

ADVANCE AUSTRALIAN FIXED INTEREST MULTI-BLEND FUND

As at 30 September 2021

FUND OVERVIEW

	Wholesale	Retail
Inception date	30 June 2004	30 June 1994
APIR	ADV0084AU	ADV0029AU
Fund size (AUD millions)	\$2,108.25	
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

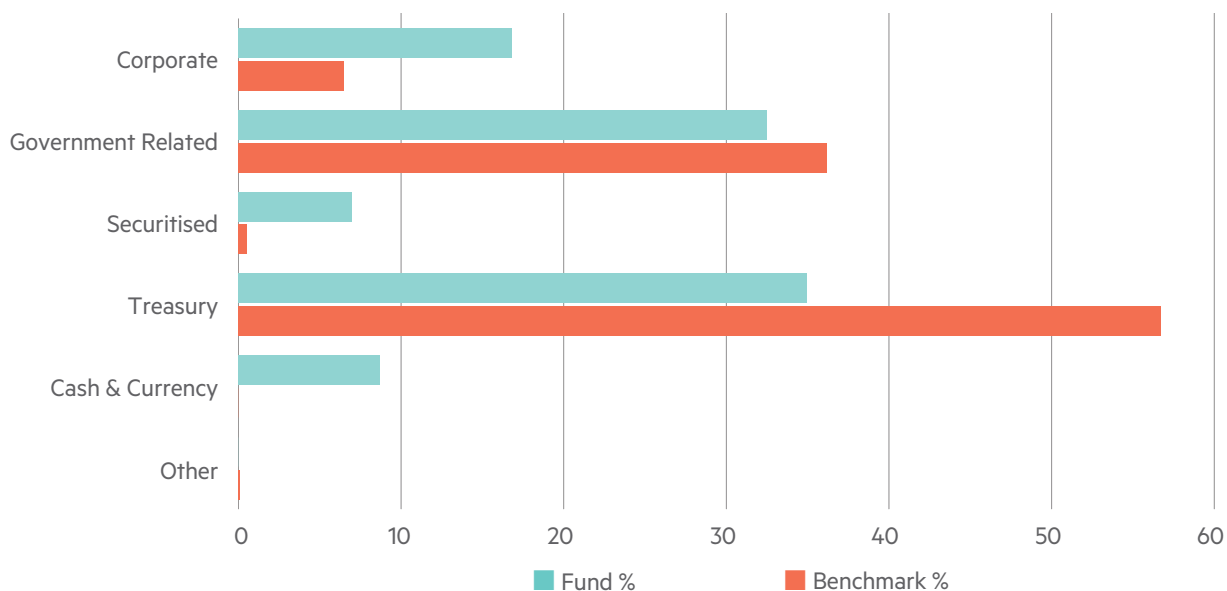
	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since Inception % pa
Total Net return	(1.46)	0.28	(0.91)	4.31	3.11	5.04
Growth return	(2.57)	(0.85)	(4.22)	(0.06)	(0.50)	0.33
Distribution return	1.11	1.13	3.30	4.37	3.62	4.71
Benchmark return	(1.51)	0.31	(1.54)	4.14	3.06	5.41

Benchmark: Bloomberg AusBond Composite 0+ Yr IndexSM

TOP 5 ISSUERS

	Fund (%)	Benchmark (%)
Government of Australia	17.33	56.70
New South Wales Treasury Corp.	10.53	6.61
Treasury Corporation of Victoria	5.91	5.82
Queensland Treasury Corp.	4.13	7.32
National Housing Finance & Investment Corp.	2.87	0.13

SECTOR ALLOCATIONS^{3,4}



CREDIT QUALITY^{3,4,5}

	Fund %	Benchmark %
AAA	32.50	66.21
AA	27.78	27.20
A	16.76	3.56
BBB	21.89	3.03
Sub Investment Grade	0.00	0.00
Not Rated	(7.65)	0.00
Cash & Derivatives	8.72	0.00

FUND CHARACTERISTICS⁶

	Portfolio	Benchmark
Effective Duration (Contribution)	5.28	5.84
Years to Maturity (Years)	9.48	6.64
Effective Yield (%)	1.40	1.05

FUND UPDATE

The Advance Australian Fixed Interest Multi Blend Fund returned -1.46%, outperforming the AusBond Composite Index which returned -1.51% over the month of September. Portfolio performance was broadly neutral to positive with AMP and Janus Henderson outperforming relative to the index with Pandal flat versus the benchmark.

Duration led strategies were mostly positive with all managers outperforming at the margin owing to an outright short position versus the benchmark. This was coupled with the fact that Australian government bond yields rose modestly across the curve over the month. A curve steepener position implemented by our underlying managers also contributed positively. Credit positioning was marginally negative across our manager line up, reflecting the negative contributions from modestly wider credit spreads which was partially offset by the excess carry earned on credit securities held.

Risk markets started the month strongly with the MSCI World Index reaching new highs before risk sentiment waned on a myriad of concerns. Credit concerns, global supply chain issues, power and fuel shortages and more hawkish central banks all contributed to weigh on risk sentiment over the month. Offshore in the US, the Fed was seen as more hawkish at their September meeting. The dot plot revealed that 9 of the 18 participants now see the first rate hike occurring in 2022 and the median forecast is for the Fed Funds rate to be at 1% by the end of 2023 (i.e. 3.5 rate hikes from current settings). On the tapering front, the Fed noted that “a moderation in asset purchases may soon be warranted”.

Domestically the APRA advised all authorised deposit taking institutions that the size of the Committed Liquidity Facility (CLF) will be reduced in progressive steps and will be at zero by the end of 2022. The need for the CLF has diminished due to the increasing size of Commonwealth and State Government bonds being issued that can be used for banks to meet their High-Quality Liquid Assets.

Australian Q2 growth rose by 0.7%, taking the annual rate to 9.6% - a stellar number but largely due to base effects from the contraction witnessed in the economy in the Q1 of 2020. Third quarter economic growth will likely be impacted by lockdowns and will see the economy contract. The unemployment rate fell by 0.1% to 4.5% in August, due to the reduction in the participation rate rather than actual employment growth, which fell by 146,300 jobs in the month. Business surveys indicate a willingness by employers to retain workers due to a tightening labour market and potential difficulty in attracting employees when the economy fully re-opens.

Australian rates sold off over the month, with 10-year bonds ending the month 34bps higher at 1.48%. In the United States 10-year bonds were off 18bps to 1.49%.

September was notably a weaker month for credit spreads. A risk-off sentiment, triggered by concerns over Evergrande and whether it will default, drove investors to the sidelines. To date, the systemic risk indicators in the funding market were not apparent as the Chinese central bank added liquidity into the financial system to ensure that funding rates are well anchored. The Chinese authorities signalled a reluctance to bail out Evergrande, however expectations are that some form of intervention is likely if a default happens.

The Australian iTraxx index (Series 35 contract) traded in a 5bp range finishing the month 2bps wider to +61bps. The new Series 36 contract ended the month at +67bps. Australian physical credit spreads pushed out 1bp on average. The best performing sector was resources that narrowed 4bps, whilst the worst performing sectors were utilities and domestic banks that both widened 3bps. Semi-government bonds outperformed tightening 2ps to commonwealth government bonds.

- 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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