

ADVANCE AUSTRALIAN FIXED INTEREST MULTI-BLEND FUND

As at 28 February 2023

FUND OVERVIEW

	Wholesale	Retail
Inception date	30 June 2004	30 June 1994
APIR	ADV0084AU	ADV0029AU
Fund size (AUD millions)	\$1,435.66	
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 / 0.05	0.00 / 0.00

FUND PERFORMANCE²

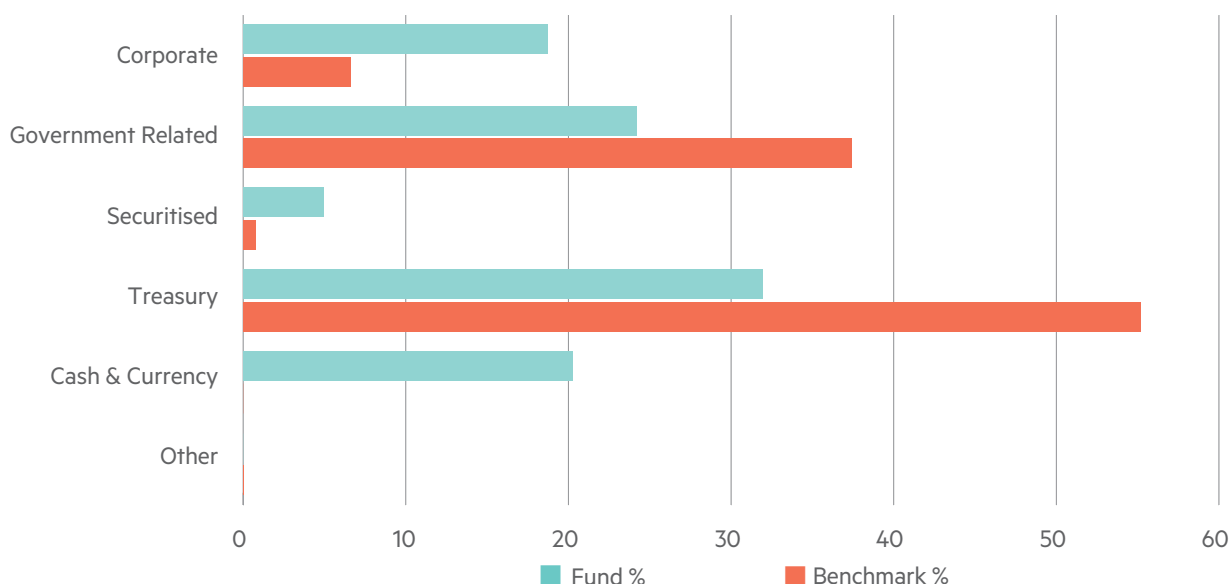
	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since Inception % pa
Total Net return	(1.05)	(0.06)	(6.83)	(3.28)	0.75	4.04
Growth return	(1.05)	(0.06)	(7.02)	(5.82)	(2.27)	(0.29)
Distribution return	-	-	0.19	2.54	3.02	4.33
Benchmark return [~]	(1.32)	(0.69)	(6.37)	(3.44)	0.82	4.41

[~] Benchmark: Bloomberg AusBond Composite 0+ Yr IndexSM

TOP 5 ISSUERS

	Fund (%)	Benchmark (%)
Government of Australia	20.04	55.16
New South Wales Treasury Corp.	9.19	7.15
Westpac Banking Corp.	3.79	0.51
Treasury Corporation of Victoria	3.52	7.36
Commonwealth Bank of Australia	3.28	0.40

SECTOR ALLOCATIONS^{3,4}



CREDIT QUALITY^{3,4,5}

	Fund %	Benchmark %
AAA	39.03	72.03
AA	20.57	21.71
A	16.89	3.65
BBB	14.57	2.58
Sub Investment Grade	0.00	0.00
Not Rated	(11.33)	0.03
Cash & Derivatives	20.26	0.00

FUND CHARACTERISTICS⁶

	Portfolio	Benchmark
Effective Duration (Contribution)	4.74	5.12
Years to Maturity (Years)	7.52	5.94
Effective Yield (%)	3.89	4.04

FUND UPDATE

The Advance Australian Fixed Interest Multi Blend Fund outperformed its benchmark in February with our underlying managers delivering a positive relative result over the month.

Pendal delivered positive excess returns in February. The domestic duration component of the fund was a positive contributor. The physical portfolio outperformed the benchmark. The government sector positioning performed inline whilst the non-government portion of the portfolio performed well. Financials, supra-nationals, infrastructure, and real estate sector positioning also added to performance.

Janus Henderson outperformed the benchmark over the month with value added through active management in both rates and credit. Overweight duration to swap rates over government bonds yields has been a positive contributor. Active allocations to Tier 2 debt was a strong driver of returns as these assets significantly outperformed.

Macquarie also delivered a positive excess in February, driven by sector rotation, security selection as well as duration and curve. The Portfolio's overweight credit positioning contributed positively to performance as Australian credit spreads outperformed global peers.

A combination of a hawkish shift by central banks and stronger-than-expected data in the US resulted in higher rates across the curve. This dampened risk sentiment in February.

In the United States, the Federal Reserve raised the Fed Funds rate by a further 25 basis points to 4.75%. In their accompanying statement the Committee stated that ongoing increases will be appropriate and that whilst inflation has eased somewhat it remained elevated. In the ensuing press conference Fed Chair Jay Powell noted that financial conditions had tightened 'very significantly' in the past year and that they are talking about a couple more rate hikes.

Economic data out of the US was generally stronger than expected, which saw the market reprice terminal cash rates higher as the expectation is that central banks will need to continue to hike rates to slow economies to bring inflation down. The unemployment rate fell from 3.6% to 3.4% and average hourly earnings rose 0.3% in January resulting in an annual increase of 4.4%. January inflation data was in line with consensus. Headline inflation rose 0.4% for the month and resulting in an annual increase of 6.4%, whilst core inflation was 0.4% and 5.6% for the same periods.

Domestically, yields moved higher following the Reserve Bank of Australia's (RBA) decision to raise the cash rate by 25 basis points to 3.35%. The move higher was caused by the wording of the statement which included that 'further increases in interest rates will be needed over the months ahead', indicating that further tightening is likely to occur in March and April. The meeting minutes revealed that the RBA only considered a move of 25 or 50 basis points and saw bond yields rise. At their December meeting the RBA had also considered the case for no change to the cash rate. The Statement on Monetary Policy was also released during the month and provided the latest RBA forecasts. Trimmed mean inflation is forecast to be at 4.3% in 2023 and 3.1% in 2024, still above the RBA's 2-3% target band. Reflecting the tight labour market wage inflation is expected to peak at 4.2% at the end of 2023 before easing as the unemployment rate increases. The unemployment rate rose from 3.5% to 3.7%.

Bond yields moved higher in February and risk sentiment dampened following stronger economic data. 3-year Australian bonds finished the month at 3.62%, from 3.16% at the start of month. 10-year bonds finished the month at 3.88% from 3.57% at the start. Short-term money markets remained volatile as monetary tightening expectations pivoted on RBA signalling. Three and six-month bank bill yields ended 19bps and 21bps higher at 3.56% and 3.93%. In the United States, 10-year and 2-year yields increased by 41 bps and 61 bps to 3.92% and 4.82% respectively.

Credit spreads were mixed over the month. The Australian iTraxx index (series 38) traded in a 20bp range, finishing 5bps wider to close at 86bps. Australian physical credit spreads, on the other hand, ended the month 5bp tighter on average as new primary market deals saw strong buying interest that also fed through to the secondary market bid tone. The best-performing sectors were utilities and infrastructure that narrowed 12 and 11bps respectively, while the worst-performing sector was supra-nationals that ended unchanged. Semi-government bonds performed well, tightening 4bps to Commonwealth government bonds.

The Australian bond market as measured by the AusBond Composite Index decreased by -1.32% for the month of February.

- 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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