

ADVANCE AUSTRALIAN FIXED INTEREST MULTI-BLEND FUND

As at 31 January 2022

FUND OVERVIEW

	Wholesale	Retail
Inception date	30 June 2004	30 June 1994
APIR	ADV0084AU	ADV0029AU
Fund size (AUD millions)	\$2,082.03	
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

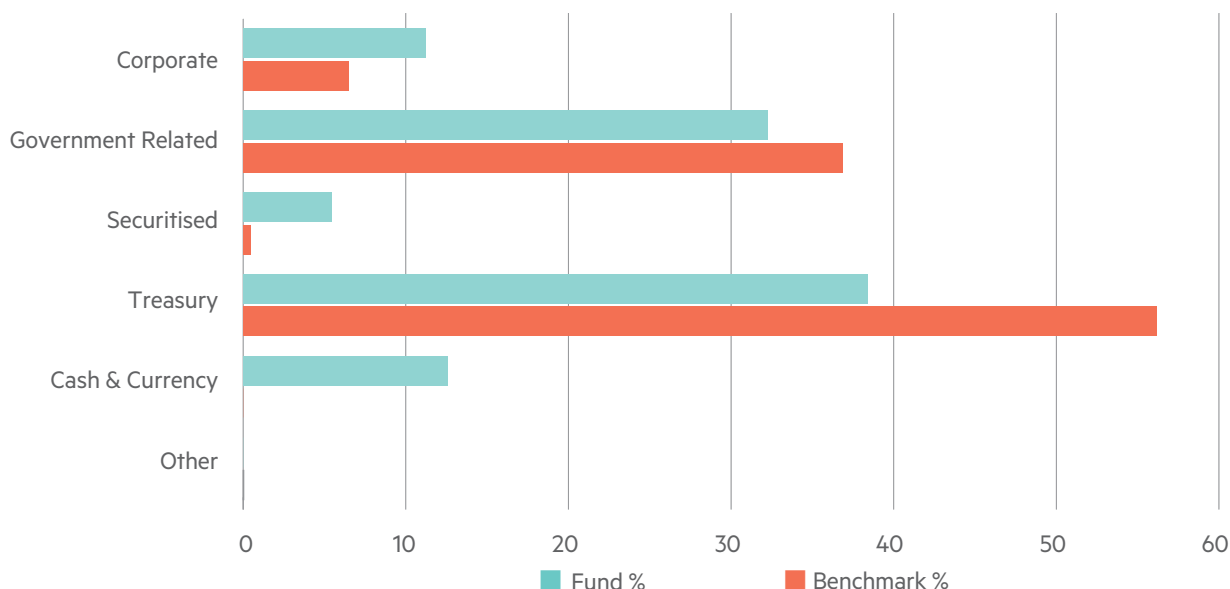
	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since Inception % pa
Total Net return	(1.01)	1.31	(3.35)	2.65	3.10	4.80
Growth return	(1.01)	1.31	(5.48)	(1.37)	(0.37)	0.18
Distribution return	0.00	-	2.13	4.02	3.46	4.61
Benchmark return	(1.02)	1.13	(3.46)	2.30	3.02	5.15

Benchmark: Bloomberg AusBond Composite 0+ Yr IndexSM

TOP 5 ISSUERS

	Fund (%)	Benchmark (%)
Government of Australia	18.38	56.17
New South Wales Treasury Corp.	9.83	6.76
Treasury Corporation of Victoria	6.09	6.13
Queensland Treasury Corp.	4.24	7.50
National Housing Finance & Investment Corp.	2.76	0.13

SECTOR ALLOCATIONS^{3,4}



CREDIT QUALITY^{3,4,5}

	Fund %	Benchmark %
AAA	31.88	65.56
AA	27.21	27.75
A	16.87	3.57
BBB	20.88	3.12
Sub Investment Grade	0.00	0.00
Not Rated	(9.43)	0.00
Cash & Derivatives	12.60	0.00

FUND CHARACTERISTICS⁶

	Portfolio	Benchmark
Effective Duration (Contribution)	5.36	5.70
Years to Maturity (Years)	8.46	6.48
Effective Yield (%)	1.92	1.66

FUND UPDATE

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

Pendal underperformed the benchmark at the margins with the physical portfolio driving the bulk of the underperformance. Henderson also underperformed, with duration and credit both detracting. AMP delivered positive excess returns, with the strategy's interest rate management benefitting, reflecting the contributions from duration management and yield curve positioning.

Ongoing inflation concerns and the spectre of more imminent and aggressive monetary policy tightening saw bond yields globally move higher over the month and led to increased volatility in equity markets. Tensions between Russia and Ukraine also weighed on sentiment.

With no Reserve Bank Australia (RBA) meeting held in January, the main focus domestically for the month was the release of the quarterly inflation numbers. Core trimmed mean and weighted median inflation all exceeded expectations by a considerable margin. The trimmed mean rose by 1% in the 4th quarter, producing annual trimmed mean inflation of 2.6%. The weighted median rose by 0.9% over the quarter, to see weighted median inflation at 2.7% over 2021. With the numbers now above the midpoint of the RBA's 2-3% target band and the move to more imminent policy tightening offshore, the market understandably brought forward the timing for when the RBA can be expected to raise the cash rate.

In the United States, the Federal Reserve (the Fed) announced that Quantitative Easing will end in March, paving the way for a rate hike. Whilst this was anticipated, the tone of Fed Chair Powell's press conference was seen as more hawkish than expected. In his conference Powell highlighted that this cycle was different from the previous one, with a higher inflation starting point, a tighter labour market and growth running above trend leading to an unwillingness to rule out a rate rise at every Fed meeting this year. The inflation numbers in the US continue to be eye-wateringly high. Annual headline inflation hit 7% at the end of 2021, its highest level since mid-1982.

In Europe, German inflation also exceeded expectations and saw 10- year bund yields rise back into positive territory for the first time since April 2019. Monthly inflation rose 0.4% (expectation -0.2%), resulting in annual inflation of 4.9%. Not to be outdone on the exceeded inflation expectations, annual headline inflation in the UK rose by 5.4% and the core measure rose by 4.2% (expectations were for 5.4% and 4.2% increases).

After peaking at 1.9%, intra-month US 10-year bond yields ended the month 27 basis points higher at 1.78%. Australian bonds also ended the month higher in yield. Three-year bonds rose 30 basis points to end at 1.28%, and ten-year bonds rose 22 basis points to close the month at 1.9%

Across credit, corporate bonds had a weaker month in January due to concerns around inflation and the expected Central Bank response to this as well as geopolitical tensions. Credit spreads were generally widened over the month. The Australian iTraxx (series 36) index traded in a 12bps range finishing 11bps wider to 75bps. Australian physical credit spreads were a touch wider. The best performing sector was supranationals which narrowed 1bps. The worst performing sector was resources which moved out 3bps. Semi-government bonds underperformed widening 4bps relative to commonwealth government bonds.

The Australian bond market as measured by the AusBond Composite Index declined by -1.02% 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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