

ADVANCE AUSTRALIAN FIXED INTEREST MULTI-BLEND FUND

As at 31 December 2018

FUND PERFORMANCE*	3 months (%)	1 year (%)	2 years (%)	3 years (%)	5 years (%)
Growth return	0.96	0.75	1.19	0.38	0.84
Distribution return	0.87	3.08	2.62	3.08	3.44
Total return	1.82	3.83	3.81	3.46	4.28
Benchmark return	2.24	4.54	4.09	3.70	4.67

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

FUND UPDATE	
	The Advance Australian Fixed Interest Multi-Blend Fund underperformed relative to the benchmark over the quarter, all managers detracted over the period.
	Henderson's positioning has been defensive, with a sizeable underweight duration position which detracted value against the benchmark as bond yields fell sharply. The Henderson portfolio also employed a yield curve steepening position. This detracted in value as longer term bond yields fell by a larger amount as compared to shorter term yields.
	Pendal's alpha trades were a detractor over the quarter. The duration and yield curve strategies were largely negative although this was partly offset by other relative value strategies within the portfolio.
	In AMP's case, interest rate positioning detracted from performance during the period, driven by the fund's yield curve positioning.
	Credit positioning also had a negative impact for all managers as negative contributions from spread movements more than offset the positive contribution from carry. Investment grade credit spreads has been gradually drifting wider over the year.

SUB SECTOR ALLOCATIONS~	Sector	Fund (%)	Benchmark (%)
	Corporate	36.03	8.96
	Government Related	28.20	38.77
	Securitized	6.73	0.70
	Treasury	26.90	51.46
	Cash & Currency	2.12	0.00
	Other	0.00	0.00
	Total	100.00	100.00

CREDIT AND MATURITY^{~E}

Credit Quality	Fund (%)	Benchmark (%)
AAA	48.15	73.19
AA	23.76	19.64
A	15.78	4.14
BBB	9.91	3.03
BB	0.00	0.00
B	0.00	0.00
CCC and Lower	0.00	0.00
Not Rated / Derivatives	(1.68)	0.00
A-1+	1.96	0.00
A-1	0.00	0.00
A-2	0.00	0.00
A-3	0.00	0.00
Cash & Currency	2.12	0.00
Total	100.00	100.00

Years to Maturity	Fund (%)	Benchmark (%)
0-1 years	2.77	7.86
1-3 years	22.32	22.06
3-5 years	21.45	17.65
5-7 years	15.07	13.92
7-10yrs	20.06	24.94
10yrs+	18.32	13.57
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	0.38	0.46
3-5 years	0.75	0.87
5-7 years	1.20	1.15
7-10yrs	1.36	1.75
10yrs+	1.19	0.95
Total	4.91	5.23

MARKET COMMENTARY

Ongoing uncertainty about the pace and durability of the global expansion, coupled with the destabilising influence of Brexit negotiations and the limited shut down of the US government, led to a significant retrenchment in risk appetite. In contrast, domestic monetary policy was fairly uneventful with the Reserve Bank of Australia (RBA) leaving the cash rate unchanged at 1.50% through the quarter. Communication over the quarter continued to suggest that the Board's bias was towards an eventual hike rather than a cut. Nonetheless, market pricing shifted during the quarter and projected a cut was more likely over the coming year. The cash market was also guided by offshore developments as a widening in the US LIBOR-OIS spread fuelled a similar increase in its domestic BBSW-OIS counterpart.

Offshore equity markets fell sharply and there was further widening in credit spreads. Australian government bond yields fell sharply, benefitting from a watering down of tightening expectations at the shorter end of the yield curve and flight-to-quality flows at the longer end. Australian 3 and 10 year yields fell by 24bps and 35bps to 1.84% and 2.33% respectively. In contrast, 90 day Bank Bill Swap Rate (BBSW) rose 15bps to 2.09%.

In credit markets, spreads for major global credit default swaps (CDS) indices widened with the broader sell-off in risk-assets. The Australian iTraxx index (Series 30 contract) traded in a wide 25bps range finishing the quarter 20bps wider at 95bps. Physical credit spreads were on average 10bps wider with the worst performing sectors being Industrials and Real Estate Investment Trusts, which widened 15bps and 14bps respectively.

Domestically, the RBA's preferred measure of the Consumer Price Index, the trimmed mean, rose 0.4% quarter-on-quarter which brought the annual rate to 1.8% - still well-below the Board's 2-3% target band. Wage inflation was stronger at 0.6% for the quarter and 2.3% for the year, however this reflected temporary effects like a one-off increase in the minimum wage. Meanwhile, a disappointing third quarter gross domestic product figure revealed 0.3% growth over the quarter and an annual rate of 2.8%. Employment figures were more mixed with reasonable job additions, however the unemployment rate ticked higher to 5.1% (due to a rise in participation). Leading indicators were also mixed with a fall in business conditions and confidence, but a small rise in retail sales and consumer confidence into the end of the quarter.

Overall, the Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, gained 2.24% over December quarter.

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)	\$2,384.64	
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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