

ADVANCE AUSTRALIAN SMALLER COMPANIES MULTI-BLEND FUND

As at 31 December 2018

FUND PERFORMANCE*	3 months (%)	1 year (%)	2 years (% pa)	3 years (% pa)	5 years (% pa)
Growth return	(17.71)	(19.07)	(8.65)	(4.01)	(1.84)
Distribution return	1.20	8.02	10.72	8.12	5.95
Total return	(16.51)	(11.06)	2.07	4.11	4.11
Benchmark return	(13.70)	(8.67)	4.70	7.45	5.62

Benchmark: S&P/ASX Small Ordinaries Accumulation Index.

FUND UPDATE

The Advance Australian Small Companies Multi-Blend Fund underperformed relative to the S&P/ASX Small Ordinaries Accumulation Index over the fourth quarter of 2018.

Sigma was the best performing manager this quarter. Whilst the other managers, Tribeca, OC and Celeste all struggled in a volatile market which fled to safety in the likes of property and gold stocks. Both Celeste and Sigma, which could be considered 'value' managers, are positioned for cyclical sectors to outperform following the markets sell off over the quarter. Tribeca suffered from an overweight position to energy stocks which detracted from their performance due to a decline in the oil price. OC had a negative quarter due to earnings downgrades in a number of stocks and an underweight to both gold stocks and property.

At the portfolio level, the Financials position contributed positively to performance. Despite the sector performing broadly in line with the market, strong stock selection within the sector contributed positively to the Fund's relative performance outcome. An underweight Healthcare position was the next largest contributor from a sector perspective. The fund's underweight position to Worley Parsons and not owning Mayne Pharma Group were the largest positive stock contributors.

Communication Services was a weak sector over the December quarter, so the Fund's overweight exposure to the sector detracted from relative performance. This was further compounded by poor stock selection, specifically an overweight to SpeedCast International and an underweight to Vocus. In terms of individual stock positions, RCR Tomlinson was the largest detractor as it went into receivership, next was an overweight to oOH!meda Ltd which suffered from declining advertising revenue.

ACTUAL ASSET ALLOCATION BY SECTOR[~]

	Fund (%)	Benchmark (%)
Energy	3.30	6.28
Materials	13.60	19.51
Industrials	15.35	6.97
Consumer Discretionary	19.20	14.79
Consumer Staples	4.35	9.09
Health Care	3.44	6.23
Information Technology	9.70	10.57
Telecommunication Services	8.48	5.91
Utilities	1.14	0.45
Property Trusts	5.60	11.99
Financial-x-Property Trusts	12.17	8.21
Derivatives & Other	0.15	0.00
Cash	3.51	0.00
Total	100.00	100.00

MARKET COMMENTARY

Australian equities experienced a tough quarter as investor sentiment was heavily weighed down by fears of a potential slowdown in global growth, the rising interest rate environment in the US, ongoing tensions between US and China, as well as the seemingly never-ending trouble with Brexit and Italy's fiscal situation. Despite the volatility and negative sentiment, domestic equities exhibited some strength relative to their global counterparts with the S&P/ASX 300 Accumulation Index falling -8.4% for the three months to December vs. the MSCI World ex-Australia (Net Dividends) Index which was down more than -11% in AUD terms over the same period. Small caps underperformed the broader market this quarter and the S&P/ASX Small Ordinaries Accumulation Index ended the period down almost -14%.

The broad based sell-off during the December quarter saw all sectors end lower, with the Energy and Industrials sectors suffering the biggest losses, down -29.1% and -23.7% respectively. The best performing areas of the market tended to be those that exhibit more defensive characteristics such as gold-exposed stocks and REITs. There was also some M&A activity during the period, which saw stocks such as Greencross, Trade Me Group, Graincorp, Navitas and MYOB generate positive double digit returns.

TOP 10 HOLDINGS

	Fund (%)	Benchmark (%)
IMF Bentham Limited	3.24	0.38
Steadfast Group Ltd. (Australia)	2.75	1.30
Baby Bunting Group Ltd.	1.93	0.00
Reece Limited	1.89	0.00
Seven Group Holdings Limited	1.82	0.99
Ama Group Limited	1.64	0.21
Monadelphous Group Limited	1.64	0.76
Independence Group NL	1.64	1.07
Nextdc Limited	1.60	1.27
Invocare Limited	1.58	0.67

INVESTMENT OBJECTIVES

To provide investors with a total investment return (before fees and taxes) that outperforms the benchmark over a period of five years or longer.

BENEFITS OF INVESTING IN THE FUND

The Australian Smaller Companies Multi-Blend Fund offers a compelling alternative to most Australian share funds by investing in smaller companies. Simply due to their small size they may often grow more rapidly than larger, more mature companies. Smaller companies are often less bureaucratic and more flexible and can therefore respond more quickly to changes in market trends. Australian smaller companies funds may provide diversification benefits and add to the overall long-term returns by boosting your exposure to companies with potentially higher growth rates. 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)	\$129.03	
Date established	December 2004	March 2005
Distribution frequency	Half Yearly	Half Yearly
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}	1.18% pa	2.15% pa
Regular Savings Plan ¹	Yes	Yes
Regular Withdrawal Plan ¹	Yes	Yes
Distribution reinvestment	Yes	Yes
Buy/sell spread (%) ³	0.30/0.30	0.30/0.30
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.

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ASSET MANAGEMENT

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