

Fund Summary

OnePath Emerging Companies Trust

Wholesale

31 October 2021

Fund details

Investment manager	Karara Capital
Fund code	MMF0112AU
Asset type	Equity / Small Cap
Region	Australia
Fund size	\$38.07 million as at 29 Oct 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

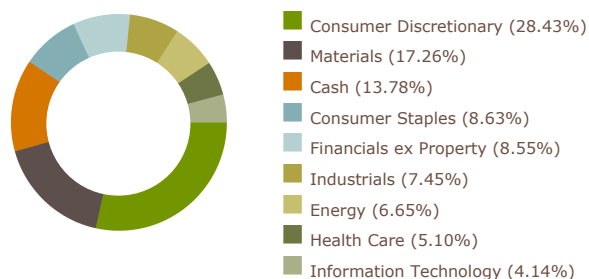
7 years

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



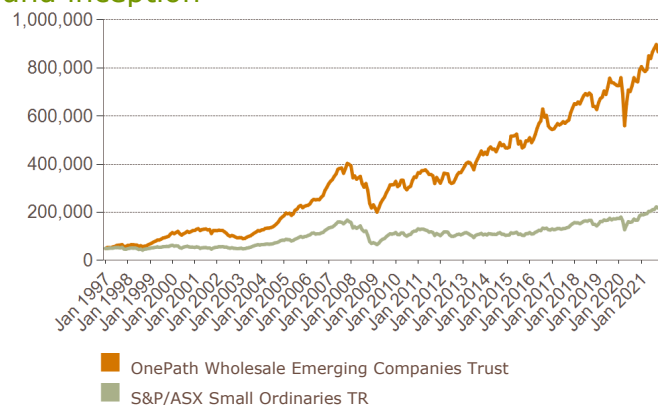
Fund performance

As at 31 Oct 2021

	1 mth %	3 mth %	1 yr %	3 yr % pa	5 yr % pa	7 yr % pa	10 yr % pa
Total Return †	0.73	-0.91	17.66	10.91	9.36	8.88	9.74
Benchmark ‡	0.92	3.68	31.01	13.52	11.45	10.59	6.98
Excess Return	-0.19	-4.59	-13.35	-2.61	-2.10	-1.71	2.76
Distribution	0.00	0.00	15.19	17.96	11.47	8.84	7.23
Growth	0.72	-0.91	2.47	-7.05	-2.12	0.04	2.51
Risk (1 Std Dev)	-	-	10.76	18.78	15.37	15.31	14.57
Tracking Error	-	-	6.06	6.59	6.13	5.95	6.04
Info. Ratio	-	-	-2.2	-0.4	-0.3	-0.3	0.5

Calendar year returns	YTD	2020	2019	2018	2017
Total Return †	8.43	10.87	15.85	-3.71	19.68
Benchmark ‡	15.62	9.21	21.36	-8.67	20.02
Excess Return	-7.19	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	6.72%
ARB CORP LTD	5.22%
EAGERS AUTOMOTIVE LTD	3.86%
STEADFAST GROUP LIMITED	3.21%
BREVILLE GROUP LTD	3.05%
BEGA CHEESE LTD	2.90%
MINERAL RESOURCES	2.81%
BAPCOR LIMITED	2.61%
SILVER LAKE RESOURCES LTD	2.59%
CITY CHIC COLLECTIVE LTD	2.54%
Total Top 10	35.52%

* 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

Markets increasingly pivoted towards a view of inflation being somewhat more persistent than merely transitory and began pricing in a US interest rate hike for September 2022, ahead of December 2022 previously. Federal Reserve Chairman Jerome Powell conceded as much when he said supply constraints in product and labour markets: are likely to last longer than previously expected, likely well into next year."

Economic data was weak. US GDP slowed to 2% annualised in the 3Q, worse than economists expected and well down on the 6.5% rise in the June quarter. Non-farm payrolls rose just 194,000 in August, well below expectations for a 500,000 rise as the impact of the Delta variant and the pandemic continued impact the hospitality sector.

China's economy grew slower than expected in the 3Q as power outages and supply bottlenecks hurt factories while sporadic COVID-19 outbreaks weighed on consumption.

In Europe, the ECB resisted bets that it will be forced to raise interest rates next year, saying that even if the postpandemic spike in prices lasts well into 2022, this still counts as temporary. "Inflation is rising primarily because of the surge in energy prices but also as the recovery in demand is outpacing constrained supply," ECB president Christine Lagarde said after releasing a no-change monetary policy statement.

In Australia, the Reserve Bank's preferred measure of inflation rose higher than anticipated to 0.7% in the SepQ, lifting annual underlying inflation to 2.1%, now inside the bank's target range for the first time in six years. Appearing before a parliamentary committee, Treasury Secretary Steven Kennedy insisted inflation expectations were well anchored and most core measures were consistent with inflation targets. However, expectations had shifted in recent months, and transitory pressures relating to supply disruptions are likely to last longer than first anticipated.

Future investment strategy

While most equity market valuations remain at near record levels, the same can be said for most other asset classes, including bonds, property and speculative crypto currencies. While many commodities are also at elevated levels e.g. thermal coal and LNG, a number of others still remain well below previous peaks, most notably oil which has steadily strengthened over the past month. The cheap cost of money and excessive liquidity have pushed up values across all major global asset classes. Markets are now questioning if we are past the point of maximum liquidity (given the US Federal Reserve has signalled the tapering of bond purchases), and just as importantly whether inflationary pressures are "transient", persistent, or somewhere in between. The most pertinent question facing all investors is: what all of the above means for future central bank policy action and in turn, for bond yields? - the single most important yardstick for valuations globally. Any rapid spike in bond yields (and cost of capital) is sure to unnerve investors. As the world emerges from Covid-related lock-downs, Governments and policymakers will have little appetite for any meaningful tightening in financial conditions while the recovery is still fragile, so any transition is likely to be "managed" in an attempt to smooth outcomes.

In an uncertain macro environment and with medium term inflation concerns somewhat elevated, our focus remains on identifying businesses that can drive growth irrespective of the prevailing economic backdrop, and those that have a reasonable degree of pricing power. Particularly in light of technological change, some of these companies have selfcreated opportunities that never existed, allowing them to generate heightened organic growth over and above that likely to be delivered by the average industrial company.

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