

ADVANCE AUSTRALIAN FIXED INTEREST MULTI-BLEND FUND

As at 31 March 2017

FUND PERFORMANCE*	3 months (%)	1 year (%)	2 years (%)	3 years (%)	5 years (%)
Growth return	0.95	(1.38)	(1.21)	0.91	0.40
Distribution return	0.43	3.63	3.21	3.66	4.45
Total return	1.38	2.25	2.00	4.57	4.85
Benchmark return¹	1.23	2.09	2.03	4.98	5.05

* 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 1.38% over the quarter, outperforming its benchmark the Bloomberg AusBond Composite Index which returned 1.23%. Over the year, the Fund has returned 2.25% and ahead of the benchmark which returned 2.09%.

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

Henderson outperformed largely due to value added from interest rate and sector allocation positioning. On the interest rate front, the portfolio benefitted from the decision to overweight longer-maturity bond positions as bond yields approached their intra-month highs. This added value over the latter part of the quarter as yields fell. The portfolio's overweight allocation to corporate bonds also had a positive impact, with this sector again outperforming by virtue of its higher income and capital appreciation arising from spread contraction. BTIM's alpha overlay added to performance over the quarter. Positions were taken in the Duration and Yield Curve strategies within the alpha overlay. Duration strategy performed strongly while Yield Curve strategy detracted. In the Duration strategy, strong gains were made from long duration positions in New Zealand and tactical duration positions in the Australian long end. Yield Curve strategy detracted due to the losses in Australian short-end steepening positions. Security selection was a positive contributor to performance over the quarter. The government sector positioning performed in line whilst the non-government portion of the portfolio performed strongly. Positive performance came from infrastructure, utilities, financials, industrials and the real estate sectors whilst supranational positioning slightly detracted from performance. Aberdeen benefited from being underweight longer-maturity bonds as short-maturity bonds outperformed over the back-end of the quarter. Credit strategies continued to add to outperformance in particular positioning in select corporate new issues and supranational were beneficial.

SUB SECTOR ALLOCATIONS

Sector	Fund (%)	Benchmark (%)
Corporate	17.14	8.71
Government Related	31.10	40.22
Securitized	6.72	0.65
Treasury	30.90	50.42
Cash & Currency	14.14	0.00
Other	0.00	0.00
Total	100.00	100.00

CREDIT AND MATURITY

Credit Quality*	Fund (%)	Benchmark (%)
AAA	47.09	73.95
AA	21.48	19.31
A	18.85	4.60
BBB	7.99	2.13
BB	0.56	-
B	-	-
CCC and Lower	-	-
Not Rated / Derivatives	(11.34)	-
A-1+	1.24	-
A-1	-	-
A-2	-	-
A-3	-	-
Cash & Currency	14.14	-
Total	100.00	100.00

Years to Maturity*	Fund (%)	Benchmark (%)
0-1 years	1.98	9.36
1-3 years	15.08	19.59
3-5 years	28.08	22.14
5-7 years	16.33	13.84
7-10yrs	10.25	20.24
10yrs+	28.28	14.84
Total	100.00	100.00

Effective Duration*	Fund (Years)	Benchmark (Years)
<0yrs	(0.06)	-
0-1 years	(0.09)	0.06
1-3 years	0.54	0.56
3-5 years	1.20	0.89
5-7 years	0.97	1.21
7-10yrs	1.68	1.50
10yrs+	0.45	0.66
Total	4.70	4.87

* 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 March quarter as widely expected. Domestic developments took a backseat to global political news flow during the quarter. Although domestic yields ended the month marginally lower, there was considerable movement over the month as market expectations for the path of US monetary policy shifted pre and post the Federal Open Market Committee (FOMC) meeting. Ongoing global economic momentum tended to support risk appetite with credit markets generally doing well. Domestically, Governor Lowe's commentary on property market risks intensified. Additionally, recent strength in exports and an improvement in the non-mining portion of the economy were noted by the RBA. At the same time, the subdued inflation outlook and soft labour market remained key considerations. This in turn shaped expectations for no rate hike in 2017. 2016 Q4 gross domestic product surprised to the upside with a 1.1% expansion over the quarter. This helped taper recession fears generated by previous quarter's 0.5% decline. Conversely, the Consumer Price Index over the same period disappointed with a sluggish 1.5% year-on-year increase. Employment figures were also soft, which saw the unemployment rate tick 0.1% higher to 5.9%. Other economic indicators were more mixed with a record trade surplus at one end and a pullback in business conditions at the other.

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)	\$2,175.50	
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)

Advance Asset Management, GPO Box B87, Perth WA 6838

Client Services 1800 819 935 Adviser Services 1300 361 864 Fax (02) 9274 5211

advance.com.au

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ASSET MANAGEMENT

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