

# Fund Summary

## OnePath Emerging Companies Trust

### Wholesale

30 June 2021

#### Fund details

Investment manager	Karara Capital
Fund code	MMF0112AU
Asset type	Equity / Small Cap
Region	Australia
Fund size	\$41.90 million as at 30 Jun 2021
Commencement date	31 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

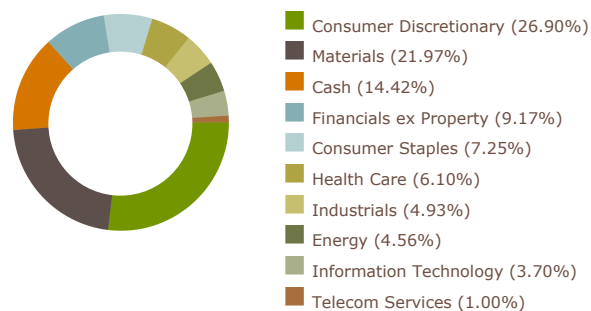
7 years

#### 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



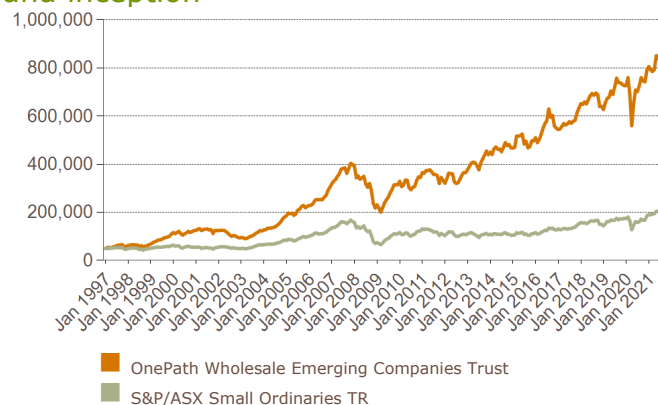
#### Fund performance

As at 30 Jun 2021

	1 mth %	3 mth %	1 yr %	3 yr % pa	5 yr % pa	7 yr % pa	10 yr % pa
Total Return †	3.23	9.10	23.44	7.70	8.35	9.74	9.25
Benchmark ‡	3.08	8.50	33.23	8.60	11.24	10.07	5.99
Excess Return	0.16	0.61	-9.79	-0.90	-2.88	-0.33	3.26
Distribution	12.98	13.72	16.00	17.58	11.36	8.91	7.19
Growth	-9.75	-4.61	7.43	-9.88	-3.00	0.83	2.06
Risk (1 Std Dev)	-	-	10.92	19.24	16.30	15.37	15.02
Tracking Error	-	-	6.44	6.51	6.24	6.00	5.96
Info. Ratio	-	-	-1.5	-0.1	-0.5	-0.1	0.5

Calendar year returns	YTD	2020	2019	2018	2017
Total Return †	7.53	10.87	15.85	-3.71	19.68
Benchmark ‡	10.76	9.21	21.36	-8.67	20.02
Excess Return	-3.23	1.66	-5.51	4.96	-0.33

#### Growth of \$50,000 invested since fund inception



#### Top 10 holdings

Security	% of fund
UNITI GROUP LTD - ORD NPV	6.29%
MINERAL RESOURCES LTD - ORD NP	5.79%
ARB CORP - ORD NPV	5.18%
SEALINK TRAVEL GROUP LTD - ORD	3.80%
STEADFAST GROUP LTD - ORD NPV	3.39%
INGENIA COMMUNITIES GROUP - OR	3.36%
EAGERS AUTOMOTIVE LTD - ORD NP	3.23%
HEALIUS LTD - ORD NPV	3.13%
JUMBO INTERACTIVE LTD - ORD NP	3.06%
BAPCOR LTD - ORD NPV	3.03%
<b>Total Top 10</b>	<b>40.26%</b>

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

As the global economy reopens after the pandemic, prices are rising around the world. In China, surging commodity costs drove factory-gate inflation to its highest level since 2008 in May. The producer price index climbed 9% from a year earlier, following a 6.8% gain in April according to the National Bureau of Statistics. Still, consumer inflation remains relatively subdued, rising just 1.3% over the past twelve months, suggesting retailers are not yet hiking prices in the face of soft domestic demand.

In Australia, the ripple effect of shifting interest rate expectations in the US manifest themselves in the September 2022 bank bill futures contract, which now implies a 0.34% official cash rate in September 2022, up from 0.25% at the start of the month. The December 2022 contract implies a rate of 0.48%, or almost two full rate rises by the end of next year, and the June 2023 counterpart anticipates 0.73%, or three increases.

Unemployment unexpectedly plunged to pre-covid levels 5.1% in May after the number of employed Australians surged by 110,000 – triple the expected figure. Unemployment is now running six months ahead of Reserve Bank forecasts that it would end 2021 at 5%, raising the spectre of the RBA lifting rates earlier than forecast should the rapidly tightening jobs market lead to a stronger than anticipated pick-up in worker pay.

Amongst commodities, the ramifications of central banks foreshadowing tighter monetary conditions and a surging USD weighed on metal prices. Copper led the way, falling 14% from its May highs before recovering to end the month down 8%. Zinc was down 3%, Aluminium 1% and Nickel was flat. Oil rose, WTI +9%, Brent +8% after OPEC talks broke down raising fears of a repeat of 2020's price war. The gold price fell 7% in USD-terms and 4% when priced in AUD.

### Future investment strategy

Major global economies are re-opening at an encouraging rate despite some delays in Covid vaccine roll-out and the emergence of the more virulent Delta strain. This is contributing to rising inflationary pressures, particularly when viewed against some permanent loss of supply side capacity through 2020, re-onshoring of some industries, and tighter international freight conditions. Record government stimulus and transfer payments have also created labour market distortions and may indirectly contribute to inflationary pressures if they are sustained. Domestically, a strong re-bounce in employment, restricted Federal borders, and reduced labour force mobility due to intermittent State border closures are contributing to rising wage pressures which have not yet but ultimately may also prove inflationary. This may test the RBA's resolve to keep interest rates low for an extended period.

With market multiples elevated headed into August reporting season, earnings upside surprise will need to be delivered which will become harder in the context of rising input costs. Covid and related government policy distortions including the impact of domestic lockdowns are likely to affect a number of industries and sectors in different ways, with some permanent or structural effects being accelerated, while others will prove to have been more fleeting. As such, a deep understanding of each individual company's operating environment will be key to identifying the out-performers.

We are encouraged by the outlook for a number of the portfolio's holdings heading into reporting season, a number of which have embedded growth profiles we believe may extend for a number of years and have yet to be fully recognised by the market. We expect the recent pick-up in corporate activity in the small company's space to continue, with the gap between earnings yields and the cost of money remaining attractive for corporates, activist investors and financial sponsors.

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