

ADVANCE AUSTRALIAN FIXED INTEREST MULTI-BLEND FUND

As at 30 September 2018

FUND PERFORMANCE*	3 months (%)	1 year (%)	2 years (%)	3 years (%)	5 years (%)
Growth return	(0.15)	1.04	(1.17)	(0.35)	0.63
Distribution return	0.58	2.42	2.51	3.08	3.39
Total return	0.42	3.46	1.34	2.73	4.02
Benchmark return	0.54	3.72	1.46	2.85	4.28

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

FUND UPDATE

The Fund underperformed the benchmark during the September quarter net of fees.

Portfolio performance was mixed with AMP and Janus Henderson both adding value whilst Pental detracted over the period.

Credit and sector allocation decisions continue to dominate the Fund's active returns followed by duration and yield curve strategies. Strong positive contributions were recorded from Henderson where it's short duration stance, which was reduced close to the intra-month peak in yields, added value. In addition, Henderson's sector strategies added a small amount of value, primarily from income carry arising from an overweight position in investment grade corporate and asset backed debt. AMP was a modest contributor to overall returns. It's credit positioning was positive overall for performance, driven by the contribution from carry which more than offset the deduction from spread movements. Interest rate management was however negative, with duration management the main detractor. Across Pental, its alpha portfolio was a detractor over the quarter. Whilst the cross-market positions were roughly flat, its relative value strategies experienced a negative return due to an Australian 3 year swap futures positions.

SUB SECTOR ALLOCATIONS~

Sector	Fund (%)	Benchmark (%)
Corporate	23.88	8.98
Government Related	26.55	38.72
Securitized	7.25	0.65
Treasury	34.65	51.65
Cash & Currency	7.66	0.00
Other	0.00	0.00
Total	100.00	100.00

CREDIT AND
MATURITY^{-£}

Credit Quality	Fund (%)	Benchmark (%)
AAA	49.07	73.12
AA	24.09	19.59
A	16.93	4.54
BBB	9.68	2.72
BB	0.00	0.00
B	0.00	0.00
CCC and Lower	0.00	0.00
Not Rated / Derivatives	(7.91)	0.02
A-1+	0.48	0.00
A-1	0.00	0.00
A-2	0.00	0.00
A-3	0.00	0.00
Cash & Currency	7.66	0.00
Total	100.00	100.00

Years to Maturity	Fund (%)	Benchmark (%)
0-1 years	4.49	7.41
1-3 years	8.46	23.33
3-5 years	31.30	18.71
5-7 years	15.49	14.21
7-10yrs	18.18	21.52
10yrs+	22.08	14.83
Total	100.00	100.00

Effective Duration	Fund (Years)	Benchmark (Years)
<0yrs	(0.00)	0.00
0-1 years	0.09	0.04
1-3 years	0.22	0.44
3-5 years	0.77	0.81
5-7 years	1.12	1.07
7-10yrs	1.95	1.87
10yrs+	1.31	0.91
Total	5.45	5.14

MARKET COMMENTARY

There was little action regarding domestic monetary policy with the Reserve Bank of Australia (RBA) leaving rates unchanged over the quarter. The RBA's monthly statements were largely unchanged, but did offer more upbeat comments on local and global economic conditions. Late in the quarter, the September meeting minutes revealed a more constructive view on the Australian labour market. Overall, the Board's communication over the period suggested rates would remain on hold over the near-term. In turn, rate expectations were little changed with only a 40% probability of a hike for the cash rate priced in late next year.

Supporting this, Gross Domestic Product (GDP) growth surprised to the upside with a solid 0.9% for the second quarter, which brought the year-on-year rate to 3.4%. Labour market data was also reasonably healthy with 50.9K jobs added in July and 44K added in September. Meanwhile second quarter inflation was weaker-than-anticipated with the RBA's preferred gauge, the trimmed mean, growing only 0.5% for the quarter and 1.9% year-on-year. Other noteworthy domestic developments included three of the four major banks delivering out-of-cycle mortgage rate hikes that they attributed to higher funding costs.

Against this backdrop, Australian government bond yields rose as the better domestic economic readings led markets to bring forward tightening expectations. Offshore factors played a role as well, with signs of strengthening wages growth, higher oil prices and higher US tariffs leading to a lift in offshore and domestic longer-dated yields. At the shorter end of the yield curve, the yield on a three-year Australian government bond rose to as high as 2.14% before ending the month 7bps higher at 2.05%. At the longer end of the curve, the yield on a 10-year Australian government bond lifted to 2.75% before a late rally saw them finish 15bps higher at 2.67%.

Weakness in the domestic equity market didn't spill over into credit markets where spreads were largely lower. The Australian iTraxx index (Series 29 contract) traded in a wide 20bp range finishing the quarter 15.5bps tighter to +65bps.

Overall, the Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, rose 0.54% over the September 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)	\$2,442.11	
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.

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

ADVANCE
ASSET MANAGEMENT

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