

ADVANCE AUSTRALIAN FIXED INTEREST MULTI-BLEND FUND

As at 31 July 2022

FUND OVERVIEW

	Wholesale	Retail
Inception date	30 June 2004	30 June 1994
APIR	ADV0084AU	ADV0029AU
Fund size (AUD millions)	\$1,686.92	
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

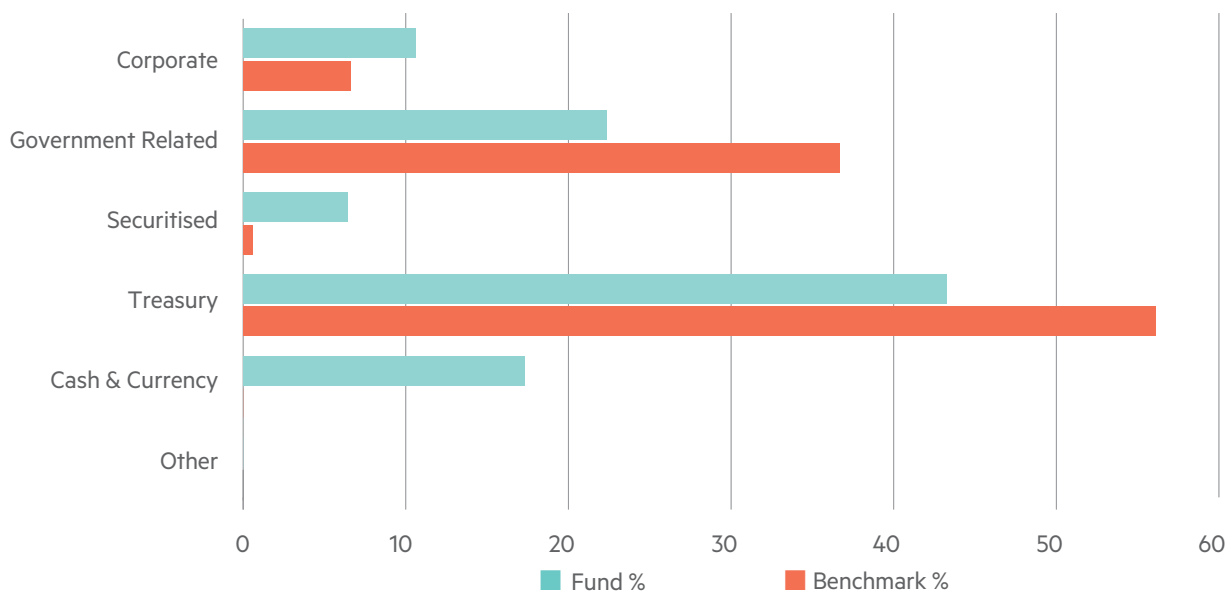
	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since Inception % pa
Total Net return	3.57	0.61	(10.09)	(1.83)	1.31	4.27
Growth return	3.57	0.61	(11.28)	(5.07)	(1.84)	(0.21)
Distribution return	-	-	1.19	3.23	3.15	4.48
Benchmark return [~]	3.36	0.93	(9.10)	(1.81)	1.49	4.68

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

TOP 5 ISSUERS

	Fund (%)	Benchmark (%)
Government of Australia	22.22	56.13
New South Wales Treasury Corp.	6.45	6.59
National Australia Bank Ltd.	4.28	0.43
Treasury Corp. of Victoria	3.89	6.81
Commonwealth Bank of Australia	3.03	0.18

SECTOR ALLOCATIONS^{3,4}



CREDIT QUALITY^{3,4,5}

	Fund %	Benchmark %
AAA	40.54	72.00
AA	18.70	21.59
A	16.85	3.53
BBB	16.74	2.76
Sub Investment Grade	0.00	0.00
Not Rated	(10.17)	0.13
Cash & Derivatives	17.33	0.00

FUND CHARACTERISTICS⁶

	Portfolio	Benchmark
Effective Duration (Contribution)	5.49	5.42
Years to Maturity (Years)	7.71	6.23
Effective Yield (%)	3.24	3.12

FUND UPDATE

The Advance Australian Fixed Interest Multi-Blend Fund outperformed its benchmark in July with our underlying managers delivering a mixed result over the month.

Pendal slightly underperformed the benchmark in July. The duration component was a positive, while the physical portfolio underperformed the benchmark. The government sector positioning outperformed, however the non-government portion of the portfolio detracted from performance. Industrials and real estate sector positioning were a drag on performance.

Macquarie delivered a positive excess over the month. The credit security selection and the overweight credit positioning helped drive the outperformance. The portfolio held a long bias to duration during July, which added to returns as bonds rallied given that market focus moved back towards recession risk.

Janus Henderson outperformed due to its yield curve strategy as well as its credit strategy of accumulating more liquid high quality credit assets (predominantly AAA, AA).

It was another busy month with central banks continuing to tighten monetary policy aggressively in July and inflation data continuing to surpass expectations. Increasing concerns about slowing economic growth as well as the recession risk saw bond yields fall in most developed markets late in the month. Recent themes weighing on risk sentiment continue to linger with the conflict in Ukraine showing no signs of abating, China continuing with its strict Covid policy and commodity prices overall remaining elevated.

In the United States, inflation continues to rise in the US and exceeded expectations again in June. Headline inflation rose 1.3% in the month taking the annual increase to 9.1% and core inflation rose 0.7% seeing annual core inflation rise 5.9% for the year. The Federal Reserve raised the Fed Funds rate by 0.75% to 2.5%. In the accompanying statement the Fed acknowledged that 'recent indicators of spending and production have softened', replacing the comment that activity had been picking up. In the press conference Fed Chair Powell stated that he sees the current policy level as around neutral and wants to get to a moderately restrictive stance.

Domestically, the Reserve Bank of Australia (RBA) continued its path of policy normalisation, raising the cash rate by a further 0.50% to 1.35% at its July meeting. Second quarter inflation data was close to being in line with expectations. Headline inflation rose 1.8% for the quarter and 6.1% for the year (consensus was for 1.9% and 6.3%). Trimmed mean for the quarter at 1.5% was in line, although the annual increase of 4.9% was slightly higher due to prior revisions. The weighted median was marginally below for the quarter and the year at 1.4% and 4.2%. The unemployment rate fell from 3.9% to 3.5%, a 50 year low.

Bond yields traded in a wide range during the month with the longer end of the curve outperforming. In the US, 10-year bond yields traded in a 50 bps range, peaking at 3.08% before rallying over the second half of the month to end 36 bps lower at 2.65%. 2-year yields in the US traded in a 42 bps range and ended the month 7 bps lower in yield at 2.88%.

In Australia, 10-year bonds rallied from the start of the month before ending 60 bps lower in yield at 3.08%, whilst the 3-year bond rallied 47 bps to 2.65%. Short end yields sold off reflecting further anticipated policy tightening from the RBA with 3 and 6-month Bank Bill Swap Rates (BBSW) up 31 bps and 11 bps to 2.12% and 2.78% respectively.

Credit spreads were mixed over the month. The Australian iTraxx index (series 37) traded in a wide 32 basis points range finishing 19 basis points tighter to 111 basis points. Australian physical credit spreads moved out a few basis points on average. The best performing sector was domestic banks that tightened 3 basis points, whilst the worst performing sectors were real estate and infrastructure that widened 16 and 12 basis points respectively. Semi-Government bonds performed tightening 4 basis points to Commonwealth Government bonds.

The Australian bond market as measured by the AusBond Composite Index rose by 3.36% for the month of July.

- 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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