

# ADVANCE MULTI-BLEND FUNDS

October 2014

## MARKET UPDATE

### Australia

The Reserve Bank of Australia (RBA) left official interest rates unchanged. With growth continuing at a moderate pace and current inflationary trends consistent with this policy stance, the RBA is likely to maintain steady monetary policy for some time. However, a significant deterioration in the global economic outlook may change this outlook.

### US

With signs that the US recovery is on a stronger economic growth trajectory, the US Federal Reserve (Fed) decided to end its asset purchasing program, surprising market participants somewhat by the clear change in its assessment of the US labour market. Investors now anticipate the Fed funds rate will be raised earlier than previously expected.

### Japan

The Bank of Japan (BOJ) unexpectedly announced unprecedented levels of QE expansion, including increasing its monetary base by around an additional ¥20 trillion, outpacing that of the US. Markets also reacted to asset allocation shifts by the BOJ's public pension fund and via its balance sheet. This, the most closely divided vote in the bank's history, comes as confidence in the government plummets to its lowest level in almost two years.

### Eurozone

Continued disappointment in the Eurozone's economic trajectory was heightened by data out of Germany indicating a real possibility of the country going into a technical recession. The long-awaited European Central Bank (ECB) 'stress test' results were better than expected and provided some cautious optimism that banks may restore lending that is crucial to generating stronger economic activity.

### UK

The UK has been the star amongst major developed economies with persistently strong economic growth, job creation and declining inflation pressure. However, with growth now showing signs of slowing, it is increasingly likely that the Bank of England (BOE) may keep UK interest rates at record lows until late 2015 or even longer.

### China

The possibility of a hard landing in China gained more credence with growth slowing to its slowest pace since the GFC and with inflation down to a five-year low. This environment continues to be a policy challenge for authorities that remain wary of the unintended consequences that may result from large stimulatory measures.

## FUND UPDATE

- > All five of the Advance Diversified Multi-Blend Funds returned positive absolute returns in October despite the significant amount of volatility experienced intra-month. A sharp decline in global equities followed by an equally sharp rise resulted in a flat contribution by the Funds' active asset allocation and hedging positions. Tactical positioning benefited from an overweight in international equities, while a slight underweight to Australian equities detracted from value. An overweight in property and relative positioning in the currency hedge also added value over the month.
- > The Australian Shares Multi-Blend Fund underperformed by 0.52% with the broader market benchmark gaining 4.27% for the month and recovering most of the previous months' declines. The Fund's allocation to smaller companies detracted value with a negative absolute value for the month (-1.18%). The Market ex Resources (+5.8%) outperformed Resources (-2.0%) for the third consecutive month. An underweight to Banks (+7.7%) and Listed Property Trusts (+6.5%), the strongest performers, detracted from relative performance. Particularly notable this month was the divergent performance of the ASX 100 (+4.7%) compared to the ex 100 (-0.5%).
- > The Advance International Shares Multi-Blend Fund returned -0.40% following a volatile month for global equity markets where the benchmark recovered from over a 7.0% decline to finish flat at 0.05%. The managers had mixed performances though US focused strategies generally outperformed other regions. The high conviction strategies of Lansdowne and Ramius were

significant outperformers, while core strategies weighed on performance.

- > The Advance Property Securities Multi-Blend Fund performed in line with its benchmark while the REIT market in general displayed strong returns over the month. The Fund returned +7.14% versus the benchmark of +7.11%. Underperformance from domestic REITs was compensated by stronger returns from the Fund's global allocation.
  - > The Australian Fixed Interest Multi-Blend Fund performed slightly behind the market with a return of +0.81% versus the benchmark return of +0.96%. Australian government bonds continued to rally lower over the month, while the portfolio was largely positioned defensively in anticipation of rising interest rates and higher yields.
  - > The International Fixed Interest Multi-Blend Fund performed marginally behind its benchmark for the month, gaining 0.87% versus 0.95%. The benchmark US 10yr Treasury Yield finished the month lower at 2.33%, rallying from September close following increased equity volatility. Credit markets were also well supported except for lower rate High Yield such as CCC rate securities which lost 1.0%. US Investment grade rallied 1.1%, while US BB outperformed, rallying 2.1%.
- > The commodities allocation contributed positive returns to the Funds. The reduced allocation to energy, in particular oil, helped to protect performance over the month as energy prices experienced significant falls.
  - > The Alternative Strategies Multi-Blend Fund returned -1.53% as hedge fund strategies underperformed.
  - > The Defensive Yield Multi-Blend Fund returned -0.05% as credit strategies weighed on performance.

PERFORMANCE TO 31/10/14 (AFTER FEES)	1 MONTH (%)	3 MONTH (%)	6 MONTH (%)	1 YEAR (%)	3 YEARS (%)	5 YEARS (%)	INCEPTION (%)
<b>DIVERSIFIED FUNDS</b>							
Defensive Multi-Blend	0.91%	0.68%	2.34%	4.88%	6.45%	6.32%	6.10%
Moderate Multi-Blend	1.21%	0.83%	2.74%	5.78%	8.47%	7.26%	6.71%
Balanced Multi-Blend	1.38%	0.85%	2.92%	6.29%	10.29%	7.91%	6.02%
Growth Multi-Blend	1.51%	0.82%	2.95%	6.47%	11.34%	8.13%	6.40%
High Growth Multi-Blend	1.64%	1.11%	3.42%	7.26%	12.77%	8.54%	6.58%
<b>SECTOR FUNDS</b>							
Australian Shares Multi-Blend	3.74%	-1.06%	1.38%	3.63%	12.42%	7.13%	8.34%
Benchmark	4.27%	-0.70%	2.84%	6.07%	13.30%	7.95%	8.90%
Australian Smaller Companies Multi-Blend	-1.18%	-3.88%	-2.09%	-5.57%	2.15%	3.36%	4.20%
Benchmark	-0.54%	-3.79%	-0.10%	-3.26%	-1.01%	-0.15%	2.86%
International Shares Multi-Blend	-0.40%	4.86%	6.92%	14.37%	19.36%	11.50%	1.35%
Benchmark	0.05%	6.06%	7.89%	17.44%	22.05%	12.25%	3.49%
Australian Fixed Interest Multi-Blend	0.81%	1.40%	3.75%	6.84%	5.98%	6.64%	5.88%
Benchmark	0.96%	1.64%	4.17%	7.09%	6.29%	6.94%	6.45%
Intl Fixed Interest Multi-Blend	0.87%	1.91%	4.13%	7.92%	7.69%	8.27%	8.04%
Benchmark	0.95%	2.28%	4.52%	7.95%	7.29%	8.10%	7.87%
Property Securities Multi-Blend	7.14%	4.48%	11.10%	16.46%	19.02%	14.18%	5.91%
Benchmark	7.11%	4.04%	10.78%	16.33%	19.08%	14.93%	6.56%
Alternative Strategies Multi-Blend	-1.53%	-0.88%	0.23%	2.43%	4.04%		2.71%
Benchmark	0.23%	0.67%	1.35%	2.66%	3.29%		3.51%
Asian Shares Multi-Blend Fund	0.84%	2.07%	9.62%	10.71%	11.70%	3.23%	4.95%
Benchmark	1.49%	2.20%	12.52%	13.91%	14.42%	7.96%	8.93%
Defensive Yield Multi-Blend Fund	0.05%	0.41%	1.48%	4.42%			3.81%
Benchmark	0.23%	0.67%	1.35%	2.66%			2.84%
Cash Multi-Blend Fund	0.25%	0.74%	1.52%	3.03%	3.74%		
Benchmark	0.23%	0.67%	1.35%	2.66%	3.29%		

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](http://advance.com.au).

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**ADVANCE**  
ASSET MANAGEMENT

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