



**Government
of South Australia**

TRS19D1104

Hon Stephen Mullighan MP
Member for Lee
Unit 1, 62 Semaphore Road
SEMAPHORE SA 5019

Treasurer
Level 8
State Administration Centre
200 Victoria Square
Adelaide SA 5000
GPO Box 2264
Adelaide SA 5001
DX 56203 Victoria Square
Tel 08 8226 1866
treasurer.dtf@sa.gov.au

lee@parliament.sa.gov.au

Stephen

Dear Mr Mullighan

APPLICATION UNDER THE *FREEDOM OF INFORMATION ACT 1991*

I refer to your application made under the *Freedom of Information Act 1991* (FOI Act), dated 9 May 2019.

Your application seeks access to:

"All minutes, briefings and correspondence titled 'Funds SA, Motor Accident Commission (MAC) and Lifetime Support Authority (LSA) Performance Reports – 6 months ending 31 December 2018' as described on the Objective document management system, between 12 July 2018 and 9 May 2019."

The legislative prescribed timeframe to determine this application has expired and is now deemed to have refused you access to all documents relevant to your application. I refer to my letter dated 26 May 2019 where I sought additional time to make my determination.

The purpose of this letter is to advise you of my determination. An extensive search was conducted within this office. A total of 1 document was identified as answering the terms of your application.

I grant you access in full to 1 document; a copy of which is enclosed.

Please note, in compliance with Premier and Cabinet Circular PC045 - *Disclosure Logs for Non-Personal Information Released through Freedom of Information* (PC045), the Department of Treasury and Finance is now required to publish a log of all non-personal information released under the *Freedom of Information Act 1991*.

In accordance with this Circular, any non-personal information determined for release as part of this application, may be published on the DTF website. A copy of PC045

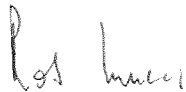
can be found at the following address: <https://dpc.sa.gov.au/resources-and-publications/premier-and-cabinet-circulars>. Please visit the website for further information.

As I am determining this application as Principal Officer, Section 29(6) of the Act does not provide for an internal review. If you are dissatisfied with my determination you are entitled to exercise your rights of external review with the Ombudsman.

Alternatively, you can apply to the South Australian Civil and Administrative Tribunal. If you wish to seek a review, Section 39(3) of the Act states you must do so within 30 calendar days of receiving the determination.

If you require any further information, please contact Vicky Cathro on 8226 9769.

Yours sincerely



Hon Rob Lucas MLC
Principal Officer

22 August 2019

Tanuku, Naveena (DTF)

From: Keenan, Tony (Funds SA) <Tony.Keenan@funds.sa.gov.au>
Sent: Thursday, 31 January 2019 4:59 PM
To: DTF:Treasurer
Cc: Lambetis, Athena (DTF); Dharam, Jane (Funds SA); Townsend, Jo (Funds SA)
Subject: Funds SA Performance Reports for 6 months ending 31 December 2018
Attachments: Half Yearly Performance Report (Funds SA Super SA Police Minister).pdf; Half Yearly Performance Report (MAC).pdf; Half Yearly Performance Report (LSA).pdf

Categories: Kate

Dear Treasurer,

In accordance with the Funds SA Act, please find attached copies of the Funds SA, Motor Accident Commission (MAC) and Lifetime Support Authority (LSA) Performance Reports for the 6 months ending 31 December 2018.

Copies of the reports have been distributed to Funds SA's Multi-Sector Fund investors, MAC and the LSA as appropriate.

Please note, the reports are being provided electronically only. If you would like hard copies please let us know.

Kind regards,

Tony

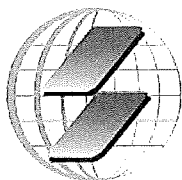
Tony Keenan
Executive Manager, Corporate Engagement

Funds SA

Level 20, 25 Grenfell Street, Adelaide, South Australia 5000
GPO Box 2639, Adelaide, SA 5001
d : +61 8 8204 9001 | t : +61 8 8204 2355 | m : 0437 919 837 | f : +61 8 8204 2366
e : tony.keenan@funds.sa.gov.au | w : www.funds.sa.gov.au

Funds SA is the business name of Superannuation Funds Management Corporation of South Australia.

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FUNDS SA

Funds SA

Multi-Sector Fund Performance Report
Six months ending 31 December 2018

18/19

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1 Introduction

This report provides an overview of performance for Funds SA's suite of multi-sector funds for the period ending 31 December 2018. The report includes details on the financial market environment, fund performance, asset allocations and the expenses incurred in managing the funds. Specific information relating to individual client accounts is included in the monthly performance reports.

The financial market outcomes defining the period to 31 December 2018 are summarised below.

Share markets have been weak and volatile over the last six months, a typical phenomenon of this late stage in the economic cycle

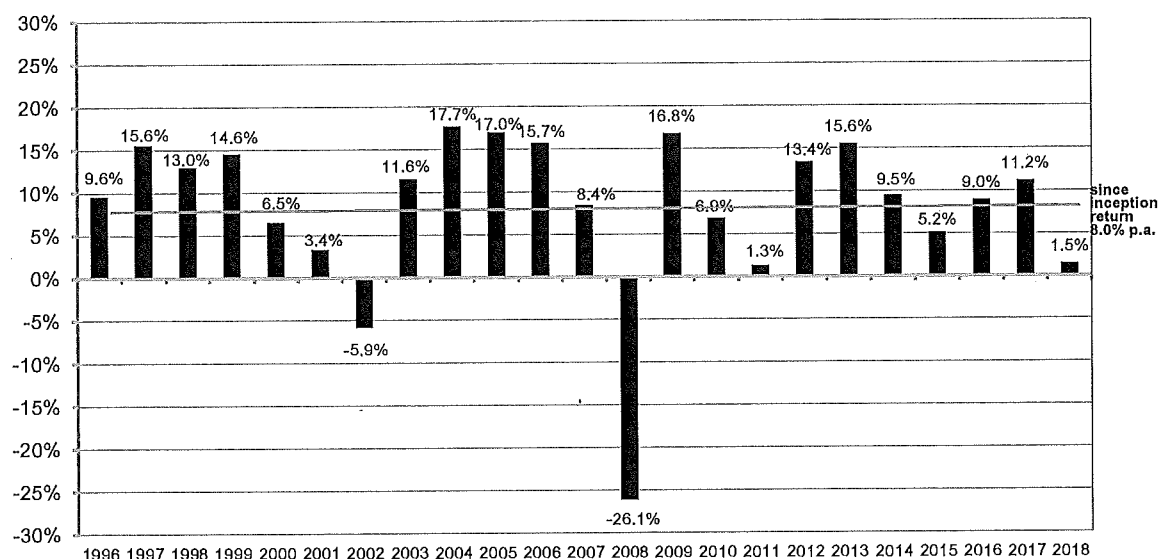
- Australian and global shares (local currency) produced index returns of -7.0% and -8.6%, respectively, for the half year and -3.1% and -7.4% respectively for the calendar year.
- Defensive investments produced low positive returns, with Australian cash and government bonds producing index returns of 1.0% and 3.2%, respectively, for the half year and 1.9% and 5.1% respectively for the calendar year.
- Fears of rising US interest rates coupled with ongoing trade tensions and softening global growth undermined investor confidence. Despite these concerns global economic growth was positive but slowing in China, Europe and Japan whilst US growth remained relatively strong.

Funds SA's portfolios are defensively positioned and performance outcomes are in line with expectations over the medium to longer term

- During the six months to 31 December 2018, the weak performance of shares resulted in returns of the Funds SA multi-sector funds ranging from 1.0% for Cash through to -3.2% for High Growth. Over the calendar year performance ranged from positive 2.0% for Cash through to 0.8% for High Growth.
- The Balanced (tax-exempt) fund (the default fund for the majority of the State's superannuation schemes) returned -1.8% and the Growth (tax-exempt) fund returned -2.2% for the half year and positive 1.5% and 1.3% respectively over the calendar year.
- The State's Defined Benefit scheme, produced a return of -2.2% for the half year and positive 1.8% over the calendar year.

Chart 1: Balanced (tax-exempt) fund performance

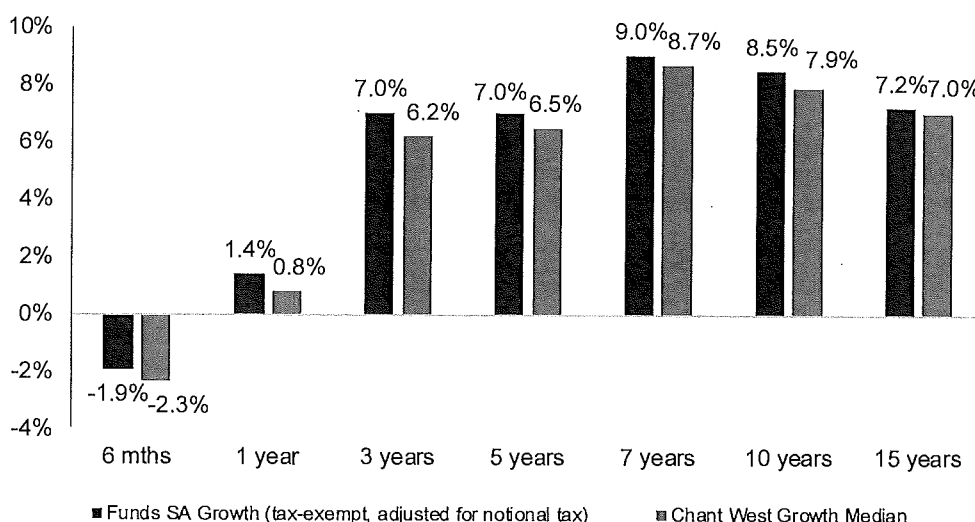
Annual returns net of fees to 31 December



- Longer term performance remains solid. Since the inception of the portfolios in July 1995, for example, the Balanced (tax-exempt) fund has returned 8.0% p.a. and the Growth (tax-exempt) fund has returned 7.9% p.a. The State's Defined Benefit fund has returned 8.0% over the same period.
- The Funds SA multi-sector funds have all performed ahead of their investment objectives for the periods ending 31 December 2018. For example, the Balanced (tax-exempt) fund has a CPI + 3.5% objective measured over a seven year plus investment time frame. The Balanced fund achieved a return of 9.2% p.a. over the seven year period ending 31 December 2018 and is thus well ahead of the investment objective of 5.8% p.a. Similarly, the Growth (tax-exempt) fund has a CPI + 4% objective measured over an eight year plus investment time frame. The Growth fund achieved a return of 8.7% p.a. over the eight year period ending 31 December and again is well ahead of the investment objective of 6.5% p.a.
- Funds SA's Growth Funds are the most readily comparable to industry surveys given the average allocation to growth assets. Funds SA's Growth tax-exempt and the taxable funds, adjusted for tax comparability, performed above the industry benchmark for the half year with returns of -1.9% and -2.1% respectively. The Growth median as surveyed by Chant West returned -2.3%. In addition as shown in the chart below, over all periods surveyed, Funds SA's Growth funds performed above or in line with the Chant West survey median.

Chart 2: Funds SA investment performance vs. industry benchmarks

Funds SA Growth (tax exempt) fund (returns adjusted for tax comparability) vs Chant West Growth Survey median. Returns net of fees and tax to 31 December 2018



Performance for 3 years to 15 years represents % per annum.

Funds under management

- Funds SA's total funds under management fell from \$32,270 million as at 30 June 2018 to \$31,023 million as at 31 December 2018. The decrease was driven by a combination of a fall in market value of \$582 million and net investor cash outflows of \$665 million.

Asset allocations were within the asset class ranges

- As at 31 December 2018, the funds' asset allocations were within the asset class ranges specified within the Performance Plan.

Fees

- The indirect cost ratios (ICRs) for the Funds SA Multi-sector funds were in line with forecasts. The ICR was 0.31% for the Balanced (tax-exempt) fund, 0.34% for the Growth (tax-exempt) fund and 0.39% for the Defined Benefit scheme for the half-year. The relative positioning of Funds SA's fees will be communicated at financial year end.

2 Financial market environment

During the half-year ending 31 December 2018, rising US interest rates and geo-political concerns began to weigh heavily on global share markets.

Investor concerns became elevated in the second half of the year with Australian and international listed equities producing negative returns, whilst defensive assets such as fixed income securities performed positively. Although US economic growth remained strong, fears of rising US interest rates coupled with ongoing trade tensions and softening global growth undermined investor confidence, who began to factor in the prospects of slower growth and lower corporate profits. This environment was conducive for defensive and unlisted assets, which helped diversified portfolios to deliver low positive returns for the calendar year, despite poor listed equity returns.

Economic environment

Global economic growth was positive but slowing in China, Europe and Japan, whilst US growth remained relatively strong. The US economy continued its strong performance, growing over 3% p.a. as the government's tax changes and spending initiatives reached their maximum impact. Unemployment continued to decline, falling below 4% with inflation beginning to show signs of moving higher. The US central bank continued to modestly raise official interest rates toward 2.5%, with market fears that conditions were becoming too restrictive. US equities performed strongly during the first half of the year, but by year-end concerns that higher interest rates and a stronger US dollar would soften domestic economic conditions took effect on markets.

In Europe, economic momentum slowed as strong ties to a softening Asia growth and the continued fragmented political environment impacted on confidence. Growth was positive across most countries in Europe but momentum clearly moved lower. Italy, one of the weaker economies, attempted to increase government spending as a way of propping up growth but this was met with strong resistance from European policy makers in Brussels. Japan also slowed as its strong ties to China and structural demographic headwinds began to weigh as export demand continued to slow resulting in poor equity returns for the year.

Emerging markets were mixed as last year's losers (Brazil and Russia) performed well, given the rise in select commodities, whilst Asian equity bourses underperformed; in particular China, given the focus of the trade dispute with the US. China responded, beginning to loosen policy to offset the impact of the trade dispute and softening growth; however, these measures were not aggressive enough to alter the momentum of the Chinese growth for the year.

Australia performed relatively well, growing just under 3% over the year, assisted by an accommodative monetary policy environment and growing exports and infrastructure spending. Consumer spending was steady, in spite of concerns surrounding falling house prices and potential credit squeeze resulting from the banking royal commission. However, spending was supported by a fall in the savings rate in the face of the slow growth in wages and soft credit growth, although these influences also kept inflation in check. Australian equities were negative but outperformed many global bourses over the year.

Policy environment

The ultra-accommodative monetary policy measures, used to help stabilise economies after the global financial crisis, continued to be wound back in 2018. The US Federal Reserve increased official interest rates over the year from 1.5% to 2.5% and continued unwinding its asset purchase program. Similarly, the UK, Canadian and European central banks began to follow suit despite economic growth appearing to soften. Although inflation remained low, there were early signs that wages and price pressures may begin to turn up. Despite US official cash rates moving higher, long-term bonds moved lower on expectations of a softening growth environment and potential lower future inflation. As such, government debt sector returns were positive over the year with Australia outperforming.

Political environment

The ongoing theme of populist political elections and dysfunctional parliaments continued, this time impacting Australia, US, Britain (Brexit) and France (where rioting forced president Macron to step away from introducing controversial taxes). US-Chinese trade tensions, however, caught much of investors' attention with the tit-for-tat tariff war undermining confidence and Chinese exports. Near the end of the year, US mid-term elections resulted in the Democrats controlling the House of Representatives; investors speculated this was likely to raise the prospects for high-stakes political gamesmanship, as witnessed by the extended government shutdown in December, adding to market volatility.

The chart below depicts the themes discussed above, with world equity markets underperforming as long term sovereign bond yields moved lower in yield (higher in prices).

Chart 3: Developed market global equities and government bond yields

Global Equities represented by the MSCI World Index

Government Bond Yields represented by the Bloomberg Barclays Global Aggregate Treasuries Yield



Source: Bloomberg

Consistent with the above themes:

- Global equity markets performed poorly. Select Emerging and Australian shares outperformed global but almost all markets produced negative returns for the year.
- Most major commodities markets were down. Industrial metals held up but energy performed poorly, particularly in the fourth-quarter, and in doing so reflected the shift in sentiment towards a weaker global growth environment. Gold rose late in the year on rising geo-political tensions.
- Government bonds delivered positive returns, reflecting investors' flight to safety and quality, as well as falling inflation expectations. On the other hand, short-term government bonds underperformed, reflecting the rising policy rate environment in the US.
- Non-government debt markets delivered mixed returns, with those perceived to be the highest risk, such as US High-Yield and Emerging Market debt, underperforming on the back of rising investor risk aversion.
- Australian listed property delivered positive returns and outperformed the broader listed equity market, as the prospect of falling government yields supported the sector. Unlisted property continued to perform well, supported by rising rents and valuation uplifts.
- Other unlisted markets such as infrastructure and private equity, remained well supported as investors sought diversification and higher returns.
- Most currencies underperformed against the US dollar, as it strengthened over the year. Higher US official interest rates, economic growth concerns and rising volatility created strong demand for the global reserve currency. The Australian dollar was only marginally weaker against most major currencies over the course of the year.

The table following shows the returns generated in different financial markets over periods to 31 December 2018.

Table 1: Major market index returns for periods ending 31 December 2018

	6 mths %	1 Year %	3 Years % p.a.	5 Years % p.a.	7 Years % p.a.	10 Years % p.a.
Cash and Fixed Income						
Australian Cash	1.0	1.9	1.9	2.2	2.5	3.1
Australian Government	3.2	5.1	3.7	4.7	4.2	4.5
Australian Inflation-Linked	1.4	3.7	3.0	4.9	4.5	5.8
Global Treasuries ⁽¹⁾	1.8	2.7	3.6	5.0	5.2	5.9
Credit						
Global Credit ⁽¹⁾	1.0	-0.6	4.0	4.8	5.7	7.8
Global High Yield ⁽¹⁾	-1.2	-3.0	7.3	5.6	8.4	13.8
Emerging Market Debt ⁽²⁾	0.7	-4.6	4.7	4.2	4.5	7.8
Property ⁽³⁾						
Australian Unlisted Property	4.3	9.7	11.2	11.1	10.3	8.0
Australian Listed Property	0.2	3.3	7.6	12.5	14.4	10.7
Equities ⁽³⁾						
Australian Equities	-7.0	-3.1	6.7	5.6	9.5	8.9
Global Equities	-8.6	-7.4	6.2	6.0	10.4	10.1
US Equities	-6.9	-4.4	9.3	8.5	12.7	13.1
European Equities	-10.2	-10.6	2.7	3.5	7.6	7.5
Japanese Equities	-12.1	-15.4	0.8	4.7	13.0	7.7
Asia (ex-Japan) Equities	-9.8	-12.3	8.1	5.1	7.1	10.2
Chinese Equities	-8.6	-13.5	1.6	-1.3	0.3	2.5
Emerging Markets	-7.3	-9.7	9.2	5.4	6.8	10.0
Global Small Companies	-15.3	-12.5	5.6	5.5	11.0	12.2
Currency						
AUD vs Developed Market Basket	-4.3	-8.7	-1.3	-3.4	-4.2	0.4
Commodities ⁽⁴⁾						
GSCI Energy	-30.7	-17.1	1.3	-19.4	-13.8	-8.3
GSCI Precious Metals	1.2	-3.6	5.4	0.0	-4.1	2.9
GSCI Industrial Metals	-13.0	-18.0	7.6	-2.8	-3.7	2.4

Source: Bloomberg; Mercer

⁽¹⁾ Hedged to AUD

⁽²⁾ Hedged to USD

⁽³⁾ Local currency

⁽⁴⁾ USD

3 Investment performance

Investment funds

Funds SA manages the funds of South Australia's public sector superannuation schemes and approved public authorities.

Sixteen multi-sector funds have been established for the investment of these funds, comprising eight constructed for tax-exempt investors and eight for investors subject to tax. Both tax-exempt and taxable funds have common names and investment objectives. The States' Defined Benefit scheme assets are invested in a customised multi-sector strategy.

In order to implement the investment strategies for the multi-sector funds, a number of single sector funds (or asset classes) have been set up. These are discussed in Section 5 of this report.

Funds SA's portfolios are defensively positioned and performance outcomes are in line with expectations over the medium to longer term

The tables below show returns achieved for periods ending 31 December 2018.

Table 2: Funds SA multi-sector (tax-exempt) fund investment returns to 31 December 2018
Returns net of fees and gross of tax

	6 mths %	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	1.0	2.0	2.0	2.2	2.6	3.2	4.2	n.a.
Capital Defensive	0.4	2.0	4.2	4.5	5.2	6.3	n.a.	n.a.
Conservative	-0.6	1.6	5.1	5.4	6.7	7.4	6.7	n.a.
Moderate	-1.0	1.7	6.2	6.4	8.0	8.2	n.a.	n.a.
Balanced	-1.8	1.5	7.1	7.2	9.2	8.9	7.6	7.1
Growth	-2.2	1.3	7.7	7.7	10.0	9.3	7.8	7.4
High Growth	-3.2	0.8	8.3	8.2	11.0	10.0	8.1	n.a.
Socially Responsible	-3.7	-0.6	4.6	5.5	8.7	n.a.	n.a.	n.a.
Defined Benefit	-2.2	1.8	8.1	7.9	10.1	9.5	7.9	7.4

As Funds SA is not a tax paying entity, the returns quoted for the taxable funds are gross of tax. Post-tax returns for individual schemes are reported within the monthly performance reports pertaining to each investor.

Table 3: Funds SA multi-sector (taxable) fund investment returns to 31 December 2018
Returns net of fees and gross of tax

	6 mths %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Cash	1.0	2.0	2.0	2.2	2.6	3.2
Capital Defensive	0.4	1.9	4.0	4.2	4.9	6.0
Conservative	-0.6	1.4	4.9	5.1	6.4	7.1
Moderate	-1.1	1.4	5.9	6.0	7.6	7.9
Balanced	-1.8	1.2	6.8	6.8	8.7	8.6
Growth	-2.3	1.1	7.4	7.3	9.5	9.0
High Growth	-3.2	0.6	7.9	7.8	10.5	9.7
Socially Responsible	-3.7	-0.6	4.6	5.5	8.7	n.a.

During the six month period to 31 December 2018, the poor performance of shares (both Australian and International), modest performance of defensive assets and continued strong performance of unlisted assets (property, private equity and infrastructure) resulted in the returns of the Funds SA multi-sector funds ranging from 1% for Cash through to -3.7% for the Socially Responsible fund.

Returns have been solid over the long-term as can be seen in the 20 year data. For example, for the 20-year period ending 31 December 2018, the Balanced (tax-exempt) fund has returned 7.1% p.a. and the Growth (tax-exempt) fund returned 7.4% p.a. However, as highlighted previously in the Performance Plans, looking forward, an extended period of lower returns is likely.

Funds SA continues to assess how to effectively manage the investment portfolios in the current economic environment. For many years it has been a strategic objective to build portfolios using asset classes that can be expected to perform in different yet complementary ways in various economic and financial market environments. This has resulted in highly diversified investment portfolios, thereby providing a more stable return profile for investors.

All funds recorded returns above their investment objectives

The primary return measure for the multi-sector funds is the investment objective for each of the funds as included in the Performance Plan. The objectives contain a return objective expressed as a margin over inflation, a time horizon over which there is reasonable likelihood of achieving the objective, and a risk dimension expressed as the possible frequency of a negative annual return.

The following table shows the return earned by each multi-sector fund against the respective investment objective of each. The returns are expressed over the relevant time horizon for each investment objective. As the Socially Responsible fund does not have a quantitative investment objective, it is not shown in the table below.

Table 4: Funds SA multi-sector fund performance vs. investment objective
For periods ending 31 December 2018
Portfolio returns net of fees

	Investment horizon	Investment objective ¹ %p.a.	Tax-exempt fund performance ¹ %p.a.	Taxable fund performance ¹ (before tax) %p.a.
Cash ²	0+ years	Maintain value of capital	2.0%	2.0%
Capital Defensive	2+ years	(CPI + 1.5%) = 3.4%	3.8%	3.6%
Conservative	4+ years	(CPI + 2%) = 3.9%	4.8%	4.6%
Moderate	6+ years	(CPI + 3%) = 5.2%	7.3%	6.9%
Balanced	7+ years	(CPI + 3.5%) = 5.8%	9.2%	8.7%
Growth	8+ years	(CPI + 4%) = 6.5%	8.7%	8.1%
High Growth	10+ years	(CPI + 4.5%) = 7.1%	10.0%	9.7%
Defined Benefit	10+ years	(CPI + 4.5%) = 6.7%	9.5%	n.a.

1. Investment objectives and fund performance are expressed over the stated investment horizon for each fund. Note where the return objectives have changed over time, the objective return series reflects a combination of the former and current return objective.

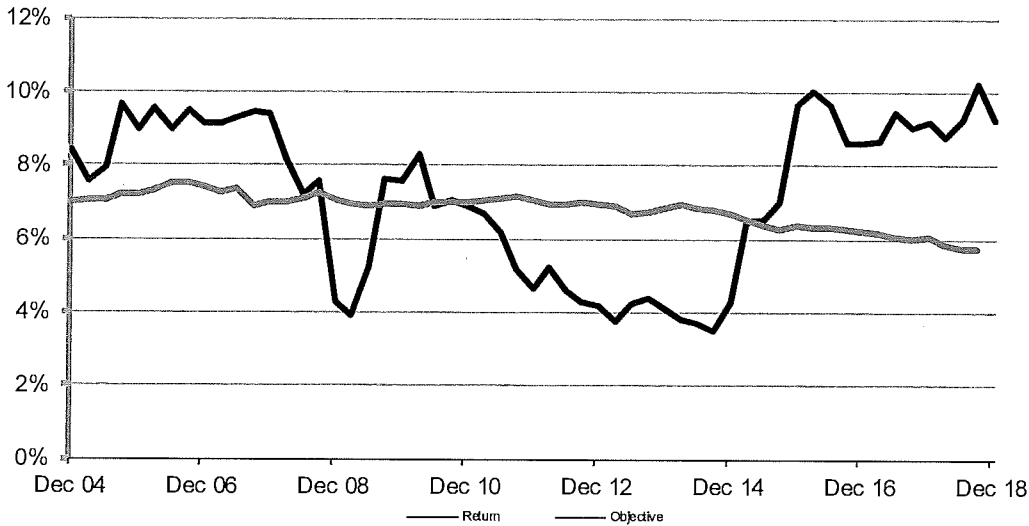
2. The Cash fund performance is assessed over 1 year rolling periods.

As can be seen in the table above, the funds have recorded returns above their respective investment objectives for periods ending 31 December 2018.

Chart 4 illustrates the Balanced (tax-exempt) fund's return against its investment objective over time. The chart shows that the Balanced fund has performed materially ahead of its objective for the most recent 7 year period ending 31 December 2018. The chart also highlights the prolonged impact on returns caused by the GFC up until 2014.

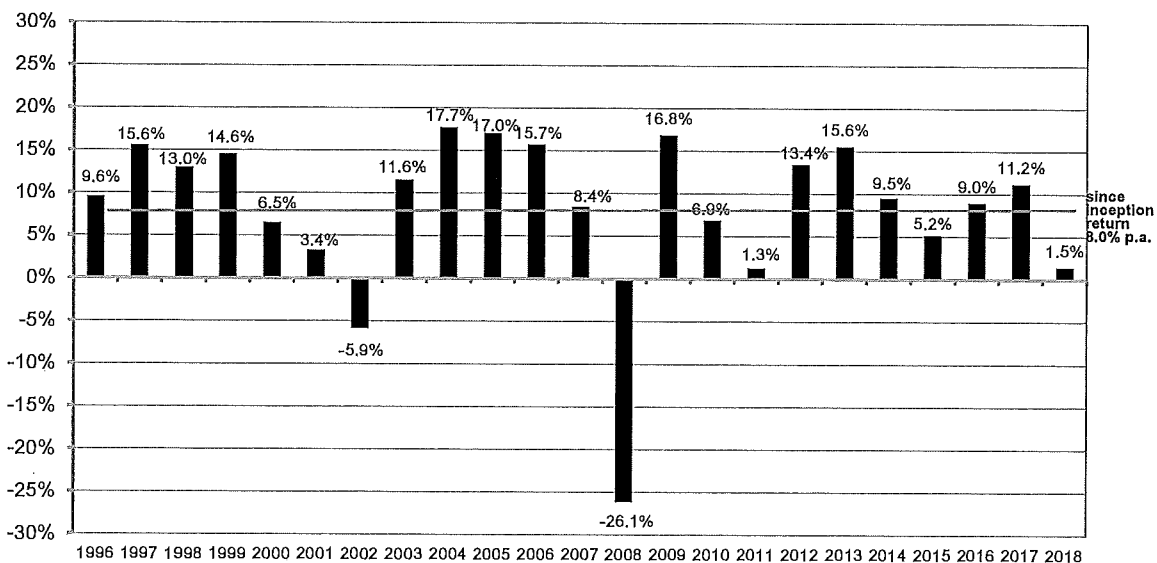
Chart 4: Balanced (tax-exempt) fund performance vs. investment objective

7 year rolling returns, portfolio returns net of fees
Investment objective: CPI + 3.5% [CPI + 4% prior to 1 January 2016]



The volatility of returns and the impact that certain performance periods can have is illustrated in the chart below. The chart shows the annual returns of the Balanced (tax-exempt) fund since inception in 1995 to 31 December 2018. For growth oriented portfolios such as the Balanced fund, shorter term returns can be volatile, with annual returns ranging from a high of 17.7% to a low of -26.1% over the period. However, the annualised return over the total period is 8.0% p.a. Note, the returns earned during the GFC were the worst in the Balanced fund's history.

**Chart 5: Balanced (tax-exempt) fund performance
Annual returns to 31 December**



Further discussion on each of the multi-sector funds is included in the appendices.

The risk characteristics of the funds are in line with expectations

As an indicator of risk profile, the investment objectives include an expectation of the frequency of negative returns. For example, the Balanced fund's investment objective states that a negative return might occur between 3 and 4 years in 20 (which equates to a probability of 15-20% in any one-year).

As Chart 5 shows, looking back over the history of the Balanced fund it has recorded two negative calendar year returns since its inception in 1995.

Similarly, the risk characteristics of the other multi-sector funds are in line with expectations.

Benchmark relative performance is positive over longer term periods

Whilst the investment objectives are the primary return measure, Funds SA also monitors performance against a tailored benchmark for each fund. The benchmark return reflects the performance of the underlying asset class benchmarks, weighted by the strategic (or target) asset allocation of the fund.

The asset class benchmarks are typically the relevant market index or a blend of market indices. However, for some asset classes (particularly unlisted assets and alternatives) there are no reasonable market indices available and hence the benchmark adopted is typically expressed as a margin over cash. Because of this, the volatility of returns around the benchmark is likely to be high over shorter periods. As such, caution should be taken when assessing performance of the multi-sector funds versus benchmark, particularly over shorter periods.

For periods of one-year and greater ending 31 December 2018, performance was generally above or in line with the benchmark across Funds SA's multi-sector funds. Performance was generally below benchmark for the six-month period.

The table below shows the performance of Funds SA's Balanced (tax-exempt) fund versus benchmark for periods ending 31 December 2018. Note the portfolio return is net of fees, while the benchmark return is gross of fees. Similar tables for each of the multi-sector funds are included in the appendices.

Table 5: Funds SA Balanced (tax-exempt) fund performance against benchmark

Periods ending 31 December 2018
Portfolio returns net of fees

	6 mths %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.	15 years % p.a.	Since inception ¹ % p.a.
Portfolio return	-1.8	1.5	7.1	7.2	9.2	8.9	7.6	8.0
Benchmark return	-1.4	1.6	6.7	6.9	8.6	8.3	7.2	7.5
Active return	-0.4	-0.1	0.4	0.3	0.6	0.6	0.4	0.4

1. Inception on 30 June 1995.

Note that due to rounding, the active returns shown may not exactly equal the difference between the portfolio and benchmark returns.

The Balanced (tax-exempt) fund returned -1.8% for the half year ending 31 December 2018, below the benchmark return of -1.4%. Over all other periods the fund outperformed, or was broadly in line with, benchmark performance.

Over the past 6 months, the key contributor to the Balanced (tax-exempt) fund's performance relative to benchmark was the weak active return achieved by the international shares asset class along with the modest overweight to this asset class. The performance of the Diversified Strategies Income asset class relative to its benchmark also detracted from relative performance whilst the active returns achieved by the Diversified Strategies Growth and Inflation-Linked Securities asset classes positively contributed to relative performance.

Benchmark relative performance for the asset classes is discussed further in Section 5.

Performance versus industry benchmarks

Performance against industry surveys¹ is monitored as a general reasonableness check on Funds SA's strategies. This comparison acknowledges that the strategies for different funds vary depending on the objectives for each, the requirements of the underlying membership and differing tax arrangements, which can impact on performance outcomes. As such, comparisons should only be used as a rough guide given the difficulties associated with making 'like for like' comparisons.

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 Funds SA's tax-exempt funds, an estimated 'notional' tax rate on investment earnings is applied to the Funds SA tax-exempt fund returns.

Performance of the Funds SA Balanced and Growth funds, adjusted for tax comparability, for periods ending 31 December 2018 is shown in the following tables against the Chant West industry survey. Of the funds shown, the Funds SA Growth funds are the most readily comparable to industry surveys because the allocation to growth assets within these funds is the closest to the industry survey median.

Table 6: Funds SA investment performance vs. industry benchmarks

Periods ending 31 December 2018
Returns net of fees and tax

Tax-exempt funds

	Growth assets	6 mths	1 year	3 years	5 years	7 years	10 years	15 years
	%	%	%	% p.a.	% p.a.	% p.a.	% p.a.	% p.a.
Funds SA Balanced (tax-exempt, adjusted for notional tax)	64	-1.5	1.5	6.5	6.5	8.3	8.1	7.0
Funds SA Growth (tax-exempt, adjusted for notional tax)	73	-1.9	1.4	7.0	7.0	9.0	8.5	7.2
Chant West Growth Median ¹	72	-2.3	0.8	6.2	6.5	8.7	7.9	7.0

1. Source: Chant West Pty Limited (www.chantwest.com.au) Media Release 17 January 2019. Growth category includes funds with between 61% and 80% growth assets, and a median growth allocation of 72%. For important information about the data provided by Chant West, refer last page of report.

Taxable funds

	Growth assets	6 mths	1 year	3 years	5 years	7 years	10 years
	%	%	%	% p.a.	% p.a.	% p.a.	% p.a.
Funds SA Balanced (taxable)*	65	-1.6	1.1	6.1	6.1	7.8	7.7
Funds SA Growth (taxable)*	73	-2.1	1.0	6.8	6.7	8.7	8.2
Chant West Growth Median ¹	72	-2.3	0.8	6.2	6.5	8.7	7.9

1. Source: Chant West Pty Limited (www.chantwest.com.au) Media Release 17 January 2019. Growth category includes funds with between 61% and 80% growth assets, and a median growth allocation of 72%. For important information about the data provided by Chant West, refer last page of report. *Indicative client

Over all periods surveyed Funds SA's Growth funds performed above or in line with the Chant West survey median. As shown in the table above, Funds SA's Growth tax-exempt and taxable funds, adjusted for tax comparability, performed above the industry benchmark for the half year with returns of -1.9% and -2.1% respectively. The Growth median as surveyed by Chant West returned -2.3%.

Funds SA Balanced (tax exempt) fund recorded performance above or in line with the survey median return for all periods with the exception of the 7 year period. The Funds SA Balanced (taxable) fund recorded performance above or in line with the survey median return over the six months, 1 year and 3 years ending 31 December 2018. Over longer periods the fund returns are below the survey median.

It is of note that the Funds SA Balanced funds (both tax-exempt and taxable) have a lower allocation to growth assets (64%, 65% respectively) versus the median fund (72%) in the Growth survey. The Multi-sector funds remain well diversified; it has been a strategic objective to build portfolios that have less exposure to share markets, to help safely navigate through turbulent periods. Although portfolios are not immune to the volatility stemming from share markets, the asset mix of the funds, including high quality bonds, property, private equity and other unlisted assets, have helped to lessen the gyrations and deliver a smoother return profile for investors.

¹ Whilst the 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.

4 Asset allocation

The composition of the multi-sector funds

The multi-sector funds invest in common asset class (or 'single sector') funds according to the strategic asset allocation (SAA) determined for each. The SAA is the configuration of asset classes which, if held over the long-term, has a reasonable likelihood of achieving the investment objective.

The Socially Responsible fund asset allocation and underlying single sectors are managed by AMP Capital. The Socially Responsible fund does not invest in Funds SA's single sector funds.

Positioning as at 31 December 2018

The asset allocations of the multi-sector funds, as at 31 December 2018, are shown in the tables below.

Table 7: Funds SA multi-sector tax-exempt fund asset allocations as at 31 December 2018

	Rebalancing Range	Cash	Capital Defensive	Conservative	Moderate	Balanced	Growth	High Growth	DB High Growth
	%	%	%	%	%	%	%	%	%
Cash									
Actual		100.0	14.9	9.9	7.8	1.8	1.8	1.8	0.5
Strategic		100.0	15.0	10.0	8.0	2.0	2.0	2.0	2.0
Variance	0% to +20%	0.0	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-1.5
Short-Term Fixed Interest									
Actual		0.0	29.7	17.7	6.7	2.7	0.0	0.0	0.0
Strategic		0.0	30.0	18.0	7.0	3.0	0.0	0.0	0.0
Variance	± 5%	0.0	-0.3	-0.3	-0.3	-0.3	0.0	0.0	0.0
Long-Term Fixed Interest									
Actual		0.0	4.9	4.9	8.9	7.9	3.9	0.0	0.0
Strategic		0.0	5.0	5.0	9.0	8.0	4.0	0.0	0.0
Variance	± 5%	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0
Inflation-Linked Securities A									
Actual		0.0	15.2	16.2	12.2	9.3	6.3	0.0	0.0
Strategic		0.0	15.0	16.0	12.0	9.0	6.0	0.0	3.0
Variance	± 5%	0.0	0.2	0.2	0.2	0.3	0.3	0.0	-3.0
Diversified Strategies Income									
Actual		0.0	17.4	18.4	17.1	16.1	16.1	12.1	14.9
Strategic		0.0	17.0	18.0	17.0	16.0	16.0	12.0	15.0
Variance	± 5%	0.0	0.4	0.4	0.1	0.1	0.1	0.1	-0.1
Property A									
Actual		0.0	6.3	9.4	10.2	12.2	14.1	16.2	17.9
Strategic		0.0	6.0	9.0	10.0	12.0	14.0	16.0	16.0
Variance	± 5%	0.0	0.3	0.4	0.2	0.2	0.1	0.2	1.9
Australian Equities A									
Actual		0.0	4.4	10.4	14.0	19.0	21.9	28.0	23.1
Strategic		0.0	6.0	12.0	16.0	21.0	24.0	30.0	25.0
Variance	± 5%	0.0	-1.6	-1.6	-2.0	-2.0	-2.1	-2.0	-1.9
International Equities A									
Actual		0.0	7.1	13.2	16.8	21.8	24.8	30.8	26.5
Strategic		0.0	6.0	12.0	16.0	21.0	24.0	30.0	25.0
Variance	± 5%	0.0	1.1	1.2	0.8	0.8	0.8	0.8	1.5
Diversified Strategies Growth A									
Actual		0.0	0.0	0.0	6.1	9.1	11.1	11.1	17.1
Strategic		0.0	0.0	0.0	5.0	8.0	10.0	10.0	14.0
Variance	± 5%	0.0	0.0	0.0	1.1	1.1	1.1	1.1	3.1
Total		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note that due to rounding, the sum of the individual numbers within the table may not equal the totals quoted.

	Cash	Capital Defensive	Conservative	Moderate	Balanced	Growth	High Growth	DB High Growth
Performance Plan compliance - asset class ranges	Complies	Complies	Complies	Complies	Complies	Complies	Complies	Complies

Table 8: Funds SA multi-sector taxable fund asset allocations as at 31 December 2018

	Rebalancing Range	Cash	Capital Defensive	Conservative	Moderate	Balanced	Growth	High Growth
	%	%	%	%	%	%	%	%
Cash								
Actual		100.0	14.2	9.2	7.0	1.0	1.0	1.0
Strategic		100.0	15.0	10.0	8.0	2.0	2.0	2.0
Variance	0% to +20%	0.0	-0.8	-0.8	-1.0	-1.0	-1.0	-1.0
Short-Term Fixed Interest								
Actual		0.0	29.7	17.7	6.7	2.7	0.0	0.0
Strategic		0.0	30.0	18.0	7.0	3.0	0.0	0.0
Variance	± 5%	0.0	-0.3	-0.3	-0.3	-0.3	0.0	0.0
Long-Term Fixed Interest								
Actual		0.0	5.0	5.0	9.0	8.0	4.0	0.0
Strategic		0.0	5.0	5.0	9.0	8.0	4.0	0.0
Variance	± 5%	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inflation-Linked Securities B								
Actual		0.0	15.1	16.1	12.1	9.1	6.1	0.0
Strategic		0.0	15.0	16.0	12.0	9.0	6.0	0.0
Variance	± 5%	0.0	0.1	0.1	0.1	0.1	0.1	0.0
Diversified Strategies Income								
Actual		0.0	18.0	19.0	17.6	16.6	16.5	12.5
Strategic		0.0	17.0	18.0	17.0	16.0	16.0	12.0
Variance	± 5%	0.0	1.0	1.0	0.6	0.6	0.5	0.5
Property B								
Actual		0.0	6.4	9.4	10.1	12.1	14.1	16.1
Strategic		0.0	6.0	9.0	10.0	12.0	14.0	16.0
Variance	± 5%	0.0	0.4	0.4	0.1	0.1	0.1	0.1
Australian Equities B								
Actual		0.0	5.3	11.3	14.8	20.6	23.7	30.7
Strategic		0.0	7.0	13.0	17.0	23.0	26.0	33.0
Variance	± 5%	0.0	-1.7	-1.7	-2.2	-2.4	-2.3	-2.3
International Equities B								
Actual		0.0	6.3	12.3	15.9	19.9	22.8	27.9
Strategic		0.0	5.0	11.0	15.0	19.0	22.0	27.0
Variance	± 5%	0.0	1.3	1.3	0.9	0.9	0.8	0.9
Diversified Strategies Growth B								
Actual		0.0	0.0	0.0	6.9	10.0	11.8	11.8
Strategic		0.0	0.0	0.0	5.0	8.0	10.0	10.0
Variance	± 5%	0.0	0.0	0.0	1.9	2.0	1.8	1.8
Total		100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note that due to rounding, the sum of the individual numbers within the table may not equal the totals quoted.

	Cash	Capital Defensive	Conservative	Moderate	Balanced	Growth	High Growth
Performance Plan compliance - asset class ranges	Complies	Complies	Complies	Complies	Complies	Complies	Complies

As at 31 December 2018, the asset mix for each of the multi-sector funds was within the asset class ranges, as noted above.

The overweight international equities, underweight Australian equities positions show the progress to date towards implementing the 2018-19 Performance Plan multi-sector strategies. Progressive moves towards the new strategies will continue over the remainder of the financial year.

Funds SA continues to closely monitor the investment strategies and rebalance the portfolios as appropriate in light of prevailing market conditions, cashflows and liquidity.

The following tables show the allocation to growth assets for each of the multi-sector funds, against the strategic weights range as documented in the Performance Plan.

Table 9: Funds SA multi-sector tax-exempt fund growth allocations as at 31 December 2018

Growth assets*	Cash	Capital Defensive	Conservative	Moderate	Balanced	Growth	High Growth	DB High Growth
	%	%	%	%	%	%	%	%
Actual	0.0	24.4	38.6	50.8	64.0	72.8	84.1	82.4
Strategic	0.0	25.0	35.0	50.0	65.0	75.0	85.0	80.0
Variance	0.0	-0.6	3.6	0.8	-1.0	-2.2	-0.9	2.4

Performance Plan
compliance:

Growth range	n.a.	15 - 35	25 - 45	40 - 60	55 - 75	65 - 85	75 - 100	70 - 100
Compliance	Complies	Complies	Complies	Complies	Complies	Complies	Complies	Complies

* 'Growth' assets include equities, certain types of property, private equity and other growth opportunities. The remainder of the funds are invested in 'Defensive' assets, including fixed income, inflation linked bonds and cash.

Table 10: Funds SA multi-sector taxable fund growth allocations as at 31 December 2018

Growth assets*	Cash	Capital Defensive	Conservative	Moderate	Balanced	Growth	High Growth
	%	%	%	%	%	%	%
Actual	0.0	24.8	39.0	51.3	64.6	73.3	84.6
Strategic	0.0	25.0	35.0	50.0	65.0	75.0	85.0
Variance	0.0	-0.2	4.0	1.3	-0.4	-1.7	-0.4

Growth range	n.a.	15 - 35	25 - 45	40 - 60	55 - 75	65 - 85	75 - 100
Compliance	Complies	Complies	Complies	Complies	Complies	Complies	Complies

* 'Growth' assets include equities, certain types of property, private equity and other growth opportunities. The remainder of the funds are invested in 'Defensive' assets, including fixed income, inflation linked bonds and cash.

As at 31 December 2018, the asset mix for each of the multi-sector funds was within the growth ranges, as noted above.

5 Asset classes

Our asset classes

Funds SA has established single sector funds covering the major asset classes, including cash, fixed interest, property, equities and alternatives. These are the building blocks for the multi-sector funds.

Certain funds have been established for tax-exempt investors (referred to as the 'A' portfolios) and certain have been established for taxable investors (referred to as the 'B' portfolios). The remaining asset classes are common to both tax-exempt and taxable investors. The A and B portfolios have been structured to provide similar investment outcomes with respect to expected risk and return.

The Socially Responsible fund does not invest in Funds SA's single sector funds.

Share markets have been weak over the last six months, while cash and bond assets recorded modest positive returns

Australian and International Equities were the weakest performing asset classes for the half year recording returns of less than -7%, while the cash and bond related asset classes produced modest positive returns of between 1% and 2%. Unlisted asset classes, property and Diversified Strategies Growth produced strong returns over 4%.

The returns for each of the asset classes versus benchmark for periods ending 31 December 2018 are shown in the table overleaf. It should be noted that the portfolio return is net of fees, while the benchmark return is gross of fees.

Asset class performance relative to benchmark was mixed

Funds SA measures the performance of each asset class against a benchmark. The benchmarks are the relevant market index or blend of market indices, or where no reasonable market index is available, the return expected from the asset class over the medium term (expressed as a margin over cash). The benchmark for each single sector fund at the end of the reporting period is included in Appendix 3.

For the six months ending 31 December 2018, in terms of benchmark-relative performance, performance was mixed amongst the asset classes, with Diversified Strategies Growth the standout as discussed further below.

It should be noted that for asset classes with cash plus benchmarks, such as Diversified Strategies Income and Diversified Strategies Growth, the volatility of returns around the benchmark is likely to be high over shorter periods as the underlying assets of the portfolio are not necessarily the same as those in the benchmark, as returns are smoothed out over longer periods.

Cash

The portfolio returned 1.0% over the past six months, performing in line with its benchmark.

Short-Term Fixed Interest

The portfolio returned 1.7% over the past six months, performing in line with its benchmark.

Long-Term Fixed Interest

The portfolio returned 2.2% over the past six months, underperforming its benchmark which returned 3.0%. Both active managers contributed to this result, with active country and currency positioning detracting modestly.

Inflation-Linked Securities

The Inflation-Linked Securities A portfolio returned 1.9%, outperforming its benchmark which returned 1.0%. The Inflation-Linked Securities B portfolio returned 1.1%, outperforming its benchmark which returned 0.8%. Domestic active manager strategies contributed to this result for both A and B portfolios due to significantly outperforming the benchmarks through relative value opportunities. The internally managed assets also contributed to this result for portfolio A due to gains on disposal of directly held assets.

Table 11: Funds SA asset class returns to 31 December 2018

	6 mths	1 year	3 years	5 years	7 years	10 years
	%	%	% p.a.	% p.a.	% p.a.	% p.a.
Cash						
Portfolio return	1.0	2.0	2.0	2.2	2.6	3.2
Benchmark return	1.0	1.9	1.9	2.2	2.5	3.1
Active return	0.0	0.1	0.1	0.1	0.1	0.1
Short-Term Fixed Interest⁽¹⁾						
Portfolio return	1.7	3.2	2.7	3.0	3.4	n.a.
Benchmark return	1.7	3.0	2.6	3.1	3.4	n.a.
Active return	0.0	0.2	0.1	0.0	0.0	n.a.
Long-Term Fixed Interest						
Portfolio return	2.2	3.6	4.0	5.2	5.3	7.3
Benchmark return	3.0	4.5	4.2	5.7	5.6	6.5
Active return	-0.8	-0.9	-0.2	-0.5	-0.3	0.8
Inflation-Linked Securities A						
Portfolio return	1.9	4.4	3.6	4.3	4.5	5.9
Benchmark return	1.0	2.9	2.9	4.1	4.0	5.3
Active return	0.9	1.5	0.6	0.2	0.5	0.5
Diversified Strategies Income						
Portfolio return	0.6	-0.6	4.4	4.4	5.6	7.7
Benchmark return	1.1	0.7	4.8	5.0	5.9	7.4
Active return	-0.5	-1.3	-0.4	-0.5	-0.3	0.3
Property A						
Portfolio return	4.4	9.9	11.4	11.8	11.4	8.9
Benchmark return	4.3	9.4	11.0	11.6	11.2	8.7
Active return	0.1	0.5	0.4	0.2	0.3	0.2
Australian Equities A						
Portfolio return	-7.3	-3.0	6.8	5.6	9.4	9.0
Benchmark return	-7.0	-3.1	6.7	5.6	9.5	8.9
Active return	-0.2	0.1	0.2	0.0	-0.1	0.1
International Equities A						
Portfolio return	-7.4	-3.3	8.4	8.9	14.0	11.9
Benchmark return	-6.0	-1.7	8.8	9.0	13.6	11.2
Active return	-1.3	-1.6	-0.4	-0.1	0.4	0.8
Diversified Strategies Growth A						
Portfolio return	4.7	12.4	12.8	13.1	12.5	11.8
Benchmark return	3.0	6.0	6.0	6.2	6.6	7.1
Active return	1.7	6.4	6.8	6.9	6.0	4.7
Inflation-Linked Securities B⁽²⁾						
Portfolio return	1.1	3.2	3.1	3.7	3.9	5.3
Benchmark return	0.8	2.6	2.9	3.8	3.9	5.2
Active return	0.3	0.6	0.2	-0.1	0.1	0.0
Property B⁽³⁾						
Portfolio return	4.4	9.9	11.2	11.3	10.9	8.9
Benchmark return	4.3	9.4	11.0	11.6	11.2	8.8
Active return	0.0	0.5	0.2	-0.3	-0.2	0.1
Australian Equities B⁽³⁾						
Portfolio return	-7.5	-3.2	6.8	5.7	9.3	8.9
Benchmark return	-7.0	-3.1	6.7	5.6	9.5	8.9
Active return	-0.4	-0.2	0.2	0.1	-0.2	0.0
International Equities B⁽³⁾						
Portfolio return	-7.2	-3.6	7.9	8.6	13.9	11.9
Benchmark return	-5.9	-1.7	8.7	9.0	13.7	11.2
Active return	-1.3	-1.9	-0.9	-0.4	0.2	0.6
Diversified Strategies Growth B⁽²⁾						
Portfolio return	4.4	11.7	12.7	12.6	12.1	10.9
Benchmark return	3.0	6.0	6.0	6.2	6.6	7.1
Active return	1.4	5.7	6.8	6.4	5.6	3.8

1. Data not available for several time periods as portfolio established June 2010.

2. Return series reflects investment in the respective A portfolio prior to establishment of the B portfolio in June 2008.

3. Return series reflects investment in the respective A portfolio prior to establishment of the B portfolio in October 2007.

Note that due to rounding, the active returns shown may not exactly equal the difference between the portfolio and benchmark returns.

Diversified Strategies Income

The portfolio returned 0.6% over the past six months, underperforming its benchmark which returned 1.1%. Both the diversified debt component and absolute return strategies underperformed their respective benchmarks during this period.

Property

The Property A and B portfolios were in line with their benchmarks for the six months to December 2018. The strength in the commercial office market across Australia contributed to the return outcome, particularly in Sydney and Melbourne. Whilst capital growth has been the key driver of returns across the entire portfolio, the rate of growth has slowed and demand for retail assets in particular has softened in recent months.

Australian Equities

The Australian Equities A and B portfolios underperformed their respective benchmarks for the six months ending December 2018 by 0.2% and 0.4% respectively. Stock selection in the broad market sector detracted relative return the most; this was only partly offset by stock selection in the small cap segment. At the sector level, outperformance was mostly driven by an overweight exposure to industrials whereas the biggest detractors were an underweight to the defensive property trusts as well as an overweight exposure to the weakest performing energy sector. The key portfolio changes made during this period were Funds SA redeeming in full out of Karara, appointing two new managers Touchstone and Ethical Partners in the Australian Equities Portfolio and making initial capital allocations to them.

International Equities

The International Equities A and B portfolios underperformed their respective benchmarks by 1.3% each over the six months to December 2018. Underperformance was largely driven by the negative contribution from stock selection in the developed markets where the portfolios had a slight overweight positioning. At the sector level, an overweight to healthcare and an underweight to energy added value, whilst underweight positions to the two resilient sectors of utilities and telecoms detracted value. Both of Fund SA's quantitative managers (LSV and AQR) witnessed one of their weakest performances during this period, having been heavily impacted by whipsawing of markets and headwinds from value signals during a period in which value style has materially lagged growth. There were no portfolio changes during this period.

Diversified Strategies Growth

The Diversified Strategies Growth portfolios both generated returns above benchmark over the six months to December 2018. The private equity sub-sector positively contributed to performance but Australian infrastructure funds detracted from performance as specific regulatory issues had a negative impact on asset valuations.

The composition of the single sector funds

Integral to the strategic asset allocation process is the development of strategies for each of the asset classes, including the engagement of appropriate external fund managers. The following tables summarise the sub-sector strategies employed for the asset classes together with the fund managers engaged to implement the strategies as at 31 December 2018.

Table 12: Funds SA asset sector structure for tax-exempt funds as at 31 December 2018*

Sector	Sub-sector allocations		Fund managers
<i>Cash</i>			Macquarie Investment Management
<i>Short-Term Fixed Interest</i>	100%	Australian	Macquarie Investment Management
Long-Term Fixed Interest (International assets hedged to AUD)	50%	Australian	BlackRock Asset Management
	50%	Global	Brandywine Global Colchester Global Investors
<i>Inflation-Linked Securities A</i> (International assets hedged to AUD)	90%	Australian	Ardea Investment Management Colonial First State Funds SA Internally Managed
	10%	Global	Colchester Global Investors
Diversified Strategies Income (International assets hedged to AUD)	60%	Diversified Debt	Ares Management BlueBay Asset Management Columbia Threadneedle Investments GMO & Co Macquarie Investment Management Oak Hill Advisors Putnam Investments Wellington Management Company
	40%	Absolute Return	Bridgewater Associates Brandywine Global GMO & Co LGT Capital Partners
<i>Property A</i>	85%	Australian Core Property	AMP Capital Dexus Wholesale Property GPT Funds Management Investa Funds Management Lend Lease
	15%	Australian Non-Core Property	CorVal Partners Vanguard Vicinity Centres
<i>Australian Equities A</i>	15%	Large Caps	Balanced Equity Management
	82%	Broad Market	Ethical Partners Greencape Capital Investors Mutual Northcape Capital Touchstone Vinva Investment Management
	3%	Small Caps	Investors Mutual
International Equities A (20% developed markets component hedged to AUD)	75%	Global Broad Market	Applied Quantitative Research Harding Loevner Invesco LSV Asset Management Massachusetts Financial Services Mondrian Investment Partners
	10%	Small Companies	Dimensional Fund Advisors Lord Abbett Growth Fidelity Worldwide Investment
	15%	Emerging Markets	Genesis Investment Management LSV Asset Management Mondrian Investment Partners Wellington Management Company
Diversified Strategies Growth A (International assets hedged to AUD)	50%	Private Markets	33 Fund Managers
	50%	Infrastructure	4 Fund Managers
	0%	Other Opportunities	2 Fund Managers

* The sub-sector strategies and fund managers listed in the table above are subject to change. Funds SA's continual monitoring and annual sector reviews re-evaluate the appropriateness of investment strategies and managers on a frequent basis.

Table 13: Funds SA asset sector structure for taxable funds as at 31 December 2018*

Sector	Sub-sector allocations		Fund managers
<i>Cash</i>			Macquarie Investment Management
<i>Short-Term Fixed Interest</i>	100%	Australian	Macquarie Investment Management
Long-Term Fixed Interest (International assets hedged to AUD)	50%	Australian	BlackRock Asset Management
	50%	Global	Brandywine Global Colchester Global Investors
<i>Inflation-Linked Securities B</i> (International assets hedged to AUD)	85%	Australian	Ardea Investment Management Colonial First State
	15%	Global	Colchester Global Investors
Diversified Strategies Income (International assets hedged to AUD)	60%	Diversified Debt	Ares Management BlueBay Asset Management Columbia Threadneedle Investments GMO & Co Macquarie Investment Management Oak Hill Advisors Putnam Investments Wellington Management Company
	40%	Absolute Return	Bridgewater Associates Brandywine Global GMO & Co LGT Capital Partners
<i>Property B</i>	85%	Australian Core Property	AMP Capital Dexus Wholesale Property GPT Funds Management Investa Funds Management Lend Lease
	15%	Australian Non-Core Property	CorVal Partners Vanguard Vicinity Centres
<i>Australian Equities B</i>	15%	Large Caps	Balanced Equity Management
	82%	Broad Market	Ethical Partners Greencape Capital Investors Mutual Northcape Capital Touchstone Vinva Investment Management
	3%	Small Caps	Investors Mutual
International Equities B (20% developed markets component hedged to AUD)	75%	Global Broad Market	Applied Quantitative Research Harding Loevner Invesco LSV Asset Management Massachusetts Financial Services Mondrian Investment Partners
	10%	Small Companies	Fidelity Worldwide Investment
	15%	Emerging Markets	Genesis Investment Management LSV Asset Management Mondrian Investment Partners Wellington Management Company
Diversified Strategies Growth B (International assets hedged to AUD)	50%	Private Markets	24 Fund Managers
	50%	Infrastructure	4 Fund Managers
	0%	Other Opportunities	3 Fund Managers

* The sub-sector strategies and fund managers listed in the table above are subject to change. Funds SA's continual monitoring and annual sector reviews re-evaluate the appropriateness of investment strategies and managers on a frequent basis.

The single sector strategy for the Socially Responsible fund is determined by the underlying fund manager, AMP Capital.

Descriptions of the fund managers appointed by Funds SA can be found on the Secure Login area of the Funds SA website under 'Portfolio Information'.

Portfolio changes during the period

Funds SA's continual monitoring and annual sector reviews re-evaluate the appropriateness of investment strategies and fund managers on a frequent basis. Changes made to the asset classes during the 2018-19 financial year are detailed below.

Table 14: Portfolio changes during the 2018-19 financial-year-to-date

Sector	Portfolio Changes
Diversified Strategies Income	<ul style="list-style-type: none"> Putnam was appointed to manage an alternative credit portfolio.
Australian Equities A & B	<ul style="list-style-type: none"> Touchstone and Ethical Partners were appointed to the portfolios. Karara was terminated.
Diversified Strategies Growth A & B	<ul style="list-style-type: none"> New commitments were made to two private equity funds, one focusing on Asia, and another focussing on mid-market infrastructure. Diversified Strategies Growth A fully redeemed its holdings in the Bridgewater All Weather Fund.

Benchmark changes

During the period there has been a number of benchmark changes aimed at moving away from the current approach of aggregating the underlying manager style specific benchmarks towards a simpler, usually one single asset sector benchmark.

It should be noted that the approach to move towards a simpler asset sector benchmark will be rolled out across all asset sectors over the ensuing year.

A summary of the debt and property sector benchmark changes undertaken during the half year ending 31 December 2018 are shown below:

Table 15: Benchmark changes during the 2018-19 financial-year-to-date

Asset	Previous	New	Note
Short Term Fixed Interest	70% AusBond Treasury 0-5 30% AusBond Non-Gov 0-5	AusBond Composite 0-5	Similar characteristics, Contains: Semi-Gov Sector
Long Term Fixed Interest	50% AusBond Treasury 7+ 50% WGBI ex-Japan	50% AusBond Treasury 7+ 50% WGBI	Similar characteristics, lower yeilding (contains Japan)
Inflation Linked Securities (Tradable securities)	15% AusBond Bank Bill +1%pa 30% AusBond Treasury Inflation 0-8 +0.75%pa 40% AusBond Gov Inflation 0-10 15% World Gov ILB	AusBond Gov Inflation 0-10	Australian focussed
Property	85% Mercer IPD Australian Pooled Property Fund Index 15% ASX 300 Listed Property Trust Accumulation Index	MSCI / Mercer Australia Core Wholesale PFI	Unlisted property index

6 Investment management costs

Included within each Performance Plan is an estimate of the costs expected to be incurred for each multi-sector fund. Costs are expressed as a percentage of average funds managed and are referred to as an 'Indirect Cost Ratio' or 'ICR'.

A prime management objective for Funds SA is to achieve the funds' investment objectives over the long term net of all fees and costs. Managing costs is an important element in this objective, however, it does not drive the investment strategy and should not be looked at in isolation.

That being said, costs, and more particularly, maintaining a value for money investment service, remain a focus of attention for the Funds SA Board and staff. Regular benchmarking of expenditures against peer organisations is undertaken to ensure Funds SA's ongoing cost competitiveness.

ICRs for the six months ended 31 December 2018

Funds SA's fees for the 6 months ended 31 December 2018 are shown in the tables below, along with comparisons to the original forecasts. The forecasts exclude performance fees and transactional and operational costs.

Table 16: Tax-exempt fund indirect cost ratios for the six months ended 31 December 2018*

Fund	Total 2018-19 HY (excl. perf fees, transaction & operational costs) %	Forecast 2018-19 HY (excl. perf fees, transaction & operational costs) %	Difference %	Performance fees %	Transaction & operational costs	Total 2018-19 HY (incl. perf fees, transaction & operational costs) %
Cash	0.03	0.03	0.00	0.00	0.00	0.03
Capital Defensive	0.17	0.17	0.01	0.00	0.00	0.17
Conservative	0.20	0.19	0.01	0.00	0.00	0.20
Moderate	0.27	0.25	0.01	0.00	0.00	0.27
Balanced	0.31	0.30	0.01	0.00	0.00	0.31
Growth	0.34	0.33	0.01	0.00	0.00	0.34
High Growth	0.34	0.33	0.01	0.00	0.00	0.34
Socially Responsible	0.41	0.41	0.00	0.00	0.00	0.41
Defined Benefit	0.39	0.37	0.02	0.00	0.00	0.39

*Note due to rounding, the sum of the individual numbers may not equal the total figures quoted.

Table 17: Taxable fund indirect cost ratios for the six months ended 31 December 2018*

Fund	Total 2018-19 (excl. perf fees, transaction & operational costs) %	Forecast 2018-19 (excl. perf fees, transaction & operational costs) %	Difference %	Performance fees %	Transaction & operational costs	Total 2018-19 (incl. perf fees, transaction & operational costs) %
Cash	0.03	0.03	0.00	0.00	0.00	0.03
Capital Defensive	0.17	0.17	0.00	0.00	0.00	0.17
Conservative	0.20	0.20	0.00	0.00	0.00	0.20
Moderate	0.28	0.26	0.02	0.00	0.00	0.28
Balanced	0.33	0.31	0.02	0.00	0.00	0.33
Growth	0.36	0.34	0.02	0.00	0.00	0.36
High Growth	0.37	0.34	0.02	0.00	0.00	0.36
Socially Responsible	0.41	0.41	0.00	0.00	0.00	0.41

*Note due to rounding, the sum of the individual numbers may not equal the total figures quoted.

For the six months ended 31 December 2018, the ICRs achieved were in line with or slightly above forecast ICRs as stated within the 2018-19 Performance Plan (as shown in the 'Difference' columns above).

As a result of the recent volatility in global markets no fund manager performance fees were accrued for the six months ended 31 December 2018. However, it should be noted that carried interest and performance fees within Funds SA's Diversified Strategies Growth asset class (a portfolio of predominantly private equity and infrastructure investments) are not finalised until the end of the financial year, therefore not included in the six months ended 31 December 2018.

Transactional and operational costs, which include brokerage, stamp duty, transaction settlement costs, clearing costs and spreads, are also not included in the ICRs for the six months ended 31 December 2018. These costs are finalised at the end of the financial year and will be included in the final 30 June 2019 ICRs.

The relative positioning of Funds SA's fees compared to industry benchmarks will be commented on in the June Half-Yearly Performance Report when Funds SA's performance fees and transactional and operational costs are finalised.

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Appendix 1

Funds SA multi-sector tax-exempt funds

This Appendix provides further details on the performance and composition of the following Funds SA tax-exempt multi-sector funds:

- *Cash*
- *Capital Defensive*
- *Conservative*
- *Moderate*
- *Balanced*
- *Growth*
- *High Growth*
- *Socially Responsible*
- *Defined Benefit*

Fund Summary

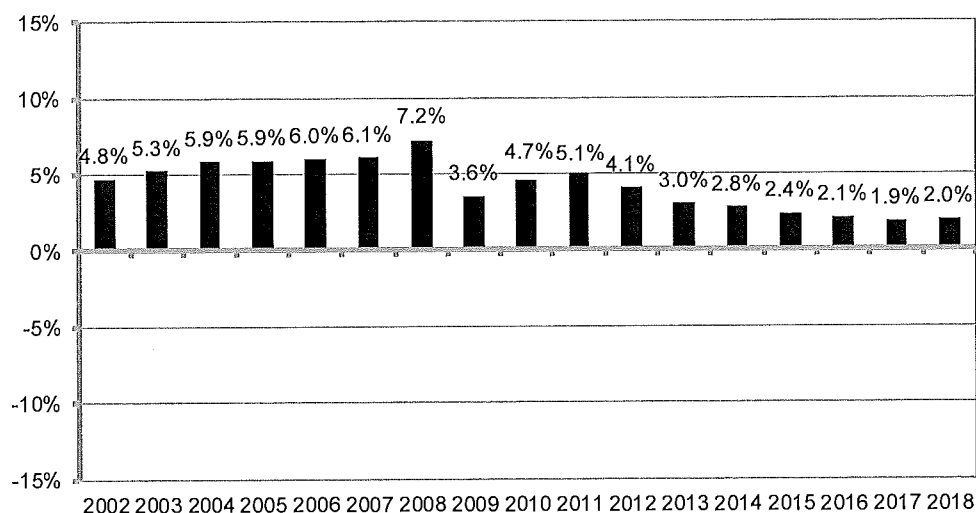
Fund Size:	\$ 238.5 million
Portfolio Inception:	31 March 2000
Indirect Cost Ratio (ICR):	0.03% for the 2018-19 financial year-to-date
Objective:	The Cash fund has a target of maintaining the value of capital. Using the Standard Risk Measure developed by ASFA and the FSC, its risk level is classified as 'very low' (Risk Band 1) meaning that a negative return might occur less than 0.5 years in 20.

Asset allocation

Comment: *The fund has a 100% allocation to Cash.*

Performance

Annual returns to 31 December
Returns net of fees



Comment: *The fund has recorded returns in line with the Bank Bill Index.*

Performance against benchmark for periods ending 31 December 2018

Portfolio returns net of fees

	6 mths %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Portfolio return	1.0	2.0	2.0	2.2	2.6	3.2
Benchmark return	1.0	1.9	1.9	2.2	2.5	3.1
Active return	0.0	0.1	0.1	0.1	0.1	0.1

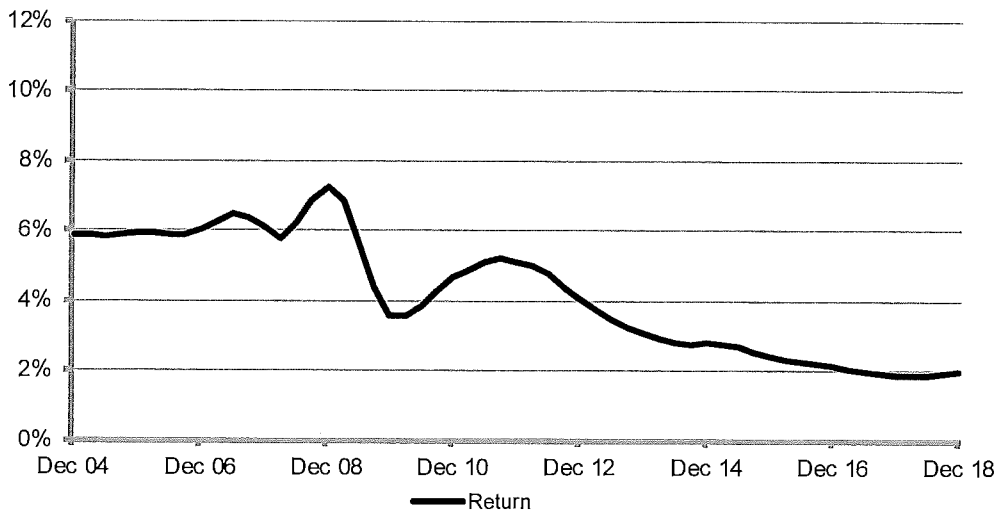
Note that due to rounding, the active returns shown may not exactly equal the difference between the portfolio and benchmark returns.

Comment: The Cash fund has performed in line with the benchmark over all periods shown in the table above.

Fund performance against investment objective

1-year rolling returns, net of fees to 31 December 2018

Investment objective: Maintain capital value



Comment: The Cash fund has provided positive returns over 1-year rolling periods since inception of the fund, consistent with its objective of maintaining the nominal value of capital (i.e. not produce a negative return over 1-year rolling periods). The return of the Cash fund is particularly influenced by the Reserve Bank of Australia's cash rate decisions, which has seen cash rates fall from 7.25% in 2008 down to 1.5% in January 2019.

Fund Summary

Fund Size: \$ 202.7 million

Portfolio Inception: 31 August 2004

Indirect Cost Ratio (ICR): 0.17% for the 2018-19 financial year-to-date (incl. perf fees)

Objective: The Capital Defensive fund is structured for investors with an investment time horizon of at least 2 years. Over this period it aims to earn a return averaging 1.5% in excess of the rate of inflation. However, annual returns may be volatile. Using the Standard Risk Measure developed by ASFA and the FSC, its risk level is classified as 'low' (Risk Band 2) meaning that a negative return might occur between 0.5 and 1 year in 20.

Asset allocation

Asset allocation as at 31 December 2018

	Actual %	Strategic %	Variance %
Cash	14.9	15.0	-0.1
Short-Term Fixed Interest	29.7	30.0	-0.3
Long-Term Fixed Interest	4.9	5.0	-0.1
Inflation-Linked Securities A	15.2	15.0	0.2
Diversified Strategies Income	17.4	17.0	0.4
Property A	6.3	6.0	0.3
Australian Equities A	4.4	6.0	-1.6
International Equities A	7.1	6.0	1.1
Diversified Strategies Growth A	0.0	0.0	0.0
Total	100.0	100.0	

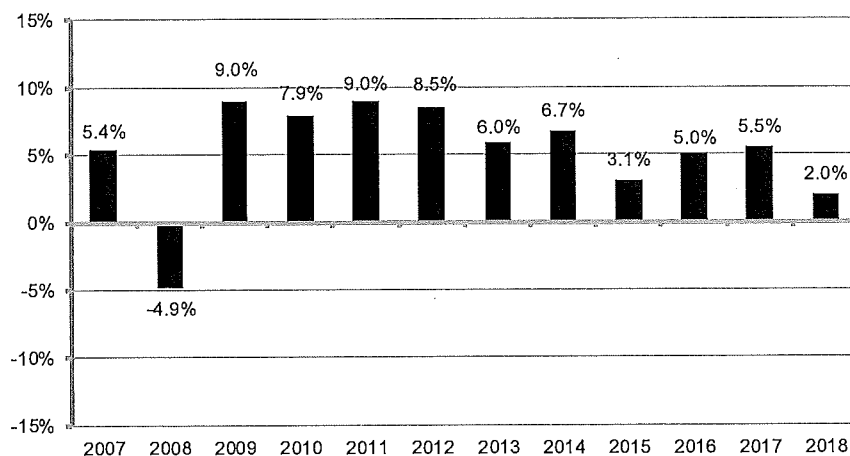
Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Comment: *The asset mix is within the rebalancing ranges specified within the Performance Plan.*

Performance

Annual returns to 31 December

Returns net of fees



Comment: *The fund recorded a 2.0% return for the year ending 31 December 2018. The weak performance of shares contributed to the return outcome, offsetting the positive performance of most other asset classes. Property continued to record strong positive returns.*

Performance against benchmark for periods ending 31 December 2018

Portfolio returns net of fees

	6 mths %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Portfolio return	0.4	2.0	4.2	4.5	5.2	6.3
Benchmark return	0.6	2.3	4.2	4.6	5.0	5.8
Active return	-0.3	-0.3	0.0	-0.1	0.2	0.5

Note that due to rounding, the active returns shown may not exactly equal the difference between the portfolio and benchmark returns.

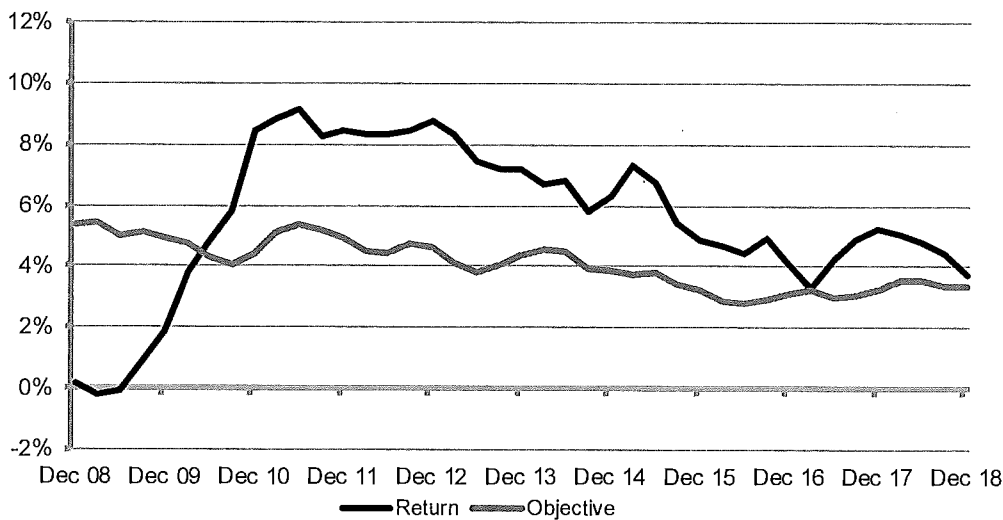
Comment: The fund underperformed its benchmark for the six-month and one-year periods ending 31 December 2018. Performance is broadly in line with or ahead of the benchmark when looking at longer-term periods.

Over the past 6 months, the modest overweight to the international shares asset class along with the weak active return achieved by this asset class detracted from relative performance. The performance of the Diversified Strategies Income asset class relative to its benchmark also detracted from relative performance whilst the active return achieved by the Inflation-Linked Securities asset class positively contributed to relative performance.

Fund performance against investment objective

2-year rolling returns, net of fees to 31 December 2018

Investment objective: CPI + 1.5% over 2-year rolling periods [CPI + 2.0% prior to 1 July 2013]



Comment: Performance is above the investment objective for the most recent period. Underperformance versus objective during 2008-2010 reflects the impact of the Global Financial Crisis.

Fund Summary

Fund Size:	\$ 394.1 million
Portfolio Inception:	30 June 1999
Indirect Cost Ratio (ICR):	0.20% for the 2018-19 financial year-to-date (incl. perf fees)
Objective:	The Conservative fund is structured for investors with an investment time horizon of at least 4 years. Over this period it aims to earn a return averaging 2% in excess of the rate of inflation (note the objective was CPI + 2.5% prior to 1 January 2016). However, annual returns may be volatile. Using the Standard Risk Measure developed by ASFA and the FSC, its risk level is classified as 'low to medium' (Risk Band 3) meaning that a negative return might occur between 1 and 2 years in 20.

Asset allocation

Asset allocation as at 31 December 2018

	Actual %	Strategic %	Variance %
Cash	9.9	10.0	-0.1
Short-Term Fixed Interest	17.7	18.0	-0.3
Long-Term Fixed Interest	4.9	5.0	-0.1
Inflation-Linked Securities A	16.2	16.0	0.2
Diversified Strategies Income	18.4	18.0	0.4
Property A	9.4	9.0	0.4
Australian Equities A	10.4	12.0	-1.6
International Equities A	13.2	12.0	1.2
Diversified Strategies Growth A	0.0	0.0	0.0
Total	100.0	100.0	

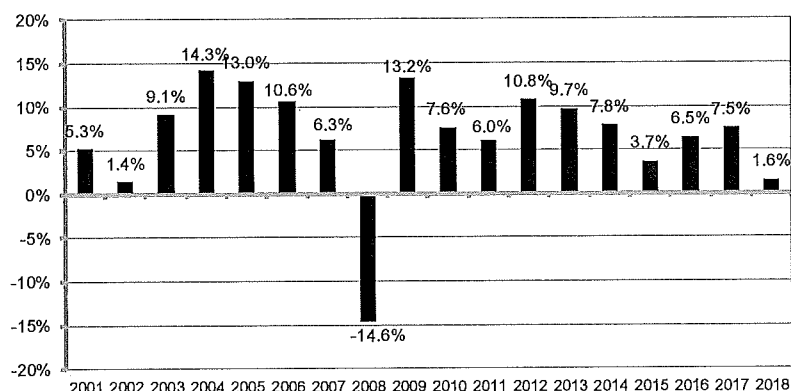
Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Comment: *The asset mix is within the rebalancing ranges specified within the Performance Plan.*

Performance

Annual returns to 31 December

Returns net of fees



Comment: *The fund recorded a 1.6% return for the year ending 31 December 2018. The weak performance of shares contributed to the return outcome, offsetting the positive performance of most other asset classes. Property continued to record strong positive returns.*

Performance against benchmark for periods ending 31 December 2018

Portfolio returns net of fees

	6 mths %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Portfolio return	-0.6	1.6	5.1	5.4	6.7	7.4
Benchmark return	-0.3	1.9	5.1	5.5	6.6	6.9
Active return	-0.3	-0.4	0.0	-0.1	0.2	0.5

Note that due to rounding, the active returns shown may not exactly equal the difference between the portfolio and benchmark returns.

Comment: The fund underperformed its benchmark for the six-month and one-year periods ending 31 December 2018. Performance is broadly in line with or ahead of the benchmark when looking at longer-term periods.

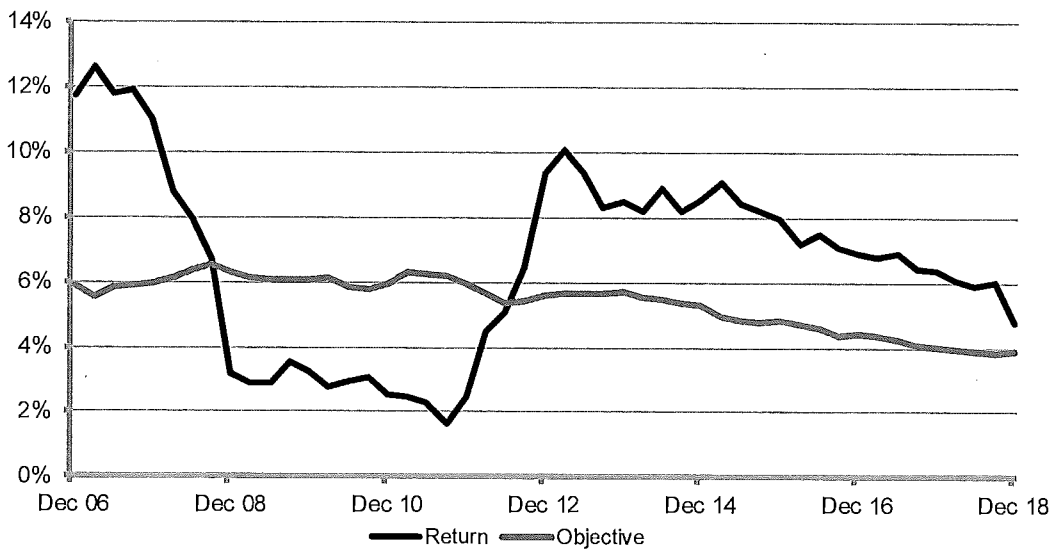
Over the past 6 months, the key contributor to the Conservative (tax-exempt) fund's performance relative to benchmark was the weak active return achieved by the international shares asset class along with the modest overweight to this asset class. The performance of the Diversified Strategies Income asset class relative to its benchmark also detracted from relative performance whilst the active returns achieved by the Inflation-Linked Securities asset class positively contributed to relative performance.

Fund Performance against investment objective

4-year rolling returns, net of fees to 31 December 2018

Investment objective: CPI + 2% over 4-year rolling periods

[CPI + 2.5% prior to 1 January 2016, CPI + 3.0% prior to 1 July 2013]



Comment: Performance is above the investment objective for the most recent period. Underperformance versus objective during 2009-2012 reflects the impact of the Global Financial Crisis.

Fund Summary

Fund Size: \$ 318.3 million

Portfolio Inception: 30 June 2006

Indirect Cost Ratio (ICR): 0.27% for the 2018-19 financial year-to-date (incl. perf fees)

Objective: The Moderate fund is structured for investors with an investment time horizon of at least 6 years. Over this period it aims to earn a return averaging 3% in excess of the rate of inflation (note the objective was CPI + 3.5% prior to 1 January 2016). However, annual returns may be volatile. Using the Standard Risk Measure developed by ASFA and the FSC, its risk level is classified as 'medium' (Risk Band 4) meaning that a negative return might occur between 2 and 3 years in 20.

Asset allocation

Asset allocation as at 31 December 2018

	Actual %	Strategic %	Variance %
Cash	7.8	8.0	-0.2
Short-Term Fixed Interest	6.7	7.0	-0.3
Long-Term Fixed Interest	8.9	9.0	-0.1
Inflation-Linked Securities A	12.2	12.0	0.2
Diversified Strategies Income	17.1	17.0	0.1
Property A	10.2	10.0	0.2
Australian Equities A	14.0	16.0	-2.0
International Equities A	16.8	16.0	0.8
Diversified Strategies Growth A	6.1	5.0	1.1
Total	100.0	100.0	

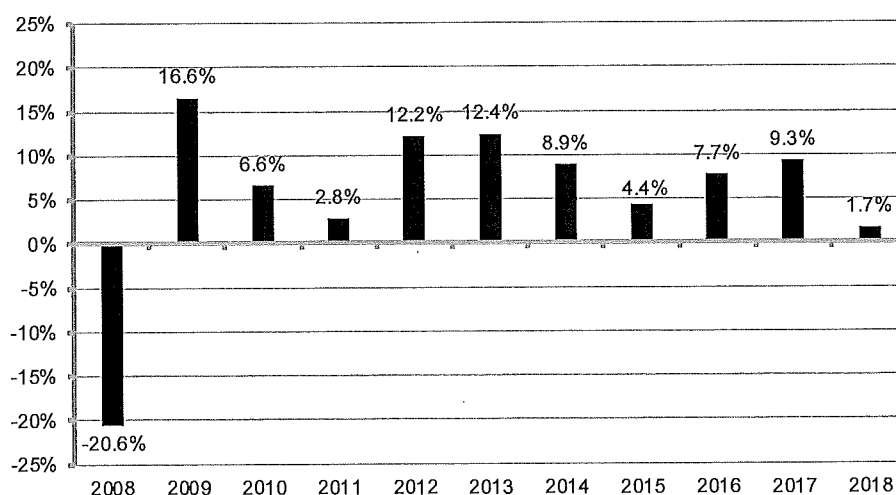
Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Comment: *The asset mix is within the rebalancing ranges specified within the Performance Plan.*

Performance

Annual returns to 31 December

Returns net of fees



Comment: The fund recorded a return of 1.7% for the year ending 31 December 2018. The strong positive performance of unlisted assets (property, private equity and infrastructure) was to a large extent offset by the weak performance of shares.

Performance against benchmark for periods ending 31 December 2018

Portfolio returns net of fees

	6 mths %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Portfolio return	-1.0	1.7	6.2	6.4	8.0	8.2
Benchmark return	-0.7	1.8	5.9	6.2	7.6	7.6
Active return	-0.3	-0.1	0.3	0.1	0.4	0.6

Note that due to rounding, the active returns shown may not exactly equal the difference between the portfolio and benchmark returns.

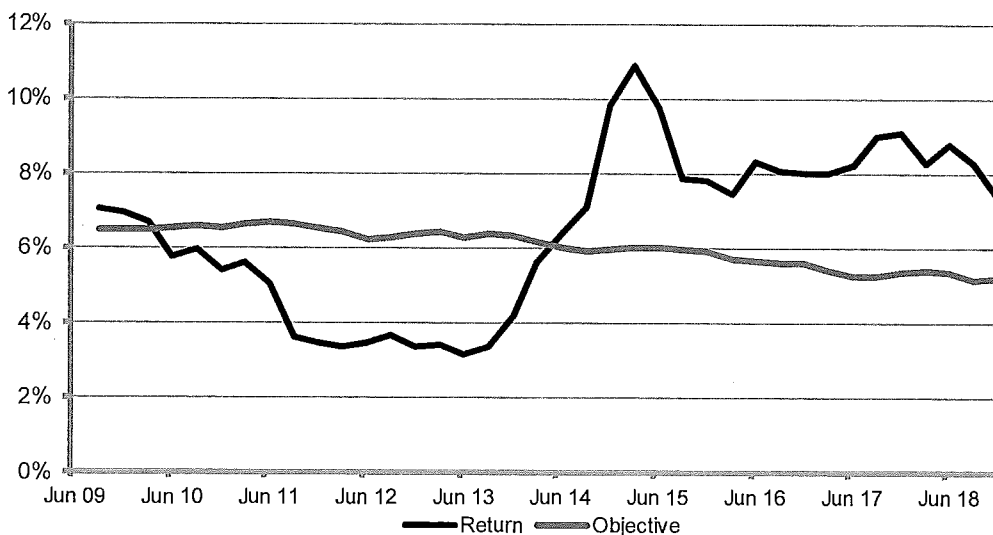
Comment: The Moderate (tax-exempt) fund returned -1.0% for the half year ending 31 December 2018, below the benchmark return of -0.7%. Over all other periods the fund outperformed, or was broadly in line with, benchmark performance.

Over the past 6 months, the key contributor to the Moderate (tax-exempt) fund's performance relative to benchmark was the weak active return achieved by the international shares asset class along with the modest overweight to this asset class. The performance of the Diversified Strategies Income asset class relative to its benchmark also detracted from relative performance whilst the active returns achieved by the Diversified Strategies Growth and Inflation-Linked Securities asset classes positively contributed to relative performance.

Performance against investment objective

10-year rolling returns, net of fees to 31 December 2018

Investment objective: CPI + 3% over 10-year rolling periods [CPI + 3.5% prior to 1 January 2016]



Comment: Performance is above the investment objective for the most recent period. Underperformance versus objective during 2009-2013 reflects the impact of the Global Financial Crisis.

Fund Summary

Fund Size: \$ 14,115.3 million

Portfolio Inception: 30 June 1995

Indirect Cost Ratio (ICR): 0.31% for the 2018-19 financial year-to-date (incl. perf fees)

Objective: The Balanced Fund is structured for investors with an investment time horizon of at least 7 years. Over this period it aims to earn a return averaging 3.5% in excess of the rate of inflation (note the objective was CPI + 4% prior to 1 January 2016). However, annual returns may be volatile. Using the Standard Risk Measure developed by ASFA and the FSC, its risk level is classified as 'medium to high' (Risk Band 5) meaning that a negative return might occur between 3 and 4 years in 20.

Asset allocation

Asset allocation as at 31 December 2018

	Actual %	Strategic %	Variance %
Cash	1.8	2.0	-0.2
Short-Term Fixed Interest	2.7	3.0	-0.3
Long-Term Fixed Interest	7.9	8.0	-0.1
Inflation-Linked Securities A	9.3	9.0	0.3
Diversified Strategies Income	16.1	16.0	0.1
Property A	12.2	12.0	0.2
Australian Equities A	19.0	21.0	-2.0
International Equities A	21.8	21.0	0.8
Diversified Strategies Growth A	9.1	8.0	1.1
Total	100.0	100.0	

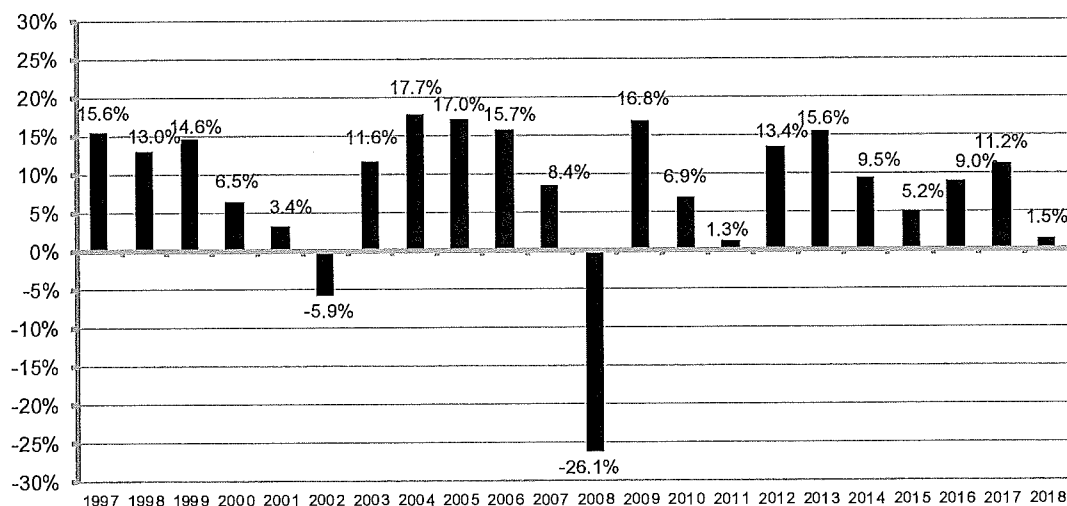
Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Comment: *The asset mix is within the rebalancing ranges specified within the Performance Plan.*

Performance

Annual returns to 31 December

Returns net of fees



Comment: The fund recorded a return of 1.5% for the year ending 31 December 2018. The strong positive performance of unlisted assets (property, private equity and infrastructure) was to a large extent offset by the weak performance of shares.

Performance against benchmark for periods ending 31 December 2018

Portfolio returns net of fees

	6 mths %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Portfolio return	-1.8	1.5	7.1	7.2	9.2	8.9
Benchmark return	-1.4	1.6	6.7	6.9	8.6	8.3
Active return	-0.4	-0.1	0.4	0.3	0.6	0.6

Note that due to rounding, the active returns shown may not exactly equal the difference between the portfolio and benchmark returns.

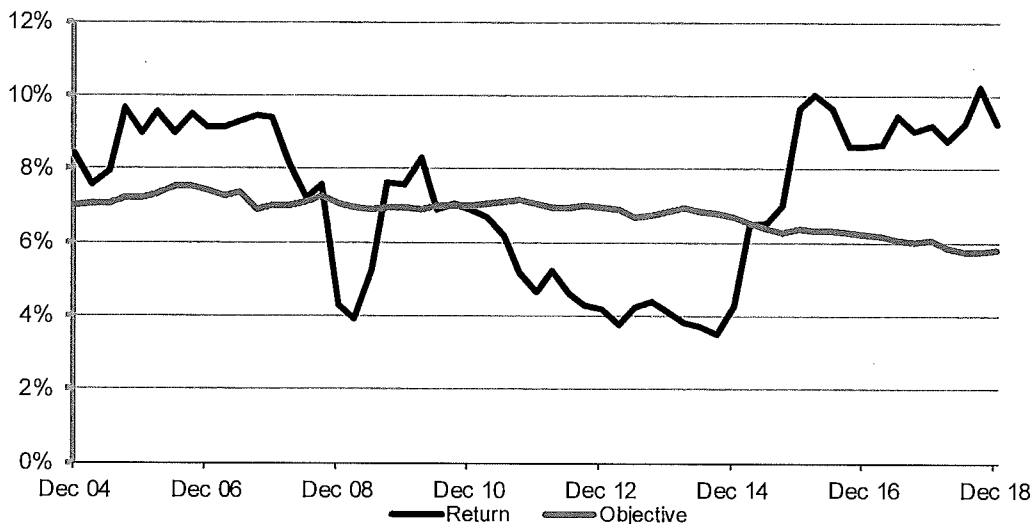
Comment: The Balanced (tax-exempt) fund returned -1.8% for the half year ending 31 December 2018, below the benchmark return of -1.4%. Over all other periods the fund outperformed, or was broadly in line with, benchmark performance.

Over the past 6 months, the key contributor to the Balanced (tax-exempt) fund's performance relative to benchmark was the weak active return achieved by the international shares asset class along with the modest overweight to this asset class. The performance of the Diversified Strategies Income asset class relative to its benchmark also detracted from relative performance whilst the active returns achieved by the Diversified Strategies Growth and Inflation-Linked Securities asset classes positively contributed to relative performance.

Fund performance against investment objective

7-year rolling returns, net of fees to 31 December 2018

Investment objective: CPI + 3.5% over 7-year rolling periods [CPI + 4% prior to 1 January 2016]



Comment: Performance is above the investment objective for the most recent period. Underperformance versus objective during 2011-2014 reflects the impact of the Global Financial Crisis.

Fund Summary

Fund Size: \$ 1,688.9 million

Portfolio Inception: 30 June 1995

Indirect Cost Ratio (ICR): 0.34% for the 2018-19 financial year-to-date (incl. perf fees)

Objective: The Growth fund is structured for investors with an investment time horizon of at least 8 years. Over this period it aims to earn a return averaging 4% in excess of the rate of inflation (note the objective was CPI + 4.5% prior to 1 January 2016). However, annual returns may be volatile. Using the Standard Risk Measure developed by ASFA and the FSC, its risk level is classified as 'medium to high' (Risk Band 5) meaning that a negative return might occur between 3 and 4 years in 20.

Asset allocation

Asset allocation as at 31 December 2018

	Actual %	Strategic %	Variance %
Cash	1.8	2.0	-0.2
Short-Term Fixed Interest	0.0	0.0	0.0
Long-Term Fixed Interest	3.9	4.0	-0.1
Inflation-Linked Securities A	6.3	6.0	0.3
Diversified Strategies Income	16.1	16.0	0.1
Property A	14.1	14.0	0.1
Australian Equities A	21.9	24.0	-2.1
International Equities A	24.8	24.0	0.8
Diversified Strategies Growth A	11.1	10.0	1.1
Total	100.0	100.0	

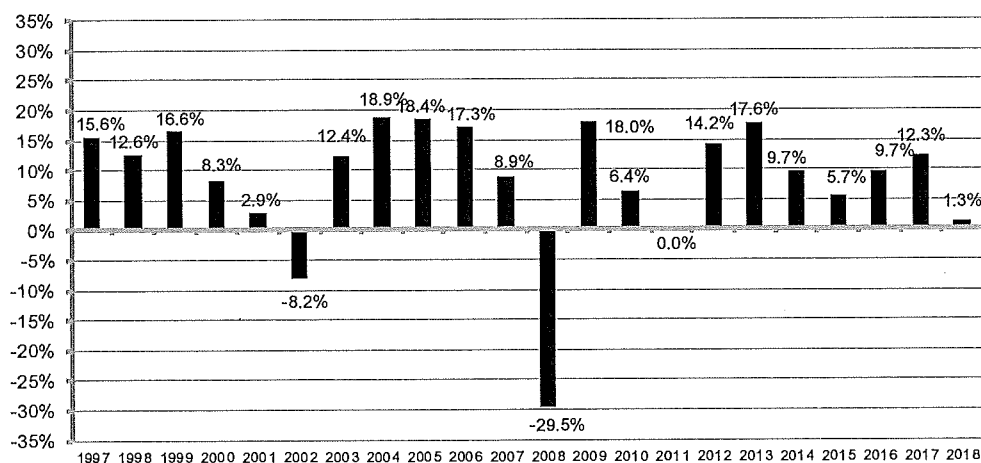
Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Comment: *The asset mix is within the rebalancing ranges specified within the Performance Plan.*

Performance

Annual returns to 31 December

Returns net of fees



Comment: The fund recorded a return of 1.3% for the year ending 31 December 2018. The strong positive performance of unlisted assets (property, private equity and infrastructure) was to a large extent offset by the weak performance of shares.

Performance against benchmark for periods ending 31 December 2018

Portfolio returns net of fees

	6 mths %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Portfolio return	-2.2	1.3	7.7	7.7	10.0	9.3
Benchmark return	-1.8	1.4	7.2	7.3	9.3	8.7
Active return	-0.4	0.0	0.5	0.4	0.7	0.6

Note that due to rounding, the active returns shown may not exactly equal the difference between the portfolio and benchmark returns.

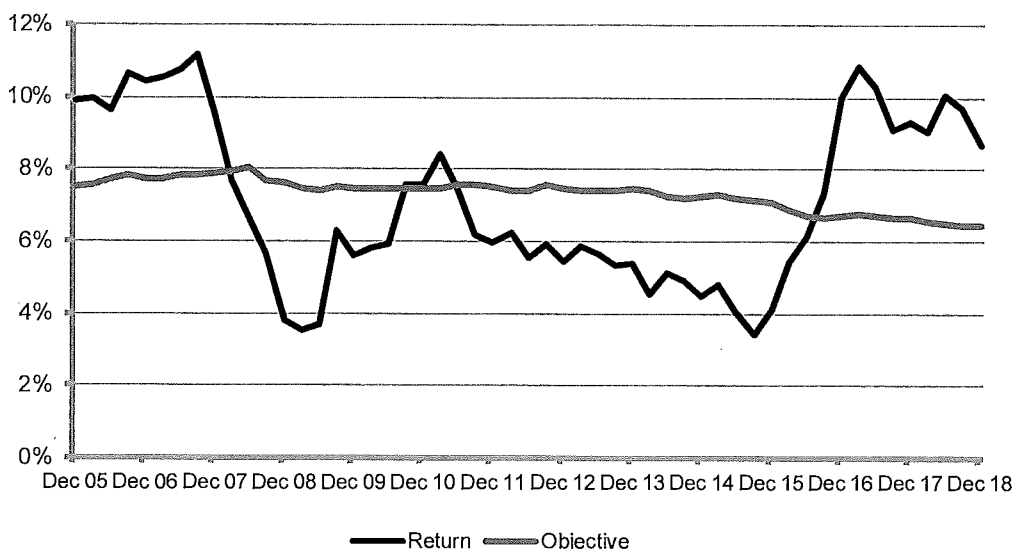
Comment: The Growth (tax-exempt) fund returned -2.2% for the half year ending 31 December 2018, below the benchmark return of -1.8%. Over all other periods the fund outperformed, or was broadly in line with, benchmark performance.

Over the past 6 months, the key contributor to the Growth (tax-exempt) fund's performance relative to benchmark was the weak active return achieved by the international shares asset class along with the modest overweight to this asset class. The performance of the Diversified Strategies Income asset class relative to its benchmark also detracted from relative performance whilst the active return achieved by the Diversified Strategies Growth asset class positively contributed to relative performance.

Fund performance against investment objective

8-year rolling returns, net of fees to 31 December 2018

Investment objective: CPI + 4% over 8-year rolling periods [CPI + 4.5% prior to 1 January 2016]



Comment: Performance is above the investment objective for the most recent period. Underperformance versus objective during 2011-2016 reflects the impact of the Global Financial Crisis.

Fund Summary

Fund Size: \$ 1,309.3 million

Portfolio Inception: 30 June 1999

Indirect Cost Ratio (ICR): 0.34% for the 2018-19 financial year-to-date (incl. perf fees, transaction & operational costs)

Objective: The High Growth fund is structured for investors with an investment time 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 (note the objective was CPI + 5% prior to 1 January 2016). 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 occur between 4 and 6 years in 20.

Asset allocation

Asset allocation as at 31 December 2018

	Actual %	Strategic %	Variance %
Cash	1.8	2.0	-0.2
Short-Term Fixed Interest	0.0	0.0	0.0
Long-Term Fixed Interest	0.0	0.0	0.0
Inflation-Linked Securities A	0.0	0.0	0.0
Diversified Strategies Income	12.1	12.0	0.1
Property A	16.2	16.0	0.2
Australian Equities A	28.0	30.0	-2.0
International Equities A	30.8	30.0	0.8
Diversified Strategies Growth A	11.1	10.0	1.1
Total	100.0	100.0	

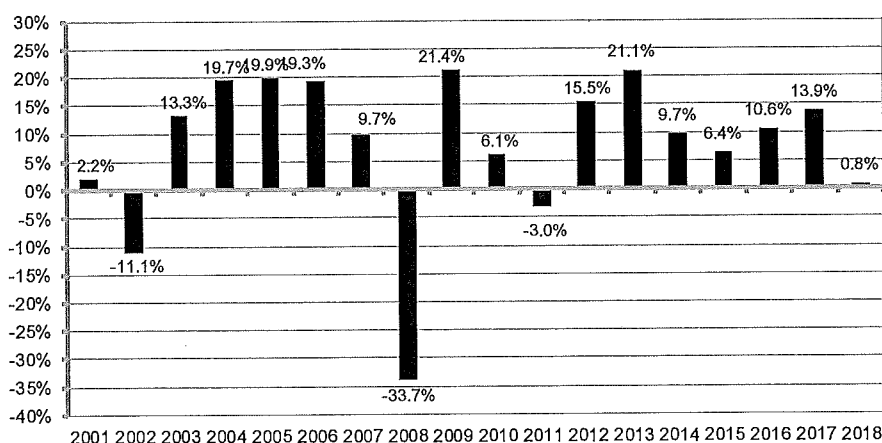
Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Comment: *The asset mix is within the rebalancing ranges specified within the Performance Plan.*

Performance

Annual returns to 31 December

Returns net of fees



Comment: The fund recorded a return of 0.8% for the year ending 31 December 2018. The strong positive performance of unlisted assets (property, private equity and infrastructure) was to a large extent offset by the weak performance of shares.

Performance against benchmark for periods ending 31 December 2018

Portfolio returns net of fees

	6 mths %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Portfolio return	-3.2	0.8	8.3	8.2	11.0	10.0
Benchmark return	-2.8	0.9	7.8	7.7	10.3	9.4
Active return	-0.5	-0.1	0.5	0.5	0.6	0.6

Note that due to rounding, the active returns shown may not exactly equal the difference between the portfolio and benchmark returns.

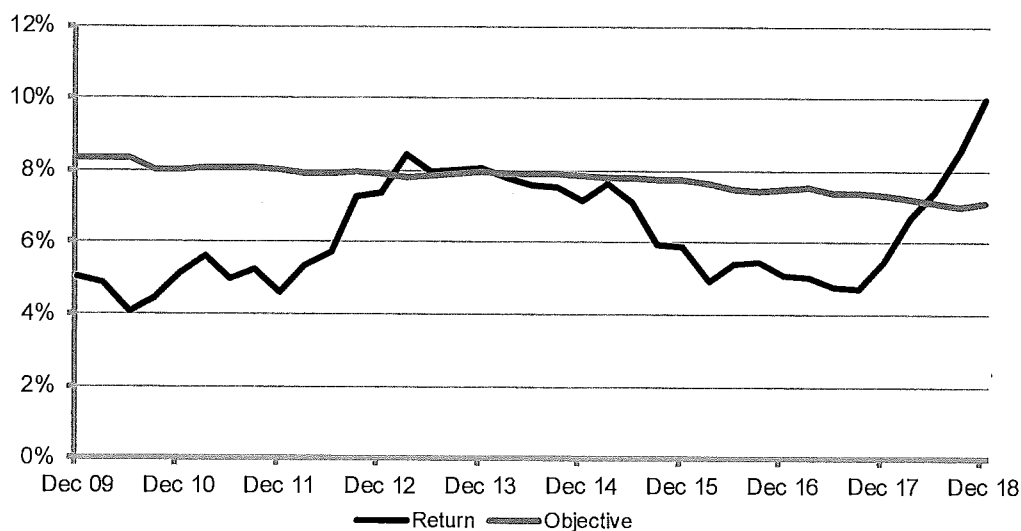
Comment: The High Growth (tax-exempt) fund returned -3.2% for the half year ending 31 December 2018, below the benchmark return of -2.8%. Over all other periods the fund outperformed, or was broadly in line with, benchmark performance.

Over the past 6 months, the key contributor to the High Growth (tax-exempt) fund's performance relative to benchmark was the weak active return achieved by the international shares asset class. The performance of the Diversified Strategies Growth asset class positively contributed to relative performance.

Fund performance against investment objective

10-year rolling returns, net of fees to 31 December 2018

Investment objective: CPI + 4.5% over 10-year rolling periods [CPI + 5% prior to 1 January 2016]



Comment: The High Growth fund's 10-year return is above the investment objective for the most recent period. Underperformance versus objective during the previous periods reflects the impact of the Global Financial Crisis.

Fund Summary

Fund Size: \$ 59.6 million

Portfolio Inception: 2 March 2009

Indirect Cost Ratio (ICR): 0.41% for the 2018-19 financial year-to-date (incl. perf fees)

Objective: The Socially Responsible fund is structured to provide investors with risk and return characteristics likely to be similar to those of a growth fund and accordingly annual returns will 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 occur between 4 and 6 years in 20.

Asset allocation

Asset allocation as at 31 December 2018

	Actual %	Strategic %	Variance %
Cash	11.6	2.0	9.6
Fixed Interest	17.2	25.0	-7.8
Property	9.0	9.0	0.0
Australian Equities	23.8	25.0	-1.2
International Equities	34.2	33.0	1.2
Alternatives	4.2	6.0	-1.8
Total	100.0	100.0	

Due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

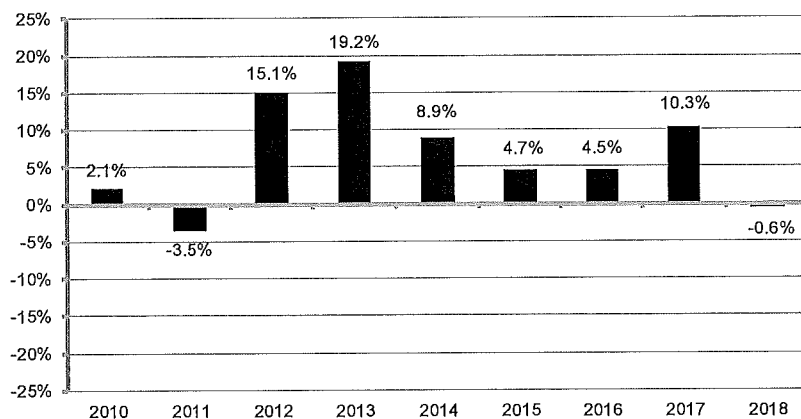
The Socially Responsible fund invests in the Responsible Investment Leaders Balanced fund, which is managed by AMP Capital, and does not invest in the Funds SA asset classes. Thus the asset classes listed above are those managed by AMP Capital.

Comment: *The asset mix of the Socially Responsible fund is determined by the product provider, AMP Capital. The asset mix is within the asset allocation ranges for this product.*

Performance

Annual returns to 31 December

Returns net of fees



Comment: *The fund recorded a return of -0.6% for the year ending 31 December 2018.*

Performance against benchmark for periods ending 31 December 2018

Portfolio returns net of fees

	6 mths %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Portfolio return	-3.7	-0.6	4.6	5.5	8.7	n.a.
Benchmark return	-3.1	-0.2	6.2	6.6	9.3	n.a.
Active return	-0.6	-0.4	-1.6	-1.1	-0.6	n.a.

Note that due to rounding, the active returns shown may not exactly equal the difference between the portfolio and benchmark returns.

Comment: The fund has underperformed the benchmark over all periods shown. This is the result of several factors, including underperformance of the underlying fund managers, as well as active asset allocation decisions. The Fund's socially responsible investment screens have also been a headwind for active returns. Funds SA have been liaising closely with the fund manager, AMP Capital on this underperformance. Funds SA does however have confidence that the portfolio will deliver on its real return objective and some of the recent changes to the manager configuration are expected to improve excess return potential of the portfolio.

Key drivers of underperformance over the last six months include the underweight to fixed interest in favour of cash, and the funds underweight to Australian equities in favour of international equities.

Fund Summary

Fund Size:	\$ 6,469.9 million
Portfolio Inception:	30 June 1995
Indirect Cost Ratio (ICR):	0.39% for the 2018-19 financial year-to-date (incl. perf fees, transaction & operational costs)

Objective: The Defined Benefit fund is structured for investors with an investment time 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. 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.

Asset allocation

Asset allocation as at 31 December 2018

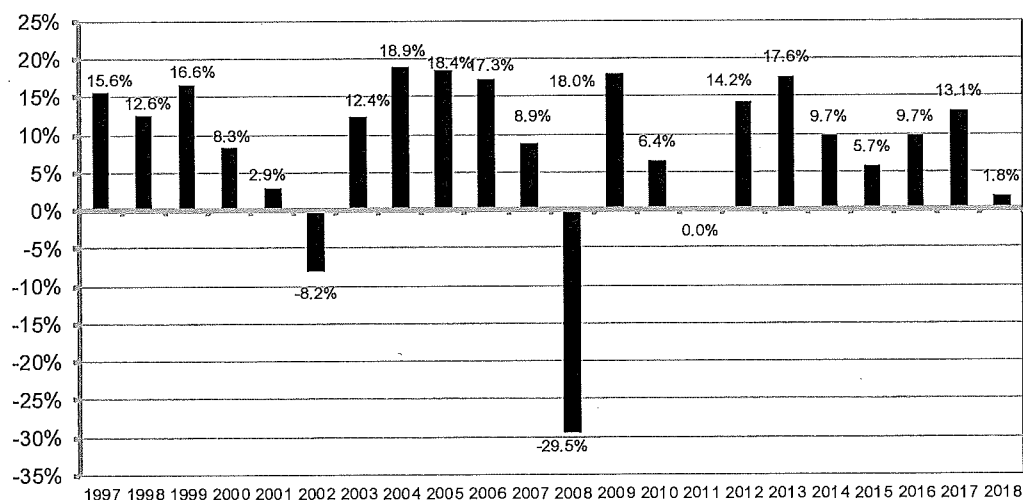
	Actual %	Strategic %	Variance %
Cash	0.5	2.0	-1.5
Short-Term Fixed Interest	0.0	0.0	0.0
Long-Term Fixed Interest	0.0	0.0	0.0
Inflation-Linked Securities A	0.0	3.0	-3.0
Diversified Strategies Income	14.9	15.0	-0.1
Property A	17.9	16.0	1.9
Australian Equities A	23.1	25.0	-1.9
International Equities A	26.5	25.0	1.5
Diversified Strategies Growth A	17.1	14.0	3.1
Total	100.0	100.0	

Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Comment: *The asset mix is within the rebalancing ranges specified within the Performance Plan.*

Performance

Annual returns to 31 December
Returns net of fees and gross of tax



Note portfolio returns reflect investment in the Funds SA Growth (tax-exempt) fund prior to the establishment of the customised Defined Benefit Strategy from 1 January 2017.

Comment: The fund recorded a return of 1.8% for the year ending 31 December 2018. The strong positive performance of unlisted assets (property, private equity and infrastructure) was to a large extent offset by the weak performance of shares.

Performance against benchmark for periods ending 31 December 2018

Portfolio returns net of fees and gross of tax

	6 mths %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Portfolio return	-2.2	1.8	8.1	7.9	10.1	9.5
Benchmark return	-1.9	1.5	7.3	7.3	9.3	8.8
Active return	-0.3	0.3	0.7	0.6	0.8	0.7

Note that due to rounding, the active returns shown may not exactly equal the difference between the portfolio and benchmark returns.

Note portfolio returns reflect investment in the Funds SA Growth (tax-exempt) fund prior to the establishment of the customised Defined Benefit Strategy.

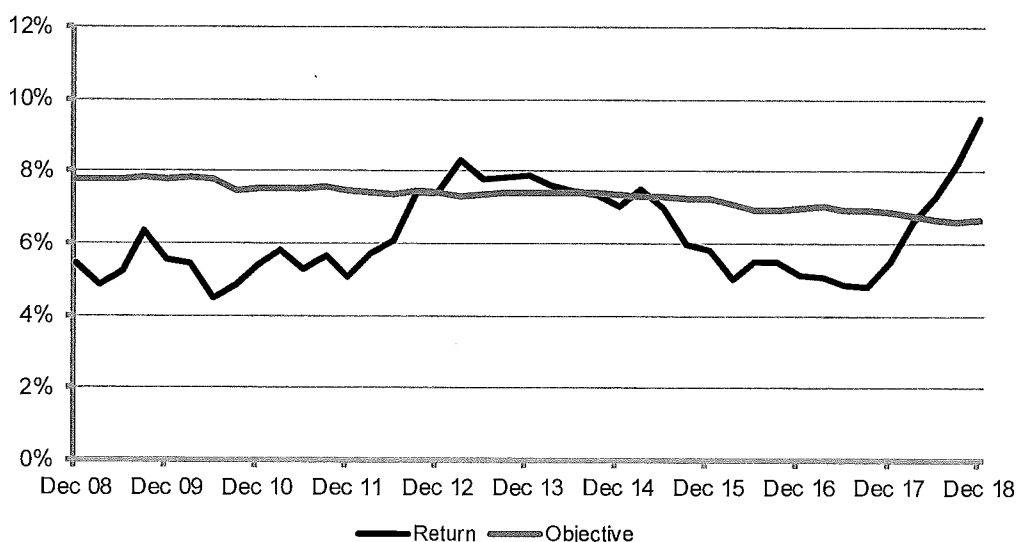
Comment: The Defined Benefit Strategy returned -2.2% for the half year ending 31 December 2018, below the benchmark return of -1.9%. Over all other periods the fund has outperformed the benchmark.

Over the past 6 months, the key contributor to the Defined Benefit Strategy performance relative to benchmark was the weak active return achieved by the international shares asset class along with the modest overweight to this asset class. The performance of the Diversified Strategies Growth asset class positively contributed to relative performance.

Fund performance against investment objective

10-year rolling returns, net of fees to 31 December 2018

Investment objective: CPI + 4.5% over 10-year rolling periods [CPI+4.5% to 31 December 2015, CPI+4% 1 January 2016 to 31 December 2016, CPI+4.5% from 1 January 2017]



Comment: The Defined Benefit fund's 10-year return is above the investment objective for the most recent period. Underperformance versus objective during the previous periods reflects the impact of the Global Financial Crisis.

Appendix 2

Funds SA multi-sector taxable funds

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This Appendix provides further details on the performance and composition of the following Funds SA taxable multi-sector funds:

- *Cash*
- *Capital Defensive*
- *Conservative*
- *Moderate*
- *Balanced*
- *Growth*
- *High Growth*
- *Socially Responsible*

As Funds SA is not a tax paying entity, the returns quoted in this section are gross of tax. For the post-tax returns relating to individual schemes, please refer to the monthly performance reports available on the Secure Login area of the Funds SA website.

Fund Summary

Fund Size: \$ 171.8 million

Portfolio Inception: 31 March 2005

Indirect Cost Ratio (ICR): 0.03% for the 2018-19 financial year-to-date

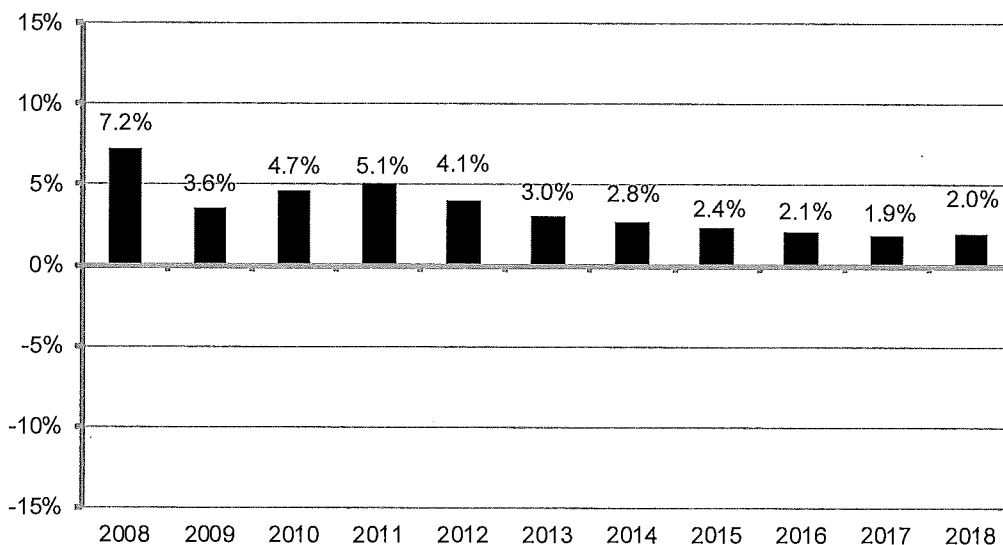
Objective: The Cash fund has a target of maintaining the value of capital. Using the Standard Risk Measure developed by ASFA and the FSC, its risk level is classified as 'very low' (Risk Band 1) meaning that a negative return might occur less than 0.5 years in 20.

Asset allocation

Comment: *The fund has a 100% allocation to Cash.*

Performance

Annual returns to 31 December
Returns net of fees and gross of tax



Comment: *The fund has recorded returns in line with the Bank Bill Index.*

Performance against benchmark for periods ending 31 December 2018

Portfolio returns net of fees and gross of tax

	6 mths %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Portfolio return	1.0	2.0	2.0	2.2	2.6	3.2
Benchmark return	1.0	1.9	1.9	2.2	2.5	3.1
Active return	0.0	0.1	0.1	0.1	0.1	0.1

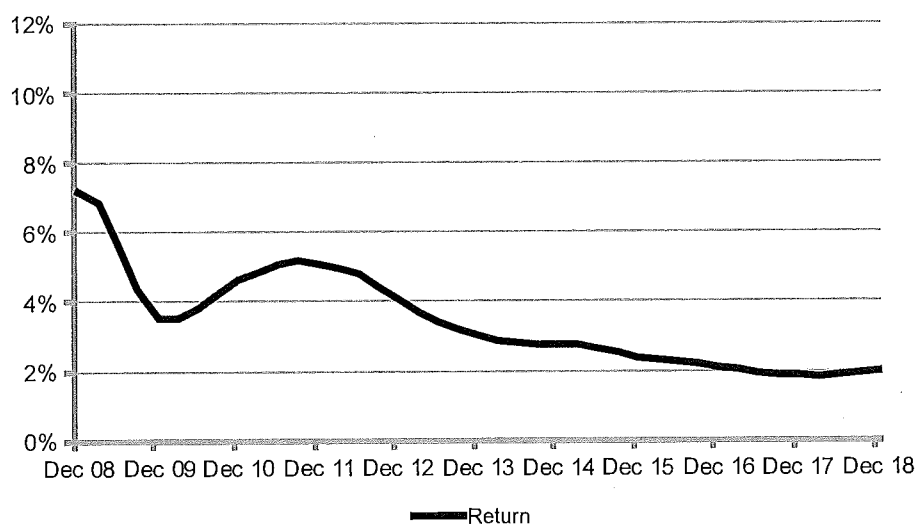
Note that due to rounding, the active returns shown may not exactly equal the difference between the portfolio and benchmark returns.

Comment: The Cash fund has performed in line with the benchmark over all periods shown in the table above.

Fund performance against investment objective

1 year rolling returns, net of fees and gross of tax to 31 December 2018

Investment objective: Maintain capital value



Comment: The Cash fund has provided positive returns over 1 year rolling periods since inception of the fund, consistent with its objective of maintaining the nominal value of capital (i.e. not produce a negative return over 1 year rolling periods). The return of the Cash fund is particularly influenced by the Reserve Bank of Australia's cash rate decisions, which has seen cash rates fall from 7.25% in 2008 down to 1.5% today.

Fund Summary

Fund Size: \$ 296.9 million

Portfolio Inception: 31 March 2005

Indirect Cost Ratio (ICR): 0.17% for the 2018-19 financial year-to-date (incl. perf fees)

Objective: The Capital Defensive fund is structured for investors with an investment time horizon of at least 2 years. Over this period it aims to earn a return averaging 1.5% in excess of the rate of inflation. However, annual returns may be volatile. Using the Standard Risk Measure developed by ASFA and the FSC, its risk level is classified as 'low' (Risk Band 2) meaning that a negative return might occur between 0.5 and 1 year in 20.

Asset allocation

Asset allocation as at 31 December 2018

	Actual %	Strategic %	Variance %
Cash	14.2	15.0	-0.8
Short-Term Fixed Interest	29.7	30.0	-0.3
Long-Term Fixed Interest	5.0	5.0	0.0
Inflation-Linked Securities B	15.1	15.0	0.1
Diversified Strategies Income	18.0	17.0	1.0
Property B	6.4	6.0	0.4
Australian Equities B	5.3	7.0	-1.7
International Equities B	6.3	5.0	1.3
Diversified Strategies Growth B	0.0	0.0	0.0
Total	100.0	100.0	

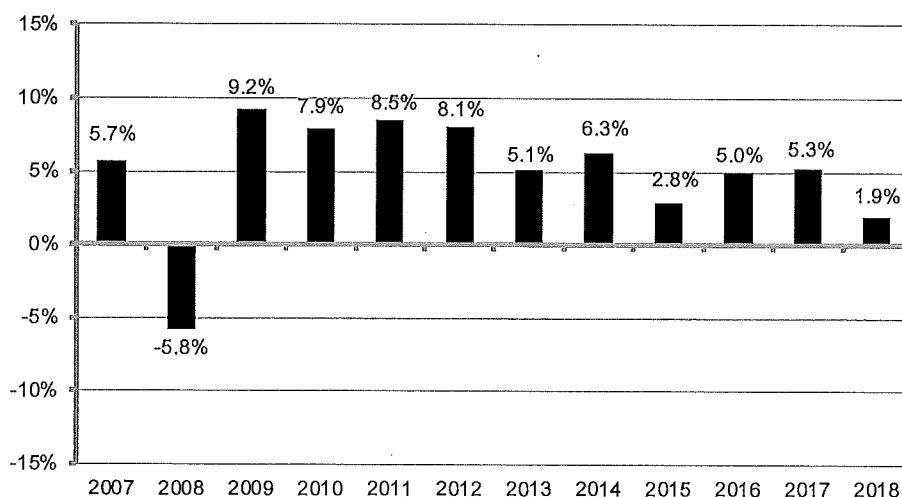
Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Comment: *The asset mix is within the rebalancing ranges specified within the Performance Plan.*

Performance

Annual returns to 31 December

Returns net of fees and gross of tax



Comment: The fund recorded a 1.9% return for the year ending 31 December 2018. The weak performance of shares contributed to the return outcome, offsetting the positive performance of most other asset classes. Property continued to record strong positive returns.

Performance against benchmark for periods ending 31 December 2018

Portfolio returns net of fees and gross of tax

	6 mths %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Portfolio return	0.4	1.9	4.0	4.2	4.9	6.0
Benchmark return	0.6	2.2	4.1	4.5	5.0	5.7
Active return	-0.2	-0.3	-0.1	-0.3	-0.1	0.3

Note that due to rounding, the active returns shown may not exactly equal the difference between the portfolio and benchmark returns.

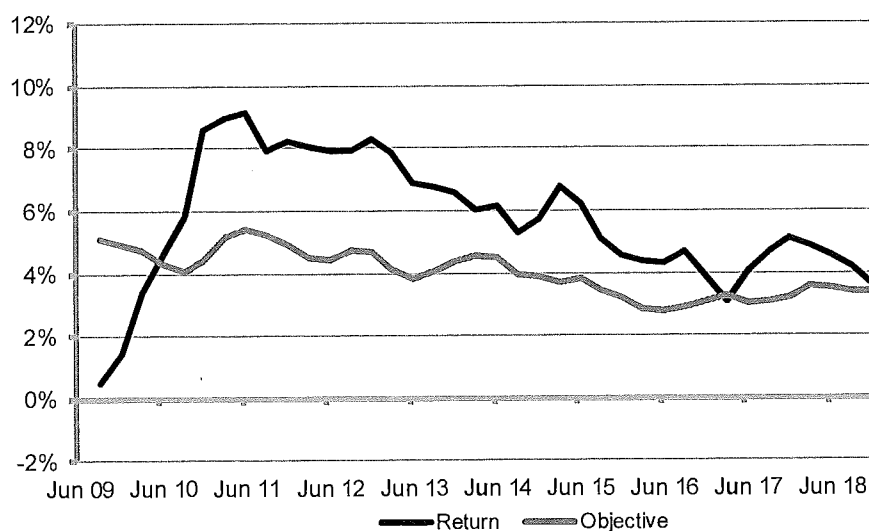
Comment: The fund has underperformed the benchmark for the 6 months, 12 months and five year periods ending 31 December 2018. Over the three and seven year periods the fund has performed broadly in line with the benchmark. Over the longer period of 10 years the fund has outperformed.

Over the past 6 months, the key contributor to the Capital Defensive (taxable) fund's performance relative to benchmark was the weak active return achieved by the international shares asset class along with the modest overweight to this asset class. The performance of the Diversified Strategies Income asset class relative to its benchmark also detracted from relative performance.

Fund performance against investment objective

2 Year rolling returns, net of fees and gross of tax to 31 December 2018

Investment objective: CPI + 1.5% over 2 year rolling periods [CPI + 2.0% prior to 1 July 2013]



Comment: Performance is above the investment objective for the most recent period. Underperformance versus objective during 2009-2010 reflects the impact of the Global Financial Crisis.

Fund Summary

Fund Size: \$ 627.7 million

Portfolio Inception: 31 March 2005

Indirect Cost Ratio (ICR): 0.20% for the 2018-19 financial year-to-date (incl. perf fees)

Objective: The Conservative fund is structured for investors with an investment time horizon of at least 4 years. Over this period it aims to earn a return averaging 2% in excess of the rate of inflation (note the objective was CPI + 2.5% prior to 1 January 2016). However, annual returns may be volatile. Using the Standard Risk Measure developed by ASFA and the FSC, its risk level is classified as 'low to medium' (Risk Band 3) meaning that a negative return might occur between 1 and 2 years in 20.

Asset allocation

Asset allocation as at 31 December 2018

	Actual %	Strategic %	Variance %
Cash	9.2	10.0	-0.8
Short-Term Fixed Interest	17.7	18.0	-0.3
Long-Term Fixed Interest	5.0	5.0	0.0
Inflation-Linked Securities B	16.1	16.0	0.1
Diversified Strategies Income	19.0	18.0	1.0
Property B	9.4	9.0	0.4
Australian Equities B	11.3	13.0	-1.7
International Equities B	12.3	11.0	1.3
Diversified Strategies Growth B	0.0	0.0	0.0
Total	100.0	100.0	

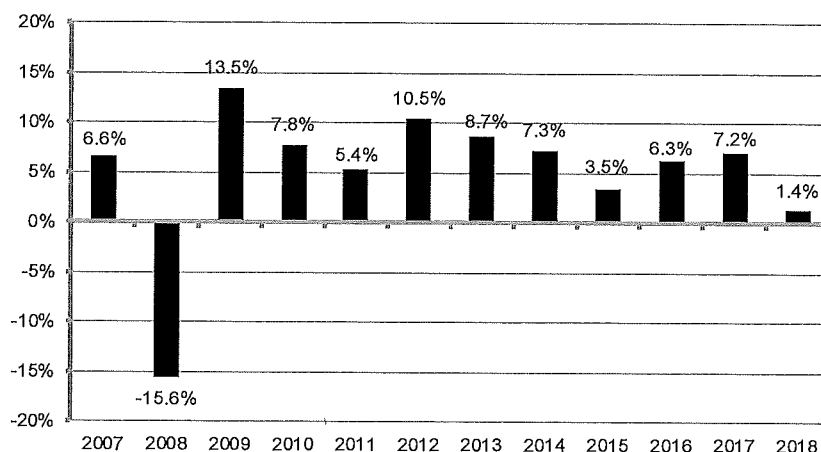
Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Comment: *The asset mix is within the rebalancing ranges specified within the Performance Plan.*

Performance

Annual returns to 31 December

Returns net of fees and gross of tax



Comment: The fund recorded a 1.4% return for the year ending 31 December 2018. The weak performance of shares contributed to the return outcome, offsetting the positive performance of most other asset classes. Property continued to record strong positive returns.

Performance against benchmark for periods ending 31 December 2018

Portfolio returns net of fees and gross of tax

	6 mths %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Portfolio return	-0.6	1.4	4.9	5.1	6.4	7.1
Benchmark return	-0.3	1.8	5.1	5.4	6.5	6.9
Active return	-0.3	-0.5	-0.2	-0.3	-0.1	0.2

Note that due to rounding, the active returns shown may not exactly equal the difference between the portfolio and benchmark returns.

Comment: The fund underperformed the benchmark for the 12 months ending 31 December 2018 and subsequent years however, outperformed the benchmark over the longer period of 10 years.

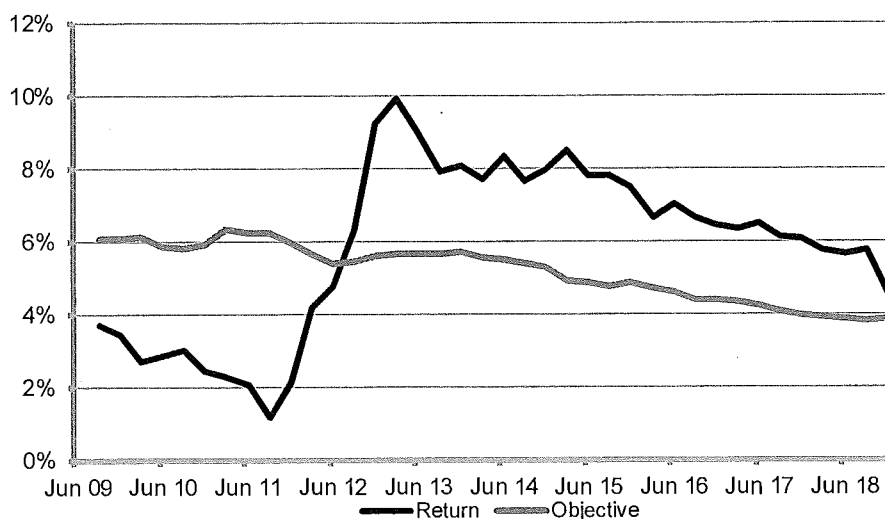
Over the past 6 months, the key contributor to the Conservative (taxable) fund's performance relative to benchmark was the weak active return achieved by the international shares asset class along with the modest overweight to this asset class. The performance of the Diversified Strategies Income asset class relative to its benchmark also detracted from relative performance.

Fund Performance against investment objective

4 Year rolling returns, net of fees and gross of tax to 31 December 2018

Investment objective: CPI + 2% over 4 year rolling periods

[CPI + 2.5% prior to 1 January 2016, CPI + 3.0% prior to 1 July 2013]



Comment: Performance is above the investment objective for the most recent period. Underperformance versus objective during 2009-2012 reflects the impact of the Global Financial Crisis.

Fund Summary

Fund Size: \$ 662.5 million

Portfolio Inception: 30 June 2006

Indirect Cost Ratio (ICR): 0.28% for the 2018-19 financial year-to-date (incl. perf fees)

Objective: The Moderate fund is structured for investors with an investment time horizon of at least 6 years. Over this period it aims to earn a return averaging 3% in excess of the rate of inflation (note the objective was CPI + 3.5% prior to 1 January 2016). However, annual returns may be volatile. Using the Standard Risk Measure developed by ASFA and the FSC, its risk level is classified as 'medium' (Risk Band 4) meaning that a negative return might occur between 2 and 3 years in 20.

Asset allocation

Asset allocation as at 31 December 2018

	Actual %	Strategic %	Variance %
Cash	7.0	8.0	-1.0
Short-Term Fixed Interest	6.7	7.0	-0.3
Long-Term Fixed Interest	9.0	9.0	0.0
Inflation-Linked Securities B	12.1	12.0	0.1
Diversified Strategies Income	17.6	17.0	0.6
Property B	10.1	10.0	0.1
Australian Equities B	14.8	17.0	-2.2
International Equities B	15.9	15.0	0.9
Diversified Strategies Growth B	6.9	5.0	1.9
Total	100.0	100.0	

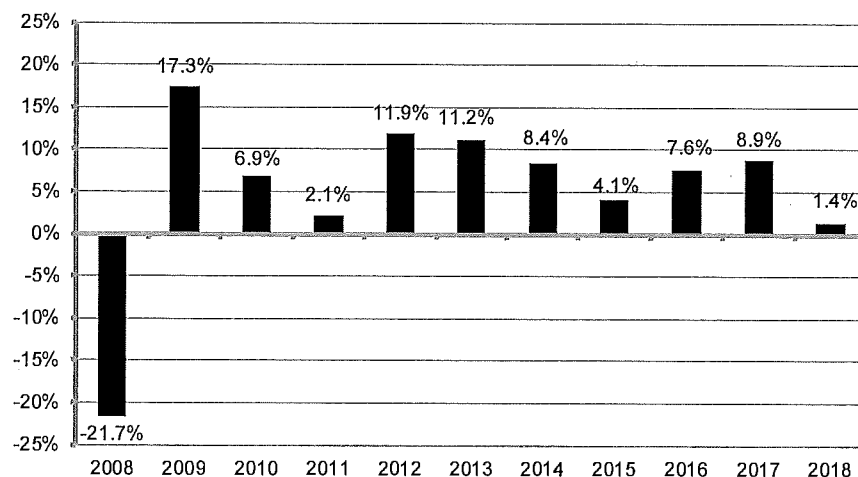
Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Comment: *The asset mix is within the rebalancing ranges specified within the Performance Plan.*

Performance

Annual returns to 31 December

Returns net of fees and gross of tax



Comment: The fund recorded a return of 1.4% for the year ending 31 December 2018. The strong positive performance of unlisted assets (property, private equity and infrastructure) was to a large extent offset by the weak performance of shares.

Performance against benchmark for periods ending 31 December 2018

Portfolio returns net of fees and gross of tax

	6 mths %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Portfolio return	-1.1	1.4	5.9	6.0	7.6	7.9
Benchmark return	-0.7	1.8	5.9	6.1	7.5	7.6
Active return	-0.3	-0.3	0.1	-0.1	0.1	0.3

Note that due to rounding, the active returns shown may not exactly equal the difference between the portfolio and benchmark returns.

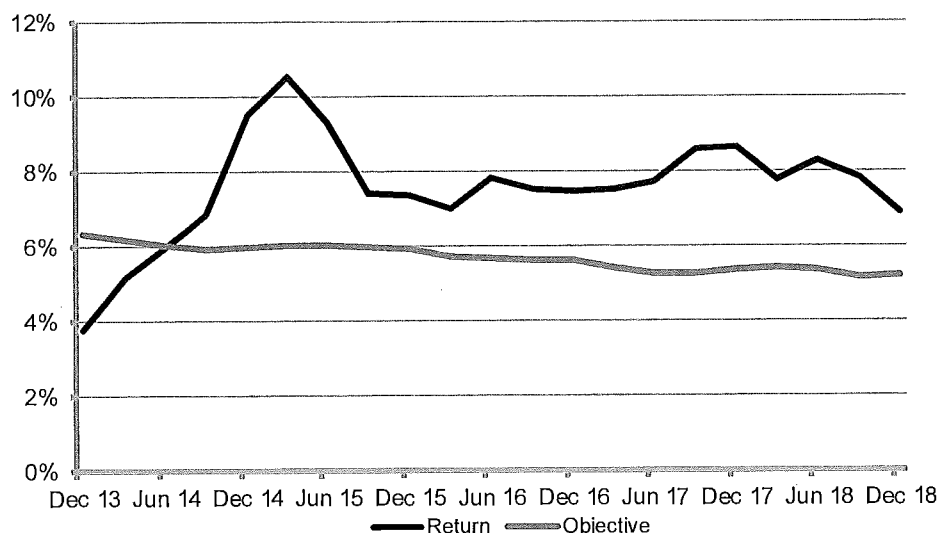
Comment: The Moderate (taxable) fund underperformed the benchmark over the six months and 12 month periods to 31 December 2018. Over the remaining periods the fund was broadly in line with benchmark and outperformed over the longer term 10 year period.

Over the past 6 months, the key contributor to the Moderate (taxable) fund's performance relative to benchmark was the weak active return achieved by the international shares asset class along with the modest overweight to this asset class. The Diversified Strategies Growth asset class positively contributed to relative performance.

Performance against investment objective

6 Year rolling returns, net of fees and gross of tax to 31 December 2018

Investment objective: CPI + 3% over 6 year rolling periods [CPI + 3.5% prior to 1 January 2016]



Comment: Performance is above the investment objective for the most recent period. Underperformance versus objective during 2012-2014 reflects the impact of the Global Financial Crisis.

Fund Summary

Fund Size: \$ 2,519.2 million

Portfolio Inception: 31 March 2005

Indirect Cost Ratio (ICR): 0.33% for the 2018-19 financial year-to-date (incl. perf fees)

Objective: The Balanced Fund is structured for investors with an investment time horizon of at least 7 years. Over this period it aims to earn a return averaging 3.5% in excess of the rate of inflation (note the objective was CPI + 4% prior to 1 January 2016). However, annual returns may be volatile. Using the Standard Risk Measure developed by ASFA and the FSC, its risk level is classified as 'medium to high' (Risk Band 5) meaning that a negative return might occur between 3 and 4 years in 20.

Asset allocation

Asset allocation as at 31 December 2018

	Actual %	Strategic %	Variance %
Cash	1.0	2.0	-1.0
Short-Term Fixed Interest	2.7	3.0	-0.3
Long-Term Fixed Interest	8.0	8.0	0.0
Inflation-Linked Securities B	9.1	9.0	0.1
Diversified Strategies Income	16.6	16.0	0.6
Property B	12.1	12.0	0.1
Australian Equities B	20.6	23.0	-2.4
International Equities B	19.9	19.0	0.9
Diversified Strategies Growth B	10.0	8.0	2.0
Total	100.0	100.0	

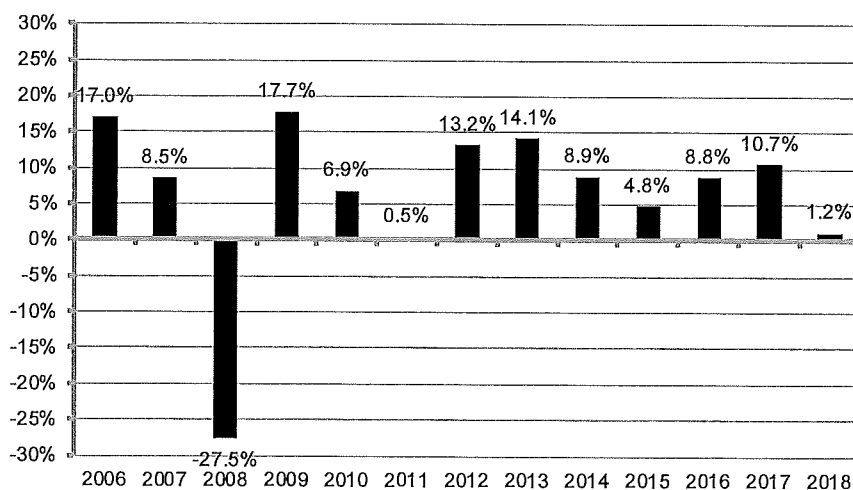
Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Comment: *The asset mix is within the rebalancing ranges specified within the Performance Plan.*

Performance

Annual returns to 31 December

Returns net of fees and gross of tax



Comment: The fund recorded a return of 1.2% for the year ending 31 December 2018. The strong positive performance of unlisted assets (property, private equity and infrastructure) was to a large extent offset by the weak performance of shares.

Performance against benchmark for periods ending 31 December 2018

Portfolio returns net of fees and gross of tax

	6 mths %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Portfolio return	-1.8	1.2	6.8	6.8	8.7	8.6
Benchmark return	-1.4	1.5	6.6	6.8	8.5	8.3
Active return	-0.4	-0.3	0.2	0.0	0.2	0.3

Note that due to rounding, the active returns shown may not exactly equal the difference between the portfolio and benchmark returns.

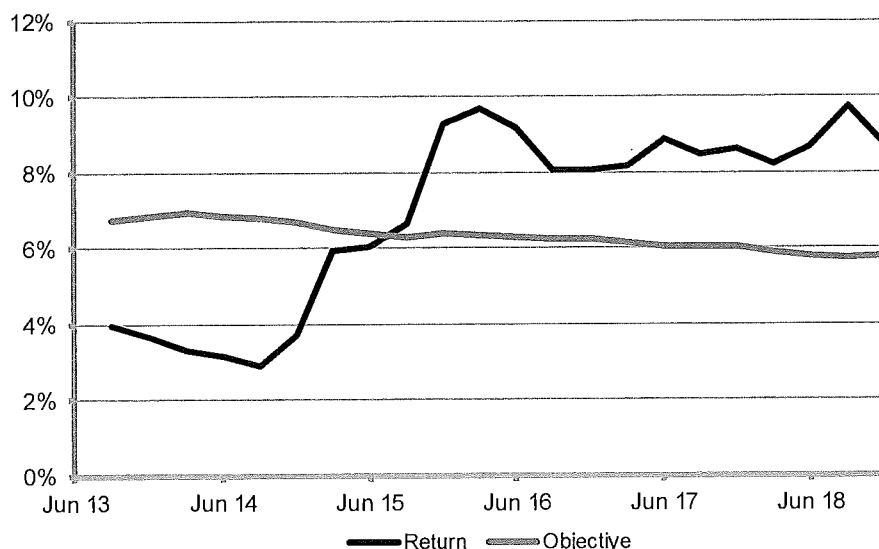
Comment: The fund underperformed the benchmark for the six months and year periods ending 31 December 2018 and is above or in line with the benchmark over longer periods.

Over the past 6 months, the active return achieved in the Diversified Strategies Growth asset class was more than offset by the underperformance of the share portfolios.

Performance against investment objective

7 Year rolling returns, net of fees and gross of tax to 31 December 2018

Investment objective: CPI + 3.5% over 7 year rolling periods [CPI + 4% prior to 1 January 2016]



Comment: Performance is above the investment objective for the most recent period. Underperformance versus objective in previous periods reflects the impact of the Global Financial Crisis.

Fund Summary

Fund Size: \$ 649.0 million

Portfolio Inception: 31 March 2005

Indirect Cost Ratio (ICR): 0.36% for the 2018-19 financial year-to-date (incl. perf fees)

Objective: The Growth fund is structured for investors with an investment time horizon of at least 8 years. Over this period it aims to earn a return averaging 4% in excess of the rate of inflation (note the objective was CPI + 4.5% prior to 1 January 2016). However, annual returns may be volatile. Using the Standard Risk Measure developed by ASFA and the FSC, its risk level is classified as 'medium to high' (Risk Band 5) meaning that a negative return might occur between 3 and 4 years in 20.

Asset allocation

Asset allocation as at 31 December 2018

	Actual %	Strategic %	Variance %
Cash	1.0	2.0	-1.0
Short-Term Fixed Interest	0.0	0.0	0.0
Long-Term Fixed Interest	4.0	4.0	0.0
Inflation-Linked Securities B	6.1	6.0	0.1
Diversified Strategies Income	16.5	16.0	0.5
Property B	14.1	14.0	0.1
Australian Equities B	23.7	26.0	-2.3
International Equities B	22.8	22.0	0.8
Diversified Strategies Growth B	11.8	10.0	1.8
Total	100.0	100.0	

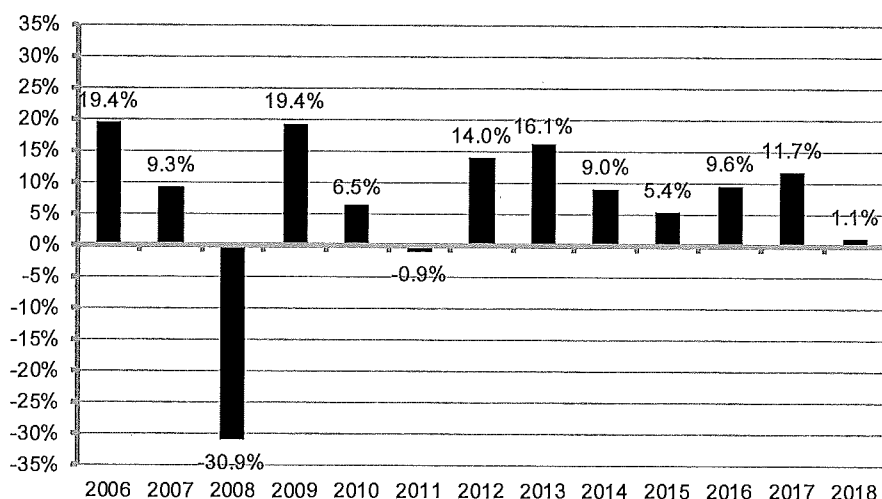
Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Comment: *The asset mix is within the rebalancing ranges specified within the Performance Plan.*

Performance

Annual returns to 31 December

Returns net of fees and gross of tax



Comment: The fund recorded a return of 1.1% for the year ending 31 December 2018. The strong positive performance of unlisted assets (property, private equity and infrastructure) was to a large extent offset by the weak performance of shares.

Performance against benchmark for periods ending 31 December 2018

Portfolio returns net of fees and gross of tax

	6 mths %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Portfolio return	-2.3	1.1	7.4	7.3	9.5	9.0
Benchmark return	-1.8	1.4	7.1	7.2	9.2	8.7
Active return	-0.4	-0.2	0.3	0.1	0.3	0.3

Note that due to rounding, the active returns shown may not exactly equal the difference between the portfolio and benchmark returns.

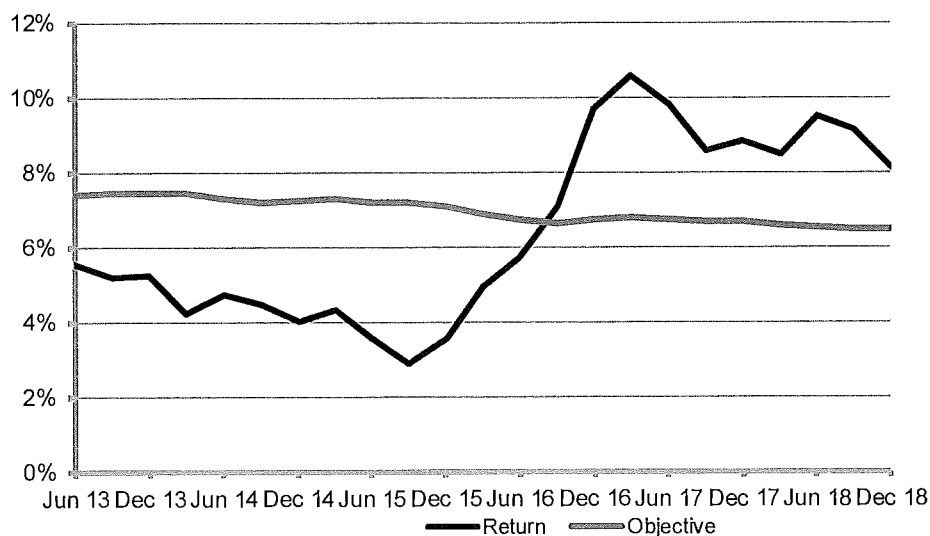
Comment: The fund underperformed the benchmark for the six months and one year periods ending 31 December 2018 and is above the benchmark over longer periods.

Over the past 6 months, the active return achieved in the Diversified Strategies Growth asset class was more than offset by the underperformance of the share portfolios.

Performance against investment objective

8 Year rolling returns, net of fees to 31 December 2018

Investment objective: CPI + 4% over 8 year rolling periods [CPI + 4.5% prior to 1 January 2016]



Comment: Performance is above the investment objective for the most recent period. Underperformance versus objective in previous periods reflects the impact of the Global Financial Crisis.

Fund Summary

Fund Size: \$ 341.1 million

Portfolio Inception: 31 March 2005

Indirect Cost Ratio (ICR): 0.36% for the 2018-19 financial year-to-date (incl. perf fees)

Objective: The High Growth fund is structured for investors with an investment time 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 (note the objective was CPI + 5% prior to 1 January 2016). 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 occur between 4 and 6 years in 20.

Asset allocation

Asset allocation as at 31 December 2018

	Actual %	Strategic %	Variance %
Cash	1.0	2.0	-1.0
Short-Term Fixed Interest	0.0	0.0	0.0
Long-Term Fixed Interest	0.0	0.0	0.0
Inflation-Linked Securities B	0.0	0.0	0.0
Diversified Strategies Income	12.5	12.0	0.5
Property B	16.1	16.0	0.1
Australian Equities B	30.7	33.0	-2.3
International Equities B	27.9	27.0	0.9
Diversified Strategies Growth B	11.8	10.0	1.8
Total	100.0	100.0	

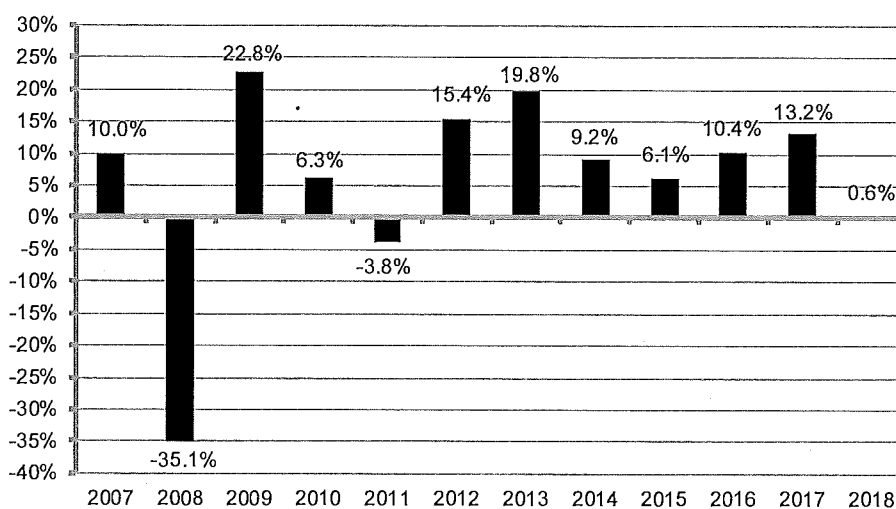
Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

Comment: *The asset mix is within the rebalancing ranges specified within the Performance Plan.*

Performance

Annual returns to 31 December

Returns net of fees and gross of tax



Comment: The fund recorded a return of 0.6% for the year ending 31 December 2018. The strong positive performance of unlisted assets (property, private equity and infrastructure) was to a large extent offset by the weak performance of shares.

Performance against benchmark for periods ending 31 December 2018

Portfolio returns net of fees and gross of tax

	6 mths %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Portfolio return	-3.2	0.6	7.9	7.8	10.5	9.7
Benchmark return	-2.8	0.9	7.7	7.6	10.2	9.4
Active return	-0.4	-0.3	0.2	0.2	0.3	0.4

Note that due to rounding, the active returns shown may not exactly equal the difference between the portfolio and benchmark returns.

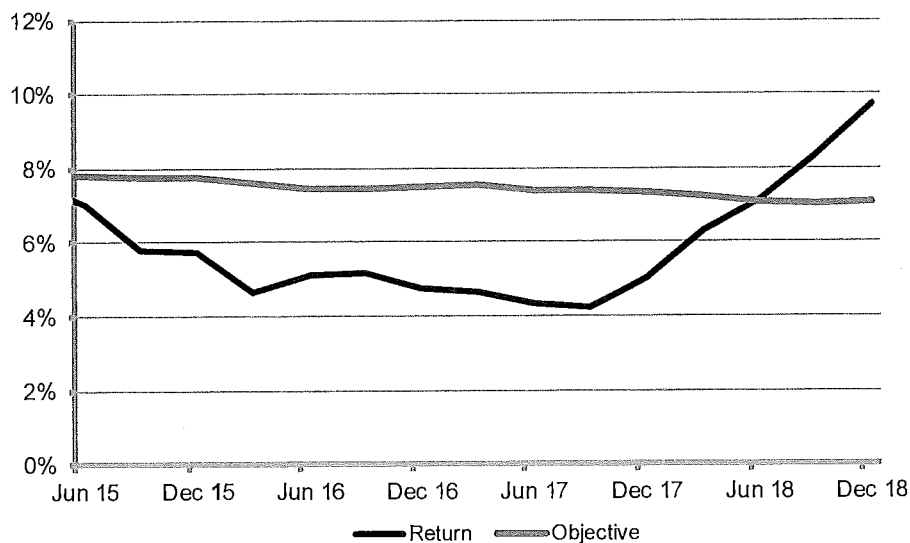
Comment: The fund underperformed the benchmark for the six months and one year periods ending 31 December 2018 and is above the benchmark over longer periods.

Over the past 6 months, the active return achieved in the Diversified Strategies Growth asset class was more than offset by the underperformance of the share portfolios.

Performance against investment objective

10 Year rolling returns, net of fees to 31 December 2018

Investment objective: CPI + 4.5% over 10 year rolling periods [CPI + 5% prior to 1 January 2016]



Comment: The High Growth fund's 10 year return is in line with the investment objective for the most recent period. Underperformance versus objective during the previous periods reflects the impact of the Global Financial Crisis.

Fund Summary

Fund Size: \$ 44.7 million

Portfolio Inception: 2 March 2009

Indirect Cost Ratio (ICR): 0.41% for the 2018-19 financial year-to-date (incl. perf fees)

Objective: The Socially Responsible fund is structured to provide investors with risk and return characteristics likely to be similar to those of a growth fund and accordingly annual returns will 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 occur between 4 and 6 years in 20.

Asset allocation

Asset allocation as at 31 December 2018

	Actual %	Strategic %	Variance %
Cash	11.6	2.0	9.6
Fixed Interest	17.2	25.0	-7.8
Property	9.0	9.0	0.0
Australian Equities	23.8	25.0	-1.2
International Equities	34.2	33.0	1.2
Alternatives	4.2	6.0	-1.8
Total	100.0	100.0	

Due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

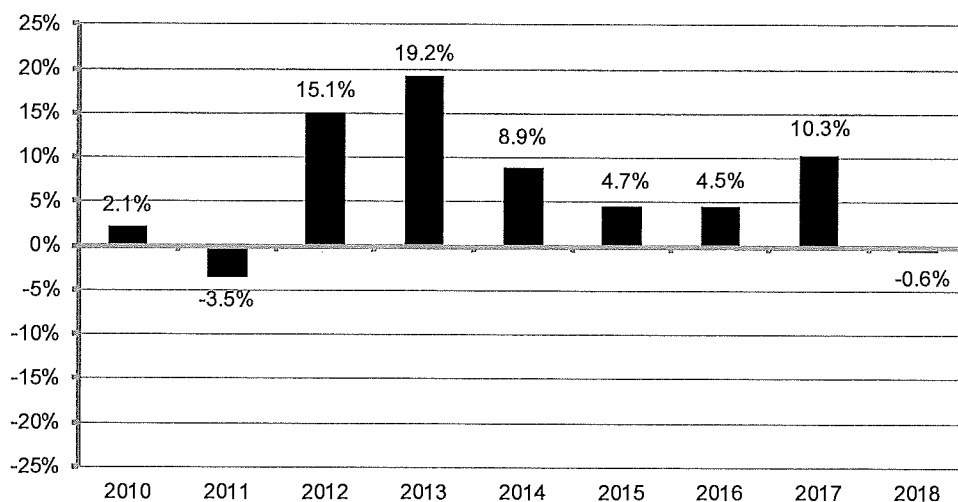
The Socially Responsible fund invests in the Responsible Investment Leaders Balanced fund, which is managed by AMP Capital, and does not invest in the Funds SA asset classes. Thus the asset classes listed above are those managed by AMP Capital.

Comment: *The asset mix of the Socially Responsible fund is determined by the product provider, AMP Capital. The asset mix is within the asset allocation ranges for this product.*

Performance

Annual returns to 31 December

Returns net of fees and gross of tax



Comment: *The fund recorded a return of -0.6% for the year ending 31 December 2018.*

Performance against benchmark for periods ending 31 December 2018

Portfolio returns net of fees and gross of tax

	6 mths %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Portfolio return	-3.7	-0.6	4.6	5.5	8.7	n.a.
Benchmark return	-3.1	-0.2	6.2	6.6	9.3	n.a.
Active return	-0.6	-0.4	-1.6	-1.1	-0.6	n.a.

Note that due to rounding, the active returns shown may not exactly equal the difference between the portfolio and benchmark returns.

Comment: *The fund has underperformed the benchmark over all periods shown. This is the result of several factors, including underperformance of the underlying fund managers, as well as active asset allocation decisions. The Fund's socially responsible investment screens have also been a headwind for active returns. Funds SA have been liaising closely with the fund manager, AMP Capital on this underperformance. Funds SA does however have confidence that the portfolio will deliver on its real return objective and some of the recent changes to the manager configuration are expected to improve excess return potential of the portfolio.*

Key drivers of underperformance over the last six months include the underweight to fixed interest in favour of cash, and the funds underweight to Australian equities in favour of international equities.

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Appendix 3

Asset class benchmarks

The following tables detail the asset class benchmarks as at 31 December 2018.

Cash

Allocation %	Index
100	Bloomberg AusBond Bank Bill Index

Short-Term Fixed Interest

Allocation %	Index
100	Bloomberg AusBond Composite Index 0-5 years

Long-Term Fixed Interest

Allocation %	Index
50	Bloomberg AusBond Treasury Index 7+ years
50	Citigroup World Government Bond Index hedged into Australian Dollars

Inflation-Linked Securities A

Allocation %	Index
70	Bloomberg AusBond Government Inflation Index 0-10 years
30	UBSA Inflation Index

Inflation-Linked Securities B

Allocation %	Index
100	Bloomberg AusBond Government Inflation Index 0-10 years

Diversified Strategies Income

Allocation %	Index
4	<i>European Investment-Grade:</i> iBoxx Euro Corporates Index expressed in AUD (hedged)
16	<i>US Investment-Grade:</i> Barclays US Corporate Investment Grade Index expressed in AUD (unhedged)
5	<i>Australian Investment-Grade:</i> Bloomberg AusBond Non-Government Bond Index
7.5	<i>High-Yield</i> Merrill Lynch Global High-Yield BB-B 2% constrained Index expressed in AUD (unhedged)
3.75	Merrill Lynch US High-Yield Master II Index expressed in AUD (unhedged)
3.75	Credit Suisse Leveraged Loan Index expressed in AUD (unhedged)
15	<i>Emerging Market Debt:</i> JP Morgan EMBI Global Index expressed in AUD (unhedged)
5	<i>Alternative Credit:</i> ICE BofAML US Treasury Bill Index + 3% p.a. expressed in AUD (unhedged)
24	<i>Absolute Return:</i> Bloomberg AusBond Bank Bill Index + 3% p.a.
16	Bloomberg AusBond Bank Bill Index + 2% p.a.
+51	<i>Currency Hedge:</i> Barclays Capital US Aggregate Index expressed in AUD (hedged)
-51	Barclays Capital US Aggregate Index expressed in AUD (unhedged)

Property A

Allocation %	Index
100	MSCI / Mercer Australia Core Wholesale PFI

Property B

Allocation %	Index
100	MSCI / Mercer Australia Core Wholesale PFI

Australian Equities A

Allocation %	Index
100	S&P/ASX 300 Accumulation Index

Australian Equities B

Allocation %	Index
100	S&P/ASX 300 Accumulation Index

International Equities A

Allocation %	Index
75	<i>Global:</i> Morgan Stanley Capital International (MSCI) World Index net dividends reinvested in AUD and unhedged
5	<i>US Small Companies:</i> Russell 2000 Index total returns in AUD and unhedged
5	<i>EAFE Small Companies:</i> S&P/Developed Small Cap Index ex-USA total returns in AUD and unhedged
13	<i>Emerging Markets:</i> MSCI Emerging Markets Index total returns in AUD and unhedged
2	<i>Emerging Markets Small Companies:</i> MSCI Emerging Markets Small Cap Index net dividends reinvested in AUD and unhedged.
20% developed markets component	<i>Currency Hedge:</i> MSCI World ex-Australia Index Hedged minus MSCI World ex-Australia Unhedged, net dividends reinvested and in AUD

International Equities B

Allocation %	Index
75	<i>Global:</i> Morgan Stanley Capital International (MSCI) World Index net dividends reinvested in AUD and unhedged
10	<i>Global Small Companies:</i> S&P/Developed Small Cap Index net dividends reinvested in AUD and unhedged
13	<i>Emerging Markets:</i> MSCI Emerging Markets Index total returns in AUD and unhedged
2	<i>Emerging Markets Small Companies:</i> MSCI Emerging Markets Small Cap Index net dividends reinvested in AUD and unhedged.
20% developed markets component	<i>Currency Hedge:</i> MSCI World ex-Australia Index Hedged minus MSCI World ex-Australia Unhedged, net dividends reinvested and in AUD

Diversified Strategies Growth A

Allocation %	Index
100	Bloomberg AusBond Bank Bill Index plus 4% p.a.

Diversified Strategies Growth B

Allocation %	Index
100	Bloomberg AusBond Bank Bill Index plus 4% p.a.

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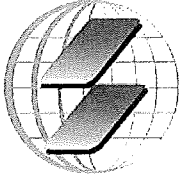
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FUNDS SA

Lifetime Support Authority

Performance Report

Six months ending 31 December 2018

18/19

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1 Introduction

This report provides an overview of the performance of the Lifetime Support Authority's investments with Funds SA for the period ending 31 December 2018. The report includes details on the financial market environment, fund performance, asset allocations and the expenses incurred in managing the funds.

The financial market outcomes defining the period to 31 December 2018 are summarised below.

Share markets have been weak and volatile over the last six months, a typical phenomenon of this late stage in the economic cycle

- Australian and global shares (local currency) produced index returns of -7.0% and -8.6%, respectively, for the half year and -3.1% and -7.4% respectively for the calendar year.
- Defensive investments produced low positive returns, with Australian cash and government bonds producing index returns of 1.0% and 3.2%, respectively, for the half year and 1.9% and 5.1% respectively for the calendar year.
- Fears of rising US interest rates coupled with ongoing trade tensions and softening global growth undermined investor confidence. Despite these concerns global economic growth was positive but slowing in China, Europe and Japan whilst US growth remained relatively strong.

The LSA strategy recorded a modest positive return for the calendar year

- The LSA strategy returned -1.8% for the six months ending 31 December 2018 and 1.7% for the 12 months. Since inception (July 2014) the LSA strategy has returned 6.2% p.a.
- The strong positive performance of unlisted assets (property, private equity and infrastructure) was to a large extent offset by the weak performance of shares.

The LSA continued on its path to a more growth orientated strategy

- During the half year ending 31 December 2018, the LSA increased its allocation to Diversified Strategies Growth and reduced its allocation to Long Term Fixed Interest.
- As at 31 December 2018 the asset allocation of the LSA strategy was within the asset class ranges specified within the Performance Plan.

Funds under management are now over \$600 million

- The LSA strategy funds under management grew from \$597.8 million as at 30 June 2018 to \$639.4 million as at 31 December 2018. This increase was driven by net investor cash inflows of \$53.5 million and a fall in market value of \$11.9 million.

Fees

- For the six month period ending 31 December 2018, the indirect cost ratio for the LSA strategy was 0.39%.

2 Financial market environment

During the half-year ending 31 December 2018, rising US interest rates and geo-political concerns began to weigh heavily on global share markets.

Investor concerns became elevated in the second half of the year with Australian and international listed equities producing negative returns, whilst defensive assets such as fixed income securities performed positively. Although US economic growth remained strong, fears of rising US interest rates coupled with ongoing trade tensions and softening global growth undermined investor confidence, who began to factor in the prospects of slower growth and lower corporate profits. This environment was conducive for defensive and unlisted assets, which helped diversified portfolios to deliver low positive returns for the calendar year, despite poor listed equity returns.

Economic Environment

Global economic growth was positive but slowing in China, Europe and Japan, whilst US growth remained relatively strong. The US economy continued its strong performance, growing over 3% p.a. as the government's tax changes and spending initiatives reached their maximum impact. Unemployment continued to decline, falling below 4% with inflation beginning to show signs of moving higher. The US central bank continued to modestly raise official interest rates toward 2.5%, with market fears that conditions were becoming too restrictive. US equities performed strongly during the first half of the year, but by year-end concerns that higher interest rates and a stronger US dollar would soften domestic economic conditions took effect on markets.

In Europe, economic momentum slowed as strong ties to a softening Asia growth and the continued fragmented political environment impacted on confidence. Growth was positive across most countries in Europe but momentum clearly moved lower. Italy, one of the weaker economies, attempted to increase government spending as a way of propping up growth but this was met with strong resistance from European policy makers in Brussels. Japan also slowed as its strong ties to China and structural demographic headwinds began to weigh as export demand continued to slow resulting in poor equity returns for the year.

Emerging markets were mixed as last year's losers (Brazil and Russia) performed well, given the rise in select commodities, whilst Asian equity bourses underperformed; in particular China, given the focus of the trade dispute with the US. China responded, beginning to loosen policy to offset the impact of the trade dispute and softening growth; however, these measures were not aggressive enough to alter the momentum of the Chinese growth for the year.

Australia performed relatively well, growing just under 3% over the year, assisted by an accommodative monetary policy environment and growing exports and infrastructure spending. Consumer spending was steady, in spite of concerns surrounding falling house prices and potential credit squeeze resulting from the banking royal commission. However, spending was supported by a fall in the savings rate in the face of the slow growth in wages and soft credit growth, although these influences also kept inflation in check. Australian equities were negative but outperformed many global bourses over the year.

Policy Environment

The ultra-accommodative monetary policy measures, used to help stabilise economies after the global financial crisis, continued to be wound back in 2018. The US Federal Reserve increased official interest rates over the year from 1.5% to 2.5% and continued unwinding its asset purchase program. Similarly, the UK, Canadian and European central banks began to follow suit despite economic growth appearing to soften. Although inflation remained low, there were early signs that wages and price pressures may begin to turn up. Despite US official cash rates moving higher, long-term bonds moved lower on expectations of a softening growth environment and potential lower future inflation. As such, government debt sector returns were positive over the year with Australia outperforming.

Political environment

The ongoing theme of populist political elections and dysfunctional parliaments continued, this time impacting Australia, US, Britain (Brexit) and France (where rioting forced president Macron to step away from introducing controversial taxes). US-Chinese trade tensions, however, caught much of investors' attention with the tit-for-tat tariff war undermining confidence and Chinese exports. Near the end of the year, US mid-term elections resulted in the Democrats controlling the House of Representatives; investors speculated this was likely to raise the prospects for high-stakes political gamesmanship, as witnessed by the extended government shutdown in December, adding to market volatility.

The chart below depicts the themes discussed above, with world equity markets underperforming as long term sovereign bond yields moved lower in yield (higher in prices).

Chart 3: Developed market global equities and government bond yields

Global Equities represented by the MSCI World Index

Government Bond Yields represented by the Bloomberg Barclays Global Aggregate Treasuries Yield



Source: Bloomberg

Consistent with the above themes:

- Global equity markets performed poorly. Select Emerging and Australian shares outperformed global but almost all markets produced negative returns for the year.
- Most major commodities markets were down. Industrial metals held up but energy performed poorly, particularly in the fourth-quarter, and in doing so reflected the shift in sentiment towards a weaker global growth environment. Gold rose late in the year on rising geo-political tensions.
- Government bonds delivered positive returns, reflecting investors' flight to safety and quality, as well as falling inflation expectations. On the other hand, short-term government bonds underperformed, reflecting the rising policy rate environment in the US.
- Non-government debt markets delivered mixed returns, with those perceived to be the highest risk, such as US High-Yield and Emerging Market debt, underperforming on the back of rising investor risk aversion.
- Australian listed property delivered positive returns and outperformed the broader listed equity market, as the prospect of falling government yields supported the sector. Unlisted property continued to perform well, supported by rising rents and valuation uplifts.
- Other unlisted markets such as infrastructure and private equity, remained well supported as investors sought diversification and higher returns.
- Most currencies underperformed against the US dollar, as it strengthened over the year. Higher US official interest rates, economic growth concerns and rising volatility created strong demand for the global reserve currency. The Australian dollar was only marginally weaker against most major currencies over the course of the year.

The table following shows the returns generated in different financial markets over periods to 31 December 2018.

Table 1: Major market index returns for periods ending 31 December 2018

	6 mths %	1 Year %	3 Years % p.a.	5 Years % p.a.	7 Years % p.a.	10 Years % p.a.
Cash and Fixed Income						
Australian Cash	1.0	1.9	1.9	2.2	2.5	3.1
Australian Government	3.2	5.1	3.7	4.7	4.2	4.5
Australian Inflation-Linked	1.4	3.7	3.0	4.9	4.5	5.8
Global Treasuries ⁽¹⁾	1.8	2.7	3.6	5.0	5.2	5.9
Credit						
Global Credit ⁽¹⁾	1.0	-0.6	4.0	4.8	5.7	7.8
Global High Yield ⁽¹⁾	-1.2	-3.0	7.3	5.6	8.4	13.8
Emerging Market Debt ⁽²⁾	0.7	-4.6	4.7	4.2	4.5	7.8
Property ⁽³⁾						
Australian Unlisted Property	4.3	9.7	11.2	11.1	10.3	8.0
Australian Listed Property	0.2	3.3	7.6	12.5	14.4	10.7
Equities ⁽³⁾						
Australian Equities	-7.0	-3.1	6.7	5.6	9.5	8.9
Global Equities	-8.6	-7.4	6.2	6.0	10.4	10.1
US Equities	-6.9	-4.4	9.3	8.5	12.7	13.1
European Equities	-10.2	-10.6	2.7	3.5	7.6	7.5
Japanese Equities	-12.1	-15.4	0.8	4.7	13.0	7.7
Asia (ex-Japan) Equities	-9.8	-12.3	8.1	5.1	7.1	10.2
Chinese Equities	-8.6	-13.5	1.6	-1.3	0.3	2.5
Emerging Markets	-7.3	-9.7	9.2	5.4	6.8	10.0
Global Small Companies	-15.3	-12.5	5.6	5.5	11.0	12.2
Currency						
AUD vs Developed Market Basket	-4.3	-8.7	-1.3	-3.4	-4.2	0.4
Commodities ⁽⁴⁾						
GSCI Energy	-30.7	-17.1	1.3	-19.4	-13.8	-8.3
GSCI Precious Metals	1.2	-3.6	5.4	0.0	-4.1	2.9
GSCI Industrial Metals	-13.0	-18.0	7.6	-2.8	-3.7	2.4

Source: Bloomberg; Mercer

⁽¹⁾ Hedged to AUD

⁽²⁾ Hedged to USD

⁽³⁾ Local currency

⁽⁴⁾ USD

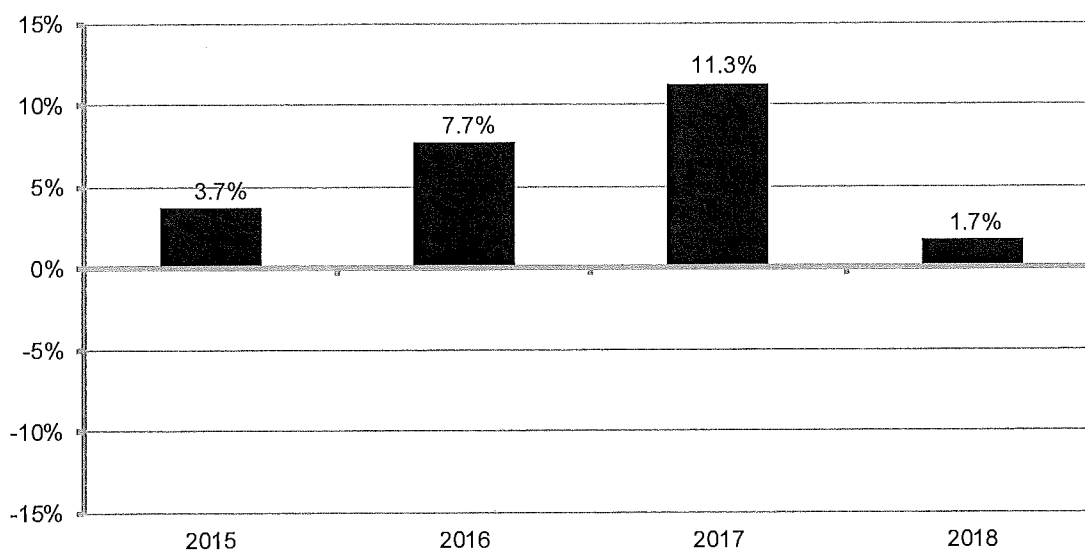
3 LSA strategy performance

The LSA strategy performed strongly over the year

The LSA strategy recorded a return of 1.7% for the year ending 31 December 2018 and 6.2% since the inception of the strategy in July 2014. Allocations to property and Diversified Strategies Growth asset classes contributed strongly to returns while Australian and international shares detracted from performance. Defensive assets recorded positive modest returns.

Annual calendar year returns to 31 December 2018 since the inception of the strategy are shown in the bar chart below.

Chart 2: Lifetime Support Authority annual returns net of fees for periods ending 31 December



The primary return measure for the LSA strategy is its investment objective which reflects the minimum nominal return currently incorporated into the LSS's actuarial model of 6.25% or CPI + 3.5%, when measured over the long term.

As shown in the table below, since the inception of the Scheme in July 2014, the real return of the LSA strategy of 4.5% is above its real return investment objective; the nominal return of the LSA strategy of 6.2% is broadly in line with the objective. The caveat being that, as the performance history of the LSS Scheme grows, performance against this objective can be more formally assessed.

Table 2: Lifetime Support Authority returns net of fees to 31 December 2018

	6 mths %	1 year %	2 years % p.a.	3 years % p.a.	Since inception % p.a.
LSA Return	-1.8	1.7	6.4	6.8	6.2
CPI	1.0	1.8	1.8	1.7	1.7
LSA Real Return	-2.8	-0.1	4.5	5.0	4.5

Note Performance in the table above reflects the movement in the LSA strategy from investing in the Funds SA Conservative (tax exempt) fund to the Moderate (tax exempt) fund to a customised strategy from 1 January 2017.

The performance outcomes and underperformance versus objective over shorter periods of six months and one year are a typical phenomenon of this late stage in the economic cycle.

Benchmark relative performance

While the LSA investment objective is the primary return measure, Funds SA also monitors performance against a tailored benchmark for the fund.

The table below shows the performance of the LSA strategy with respect to active returns (i.e. performance above the tailored benchmark), after deduction of all fees and costs for periods ending 31 December 2018. The benchmark return represents a combination of Funds SA's asset class benchmarks weighted by the strategic asset allocation and takes into account the LSA asset allocation changes since inception. The benchmark return is gross of fees and tax.

The asset class benchmarks are typically the relevant market index or blend of market indices. However, for some asset classes (particularly unlisted assets and alternatives) there are no reasonable market indices available and hence the benchmark adopted is typically expressed as a margin over cash. Because of this, the volatility of returns around the benchmark is likely to be high over shorter periods. As such, caution should be taken when assessing performance of the multi-sector funds versus benchmark, particularly over shorter periods.

Table 3: Lifetime Support Authority returns versus benchmark

	6 mths	1 year	2 years	3 years	Since inception
	%	%	% p.a.	% p.a.	% p.a.
Portfolio return	-1.8	1.7	6.4	6.8	6.2
Benchmark return	-1.6	1.6	5.9	6.5	6.1
Active return	-0.3	0.1	0.4	0.4	0.1

Note that due to rounding, the active returns shown may not exactly equal the difference between the portfolio and benchmark returns.

The LSA strategy outperformed or was broadly in line with the benchmark for periods one year and beyond.

Over the past six months, the strong active return achieved in the Diversified Strategies Growth asset class was offset by the active return of the international shares and Diversified Strategies Income asset classes. The underweight position to property detracted from the active return outcome.

4 Asset class performance

Funds SA measures the performance of each of the asset classes against a benchmark. The benchmarks are the relevant market index or blend of market indices, or where no reasonable market index is available, the return expected from the asset class over the medium term (expressed as a margin over cash). The benchmark for each single-sector fund at the end of the reporting period is included in Appendix 1.

It should be noted that for asset classes with cash plus benchmarks, such as Diversified Strategies Growth, the volatility of returns around the benchmark is likely to be high over shorter periods as the underlying assets of the portfolio are not necessarily the same as those in the benchmark.

Equities and unlisted assets performed strongly during the year, while cash and bond assets recorded more modest returns

The table below shows the portfolio returns for periods ending 31 December 2018 versus benchmark. The portfolio return is net of fees, whilst the benchmark return is gross of fees.

Table 4: Funds SA asset class returns for periods ending 31 December 2018
Portfolio returns net of fees

Funds SA asset class	6 mths %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Cash						
Portfolio return	1.0	2.0	2.0	2.2	2.6	3.2
Benchmark return	1.0	1.9	1.9	2.2	2.5	3.1
Active return	0.0	0.1	0.1	0.1	0.1	0.1
Inflation-Linked Securities A						
Portfolio return	1.9	4.4	3.6	4.3	4.5	5.9
Benchmark return	1.0	2.9	2.9	4.1	4.0	5.3
Active return	0.9	1.5	0.6	0.2	0.5	0.5
Diversified Strategies Income						
Portfolio return	0.6	-0.6	4.4	4.4	5.6	7.7
Benchmark return	1.1	0.7	4.8	5.0	5.9	7.4
Active return	-0.5	-1.3	-0.4	-0.5	-0.3	0.3
Property A						
Portfolio return	4.4	9.9	11.4	11.8	11.4	8.9
Benchmark return	4.3	9.4	11.0	11.6	11.2	8.7
Active return	0.1	0.5	0.4	0.2	0.3	0.2
Australian Equities A						
Portfolio return	-7.3	-3.0	6.8	5.6	9.4	9.0
Benchmark return	-7.0	-3.1	6.7	5.6	9.5	8.9
Active return	-0.2	0.1	0.2	0.0	-0.1	0.1
International Equities A						
Portfolio return	-7.4	-3.3	8.4	8.9	14.0	11.9
Benchmark return	-6.0	-1.7	8.8	9.0	13.6	11.2
Active return	-1.3	-1.6	-0.4	-0.1	0.4	0.8
Diversified Strategies Growth A						
Portfolio return	4.7	12.4	12.8	13.1	12.5	11.8
Benchmark return	3.0	6.0	6.0	6.2	6.6	7.1
Active return	1.7	6.4	6.8	6.9	6.0	4.7

Note that due to rounding, the active returns shown may not exactly equal the difference between the portfolio and benchmark returns.

Cash

The portfolio returned 1.0% over the past six months, performing in line with its benchmark.

Inflation Linked Securities

The Inflation-Linked Securities A portfolio returned 1.9%, outperforming its benchmark which returned 1.0%. Domestic active manager strategies contributed to this result as they significantly outperformed the benchmarks through relative value opportunities. The internally managed assets also contributed to this result due to gains on disposal of directly held assets.

Diversified Strategies Income

The portfolio returned 0.6% over the past six months, underperforming its benchmark which returned 1.1%. Both the diversified debt component and absolute return strategies underperformed their respective benchmarks during this period.

Property

The Property A portfolio was in line with its benchmark for the six months to December 2018. The strength in the commercial office market across Australia contributed to the return outcome, particularly in Sydney and Melbourne. Whilst capital growth has been the key driver of returns across the entire portfolio, the rate of growth has slowed and demand for retail assets in particular has softened in recent months.

Australian Equities

The Australian Equities portfolio underperformed its benchmark for the six months ending December 2018 by 0.2%. Stock selection in the broad market sector detracted relative return the most; this was only partly offset by stock selection in the small cap segment. At the sector level, outperformance was mostly driven by an overweight exposure to industrials whereas the biggest detractors were an underweight to the defensive property trusts as well as an overweight exposure to the weakest performing energy sector. The key portfolio changes made during this period were Funds SA redeeming in full out of Karara, appointing two new managers Touchstone and Ethical Partners in the Australian Equities Portfolio and making initial capital allocations to them.

International Equities

The International Equities portfolio underperformed its benchmark by 1.3% over the six months to December 2018. Underperformance was largely driven by the negative contribution from stock selection in the developed markets where the portfolios had a slight overweight positioning. At the sector level, an overweight to healthcare and an underweight to energy added value, whilst underweight positions to the two resilient sectors of utilities and telecoms detracted value. Both of Fund SA's quantitative managers (LSV and AQR) witnessed one of their weakest performances during this period, having been heavily impacted by whipsawing of markets and headwinds from value signals during a period in which value style has materially lagged growth. There were no portfolio changes during this period.

Diversified Strategies Growth

The Diversified Strategies Growth portfolio generated returns above benchmark over the six months to December 2018. The private equity sub-sector positively contributed to performance but Australian infrastructure funds detracted from performance as specific regulatory issues had a negative impact on asset valuations.

5 Asset allocation

The asset mix of the LSA strategy

The LSA strategy invests in common asset class (or 'single sector') funds according to its strategic asset allocation (SAA). The SAA is the configuration of asset classes which, if held over the long-term, has a reasonable likelihood of achieving the investment objective.

Positioning as at 31 December 2018

The following table shows the actual asset allocation of the LSA strategy as at 31 December 2018 against the targeted strategic asset allocation (SAA) for 2018-19.

Table 5: LSA strategy asset allocation as at 31 December 2018

	Actual	2018-19 Target
	%	%
Cash	1.8	2.0
Inflation-Linked Securities A	4.3	4.0
Diversified Strategies Income	16.1	16.0
Property A	16.1	18.0
Australian Equities A	20.9	20.0
International Equities A	23.8	26.0
Diversified Strategies Growth A	17.0	14.0
Total	100.0	100.0

Note that due to rounding, the sum of the individual numbers within the table may not equal the total quoted.

The LSA's asset allocation at 31 December 2018 was within the rebalancing ranges specified within the Performance Plan.

Funds SA continues to closely monitor the LSA investment strategy and rebalance the portfolio as appropriate in light of prevailing market conditions.

In accordance with the 2018-19 Performance Plan, the portfolio continued its transition towards a more growth oriented strategy. As at 31 December 2018, the LSA strategy was underweight Property and overweight Diversified Strategies Growth.

During July 2018 an opportunity to increase the Diversified Strategies Growth weight to its targeted 2019-20 position of 16% was undertaken as agreed with the LSA Investment Committee.

The Strategic Asset Allocation to equities is targeted to be 46% during 2018-19, including a 20% allocation to Australian equities and 26% allocation to international equities. Progressive moves towards the new strategy will continue over the remainder of the financial year.

Single sector asset class composition is discussed in the following section.

6 Asset class structures

The table below summarises the sub-sector strategies employed for the asset classes together with the fund managers engaged to implement the strategies as at 31 December 2018.

Table 6: Funds SA asset sector structure for tax-exempt funds as at 31 December 2018

Sector	Sub-sector allocations		Fund managers
Cash			Macquarie Investment Management
Inflation Linked Securities A (International assets hedged to AUD)	90%	Australian	Ardea Investment Management Colonial First State Funds SA Internally Managed
	10%	Global	Colchester Global Investors
Diversified Strategies Income (International assets hedged to AUD)	60%	Diversified Debt	Ares Management BlueBay Asset Management Columbia Threadneedle Investments GMO & Co Macquarie Investment Management Oak Hill Advisors Putnam Investments Wellington Management Company
	40%	Absolute Return	Bridgewater Associates Brandywine Global GMO & Co LGT Capital Partners
Property A	85%	Australian Core Property	AMP Capital Dexus Wholesale Property GPT Funds Management Investa Funds Management Lend Lease
	15%	Australian Non-Core Property	CorVal Partners Vanguard Vicinity Centres
Australian Equities A	15%	Large Caps	Balanced Equity Management
	82%	Broad Market	Ethical Partners Greencape Capital Investors Mutual Northcape Capital Touchstone Vinva Investment Management
	3%	Small Caps	Investors Mutual
International Equities A (20% developed markets component hedged to AUD)	75%	Global Broad Market	Applied Quantitative Research Harding Loevner Invesco LSV Asset Management Massachusetts Financial Services Mondrian Investment Partners
	10%	Small Companies	Dimensional Fund Advisors Lord Abbett Growth Fidelity Worldwide Investment
	15%	Emerging Markets	Genesis Investment Management LSV Asset Management Mondrian Investment Partners Wellington Management Company
Diversified Strategies Growth A (International assets hedged to AUD)	50%	Private Markets	33 Fund Managers
	50%	Infrastructure	4 Fund Managers
	0%	Other Opportunities	2 Fund Managers

* The sub-sector strategies and fund managers listed in the table above are subject to change. Funds SA's continual monitoring and annual sector reviews re-evaluate the appropriateness of investment strategies and managers on a frequent basis.

Descriptions of the fund managers listed above can be found on the Secure Login area of the Funds SA website under 'Portfolio Information'. Portfolio exposures and characteristics are also available on the Secure Login.

Portfolio changes during the period

Funds SA's continual monitoring and annual sector reviews re-evaluate the appropriateness of investment strategies and fund managers on a frequent basis.

Changes made to the asset classes during the 2018-19 financial year are detailed below.

Table 7: Portfolio changes during the 2018-19 financial year

Sector	Portfolio Changes
Diversified Strategies Income	<ul style="list-style-type: none"> Putnam was appointed to manage an alternative credit portfolio.
Australian Equities A	<ul style="list-style-type: none"> Touchstone and Ethical Partners were appointed to the portfolios. Karara was terminated.
Diversified Strategies Growth A	<ul style="list-style-type: none"> New commitments were made to two private equity funds, one focusing on Asia, and another focussing on mid-market infrastructure. Diversified Strategies Growth A fully redeemed its holdings in the Bridgewater All Weather Fund.

Benchmark changes

During the period there has been a number of benchmark changes aimed at moving away from the current approach of aggregating the underlying manager style specific benchmarks towards a simpler, usually one single asset sector benchmark.

It should be noted that the approach to move towards a simpler asset sector benchmark will be rolled out across all asset sectors over the ensuing year.

A summary of the debt and property sector benchmark changes undertaken during the half year ending 31 December 2018 are shown below:

Table 15: Benchmark changes during the 2018-19 financial-year-to-date

Asset	Previous	New	Note
Inflation Linked Securities (Tradable Securities)	15% AusBond Bank Bill +1%pa 30% AusBond Treasury Inflation 0-8 +0.75%pa 40% AusBond Gov Inflation 0-10 15% World Gov ILB	AusBond Gov Inflation 0-10	Australian focussed
Property	85% Mercer IPD Australian Pooled Property Fund Index 15% ASX 300 Listed Property Trust Accumulation Index	MSCI / Mercer Australia Core Wholesale PFI	Unlisted property index

7 Investment management costs

Included within each Performance Plan is an estimate of the costs expected to be incurred for each investment fund. Costs are expressed as a percentage of average funds managed and are referred to as an 'Indirect Cost Ratio' or 'ICR'.

A prime management objective for Funds SA is to achieve returns in excess of benchmark net of all fees and costs. Managing costs is an important element in this objective; however, the level of costs is not independent of the level of outperformance.

That being said, costs, and more particularly, maintaining a value for money investment service, remain a focus of attention for the Funds SA Board and staff. Regular benchmarking of expenditures against peer organisations is undertaken to ensure Funds SA's ongoing cost competitiveness.

2018-19 Fees

The LSA ICR for the six months ended 31 December 2018 was 0.39%.

The ICR for the six months ended 31 December 2018 compared to the original forecast is shown in the table below. The forecast excludes performance fees and transaction and operational costs.

Table 8: LSA Strategy ICR for the 2018-19 financial year

Fund	Total 2018-19 FY (excl. perf fees, transaction & operational costs) %	Forecast 2018-19 (excl. perf fees, transaction & operational costs) %	Difference %	Performance fees %	Transaction & operational costs	Total 2018-19 FY (incl. perf fees, transaction & operational costs) %
LSA Strategy	0.39	0.38	0.00	0.00	0.00	0.39

1. Note due to rounding, the sum of the individual numbers may not equal the total figures quoted.

For the 2018-19 financial year to date, the LSA strategy ICR (excluding performance fees and transaction and operational costs) achieved was in line with the forecast ICR (factoring rounding) as stated within the Performance Plan as shown in the 'Difference' column above.

As a result of the recent volatility in global markets no performance fees were accrued for the six months ended 31 December 2018. However it should be noted that carried interest and performance fees within Funds SA's Diversified Strategies Growth asset class (a portfolio of predominantly private equity and infrastructure investments) are not finalised until the end of the financial year, therefore not included in the six months ended 31 December 2018.

Transactional and operational costs which include brokerage, stamp duty, transaction settlement costs, clearing costs and spreads are also not included in the ICR for the six months ended 31 December 2018. These costs are finalised at the end of the financial year and will be included in the final 30 June 2019 ICRs.

Appendix 1

Asset class benchmarks

The following tables detail the asset class benchmarks as at 31 December 2018.

Cash

Allocation %	Index
100	Bloomberg AusBond Bank Bill Index

Inflation Linked Securities A

Allocation %	Index
70	Bloomberg AusBond Government Inflation Index 0-10 years
30	UBSA Inflation Index

Diversified Strategies Income

Allocation %	Index
4	<i>European Investment-Grade:</i> iBoxx Euro Corporates Index expressed in AUD (hedged)
16	<i>US Investment-Grade:</i> Barclays US Corporate Investment Grade Index expressed in AUD (unhedged)
5	<i>Australian Investment-Grade:</i> Bloomberg AusBond Non-Government Bond Index
7.5	<i>High-Yield</i> Merrill Lynch Global High-Yield BB-B 2% constrained Index expressed in AUD (unhedged)
3.75	Merrill Lynch US High-Yield Master II Index expressed in AUD (unhedged)
3.75	Credit Suisse Leveraged Loan Index expressed in AUD (unhedged)
15	<i>Emerging Market Debt:</i> JP Morgan EMBI Global Index expressed in AUD (unhedged)
5	<i>Alternative Credit:</i> ICE BofAML US Treasury Bill Index + 3% p.a. expressed in AUD (unhedged)
24	<i>Absolute Return:</i> Bloomberg AusBond Bank Bill Index + 3% p.a.
16	Bloomberg AusBond Bank Bill Index + 2% p.a.
+51	<i>Currency Hedge:</i> Barclays Capital US Aggregate Index expressed in AUD (hedged)
-51	Barclays Capital US Aggregate Index expressed in AUD (unhedged)

Property A

Allocation %	Index
100	MSCI / Mercer Australia Core Wholesale PFI

Australian Equities A

Allocation %	Index
100	S&P/ASX 300 Accumulation Index

International Equities A

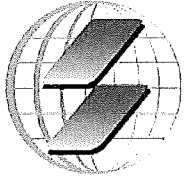
Allocation %	Index
75	<i>Global:</i> Morgan Stanley Capital International (MSCI) World Index net dividends reinvested in AUD and unhedged
5	<i>US Small Companies:</i> Russell 2000 Index total returns in AUD and unhedged
5	<i>EAFE Small Companies:</i> S&P/Developed Small Cap Index ex-USA total returns in AUD and unhedged
13	<i>Emerging Markets:</i> MSCI Emerging Markets Index total returns in AUD and unhedged
2	<i>Emerging Markets Small Companies:</i> MSCI Emerging Markets Small Cap Index net dividends reinvested in AUD and unhedged.
20% developed markets component	<i>Currency Hedge:</i> MSCI World ex-Australia Index Hedged minus MSCI World ex-Australia Unhedged, net dividends reinvested and in AUD

Diversified Strategies Growth A

Allocation %	Index
100	Bloomberg AusBond Bank Bill Index plus 4% p.a.

Disclaimer

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FUNDS SA

Motor Accident Commission

Performance Report
Six months ending 31 December 2018

18/19

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1 Introduction

This report provides an overview of the performance of the single sector funds in which the Motor Accident Commission (MAC) invests with Funds SA for the six month period ending 31 December 2018. The report includes details on the financial market environment, fund performance, asset class structures and the expenses incurred in managing the funds.

The investment outcomes defining the period to 31 December 2018 are summarised below.

The combined return for the MAC Fund was 1.3% for the half year ending 31 December 2018 and 2.5% for the calendar year.

- During the six and 12 months periods ending 31 December 2018 the MAC Fixed Interest asset class contributed strongly to this outcome, recording a return of 1.6% for the half year and 2.8% for the year.
- The Diversified Strategies Income (MAC) asset class returns were more modest over these periods, recording returns of 0.4% and 0.3% for the half year and year respectively.
- Asset class returns for periods ending 31 December 2018 are shown below, net of fees.

Table 1: Funds SA asset class returns for periods ending 31 December 2018
Returns net of fees

Funds SA asset class	6 mths %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Cash	1.0	2.0	2.0	2.2	2.6	3.2
Fixed Interest (MAC) ⁽¹⁾	1.6	2.8	2.5	3.5	3.5	4.4
Diversified Strategies Income (MAC) ⁽¹⁾	0.4	0.3	4.1	4.7	n.a.	n.a.

1. Data not available for several time periods as the portfolios do not have the relevant history.

Asset allocation was within the target range limits

- All asset classes remain within approved Strategic Asset Allocation (SAA) range limits.

Cash flow and liquidity continue to be closely managed

- For the 6 months ending 31 December 2018, total redemptions from the MAC Fund were \$748 million, including the \$620 million Berkshire Hathaway transaction.
- Approximately \$21 million per month was consistently redeemed from the MAC Fund to meet MAC's claims and expense payments.
- As at 31 December 2018, 99.5% of the Fund is deemed liquid (able to be redeemed in 5 business days).

Asset class fees were generally in line with the original forecasts

- For the 2018-19 financial year to date, the indirect cost ratios for the Funds SA single sector portfolios in which MAC is invested were generally in line with the original forecasts as stated within the Performance Plan.

2 Funds under management

Investment funds

MAC invests into several of Funds SA's asset class (or 'single sector') funds. As at 31 December 2018 these single sector funds covered cash, fixed interest and diversified strategies income asset classes. Two of the asset classes, being fixed income and diversified strategies income, have been established specifically for MAC.

Funds under management

The table below shows the change in value of MAC's funds under management from 30 June 2018 to 31 December 2018.

Table 2: Motor Accident Commission funds under management
Assets as at 31 December 2018

Funds SA asset class	30 Jun 18 \$m	31 Dec 18 \$m
Cash	74.1	24.6
Fixed Interest (MAC)* (liability matched portfolio)	670.3	180.0
Diversified Strategies Income (MAC)*	267.7	69.7
Total	1,012.1	274.3

*Portfolios established specifically for MAC. MAC is the only investor in these asset classes.

MAC's funds under management decreased from \$1,012.1 million as at 30 June 2018 to \$274.3 million as at 31 December 2018. This decrease predominantly reflects a net outflow of \$620 million during the period relating to the Berkshire Hathaway transaction along with monthly claims and expense payments of approximately \$21 million per month. Investment earnings during the six months ending 31 December 2018 were \$10.2 million.

3 Financial market environment

2018 was a year where rising US interest rates and geo-political concerns began to weigh heavily on global equity markets.

Investor concerns became elevated in the second half of the year with Australian and international listed equities producing negative returns, whilst defensive assets such as fixed income securities performed positively. Although US economic growth remained strong, fears of rising US interest rates coupled with ongoing trade tensions and softening global growth undermined investor confidence, who began to factor in the prospects of slower growth and lower corporate profits. This environment was conducive for defensive and unlisted assets which helped diversified portfolios to deliver low positive returns for the calendar year, despite poor listed equity returns.

Economic Environment

Global economic growth was positive but slowing in China, Europe and Japan whilst US growth remained relatively strong. The US economy continued its strong performance, growing over 3% p.a. as the government's tax changes and spending initiatives reached their maximum impact. Unemployment continued to decline falling below 4% with inflation beginning to show signs of moving higher. The US central bank continued to modestly raise official interest rates toward 2.5% with market fears that conditions were becoming too restrictive. US equities performed strongly during the first half of the year, but by year end concerns that higher interest rates and a stronger US dollar would soften domestic economic conditions began to weigh on markets.

In Europe, economic momentum slowed as strong ties to a softening Asia growth and the continued fragmented political environment weighed on confidence. Growth was positive across most countries in Europe but momentum clearly moved lower. Italy, one of the weaker economies, attempted to increase government spending as a way of propping up growth but this was met with strong resistance from European policy makers in Brussels. Japan also slowed as its strong ties to China and structural demographic headwinds began to weigh as export demand continued to slow resulting in poor equity returns for the year.

Emerging markets were mixed as last year's losers (Brazil and Russia) performed well given the rise in select commodities whilst Asian equity bourses underperformed, in particular China, given the focus of the trade dispute with the US. China in response began to loosen policy to offset the impact of the trade dispute and softening growth, however these measures were not aggressive enough to alter the momentum of the Chinese growth for the year.

Australia performed relatively well growing just under 3% over the year, assisted by an accommodative monetary policy environment and growing exports and infrastructure spending. Consumer spending was steady despite concerns surrounding falling house prices and potential credit squeeze resulting from the banking enquiry. Spending however, was supported by a fall in the savings rate given the slow growth in wages and soft credit growth which also kept inflation in check. Australian equities were negative but outperformed many global bourses over the year.

Policy Environment

The ultra-accommodative policy measures used to help stabilise economies after the global financial crisis continued to be wound back in 2018. The US Federal Reserve increased interest rates over the year from 1.5% to 2.5% and continued unwinding its asset purchase program. Similarly, the UK, Canadian and European central banks began to follow suit despite economic growth appearing to soften. Inflation however, remained low but there were early signs that wages and inflation may begin to turn up. Despite US official cash rates moving higher, long term bonds moved lower on expectations of a softening growth environment and potential lower future inflation. As such, government debt sector returns were positive over the year with Australia outperforming.

Political Environment

The ongoing theme of populist political elections and dysfunctional parliaments continued, this time impacting Australia, US, Britain (Brexit) and France where rioting forced president Macron to step away from introducing controversial taxes. US-Chinese trade tensions however caught much of investor's attention with the tit-for-tat tariff war undermining confidence and Chinese exports. Near the end of the year, US mid-term elections resulted in the Democrats controlling the House of Representatives which investors speculated was likely to raise the prospects for high-stakes political gamesmanship as witnessed by the extended government shutdown in December, adding further to market volatility.

The chart below depicts the themes discussed above, with world equity markets underperforming while long term sovereign bond yields moved lower in yield (higher in prices).

Chart 1: Developed market global equities and government bond yields

Global Equities represented by the MSCI World Index

Government Bond Yields represented by the Bloomberg Barclays Global Aggregate Treasuries Yield



Source: Bloomberg

As a result of the above themes:

- Global equity markets performed poorly. Select Emerging and Australian shares outperformed global but almost all markets produced negative returns for the year.
- Most major commodities markets were down. Industrial metals held up but energy performed poorly, particularly in the fourth quarter, and in doing so reflected the shift in sentiment towards a weaker global growth environment. Gold rose late in the year reflecting rising geo-political tensions.
- Government bonds delivered positive returns, reflecting investors' flight to safety and quality, as well as falling inflation expectations. On the other hand, short term government bonds underperformed, reflecting the rising policy rate environment in the US.
- Non-government debt markets delivered mixed returns, with those perceived to be the highest risk, such as US High Yield and Emerging Market debt, underperforming on the back of rising investor risk aversion.
- Australian listed property delivered positive returns and outperformed the broader listed equity market, as the prospect of falling government yields supported the sector. Unlisted property continued to perform well, supported by rising rents and valuation uplifts.
- Other unlisted markets such as infrastructure and private equity, remained well supported as investors sought diversification and higher returns.
- Most currencies underperformed against the US dollar, which exhibited strength over the year. Higher US official interest rates, economic growth concerns and rising volatility created strong demand for the global reserve currency. The Australian dollar was only marginally weaker against most other major currencies during the year.

The table overleaf shows the returns generated in different financial markets over periods to 31 December 2018.

Table 3: Major market index returns for periods ending 31 December 2018

	6 mths %	1 Year %	3 Years % p.a.	5 Years % p.a.	7 Years % p.a.	10 Years % p.a.
Cash and Fixed Income						
Australian Cash	1.0	1.9	1.9	2.2	2.5	3.1
Australian Government	3.2	5.1	3.7	4.7	4.2	4.5
Australian Inflation-Linked	1.4	3.7	3.0	4.9	4.5	5.8
Global Treasuries ⁽¹⁾	1.8	2.7	3.6	5.0	5.2	5.9
Credit						
Global Credit ⁽¹⁾	1.0	-0.6	4.0	4.8	5.7	7.8
Global High Yield ⁽¹⁾	-1.2	-3.0	7.3	5.6	8.4	13.8
Emerging Market Debt ⁽²⁾	0.7	-4.6	4.7	4.2	4.5	7.8
Property ⁽³⁾						
Australian Unlisted Property	4.3	9.7	11.2	11.1	10.3	8.0
Australian Listed Property	0.2	3.3	7.6	12.5	14.4	10.7
Equities ⁽³⁾						
Australian Equities	-7.0	-3.1	6.7	5.6	9.5	8.9
Global Equities	-8.6	-7.4	6.2	6.0	10.4	10.1
US Equities	-6.9	-4.4	9.3	8.5	12.7	13.1
European Equities	-10.2	-10.6	2.7	3.5	7.6	7.5
Japanese Equities	-12.1	-15.4	0.8	4.7	13.0	7.7
Asia (ex-Japan) Equities	-9.8	-12.3	8.1	5.1	7.1	10.2
Chinese Equities	-8.6	-13.5	1.6	-1.3	0.3	2.5
Emerging Markets	-7.3	-9.7	9.2	5.4	6.8	10.0
Global Small Companies	-15.3	-12.5	5.6	5.5	11.0	12.2
Currency						
AUD vs Developed Market Basket	-4.3	-8.7	-1.3	-3.4	-4.2	0.4
Commodities ⁽⁴⁾						
GSCI Energy	-30.7	-17.1	1.3	-19.4	-13.8	-8.3
GSCI Precious Metals	1.2	-3.6	5.4	0.0	-4.1	2.9
GSCI Industrial Metals	-13.0	-18.0	7.6	-2.8	-3.7	2.4

Source: Bloomberg; Mercer

⁽¹⁾ Hedged to AUD

⁽²⁾ Hedged to USD

⁽³⁾ Local currency

⁽⁴⁾ USD

4 Asset class performance

Funds SA measures the performance of each of the asset classes against a benchmark. The benchmarks are the relevant market index or blend of market indices, or where no reasonable market index is available, the return expected from the asset class over the medium term (expressed as a margin over cash). The benchmark for each single-sector fund at the end of the reporting period is included in Appendix 1.

The table below shows the portfolio returns for periods ending 31 December 2018 versus benchmark. The portfolio return is net of fees, whilst the benchmark return is gross of fees.

Table 4: Funds SA asset class returns for periods ending 31 December 2018
Portfolio returns net of fees

Funds SA asset class	6 mths %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Cash						
Portfolio return	1.0	2.0	2.0	2.2	2.6	3.2
Benchmark return	1.0	1.9	1.9	2.2	2.5	3.1
Active return	0.0	0.1	0.1	0.1	0.1	0.1
Fixed Interest (MAC)						
Portfolio return	1.6	2.8	2.5	3.5	3.5	4.4
Benchmark return	1.8	3.1	2.7	3.7	3.7	4.3
Active return	-0.2	-0.3	-0.2	-0.2	-0.1	0.1
Diversified Strategies Income (MAC)						
Portfolio return	0.4	0.3	4.1	4.7	n.a.	n.a.
Benchmark return	1.4	1.9	3.7	4.7	n.a.	n.a.
Active return	-1.0	-1.6	0.4	-0.1	n.a.	n.a.

Note that due to rounding, the active returns shown may not exactly equal the difference between the portfolio and benchmark returns.

Cash

The portfolio returned 1% for the half year and 2% over the past twelve months, performing in line with its benchmark.

Fixed Interest (MAC)

The portfolio returned 1.6% for the half year and 2.8% over the past twelve months, underperforming its benchmark of 1.8% and 3.1% respectively. This is consistent with the passive management approach adopted by this asset class, and the expectation that the asset class will perform in line with its benchmark before fees, but modestly below it after fees are taken into account.

Diversified Strategies Income (MAC)

The portfolio returned 0.4% for the half year and 0.3% over the past twelve months, underperforming its benchmark which returned 1.4% and 1.9% respectively. Both the investment-grade credit managers and absolute return strategies underperformed their respective benchmarks during this period.

5 Asset class structures

The table below summarises the sub-sector strategies employed for the asset classes together with the fund managers engaged to implement the strategies as at 31 December 2018.

Table 5: Funds SA asset sector structure as at 31 December 2018

Sector	Sub-sector allocations		Fund managers
Cash			Macquarie Investment Management
Fixed Interest (MAC) ¹ (Liability matched portfolio)			Colonial First State
Diversified Strategies Income (MAC) ¹ (International assets hedged to AUD)	100%	Australian Credit Structured Security	Macquarie Investment Management SA Housing Trust indexed lease

Note the sub-sector strategies and fund managers listed in the table above are subject to change. Funds SA's continual monitoring and annual sector reviews re-evaluate the appropriateness of investment strategies and managers on a frequent basis.

1. Portfolios established specifically for MAC. MAC is the only investor in these asset classes.

Descriptions of the fund managers listed above can be found on the Secure Login area of the Funds SA website under 'Portfolio Information'. Portfolio exposures and characteristics are also available on the Secure Login.

Portfolio changes during the period

The MAC Fund maintained an asset allocation within the Treasurer approved ranges during the half year ended 31 December 2018.

The \$620 million Berkshire Hathaway transaction redemption saw money redeemed from the three asset classes Cash, Fixed Interest (MAC) and the Diversified Strategies Income (MAC) to maintain the 10:65:25 ratio across the asset classes.

As a consequence of redeeming money the Fixed Interest (MAC) and Diversified Strategies Income (MAC) asset classes significantly reduced in size.

Within the Diversified Strategies Income (MAC) asset class, the Loomis Sayles, Brandywine and Ardea mandates were reduced to zero, leaving an investment in Macquarie Investment Management along with the SA Housing Trust indexed lease asset.

Funds SA's continual monitoring and annual sector reviews re-evaluate the appropriateness of investment strategies and fund managers on a frequent basis.

6 Asset allocation

Positioning as at 31 December 2018

The following table shows the actual asset allocation of the MAC Fund as at 31 December 2018 against the strategic asset allocation (SAA).

Table 6: MAC Fund asset allocation as at 31 December 2018

Asset Class	Current Position	Approved 2018-19 SAA Target	Approved Target Range %	Compliant / Breach
Fixed Interest (MAC)	65.6%	65.0%	0 - 100	Compliant
Diversified Strategies Income (MAC)	25.4%	25.0%	0 - 50	Compliant
Cash	9.0%	10.0%	0 - 100	Compliant
Total Defensive	100.0%	100.0%	0 - 100	Compliant

Note that due to rounding, the sum of the individual numbers within the table may not equal the totals quoted.

Funds SA's rebalancing approach takes the SAA range limits into consideration. Positions were regularly monitored by Funds SA's Investment Review Committee, and took into account expected cashflows.

7 Redemptions and liquidity

Redemptions

For the 6 months ending 31 December 2018, total redemptions from the MAC Fund were \$748 million, including the \$620 million payment relating to the Berkshire Hathaway transaction.

Other regular redemptions relating to claims and expense payments were managed in line with projected outflows (approximately \$21 million per month).

Liquidity

As at 31 December 2018, 99.5% of the Fund is deemed liquid (able to be redeemed in 5 business days) with 9.1% (\$25 million) currently in cash.

8 Investment management costs

Included within each Performance Plan is an estimate of the costs expected to be incurred for each investment fund. Costs are expressed as a percentage of average funds managed and are referred to as an 'Indirect Cost Ratio' or 'ICR'.

A prime management objective for Funds SA is to achieve returns in excess of benchmark net of all fees and costs. Managing costs is an important element in this objective; however, the level of costs is not independent of the level of outperformance.

That being said, costs, and more particularly, maintaining a value for money investment service, remain a focus of attention for the Funds SA Board and staff.

Fees were generally in line with the forecasts

The MAC Fund ICR for the six months ended 31 December 2018 was 0.03%.

Single sector ICRs for the six months ended 31 December 2018 compared to the original forecasts are shown in the table below. The forecasts exclude performance fees and transaction and operational costs.

Table 7: Funds SA asset class ICRs for the 2018-19 financial year

Funds SA asset class	Total 2018-19 YTD ¹ (excl. perf fees, transaction & operational costs) %	Forecast 2018-19 (excl. perf fees, transaction & operational costs) %	Difference %	Performance fees %	Transaction & operational costs ^A	Total 2018-19 YTD (incl. perf fees, transaction & operational costs) %
Cash	0.03	0.03	0.00	n/a	0.00	0.03
Fixed Interest (MAC)	0.03	0.03	0.00	n/a	0.00	0.03
Diversified Strategies Income (MAC)	0.16	0.14	0.02	(0.14)	0.00	0.03
TOTAL MAC Fund ICR	0.07	0.08	0.02	(0.04)	0.00	0.03

1. Note due to rounding, the sum of the individual numbers may not equal the total figures quoted.

For the 2018-19 financial year, the majority of the single sector ICRs (excluding performance fees and transaction and operational costs) were broadly in line with the forecast ICRs as stated within the Performance Plan, as shown in the 'Difference' column above.

No performance fees were accrued for the six months ended 31 December 2018. Due to recent market volatility, performance fee accruals carried forward from the prior year were reversed in the current year which resulted in a negative performance fee ICR in the Diversified Strategies Income single sector.

Transactional and operational costs which include brokerage, stamp duty, transaction settlement costs, clearing costs and spreads are also not included in the ICRs for the six months ended 31 December 2018. These costs are finalised at the end of the financial year and will be included in the final 30 June 2019 ICRs.

Appendix 1

Asset class benchmarks

The following tables detail the asset class benchmarks as at 31 December 2018.

Cash

Allocation %	Index
100	Bloomberg AusBond Bank Bill Index

Fixed Interest (MAC)

Allocation %	Index
100	MAC Liability Benchmark. The MAC Liability Benchmark is a benchmark constructed and maintained by the manager based on MAC's liability information. The benchmark is intended to replicate MAC's compulsory third party liability cashflows for years 1 to 10 as determined by MAC's actuary. The benchmark portfolio comprises 50% Australian Commonwealth government securities and 50% Australian semi-government securities.

Diversified Strategies Income (MAC)

Allocation %	Index
50	<i>Australian Credit:</i> Bloomberg AusBond Non-Government Bond Index
	<i>Absolute Return:</i> Bloomberg AusBond Bank Bill Index plus 1% p.a.
25	Bloomberg AusBond Bank Bill Index plus 2% p.a.

Disclaimer

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