0	-0.4
Long-Term Fixed Interest	4.7	5.0	-0.3
Inflation-Linked Securities Tax-Exempt	14.9	15.0	-0.1
Diversified Strategies Income	16.5	17.0	-0.5
Property Tax-Exempt	4.3	6.0	-1.7
Australian Equities Tax-Exempt	6.4	5.0	1.4
International Equities Tax-Exempt	8.3	7.0	1.3
Total	100.0	100.0	
Growth assets	26.4	25.0	1.4
Compliance with 2020-21 Performance Plan	Complies		

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Conservative Tax-Exempt

Size	Inception	Indirect Cost Ratio (ICR)*	
		Actual	Target
\$577.0 million	30 June 1999	0.50	0.50

*ICRs are inclusive of performance fees and T&O costs.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
Conservative	CPI + 2.0%	4+ years	Medium	2 to 3

Performance

Investment option performance against benchmark, returns net of fees for periods to 30 June 2021*

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	4.1	11.2	6.1	6.4	6.0	6.9
Benchmark return	4.1	9.4	6.0	6.1	6.0	6.7
Active return	0.0	1.8	0.1	0.3	0.0	0.2

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns.

International Equities, Australian Equities, and Diversified Strategies Income (DSI) were the strongest contributors to the performance of the investment option for the 12 months ended 30 June 2021. Equity and credit markets benefited from global vaccine rollouts, improving economic activity, rising investor sentiment, record low cash and term interest rates, and supportive fiscal policy.

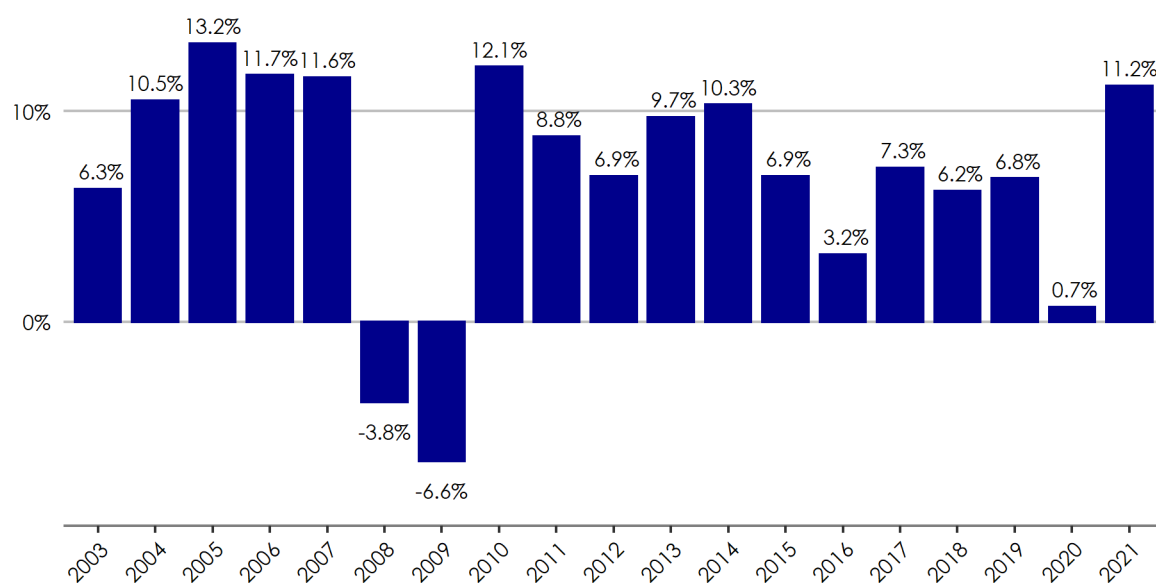
The defensive asset classes contributed positive, but minimal returns given low cash rates and low, upward trending bond yields, predominately at the long end of the yield curve. Having a larger allocation to Short-Term Fixed Interest provided positive returns to offset the negative performance from Long-Term Fixed Interest.

Performance relative to benchmark was positive, predominately driven by International Equities, DSI and Inflation-Linked Securities. International Equities had an exceptional year, benefitting from strong stock selection in the developed market strategies and manager configuration changes. For DSI, the credit orientated strategies added value through security and sector selection and the Absolute Return strategies added value through exposure to risk assets. The internally managed assets within the Inflation-Linked Securities asset class significantly outperformed.

The DSI benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the 12-month period, as asset values have increased, and cash rates remain low.

Investment option annual financial year returns

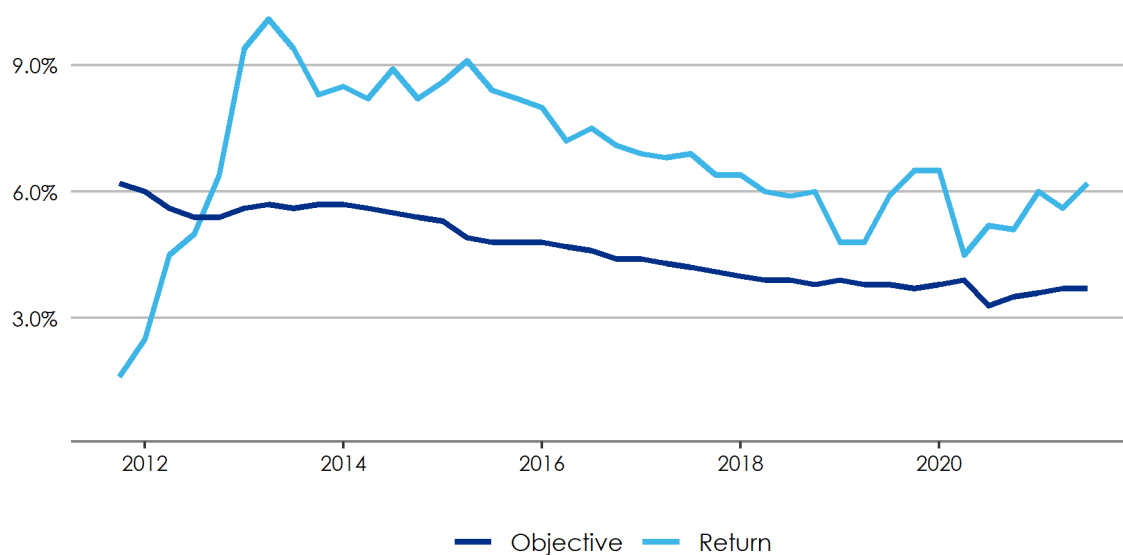
Returns net of fees to 30 June



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective⁵

4-year rolling returns, net of fees to 30 June 2021



⁵ Note the target return was CPI +2.5% prior to 1 January 2016 and CPI +3% prior to 1 July 2013.

Asset allocation

Conservative Tax-Exempt investment option asset allocation as at 30 June 2021*

Asset class	Actual %	Strategic %	Variance %
Cash	10.3	10.0	0.3
Short-Term Fixed Interest	17.7	18.0	-0.3
Long-Term Fixed Interest	4.6	5.0	-0.4
Inflation-Linked Securities Tax-Exempt	15.0	15.0	0.0
Diversified Strategies Income	17.6	18.0	-0.4
Property Tax-Exempt	7.5	9.0	-1.5
Australian Equities Tax-Exempt	11.2	10.0	1.2
International Equities Tax-Exempt	16.1	15.0	1.1
Total	100.0	100.0	
Growth assets	41.3	40.0	1.3
Compliance with 2020-21 Performance Plan		Complies	

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

SAFA Investment Strategy

Size	Inception [#]	Indirect Cost Ratio (ICR)*	
		Actual	Target
\$641.0 million	01 July 2019	0.99	1.05

*ICRs are inclusive of performance fees and T&O costs. [#]The inception of the SAFA Investment Strategy was 1 July 2019, the prior history relates to the Funds SA Growth Tax-Exempt investment option.

Investment objective

Funds SA investment option	Target return % p.a.	Investment time horizon	Standard Risk Measure	Number of negative annual returns likely over any 20-year period
SAFA Investment Strategy	CPI + 4.0%	8+ years	Medium to High	3 to less than 4

Performance

Investment option performance against benchmark, returns net of fees for periods to 30 June 2021*

	6 months %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Investment option return	9.4	21.4	9.3	10.2	9.2	9.7
Benchmark return	7.8	16.3	8.6	9.3	8.6	9.0
Active return	1.6	5.1	0.7	0.9	0.6	0.7

*Note that due to rounding, the active returns shown may not equal the difference between the investment option and benchmark returns. Returns reflect investment in the Funds SA Growth Tax-Exempt investment option prior to the establishment of the SAFA Investment Strategy.

International Equities, Australian Equities, and Diversified Strategies Growth (DSG) were the strongest contributors to the performance of the investment option for the 12 months ended 30 June 2021. Equity and credit markets benefited from global vaccine rollouts, improving economic activity, rising investor sentiment, record low cash and term interest rates, and supportive fiscal policy. As economic conditions rebounded, private markets experienced improved valuations.

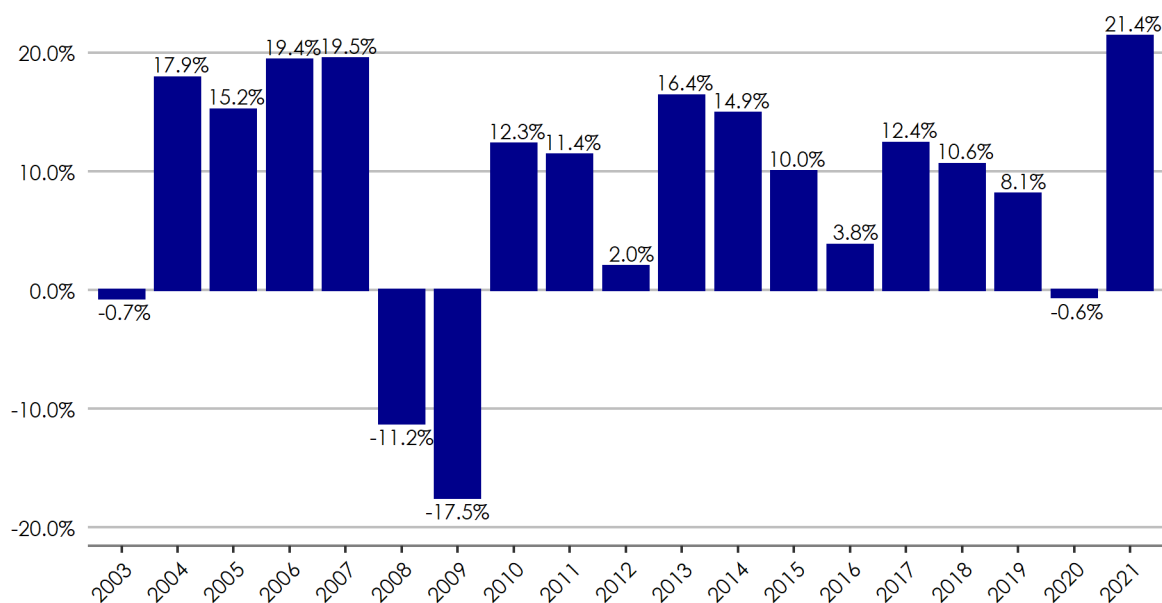
The defensive asset classes slightly detracted from performance, given low cash rates and low, upward trending bond yields, predominately at the long end of the yield curve. The larger allocation to Long-Term Fixed Interest compared Short-Term Fixed Interest was a small detractor.

Performance relative to benchmark was positive, predominately driven by International Equities, Diversified Strategies Growth (DSG) and Australian Equities. International Equities had an exceptional year, benefitting from strong stock selection in the developed market strategies and manager configuration changes. For DSG, the more growth exposed areas of the asset class (such as private equity) recovered the valuation write-downs that occurred at the onset of the COVID-19 pandemic. Australian Equities benefited from strong stock selection across various sectors and specific underweights to Utilities and Healthcare.

The DSG benchmark has a significant cash plus component; in times of significant market movement there can be a short-term mismatch between asset valuations and the benchmark. Indeed, this is the case for the 12-month period, as asset values have increased, and cash rates remain low.

Investment option annual financial year returns

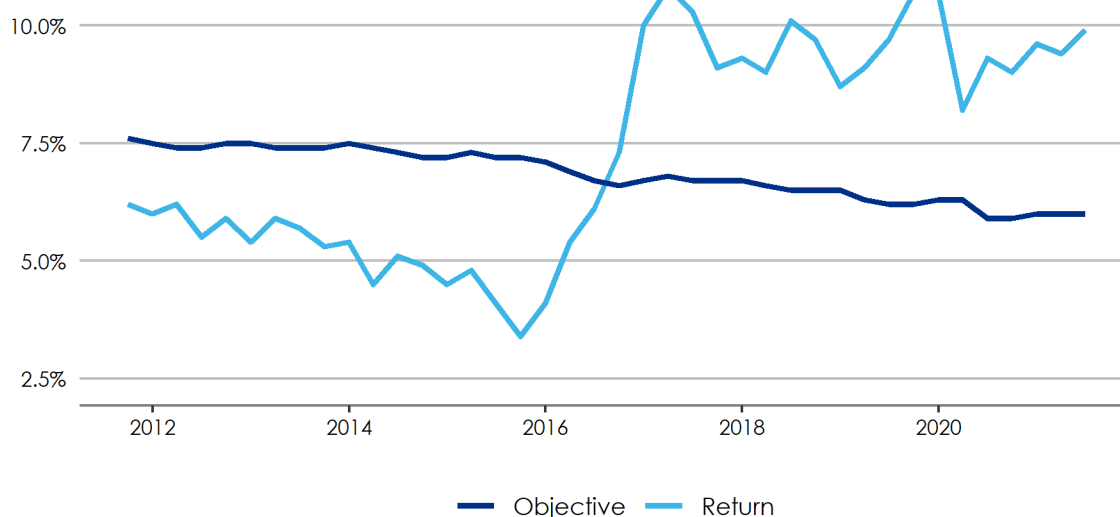
Returns net of fees to 30 June



The volatility of annual returns is in line with expected parameters of the investment objective.

Investment option performance relative to investment objective

8-year rolling returns, net of fees to 30 June 2021



Asset allocation

SAFA Investment Strategy asset allocation as at 30 June 2021*

Asset class	Actual %	Strategic %	Variance %
Cash	2.1	2.0	0.1
Long-Term Fixed Interest	3.7	4.0	-0.3
Inflation-Linked Securities Tax-Exempt	5.9	6.0	-0.1
Diversified Strategies Income	15.4	16.0	-0.6
Property Tax-Exempt	12.6	14.0	-1.4
Australian Equities Tax-Exempt	20.2	19.0	1.2
International Equities Tax-Exempt	30.7	29.0	1.7
Diversified Strategies Growth Tax-Exempt	9.6	10.0	-0.4
Total	100.0	100.0	
Growth assets	74.9	75.0	-0.1
Compliance with 2020-21 Performance Plan		Complies	

*Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Appendix 2

Asset class benchmarks



The following table details the asset class benchmarks as at 30 June 2021.

Funds SA asset class	Allocation %	Index
Cash	100	Bloomberg AusBond Bank Bill Index
Short-Term Fixed Interest	100	Bloomberg AusBond Composite Index 0-5 years
Long-Term Fixed Interest	50	Bloomberg AusBond Treasury Index 7+ years
	50	FTSE World Government Bond Index hedged into AUD
Inflation-Linked Securities Tax-Exempt		<u>Tradeable Securities</u>
	70	Bloomberg AusBond Government Inflation Index 0-10 years
	30	<u>Structured Securities</u> Bloomberg AusBond Inflation Index
Diversified Strategies Income		<u>Diversified debt</u>
		High Yield
	40	Merrill Lynch Global High Yield Index expressed in AUD (hedged)
		Leveraged Loans
	40	Credit Suisse Leveraged Loan Index expressed in AUD (hedged)
		Emerging Market Debt:
	20	JP Morgan EMBI Global Index expressed in AUD (hedged)
		<u>Absolute return</u>
	60	Bloomberg AusBond Bank Bill Index + 3% p.a.
	40	Bloomberg AusBond Bank Bill Index + 2% p.a.
Property Tax-Exempt	100	Mercer / IPD Australia Unlisted Wholesale Property Fund Index
Australian Equities and Australian Equities Passive Tax-Exempt	100	S&P/ASX 300 Accumulation Index
International Equities and International Equities Passive Tax-Exempt	100	Morgan Stanley Capital International (MSCI) All Countries World Index Ex-Australia net dividends reinvested in AUD and unhedged
	30	<i>Currency Hedge:</i> (MSCI World ex-Australia Index Hedged minus MSCI World ex-Australia Unhedged), net dividends reinvested and in AUD (Developed Markets weight of the portfolio benchmark)
Diversified Strategies Growth Tax-Exempt	100	Bloomberg AusBond Bank Bill Index plus 4% p.a.

Disclaimers



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