

ADVANCEMENT

Summer 2011

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Collective action to drive results



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Meet our new managers

As part of our rigorous investment process, we continually monitor market conditions and review how our funds are positioned to deliver their return objectives within the current and future environment. The volatility we're experiencing in the post GFC environment continues to create investment opportunities and our investment team has recommended some changes within the Australian shares and property sectors to ensure we have an appropriate blend of investment managers to take advantage of these opportunities.



Australian shares

We've identified a new strong, high-quality investment manager for the Advance Australian Shares Multi-Blend Fund — Bennelong Australian Equity Partners. Bennelong's attributes are well suited to the current investment environment, as demonstrated by its recent performance.

Bennelong is a boutique fund manager, established in 2001 by the Bennelong Group. Its investment style can be described as 'quality core', which favours companies that are underappreciated by the market and exhibit an attractive trade-off between quality, growth and value. We believe Bennelong's strong risk assessment of the market and its extensive company due diligence places it in a strong position to add value across many different market conditions.

Property securities



AMP Capital Investors provides a specialist infrastructure securities capability. With offices located in Singapore, Hong Kong, Sydney, London and Chicago, AMP is a strong believer in the characteristics of global markets requiring local expertise.

- The experienced investment team is one of the world's largest listed property teams.
- The investment process is transparent and disciplined, using proprietary quantitative tools to assess each company and focus the team's research.

Property securities



Principal Global Investors is a diversified asset management firm and a member of the Principal Financial Group. It's a research-driven organisation, with all investment professionals around the world sharing the same information infrastructure.

- Good blend of qualitative process and quantitative methodology, which helps the team to focus on fundamental research.
- Well integrated global team with flexibility given to regional portfolio managers.

Property securities



Phoenix Portfolios is an Australian based boutique investment management firm established in 2006. The team researches and analyses property, infrastructure and other property related securities listed on the ASX.

- Phoenix believes superior long-term investment performance can be achieved by investing in attractively priced companies identified through fundamental, bottom-up analysis.
- Capabilities and research coverage with a demonstrated ability to diversify away from the large cap stocks, and manage risks appropriately.

These changes affect investors in the Advance Australian Shares Multi-Blend Fund, Advance Property Securities Multi-Blend Fund, Advance Diversified Multi-Blend Funds and the Advance Global Property Fund. You can find a full investment manager list for each fund on our website advance.com.au.

Each investment manager has its own page on our website where you can read more about them and download a profile about their investment process and philosophy.

Financial market overview

The global economic cycle continues to advance slowly as continued strong geopolitical headwinds prevent it from growing at its natural upward trajectory at this stage of the business cycle. Central banks and governments still have the ability to provide much needed economic assistance with monetary and fiscal policy initiatives, and some continue to support the global economy through high levels of global integration, which assists in the painful process of global rebalancing and de-leveraging.

The direction of the global or domestic economic cycle and financial asset market cycles are rarely in perfect harmony because financial markets not only discount future news and price the present value of financial assets accordingly, but such price actions are largely driven by investor sentiment which is currently overwhelmingly negative. This has made defensive asset prices extremely expensive and growth asset prices extremely cheap.

We believe once investors have fully factored-in global geopolitical uncertainties, they will shift their asset holdings towards growth assets that are relatively cheap due to heightened risk aversion and reduce their holdings of defensive assets – a process that's already begun.

In terms of overall market direction, we believe that growth assets will move higher in price over the next three to four month period and come under seasonal pressure during the April/May 2012 period. The outlook after that period looks very uncertain due to significant political risks. Defensive assets should mirror growth asset trends. Investors must always be aware that the risk off/ risk on trade and financial market volatility are likely to remain in play for a long time.



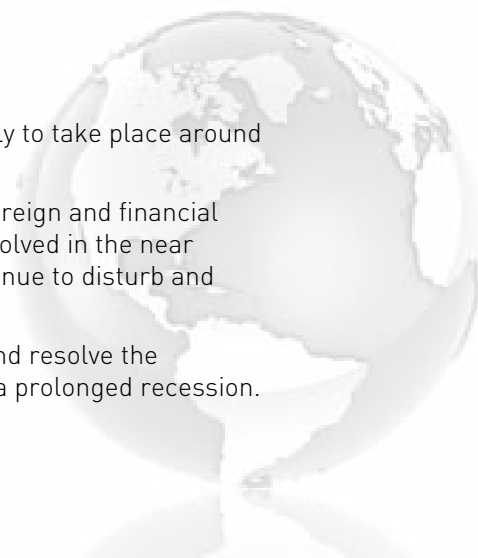
Felix Stephen

Manager Strategy & Research, Advance Asset Management

12 month global outlook

Key financial market risks

- Most of the financial asset market risks are built around geopolitical events likely to take place around late 2012 and 2013.
- Developments in Europe around peripheral European economies, and their sovereign and financial institution balance sheets, are a major risk that's not going to be completely resolved in the near future. It's likely that concerns over the stability of the European Union will continue to disturb and unnerve global investors for many years.
- The inability of policy makers to agree and implement credible plans to arrest and resolve the prevailing 'crisis of confidence', could also cause the global economy to tip into a prolonged recession.



Key investment themes

- Current bond and equity prices give the impression that we're in the midst of the GFC. Instead, global imbalances that haven't been successfully addressed and resolved have led to higher levels of global macroeconomic volatility, social turmoil and geopolitical tensions that have unnerved policy makers and driven heightened watchfulness and caution from investors.
- Inflation risks have risen in some of the emerging economies; however, these risks are likely to abate over the near term with the sharp decline in key commodity prices, giving emerging market authorities much needed breathing space.
- The fiscal discipline imposed on some European countries could lead to high levels of domestic social and political unrest in Europe, while unrest in other parts of the world poses a significant threat to the delicate global geopolitical balance.



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12 month global outlook

What this means for investors

- The modest decline in economic activity that accompanies a typical mid-cycle economic pause has been significantly exaggerated this year by a series of natural and man-made disasters that destabilised the world. Global economic growth is only likely to recover slowly and gradually over the next year.
- We're confident global authorities will eventually find appropriate solutions to resolve some of the pressing issues confronting Europe, including sovereign default risks, liquidity risks and the need to re-capitalise fragile financial institutions in Europe.

Felix Stephen provides a weekly podcast with more in-depth views and news about what's happening in global asset markets. Visit the market insights section on advance.com.au to hear more from Felix plus insights from other Advance experts.

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