

ADVANCE AUSTRALIAN FIXED INTEREST MULTI-BLEND FUND

As at 31 October 2022

FUND OVERVIEW

	Wholesale	Retail
Inception date	30 June 2004	30 June 1994
APIR	ADV0084AU	ADV0029AU
Fund size (AUD millions)	\$1,556.51	
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

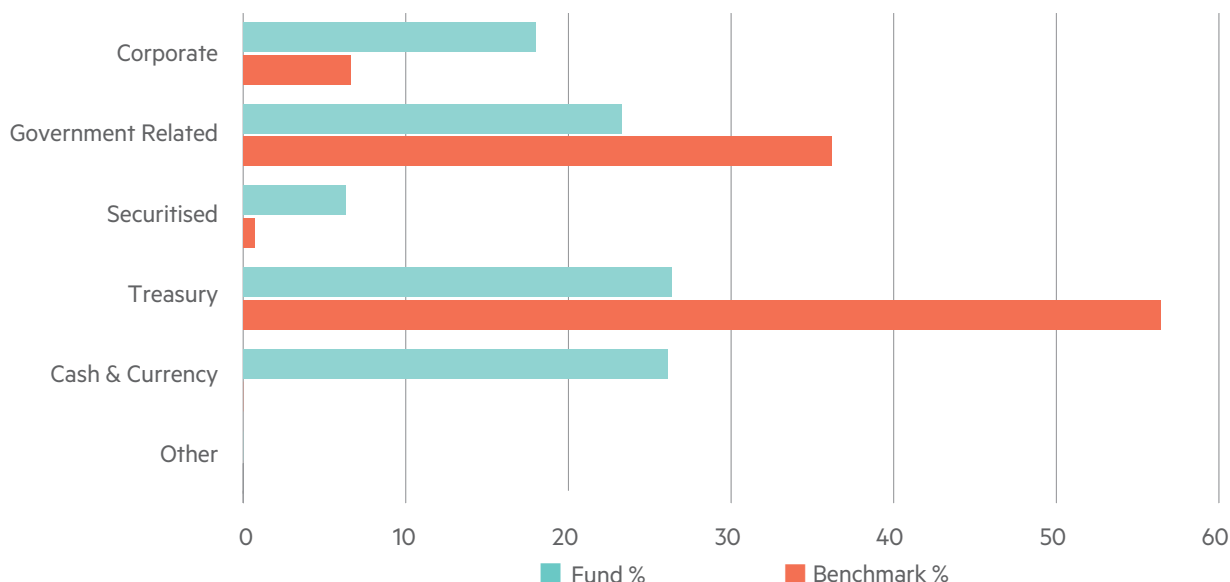
	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since Inception % pa
Total Net return	0.75	(3.22)	(8.37)	(3.05)	0.50	4.02
Growth return	0.75	(3.22)	(8.56)	(5.90)	(2.55)	(0.38)
Distribution return	-	0.00	0.19	2.85	3.05	4.41
Benchmark return [~]	0.93	(2.98)	(7.24)	(2.97)	0.72	4.44

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

TOP 5 ISSUERS

	Fund (%)	Benchmark (%)
Government of Australia	21.08	56.44
New South Wales Treasury Corp.	10.00	6.78
Australia and New Zealand Banking Group Ltd.	3.68	0.34
Westpac Banking Corp.	3.51	0.45
Commonwealth Bank of Australia	2.68	0.32

SECTOR ALLOCATIONS^{3,4}



CREDIT QUALITY^{3,4,5}

	Fund %	Benchmark %
AAA	42.69	72.39
AA	14.79	21.24
A	17.09	3.63
BBB	16.13	2.72
Sub Investment Grade	0.00	0.00
Not Rated	(16.80)	0.03
Cash & Derivatives	26.10	0.00

FUND CHARACTERISTICS⁶

	Portfolio	Benchmark
Effective Duration (Contribution)	4.98	5.18
Years to Maturity (Years)	7.81	6.00
Effective Yield (%)	3.77	3.87

FUND UPDATE

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

Pendal delivered a positive excess return in October. The physical portfolio outperformed the benchmark. The government sector positioning added to performance, however, the non-government portion of the portfolio detracted. Industrials sector positioning added to performance whilst supra-nationals and financials detracted.

Macquarie and Janus Henderson underperformed the benchmark over the month, primarily driven by the ongoing rates volatility and the widening in credit spreads.

October was another volatile month for the financial markets and geopolitical risk remains as elevated as ever. Consumer sentiment continues to deteriorate while business confidence is firmer but showing signs of weakness. During the month, the tensions between Russia and Ukraine escalated as Russia retaliated to several attacks. The US announced to restrict exports of semiconductor chips to Chinese firms which inflamed tensions with Beijing. In the UK, a change in political leadership and shift in policies helped settle gilt markets and propel a market recovery as yields fell sharply.

In the United States, the inflation data continues to exceed expectations and led to the market pricing in up to a further 1.5% increase in the Fed Funds rate prior to the end of the year. Headline and Core inflation both exceeded expectations by 0.2% at 0.4% and 0.6% respectively, taking the annual rate to 8.2% and 6.6%. The strong labour and inflation data, and hawkish rhetoric from several Federal Open Market Committee (FOMC) members at the beginning of the month together pushed terminal policy rate expectations higher, with the market moving to price in 75 basis point hikes at the Federal Reserves (the Fed) meeting in November and December.

Domestically, the Reserve Bank of Australia (RBA) surprised the market when they raised the cash rate by 0.25% to 2.60%. Governor Lowe dropped a hint in early September that the pace of tightening would slow when he commented that “the case for a slower pace of increase in interest rates becomes stronger as the level of the cash rate rises”. The more aggressive tightening from other central banks had however resulted in the market pricing in an increase of 0.50% as being the likely case by the end of the month. Third quarter inflation data came out higher than expected. Headline and trimmed mean inflation rose 1.8% against expectation of 1.6% and 1.5%. The result saw the market price in a 20% possibility of a 50 basis point move from the RBA at their November meeting. The main contributors to the higher result included new dwellings (+3.7%), gas (+10.9%) and furniture (+6.6%).

Australian bonds performed strongly over the month, with 10-year yields falling 14 bps to 3.76% and 3-year yields falling 28 bps to 3.27%. In the United States, 10-year and 2-year yields rose 22 bps and 20 bps to 4.05% and 4.48% respectively. Short-dated rates in Australia rose slightly despite the RBA surprising the market with its less than expected increase of the cash rate during the month. After falling to as low as 2.85% and 3.29%, three and six-month bank bill yields ended the month 2 basis points (bps) and 9bps higher at 3.09% and 3.66%.

Credit spreads were mixed over the month with synthetic credit outperforming following positive market sentiment, however physicals underperformed as new primary market deals re-priced the secondary market wider. The Australian iTraxx index (series 38) traded in a 22 basis points range, finishing 7 basis points tighter at 131 basis points. Australian physical credit spreads underperformed, widening a couple of basis points on average. The best performing sector was industrials which was unchanged on the month, whilst the worst performing sector was domestic banks that widened 7 basis points. Semi-government bonds also underperformed moving out 12 basis points to Commonwealth Government bonds.

The Australian bond market as measured by the AusBond Composite Index increased by 0.93% for the month of October.

- 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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