ADVANCE ASSET MANAGEMENT

ADVANCE INTERNATIONAL FIXED INTEREST MULTI-BLEND FUND

As at 31 March 2018

FUND PERFORMANCE*

	3 months (%)	1 year (%)	2 years (%)	3 years (%)	5 years (%)
Growth return	(0.45)	(2.32)	(2.33)	(1.92)	(0.85)
Distribution return	0.67	5.45	5.05	4.12	4.62
Total return	0.22	3.13	2.72	2.21	3.78
Benchmark return	(0.09)	2.89	2.53	3.18	4.66

Benchmark: Barclays Global Aggregate Bond Index (fully hedged) in Australian dollars

FUND UPDATE

The end of the March quarter brought relatively attractive fixed income valuations as interest rates were moderately higher and spreads were modestly wider. The Bloomberg Barclay's Global Aggregate Index returned a negative -0.09% against a backdrop of steadily rising global interest rates. The International Fixed Interest Multi-Blend Fund however returned 0.22% over the quarter net of fees, outperforming its benchmark.

Pleasingly both Standish and Wellington outperformed their respective benchmarks for the quarter.

The standout performance for the quarter came from Standish with outperformance stemming from a diverse source of active strategies, including FX positioning, country selection, yield curve positioning, and security selection. Key detractor for the quarter came from the portfolio's asset allocation decisions. March saw risk-off environment, primarily driven by fears of a trade war between the USA and China. US Treasuries rallied and as the portfolio is significantly underweight in the US Treasuries sector, this weighed on returns. Corporate high yield bonds also underperformed due to the risk off environment, and that was detrimental to the portfolio since there is an overweight bias.

Security selection was the primary driver of Standish's positive performance. FX positioning and Yield Curve positioning were also slight positive contributors to performance.

Wellington outperformed its benchmark over the quarter with positive contributions from both its Macro and Quant strategies. Wellington's underweight duration positions in the front-end and intermediate portions of the US curve were the primary contributors, as US yields increased sharply on expectations of more aggressive monetary policy tightening. Overweight duration positions in Germany and New Zealand also contributed to results as sovereign yields fell late in the quarter on concerns of a global trade war and adverse regulation of the US technology sector. Credit strategies were broadly neutral as overweight positions in investment grade corporates (primarily financials and industrials) contributed primarily early in the quarter as spreads tightened, driven by a combination of higher interest rates, higher stock prices and underwhelming non-financial supply volumes. This was however offset later in the quarter as spreads widened, driven by increased supply in the US, while demand from foreign buyers, bond funds and ETFs was relatively weak this month.

ACTUAL ASSET ALLOCATION BY REGION~

Region	Fund (%)	Benchmark (%)
North America	39.68	41.10
United Kingdom	7.20	5.90
Developed Europe (ex UK)	12.05	27.41
Developed Asia (ex Aus & Jap)	1.59	0.63
Emerging Asia	6.98	2.87
Japan	21.26	17.37
Australia	1.83	1.66
Middle East & Africa	3.15	0.59
Emerging Europe	3.03	1.12
Latin & South America	4.50	1.34
Cash, Currency & Other	(1.27)	0.01
Total	**100.00**	**100.00**

SUB SECTOR ALLOCATIONS~

Sector	Fund (%)	Benchmark (%)
Corporate	33.56	18.41
Government Related	9.93	12.22
Securitized	15.22	14.85
Treasury	42.55	54.52
Cash & Currency	(1.27)	0.00
Other	0.02	0.00
Total	**100.00**	**100.00**

CREDIT AND MATURITY~₺

Credit Quality	Fund (%)	Benchmark (%)
AAA	20.33	37.91
AA	12.33	16.21
A	27.40	26.67
BBB	31.81	18.18
BB	6.81	1.02
B	4.03	0.00
CCC and Lower	0.26	0.00
Not Rated / Derivatives	(1.70)	0.00
A-1+	0.00	0.00
A-1	0.00	0.00
A-2	0.00	0.00
A-3	0.00	0.00
Cash & Currency	(1.27)	0.00
Total	**100.00**	**100.00**

Years to Maturity	Fund (%)	Benchmark (%)
0-1 years	5.93	1.38
1-3 years	21.69	21.17
3-5 years	4.22	17.75
5-7 years	11.38	11.78
7-10yrs	23.57	14.13
10yrs+	33.21	33.79
Total	**100.00**	**100.00**

MARKET COMMENTARY

Most global fixed income sectors generated negative total returns during the first quarter. Sovereign yields generally moved higher, along with a pick-up in global inflation expectations. Easing political uncertainty in Europe and the anticipated inflationary impact of US trade tariffs contributed to the increase in the bond yields of many government issuers. Credit spreads widened on a pick-up in equity-market volatility, less demand for credit as US firms repatriated overseas funds held in high-quality corporate paper, and higher currency hedging costs. The US dollar came under pressure amid protectionist rhetoric from President Trump.

Global monetary policy continued along a less accommodative path during the period. The Federal Reserve hiked rates in March and projected two additional hikes in 2018. The European Central Bank adjusted its forward guidance to remove its official easing bias and is expected to cease asset purchases by September. Dissenting votes at the Bank of England's March meeting suggested a higher likelihood of a rate hike in May. The Bank of Japan was an outlier, pushing back against speculation it would unwind stimulus by pledging "unlimited" purchases of government bonds to maintain its zero interest rate policy.

Political risks were also apparent in Europe with the Italian election resulting in a hung parliament after no major party was able to win an outright majority. Also in the region, the European Central Bank kept policy unchanged and flagged it would be unlikely to purchase additional bonds.

On the credit front, spreads were broadly wider as geopolitical risk drove investor sentiment. Valuations are more attractive as a result but still remain expense on longer measures.

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 (AUD millions)	$1,568.10	
Date established	February 2001	July 2009
Distribution frequency	Quarterly	Quarterly
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]	0.65% pa	1.85% pa
Regular Savings Plan[1]	Yes	Yes
Regular Withdrawal Plan[1]	Yes	Yes
Distribution reinvestment	Yes	Yes
Buy/sell spread (%)[3]	0.10/0.10	Nil
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.

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

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