

# ADVANCE AUSTRALIAN FIXED INTEREST MULTI-BLEND FUND

As at 30 June 2022

## FUND OVERVIEW

|                                      | Wholesale  | Retail                  |
|--------------------------------------|--|-------------------------|
| Inception date                       | 30 June 2004   | 30 June 1994            |
| APIR                                 | ADV0084AU  | ADV0029AU               |
| Fund size (AUD millions)             | \$1,797.13   |                         |
| 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>

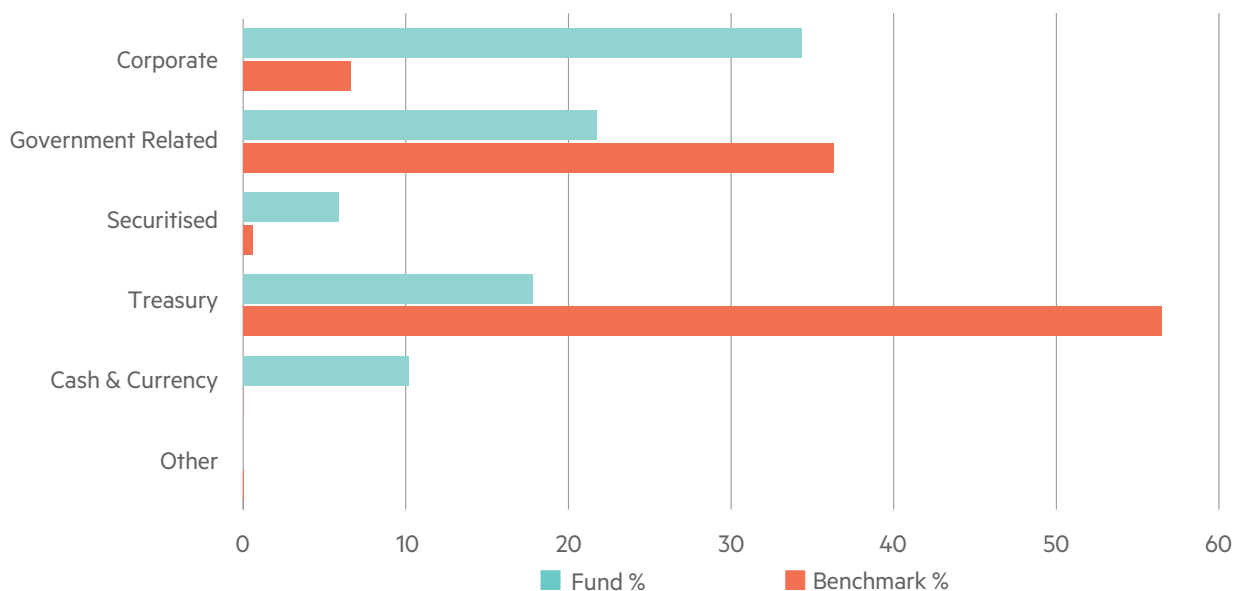
|                               | 1 month<br>% | 3 months<br>% | 1 year<br>% | 3 years<br>% pa | 5 years<br>% pa | Since Inception<br>% pa |
|-------------------------------|--------------|---------------|-------------|-----------------|-----------------|-------------------------|
| Total Net return              | (1.80)       | (4.57)        | (11.67)     | (2.65)          | 0.65            | 4.09                    |
| Growth return                 | (1.80)       | (4.57)        | (12.84)     | (5.85)          | (2.48)          | (0.40)                  |
| Distribution return           | -            | -             | 1.17        | 3.20            | 3.13            | 4.49                    |
| Benchmark return <sup>~</sup> | (1.48)       | (3.81)        | (10.51)     | (2.58)          | 0.87            | 4.51                    |

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

## TOP 5 ISSUERS

|                                | Fund (%) | Benchmark (%) |
|--------------------------------|----------|---------------|
| Government of Australia        | 18.76    | 56.46         |
| New South Wales Treasury Corp. | 6.16     | 6.26          |
| Treasury Corp. of Victoria     | 4.70     | 6.38          |
| Westpac Banking Corp.          | 2.84     | 0.43          |
| National Australia Bank Ltd.   | 2.73     | 0.44          |

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



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

|                      | Fund % | Benchmark % |
|----------------------|--------|-------------|
| AAA                  | 29.41  | 65.83       |
| AA                   | 21.74  | 27.54       |
| A                    | 15.25  | 3.52        |
| BBB                  | 17.69  | 3.10        |
| Sub Investment Grade | 0.00   | 0.00        |
| Not Rated            | 5.76   | 0.00        |
| Cash & Derivatives   | 10.15  | 0.00        |

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

|                                   | Portfolio | Benchmark |
|-----------------------------------|-----------|-----------|
| Effective Duration (Contribution) | 5.51      | 5.22      |
| Years to Maturity (Years)         | 7.89      | 6.03      |
| Effective Yield (%)               | 3.89      | 3.57      |

## FUND UPDATE

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

Our underlying managers delivering a negative result over the month.

Pendal underperformed the benchmark. As the government sector positioning underperformed whilst the non-government portion of the portfolio also detracted from performance. The physical portfolio underperformed the benchmark, with 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 case (formerly AMP), 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 impacted, as the negative impact from duration management more than offset the positive contribution from yield curve positioning.

It was another volatile month with aggressive central bank actions and rhetoric driving bond yields higher over the month before stabilising towards month end. Global data began to show hints of weakness and central bank speakers acknowledged the risk of delivering not a 'soft' but 'hard landing,' with the possibility of recession from policy over-tightening. Signs of China's reopening and easing of restrictions provided some support to the global backdrop, but this positive sentiment was offset by weak activity and consumption data amid ongoing supply chain issues, with the Russia-Ukraine conflict disrupting key energy and food supply chains.

In the United States, inflation in May exceeded expectations again with headline inflation rising 1% in the month and 8.6% over the past year (consensus was 0.7% and 8.3%). Core inflation rose by 0.6% and 6%, marginally above expectations. In response, the Federal Reserve (the Fed) raised the Fed funds rate by 0.75% to 1.75%. The market did however take comfort from comments from Fed Chair Jerome Powell when he stated that he doesn't expect 75 basis point moves to be common and sees either 50 or 75 basis points as being the most likely at the next Fed meeting.

Also, in his semi-annual testimony, the Fed Chair Powell stated that a soft landing was very challenging and, whilst recession is a possibility, he did not see the risks of a recession as being particularly elevated currently. Containing inflation rather than labour market outcomes is the priority for the Fed.

Closer to home, the Reserve Bank of Australia (RBA) raised the cash rate by 0.50% to 0.85%, their first 50 basis point hike since February 2000 and resulted in the market pricing in a cash rate closer to 4% by the end of the year. Expectations were pared back following comments from RBA Governor Lowe which indicated that moves of 25 or 50 basis points were more likely than 75 basis points. In a rare interview, Governor Lowe stated that following the rise in commodity prices since the May release of the RBA's Statement on Monetary Policy that inflation is now seen as being at 7% by the end of 2022. The forecast in May was 5.9%.

Bond yields moved higher over June. Australian three- and ten-year bond yields ended the month 27 and 31 basis points higher at 3.13% and 3.68% respectively. US two- and ten-year bonds ended the month 40 and 17 basis points higher in yield at 2.95% and 3.01% respectively. The larger than expected 50 basis point from the RBA saw the short end rates sell off further with three- and six- month yields 64 and 74 basis points higher at 1.81% and 2.67% respectively.

June saw credit spreads widen primarily driven by concerns that central banks would over-tighten and cause a recession. Markets aggressively increased expectations for future interest rate moves over the month on the back of higher-than-expected inflation data, hawkish central bank rhetoric, and the growing risk of multi-year high inflation.

Credit spreads underperformed over the month. The Australian iTraxx index (series 37) traded in a wide 37 basis points range finishing 35 basis points wider at 130 basis points. Australian physical credit spreads moved out a few basis points on average. The best performing sector was supranationals that tightened 1 basis points, whilst the worst performing sectors were utilities and industrials that widened 6 and 5 basis points respectively. Semi-Government bonds also underperformed pushing out 14 basis points to Commonwealth Government bonds.

The Australian bond market as measured by the AusBond Composite Index declined by -1.48% for the month of June.

- 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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