

# ADVANCE AUSTRALIAN FIXED INTEREST MULTI-BLEND FUND

As at 31 May 2022

## FUND OVERVIEW

	Wholesale	Retail
Inception date	30 June 2004	30 June 1994
APIR	ADV0084AU	ADV0029AU
Fund size (AUD millions)	\$1,829.34	
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 <sup>1</sup>	0.45	1.20
Buy/sell spread (%)	0.05 / 0.05	0.00 / 0.00

## FUND PERFORMANCE<sup>2</sup>

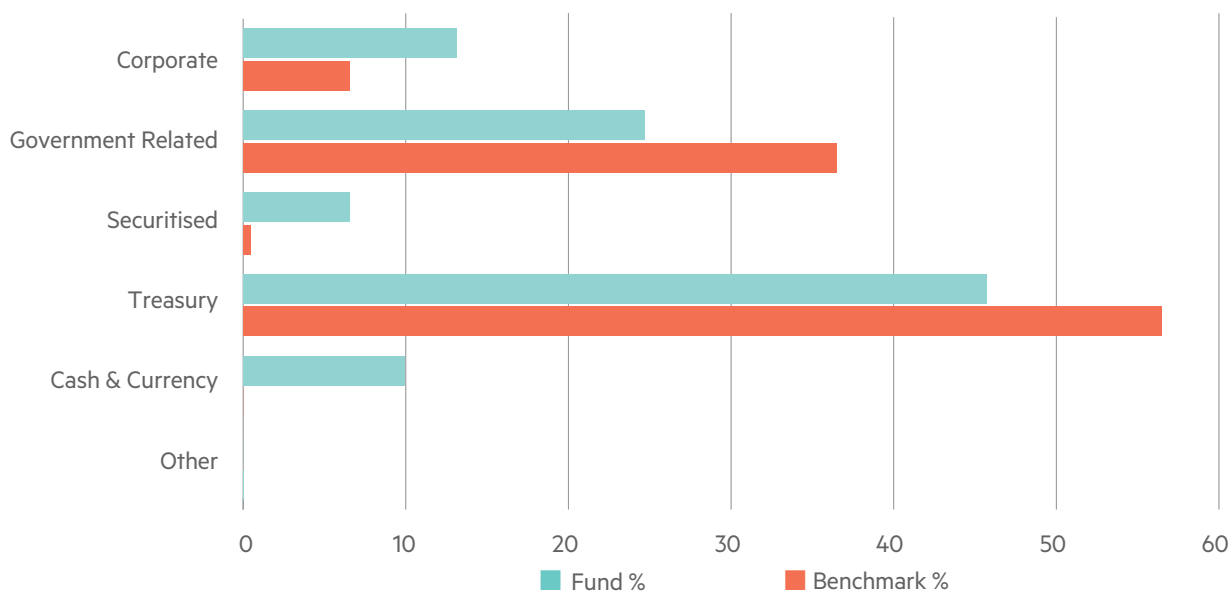
	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since Inception % pa
Total Net return	(1.08)	(6.85)	(9.36)	(1.75)	0.83	4.21
Growth return	(1.08)	(7.04)	(11.26)	(5.42)	(2.51)	(0.30)
Distribution return	-	0.19	1.90	3.67	3.35	4.52
Benchmark return <sup>~</sup>	(0.89)	(6.02)	(8.54)	(1.76)	0.99	4.62

<sup>~</sup> Benchmark: Bloomberg AusBond Composite 0+ Yr Index<sup>SM</sup>

## TOP 5 ISSUERS

	Fund (%)	Benchmark (%)
Government of Australia	21.90	56.49
New South Wales Treasury Corp.	7.28	6.24
Treasury Corporation of Victoria	4.48	6.38
Australia and New Zealand Banking Group Ltd.	3.22	0.27
Westpac Banking Corp.	3.07	0.37

## SECTOR ALLOCATIONS<sup>3,4</sup>



## CREDIT QUALITY<sup>3,4,5</sup>

	Fund %	Benchmark %
AAA	33.83	65.85
AA	24.12	27.51
A	18.04	3.52
BBB	20.01	3.12
Sub Investment Grade	0.00	0.00
Not Rated	-5.95	0.00
Cash & Derivatives	9.95	0.00

## FUND CHARACTERISTICS<sup>6</sup>

	Portfolio	Benchmark
Effective Duration (Contribution)	5.48	5.33
Years to Maturity (Years)	8.03	6.13
Effective Yield (%)	3.58	3.19

## FUND UPDATE

The Advance Australian Fixed Interest Multi-Blend Fund underperformed the benchmark during the month of May.

Our underlying managers delivered a mixed result over the month.

Pendal performed in line with the benchmark. While the duration component, cross market positions and government sector positioning added to the performance, the physical portfolio underperformed the benchmark, with the financials and supranationals sector positioning dragging the portfolio lower. Janus Henderson detracted as its long duration position relative to the benchmark, together with an overweight exposure across credit, added to negative excess returns.

In Macquarie's (formerly AMP) case, credit positioning detracted from performance as the impact of credit spread movements more than offset the contribution from the excess carry earned on credit securities held. Interest rate management also had an impact as the resultant effect of yield curve positioning and duration management detracted.

The mixed earnings data that came out of the United States, along with a continuation of recent developments, weighed on risk sentiment. The landscape of rising interest rates along with inflation, and the corresponding impact on consumer sentiment have caused growth forecasts around the world to lower. Commodity prices surged with natural gas up 12% after Russia implemented sanctions against European energy companies. Positive signs are, however,

emerging due to an improvement in the COVID situation in China, and the potential that the U.S. Federal Reserve (Fed) may not raise rates as aggressively as feared, which helped to underpin markets.

In the United States, the Fed raised the interest rate by 50 bps to 1%, the first increase greater than 25 bps since May 2020. In the press conference that followed, Fed Chair Powell highlighted that inflation is “much too high”, with annual inflation peaking at 8.6% in May, the highest since 1981. Chair Powell stated that “75 bps is not something the FOMC is actively considering” and talked about a potentially softish landing. This in turn saw bonds and equity markets rally. However, he did note that 50 bps hikes are possible at the next two meetings.

Moreover, the Federal Open Market Committee (FOMC) confirmed the start of the quantitative tightening (QT) program beginning on the first day of June and noted they would begin to pay down a net \$47.5bn per month in government debt for the next three months, and then \$97bn per month from September to reduce its balance sheet.

Domestically, the Federal election was held in May and resulted in a change of government with Anthony Albanese leading the Australian Labor Party (ALP) to victory and becoming Australia’s 31st prime minister. There was minimal market reaction following the result, given the similar economic policies shared by the two main parties.

The Reserve Bank of Australia (RBA) raised the interest rate for the first time since 2010, increasing its cash rate by 25bps to 0.35%, exceeding the expected consensus increase of 15bps. The RBA also noted that it wished to signal “business as usual” increments and that further rate hikes were likely in the months ahead to quell inflation pressures. Annual inflation surged to 5.1% in Q1 of 2022, which marked the highest reading since early 2000s.

Australian bonds underperformed against their US peers in May, with 3-year and 10-year bond yields ending the month 11 and 23 bps higher at 2.85% and 3.36%. By contrast, US 2-year and 10-year bonds ended the month 16 and 9 bps lower in yield at 2.56% and 2.84%. The short end of the curve sold off in Australia with three and six month yields 46 and 48 bps higher at 1.18% and 1.93%.

Credit spreads were driven wider due to higher inflation around the world, supply chain difficulties, central bank hikes and concerns around global growth. The Australian iTraxx index (series 37) traded in a 19-bps range finishing unchanged at 95 bps. Australian physical credit spreads moved outward a few basis points on average. The best performing sector was supranationals which tightened two bps, whilst the worst performing sector was bank seniors that widened ten bps. Semi-government bonds also were unchanged to Commonwealth government bonds.

The Australian bond market as measured by the AusBond Composite Index declined by -0.89% for the month of May.

- 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](http://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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