

ADVANCE AUSTRALIAN FIXED INTEREST MULTI-BLEND FUND

As at 28 February 2021

FUND OVERVIEW

	Wholesale	Retail
Inception date	30 June 2004	30 June 1994
APIR	ADV0084AU	ADV0029AU
Fund size (AUD millions)	\$2,105.56	
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.	
Recommended investment timeframe	3 years	
Minimum initial investment	\$5,000	Closed to new investors
Distribution frequency	Quarterly	
Management costs (%) pa ¹	0.45	1.20
Buy/sell spread (%)	0.05 / 0.15	0.00 / 0.00

FUND PERFORMANCE²

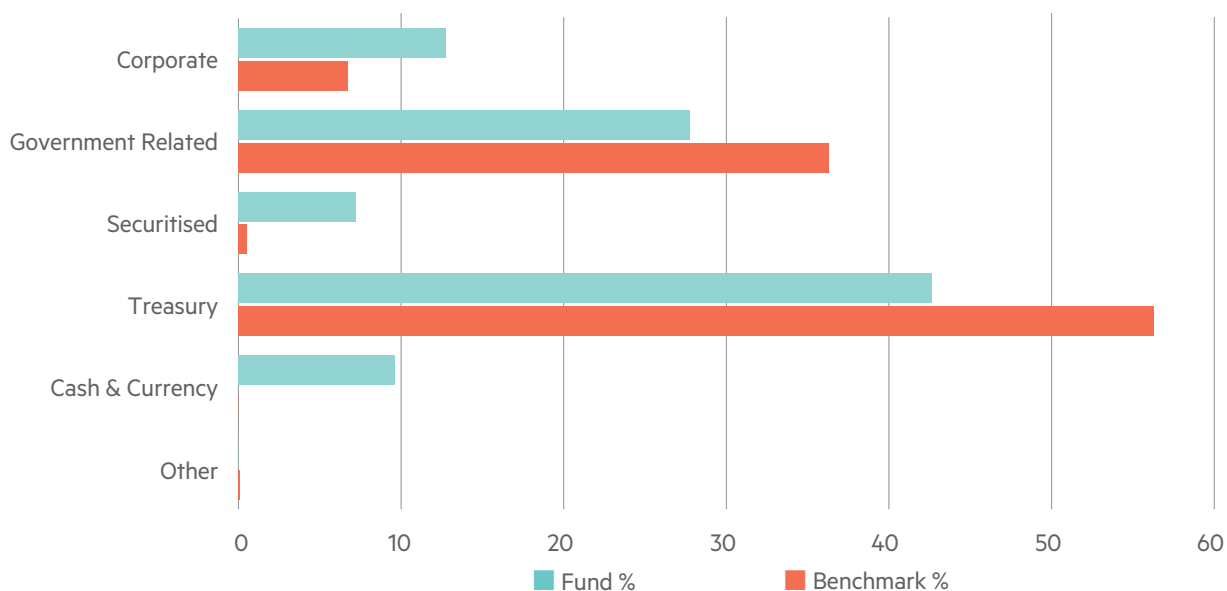
	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since Inception % pa
Total Net return	(3.78)	(4.31)	(1.98)	3.99	3.28	5.04
Growth return	(3.78)	(5.42)	(7.28)	(0.34)	(0.54)	0.30
Distribution return	0.00	1.11	5.30	4.34	3.82	4.74
Benchmark return	(3.58)	(4.25)	(2.80)	3.99	3.25	5.44

Benchmark: Bloomberg AusBond Composite 0+ Yr IndexSM

TOP 5 ISSUERS

	Fund (%)	Benchmark (%)
Government of Australia	19.12	56.32
New South Wales Treasury Corp.	8.42	6.26
Treasury Corporation of Victoria	5.37	5.49
Queensland Treasury Corp.	3.03	7.75
Australia and New Zealand Banking Group Limited	2.83	0.37

SECTOR ALLOCATIONS^{3,4}



CREDIT QUALITY^{3,4,5}

	Fund %	Benchmark %
AAA	32.27	66.00
AA	24.76	27.27
A	18.88	3.80
BBB	21.73	2.93
Sub Investment Grade	0.00	0.00
Not Rated	(7.24)	0.00
Cash & Derivatives	9.61	0.00

FUND CHARACTERISTICS⁶

	Portfolio	Benchmark
Effective Duration (Contribution)	5.88	5.76
Years to Maturity (Years)	9.33	6.61
Effective Yield (%)	1.55	1.21

FUND UPDATE

The Advance Australian Fixed Interest Multi Blend Fund underperformed the benchmark during the month of February. Manager performance was mostly negative with AMP and Janus Henderson both detracting relative to the benchmark whilst Pandal generated returns that were in line with the index.

Broadly speaking our underlying manager's active duration component had a negative month in February. The Portfolio was adversely impacted in absolute terms by sharply rising bond yields and a dramatic steepening in the yield curve. However, the physical holdings in credit instruments and non-government bonds continue to outperform with our managers benefiting from an overweight towards those sectors.

Interestingly, our managers have begun to take an increased position in government bonds - with the view that markets have overpriced the outlook on rates and inflation.

Bond yields rose aggressively in February as inflation fears from fiscal stimulus and a paring back of monetary policy expectations weighed on the market. In the US, Fed officials did not weigh against the move higher, seeing the rise in bond yields as a signal of growing optimism in the economic recovery.

The Reserve Bank of Australia (RBA) also surprised the market at its February meeting when announcing that Quantitative Easing (QE) would be extended once the initial \$100bn program has been used up by mid April. The RBA will buy a further \$100bn at a rate of \$5bn per week, taking QE through until early September. The RBA also released their Statement on Monetary Policy (SoMP), with underlying inflation not forecast to reach the bottom end of their target band over the forecast horizon. The RBA left the cash rate unchanged at its meeting in early March and reiterated that they will not raise the cash rate until actual inflation is sustainably within the 2 to 3% target band. The RBA does not expect this to occur until 2024 at the earliest.

In light of the above, Australian 10 year bond yields traded in an 82 basis points (bps) range, selling off aggressively late in the month on inflation concerns globally and position liquidation. Australian 10 year bonds ended the month 76bps higher at 1.87%. 3 month implied rates for 2024 and 2025 peaked at 1.36% and 2.04% (from 0.66% and 1.02% in January), implying a cash rate that is closer to 1% and 1.75%. US 10 year bonds traded in a 48bps range, ending the month 33bps higher at 1.40%.

Credit spreads performed well in February. Risk markets continued to rally on positive sentiment on Covid-19 vaccine rollouts, fall in new global cases and hospitalisations, expectation of an increased size of US stimulus, and central banks remaining determined not to suggest any tightening of monetary policy in the near term. However, bond markets felt the pinch with yields increasing during the month on positive growth and inflation outlooks, as well as commodity prices rising. This saw some weakness in equity markets and credit spreads late in the month due to the pace of the increase in yields driving market uncertainty.

The Australian iTraxx index (Series 34 contract) traded in a 7bp range finishing the month unchanged at +63bps, whereas physical credit spreads outperformed - tightening 3bp on average. The best performing sectors were infrastructure, real estate and resources tightening 17, 12 & 7bps respectively. The worst performing sectors were domestic banks that widened 2bps and supranationals that were unchanged. Semi government bonds underperformed, widening 2bps relative to commonwealth government bonds.

The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, was down -3.58% over the month. Over the past year, the Australian bond market has returned -2.80%.

- 1 The Management Costs included in this fact sheet are inclusive of the Management Fee and any Performance Fees and includes the effect of GST (net of RITC). They do not include other indirect costs. Refer to the Product Disclosure Statement and online disclosures for further information.
- 2 Past performance is not a reliable indicator of future performance. 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. Growth and Distribution returns may not equal the Total Net return due to rounding.
- 3 Allocations may not equal 100% due to rounding
- 4 Where a negative number is shown, this may indicate the use of derivatives and physical securities to create short positions in the portfolio.
- 5 The credit quality has been determined based on the Standard & Poor's credit rating tiers. Where a negative number is shown, this may indicate the use of derivatives and physical securities to create short positions in the portfolio. Allocations may not equal 100% due to rounding.
- 6 Calculated using weighted average. 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.

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