

# ADVANCE MULTI-BLEND FUNDS

JUNE 2016

## MARKET UPDATE

### Australia

Available data for the June quarter is consistent with a moderation in GDP growth following the stronger-than-expected March quarter. This is mainly due to net exports making a smaller contribution to growth, but other indicators have softened of late. Employment growth weakened in June at year-end. In contrast, June survey measures of business conditions remained noticeably above long-run averages, while business credit growth continued to strengthen. The RBA held rates steady in July, judging that holding monetary policy steady would be the most prudent course of action. Recent inflation expectations remain below average.

### US

The US economy appeared to rebound strongly in June, with non-farm payrolls rising by 287k, taking the three-month rolling average gain to ~150k. The unemployment rate rose to 4.9% from 4.7%, but this was off the back of a pickup in the participation rate. Activity in the manufacturing sector reached its highest level since early 2014, with the Institute of Supply Management manufacturing index coming in at 53.2. Retail sales rose 0.6% in June, ahead of expectations and taking three-month annualised growth to its highest level in over two years. Industrial production was also better than expected, aided in part by warmer weather which caused a surge in utility output. The Federal Reserve Bank of Atlanta's GDPNow model forecast suggests Q2 2016 real GDP growth will come in around 2.5% in annualised terms. Inflation pressures remain relatively contained and core consumer price inflation (CPI) remained steady at 2.3% in year-ended terms.

### Japan

The Bank of Japan (BoJ) released its Q2 Tankan survey of Japanese businesses, which showed conditions stabilised at a low level during the quarter after a weak March reading. Conditions in the manufacturing sector were ahead of market expectations, with the large manufacturers' index holding steady at 6, while the forward-looking forecast index rose to a level of 6 in Q2, from a level of 3 in Q1. Industrial production declined 2.3% in May as a drop in exports hit most of the country's manufacturing sectors.

### Eurozone

Manufacturing activity in Europe improved in the lead up to Brexit, with the June Purchasing Managers' Index (PMI) picking up across the Eurozone. The June quarter bank lending survey also showed a further improvement in loan supply conditions for businesses and households, as well as a continued increase in loan demand. The Eurozone returned to positive headline inflation in June after four months of falling prices, rising to 0.1% year-on-year in June from -0.1% in May. In the UK, the Bank of England (BoE) decided to leave rates unchanged at its July meeting, but acknowledged that monetary policy would probably be loosened in August.

### China

Data released in June was broadly ahead of expectations, suggesting that growth stabilised in the second quarter of 2016. Real GDP increased 6.7% over the year to the June quarter, with the National Bureau of Statistics of China commenting that consumption contributed 73% to growth in the first half of 2016, up from 60% a year ago. Industrial production and retail sales came in ahead of expectations in June, while fixed asset investment grew more slowly than expected. Meanwhile, credit growth reaccelerated in June after a soft patch in the last two months. Producer price deflation eased for the sixth straight month, with the 2.6% decline the smallest since late 2014.

### Advance Diversified Multi-Blend Funds

The Funds' returns were negative for the month of June as a result of declines in global equities post the Brexit referendum near month end. Global equities fell 3.8%, whilst REITS and defensive assets generally made positive gains given the risk-off sentiment. Defensive risk profiles performed better; however returns still remained marginally positive at best. The Funds' active positioning did help limit losses with positions across equities, commodities and volatility proving a timely hedge against the sharp increase in volatility.

### Advance Australian Shares Multi-Blend Fund

Performance was behind benchmark for June, but is positive over 12 months. This was driven by higher beta managers Bennelong and BTIM finishing close to 1.0% below benchmark for the month. Other managers, Schroders and Alphinity, also struggled to outperform given their positioning and the sharp rise in volatility at month end. The Fund's allocation to smaller companies was a relative positive and limited liquidity likely helped in the broader market sell-off.

### Advance International Shares Multi-Blend Fund

The Fund underperformed its benchmark in June, with performance driven largely as a result of UK and European exposures following the Brexit referendum. All managers underperformed during the month, with significant underperformance from UK-based manager Lansdowne, followed by activist strategy Ramius as a result of poor deal sentiment.

### Advance Property Securities Multi-Blend Fund

The Fund fell behind its benchmark in June, but was one of the only asset classes to experience a positive absolute performance. The overweight to AREITs was positive for the Fund as they outperformed GREITs, with the underlying managers having strong performance. Phoenix had one of the best performances, outperforming its benchmark. Performance in the GREIT managers was mixed, with Heitman being the biggest contributor to performance and BlackRock the largest detractor.

### Australian Fixed Interest Multi-Blend Fund

The Fund performed in line with its benchmark in June. Most managers were long duration and well-positioned ahead of the sharp sell-off in risk assets into month end. The resulting rally in bonds benefited the performance of the Fund, with managers BTIM and AMP achieving strong positive absolute returns.

### International Fixed Interest Multi-Blend Fund

The Fund underperformed its benchmark in June, but achieved a positive absolute return. The US curve flattened, with the spread between long-term and short-term rates narrowing over the month. Bond yields fell across the US and Europe providing returns for long duration interest rate strategies, although the Fund remained fundamentally shorter duration than the benchmark.

Wellington was the best performer of the month, outperforming its benchmark, whilst Standish and Franklin Templeton detracted.

### Alternative Strategies Multi-Blend Fund

The Fund underperformed its benchmark in June; however, this is relative to equities and helped protect investor's absolute returns on a diversified basis.

### Defensive Yield Multi-Blend Fund

The Fund returned positive performance in June, outperforming its benchmark. All managers outperformed – the best being BTIM who outperformed its cash benchmark by 0.84%. The strong result was mainly due to its long duration positioning ahead of Brexit into month end.

PERFORMANCE TO 30/06/2016 (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	0.17	2.09	2.28	3.31	4.10	4.84	5.81
Moderate Multi-Blend	-0.60	2.43	1.50	2.84	5.26	5.87	6.26
Balanced Multi-Blend	-1.31	2.82	0.69	2.25	6.27	6.73	5.83
Growth Multi-Blend	-1.88	2.82	0.00	1.54	6.65	7.03	6.05
High Growth Multi-Blend	-2.20	3.12	-0.35	1.12	7.83	7.89	6.30
<b>SECTOR FUNDS</b>							
Australian Shares Multi-Blend	-2.68	3.11	-0.71	1.21	7.26	6.74	7.73
<b>Benchmark</b>	-2.44	3.98	1.23	0.87	7.70	7.20	8.21
Australian Smaller Companies Multi-Blend	-1.50	3.62	1.28	14.53	9.38	2.62	4.65
<b>Benchmark</b>	-1.31	5.85	6.94	14.40	9.13	1.00	3.59
International Shares Multi-Blend	-5.01	3.09	-3.19	-2.16	13.32	13.35	2.11
<b>Benchmark</b>	-3.83	4.37	-1.70	0.40	14.81	14.92	4.16
Australian Fixed Interest Multi-Blend	1.22	2.87	4.82	6.77	5.92	6.12	5.87
<b>Benchmark</b>	1.33	2.87	4.97	7.02	6.24	6.74	6.44
Intl Fixed Interest Multi-Blend	1.63	2.21	4.68	5.49	5.93	6.76	7.66
<b>Benchmark</b>	1.98	2.87	6.69	9.34	7.56	7.75	7.81
Property Securities Multi-Blend	2.45	4.50	7.58	14.24	13.62	13.63	6.71
<b>Benchmark</b>	3.14	5.11	9.49	15.58	13.87	14.08	7.36
Alternative Strategies Multi-Blend	-0.19	-1.10	-2.27	-4.23	0.32	n/a	1.22
<b>Benchmark</b>	0.16	0.56	1.14	2.24	2.51	n/a	3.13
Asian Shares Multi-Blend Fund	0.15	7.06	1.52	-3.87	10.93	6.72	5.56
<b>Benchmark</b>	-0.11	3.72	-0.16	-9.16	9.35	7.59	8.31
Defensive Yield Multi-Blend Fund	0.20	1.26	1.14	0.97	2.86	n/a	2.87
<b>Benchmark</b>	0.16	0.56	1.14	2.24	2.51	n/a	2.63
Cash Multi-Blend Fund	0.20	0.68	1.26	2.46	2.81	3.44	n/a
<b>Benchmark</b>	0.16	0.56	1.14	2.24	2.51	3.10	n/a

Source: Advance Asset Management Limited. Information current as at 30 June 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).

Advance Asset Management GPO Box B87, Perth WA 6838

Client Services 1800 819 935 Adviser Services 1300 361 864

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

**ADVANCE**  
ASSET MANAGEMENT

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