Fund Summary

OnePath Australian Share Trust Wholesale

28 February 2023

Fund details

Investment manager	**OnePath Funds Management sub-advised by Alphinity**
Fund code	AJF0804AU
Asset type	Equity / All Cap
Region	Australia
Fund size	$12.10 million as at 28 Feb 2023
Commencement date	22 Jun 1993
Distributions	Quarterly

Investment objective

The fund aims to achieve returns (after costs but before fees and taxes) that exceed the S&P/ASX 300 Accumulation Index, over periods of at least three to five years.

Investment strategy

The fund seeks to build a portfolio of Australian stocks listed on the ASX that is well diversified across different industries and sectors and aims to meet the fund's investment objectives in a risk-controlled manner.

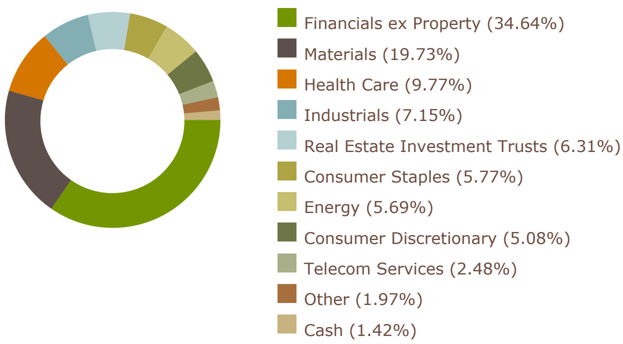
Minimum time horizon

5 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



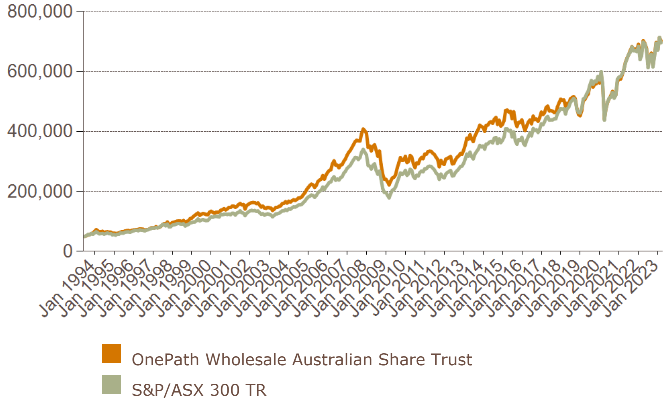
Fund performance

As at 28 Feb 2023

	1 mth %	3 mth %	1 yr %	3 yr % pa	5 yr % pa	7 yr % pa	10 yr % pa
Total Return †	-1.52	0.82	5.83	8.47	6.82	8.24	6.41
Benchmark ‡	-2.55	0.17	6.54	7.94	7.87	10.14	7.91
Excess Return	1.03	0.65	-0.72	0.53	-1.05	-1.90	-1.50
Distribution	0.00	0.77	15.15	9.54	8.14	6.86	5.95
Growth	-1.52	0.04	-9.32	-1.07	-1.32	1.38	0.46
Risk (1 Std Dev)	-	-	17.60	17.94	15.84	14.14	13.57
Tracking Error	-	-	3.08	2.72	2.76	2.64	2.57
Info. Ratio	-	-	-0.2	0.2	-0.4	-0.7	-0.6

Calendar year returns	YTD	2022	2021	2020	2019
Total Return †	4.34	-2.50	19.81	2.55	24.16
Benchmark ‡	3.58	-1.77	17.54	1.73	23.77
Excess Return	0.76	-0.74	2.27	0.81	0.38

Growth of $50,000 invested since fund inception



Top 10 holdings

Security	% of fund
BHP GROUP (AU)	13.19%
COMMONWEALTH BANK OF AUS	8.90%
CSL	7.73%
NATIONAL AUSTRALIA BANK	6.26%
WESTPAC BANKING	4.18%
MACQUARIE GROUP	4.09%
WOODSIDE ENERGY GROU	3.64%
QBE INSURANCE GROUP	3.25%
TELSTRA GROUP	3.22%
WOOLWORTHS GROUP	2.88%
Total Top 10	**57.36%**

* 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

The strong start to 2023 for equities came to an end in February, with most markets other than Europe weaker in their own currencies as company results pointed to a slowdown in earnings momentum. Stronger employment numbers in the US resulted in expectations for the timing of interest rate cuts being pushed further out, and bond yields resumed their upward trajectory. Domestically, an additional 25bp rate hike from the RBA put further pressure on the consumer sector and pushed the S&P/ASX300 index (including dividends) down 2.6%.

Offshore market returns were helped by a sharp 4.6% fall in the Australian dollar, which meant the MSCI World (AUD) and the US S&P 500 index (AUD) both gained 1.7%, despite falling in local currencies. European and UK shares continued to rebound strongly, with the UK's FTSE 100 index reaching an all-time high last month and European shares attracting inflows given their cheaper relative valuations. Volatility in Asian markets persisted with Hong Kong notably weaker, dragging down emerging markets indices.

Back in Australia, performance was largely a reaction to H1 2023 earnings results with a near record level of earnings misses, but also an elevated number of earnings beats, this bar-bell resulting in relatively few inline results. At a sector level, utilities (+2.3%), technology (+1.9%) and industrials (+1.1%) all outperformed while materials (-7%), financials (-3.4%) and consumer discretionary (-1.8%) lagged the most. Banks were softer following their results and despite their numbers coming in largely as expected, with the market becoming concerned over peaking net interest margins. Higher cost pressure was a thematic across the large miners, with their ability to sustain high dividends at risk.

Adding further pressure to resources was weakness across the board in commodity prices. Oil prices fell 2% to USD83/bbl, while iron ore also fell to USD117/t after rallying more than 30% the prior three months. Lithium spot prices weakened on signs of rising battery inventory and EV price cutting in China, while copper also lost 2.8%. US 10 year bond yields jumped 42 basis points to 3.92% on stronger economic data, particularly the solid US jobs print. Australian 10 year yields rose 30 basis points to 3.85% as the RBA lift rates a further 25 basis points, a ninth consecutive rise.

Future investment strategy

Earnings expectations have continued to moderate, both globally and in Australia, following fourth quarter/first half company earnings releases. While mostly negative, earnings revisions have been modest, especially when considering the degree to which interest rates have increased in some countries, including Australia. A combination of factors, including easing supply bottlenecks, reasonably resilient consumer spending and, more recently, stronger commodity prices following China's reopening have all contributed to earnings holding up better than many feared.

For FY23, Australian consensus earnings growth forecasts for the whole market are still positive at 2-3%, even though this has come down from around 4% over reporting season. With fewer than four months left of the financial year, this looks like a reasonable estimate. However, a reacceleration of growth in FY24 to 6-7% is probably optimistic as the impact of higher full-year interest rates is if anything compounding, not easing.

Bond markets appear to have interpreted the more resilient corporate earnings and still elevated inflation data as meaning that Central Banks still have more work to do to cool the economy – and the labour market in particular – in order to rein in inflation. While equity markets were down in February, many have not yet given up on the narrative of peak inflation having already been seen and peak interest rates being within sight, perhaps encouraged by the mild earnings impact to date.

A definitive conclusion to this debate is unlikely to become apparent in the next few months. The answer will most likely be somewhere in the middle, and we continue to see the risk of further negative earnings revisions as the most significant obstacle to strong equity market returns in 2023. This appears to be, to some extent at least, reflected in current market multiples with the Australian equity market trading at a Price/Earnings ratio slightly below long-term averages. Having said that, sector skews continue to be meaningful, with elevated commodity prices supporting short term resource company valuation metrics and the longer duration sectors continuing to look expensive relative to history.

In this context it is worth noting that, despite the sharp rise in interest rates over the last year, both the local cash rate and longer term bond yields are only back to their 20 year averages. The ultra-low rates and yields investors had been accustomed to in recent years are increasingly looking like exceptions.

OnePath