

ADVANCE DEFENSIVE YIELD MULTI-BLEND FUND

As at 30 June 2018

FUND PERFORMANCE*

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	2 year (% pa)	Since incept (% pa)
Growth return	(0.76)	(1.18)	(1.45)	(1.60)	(0.84)	(0.01)
Distribution return	0.68	0.68	1.46	2.75	3.13	2.67
Total return	(0.08)	(0.49)	0.01	1.15	2.29	2.67
Benchmark return	0.15	0.49	0.92	1.78	1.80	2.34

Benchmark: Bloomberg AusBond Bank Bill IndexSM.

FUND UPDATE

The Advance Defensive Yield Multi-Blend Fund underperformed the benchmark during the June quarter net of fees.

Pendal delivered strong outperformance with the majority of its alpha strategies all contributing positively. In contrast, Standish posted negative returns which dominated the direction of the overall portfolio's performance. Kapstream marginally outperformed the benchmark.

Pendal's duration strategy was a large contributor. The portfolio was short duration in Italian BTPs and long duration in German Bunds. This benefited as the Italian political situation worsened causing Italian yields to spike and German yields to fall on a flight to safety.

Pendal's FX strategy also made the largest addition to performance. This was tied predominantly to short EUR exposure against the USD as the former suffered on the aforementioned Italian political turmoil. In June, long USD positioning against CNH and KRW benefited as escalating trade tensions caused the Asian currencies to suffer

Currency position was the biggest detractor in Standish's case. In particular, it's position in the Argentinian Peso drove most of the underperformance due to political and fiscal instability. Overweight positions in emerging market government bonds also detracted as negative EM sentiment weighed down on the sector.

ACTUAL ASSET
ALLOCATION BY
REGION[~]

Region	Fund (%)
North America	20.81
United Kingdom	(0.17)
Developed Europe ex UK	(4.96)
Developed Asia (ex Aus & Jap)	3.67
Japan	2.96
Australia	39.12
Middle East & Africa	3.41
Emerging Europe	2.48
Latin & South America	2.63
Emerging Asia	1.59
Cash, Currency & Other	28.45
Total	100.00

ACTUAL ASSET
ALLOCATION BY
SECTOR[~]

Sector*	Fund (%)
Corporate	48.35
Government Related	13.07
Securitized	15.93
Treasury	(5.89)
Cash & Currency	28.44
Other	0.10
Total	100.00

CREDIT,
DURATION AND
MATURITY^{~£}

Years to Maturity	Fund (%)	Benchmark (%)
0-1 years	31.44	100.00
1-3 years	10.41	0.00
3-5 years	33.45	0.00
5-7 years	12.63	0.00
7-10yrs	4.20	0.00
10yrs+	7.87	0.00
Total	100.00	100.00

Effective Duration	Portfolio (Yrs)	Benchmark (Yrs)
<0yrs	0.07	0.00
0-1 years	0.11	0.12
1-3 years	0.18	0.00
3-5 years	0.53	0.00
5-7 years	0.37	0.00
7-10yrs	(0.78)	0.00
10yrs+	0.34	0.00
Total	0.82	0.12

Credit Quality	Fund (%)
AAA	16.23
AA	7.78
A	19.40
BBB	33.54
BB	4.87
B	4.03
CCC and Lower	0.27
Not Rated / Derivatives	(24.98)
A-1+	7.10
A-1	1.94
A-2	1.36
A-3	0.00
Cash & Currency	28.44
Total	100.00

MARKET COMMENTARY

Global fixed income sectors generated mixed results during the second quarter. Sovereign yields outside of Europe generally moved higher, driven by continued global growth momentum and rising inflation expectations. Government bonds enjoyed short-lived periods of strength, however, amid escalating tensions between the US and its trade partners and bouts of elevated political uncertainty in Europe. Concerns over increased leverage and heavy supply from a pickup in mergers and acquisitions activity weighed on credit spreads. The US dollar rallied vs most currencies, as strong US economic data releases reinforced expectations that policy rates are likely to continue to move higher.

Global monetary policies diverged during the period. The US Federal Reserve (Fed) raised its target rate by 25 basis points (bps), as expected, and forecasted two additional hikes this year – one more than was projected at the March Federal Open Market Committee meeting. The Committee upgraded growth and employment projections, while also shifting inflation expectations higher. The European Central Bank announced an end to quantitative easing slated for December 2018, but pledged to keep policy rates unchanged at least through the summer of 2019. The Peoples Bank of China (PBOC) unexpectedly cut its reserve requirement ratio for most banks by 100 bps to free up lending to small businesses. The Bank of England maintained its policy rate and asset purchase program after growth fell shy of its forecasts.

Sovereign yield movements were somewhat limited across most developed markets as increasing inflation pressures balanced heightened political uncertainty. Expectations for continued monetary tightening lifted US and Canadian short-term yields; ten-year yields in these countries fell sharply along with broader risk aversion following the Italian election outcome, but finished higher over the quarter as inflation expectations rose. Elevated political uncertainty in Europe – including the formation of a populist Italian government and the ousting of Spanish Prime Minister Rajoy provided support for core European government yields at the expense of peripheral yields. Emerging markets debt and investment-grade corporate bonds posted negative excess returns as credit spreads widened. High yield however generated positive excess returns as coupon income provided some offset to spread widening.

INVESTMENT OBJECTIVE

To provide returns of 2% pa after fees above the benchmark over the short to medium term.

BENEFITS OF INVESTING IN THE FUND

- > Potential for an enhanced absolute return offering across a range of market conditions.
- > The Fund aims to deliver quarterly distributions to investors.
- > A team of experienced and dedicated professionals actively looking after your investment.
- > Advance has access to the best fund managers from around the world and for this Fund, we have appointed investment managers who have a shared commitment to provide the best outcome for investors. You also have access to their investment expertise, research and process through your investment in the Fund.
- > The Fund has the ability to invest in a broad range of suitable investments and has the ability to take advantage of opportunities across the globe.
- > A high level of transparency through informative and regular reporting.
- > Access to information about your investments 24/7 on our secure client website Investor Online at advance.com.au, enabling you to keep track of your investments.

FUND STRATEGY

The Fund invests in a diversified mix of fixed interest, cash and cash equivalent securities and instruments in both Australian and international markets, with an emphasis on liquidity and capital stability regardless of the overall direction of fixed interest and cash markets. The ability of the Fund's investment strategy to produce investment returns will be dependent on a number of factors including the asset allocation and investment selection skills of the investment managers, market conditions and specific risk factors. The Fund does not have specific diversification guidelines or limits. Although there are no geographical restrictions on where assets may be located, they will typically be located in Australia, Europe and the United States. The base currency of the Fund is Australian dollars however the assets of the Fund may be denominated in a variety of currencies.

There have been no material changes in the Fund's strategy this month.

FUND RISK PROFILE

3 Low – Medium

Low to medium risk of short-term loss. Likely to produce low to medium returns over the minimum suggested timeframe.

There have been no material changes in the Fund's risk profile this month.

KEY SERVICE PROVIDERS

The responsible entity of the Fund is Advance Asset Management Limited.

JP Morgan Chase Bank N.A. is the custodian and administrator of the Fund.

PwC is the external auditor of the financial statements of the Fund. In addition, an individual partner of PwC acts as the auditor of the Fund's Compliance Plan.

The underlying investment managers for the Fund are:

- > Standish Mellon Asset Management Company LLC
- > Kapstream Capital Pty Ltd
- > BT Investment Management (Institutional) Limited

There have been no material changes in the Fund's key service providers this month.

KEY FEATURES

	Wholesale
Date established	October 2012
Distribution frequency	Quarterly
Minimum investment¹	\$5,000 (\$1,500 for Regular Savings Plan)
Minimum withdrawal	\$1,500.00
Withdrawal period	5 business days
Entry fee²	Nil
Management costs^{2,3}	0.59% pa
Exit fee	Nil
Regular Savings Plan¹	Yes
Regular Withdrawal Plan¹	Yes
Distribution reinvestment	Yes
Total assets (AUD millions)	\$1,023.9
Month end redemption unit price	\$1.0066
Buy/sell spread (%)³	0.07/0.07

¹ Refer to the Product Disclosure Statement for further information

² Includes the effect of GST (net of RITC) and an estimate of performance fees paid for the 12 months ended 31 March 2017 of 0.04%.

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.

~ 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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