

ADVANCE AUSTRALIAN FIXED INTEREST MULTI-BLEND FUND

As at 31 March 2019

FUND PERFORMANCE*	3 months (%)	1 year (%)	2 years (%)	3 years (%)	5 years (%)
Growth return	2.54	3.44	1.98	0.85	1.34
Distribution return	0.80	3.01	2.82	3.10	3.32
Total return	3.33	6.45	4.80	3.94	4.66
Benchmark return	3.43	7.20	5.22	4.17	5.07

Inception date: 30 June 2004
Benchmark: Bloomberg AusBond Composite 0+ Yr IndexSM

FUND UPDATE	
	The Fund recorded strong absolute returns during the March quarter gross of fees. The Fund also outperformed the benchmark on a relative basis.
	Janus Henderson detracted over the period although this was offset by strong performances from AMP and Pental.
	Janus Henderson has been maintaining a defensive duration position (i.e. short bias) along with yield curve steepeners and exposure to inflation linked bonds. This detracted in value as longer term bond yields have fallen substantially over the quarter.
	Pental's alpha trades were a contributor over the quarter. The duration and yield curve strategies were largely positive although this was partly offset by other relative value strategies within the portfolio. Positively, the physical portfolio had a good quarter outperforming the benchmark.
	In AMP's case, Credit positioning drove performance during the quarter, with spread movements and the contribution from carry adding value. Interest rate positioning also contributed to performance, with the contribution from duration management adding most value.

SUB SECTOR ALLOCATIONS~	Sector	Fund (%)	Benchmark (%)
	Corporate	34.08	8.83
	Government Related	28.19	39.08
	Securitized	6.20	0.66
	Treasury	31.34	51.42
	Cash & Currency	0.18	0.00
	Other	0.00	0.00
	Total	100.00	100.00

CREDIT AND MATURITY^{~E}

Credit Quality	Fund (%)	Benchmark (%)
AAA	51.61	73.00
AA	24.40	19.81
A	14.40	4.17
BBB	10.19	3.02
BB	0.00	0.00
B	0.00	0.00
CCC and Lower	0.00	0.00
Not Rated / Derivatives	(1.32)	0.00
A-1+	0.53	0.00
A-1	0.00	0.00
A-2	0.00	0.00
A-3	0.00	0.00
Cash & Currency	0.18	0.00
Total	100.00	100.00

Years to Maturity	Fund (%)	Benchmark (%)
0-1 years	1.41	7.48
1-3 years	21.65	20.83
3-5 years	26.21	17.07
5-7 years	10.78	13.49
7-10yrs	21.03	25.77
10yrs+	18.93	15.36
Total	100.00	100.00

Effective Duration	Fund (Years)	Benchmark (Years)
<0yrs	0.00	0.00
0-1 years	(0.03)	0.04
1-3 years	0.68	0.39
3-5 years	0.85	0.89
5-7 years	0.95	1.10
7-10yrs	1.30	1.88
10yrs+	1.26	1.04
Total	5.01	5.33

MARKET COMMENTARY

Australian bond yields experienced a significant fall that was shared by global peers over the quarter. The decline appeared tied to more dovish messaging from central banks, as well as emerging concerns over the outlook for the US economy. These developments overshadowed wavering trade war and Brexit-related headlines.

In Australia, the Reserve Bank of Australia (RBA) left rates unchanged at 1.50% through the quarter as widely-expected. However, Governor Lowe noted over the period that the outlook for rates had become “more evenly balanced”. Additionally, communication by the Board highlighted the weakness in household consumption, which was partly attributed to softer house prices. In turn, expectations for a rate cut increased with two reductions now priced by year-end. This contributed to a decline in overnight interest swap (OIS) rates, while separately repo rates fell and translated to lower funding costs for the banks.

Australian 3 and 10 year yields fell by 44 basis points (bps) and 56bps to 1.40% and 1.77% respectively. The three-month Bank Bill Swap rate (BBSW) saw a similar decline of 32bps to 1.77% and the spread between the three-month bank bill swap rate and the overnight index swap rate (OIS-BBSW) narrowed further. In the US, 2 and 10 year yields dropped 23bps and 27bps to 2.26% and 2.41%. As a result, the AU-US 10 year yield differential fell a sizeable 28bps further into negative territory. At the same time, the Australian dollar rose 0.7% with support from stronger commodity prices.

In credit markets, spreads for global credit default swap (CDS) indices tightened after risk appetite returned in the first quarter. This was supported by dovish messaging from the Fed and ECB. The reported progress on a Sino-US trade deal also aided market sentiment, as did a better-than-expected outcome from the Royal Commission into the local banking sector.

The Australian iTraxx index (Series 30 contract) traded in a wide 36bps range finishing the quarter 28.5bps tighter to +66.5bps. Physical credit spreads were on average 7bps narrower with the best performing sectors being domestic banks, infrastructure and utilities. The worst performing sectors were Supranationals and Offshore Banks that only tightened 4bps & 5bps respectively. Semi-government bonds were unchanged to government bonds over the quarter.

Overall, the Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, gained 3.56% over March quarter.

INVESTMENT OBJECTIVE

To provide a source of income from Australian 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 Australian Fixed Interest Multi-Blend Fund provides a source of income from Australian fixed interest exposure and enhanced performance through active management. This asset sector is generally not 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)	\$2,428.18	
Date established	June 2004	June 2004
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}	0.55% pa	1.75% pa
Regular Savings Plan ¹	Yes	Yes
Regular Withdrawal Plan ¹	Yes	Yes
Distribution reinvestment	Yes	Yes
Buy/sell spread (%) ³	0.05/0.05	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.

† 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.

Advance Asset Management, GPO Box B87, Perth WA 6838

Client Services 1800 819 935 Adviser Services 1300 361 864 Fax (02) 9274 5211

advance.com.au

ADVANCE
ASSET MANAGEMENT

The information in this document has been prepared by Advance Asset Management Limited ABN 98 002 538 329 AFSL 240902 ('Advance').

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Advance is the responsible entity of the Advance Australian Fixed Interest Multi-Blend Fund ASRN 087 295 234 ('Fund'). A Product Disclosure Statement ('PDS') is available for the Fund and can be obtained by calling the Contact Centre on 1800 819 935, or visiting www.advance.com.au. The Financial Services Guide ('FSG') for Advance can also be obtained via the Product Disclosure Statement page on www.advance.com.au. Any retail client should obtain and consider the PDS for the Fund and the FSG before deciding whether to acquire, continue to hold or dispose of units in the Fund.

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