ADVANCE
ASSET MANAGEMENT

ADVANCE AUSTRALIAN FIXED INTEREST MULTI-BLEND FUND

As at 30 September 2022

FUND OVERVIEW

	Wholesale	Retail
Inception date	30 June 2004	30 June 1994
APIR	ADV0084AU	ADV0029AU
Fund size (AUD millions)	$1,618.48	
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 PERFORMANCE[2]

	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since Inception % pa
Total Net return	(1.48)	(0.51)	(12.37)	(3.44)	0.57	4.00
Growth return	(1.48)	(0.51)	(12.55)	(6.28)	(2.48)	(0.42)
Distribution return	-	0.00	0.18	2.84	3.05	4.43
Benchmark return~	(1.36)	(0.64)	(11.36)	(3.42)	0.75	4.41

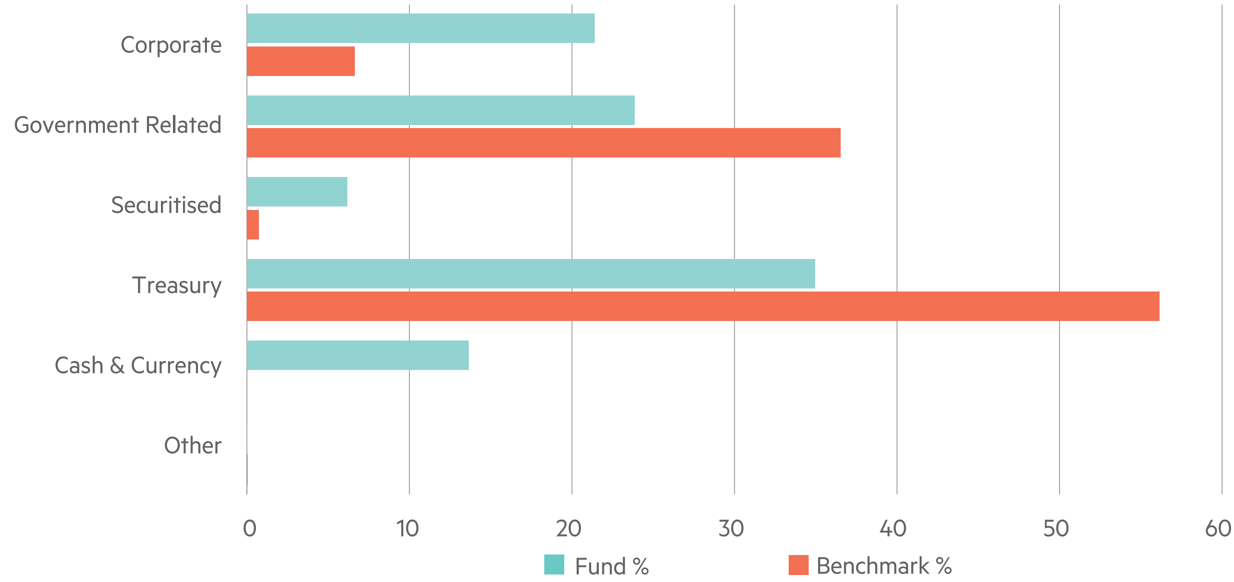
~ Benchmark: Bloomberg AusBond Composite 0+ Yr Index℠

TOP 5 ISSUERS

	Fund (%)	Benchmark (%)
Government of Australia	20.05	56.13
New South Wales Treasury Corp.	9.84	6.76
Westpac Banking Corp.	3.58	0.47
Commonwealth Bank of Australia	3.40	0.32
Australia and New Zealand Banking Group Ltd.	2.95	0.34

Please refer to the end of this report for the footnotes

SECTOR ALLOCATIONS[3,4]



CREDIT QUALITY[3,4,5]

	Fund %	Benchmark %
AAA	41.35	71.94
AA	16.38	21.65
A	16.57	3.59
BBB	16.69	2.69
Sub Investment Grade	0.00	0.00
Not Rated	(4.64)	0.13
Cash & Derivatives	13.65	0.00

FUND CHARACTERISTICS[6]

	Portfolio	Benchmark
Effective Duration (Contribution)	5.30	5.20
Years to Maturity (Years)	7.84	6.04
Effective Yield (%)	3.40	4.00

FUND UPDATE

The Advance Australian Fixed Interest Multi Blend Fund underperformed the benchmark during the month of September. Our underlying managers delivered a mixed result over the month.

Pendal slightly underperformed the benchmark in September. The physical portfolio slightly detracted from performance. The government sector positioning underperformed whilst the non-government portion of the portfolio outperformed. Supra-nationals, financials, and industrials 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 positioning remains focused in the front-end of the credit curve which outperformed as the credit curve steepened.

Janus Henderson underperformed due to bond yields rising. Allocations to high quality credit sectors, mostly AAA and AA type assets did cushion the impact although other sectors underperformed on a larger scale.

September saw a continuation of the trend to higher yields in the fixed income market. Risk sentiment was beaten up during the month as yields surged globally with central banks continuing with aggressive monetary policy tightening. The UK Government kicked a massive own goal late in the month with its mini budget sending yields soaring. China continued its strict Covid stance, sending a few cities into full lockdown during the month and tensions between Ukraine and Russia remain as elevated as ever.

Please refer to the end of this report for the footnotes

In the United States, the Federal Reserve (Fed) increased rates by another 75bp. The annual inflation rate for August came in at 8.3%, down from July's 8.5% but above market expectations of 8.1%. Core inflation, meanwhile, rose 0.6% for the month to 6.3% in August, the highest rate for five months. Recognising the third successive rate increase posed risks to growth, Fed Chairman Jerome Powell said rate hikes are "not as painful as failing to restore price stability." Powell also warned that it would be some time before tighter policy would have any clear impact on inflation. He confirmed during the month that Federal Reserve is resolute in bringing down inflation. Powell continued to stress the need to act "forthrightly" to bring down inflation to the 2% goal and cautioned against prematurely loosening policy.

Domestically, the Reserve Bank of Australia (RBA) raised the cash rate for a fifth consecutive month, by another 0.5% to 2.6%. Comments from RBA Governor Lowe were interpreted that the RBA may start to reduce the size of rate hikes when he stated that "the case for a slower pace of increase in interest rates becomes stronger as the level of the cash rate rises". Economic growth data was released and showed the economy expanding by a robust 0.9% in the second quarter and 3.6% over the past year. In an indication that rate rises may be starting to take effect, the household savings rate fell from 11.1% to 8.7%. The economy is yet to feel the impact of hikes so far this year and retail spending remains buoyant.

Bond yields continued surging higher over the month. In the US, 2-year and 10-year bond yields ended the month 79 and 64 bps higher in yield at 4.28% and 3.83% respectively. In Australia, 10-year yields peaked at 4.11% during the month, and finished at 3.91%, from 3.61% at the start of month. Australian 3-year bond yield ended the month 32 bps higher at 3.55%. Three-month bank bills ended the month 61 bps higher at 3.06%, while six-month bank bills ended 56 bps higher at 3.57%.

Credit spreads underperformed over the month. The Australian iTraxx index (series 37) traded in a large 49 basis points range, finishing 31 basis points wider at 138 basis points. The new series 38 contract finished the month at +145 basis points. Australian physical credit spreads pushed out 7 basis points on average. The best performing sectors were resources and utilities that both tightened 1 basis points, whilst the worst performing sectors were supra-nationals and offshore banks that both widened 10 basis points. Semi-Government bonds also underperformed moving out 4 basis points to Commonwealth Government bonds.

The Australian bond market as measured by the AusBond Composite Index declined by -1.36% for the month of September.

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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