

ADVANCE AUSTRALIAN FIXED INTEREST MULTI-BLEND FUND

As at 31 January 2023

FUND OVERVIEW

	Wholesale	Retail
Inception date	30 June 2004	30 June 1994
APIR	ADV0084AU	ADV0029AU
Fund size (AUD millions)	\$1,424.08	
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

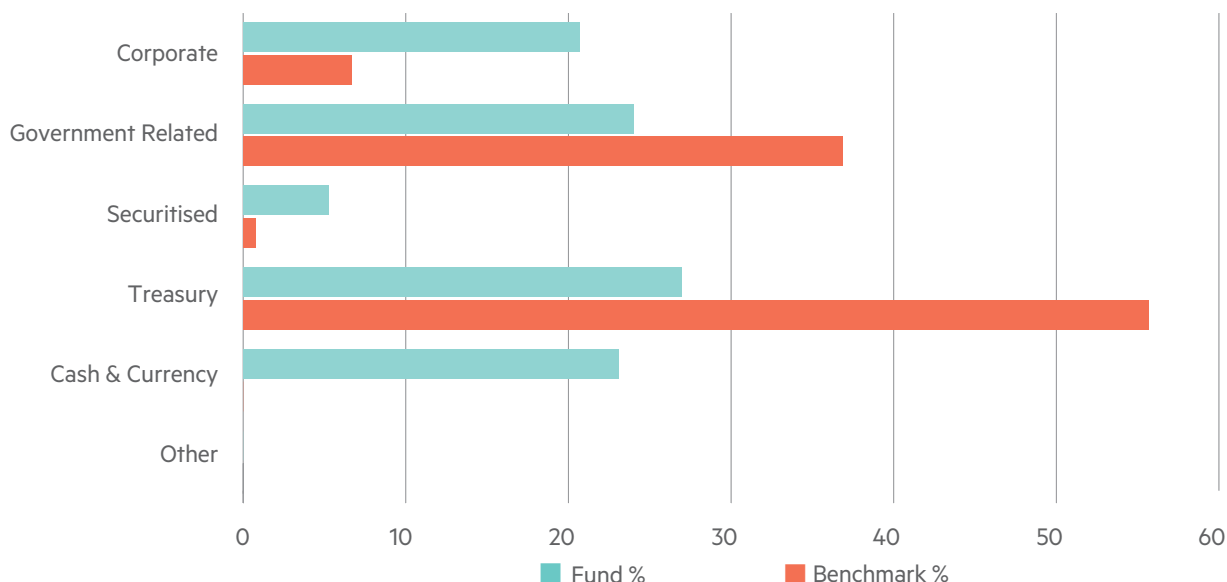
	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since Inception % pa
Total Net return	3.04	2.69	(7.12)	(2.67)	1.02	4.12
Growth return	3.04	2.69	(7.32)	(5.22)	(2.00)	(0.23)
Distribution return	-	-	0.19	2.56	3.03	4.35
Benchmark return [~]	2.76	2.20	(6.26)	(2.74)	1.14	4.51

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

TOP 5 ISSUERS

	Fund (%)	Benchmark (%)
Government of Australia	19.10	55.65
New South Wales Treasury Corp.	8.63	7.08
Treasury Corporation of Victoria	4.06	7.24
Commonwealth Bank of Australia	3.71	0.32
National Australia Bank Ltd.	3.09	0.50

SECTOR ALLOCATIONS^{3,4}



CREDIT QUALITY^{3,4,5}

	Fund %	Benchmark %
AAA	38.21	71.95
AA	19.57	21.77
A	17.49	3.60
BBB	15.29	2.64
Sub Investment Grade	0.00	0.00
Not Rated	(13.63)	0.05
Cash & Derivatives	23.07	0.00

FUND CHARACTERISTICS⁶

	Portfolio	Benchmark
Effective Duration (Contribution)	4.80	5.22
Years to Maturity (Years)	7.49	6.03
Effective Yield (%)	4.49	3.69

FUND UPDATE

The Advance Australian Fixed Interest Multi Blend Fund outperformed its benchmark in January with our underlying managers delivering a positive relative result over the month.

Pendal delivered a positive excess returns in January. The domestic duration component of the fund was a small positive. The physical portfolio outperformed the benchmark. The government sector positioning was flat whilst the non-government portion of the portfolio performed well. Industrials, financials, real estate, and supra-nationals sector positioning added to performance.

Janus Henderson outperformed the benchmark over the month, with value added through active management in both rates and credit. The fall in bond yields was one of the main drivers of return in the month. The Fund's exposure to swaps was a positive contributor in January as well.

Macquarie also delivered a positive excess in January, primarily driven by both rates and credit strategies.

January saw the Australian bond market recover most of the losses from the late December selloff. This was despite a higher-than-expected Q4 2022 inflation number released late in January. The rally was driven by growing signs in the US and other economies that inflation has peaked and central banks will be slowing the pace of hikes or even stopping them completely.

In the United States inflation data printed in line with market expectations. Headline inflation fell 0.1% in December, resulting in an annual increase of 6.5%. Core inflation rose 0.3% for the month and 5.7% over 2022. The fall in headline inflation was driven entirely by the fall in gasoline prices. Key Fed member Lael Brainard acknowledged that inflation data has declined in recent months and that the retail sales and industrial production data showed a slowing in economic growth. Forward looking indicators suggest growth will slow further in 2023 however policy will need to be sufficiently restrictive for some time in bringing inflation down.

In their meeting minutes released earlier in the month, the Fed reiterated their resolve to bring down inflation. The Fed commented that the move from 75 to 50 basis points “was not an indication of any weakening of the committee’s resolve to achieve its price-stability goal”. Fed officials’ median projections for the appropriate path of interest rates also revealed that none of the Fed officials expect that it will be appropriate to cut interest rates in 2023, at odds with market pricing.

Domestically, there was no Reserve bank of Australia (RBA) meeting in January but it looks like there will be another 0.25% hike in February. Activity data is mixed, with leading indicators showing softness in activity. Employment data was also soft, with the unemployment rate rising to 3.5%. Whilst the direction of data is for slowing, the outright levels generally remain buoyant but are expected to further moderate during 2023. The inflation data in late January saw markets give up part of their strong start of year performance. Headline CPI was 1.9% for the quarter and 7.8% for the year, above market expectations but around RBA forecasts. Underlying CPI was 1.7% and 6.9% respectively, and this would have been more a concern for the RBA given that services inflation remains elevated.

Bonds had a rally during the month in response to easing inflation signs. 3-year Australian bonds finished the month at 3.16%, down from 3.5% at the start of the month. 10-year bonds finished the month at 3.57% from 4.07% at the start. Short-term money markets remained volatile as monetary tightening expectations shifted on data flows. The higher-than-expected inflation readings saw three-month bank bill yields end the month 11bps higher at 3.37% as tightening was brought forward. Six-month bank bill yields ended 4bps lower at 3.72%. In the United States, 10-year and 2-year yields decreased by 37 bps and 22 bps to 3.51% and 4.2% respectively.

Credit spreads narrowed over the month. The Australian iTraxx index (series 38) traded in a 17bp range finishing 12bps tighter to close at 81bps. Australian physical credit spreads ended the month 5bp narrower on average. The best performing sectors were infrastructure and utilities which tightened 21 and 20bps respectively, whilst the worst performing sector was supra-nationals that ended unchanged. Semi-government bonds were also unchanged to commonwealth government bonds.

The Australian bond market as measured by the AusBond Composite Index increased by 2.76% for the month of January.

- 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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