

# ADVANCE MULTI-BLEND FUNDS

JANUARY 2016

## MARKET UPDATE

### AUSTRALIA

Recent reports offered mixed data for the Australian economy. The fourth quarter CPI report indicated headline consumer prices had risen by 0.4%, bringing the annual rate to 1.7% with nine of the 11 indices measured showing gains. The six month annualised rate of core inflation also reached 1.7%, below the Reserve Bank of Australia's desired target band of 2-3%.

### US

The advance estimate of the US fourth quarter GDP report came in slightly below expectation at 0.7% compared to the anticipated 0.8%. Personal consumption grew, with robust growth in consumer durable goods, while residential investment growth beat expectations. Unfortunately, the strong US dollar and weak global demand saw the US trade deficit widen over the quarter. Private business investment was also sluggish with some drag from the energy sector. Government spending was higher, driven by gains in national defense spending.

### JAPAN

The Bank of Japan (BOJ) surprised global markets in January by cutting the official interest rate from 0 to -0.1%, passed by a 5-4 vote. This was part of its response to poor data from 2015 indicating falls across most areas, from household spending to industrial production and exports. Initially, the decision saw stock prices in Japan rise and the yen fall as the BOJ had hoped; however, this has since reversed.

### EUROZONE

The January headline CPI print matched forecast estimates by reporting a 0.4% annual gain, with strength in domestic demand outweighing weakness in emerging markets and US demand. Despite this, low oil prices and the recent strength of the euro are likely to cause ongoing challenges for the Eurozone, which may see the European Central Bank reduce the already negative benchmark interest rate further.

### UK

The fourth quarter GDP report saw quarterly growth underperform expectations, with growth in annual terms declining to 1.9% – the weakest rate of expansion since a 1.4% gain recorded in 2013. Growth in the quarter was driven by the services sector, expanding by its fastest pace in over 12 months, with notable gains in business and financial services. Industrial output, as in the US, recorded its first decline since 2012 impacted by weak foreign demand and the strength of the British pound. While growth has been weaker than 2014 for the UK, the International Monetary Fund has forecast expansion by 2.2% in 2016 and 2017, placing it above the averages anticipated for other developed nations.

### CHINA

Reports from China showed its GDP growth rate slowed to a 25-year low of 6.9% last year, with indications that efforts to rebalance the economy are beginning to gain traction. The services sector expanded by 8.3% over 2015, while manufacturing declined to 6%. In the latter part of 2015, fiscal spending had jumped by around 30% and broad credit gained 14%.

## FUNDS UPDATE

### Advance Diversified Multi-Blend Funds

Market volatility resulting from China's attempts to stabilise its currency along with further weakness in commodity prices, particularly oil, had a negative impact on the Funds over January. Weak economic data from the US also pushed sharemarkets lower in the month and detracted from Fund performance. However, the dynamic hedging strategy offered downside protection as the Australian dollar depreciated. Tactical positions from country selection and protection strategies also contributed positively to performance.

### Advance Australian Shares Multi-Blend Fund

Despite the decline in the Australian sharemarket, the Fund outperformed the benchmark in January due to good stock selection at the manager level. Bennelong was the best performing manager over the month for larger companies, outperforming the benchmark, while Contango and Tribeca were the best performing managers of the smaller companies allocations.

### Advance International Shares Multi-Blend Fund

A number of challenges to sharemarkets over January, including activity in China, weakness in commodity prices and poor data from the US, meant the Fund underperformed the benchmark. MFS offered the strongest performance and outperformed the benchmark. The weakening Australian dollar had a positive contribution to performance from unhedged assets, helping mitigate the effects of the sharemarket movements.

### Advance Property Securities Multi-Blend Fund

The Fund underperformed the benchmark in January as investor confidence fell due to concerns over the market and activity in China. Weak economic data from the US also created challenges. Phoenix was the best performing manager over the month, delivering a positive return and outperforming the benchmark.

### Australian Fixed Interest Multi-Blend Fund

The Fund returned positive performance in January and outperformed the benchmark. Bond yields fell across the curve in the short-term domestic market and led to positive returns for investors. All the managers had a positive performance over the month, with Aberdeen and BTIM offering the strongest performance and outperforming the benchmark.

### International Fixed Interest Multi-Blend Fund

The Fund returned a positive absolute performance over the month. Yields fell in the US and Europe leading to positive returns for investors. Yields also fell in Japan after the BoJ announced its new Qualitative and Quantitative Monetary Easing policy, including a movement to negative interest rates at the end of the month. Wellington had the best performance over the month and outperformed its benchmark.

### Alternative Strategies Multi-Blend Fund

The Fund underperformed its benchmark in January. Both leveraged and momentum based strategies struggled over the period due to the challenging environment and unexpected economic activity, such as Japan's decision to move to negative interest rates.

### Defensive Yield Multi-Blend Fund

The Fund underperformed its benchmark as its structure protects assets when yields are rising rather than falling as they did in January. BTIM was the best performing manager over the period, having a positive absolute performance and outperforming the benchmark.

PERFORMANCE TO 31/1/16 (AFTER FEES)	1 MONTH (%)	3 MONTH (%)	6 MONTHS (%)	1 YEAR (%)	3 YEARS (% PA)	5 YEARS (% PA)	INCEPT (% PA)
<b>DIVERSIFIED FUNDS</b>							
Defensive Multi-Blend	-0.60	-1.02	-1.36	-0.55	3.44	4.70	5.78
Moderate Multi-Blend	-1.67	-2.08	-2.96	-0.94	4.81	5.53	6.21
Balanced Multi-Blend	-2.71	-3.23	-4.53	-1.26	6.23	6.13	5.77
Growth Multi-Blend	-3.36	-3.98	-5.65	-1.68	6.90	6.25	5.96
High Growth Multi-Blend	-3.75	-4.63	-6.67	-1.41	8.50	6.88	6.22
<b>SECTOR FUNDS</b>							
Australian Shares Multi-Blend	-5.50	-2.50	-7.94	-3.63	5.95	5.38	7.62
<b>Benchmark</b>	-5.45	-3.53	-9.68	-5.83	5.28	5.46	7.99
Australian Smaller Companies Multi-Blend	-5.77	-1.57	3.61	9.20	1.01	0.42	4.16
<b>Benchmark</b>	-5.11	-1.38	-0.04	3.59	-1.43	-3.10	2.63
International Shares Multi-Blend	-4.19	-9.15	-9.07	3.00	18.55	12.30	2.10
<b>Benchmark</b>	-3.23	-7.38	-7.28	4.85	20.76	13.57	4.17
Australian Fixed Interest Multi-Blend	1.24	0.63	1.78	2.18	5.02	6.10	5.77
<b>Benchmark</b>	1.22	0.67	1.87	2.19	5.24	6.69	6.35
Intl Fixed Interest Multi-Blend	0.89	0.51	0.78	0.49	4.39	6.79	7.62
<b>Benchmark</b>	1.65	1.76	2.93	2.82	5.95	7.50	7.68
Property Securities Multi-Blend	-3.21	-3.33	-2.11	-1.45	10.62	12.01	5.99
<b>Benchmark</b>	-2.45	-2.55	-1.79	-2.23	10.74	12.29	6.58
Alternative Strategies Multi-Blend	-0.38	-0.40	-3.11	-2.95	1.55	n/a	1.74
<b>Benchmark</b>	0.20	0.56	1.11	2.28	2.61	n/a	3.21
Asian Shares Multi-Blend Fund	-4.92	-8.29	-9.68	-6.47	10.65	3.74	5.17
<b>Benchmark</b>	-5.00	-10.42	-11.82	-9.90	9.54	5.47	8.15
Defensive Yield Multi-Blend Fund	-0.26	-0.76	-0.69	-0.01	2.65	n/a	2.81
<b>Benchmark</b>	0.20	0.56	1.11	2.28	2.61	n/a	2.67
Cash Multi-Blend Fund	0.22	0.59	1.20	2.50	2.95	3.62	n/a
<b>Benchmark</b>	0.20	0.56	1.11	2.28	2.61	3.32	n/a

Source: Advance Asset Management Limited. Information current as at 31 January 2016. 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 and inception dates, please visit [advance.com.au](http://advance.com.au).

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**ADVANCE**  
ASSET MANAGEMENT

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