

ADVANCE AUSTRALIAN FIXED INTEREST MULTI-BLEND FUND

As at 30 November 2022

FUND OVERVIEW

	Wholesale	Retail
Inception date	30 June 2004	30 June 1994
APIR	ADV0084AU	ADV0029AU
Fund size (AUD millions)	\$1,414.89	
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	1.67	0.93	(8.79)	(2.76)	0.66	4.10
Growth return	1.67	0.93	(8.97)	(5.62)	(2.40)	(0.29)
Distribution return	-	-	0.19	2.86	3.06	4.39
Benchmark return [~]	1.55	1.09	(7.72)	(2.74)	0.86	4.51

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

TOP 5 ISSUERS

	Fund (%)	Benchmark (%)
Government of Australia	19.71	55.43
New South Wales Treasury Corp.	9.25	6.95
Treasury Corporation of Victoria	3.58	7.02
National Australia Bank Limited	3.21	0.43
Westpac Banking Corporation	3.15	0.45

SECTOR ALLOCATIONS^{3,4}



CREDIT QUALITY^{3,4,5}

	Fund %	Benchmark %
AAA	40.02	71.69
AA	16.30	21.78
A	17.58	3.75
BBB	16.67	2.75
Sub Investment Grade	0.00	0.00
Not Rated	(19.96)	0.03
Cash & Derivatives	29.39	0.00

FUND CHARACTERISTICS⁶

	Portfolio	Benchmark
Effective Duration (Contribution)	5.03	5.29
Years to Maturity (Years)	7.94	6.09
Effective Yield (%)	3.50	3.69

FUND UPDATE

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

Pendal delivered performance that was in line with the benchmark in November. The physical portfolio underperformed the benchmark. The government sector positioning detracted from performance as did the non-government portion of the portfolio. Supra-nationals and financials sector positioning however added to performance whilst real estate, infrastructure and industrials detracted.

Janus Henderson outperformed the benchmark over the month, with value added through active management in both rates and credit. Spread tightening in semi-government bonds aided performance in the month, outperforming government bonds on a relative basis. A slight overweight to duration vs the benchmark was also contributed.

Macquarie delivered a positive result in November, primarily driven by security selection as well as sector rotation. The overweight credit positioning contributed positively to performance as credit spreads tightened on option-adjusted spread basis over the month.

Risk sentiment was buoyed over the month due to the weaker than expected inflation out of the United States and the Central Bank's commentary for the potentially slowing pace of monetary policy tightening.

In the United States, the Federal Reserve (the Fed) increased the Fed Funds Rate by a further 0.75% at their meeting in early November. In their statement the Fed indicated that the increments for policy tightening may be less than 0.75% while they stated that they will "take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments". Whilst the market rallied following the statement release, Fed Chair Powell's press conference included a comment that "the question of when to moderate the pace of increases is now much less important than the question of how high to raise rates and how long to keep monetary policy restrictive" and that

“the ultimate level of interest rates will be higher than previously expected.” Inflation data in the US came out weaker than expected. The headline rate rose by 0.4% in October (expectation was for 0.6%), taking the annual rate from 8.2% to 7.7%. Core inflation rose by 0.3% (expectation was for 0.5%) and resulted in the annual rate falling from 6.6% to 6.3%.

Domestically, the Reserve Bank of Australia (RBA) raised the cash rate by a further 0.25% to 2.85%, in line with market expectations. The RBA released their latest economic forecasts in their Statement on Monetary Policy. Headline inflation for 2022 is forecast to hit 8% before falling to 4.7% and 3.2% in 2023 and 2024. Trimmed mean is forecast to remain above the RBA's target band over the forecast period with trimmed mean seen at 3.8% and 3.2% in 2023 and 2024. Economic growth was revised down to 1.4% and 1.6% for the same period, with the sub-trend economic growth expected to result in the unemployment rate rising to 3.7% and 4.3%. In a speech late in the month Governor Lowe stated that the current high inflationary environment is seen as temporary, but that future inflation may prove to be more volatile and more challenging to keep in a narrow range. He sighted the reversal of globalisation, demographics, climate change and the energy transition as some of the factors that will lead to more variable inflation outcomes.

Bonds had a modest rally over the month. 3-year Australian bonds finished the month at 3.18%, from 3.27% at the start of month. 10-year bonds finished the month at 3.55% from 3.76% at the start. Three-month bank bills ended largely unchanged at 3.09% while six-month bank bill yields ended the month 10 bps lower at 3.56%. In the United States, 10-year and 2-year yields fell 44 bps and 17 bps to 3.61% and 4.31% respectively.

Credit spreads were mixed over the month with synthetic credit outperforming following positive market sentiment, however in physicals, some sectors performed whilst others underperformed. The Australian iTraxx index (series 38) traded in a large 42bp range finishing 41bps tighter 90bps. Australian physical credit spreads ended the month 1bp narrower on average. The best performing sectors were domestic banks and supra-nationals which tightened 9 & 5bps respectively, whilst the worst performing sectors were infrastructure, real estate and utilities that widened 14, 13 & 5bps respectively. Semi-government bonds performed narrowing 7bps to commonwealth government bonds.

The Australian bond market as measured by the AusBond Composite Index rose by 1.55% for the month of November.

- 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.

Advance Asset Management, GPO Box B87, Perth WA 6838

Customer Relations 1800 819 935 Adviser Services 1300 361 864 Fax (02) 9274 5211

advance.com.au

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