

Advance International 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	1.90%	-3.69%	-3.09%	-0.31%	0.50%
Distribution return	0.00%	11.63%	11.81%	10.61%	8.96%
Total return	1.90%	7.94%	8.72%	10.30%	9.45%
Benchmark return ¹	2.04%	10.51%	9.89%	9.27%	8.73%

¹ Benchmark: Barclays Capital Global Aggregate Hedged AUD.
 * 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.
 Inception date: 28 February 2001.

Fund update

The Advance International Fixed Interest Multi-Blend Fund in the December quarter returned 1.90% compared to the index return of 2.04% over the quarter. Manager performance was as follows.

Standish underperformed during the quarter. The underperformance was due to a foreign exchange allocation related to an underweight relative to benchmark EUR and an overweight USD tactical position when the EUR rallied from news of the European meeting to try to solve the sovereign debt crisis. The corporate bond allocation also held back performance as spreads relative to government bonds widened. Finally, a small short duration position relative to benchmark also detracted from performance.

Wellington Management added value over the quarter from macro, credit and quantitative strategies. In particular, tactical overweight position in US, UK, Swedish and German bonds and underweight French all added values to the Fund. In terms of credit strategies an overweight exposure to investment grade corporate bonds and underweight to covered bonds added to performance for the quarter. Finally an overweight to the USD versus high beta currencies such as the Thai Baht and Brazilian Real positively contributed to performance. Wellington intend to maintain a cautious approach to investing as they see global growth slowing, inflationary pressures easing and await a sustainable resolution to the European sovereign debt crisis.

The Franklin Templeton's Global Multisector Plus strategy added significant outperformance from its cross currency exposures and credit selections, while interest rate strategies were largely neutral. Currencies in Asia ex-Japan that had weakened in September's serve risk aversion environment benefited from their relatively strong economic fundamentals during the fourth quarter and greatly added to performance. Credit selection, primarily in high yield bonds also added value to the portfolio.

Franklin Templeton has positioned the portfolio for an environment in which emerging markets and selected developed markets outperform the largest advanced economies. This is despite the bout of panic that was triggered during September and November 2011 due to concerns regarding economic and political developments in the Eurozone.

The Franklin Templeton Global Aggregate core strategy was removed from the portfolio late in the quarter as this strategy does not suit the current investment environment. Their portfolio was reallocated to the other two core managers Standish and Wellington.

Actual asset allocation by region	Region	Fund %	Benchmark%
	North America	30.53	39.76
	UK	3.54	5.93
	Europe	28.64	25.31
	Asia Pacific (ex Australia & Japan)	3.50	2.49
	Japan	13.67	20.81
	Australia	0.91	1.46
	Middle East & Africa	2.70	0.52
	Emerging Europe	3.83	0.97
	Latin & South America	1.51	1.01
	Cash & Other	11.19	1.75
	Total	100.00	100.00

Sub sector allocations	Sector	Fund %	Benchmark%
	Australian Government Bonds	0.70	0.52
	Global Government Bonds	63.46	67.21
	Floating Rate Securities	5.10	0.00
	Hybrid Securities	0.26	0.00
	Mortgage-Backed & Asset-Backed Securities	12.33	16.86
	Investment Grade Credit	14.99	15.41
	High Yield Credit (<BBB- rated)	2.26	0.01
	Cash & Short Term Securities	0.90	0.00
	Total	100.00	100.00
	* Where a negative number is shown, this indicates the underling investment managers have used derivatives to create the strategy rather than physical bonds.		
Credit and maturity	Credit Quality	Fund %	Benchmark%
	AAA	52.94	79.47
	AA	18.70	0.00
	A	11.89	0.00
	BBB	11.02	6.69
	A1	0.00	3.80
	A2	0.00	6.64
	A3	0.00	3.26
	Below investment grade	5.13	0.15
	Derivatives & Other	0.00	3.26
	Cash	0.32	0.00
	Total	100.00	100.00
	Maturity	Fund %	Benchmark%
	0-3yrs	27.73	25.49
	3-5yrs	28.64	18.58
	5-7yrs	8.67	10.99
	7-10yrs	19.52	14.68
	10yrs+	15.44	30.26
	Total	100.00	100.00
	* Where a negative number is shown, this indicates the underling investment managers have used derivatives to create the strategy rather than physical bonds.		
Market commentary	<p>Like much of 2011, the December quarter was characterised by a high degree of financial market volatility driven by ongoing uncertainty about the economic and political future of the Eurozone. In terms of economic data released over the fourth quarter the divergence in performance between the US and the Eurozone became increasingly evident. US data released over the quarter consistently surprised to the upside leading to upward revisions to US GDP expectations in the first half of 2012. In contrast, European data painted an increasingly bleak picture as weak consumption and industrial activity data suggested that the Eurozone was likely to be in recession during the same period.</p>		

Market commentary (continued)	<p>In October, the European Union Heads of State and Finance Ministers met in an attempt to permanently address the growing dysfunctional situation that prevailed in the European sovereign debt markets. They agreed to increase the size of the EFSF bailout fund; stress test and recapitalise the European banking system, a 50% write-down on publicly held Greek debt and to ratify a second bailout package for Greece. The proposed plan was generally viewed by market participants as appropriate in scope but insufficient in magnitude to stabilise European government bond markets on a longer-term basis. As a result, the brief reprieve from volatility in the month of October saw risky assets again come under pressure in November and December. This caused the interest rate differential between German Government bonds ('bunds') and peripheral European government debt as well as France and Belgium to significantly widen as investors preferred the relative safety of German bunds. The underperformance of peripheral European bond markets was primarily concentrated in longer dated maturities as the short dated maturities were supported by the introduction of the three-year Long Term Refinancing Operation (LTRO) by the European Central Bank (ECB) and a 0.25% interest rate cut to the official rate. These two actions on 8 December, particularly the introduction of the LTRO sparked a brief rally in European securities as the ECB effectively guaranteed liquidity in the banking system over the near and medium terms.</p> <p>In terms of 2012, US economic growth is sustainable but at lower than trend rates, whilst the outlook for Eurozone GDP appears poor, particularly in the first half of the year. This is expected to result in investors continuing to selectively purchase high quality mispriced securities with attractive coupons.</p>																																										
Investment objective	<p>To provide relatively secure income with a total investment return (before fees and taxes) that outperforms the Barclays Capital Global Aggregate Index (fully hedged) in Australian dollars over periods of 3 years or longer.</p>																																										
Benefits of investing in the Fund	<p>The International Fixed Interest Multi-Blend Fund gives you the security of receiving a regular income stream as well as potential capital growth from international fixed interest securities. 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.</p>																																										
Key features	<table border="1"> <thead> <tr> <th></th> <th>Wholesale</th> <th>Retail</th> </tr> </thead> <tbody> <tr> <td>Fund size</td> <td>\$437.27 million</td> <td>\$0.62 million</td> </tr> <tr> <td>Date established</td> <td>February 2001</td> <td>July 2009</td> </tr> <tr> <td>Distribution frequency</td> <td>Quarterly</td> <td>Quarterly</td> </tr> <tr> <td>Minimum investment</td> <td>\$5,000 (\$1,500 for <i>Regular Savings Plan</i>¹)</td> <td>\$1,500 (\$1,000 for <i>Regular Savings Plan</i>¹)</td> </tr> <tr> <td>Minimum withdrawal</td> <td>\$1,500</td> <td>\$500</td> </tr> <tr> <td>Withdrawal period</td> <td>5 business days</td> <td>5 business days</td> </tr> <tr> <td>Entry fee</td> <td>Nil</td> <td>4.10% maximum²</td> </tr> <tr> <td>Ongoing fee</td> <td>0.65%²</td> <td>1.85%²</td> </tr> <tr> <td>Regular Savings Plan¹</td> <td>Yes</td> <td>Yes</td> </tr> <tr> <td>Regular Withdrawal Plan¹</td> <td>Yes</td> <td>Yes</td> </tr> <tr> <td>Distribution reinvestment</td> <td>Yes</td> <td>Yes</td> </tr> <tr> <td>Buy/sell spread (%)</td> <td>0.10/0.10</td> <td>0.10/0.10</td> </tr> <tr> <td>Exit fee</td> <td>Nil</td> <td>Nil</td> </tr> </tbody> </table> <p>¹ Conditions apply. ² Includes effect of GST.</p>		Wholesale	Retail	Fund size	\$437.27 million	\$0.62 million	Date established	February 2001	July 2009	Distribution frequency	Quarterly	Quarterly	Minimum investment	\$5,000 (\$1,500 for <i>Regular Savings Plan</i> ¹)	\$1,500 (\$1,000 for <i>Regular Savings Plan</i> ¹)	Minimum withdrawal	\$1,500	\$500	Withdrawal period	5 business days	5 business days	Entry fee	Nil	4.10% maximum ²	Ongoing fee	0.65% ²	1.85% ²	Regular Savings Plan ¹	Yes	Yes	Regular Withdrawal Plan ¹	Yes	Yes	Distribution reinvestment	Yes	Yes	Buy/sell spread (%)	0.10/0.10	0.10/0.10	Exit fee	Nil	Nil
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Contact Centre: 1800 819 935 Adviser Services: 1300 361 864 advance.com.au

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