

Fund Summary

OnePath Emerging Companies Trust Wholesale

30 September 2020

Fund details

Investment manager	Karara Capital
Fund code	MMF0112AU
Asset type	Equity / Small Cap
Region	Australia
Fund size	\$40.57 million as at 30 Sep 2020
Commencement date	02 Dec 1996
Distributions	Half yearly

Investment objective

The fund aims to achieve returns (before fees, charges and taxes) that exceed the S&P/ASX Small Ordinaries Accumulation Index, over periods of five years.

Investment strategy

The fund invests predominantly in a diversified portfolio of smaller companies in accordance with a disciplined Australian shares investment process.

Minimum time horizon

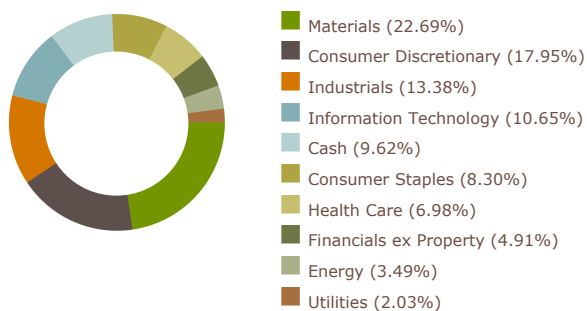
7 years

Standard Risk Measure*

The Standard Risk Measure (SRM) is based on industry guidance to allow investors to compare funds that are expected to deliver a similar number of negative annual returns over any 20 year period. The SRM for this fund is shown below:



Equity sector allocation



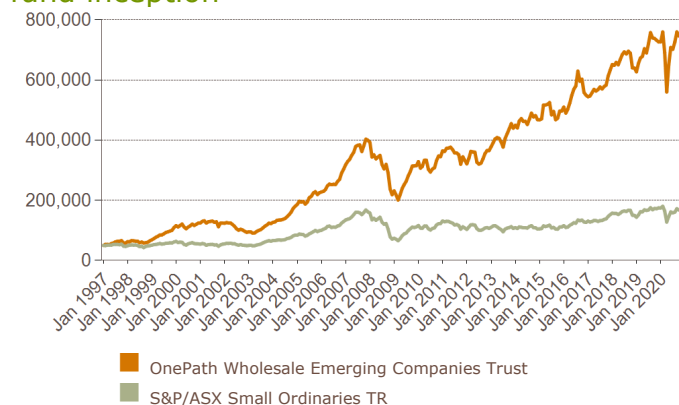
Fund performance

As at 30 Sep 2020

	1 mth %	3 mth %	1 yr %	3 yr % pa	5 yr % pa	7 yr % pa	10 yr % pa
Total Return †	-1.80	6.29	1.09	8.57	9.55	7.92	8.43
Benchmark ‡	-2.82	5.67	-3.33	6.53	9.97	6.25	3.53
Excess Return	1.02	0.62	4.42	2.04	-0.42	1.67	4.90
Distribution	0.00	0.13	25.62	13.67	9.09	7.13	6.02
Growth	-1.80	6.17	-24.53	-5.10	0.46	0.79	2.41
Risk (1 Std Dev)	-	-	30.13	18.79	16.25	15.29	14.94
Tracking Error	-	-	6.16	5.79	6.19	5.80	5.83
Info. Ratio	-	-	0.7	0.4	-0.1	0.3	0.8

Calendar year returns	YTD	2019	2018	2017	2016
Total Return †	2.66	15.85	-3.71	19.68	6.71
Benchmark ‡	-4.06	21.36	-8.67	20.02	13.18
Excess Return	6.72	-5.51	4.96	-0.33	-6.47

Growth of \$50,000 invested since fund inception



Top 10 holdings

Security	% of fund
MINERAL RESOURCES ORD	4.28%
SARACEN MINERAL HOLDINGS ORD	4.17%
NEXTDC ORD	3.79%
VOCUS GROUP LIMITED ORD	3.40%
SEVEN GROUP HOLDINGS ORD	3.22%
SILVER LAKE RESOURCES ORD	3.21%
ELDERS ORD	3.05%
AUSTAL ORD	3.04%
BAPCOR LTD ORD	2.88%
MERCURY NZ LTD ORD	2.78%
Total Top 10	33.83%

* For further information on Standard Risk Measures and the calculation methodology used, go to onepath.com.au/personal/performance/product-updates.aspx

† Returns quoted use the unit price which is calculated using the net asset values for the relevant month end. The prices shown may differ from the actual unit price if an investor is applying for or redeeming an investment. Actual unit prices will be confirmed following any transaction on an investor's investment. Please note that all returns are after the deduction of management fees and expenses and assumes all distributions are re-invested. Where applicable, management fees have been deducted at the highest entry fee option rate. No allowance has been made for entry or exit fees.

‡ Benchmark returns should be used for indicative purposes only. These returns may not be a true indication of this Fund's performance against its investment objective.

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Market and portfolio review

Global markets fell in September over concerns the global recovery could stall without further stimulus. Europe's rising Covid cases and the risk of another US wave this winter also influenced the risk-off sentiment. In Australia, the broad-based S&P/ ASX 300 Index fell 3.66% while the Small Ordinaries Index declined 2.82%.

In the US, growing pessimism surrounded potential for bipartisan compromise between Republicans and Democrats over an additional coronavirus relief proposal prior to the November election. At the time of writing both sides were still said to be far apart after the previous \$600 per week coronavirus relief package expired at the end of July.

Federal Reserve chairman Jerome Powell added to a chorus of voices calling for further support, saying the US economy has a long way to go before recovering from the pandemic. The Federal Open Market Committee released a statement reaffirming August's policy shift to keep interest rates low until the goal of maximum employment is achieved. FOMC member forecasts do not expect rates above zero before the end of 2023.

September US non-farm payrolls of 661,000 were below consensus expectations 850,000 although the prior two months were revised higher by 145,000. The report came amid rising concerns around a stalling labour market recovery with 22 million jobs lost since the start of the pandemic and a recent wave of layoff announcements as corporates look to cut costs. The unemployment rate fell to 7.9% vs consensus 8.2% although the report noted a labour force participation decline of 0.3% to 61.4%.

The ISM Manufacturing Index for September 55.4 missed the 56.3 estimate, also down from 56 in August, driven by a 7.4 point decline in new orders. August CPI 0.4% month-on-month beat consensus 0.3% following July's 0.6% reading. The 1.3% year-on-year rate was higher than July's 1.0%. August retail sales disappointed with a 0.6% rise versus 1.0% expected and a downward revision to July.

Future investment strategy

While there is no doubt that the COVID pandemic will change industries and create great opportunities for capable management teams, the extent of the valuation divergence between the Covid winners and losers is extreme. We believe the speculative behaviours that are evident warrant caution in these areas.

Market expectations are that vaccine trials have a significant likelihood of being successful over the coming months, and a vaccine will be widely administered throughout 2021. We agree and expect confirmation of a vaccine will allow governments to reframe policy. This may help with a full reopening ahead of suppression of the virus; however, recovery will be reliant on substantial and generous policy support, which is broadly anticipated by investors. Measures announced in the Federal budget in October will be important to sustaining business confidence and encouraging consumers to reduce their precautionary savings to support the next leg of the domestic recovery.

This policy support will come with a price. Covid has changed the rules with fiscal and monetary policy now effectively co-joined. Interest rates will remain suppressed by central banks and in time upward pressure on the price level, rather than austerity, is the most likely work out of high debt burdens. US monetary policy is now largely resembling helicopter money which bodes well for hard assets relative to repressed financials, and shorter duration assets (value) relative to longer ones (growth).

The second wave has set Australia behind on its recovery profile. Yet, in the medium term it is better positioned than most, given its relatively low levels of public debt, and strengths of its inbound migration and commodity income base.

The extreme level of valuation dispersion tells us that markets are not priced for much of this. As a result, we expect that an increasing proportion of returns will need to come from individual stock selection even as the global economy recovers.

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