

ADVANCE AUSTRALIAN FIXED INTEREST MULTI-BLEND FUND

As at 31 August 2022

FUND OVERVIEW

	Wholesale	Retail
Inception date	30 June 2004	30 June 1994
APIR	ADV0084AU	ADV0029AU
Fund size (AUD millions)	\$1,642.94	
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

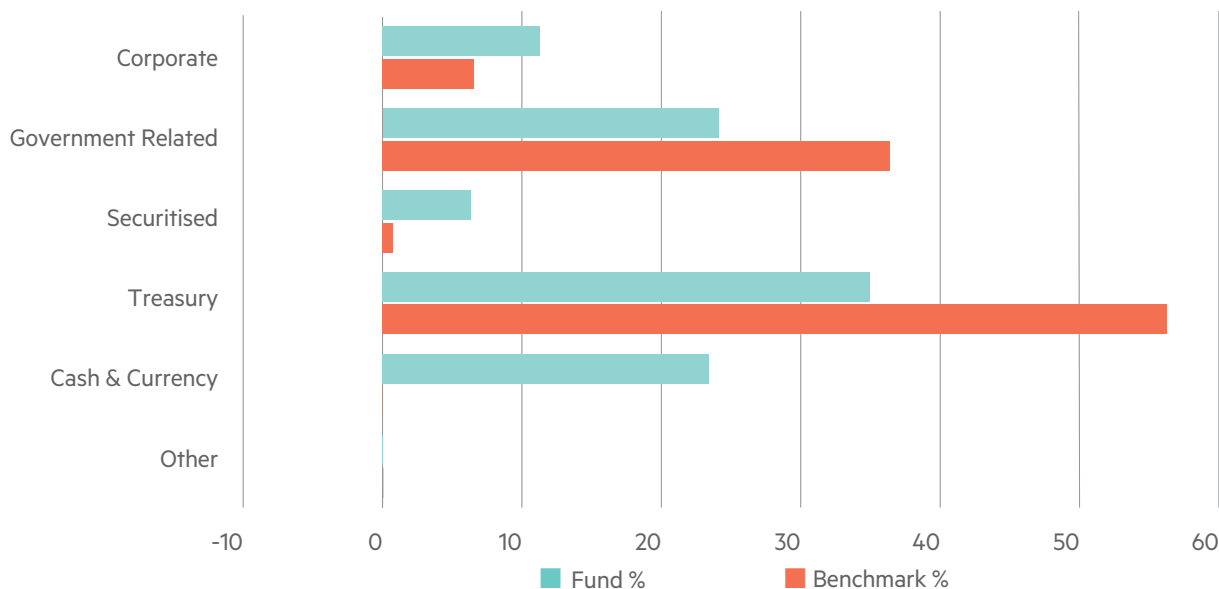
	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since Inception % pa
Total Net return	(2.50)	(0.84)	(12.36)	(3.12)	0.81	4.10
Growth return	(2.50)	(0.84)	(13.52)	(6.31)	(2.33)	(0.34)
Distribution return	0.00	0.00	1.16	3.19	3.13	4.45
Benchmark return [~]	(2.54)	(0.76)	(11.50)	(3.14)	0.97	4.51

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

TOP 5 ISSUERS

	Fund (%)	Benchmark (%)
Government of Australia	20.29	56.27
New South Wales Treasury Corp.	9.63	6.56
Commonwealth Bank of Australia	4.71	0.18
Westpac Banking Corporation	4.36	0.41
National Australia Bank Limited	3.53	0.43

SECTOR ALLOCATIONS^{3,4}



CREDIT QUALITY^{3,4,5}

	Fund %	Benchmark %
AAA	41.42	72.07
AA	18.22	21.63
A	17.24	3.53
BBB	17.22	2.77
Sub Investment Grade	0.00	0.00
Not Rated	(17.49)	0.00
Cash & Derivatives	23.40	0.00

FUND CHARACTERISTICS⁶

	Portfolio	Benchmark
Effective Duration (Contribution)	5.31	5.27
Years to Maturity (Years)	7.69	6.10
Effective Yield (%)	3.55	3.64

FUND UPDATE

The fund outperformed its benchmark in August with our underlying managers delivering a mixed result over the month.

Pendal outperformed the benchmark in August. The physical portfolio outperformed the benchmark while the duration component was a negative. Both the government sector positioning and the non-government portion of the portfolio performed well. Financials, industrials, and real estate sector positioning added to performance.

Macquarie delivered a positive excess over the month, primarily driven by security selection as well as sector rotation. The Portfolio's overweight credit positioning contributed positively to performance as Australian credit spreads rallied over the month.

Janus Henderson slightly underperformed due to bond yields rising, as well as some impact from semi governments, bond swap, and non-financial credit. Favoured allocations to high quality credit sectors like bank senior and covered bonds performed well over the month and was a positive contributor to returns.

It was another busy month with bond markets resuming the trend of 2022 towards higher rates. The rally in equity and bond markets last month, and the subsequent easing of economic conditions had clearly made central banks determined to ramp up the hawkish rhetoric. Consumer sentiment continues to deteriorate while business confidence is firmer but beginning to show signs of weakness.

In the United States, inflation was lower than economists' consensus, with headline inflation flat in the month of July and core rising 0.3%. Much of the focus was on Fed Chair Powell's address at Jackson Hole late in the month. The key points from his speech were that restoring price stability will take some time and will likely require a period of below trend growth, which will also bring some pain to households and business. Powell added that a failure to restore price stability would mean a far greater pain, although current inflation expectations remain anchored at the moment.

US central bankers continued with the hawkish talk during the month. Mary Daly endorsed a further 50 bps hike at the next meeting and not ruling out 75, should the data warrant a more aggressive response. Bullard also endorsed more aggressive action, front loading hikes and seeing the Fed Funds rate at around 3.75 - 4% by the end of the year, with a similar forecast from Kashkari.

Domestically, the Reserve Bank of Australia (RBA) continued its path of policy normalisation, raising the cash rate by a further 0.50% to 1.85% at its August meeting. The RBA released its Statement of Monetary Policy in early August. There were further revisions up to the inflation outlook, with inflation forecast at 7.8% at the end of this year before falling to 4.3% by the end of 2023. This saw short end rates once again move towards a terminal cash rate nearer 4% than 3%, which was also pushed on by the US markets looking towards 4% Fed Funds rates in 2023.

Bond yields surged higher on the pivot to more hawkish central bank commentary and strong activity data over the month. In the US, the yield curve inverted further as short rates raced higher in anticipation of additional central bank tightening, with the U.S. 2-Year yield up 61 bps to 3.5%, while the U.S. 10-Year yield rose by 54 bps to 3.2%. In Australia, 3- year and 10-year bond yields ended the month 58 and 54 bps higher in yield at 3.23% and 3.61% respectively. The 3-month bank bill yield ended the month 34 bps higher at 2.46%, while 6-month bank bills ended 22bps higher at 3.01%.

Credit spreads performed well over the month. The Australian iTraxx index (series 37) traded in a 24-bps range finishing 4 bps tighter to 107 bps. Australian physical credit spreads narrowed 6 bps on average. The best performing sectors were infrastructure and real estate that tightened 12 and 11 bps respectively, whilst the worst performing sector was resources that widened 5 bps. Semi-Government bonds underperformed pushing out 3 bps to Commonwealth Government bonds.

The Australian bond market as measured by the AusBond Composite Index decreased by -2.54% for the month of August.

- 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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