

ADVANCE DEFENSIVE YIELD MULTI-BLEND FUND

As at 31 March 2017

FUND PERFORMANCE*

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	2 year (% pa)	Since incept (% pa)
Growth return	0.02	0.65	0.25	(0.17)	(1.28)	0.63
Distribution return	0.50	0.50	1.09	3.94	2.74	2.31
Total return	0.51	1.14	1.34	3.76	1.45	2.95
Benchmark return¹	0.15	0.44	0.88	1.94	2.09	2.49

* The Fund performance is net of investment fees and relates to wholesale investors only.

Inception date: 5 October 2012. The Fund distributes on a quarterly basis in the months of March, June, September and December.

¹ Benchmark: Bloomberg AusBond Bank Bill IndexSM

FUND UPDATE

The Advance Defensive Yield Multi-Blend Fund returned 1.14% over the quarter, outperforming the benchmark return of 0.44%.

At the manager level, Standish was the stand out performer exceeding the benchmark in the March quarter. Most active strategies contributed to Standish's outperformance, including FX positioning, country selection, yield curve positioning, and security selection. In particular, performance was driven by yield curve/duration and country positioning due in large part to an overweight in local bonds in Mexico as well as a tactical overweight to US bonds. Local bond positioning in Mexico benefited as members of the new US administration suggesting that the new NAFTA deal will be positive for Mexico. Overweights in Australia and Canada were also small contributors to performance. FX positioning was also additive, as overweights to emerging market (EM) currencies particularly in Latin America and Eastern Europe continued to rally. Underweight the USD which weakened throughout March also contributed to returns. Kapstream also delivered solid performance mainly driven by its core credit positioning as credit spreads continued to contract over the quarter. BTIM underperformed for the quarter with losses stemming mostly from their active positioning in macro and FX strategies.

ACTUAL ASSET ALLOCATION BY REGION

Region*	Fund (%)
North America	15.04
United Kingdom	1.62
Developed Europe Ex UK	(4.50)
Developed Asia (Ex Aus & Jap)	4.14
Japan	3.37
Australia	40.97
Middle East & Africa	0.57
Emerging Europe	1.70
Latin & South America	3.10
Emerging Asia	2.75
Cash, Currency & Other	31.25
Total	100.00

* Where a negative number is shown, this may indicate the use of derivatives and physical securities to create short positions in the portfolio.

ACTUAL ASSET ALLOCATION BY SECTOR

Sector*	Fund (%)
Corporate	53.62
Government Related	12.07
Securitized	15.79
Treasury	(12.77)
Cash & Currency	31.25
Other	0.04
Total	100.00

* Where a negative number is shown, this may indicate the use of derivatives and physical securities to create short positions in the portfolio.

CREDIT, DURATION AND MATURITY

Years to Maturity*	Fund (%)	Benchmark (%)
0-1 years	49.00	100.00
1-3 years	1.06	-
3-5 years	24.67	-
5-7 years	6.34	-
7-10yrs	11.71	-
10yrs+	7.21	-
Total	100.00	100.00

Effective Duration*	Portfolio (Yrs)	Benchmark (Yrs)
<0yrs	(0.09)	-
0-1 years	(0.02)	0.13
1-3 years	0.32	-
3-5 years	0.82	-
5-7 years	(0.02)	-
7-10yrs	0.64	-
10yrs+	(0.97)	-
Total	1.38	0.13

Credit Quality*	Fund (%)
AAA	18.69
AA	9.49
A	20.37
BBB	27.81
BB	4.90
B	1.91
CCC and Lower	2.00
Not Rated / Derivatives	-26.72
A-1+	6.62
A-1	2.37
A-2	1.31
A-3	-
Cash & Currency	31.25
Total	100.00

* 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

Fixed income markets generated solid gains overall, with some divergence during the March quarter amid heightened political uncertainty. Monetary policy developments pointed to continued accommodation outside the US. The Fed hiked rates and projected two additional hikes this year. Market participants judged the statement by the Fed as dovish, with one dissenting vote and no mention of tapering mortgage reinvestments. Meanwhile, the European Central Bank announced its intention to continue the pace of bond purchases at €60 billion euros per month through at least December 2017 and pushed back against the notion of initiating rate hikes prior to the end of quantitative easing.

Global government bond yields in Australia, Canada, the US, and the UK declined. President Trump's failure to secure congressional approval to repeal the Affordable Care Act cast doubt over implementation of his other policy agendas, reversing some of the post-election sell-off in Treasuries. The UK took the next step in the Brexit process as Prime Minister May triggered Article 50 – setting the stage for the nation's departure from the EU causing UK government bond yields to decline. Euro area bond yields trended higher following benign Dutch election results and waning popularity for French far right Presidential candidate Le Pen. Japanese government bond yields remained anchored by the Bank of Japan's (BOJ) yield-targeting policy, but still rose modestly.

Most currencies strengthened versus the US dollar despite the looming risk of protectionist US trade policies and expectations for additional policy tightening from the Federal Reserve (Fed). The US dollar weakened versus most currencies early in the quarter and prior to the inauguration, President Trump's lamenting of the dollar's strength sent it tumbling. As the quarter progressed, most EM currencies began to price in less US protectionism, supporting currencies like the Mexican peso. The US dollar rebounded on strong economic data leading up to the Federal Open Market Committee (FOMC) meeting, but weakened again following the relatively dovish statement and press conference.

Globally, most spread sectors posted positive excess returns as spreads tightened, led by lower-rated sectors. Robust global economic data and continued demand for yield-producing assets supported credit markets, and spreads tightened further.

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 12
Distribution frequency	Quarterly
Minimum investment	\$5,000 (\$1,500 for Regular Savings Plan ¹)
Minimum withdrawal	\$1,290.43
Withdrawal period	5 business days
Entry fee	Nil
Ongoing fee	0.55% pa + estimated performance fee of 0.34% of your balance per year ^{1,2,3}
Exit fee	Nil
Regular Savings Plan ¹	Yes
Regular Withdrawal Plan ¹	Yes
Distribution reinvestment	Yes
Total assets (millions)	\$1,283.53
Month end redemption unit price	\$1.0281
Buy/sell spread (%)	0.07/0.07

¹ Please refer to the Product Disclosure Statement and Application Form.

² Includes effect of GST (net of RITC).

³ This is an estimate only based on the performance paid over the 12 months to 31 March 2016. This performance fee estimate is not a representation of likely future performance.

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ADVANCE
ASSET MANAGEMENT

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