

ADVANCE AUSTRALIAN SMALLER COMPANIES MULTI-BLEND FUND

As at 31 March 2017

FUND PERFORMANCE*

	3 months (%)	1 year (%)	2 years (% pa)	3 years (% pa)	5 years (% pa)
Growth return	0.32	8.78	6.10	2.69	0.70
Distribution return	(0.00)	2.38	2.41	2.51	2.51
Total return	0.32	11.16	8.52	5.19	3.21
Benchmark return¹	1.46	13.67	8.58	6.44	2.28

* 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 date: 31 December 2004

¹ Benchmark: S&P/ASX Small Ordinaries Accumulation Index

FUND UPDATE

The Advance Australian Smaller Companies Multi Blend Fund returned 0.32% in the March quarter, underperforming the Small Ordinaries Index by 1.14%. Underperformance was primarily driven by sector allocations with the Fund weighed down by an overweight position in IT and underweight positions in Consumer Staples and Energy which both outperformed. Stock selection was also slightly negative in its contribution with overweight holdings in Ardent Leisure (-21.8%), Independence Group (-16.9%) and iSentia (-46.7%) dragging down returns, while underweight positions in strong performers such as NIB Holdings (+26.6%), a2 Milk (+34.3%) and WorleyParsons (+13.3%) also created a drag on performance.

At the underlying Fund level, negative contributions came from Tribeca, OC and Contango. Tribeca finished the quarter flat, with relative underperformance being driven by holdings in Evolution Mining, Austal Limited, and Orocobre. Evolution Mining was negatively impacted by softer commodity prices, while its promotion into the ASX100 led to some selling across other small cap managers adjusting their index weights. Orocobre continued to be punished after their February production downgrade, as significant short selling activity made it one of the most shorted stocks in the entire market. OC managed to deliver a positive absolute return, however succumbed to a number of stocks in the portfolio that continued to be de-rated such as Technology One (-9.2%), Altium (-6.1%) and Hansen Technology (-12.5%). The portfolio also had its fair share of companies that delivered earnings downgrades and/or misses to consensus expectations during reporting season, with Aconex (-22.5%) being one of those.

On the positive side of the ledger, both Celeste and Sigma managed to outperform the Small Ords Index with returns of 2.3 and 1.9% respectively over the quarter. Breville Group (+21.1%) was the largest contributor to alpha for Celeste after its overweight position was rewarded when the company announced 5.6% constant currency growth for the first half. Pleasingly Breville was able to increase its sales and earnings velocity whilst also improving its cash flow performance. Sigma saw its portfolio outperform thanks largely to M&A activity with Seymour Whyte (+52.0%), the subject of an indicative cash takeover bid by French construction group Vinci, and Specialty Fashion Group (+19.1%) which was the subject of a takeover approach from Qatari based Al Alfia Group.

ACTUAL ASSET ALLOCATION BY SECTOR

	Fund (%)	Benchmark (%)
Energy	1.69	6.05
Materials	12.29	17.48
Industrials	13.08	8.71
Consumer Discretionary	22.36	20.82
Consumer Staples	5.57	8.54
Health Care	4.50	7.21
Information Technology	6.65	4.71
Telecommunication Services	1.61	1.68
Utilities	0.83	0.67
Property Trusts	6.45	14.09
Financial-x-Property Trusts	10.17	10.05
Derivatives & Other	-	-
Cash	14.79	-
Total	100.00	100.00

MARKET COMMENTARY

Major equity markets around the world continued to advance over the March quarter as broadly positive economic and corporate data, gradual interest rate normalisation in the US, and stabilising currencies all helped to support positive investor sentiment. A very strong earnings season, and optimism surrounding potential fiscal spending and tax breaks led the US to the top of the global equity leaderboard. However, the strength of the Australian dollar moderated investor returns, with the MSCI World Index ex Australia Index in AUD terms delivering a gain of 0.9%. Emerging markets outperformed developed markets thanks largely to the US dollar retreating despite the US Federal Reserve raising official interest rates by 25 basis points in March.

Domestically, Australian equities enjoyed a strong quarter with the ASX300 gaining 4.7% and hitting a 12-month high towards the end of March in the process, however the Small Ordinaries underperformed with a return of only 1.5%. The best performing small cap sectors over the quarter included Consumer Staples (+14.1%), Utilities (+13.8%), Energy (+6.3%) and Industrials (+5.0%), while declines across the IT (-9.9%), Materials (-3.7%) and Consumer Discretionary (-1.0%) sectors moderated the overall return for small caps. The Consumer Staples sector rallied on the back of strong gains across the likes of Bega Cheese (+50.6%), a2 Milk (+34.3%) and Costa Group Holdings (+27.6%). The Utilities sector jumped as rising whole sale electricity prices boosted the utility providers earning prospect which drove Infigen Energy (+11.7%) and ERM Power (+5.2%) higher.

The IT sector was weighed down by some significant declines across iSentia (-46.7%), CSG Ltd (-36.3%), Aconex (-22.5%) and Hansen Technologies (-11.7%). iSentia tumbled in February after announcing that it didn't expected to achieve its previous forecast of breakeven EBITDA for content marketing in FY17 and saw 1H EBITDA down 13% and underlying NPAT down 17%.

In local economic news, Australian GDP growth surprised on the upside in the 2016 December quarter, driving the annual rate up to 2.4%. This was a significant improvement on the prior quarter, despite it being below the long-run average rate of growth. In contrast, the labour market remained subdued and is an ongoing source of concern with the national unemployment rate reaching its highest level in over a year in February, rising to 5.9%. Other data points were mixed, with National Australia Bank's monthly business survey for February showing that both business confidence and business conditions gave back some of the strong gains recorded in January, while retail sales rebounding in January, but declining unexpectedly in February.

TOP 10 HOLDINGS

	Fund (%)	Benchmark (%)
Steadfast Group Ltd. (Australia)	2.55	1.22
G.U.D. Holdings Limited	2.03	0.66
Cleanaway Waste Management Ltd.	1.69	1.23
Charter Hall Group	1.49	1.48
RCR Tomlinson Ltd	1.48	0.29
Sandfire Resources NL	1.47	0.65
IMF Bentham Limited	1.43	0.19
WPP AUNZ Limited	1.43	0.25
Bapcor Ltd.	1.35	1.02
Independence Group NL	1.25	1.08

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 (millions)	\$240.90	
Date established	December 2004	March 2005
Distribution frequency	Half Yearly	Half Yearly
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	1.18% pa ²	2.15% pa ²
Regular Savings Plan1	Yes	Yes
Regular Withdrawal Plan1	Yes	Yes
Distribution reinvestment	Yes	Yes
Buy/sell spread	0.30/0.30	0.30/0.30
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

ADVANCE
ASSET MANAGEMENT

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