

Fund Summary

OnePath Diversified Bond Index

OneAnswer Frontier Personal Super

30 September 2024

Fund details

Investment manager	OnePath Funds Management Limited
Fund code	MMF1816AU
Asset type	Bonds - Global / Australia
Region	Global
Fund size	\$38.34 million as at 30 Sep 2024
Commencement date	15 Nov 2010
Distributions	Retained

Investment objective

The fund seeks to track the return of a tailored diversified index representing a 30% allocation to the Bloomberg AusBond Composite 0+ Yr Index and a 70% allocation to the Bloomberg Barclays Global Aggregate Index (hedged to Australian dollars), before taking into account fees, expenses and tax.

Investment strategy

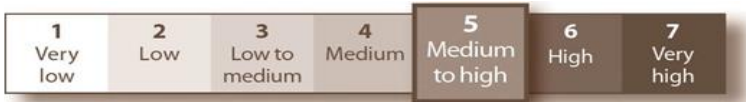
The fund invests in Australian and international bonds by holding units in a range of underlying fund's and/or direct assets. The fund seeks to reduce credit risk in the portfolio by selecting only bonds with a sufficiently high credit rating and by diversifying the fund's holding across issuers. Futures may be used to gain market exposure without investing directly in fixed interest securities.

Minimum time horizon

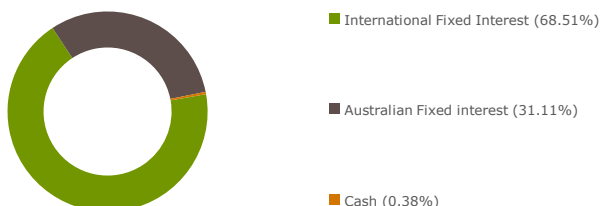
3 years

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



* 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 (MorningstarAus BBG AuBd Cmp/BCGA TR HAUD) 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.

Fund performance

As at 30 Sep 2024

	1 mth	3 mth	1 yr	3 yr	5 yr	7 yr	10 yr
	%	%	%	% pa	% pa	% pa	% pa
Total Return †	0.70	3.12	7.16	-1.37	-0.82	0.75	1.52
Benchmark ‡	0.69	3.50	8.11	-1.32	-0.37	1.49	2.34
Excess Return	0.01	-0.38	-0.95	-0.05	-0.45	-0.74	-0.82

Calendar year

returns	YTD	2024	2023	2022	2021
Total Return †	2.79	4.48	-10.30	-2.87	3.70
Benchmark ‡	3.35	5.19	-10.99	-2.18	4.79
Excess Return	-0.56	-0.71	0.69	-0.69	-1.09

Top 10 holdings

Security	% of fund
Australia (Commonwealth Of)	15.14%
United States Of America	14.65%
China Peoples Republic Of (Government)	7.87%
Japan (Government Of)	7.28%
Victoria (State Of)	2.80%
France (Republic Of)	2.76%
New South Wales (State Of)	2.63%
Germany (Federal Republic Of)	2.37%
United Kingdom Of Great Britain And Northern Ireland (†)	2.34%
Italy (Republic Of)	2.19%
Total Top 10	60.03%

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Market and portfolio review

Fixed income markets continued to perform well in September as the Federal Reserve cut rates by 50bp. Additional support came from a more dovish outlook for rates following the Fed rate decision which showed rates remain materially above neutral. As rates are cut and yield curves steepen, investors are likely to favor longer maturities and increasing interest rate risk. The Fed anticipates that quicker and deeper cuts will be needed over the next couple of years to support the economy, more so than previously expected. The benchmark 10-year US Treasury yield briefly rallied below 3.60%, the lowest level for 15 months before giving back some gains into month end. The Fed was able to deliver a larger than expected rate cut without creating concern that there are economic problems that normally drive larger than expected cuts. Japanese government bond (JGB) yields have been dragged lower by the decline in US Treasury yields and concerns that the yen's appreciation will derail the Bank of Japan's (BoJ) hiking cycle. However, at current valuations, the market is pricing only a modest increase in rates over the next 12 months. Investors remain broadly positive on European rates but expect to see continued divergence between core countries. Although the European Central Bank (ECB) has begun to lower rates, analysis indicates that they have waited too long to start cutting and will need to lower rates further than the market expects, to avoid a sharp economic slowdown in the region. Despite a sharp fall in inflation, some ECB members have remained determined to keep rates higher than necessary, exacerbating pressures on heavily indebted countries. France is expected to announce a deterioration in its fiscal deficit this year and, with an unstable government in place, tax hikes or spending cuts required to address the situation are unlikely. Expect the Chinese onshore interest rate environment to remain accommodative in the near and medium term, and should see curve steepening, as we expect short-term rates to outperform long-term rates. Various easing measures in the coming months may bring periodic volatility to the onshore rates market. We expect more proactive guidance from the central bank through its open market operations and window guidance for the long-term segment of the bond market. Further room for downward yield moves is likely to be influenced by the US rate cutting cycle, US presidential election and trade and financial policies under a new administration, given their potential ramifications for the US dollar/renminbi exchange rate.

Future investment strategy

Expect continued positive, global economic growth. Disinflation also remains on track, and inflation across most global economies should return close to central bank targets. Global central banks are cutting rates. The US Federal Reserve (Fed) started in September with a relatively aggressive 50 basis point cut in interest rates. With a soft landing in reach, the Fed appears to want to get interest rates back to a neutral stance quickly, likely close to 3.5%. This means a series of cuts in the coming meetings. Tightness in the US labor market has been easing.

As the Fed and other global central banks cut interest rates, financial conditions should ease and support the global economy and markets. Easier financial conditions and strong fundamentals have turned to more positive on risk taking across asset classes. Two risks to watch: Recession risks are not priced into the bond market. While recession is not our base case – expect near potential growth in the medium term – recession would likely be positive for rates but negative for credit spreads. Given the US equity market's outperformance in recent years, foreign investors are likely overweight US equities and as a result, the US dollar. Any significant equity correction, or change in sentiment away from US equities, could pressure the US dollar. Look for the Fed to continue cutting interest rates in the coming months. A rate cut at every meeting is likely for the foreseeable future. The Fed still needs to cut rates by around one and a half percentage points to get to the neutral target they are shooting for. At 25 basis points a meeting, that would take six more meetings and bring cuts into the middle of next year.

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