Fund Summary

OnePath Emerging Companies Trust Wholesale

31 December 2020

Fund details

Investment manager	**Karara Capital**
Fund code	MMF0112AU
Asset type	Equity / Small Cap
Region	Australia
Fund size	$42.54 million as at 31 Dec 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:

1	2	3	4	5	**6**	7
Very low	Low	Low to medium	Medium	Medium to high	**High**	Very high

Equity sector allocation

- Materials (22.94%)
- Consumer Discretionary (18.82%)
- Industrials (12.11%)
- Cash (11.59%)
- Information Technology (9.67%)
- Health Care (6.84%)
- Financials ex Property (5.69%)
- Consumer Staples (5.68%)
- Energy (4.37%)
- Utilities (2.29%)

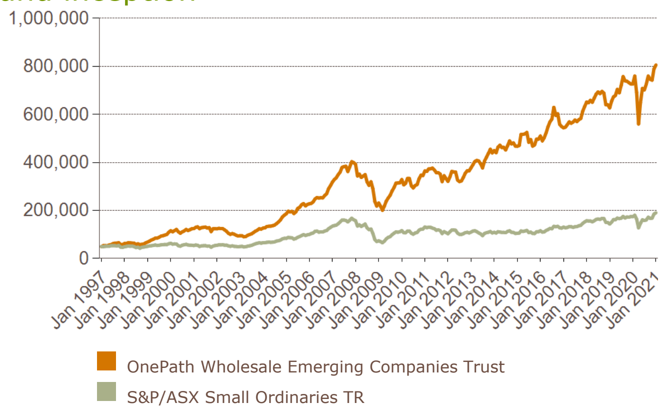
Fund performance

As at 31 Dec 2020

	1 mth %	3 mth %	1 yr %	3 yr % pa	5 yr % pa	7 yr % pa	10 yr % pa
Total Return †	2.01	8.00	10.87	7.34	9.57	8.69	8.26
Benchmark ‡	2.76	13.83	9.21	6.57	10.46	8.25	3.77
Excess Return	-0.75	-5.83	1.66	0.77	-0.88	0.44	4.49
Distribution	0.33	0.35	27.82	13.61	8.94	7.07	6.04
Growth	1.68	7.64	-16.95	-6.27	0.64	1.62	2.21
Risk (1 Std Dev)	-	-	30.62	18.82	16.32	15.31	14.92
Tracking Error	-	-	7.17	6.25	6.36	5.96	5.96
Info. Ratio	-	-	0.2	0.1	-0.1	0.1	0.8

Calendar year returns	2020	2019	2018	2017	2016
Total Return †	10.87	15.85	-3.71	19.68	6.71
Benchmark ‡	9.21	21.36	-8.67	20.02	13.18
Excess Return	1.66	-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	5.41%
SEVEN GROUP HOLDINGS ORD	3.80%
VOCUS GROUP LIMITED ORD	3.80%
SARACEN MINERAL HOLDINGS ORD	3.52%
UNITI GROUP LIMITED ORD	3.41%
BAPCOR LTD ORD	3.16%
STEADFAST GROUP ORD SHS	3.09%
ELDERS ORD	2.66%
MERCURY NZ LTD ORD	2.63%
IRESS LTD ORD	2.56%
Total Top 10	**34.04%**

* 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 were boosted by a pro-cyclical rotation during the December quarter that was inspired by the US election and positive vaccine developments. In Australia, an interest rate cut, the implementation of yield curve control and a $100bn quantitative easing program also laid the groundwork for an impressive 13.79% return for the broad-based S&P/ ASX 300 Index. The Small Ordinaries gained a similar 13.83%. in Australia, steadily easing restrictions allowed the domestic economy to bounce out of recession after GDP rose 3.3% in the September quarter - the strongest quarterly growth rate since March 1976. The quarterly rebound steered the year-on-year contraction to 3.8%, up from negative 6.4% in the June quarter. RBA governor Philip Lowe told a Parliamentary committee that fiscal stimulus had played a "critical role" in supporting the economy through the pandemic and he now expected unemployment to peak between 7% and 8% with employment levels during the quarter running only 1.7% below pre-pandemic levels. Even so, the RBA cut interest rates from 0.25% to 0.1% at its November meeting and launched a $100bn bond-buying program in response to "high unemployment and subdued inflation for an extended period". The Board noted that the cash rate would not be lifted until inflation is "sustainably" back within the bank's 2-3% target range. Commodity price movements during the quarter were overwhelmingly positive and skewed to re-opening sentiment. Iron ore (+34%) rose to levels last seen in 2014 following robust China demand and Vale lowering output forecasts for the third time in 2020. Oil (WTI +25%, Brent +27%) gained on expectations of a demand recovery and OPEC-led supply restrictions. Industrial metals were all stronger for the quarter: copper +18%, nickel +14%, aluminium +12%, zinc +13%. The gold price was flat in USD-terms and down 7% in AUD-terms on a rising Australian dollar.

Future investment strategy

While the backdrop is supportive of equities, particularly relative to bonds, the sharp recovery in equity markets is feeding increased and broadening speculation. In our assessment this in many areas is likely beyond any improvement in fundamentals. Aggregate industrial company valuations are at heights that have been seen very rarely, and from which extended bear markets have followed. Embedded in these prices is the expectation that money supply growth will provide a continuing source of new buyers and that interest rates and inflation will remain completely and successfully suppressed. For many companies that have far surpassed pre-COVID highs, global markets anticipate the step-change in digital migration will be sustained and extended. In some instances, this may turn out to be warranted. But locally there are few plays that have the sustainable competitive advantage that has enabled the FAANG phenomenon seen in the US. Just as in 1999, a wide and dangerous consensus has built that valuations in some areas are impossible to square with fundamentals, but also that it has further to run. This is drawing in fresh investors and fuelling record valuations but also a valuation dispersion of historically epic proportions. Despite the recovery and some obvious risks, we see opportunities arising to build positions in quality companies at attractive prices. As we saw in 2009, and have started to see again, substantial returns are on offer when companies can transition from fears of declining growth or short-term earnings risk, back to a profile that the market is prepared to construe as sustainable steady growth. Further, the impact of COVID and associated policy responses has accelerated structural change in a number of industries and this in turn, has led to a number of new and exciting companies seeking to IPO, further broadening our investment opportunity universe.