ADVANCE INTERNATIONAL FIXED INTEREST MULTI-BLEND FUND

As at 31 March 2017

FUND PERFORMANCE*

	3 months (%)	1 year (%)	2 years (%)	3 years (%)	5 years (%)
Growth return	0.81	(2.34)	(1.71)	(0.75)	0.57
Distribution return	-	4.65	3.46	5.00	4.79
Total return	0.81	2.31	1.75	4.26	5.36
Benchmark return[1]	0.68	2.16	3.33	5.58	5.80

* 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: 28 February 2001

[1] Benchmark: Barclays Global Aggregate Bond Index (Fully Hedged) in Australian dollars.

FUND UPDATE

The International Fixed Interest Multi-Blend Fund returned 0.81% over the quarters, outperforming its benchmark the Bloomberg Barclays Global Aggregate Index hedged to AUD which returned 0.68%. During the quarter the Fund's investment in the Franklin Templeton Multi Sector Plus portfolio was terminated. The formal termination occurred in January 2017 and the portfolio of assets was transitioned to the incumbent managers.

The standout performance for the quarter came from Standish with outperformance attributed to most active strategies, including FX positioning, country selection, yield curve positioning, and security selection. Positive performance in the aforementioned areas was only partially offset by underperformance in asset allocation. Contribution to 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. Security selection also added to performance as emerging market positioning continued to be a strong contributor. Asset allocation modestly detracted from performance. Wellington marginally underperformed its benchmark over the quarter with relative underperformance from its Macro and Credit strategies offset by Quantitative strategies.

ACTUAL ASSET ALLOCATION BY REGION

Region	Fund (%)	Benchmark (%)
North America	41.71	42.75
United Kingdom	6.61	5.85
Developed Europe (ex UK)	17.36	25.41
Developed Asia (ex Aus & Jap)	1.20	0.62
Emerging Asia	1.34	2.78
Japan	18.98	17.83
Australia	8.05	1.67
Middle East & Africa	2.05	0.77
Emerging Europe	2.42	0.90
Latin & South America	2.79	1.41
Cash, Currency & Other	(2.51)	0.00
Total	**100.00**	**100.00**

SUB SECTOR ALLOCATIONS

Sector	Fund (%)	Benchmark (%)
Corporate	29.90	18.54
Government Related	8.16	12.30
Securitized	13.85	15.10
Treasury	50.59	54.06
Cash & Currency	(2.51)	-
Other	0.01	-
Total	**100.00**	**100.00**

CREDIT AND MATURITY

Credit Quality*	Fund (%)	Benchmark (%)
AAA	26.93	38.95
AA	11.63	15.66
A	27.02	27.20
BBB	28.53	17.34
BB	4.85	0.84
B	1.72	-
CCC and Lower	0.39	-
Not Rated / Derivatives	1.43	0.01
A-1+	-	-
A-1	-	-
A-2	-	-
A-3	-	-
Cash & Currency	(2.51)	-
Total	**100.00**	**100.00**

Years to Maturity*	Fund (%)	Benchmark (%)
0-1 years	1.10	1.30
1-3 years	13.91	20.99
3-5 years	27.73	18.30
5-7 years	6.98	11.54
7-10yrs	24.73	13.91
10yrs+	25.55	33.97
Total	**100.00**	**100.00**

* Where a negative number is shown, this indicates the underlying investment managers have used derivatives to create the strategy rather than physical bonds.

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 a source of income from international 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 International Fixed Interest Multi-Blend Fund provides a source of income from international fixed interest exposure and enhanced performance through active management. This asset sector is not usually 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 (millions)	$2,767.13	
Date established	February 2001	July 2009
Distribution frequency	Quarterly	Quarterly
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	0.65% pa[2]	1.85% pa[2]
Regular Savings Plan[1]	Yes	Yes
Regular Withdrawal Plan[1]	Yes	Yes
Distribution reinvestment	Yes	Yes
Buy/sell spread (%)	0.10/0.10	0.10/0.10
Exit fee	Nil	Nil

[1] Please refer to the Product Disclosure Statement and Application Form.
[2] Includes effect of GST (net of RITC).

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ADVANCE ASSET MANAGEMENT