

ADVANCE AUSTRALIAN FIXED INTEREST MULTI-BLEND FUND

As at 30 June 2018

FUND PERFORMANCE*	3 months (%)	1 year (%)	2 years (%)	3 years (%)	5 years (%)
Growth return	0.07	0.67	(0.85)	0.25	0.80
Distribution return	0.67	2.21	2.50	3.08	3.39
Total return	0.75	2.88	1.65	3.33	4.19
Benchmark return	0.82	3.09	1.66	3.41	4.38

Inception date: 30 June 2004
Benchmark: Bloomberg AusBond Composite 0+ Yr IndexSM

FUND UPDATE	
	<p>The Advance Australian Fixed Interest Multi-Blend Fund outperformed the benchmark over the quarter ending 30 June 2018.</p> <p>AMP and Janus Henderson both contributed to positive excess returns whilst Pental marginally detracted relative to the benchmark.</p> <p>AMP's interest rate management was positive, as duration management and yield curve positioning contributed to quarterly performance. Credit positioning added value overall, with the contribution from the excess carry earned on credit securities held outweighing the negative impact of credit spread movements.</p> <p>Janus Henderson's portfolio also made a small positive contribution. Interest rate strategies were positive, with duration adding value (5bps) and curve being neutral. Sector strategies were also positive, with the overweight allocation to investment grade credit adding value (2bps), as well as security selection (4bps).</p> <p>Pental's physical portfolio underperformed the benchmark over the quarter. The government sector positioning slightly detracted as did the non-government portion of the portfolio.</p> <p>The widening of credit spreads also had a marginal negative impact on overall fund performance.</p>

SUB SECTOR ALLOCATIONS~	Sector	Fund (%)	Benchmark (%)
	Corporate	13.42	9.01
	Government Related	27.88	38.86
	Securitized	6.08	0.64
	Treasury	44.35	51.50
	Cash & Currency	8.26	0.00
	Other	0.00	0.00
	Total	100.00	100.00

CREDIT AND
MATURITY^{~E}

Credit Quality	Fund (%)	Benchmark (%)
AAA	48.73	73.34
AA	22.26	19.23
A	17.05	4.69
BBB	8.91	2.73
BB	0.00	0.01
B	0.00	0.00
CCC and Lower	0.00	0.00
Not Rated / Derivatives	(6.70)	0.00
A-1+	1.27	0.00
A-1	0.21	0.00
A-2	0.00	0.00
A-3	0.00	0.00
Cash & Currency	8.26	0.00
Total	100.00	100.00

Years to Maturity	Fund (%)	Benchmark (%)
0-1 years	(9.96)	7.50
1-3 years	22.31	24.52
3-5 years	32.72	18.20
5-7 years	14.61	13.75
7-10yrs	19.30	21.96
10yrs+	21.03	14.07
Total	100.00	100.00

Effective Duration	Fund (Years)	Benchmark (Years)
<0yrs	0.00	0.00
0-1 years	0.03	0.04
1-3 years	0.42	0.51
3-5 years	0.86	0.77
5-7 years	0.99	1.15
7-10yrs	1.92	1.79
10yrs+	0.89	0.87
Total	5.10	5.14

MARKET COMMENTARY

The Australian bond market realised another positive return during the first quarter of 2018. After a notable curve steepening in January and February the curve flattened in March as long-end yields followed offshore peers lower. Meanwhile, short-end money market yields increased substantially on the back of the BBSW-OIS spread widening. This was led largely by US money markets developments, rather than changes in the Reserve Bank of Australia (RBA) expectations. These US changes were driven by the impact of the Trump tax reforms. Increased supply of US T-Bills as the deficit picks up, combined with outflows from offshore US dollar money market funds due to tax driven repatriation reducing demand, saw funding markets hit hard. This flowed on to Australia as our banks rely on offshore money markets for around 8% of their funding.

The RBA left rates on hold throughout the quarter and market-implied probabilities of a hike in 2018 faded considerably. Its communication was relatively upbeat, including commentary on labour market developments, but it was also noted that improvements will be gradual. The Board's overall message suggested a bias to remain firmly on hold for the near-term.

In credit markets, spreads saw a small widening over the quarter, which reflected weaker risk appetite driven primarily by geopolitical concerns. The sharp increase in the OIS-BBSW spread also likely played a part. However, the Australian market proved more resilient than its offshore credit counterparts. The Australian iTraxx Index (Series 28 contract) traded in a wide 11 basis points range finishing the month 2 basis points wider to +61 basis points.

INVESTMENT OBJECTIVE

To provide a source of income from Australian fixed interest exposure with a total investment return (before fees and taxes) that outperforms the benchmark over periods of three years or longer.

BENEFITS OF INVESTING IN THE FUND

The Australian Fixed Interest Multi-Blend Fund provides a source of income from Australian fixed interest exposure and enhanced performance through active management. This asset sector is generally not as volatile as sharemarkets, and is generally used by the more conservative investor or those with shorter investment timeframes. Managers are selected for their own investment style and process. The Multi-Blend approach is based on the belief that the different styles of each manager when combined, can produce a more consistent outcome for investors by minimising style and portfolio risk.

KEY FEATURES

	Wholesale	Retail
Total assets (AUD millions)	\$2,637.38	
Date established	June 2004	June 2004
Distribution frequency	Quarterly	Quarterly
Minimum investment ¹	\$5,000 (\$1,500 for Regular Savings Plan)	\$1,500 (\$1,000 for Regular Savings Plan)
Minimum withdrawal	\$1,500	\$500
Withdrawal period	5 business days	5 business days
Entry fee ²	Nil	4.10% maximum
Management costs ^{2,3}	0.55% pa	1.75% pa
Regular Savings Plan ¹	Yes	Yes
Regular Withdrawal Plan ¹	Yes	Yes
Distribution reinvestment	Yes	Yes
Buy/sell spread (%) ³	0.05/0.05	Nil
Exit fee	Nil	Nil

¹ Refer to the Product Disclosure Statement for further information.

² Includes the effect of GST (net of RITC).

³ The Management Costs and buy-sell spread included in this fact sheet do not include the impact of RG 97 enhanced fees and costs disclosures and you should refer to the Product Disclosure Statement for further information).

* The Fund performance is net of management costs and relates to the wholesale class of investment only. If you are an investor in the retail class of investment, you can obtain up to date returns at advance.com.au

~ Allocations may not equal 100% due to rounding.

† Where a negative number is shown, this may indicate the use of derivatives and physical securities to create short positions in the portfolio. Specifically, for the reporting of effective duration, negative numbers can also arise when security prices move in the same direction as interest rates where long positions are held in the portfolio.

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ADVANCE
ASSET MANAGEMENT

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