

ADVANCE AUSTRALIAN FIXED INTEREST MULTI-BLEND FUND

As at 31 March 2021

FUND OVERVIEW

	Wholesale	Retail
Inception date	30 June 2004	30 June 1994
APIR	ADV0084AU	ADV0029AU
Fund size (AUD millions)	\$2,135.95	
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 (%)	0.05/0.15	0.00/0.00

FUND PERFORMANCE²

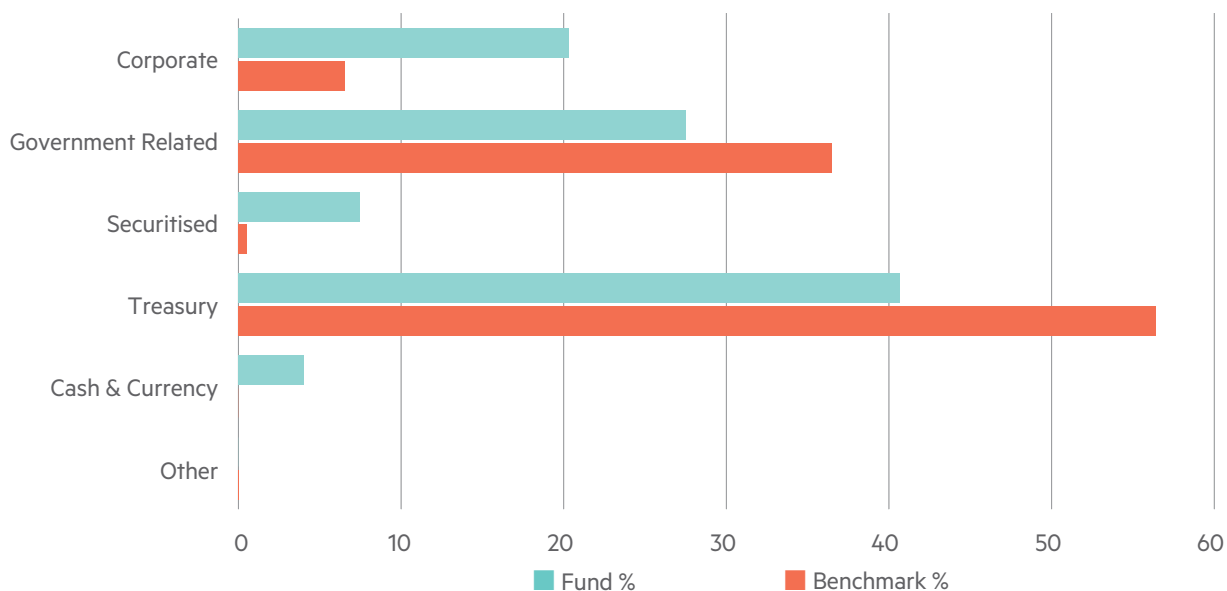
	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since Inception % pa
Total Net return	0.85	(3.38)	(0.51)	4.02	3.50	5.07
Growth return	0.54	(3.69)	(5.77)	(0.11)	(0.24)	0.33
Distribution return	0.32	0.30	5.26	4.14	3.73	4.74
Benchmark return	0.80	(3.22)	(1.81)	3.98	3.46	5.46

Benchmark: Bloomberg AusBond Composite 0+ Yr IndexSM

TOP 5 ISSUERS

	Fund (%)	Benchmark (%)
Government of Australia	19.25	56.40
New South Wales Treasury Corp.	8.54	6.28
Treasury Corporation of Victoria	5.33	5.49
Queensland Treasury Corp.	3.01	7.86
Australia and New Zealand Banking Group Limited	2.51	0.36

SECTOR ALLOCATIONS^{3,4}



CREDIT QUALITY^{3,4,5}

	Fund %	Benchmark %
AAA	32.49	66.02
AA	25.24	27.47
A	18.53	3.67
BBB	20.93	2.84
Sub Investment Grade	0.00	0.00
Not Rated	(1.20)	0.00
Cash & Derivatives	4.02	0.00

FUND CHARACTERISTICS⁶

	Portfolio	Benchmark
Effective Duration (Contribution)	5.84	5.78
Years to Maturity (Years)	9.24	6.62
Effective Yield (%)	1.53	1.14

FUND UPDATE

The Advance Australian Fixed Interest Multi Blend Fund outperformed the benchmark during the month of March. Portfolio performance was broadly positive with AMP, Pandal and Janus Henderson all outperforming relative to the index.

The duration component had a positive month in March after bond yields retraced from their peak in February. Most of our managers rotated towards an overweight duration position at the turning point, after yields pushed to 2-year high at the end of February. This aided performance through March as bond markets settled.

Credit positioning was mixed but also broadly neutral. Whilst the excess carry earned on credit securities aided returns, concerns that further bond yield rises might trigger credit spread widening saw a significant number of issuers access the primary market while yields and spreads were still low in outright terms. This bout of heavy primary supply saw credit spreads widen gently.

March was a relatively benign month for financial markets following the aggressive sell off in bond yields over the latter part of February, which weighed on risk sentiment. Bond yields continued their move higher during the month, albeit at a more subdued pace as fiscal stimulus in the United States (US) raised both economic growth and inflation expectations. The virus situation worsened in Europe, with the public health agency in Germany warning that a third wave had begun. Italy imposed national lockdowns whilst France and Poland introduced partial lockdowns.

Sentiment was also dented during the month over concerns that the AstraZeneca vaccine may result in blood clotting. In the US the \$1.9tn COVID relief bill was passed, and further fiscal stimulus was mooted late in the month with headlines of an infrastructure package of \$3tn.

The Federal Reserve (Fed) left its policy settings unchanged at its March meeting. The summary of economic projections reflected a more positive outlook on the state of the US economy with economic growth forecast now to increase by 6.5% (from 4.2% previously) in 2021. The unemployment rate is now forecast to be 4.5% (from 5%) and core PCE inflation is expected to rise 2.2% in 2021 (previously 1.8%). The longer-term inflation forecast remains benign with rises of 2% and 2.1% forecast for 2022 and 2023.

In the following press conference Fed Chair Powell reiterated that the criteria for raising rates includes maximum employment, 2% inflation along with an expected inflationary trajectory to exceed 2% for some time. Transitory factors that see an increase in the inflation rate will be looked through. Late in the month, the Fed also announced that the Supplementary Leverage Ratio exemption would expire at the end of March, putting upward pressure on US treasury yields.

Credit spreads were mixed in March with synthetic indices rallying whilst physical securities widened.

The rally in synthetics followed the strength in equities on the back of the approval of Biden's huge US \$1.9 trillion stimulus package. Also, in a dovish statement the ECB said that it would purchase bonds "at a significantly higher pace" in the next quarter to maintain financing conditions.

The widening in physical credit spreads was due to several factors. The strength in the Australian dollar vs the Yen has seen a significant amount of profit taking from Japanese investors. The additional supply back into the Australian market also weighed on physicals, as March was a seasonally strong month of new issuance.

The Australian iTraxx index (Series 34 contract) traded in a 9bp range finishing the month 7bps tighter to 56bps. The new Series 35 contract closed the month at +64; however physical credit spreads in Australia underperformed widening 3bps on average. The best performing sector was the resources sector that tightened 2bps; however most sectors underperformed - the worst being telcos, utilities and industrials that widened 9, 7 & 4bps respectively. Semi-government bonds underperformed, widening 2bps to commonwealth government bonds.

The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, was up 0.8% over the month. Over the past year, the Australian bond market has returned -1.81%.

- 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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