

A month at a time

Advance Multi-Blend Funds

August 2013

Market update

Financial markets

Equity markets were mostly lower in August led by the US and Europe. Australian equities and Commodities were up strongly, posting positive returns for the month, while the sharp move higher in bond yields led by US Treasuries resulted in Global and Domestic bonds underperformance. Listed Property and Global equities were the worst performing asset classes over the month.

Despite some solid economic data releases in the US increasing the likelihood that the US Federal Reserve (Fed) will begin 'Tapering' its current asset purchases in September, increased political tensions in the Middle East clouded risk asset performance and helped Oil rebound to a six month high. Generally economic momentum improved across the major regions over the month and saw the Eurozone emerge from recession, spurring a move higher in bond yields and a reversal of capital inflows to emerging markets. The resulting outflows placed some Emerging market currencies under heavy pressure; the Indian Rupee was hit especially hard with increased investor concern over a deteriorating current account deficit. With the underperformance in risk assets, volatility increased across markets in August with implied volatility also increasing following declines in July. The key domestic economic development was the Reserve Bank of Australia (RBA) cut in the official cash interest rate of 0.25% to a post war low of 2.5%, reflecting the recent below-trend performance of economic data and contained inflation data, with the RBA maintaining an easing bias.

Global equity markets

US monetary policy stimulus "tapering" discussions and events in Syria drove a negative month for equities globally in August with the MSCI World Index -2.3%, US (S&P500) -3.1%, UK (FTSE100) -3.1%, France (CAC 40) -1.5%, Germany (DAX 30) -2.0% & Japan (Nikkei 225) -2.0% all seeing negative returns. China's key equity index, the Shanghai Composite Index, stood out for its +5.2% return, reflecting evidence of stabilising growth in China, which in part reflected a more positive European growth outlook. The threat of Fed tightening has exposed underlying weaknesses in Emerging markets, mainly balance of payments weaknesses with large negative equity returns in India (SENSEX) -3.8%, Russia (RTS Index) -1.7% & Indonesia (JKARTA) -9.0%.

The S&P/ASX 300 Accumulation Index rose 2.5% with the 2013 Financial Year earnings reporting season the key focus for investors. Earnings Per Share (EPS) growth delivered broadly in line with forecasts despite a difficult operating environment. The Share Market (ex Resources) (+1.9%) and Resources (+4.8%) both recorded positive total returns. Small Caps (+2.9%, S&P/ASX ex 100) again outperformed large caps with a notable improvement in Small Resource stocks (+5.3%) while Small Industrials (+2.2%) slightly underperformed.

Cash and fixed interest

Despite falling late in the month, bond yields rose overall in the so-called 'safe haven' government bond markets in August: the 10yr US Treasury yield rose by 20bps to 2.78%, the 10yr German bund yield increased 19bps to 1.86% and the equivalent UK gilt rose 41bps to 2.77%. The rise in US Treasury yields marked the fourth consecutive month of rising yields, whilst the UK yield reached its highest point since July 2011. More broadly Global bonds (Barclays Global Aggregate Index) outperformed the domestic market (UBS All Composite Index). The increase in sovereign yields led to slightly negative returns for credit with euro credit outperforming both US dollar markets and sterling markets. Positive economic data has helped Euro Investment grade spreads narrow significantly over the month. Emerging debt markets also suffered from capital outflows, with the USD emerging market sovereign debt index underperforming US Treasuries.

Commodities, currency and alternatives

The AUD fell a further 0.9% against the USD in August, symptomatic of Australia's connection with emerging markets where the Indian Rupee (-10.9%) and Indonesian Rupiah (-8.9%) significantly underperformed. Other commodity currencies also struggled versus the USD while the British Pound improved by 1.9% over the month. A jump in risk following increased tensions in Syria helped energy and precious metals outperform while industrial metals also gained after Chinese data remained more constructive over the month. Brent Crude gained 5.9%, Gold rallied 6.4% while Silver advanced 19.5%.

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Funds update

- All five of the Advance Diversified Multi-Blend Funds outperformed their respective benchmarks over the month.
- Manager selection was the main positive contributor to performance attribution over the month, while asset allocation tilting detracted from performance. Within manager selection, Australian Shares contributed the most, followed by the International Shares portfolio.
- The Australian Shares Multi-Blend Fund outperformed its benchmark having returned 2.87% against a 2.51% return for the benchmark. The Fund's exposure to the Advance Australian Small Companies Multi-Blend Fund positively contributed to the overall performance having outperformed its benchmark return.
- The International Shares Multi-Blend Fund outperformed its benchmark having returned -0.90% against -1.50% for the benchmark. Managers Trilogly, Schroders and Tradewinds outperformed their respective benchmarks and positively contributed to the funds overall performance.
- The Property Securities Multi-Blend Fund performed in line with the benchmark, having matched the benchmark return of -3.04%. Managers Phoenix and Principal outperformed their benchmark return.
- The Australian Fixed Interest Multi-Blend Fund outperformed having returned -0.23% against -0.32% for the benchmark. Managers Aberdeen, AMP and Perennial outperformed their benchmark return.
- The International Fixed Interest Multi-Blend Fund slightly underperformed, having returned -0.40% against a benchmark return of -0.17%. Manager Wellington outperformed its benchmarks, while Standish Mellon and Franklin Templeton Multi-strategy underperformed.
- The commodities benchmark returned 3.62% in August, with the underlying manager slightly underperforming its benchmark.
- The Alternative Strategies Multi-Blend Fund underperformed its cash benchmark having returned -0.04% against 0.23% for the benchmark.

Performance to 31/08/2013 (after fees)	1 mth %	3 mths %	6 mths %	1 yr %	3 yrs %	5 yrs %	Inception %
Diversified Funds							
Defensive Multi-Blend	-0.02	-0.13	0.87	6.62	6.51	5.82	6.15
Moderate Multi-Blend	0.20	0.85	2.46	10.84	7.94	5.68	6.70
Balanced Multi-Blend	0.26	2.02	4.48	15.37	9.06	5.02	5.88
Growth Multi-Blend	0.37	2.78	5.73	18.32	9.63	4.21	6.16
High Growth Multi-Blend	0.48	3.97	7.71	22.03	10.73	3.51	6.21
Sector Funds							
Australian Shares Multi-Blend	2.87	5.87	4.12	25.55	9.71	4.49	8.31
Benchmark	2.51	5.35	2.53	23.63	9.83	4.47	8.76
Australian Sm Cos Multi-Blend	5.67	7.34	-4.21	7.80	5.69	1.22	4.65
Benchmark	2.88	4.90	-7.00	4.10	-0.24	-2.61	3.12
Intl Shares Multi-Blend	-0.90	8.08	21.62	36.21	12.57	3.41	0.40
Benchmark	-1.50	8.28	22.77	36.94	13.43	3.65	2.49
Australian Fxd Int Multi-Blend	-0.23	-0.42	0.95	3.24	5.90	6.61	5.83
Benchmark	-0.32	-0.52	0.73	2.30	6.25	7.10	6.45
Intl Fxd Int Multi-Blend	-0.40	-2.34	-1.47	3.61	6.73	9.89	7.98
Benchmark	-0.17	-0.78	-0.04	2.84	6.69	8.40	7.80
Property Securities Multi-Blend	-3.04	-4.33	-1.28	13.26	12.56	2.95	4.21
Benchmark	-3.04	-4.31	-1.44	14.05	13.74	2.56	4.94
Alternative Strategies Multi-Blend	-0.04	-0.02	1.93	4.40	-	-	2.50
Benchmark	0.23	0.72	1.49	3.17	-	-	3.95
Asian Shares Multi-Blend	-0.58	0.52	6.22	24.46	-0.07	0.03	4.04
Benchmark	-0.76	1.78	7.02	24.11	4.33	4.52	8.17
Cash Multi-Blend	0.27	0.79	1.70	3.73	4.40	-	-
Benchmark	0.23	0.72	1.49	3.17	4.20	-	-

The Fund performance shown above is wholesale performance, calculated using withdrawal values and assumes income is reinvested. Annual management fees and expenses have been taken into account, however, no allowance has been made for entry fees, tax or any rebates that may be given. Past performance is not a reliable indicator of future performance. For retail performance and details of the Funds' benchmarks, please visit advance.com.au. This information is of a general nature only and has been prepared without taking into account the objectives, financial situation or needs of any particular person. Before acting on it, a person should consider its appropriateness having regard to these factors. Advance Asset Management Limited ABN 98 002 538 329 AFSL No.240902 (Advance) is the issuer of the Advance Multi-Blend Funds. Before deciding whether to invest in a Fund, investors should consider the Product Disclosure Statement for the Fund, available at www.advance.com.au. Advance is a member of the Westpac Group. An investment in a Fund does not represent an investment in, deposit with or other liability of Westpac Banking Corporation ABN 33 007 457 141 or any other member of the Westpac Group. Subject to any terms implied by statute which cannot be excluded, no member of the Westpac Group nor its directors, employees and associates accept any responsibility for errors in, or omissions from the information.