

ADVANCE AUSTRALIAN FIXED INTEREST MULTI-BLEND FUND

As at 31 August 2021

FUND OVERVIEW

	Wholesale	Retail
Inception date	30 June 2004	30 June 1994
APIR	ADV0084AU	ADV0029AU
Fund size (AUD millions)	\$2,217.14	
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

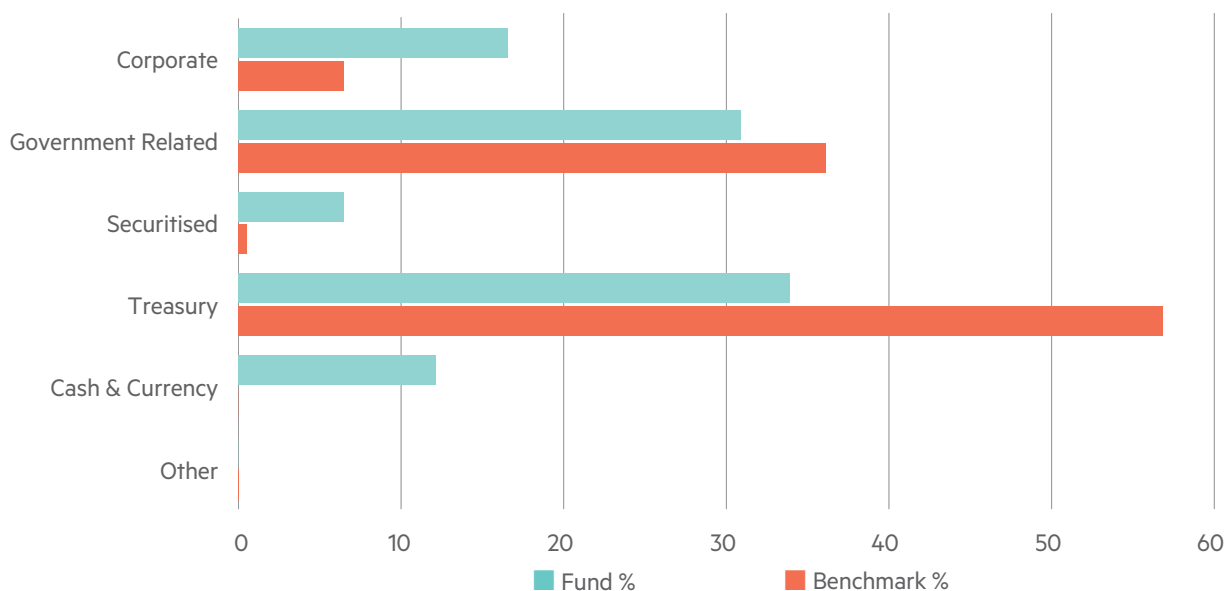
	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since Inception % pa
Total Net return	0.02	2.55	1.68	4.68	3.38	5.15
Growth return	0.02	1.76	(1.59)	0.48	(0.13)	0.48
Distribution return	0.00	0.79	3.28	4.20	3.51	4.67
Benchmark return	0.09	2.55	1.05	4.52	3.33	5.53

Benchmark: Bloomberg AusBond Composite 0+ Yr IndexSM

TOP 5 ISSUERS

	Fund (%)	Benchmark (%)
Government of Australia	18.42	56.83
New South Wales Treasury Corp.	10.08	6.51
Treasury Corporation of Victoria	4.92	5.76
Queensland Treasury Corp.	3.45	7.29
National Housing Finance & Investment Corp.	2.81	0.14

SECTOR ALLOCATIONS^{3,4}



CREDIT QUALITY^{3,4,5}

	Fund %	Benchmark %
AAA	32.87	66.30
AA	26.56	27.11
A	16.77	3.52
BBB	21.27	3.07
Sub Investment Grade	-	-
Not Rated	(9.64)	-
Cash & Derivatives	12.17	-

FUND CHARACTERISTICS⁶

	Portfolio	Benchmark
Effective Duration (Contribution)	5.39	5.98
Years to Maturity (Years)	9.42	6.78
Effective Yield (%)	1.12	0.85

FUND UPDATE

The Advance Australian Fixed Interest Multi Blend Fund underperformed the benchmark during the month. Manager performance was mixed, with AMP and Janus Henderson underperforming relative to the index and Pandal flat versus the benchmark.

Duration led strategies were mostly negative, with all managers underperforming at the margin owing to an outright short position versus the benchmark, coupled with the fact that Australian government bond yields declined modestly across the curve over the month. However, positive contributions from curve positioning did offset some of the losses as our underlying managers benefitted from curve flattener positions.

Credit positioning was marginally negative across our manager line up, reflecting the negative contributions from modestly wider credit spreads, partially offset by the excess carry earned on credit securities held.

Progressive steps in US fiscal legislation helped equities glide higher in the first half of August. The main contributor to sentiment was the Lower House endorsement of the Senate's \$3.5 trillion reconciliation bill. While not a cheque for added spending, the signature does enable Upper House Democrats to approve prospective fiscal measures without a Republican vote, removing the threat of a filibuster. The resolution followed passage of a separate \$1.2 trillion infrastructure package into the advanced stages, which sparked a broad-based upgrade to earnings.

Despite this, talk of a hastened tapering process drove investors to the sidelines. With Fed Chair Powell tight-lipped on the subject, expectation grew for a tapering of Fed asset purchases, potentially to be announced over the Jackson Hole conference. These concerns were allayed late in the month as Powell dismissed talk that he would fast-track the normalisation process, emphasising that a reduction to the Fed's bond program should not be interpreted as a green light for rate hikes.

Domestically, Australia's path to normalisation continues to face headwinds due to the effects of the pandemic that will see Q3 economic growth contract. The labour market has shown better than expected strength prior to lockdowns, however this is yet to be reflected in wage inflation outcomes, which rose by a less than expected 0.4% in Q2 and resulted in annual wage inflation of only 1.7%. Inflation expectations consequently edged lower despite stressed supply chains. Yields edged marginally lower after some intra-month volatility, more so at the longer end of the government yield curve. At the short end of the curve, 30-day bank bills remained at 0.01% over the month, while 90-day bank bills fell 0.01% to 0.01%, and 180-day bank bills fell 0.02% to 0.03%. The average yield on the benchmark was unchanged over August ending the month at 0.02%.

While a strong earnings season provided fundamental support to credit markets, a clear theme from the management teams was an increasing focus on shareholder-friendly activity, including record dividends and buy-backs. Credit spreads were relatively flat in August, with weakness targeted to certain sectors and maturities. The broader weakness was in longer term credit, notably infrastructure and REITs. These assets have been disproportionately impacted by the lockdowns, particularly the property trusts with exposures to shopping centres and offices. The Australian iTraxx index (Series 35 contract) traded in a 6bp range finishing the month 4bps tighter to +59. Australian physical credit spreads narrowed 3bps on average.

The Australian bond market as measured by the AusBond Composite Index rose by 0.09% for the month of August.

- 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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