A month at a time

Advance Multi-Blend Funds

July 2013

Market update

Financial markets

Comments from US Fed Chairman Ben Bernanke and other FOMC members during July re-assured markets of the maintenance of low interest rates in the US for an extended period. Equity markets performed strongly and recovered much of their prior month losses. Domestic equities performed in line with other equity markets (+5.0%) for the month while Commodities also recovered, up 4.5%. Both domestic and international fixed interest markets were marginally positive following a sharp increase in volatility while REITs underperformed as investors, wary of valuations, sold both domestic and global listed property. Volatility and implied volatility both declined with the rally in July and cross-asset correlations subsided.

Markets received a 'jump start' early in the month from a strong US non-farm payrolls release causing a +1.0% gain in equities and a rise in US 10 year yields by nearly 30 basis pts to a two year high. The volatility experienced early on subsided over the month, yet equities grinded higher and bond yields recovered some of their losses. For the first time the ECB implemented forward guidance (reading from the US Fed's play book), pledging to keep interest rates at the current record low levels for an "extended period". Japanese Prime Minister Shinzo Abe's government successfully won control of both houses of parliament, providing the platform to push through legislation relating to expansionary policies. Significant local government credit risks in China, which were highlighted by June's market moves, resulted in a number of government announcements in July aimed financial market stability. A number of new 'mini stimulus' programs aimed at supporting a slowing economy and propaganda to maintain relatively robust GDP growth (7.0% minimum) softened risks and intermittently helped short term interest recover from record high levels. The RBA left the cash rate unchanged at its July meeting yet a benign headline 2Q CPI reading in conjunction with a rise in the unemployment rate to 5.7% quickly saw markets move to price in further easing in August.

Global equity markets

The MSCI World Index rose 5.2% with Europe seeing the strongest gains, led by Spain (+8.6%), France and Germany on the back of better economic data. The US S&P 500 Index gained 4.9% supported by a strong domestic profit season with Financials the standout. Developed markets outperformed Emerging Market equities as a result, with the MSCI EM Index gaining only 1.4% (USD terms) for the month. Year to date, Emerging Markets have significantly underperformed, declining 5.0% in stark contrast to the MSCI World Index gaining 15.5%. Global small caps outperformed large caps with cyclical sectors (Financials and Consumer Discretionary) the best performers on the month.

The S&P/ASX 300 Accumulation Index rose 5.3% and is now up 10.6% year to date. Previously underperforming Resources drove domestic returns with their strongest monthly return since January 2012 (+10.3%), while the market ex Resources was up 4.1% for the month. Small Caps (+9.8%) significantly outperformed large caps recording their best monthly return (+23.8%) in over 20 years, clawing back some of the large losses year to date (-36.7%).

Cash and fixed interest

Yield curves generally steepened in July, with only marginally positive performances from domestic and international fixed interest markets +0.9 % and +0.6% respectively. The sharp spike in US Treasury volatility at the beginning of the month faded but yields remains marginally higher at month end. US 10y bond yields were 9bps higher while European yields declined, German 10 years fell 6 bps and UK 10 year declined 8.5 bps, while Irish and Portugal 10 year yields declined 20bps and 6 bps respectively. The positive risk environment and improving economic sentiment helped corporate credit spreads narrow and a downward shift in corporate credit quality curves continued to be supported by accommodative financial conditions. Credit markets, in particular High Yield, outperformed government bond markets for the month.

Commodities, currency and alternatives

Commodities performed strongly, led by Energy (Brent, +5.4%) and Precious Metals (Gold, +7.2%). Despite the weakness in the broad US Dollar Index (-2.0%) the AUD underperformed a further 1.9% in July to decline to 0.8963 US cents. The EUR, GBP and JPY all rose versus the USD while the NZD outperformed versus the USD and AUD.

Funds update

- All five of the Advance Diversified Multi-Blend Funds slightly underperformed their respective benchmarks over the month.
- Manager selection was the main positive contributor to performance over the month, while asset allocation tilting detracted from performance. Manager selection within Australian Shares stood out as the best performing asset class followed by the property securities portfolio.
- The Australian Shares Multi-Blend Fund outperformed its benchmark having returned 5.42% against a 5.30% return for the benchmark. The Fund's exposure to the Advance Australian Small Companies Multi-Blend Fund positively contributed to the overall performance although it underperformed its benchmark return.
- The International Shares Multi-Blend Fund slightly outperformed its benchmark having returned 7.50% against 7.45% for the benchmark. Managers AQR, Trilogy, Schroders and MFS outperformed their respective benchmarks and positively contributed to the funds overall performance.
- The Property Securities Multi-Blend Fund outperformed the benchmark having returned 1.04% against a 0.71% return for the benchmark.
- The Australian Fixed Interest Multi-Blend Fund outperformed, having returned 0.92% against 0.86% for the benchmark. Managers Perennial, Aberdeen and AMP all outperformed the benchmark return.
- The International Fixed Interest Multi-Blend Fund underperformed, returning 0.42% against a benchmark return of 0.63%. Managers Standish outperformed its benchmarks, while Wellington and Franklin Templeton Multi-strategy underperformed.
- The commodities benchmark returned 5.24% in July, with the underlying manager underperforming its benchmark.
- The Alternative Strategies Multi-Blend Fund outperformed its cash benchmark having returned 0.41% against 0.25% for the benchmark.

Performance to 31/07/2013 (after fees)	1 mth %	3 mths %	6 mths %	1 yr %	3 yrs %	5 yrs %	Inception %
Diversified Funds							
Defensive Multi-Blend	0.89	-0.65	1.81	7.74	6.70	6.24	6.18
Moderate Multi-Blend	1.76	0.33	3.72	12.20	7.88	6.16	6.74
Balanced Multi-Blend	2.69	2.00	6.17	17.21	8.76	5.57	5.90
Growth Multi-Blend	3.29	2.97	7.62	20.40	9.13	4.78	6.17
High Growth Multi-Blend	4.13	4.83	9.83	24.54	9.63	4.12	6.21
Sector Funds							
Australian Shares Multi-Blend	5.42	-0.77	6.75	25.00	8.01	4.70	8.15
Benchmark	5.30	-1.90	5.30	23.18	8.53	4.79	8.64
Australian Sm Cos Multi-Blend	8.84	-3.01	-7.87	5.32	3.97	0.92	4.04
Benchmark	9.81	-1.94	-8.83	4.16	-0.59	-2.79	2.82
Intl Shares Multi-Blend	7.50	19.45	24.39	43.45	12.36	4.44	0.47
Benchmark	7.45	19.65	27.01	45.29	13.19	5.10	2.61
Australian Fxd Int Multi-Blend	0.92	-0.17	1.84	4.32	6.52	7.12	5.91
Benchmark	0.86	-0.27	1.66	3.27	7.04	7.63	6.55
Intl Fxd Int Multi-Blend	0.42	-3.26	-0.29	4.67	7.62	10.36	8.07
Benchmark	0.63	-1.92	0.95	3.57	7.48	8.76	7.87
Property Securities Multi-Blend	1.04	-6.22	3.64	17.50	14.09	4.35	4.60
Benchmark	0.71	-6.91	3.97	17.88	15.32	4.30	5.34
Alternative Strategies Multi-Blend	0.41	1.21	2.16	5.04	-	-	2.62
Benchmark	0.25	0.74	1.48	3.24	-	-	3.99
Asian Shares Multi-Blend	3.01	7.61	9.18	25.09	0.32	0.54	4.14
Benchmark	3.86	9.63	9.75	26.68	4.78	5.03	8.34
Cash Multi-Blend	0.28	0.80	1.73	3.81	4.45	-	-
Benchmark	0.25	0.74	1.48	3.24	4.26	-	-

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