ADVANCE
ASSET MANAGEMENT

ADVANCE MULTI-BLEND FUNDS

FEBRUARY 2016

MARKET UPDATE

Australia

The Q4 GDP report revealed the national economy expanded by 0.6%, convincingly beating the estimated 0.4% increase, however, a relatively small increase compared to a year earlier, when growth reached an impressive 3%. Performance was driven principally by robust consumer activity and public investment. Conversely, with the mining investment boom unwinding private non-dwelling construction was a detraction.

USA

The second of the mandated three assessments of the Q4 GDP report saw annualised growth revised upwards from the initially reported 0.7% to 1%, which was driven almost entirely by a much stronger than anticipated inventory adjustment. Inventory accumulation is now deemed to have reached $82 billion over the quarter rather than the initially reported $69 billion. However, although this inventory revision improved the economy's performance over the year's final quarter it may well detract from the current quarter's performance. The well regarded Atlanta Fed's GDPNow assessment of current Q1 growth dropped to 2.1% from 2.5% leading into this publication.

Japan

January's trade report saw both exports and imports declining at their most concerning pace since the all-time low of the GFC in late 2009. Exports slumped by -12.9% while imports plummeted by -18%. Consequently, although the Bank of Japan is widely anticipated to ease monetary policy further while there are tenuous but growing rumours of a delay in next year's proposed GST hike nonetheless there is a mounting concern amongst experts that Abenomics may have had its day.

Eurozone

The preliminary release of the currency headline CPI report revealed that prices had fallen by 0.2% from a year earlier – confusing consensus' call for a half-hearted 0.1% increase after January's revised and relatively impressive 0.3% gain. Ratcheting up the pressure upon the European Central Bank (ECB) considerably – the less volatile core (ex food & energy) CPI metric declined to just 0.7% last month from a year earlier a most unwelcome development after January's 1.0% gain. Concerningly, it seems this core metric is now being impacted by the headline's efforts – a most unwanted development for the ECB.

Consequently, at its scheduled March interest rate setting meeting the ECB is universally anticipated to ease monetary policy even further with not only a deeper cut into negative territory for the ECB's deposit rate expected but also an increase of the current asset purchase or QE programme.

UK

Most if not all members of the Bank of England's rate setting Monetary Policy Committee believe in a relationship which ties declining unemployment to increasing wages and thus rising inflation – the Phillips Curve. However, since the GFC this relationship appears to have either broken down or at the very least perhaps temporarily taken a leave of absence as Britain's unemployment rate is either at or very close to an historic low while wage growth is perplexingly declining. Thankfully for British workers annual inflation gains are practically non-existent which at least provides some form of cushion to the cost of living.

China

February's trade report saw exports collapsing by a quarter from a year earlier while imports were off by a relatively lukewarm but still alarming -13.8%. However, although such declines are alarming – particularly for the world's second largest national economy – nonetheless last month's trade narrative was affected considerably by the timing of the lunar New Year. Indeed, exports were exceptionally strong in February of last year as the lunar New Year started later than usual with activity consequently brought forwards to February. As such – it is perhaps likely that a significant trade reversal will be recorded in March's trade report. But even if March's trade report bounces back appreciably nonetheless for the first two months of this year exports have declined by an outlandish -17.8% with imports down by an equally concerning -16.7%. Looking forwards - not only is monetary policy anticipated to be lowered accordingly but it is becoming more likely that Beijing will open the fiscal stimulus tap further - with Premier Li recently proposing the widening of the current budget deficit to some 3% of GDP from the current 2.3%

FUNDS UPDATE

Advance Diversified Multi-Blend Funds

The Funds had negative performance over February. The large exposure to equity markets was a detractor to the funds over the month as there was a worldwide decline in equity markets, pushed lower by mixed economic data coming from the US and Europe. The overweight to the banking and financial sector was also a detractor to performance as the price of bank stocks fell with the continuation of quantitative easing. Underweights to rising commodity prices and the Australian dollar also detracted from overall performance from a relative basis.

Advance Australian Shares Multi-Blend Fund

The Fund underperformed the benchmark in February due to an overweight to banks, which fell over the month following volatility in the European Financials sector. An underweight to the recovering materials sector was also a detractor to performance from a relative perspective as the price of iron ore rose by 19% over the period following positive demand decisions from China. Schroders was the best performing manager over the month, outperforming the benchmark by a considerable margin. Sigma was the best performing manager from the smaller companies' managers also outperforming the benchmark.

Advance International Shares Multi-Blend Fund

The Fund outperformed the benchmark this month as almost all managers within the fund outperforming their benchmarks despite the global decline in equity markets. The positive US data and cash rate being kept at low levels added to performance over the month as it was captured by good bottom up stock selection from managers. Underweight positions in Asia, most notably Japan and China added to performance from a relative perspective following concerns around China's capital outflows. Tradewinds was the best performing manager, having considerable outperformance relative to the benchmark.

Advance Property Securities Multi-Blend Fund

The Fund had a positive return from an absolute perspective in February. International record low cash rates continue to provide a positive environment for the sector and positive economic news both domestically and in the US helped provide opportunities for returns over the month. Blackrock was the best performing manager over the month, outperforming the benchmark.

Australian Fixed Interest Multi-Blend Fund

The Fund returned positive performance in February from an absolute perspective however underperformed the benchmark. Bond yields fell across the curve in the short-term domestic market, leading to positive returns for investors. All the managers in the fund had positive performance from an absolute perspective with AMP being the best performer over the month.

International Fixed Interest Multi-Blend Fund

The Fund returned a positive absolute performance over the month. Yields fell in the US and Europe, as investors sought safer havens from the volatility in share markets. Wellington had the best performance over the month outperforming the benchmark.

Alternative Strategies Multi-Blend Fund

The Fund outperformed its benchmark in February. Both leveraged and momentum based strategies performed well over the period, given the recovering commodity prices. Volatility in prices over the month provided opportunities for the strategies in the fund yielding positive performance.

Defensive Yield Multi-Blend Fund

The Fund returned positive performance in February from an absolute perspective however underperformed the benchmark in what was a difficult environment for yield securities with the market reacting to mixed economic releases out of Europe and Asia. Standish was the best performing manager over the period, having a positive absolute performance and outperforming the benchmark.

PERFORMANCE TO 29/02/2016 (AFTER FEES)	1 MONTH (%)	3 MONTH (%)	6 MONTHS (%)	1 YEAR (%)	3 YEARS (% PA)	5 YEARS (% PA)	INCEPT (% PA)
DIVERSIFIED FUNDS							
Defensive Multi-Blend	-0.17	-0.68	-0.32	-1.80	3.06	4.43	5.74
Moderate Multi-Blend	-0.56	-2.02	-1.33	-3.31	4.12	5.12	6.11
Balanced Multi-Blend	-0.97	-3.36	-2.42	-4.82	5.23	5.58	5.68
Growth Multi-Blend	-1.18	-4.16	-3.14	-5.99	5.72	5.61	5.81
High Growth Multi-Blend	-1.39	-4.83	-3.72	-6.68	7.13	6.17	6.05
SECTOR FUNDS							
Australian Shares Multi-Blend	-2.05	-4.58	-2.48	-11.50	3.37	4.46	7.45
Benchmark	-1.72	-4.55	-3.83	-13.45	2.88	4.61	7.85
Australian Smaller Companies Multi-Blend	-1.31	-4.13	4.36	0.88	0.02	-0.40	4.01
Benchmark	0.95	-0.46	6.07	-3.56	-1.41	-3.17	2.70
International Shares Multi-Blend	-0.95	-7.68	-7.04	-2.96	17.65	11.85	2.03
Benchmark	-1.70	-7.04	-5.90	-2.08	19.32	12.89	4.04
Australian Fixed Interest Multi-Blend	0.87	2.41	1.99	2.70	5.10	6.16	5.81
Benchmark	1.03	2.61	2.27	2.96	5.39	6.82	6.40
Intl Fixed Interest Multi-Blend	0.33	0.48	2.06	0.60	4.23	6.68	7.60
Benchmark	1.09	2.66	4.16	4.36	6.04	7.62	7.72
Property Securities Multi-Blend	0.08	-1.76	3.26	-2.57	9.99	11.50	5.96
Benchmark	0.44	-0.54	4.29	-2.41	10.07	11.76	6.57
Alternative Strategies Multi-Blend	0.13	-1.20	-2.58	-3.91	1.53	n/a	1.74
Benchmark	0.18	0.57	1.11	2.25	2.59	n/a	3.19
Asian Shares Multi-Blend Fund	-2.04	-7.09	-5.82	-9.61	9.10	4.50	4.95
Benchmark	-1.89	-7.61	-7.37	-12.79	8.21	6.35	7.92
Defensive Yield Multi-Blend Fund	0.03	-0.84	-0.63	-0.57	2.55	n/a	2.75
Benchmark	0.18	0.57	1.11	2.25	2.59	n/a	2.66
Cash Multi-Blend Fund	0.17	0.58	1.16	2.45	2.90	3.58	n/a
Benchmark	0.18	0.57	1.11	2.25	2.59	3.28	n/a

Source: Advance Asset Management Limited. Information current as at 29 February 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.

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