

ADVANCE AUSTRALIAN FIXED INTEREST MULTI-BLEND FUND

As at 30 June 2017

FUND PERFORMANCE*	3 months (%)	1 year (%)	2 years (%)	3 years (%)	5 years (%)
Growth return	(0.05)	(2.36)	0.04	0.36	0.52
Distribution return	1.08	2.78	3.51	3.55	3.89
Total return	1.03	0.42	3.55	3.92	4.41
Benchmark return¹	1.01	0.25	3.58	4.26	4.32

* The Fund performance is net of investment fees and relates to wholesale investors only. If you are a retail investor, you can obtain up to date returns at advance.com.au.
Inception: 30 June 2004
¹ Benchmark: Bloomberg AusBond Composite 0+ Yr IndexSM

FUND UPDATE

The Australian Fixed Interest Multi-Blend Fund returned 1.03% over the quarter, outperforming its benchmark the Bloomberg AusBond Composite Index which returned 1.01%. Over the year, the Fund has returned 0.92% and ahead of the benchmark which returned 0.25% gross of fees.

Pleasingly all underlying managers outperformed their respective benchmarks over the quarter with AMP, and BTIM posting solid outperformance in particular.

AMP's performance was driven mainly from its overweight position towards credit securities, in particular banks and financials. This benefited the portfolio two ways. Firstly, it offered the portfolio positive carry relative to the long government bonds. And secondly, whilst long dated bank debt issues does contribute to the overall portfolio duration, it is less sensitive to interest rate rises compared to holding government bonds. As a result, the fund benefited from its duration position when 10 year Australian bond yields rose from 2.34% to 2.6% over the last week of the quarter.

BTIM's alpha overlay continued to add to performance over the quarter. Both the duration and yield Curve strategies contributed to positive returns. The former, benefited primarily from positioning in the Australian long end and NZ front end, which performed well during the bond market rally in May. However, these gains were partly reversed when bond yields rose towards the end of the quarter. The yield curve strategy delivered more consistent returns with gains from a flattener in May and steeper at the front end of the Australian curve in June. The physical portfolio outperformed the benchmark over the quarter. Both the government sector positioning and the non-government portion of the portfolio added positively to alpha. Positive performance came from infrastructure, utilities, industrials, real estate and domestic banks whilst offshore banks and supranational positioning slightly detracted from performance.

SUB SECTOR ALLOCATIONS

Sector	Fund (%)	Benchmark (%)
Corporate	15.90	8.78
Government Related	32.58	39.39
Securitized	6.85	0.67
Treasury	37.36	51.17
Cash & Currency	7.31	0.00
Other	0.00	0.00
Total	100.00	100.00

CREDIT AND MATURITY

Credit Quality*	Fund (%)	Benchmark (%)
AAA	46.47	74.22
AA	20.89	19.14
A	16.85	4.54
BBB	8.92	2.08
BB	0.45	0.00
B	0.00	0.00
CCC and Lower	0.00	0.00
Not Rated / Derivatives	(2.47)	0.01
A-1+	1.59	0.00
A-1	0.00	0.00
A-2	0.00	0.00
A-3	0.00	0.00
Cash & Currency	7.31	0.00
Total	100.00	100.00

Years to Maturity*	Fund (%)	Benchmark (%)
0-1 years	(2.82)	9.15
1-3 years	17.31	23.00
3-5 years	32.60	17.40
5-7 years	12.53	16.65
7-10yrs	14.06	20.47
10yrs+	26.32	13.32
Total	100.00	100.00

Effective Duration*	Fund (Years)	Benchmark (Years)
<0yrs	0.00	0.00
0-1 years	(0.05)	0.04
1-3 years	0.92	0.53
3-5 years	0.96	0.85
5-7 years	0.73	1.15
7-10yrs	1.82	1.64
10yrs+	0.62	0.69
Total	5.00	4.90

* 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.

MARKET COMMENTARY

In Australia, The Reserve Bank of Australia (RBA) left interest rates unchanged during the June quarter and retained a neutral bias at their meeting in early July. The market had been looking for more hawkish signals from the RBA following the recent strength in the domestic labour market data and the increased probability of monetary policy tightening from overseas central banks that had looked previously as though they would be on hold for an extended period. At the longer end of the curve, Australian 10 year government bond yields moved in sympathy, with US treasuries falling to as low as 2.35% in late June as softer US inflation readings led markets to wind back US tightening expectations. However, yields rose sharply following comments from Mario Draghi, the President of European Central Bank (ECB), expressing confidence in the European growth outlook and the need for a gradual and prudent monetary policy response. The Australian 10 year government bond yield ended the quarter 10bps lower at 2.60%. Against this backdrop, the Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, gained 1.01% over the June quarter.

Credit markets remained resilient over the quarter, absorbing S&P's and Moody's downgrading of financial institutions and the unexpected announcement of a national bank levy in the May Budget and then the subsequent South Australian Government's announcement of a state-based bank levy. The Australian iTraxx Index finished the quarter largely unchanged at 84.5bps

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 (millions)	\$2,199.45	
Date established	June 2004	June 2004
Distribution frequency	Quarterly	Quarterly
Minimum investment	\$5,000 (\$1,500 for Regular Savings Plan ¹)	\$1,500 (\$1,000 for Regular Savings Plan ¹)
Minimum withdrawal	\$1,500	\$500
Withdrawal period	5 business days	5 business days
Entry fee	Nil	4.10% maximum ²
Ongoing fee	0.55% pa ²	1.75% pa ²
Regular Savings Plan ¹	Yes	Yes
Regular Withdrawal Plan ¹	Yes	Yes
Distribution reinvestment	Yes	Yes
Buy/sell spread (%)	0.05/0.05	Nil
Exit fee	Nil	Nil

¹ Please refer to the Product Disclosure Statement and Application Form.

² Includes effect of GST (net of RITC)

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ADVANCE
ASSET MANAGEMENT

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