

# ADVANCE AUSTRALIAN FIXED INTEREST MULTI-BLEND FUND

As at 31 December 2021

## FUND OVERVIEW

	Wholesale	Retail
Inception date	30 June 2004	30 June 1994
APIR	ADV0084AU	ADV0029AU
Fund size (AUD millions)	\$2,103.96	
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 <sup>1</sup>	0.45	1.20
Buy/sell spread (%)	0.05 / 0.15	0.00 / 0.00

## FUND PERFORMANCE<sup>2</sup>

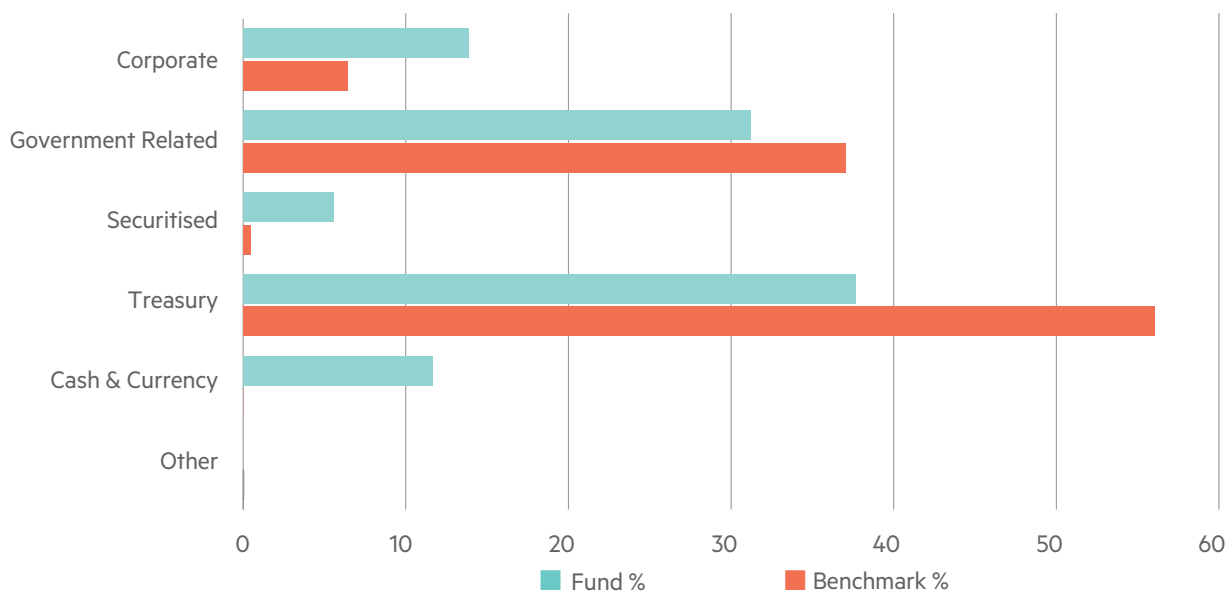
	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since Inception % pa
Total Net return	0.20	(1.38)	(2.80)	3.21	3.45	4.88
Growth return	0.20	(1.38)	(4.93)	(0.84)	(0.03)	0.24
Distribution return	0.00	0.00	2.14	4.04	3.48	4.64
Benchmark return	0.09	(1.46)	(2.87)	2.87	3.36	5.24

Benchmark: Bloomberg AusBond Composite 0+ Yr Index<sup>SM</sup>

## TOP 5 ISSUERS

	Fund (%)	Benchmark (%)
Government of Australia	17.53	56.04
New South Wales Treasury Corp.	9.46	6.77
Treasury Corp. of Victoria	5.96	6.14
Queensland Treasury Corp.	4.30	7.57
National Housing Finance & Investment Corp.	2.52	0.13

## SECTOR ALLOCATIONS<sup>3,4</sup>



## CREDIT QUALITY<sup>3,4,5</sup>

	Fund %	Benchmark %
AAA	30.57	65.52
AA	26.51	27.83
A	15.62	3.57
BBB	20.74	3.09
Sub Investment Grade	0.00	0.00
Not Rated	(5.12)	0.00
Cash & Derivatives	11.68	0.00

## FUND CHARACTERISTICS<sup>6</sup>

	Portfolio	Benchmark
Effective Duration (Contribution)	5.25	5.79
Years to Maturity (Years)	8.45	6.57
Effective Yield (%)	1.73	1.47

## FUND UPDATE

The Advance Australian Fixed Interest Multi Blend Fund outperformed the benchmark during the month of December.

All our underlying managers outperformed the index. Interest rate management was broadly positive, reflecting the contributions from yield curve positioning and duration management across our manager line up. AMP, Henderson and Pandal were positioned for higher bond yields.

Credit positioning also benefitted performance, as the negative impact of credit spread widening earlier in the month was reversed by month end as investors became less concerned about the Omicron variant. The excess carry earned on credit securities held also helped portfolio performance.

Risk markets performed strongly, and Central banks continued their more hawkish tilt during the month despite the emergence of the Omicron variant.

The Reserve Bank of Australia (RBA) left policy settings unchanged at their December meeting. In their statement the RBA acknowledge the uncertainty posed by the Omicron strain but do not expect it to derail the recovery. There was a slight tweak regarding the underlying inflation forecast. Underlying inflation is forecast to 2.5% over 2023 whereas in their November statement underlying inflation was forecast to be no higher than 2.5% at the end of 2023. So, inflation may be higher at the end of 2023 than what the RBA previously forecast, potentially bringing forward the timing of when they expect to hike next.

The other key part of their statement was in relation to their bond purchase program and whether it is extended when the current program ends in February. The RBA pointed out the three considerations to guide its decision: the actions of other central banks, how the Australian market is functioning and progress towards the goals of full employment and inflation consistent with the target. On current indications, there is sufficient evidence on all three fronts to warrant a cessation of the program.

Offshore, the more hawkish rhetoric from Fed officials in November was backed up at the Fed meeting during the month. The Fed announced that it would accelerate the pace of tapering from \$15bn to \$30bn which would in turn see Quantitative Easing end by March 2022. In its statement the Fed noted that inflation has exceeded 2% for some time and that given the improvement in the labour market that it was appropriate to reduce the pace of its net asset purchases. The Fed's dot plot also reflected 3 rate hikes as the central forecast for 2022.

The inflation numbers out of the US continue to be elevated with annual headline inflation reaching 6.8% in November and annual core inflation rising by 4.9%. Some of this is transitory with used car prices and airfares likely to fall over the coming year, although the owner equivalents rents component has shown recent strength. This is expected to continue given the strength of the US housing market.

In Europe the Bank of England (BoE) surprised the market when it raised the overnight rate by 15 basis points to 0.25%. The labour market has proved more resilient than expected despite concerns that the end of the Coronavirus Job Retention Scheme in September would result in job losses. The BoE now sees the unemployment rate falling to 4% by year end, from a forecast of 4.5% in November. Inflation is forecast to peak at 6% in April 2022 although is expected to remain elevated driven in large part by pay and energy costs.

Australian 10-year bonds ended the month slightly lower at 1.68%, resulting in a rise of 70 basis points over the year. Three-year bond yields ended the month 5 basis points higher in yield at 0.98%, an increase of 70 basis points over the year.

Across credit, spreads performed well despite trading with some intra month volatility. The Australian iTraxx index traded lower after the initial risk sell-off earlier in the month. The Series 35 tightened 17bps from 72bps to 55bps. The Series 36 contract finished the month at 63bps, 10bps tighter versus the end of November. The best performing sectors were resources and supranationals which narrowed 5bps and 1bp respectively. The worst performing sectors were real estate and infrastructure which both widened by 2bps. Semi-government bonds performed well narrowing 3bps to commonwealth government bonds.

The Australian bond market as measured by the AusBond Composite Index rose by 0.09% 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](http://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](http://advance.com.au)

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