

# Advance Australian Fixed Interest Multi-Blend Fund

# ADVANCE

MULTI-BLEND FUND

As at 31 December 2011

Wholesale performance*	3 months	1 year	2 years	3 years	5 years
	% pa	% pa	% pa	% pa	% pa
Growth return	0.29%	2.00%	0.71%	-0.24%	0.32%
Distribution return	0.36%	6.04%	6.57%	6.57%	5.95%
Total return	0.65%	8.04%	7.28%	6.33%	6.27%
Benchmark return <sup>1</sup>	1.94%	11.37%	8.67%	6.31%	7.40%

<sup>1</sup> Benchmark: UBSA Composite Bond (All maturities).  
\* The Fund performance relates to wholesale investors only. If you are a retail investor, you can obtain up to date returns at [advance.com.au](http://advance.com.au).  
Inception date: 30 June 2004.

Fund update	As at 31 December 2011	
The Australian Fixed Interest Multi-blend Fund returned 0.65% over the quarter, underperforming the benchmark.		
At a manager level, Perennial Investment Partners underperformed the benchmark over the quarter. Interest rate strategies detracted over the quarter as bond yields fell sharply causing bond prices to become overvalued. Perennial implemented this strategy as markets had priced in a pessimistic economic scenario which was at odds with Perennial's fundamental assessment of the Australian economy and their assessment of fair value in the bond market. As a result, Perennial continues to maintain a defensive interest rate strategy.		
Colonial First State over the quarter also underperformed the benchmark. This was largely attributable to their shorter than benchmark duration strategy. Colonial's approach to active fixed interest management is set on a longer term investment horizon. The portfolio positions are intended to provide protection for the portfolio in a rising bond yield environment once the bouts of extreme market volatility in financial markets subside. Additionally, underperformance was also attributed to an overweight exposure relative to the benchmark in semi-government bonds. Colonial believed the sharp rally in Commonwealth Government bonds had made them extremely expensive relative to State Government bonds. Colonial expects the interest rate differential between Commonwealth and State Government bonds to narrow in the first half of this year and add value to the portfolio.		

Sub sector allocations	Fund %	Benchmark%
	Australian Government Bonds	53.48
Floating Rate Securities	9.47	0.00
Mortgage-Backed & Asset-Securities	5.93	0.36
Investment Grade Credit	25.05	33.54
Cash & Short Term Securities	6.07	0.00
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

Credit and maturity	Credit Quality	Fund %	Benchmark%
	AAA	58.46	78.36
	AA	18.84	16.77
	A	13.10	0.22
	BBB	3.53	1.25
	A1+	0.72	0.00
	A1	0.00	1.21
	A2	4.74	1.18
	A3	0.00	1.02
	Cash	0.62	0.00
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	

  

Maturity	Fund %	Benchmark%
0-3yrs	51.76	40.03
3-5yrs	21.79	20.91
5-7yrs	24.09	12.69
7-10yrs	3.04	19.46
10yrs+	-0.67	6.91
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

\* 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	
	<p>The Australian bond market rallied sharply in the December quarter, outperforming the Citigroup World Government Bond Index (WGBI). Ten-year Commonwealth Government bond yields reached a new record low of 3.67% at year-end, having started the quarter at 4.22%. The decline in yields of 0.55% contributed to 2011 being the first year since 1995 to have seen falls in the benchmark domestic long bond rate during every quarter. In recent months, the European sovereign debt crisis has underpinned strong demand for Australian sovereign bonds. Overseas central banks and offshore institutional investors, in particular, continue to be attracted to the developed world's highest AAA rated government bond yields. Additionally, investors have a preference for the relative safety of the Australian government bond market given our sound fiscal position and stronger economic fundamentals.</p> <p>Money market interest rate market expectations also played a role, particularly in the shorter maturity end of the bond market with growing expectations of interest rate cuts by the RBA. This caused three year Commonwealth Government bond yields over the quarter to decline by 0.55% to finish at 3.13%. The RBA assisted with official cash rate cuts in early November and December totalling 0.50%, citing the risk to the global economic outlook due to the likely contraction in Europe brought about by the re-intensification of the sovereign debt crisis. However, the RBA acknowledged that domestic economic conditions were mixed but slightly stronger than experienced in the middle of the year. This was reflected in the release of a marginally better than expected September quarter GDP result which was driven by the large contribution on record by capital expenditure related to the mining boom. Therefore, the RBA's decision to reduce the official interest rates appears to be based on the growing downside risks to growth from overseas developments rather than the domestic economic outlook. In light of this, and alongside moderating inflationary pressures, the RBA concluded that 'on the basis of all available information, that the inflation outlook afforded scope for a modest reduction in the cash rate. The board will continue to set policy as needed to foster sustainable growth and low inflation over time.'</p> <p>In terms of the outlook for interest rates, since the start of the RBA's inflation targeting regime, which commenced in 1993, there has not been one instance where the RBA has cut interest rates twice only to increase them in the next move. This suggests a more accommodative monetary policy cycle this year, despite the RBA's meeting minutes suggesting we are currently at a 'neutral' stance at 4.25%. The money market believes there may be additional cuts to the official interest rate in the first half of 2012.</p>

  

Investment objective	
	To provide a relatively secure income with a total investment return (before fees and taxes) that outperforms the UBS Australian Composite Bond Index 0+Yr over periods of 3 years or longer.

  

Benefits of investing in the Fund	
	The Australian Fixed Interest Multi-Blend Fund gives you the security of receiving a regular income stream. 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
Fund size	\$33.62 million	\$1.91 million
Date established	June 2004	June 2004
Distribution frequency	Quarterly	Quarterly
Minimum investment	\$5,000 (\$1,500 for <i>Regular Savings Plan</i> <sup>1</sup> )	\$1,500 (\$1,000 for <i>Regular Savings Plan</i> <sup>1</sup> )
Minimum withdrawal	\$1,500	\$500
Withdrawal period	5 business days	5 business days
Entry fee	Nil	4.10% maximum <sup>2</sup>
Ongoing fee	0.55% pa <sup>2</sup>	1.75% pa <sup>2</sup>
Regular Savings Plan <sup>1</sup>	Yes	Yes
Regular Withdrawal Plan <sup>1</sup>	Yes	Yes
Distribution reinvestment	Yes	Yes
Buy/sell spread (%)	0.05/0.05	0.05/0.05
Exit fee	Nil	Nil

<sup>1</sup> Conditions apply.

<sup>2</sup> Includes effect of GST.

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advance.com.au

Advance Australian Fixed Interest Multi-Blend Fund is issued by Advance Asset Management Limited (Advance) ABN 98 002 538 329 AFSL No. 240902. A Product Disclosure Statement (PDS) for the Fund is available at [www.advance.com.au](http://www.advance.com.au) or via 1800 819 935 or from your financial adviser. Financial advisers, please call 1300 361 864. This fact sheet contains general information only and does not take into account individual financial circumstances. Investors should consider the PDS and whether the Fund is appropriate to their circumstances, and seek professional advice before investing in the Fund. Past performance is not a guide to future performance. Past performance is not a reliable indicator of future performance. Advance is a member of the Westpac Group, which includes Westpac Banking Corporation ABN 33 007 457 141 ("Westpac"). An investment in the Fund does not represent an investment in, deposit with or other liability of Westpac or any other member of the Westpac Group. It is subject to investment risk, including possible delays in repayment and loss of income and principal invested. Neither Westpac nor any other member of the Westpac Group stands behind or otherwise guarantees the capital value of an investment in a Fund or the performance of a Fund. Performance figures are calculated using withdrawal values and assume that income is reinvested. Annual management fees and expenses have been taken into account; however, no allowance has been made for entry fees, tax or any rebates that may be given. Past performance is not a reliable indicator of future performance.

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