

ADVANCE AUSTRALIAN FIXED INTEREST MULTI-BLEND FUND

As at 31 March 2018

FUND PERFORMANCE*

	3 months (%)	1 year (%)	2 years (%)	3 years (%)	5 years (%)
Growth return	(0.13)	0.54	(0.42)	(0.63)	0.58
Distribution return	0.92	2.63	3.13	3.02	3.56
Total return	0.79	3.17	2.71	2.39	4.14
Benchmark return	0.87	3.28	2.69	2.45	4.30

Benchmark: Bloomberg AusBond Composite 0+ Yr IndexSM

FUND UPDATE

Overall, the Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, returned 0.87% over the March quarter, with price appreciation from falling yields more than offsetting the negative impact of widening credit spreads. The Australian Fixed Interest Multi-Blend Fund returned 0.79% over the quarter net of fees, underperforming its benchmark. Over the year, the Fund has returned 3.17% under the benchmark which returned 3.28% net of fees.

Manager performance was broadly positive across the board. AMP and Henderson were the notable standouts with BTIM performing in line with the benchmark.

In Henderson's case, excess performance over March was attributable to combination various strategies. Interest rate strategies were marginally positive with duration adding value (5 basis points (bps)) and yield curve (-2bps) being a slight negative. Sector strategies were broadly neutral with Janus Henderson's overweight allocation to investment grade credit adding value for much of the quarter, but losing ground over the latter stages.

AMP's Outperformance was driven by primarily by interest rate management, reflecting the positive contribution of yield curve positioning. Credit positioning also contributed to performance, with the positive contribution of carry offsetting the negative impact of credit spread movement.

BTIM's alpha component made a small negative contribution during the period due to a swap versus futures position in the 3 year part of the Australian curve. The Duration strategy also generated losses from a mix of positions in the Australian short-end and 10 year maturity. The physical portfolio slightly outperformed benchmark in March. The government sector positioning added to performance whilst the nongovernment portion of the portfolio performed in line with benchmark. Infrastructure, utilities, industrials and real estate sectors were positive contributors, however financials and supranational sector positioning detracted.

SUB SECTOR ALLOCATIONS[~]

Sector	Fund (%)	Benchmark (%)
Corporate	4.99	9.10
Government Related	31.56	38.82
Securitized	6.27	0.60
Treasury	44.59	51.48
Cash & Currency	12.60	0.00
Other	0.00	0.00
Total	100.00	100.00

CREDIT AND MATURITY[~]

Credit Quality	Fund (%)	Benchmark (%)
AAA	46.36	73.55
AA	23.56	19.08
A	17.45	4.83
BBB	8.75	2.54
BB	0.00	0.01
B	0.00	0.00
CCC and Lower	0.00	0.00
Not Rated / Derivatives	(9.73)	0.00
A-1+	1.00	0.00
A-1	0.00	0.00
A-2	0.00	0.00
A-3	0.00	0.00
Cash & Currency	12.60	0.00
Total	100.00	100.00

Years to Maturity	Fund (%)	Benchmark (%)
0-1 years	(21.72)	7.04
1-3 years	31.01	20.89
3-5 years	35.49	20.06
5-7 years	14.07	14.00
7-10yrs	18.10	22.42
10yrs+	23.05	15.59
Total	100.00	100.00

Effective Duration	Fund (Years)	Benchmark (Years)
<0yrs	(0.13)	0.00
0-1 years	0.02	0.05
1-3 years	0.72	0.58
3-5 years	0.77	0.77
5-7 years	0.90	1.16
7-10yrs	2.02	1.77
10yrs+	0.70	0.83
Total	4.99	5.17

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)	\$2,640.14	
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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