

ADVANCE AUSTRALIAN FIXED INTEREST MULTI-BLEND FUND

As at 31 December 2022

FUND OVERVIEW

	Wholesale	Retail
Inception date	30 June 2004	30 June 1994
APIR	ADV0084AU	ADV0029AU
Fund size (AUD millions)	\$1,379.84	
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

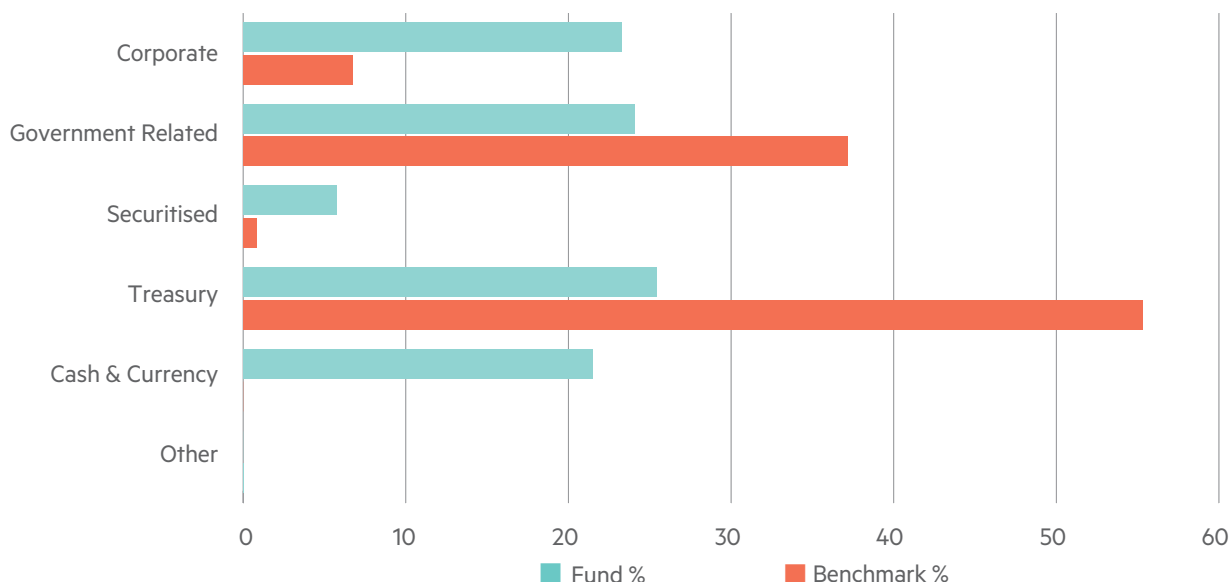
	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since Inception % pa
Total Net return	(1.98)	0.41	(10.77)	(2.87)	0.37	3.97
Growth return	(1.98)	0.41	(10.95)	(5.42)	(2.64)	(0.40)
Distribution return	0.00	-	0.18	2.55	3.01	4.36
Benchmark return [~]	(2.06)	0.38	(9.71)	(2.87)	0.54	4.37

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

TOP 5 ISSUERS

	Fund (%)	Benchmark (%)
Government of Australia	19.15	55.31
New South Wales Treasury Corp.	8.65	7.03
Treasury Corporation of Victoria	4.10	7.17
National Australia Bank Ltd.	3.85	0.50
Commonwealth Bank of Australia	3.49	0.32

SECTOR ALLOCATIONS^{3,4}



CREDIT QUALITY^{3,4,5}

	Fund %	Benchmark %
AAA	38.84	71.74
AA	20.30	21.71
A	17.60	3.70
BBB	16.21	2.62
Not Rated	(14.44)	0.22
Cash & Derivatives	21.50	0.00

FUND CHARACTERISTICS⁶

	Portfolio	Benchmark
Effective Duration (Contribution)	4.88	5.18
Years to Maturity (Years)	7.62	6.02
Effective Yield (%)	4.02	4.09

FUND UPDATE

The portfolio outperformed its benchmark in December with our underlying managers delivering a positive relative result over the month.

Pendal delivered positive excess returns in December. The portfolio took advantage of the bond market rally in the first half of December to exit a US

5 year long duration position. The physical portfolio outperformed the benchmark. Both the government sector positioning and the non-government portion of the portfolio performed well. Supranationals, financials and industrials sector positioning added to performance.

Janus Henderson outperformed the benchmark over the month. The rise in yields was a detractor for long dated fixed rate bonds over the month. However, active portfolio management including having neutral duration positions throughout most of the month aided performance on a relative basis. Spreads moved slightly wider in semi-government bonds detracting from performance, while swap spreads outperformed government bonds contributing positively.

Macquarie also delivered a positive excess in December, primarily driven by security selection as well as sector rotation.

It was a busy month in December with central banks continuing to tighten monetary policy although there is clear evidence that inflationary pressures are easing across the developed world. News of the easing of China's zero covid policy and corresponding China re-opening story was initially viewed positively for markets on the back of improved future global economic growth. However later in the month, concerns grew as it could lead to a spike in global covid cases. The Bank of Japan broadened the tolerance for its yield curve control target band on the 10yr JGB yield from 25bps to 50bps, and the move surprised the market driving yields higher globally.

In the United States, as expected, the Federal Open Market Committee (FOMC) raised the Fed Funds rates by 50bps to 4.25%-4.50%. Fed Chair Jerome Powell had indicated policymakers could moderate the pace of interest rate hikes and the smaller rate hike was widely anticipated. Strong data out of the US (average hourly earnings, ISM services and producer prices) at the start of the month saw risk markets weaken on the fear of higher inflation. However, in the middle of the month, the market had the US CPI print which was the 2nd consecutive positive (lower) surprise on US inflation, which gave the market a lift. Consumer inflation fell back for the fifth consecutive month, and by more than expected. The Fed lowered its GDP forecast for 2023 and raised its inflation forecast, though the recent fall in inflation has provided investors with hope that the extent and pace of future rate hikes will become more muted.

Domestically, the Reserve Bank of Australia (RBA) raised the cash rate in early December by a further 0.25% to finish the year at 3.10%. The RBA believes that the 3% of cash rises since May should begin to have a decent effect on economic activity into 2023, citing that the “full effect of the increases in interest rates is yet to be felt in mortgage payments.” Inflation should also begin to moderate in the first quarter of 2023 after a high energy driven number for Q4 2022 is released in late January. However, the RBA also maintained the line that they expect to “increase interest rates further over the period ahead”, although not on a “pre-set course”. Markets now expect the RBA cash rate to hit 4% by late 2023, with a hike priced in for each quarter.

Bonds had a modest rally over the first part of December on the back of lower US inflation numbers. However, 2022 had one last bearish surprise in store for bonds as a hawkish US Fed followed by a widening of the Bank of Japan Yield Curve Control saw a steep selloff over Christmas. 3-year Australian bonds finished the month at 3.50%, from 3.18% at the start of month. 10-year bonds finished the month at 4.07% from 3.55% at the start. Three- and six-month bank bill yields lifted by 17.5bps and 20.5bps to end the month at 3.26% and 3.77%. In the United States, 10-year and 2-year yields increased by 27 bps and 12 bps to 3.87% and 4.43% respectively.

Credit spreads were mixed over the month with synthetic credit underperforming whilst physicals spreads performed. The Australian iTraxx index (series 38) traded in a 14bp range finishing 3bps wider to close at 93bps. Australian physical credit spreads ended the month 3bp narrower on average. The best performing sectors were infrastructure and utilities which tightened 12 & 6bps respectively, whilst the worst performing sector was supra-nationals that only narrowed 1bp. Semi-government bonds underperformed widening 2bps to commonwealth government bonds.

The Australian bond market as measured by the AusBond Composite Index decreased by 2.06% for the month of December.

- 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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