

Fund Summary

OnePath Balanced Trust

Wholesale

31 August 2022

Fund details

Investment manager	OnePath Funds Management sub-advised by OptiMix
Fund code	AJF0802AU
Asset type	Multi-Asset / Balanced Growth
Region	Australia
Fund size	\$21.40 million as at 31 Aug 2022
Commencement date	01 May 1993
Distributions	Quarterly

Investment objective

The fund aims to achieve returns (before fees, charges and taxes) that on average exceed inflation by at least 4.0% p.a., over periods of ten years or more.

Investment strategy

The fund invests in a diversified mix of Australian and International assets spread across growth and defensive asset classes. The fund blends active and passive management styles from a selection of leading investment managers.

Minimum time horizon

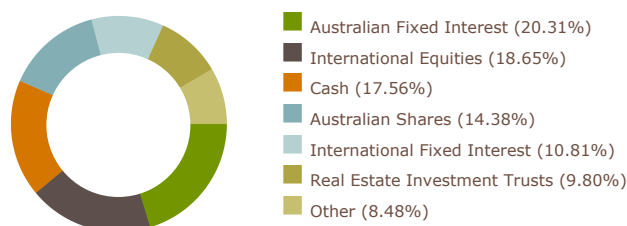
10 years

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:



Asset allocation



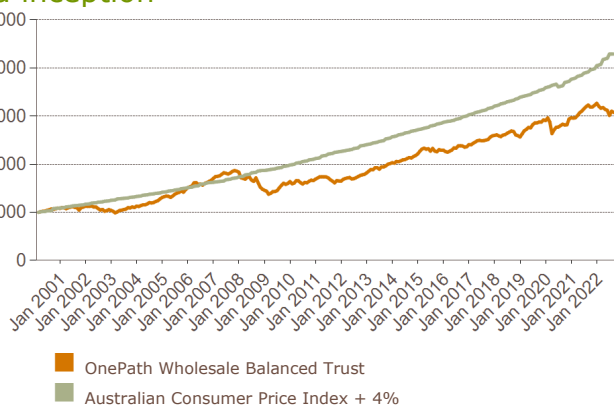
Fund performance

As at 31 Aug 2022

	1 mth %	3 mth %	1 yr %	3 yr % pa	5 yr % pa	7 yr % pa	10 yr % pa
Total Return †	-0.80	-1.42	-4.76	2.47	4.22	4.42	5.84
Benchmark ‡	0.00	2.07	9.49	6.97	6.51	6.22	6.24
Excess Return	-0.80	-3.49	-14.25	-4.50	-2.29	-1.80	-0.40
Distribution	0.00	0.78	1.11	6.90	5.64	6.97	6.22
Growth	-0.80	-2.20	-5.87	-4.43	-1.42	-2.55	-0.38
Risk (1 Std Dev)	-	-	5.80	7.45	6.36	5.65	5.31
Tracking Error	-	-	6.97	8.17	6.94	6.15	5.77
Info. Ratio	-	-	-2.0	-0.6	-0.3	-0.3	-0.1

Calendar year returns	YTD	2021	2020	2019	2018
Total Return †	-5.84	10.21	1.94	13.32	-1.27
Benchmark ‡	5.96	7.50	4.86	5.84	5.78
Excess Return	-11.79	2.71	-2.92	7.48	-7.05

Growth of \$50,000 invested since fund inception



* 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.

Market and portfolio review

Australian equities outperformed most other global markets in August, despite the backdrop of hawkish commentary from the US Federal Reserve dashing hopes that the pace of interest rate rises would slow down soon. A generally better-than-expected corporate earnings season, along with a large amount of dividends hitting investors accounts, led the S&P/ASX300 index (incl dividends) 1.2% higher last month. European shares fell 5.3% as energy supply issues continued to weigh on sentiment, while US shares dropped 4.2% as bond yields resumed their upward trend after falling the previous month. Australia's greater composition of energy and mining companies provided a buffer of performance relative to most other markets, with investors benefitting from exposure to rising commodity prices in addition to receiving relatively high dividend yields distributed from mining and financial stocks.

August saw most companies report H2 2022 earnings which were generally better than expected, and with investor positioning bearish into the results, this led a rotation from defensives back into domestic cyclicals. The median company beat consensus by 0.7% on H2 net profits, although cuts to FY23 earnings estimates gathered pace with Materials seeing the most aggressive cuts, while Building Materials were revised lower on further input cost pressures. Conversely, insurance stocks received large upgrades with rising rates generally supportive for the sector.

US bond yields, after a retreat in July, continued their march higher as US Fed Chairman Jerome Powell delivered a short address at Jackson Hole, putting to bed any speculation that rate hikes are close to reaching their goal of lowering inflation. US 10 year yields rose 54 basis points to 3.19% while Australian 10 year yields also rose by the same margin to close at 3.60%. US 2 year yields rose 61 basis points to 3.49%, inverting the 2yr-10yr part of the curve.

Concern about energy continued to weigh on European markets as it heads into Winter, and the Euro fell below parity with the \$US, having depreciated by 12% this year. The Nordstream gas pipeline, which runs some 1,200 km under the Baltic Sea between Russia and Germany and provides almost half of Europe's total gas supply, was closed by Russia for maintenance in August, adding further to anxiety there. With European gas prices having more than quadrupled so far this year, many industries have been forced to shift production offshore. Energy prices undoubtedly remain the biggest cause of an increasingly likely recession in Europe, as affordability pressures hurting both households and industry.

Future investment strategy

The August reporting season contained few surprises in either a positive or negative direction. Earnings for the financial year just finished were, in aggregate, largely in line with expectations and consensus earnings estimates for the current financial year, FY23, were revised down by 1-2% overall, which is fairly typical for a reporting season. Negligible earnings growth is now forecast for FY23, although this is more the result of falling earnings forecasts for Resource companies as a result of lower commodity prices than particularly low expectations in other sectors of the market.

As suspected, many companies declined to give earnings guidance, blaming ongoing uncertainty brought about by Covid or referring to heightened geopolitical risk factors which made forecasting difficult. While we sympathise with their predicament, not providing guidance – whatever the reason – is starting to sound a bit too convenient and adds to uncertainty for investors.

This lack of guidance by management might have contributed to the absence of larger earnings downgrades outside of Resource companies but it is also clear that the Australian consumer is yet to make more significant cutbacks in the face of higher interest rates. This is likely due to still-strong employment growth and the delay in higher interest rates hitting mortgage-holders repayments in earnest. This probably means that earnings growth in the first half will still be reasonable, especially as large parts of Australia were in lock down for much of the same period last year, while second half earnings expectations are more at risk.

While the paucity of large earnings downgrades to date might also suggest Australia is experiencing a controlled slowdown in economic growth despite the rapid rise in interest rates, admittedly from very low levels, investors will likely need to wait a few more months to see whether this really is the case, or if a larger downturn awaits in the new year. Still-high earnings multiples ex-Resource companies suggests a more meaningful slowdown might be ahead, or that higher interest rates are not yet reflected in most company valuations.

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