

# ADVANCE AUSTRALIAN FIXED INTEREST MULTI-BLEND FUND

As at 28 February 2022

## FUND OVERVIEW

	Wholesale	Retail
Inception date	30 June 2004	30 June 1994
APIR	ADV0084AU	ADV0029AU
Fund size (AUD millions)	\$2,030.93	
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 / 0.05	0.00 / 0.00

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

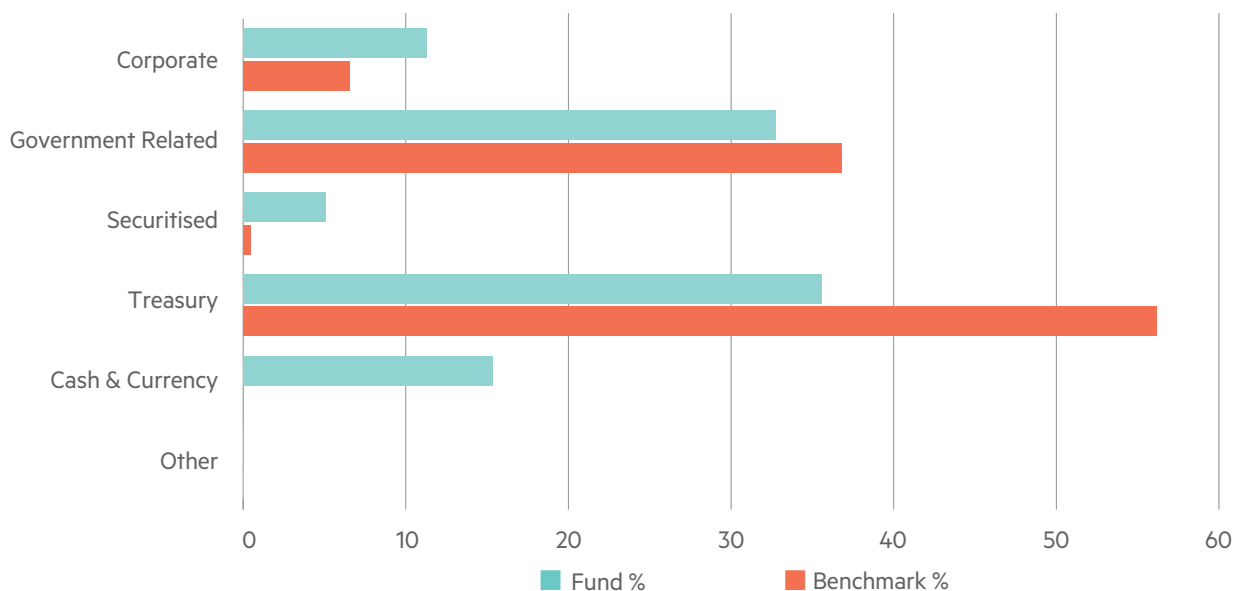
	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since Inception % pa
Total Net return	(1.36)	(2.16)	(0.92)	1.86	2.77	4.69
Growth return	(1.36)	(2.16)	(3.10)	(2.13)	(0.69)	0.11
Distribution return	-	(0.00)	2.18	3.99	3.45	4.59
Benchmark return	(1.21)	(2.13)	(1.09)	1.57	2.73	5.06

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

## TOP 5 ISSUERS

	Fund (%)	Benchmark (%)
Government of Australia	17.30	56.18
New South Wales Treasury Corp.	10.14	6.59
Treasury Corporation of Victoria	6.02	6.18
Queensland Treasury Corp.	4.03	7.47
National Housing Finance & Investment Corp.	2.77	0.13

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



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

	Fund %	Benchmark %
AAA	30.58	65.68
AA	28.01	27.63
A	16.55	3.50
BBB	19.90	3.18
Sub Investment Grade	0.00	0.00
Not Rated	(10.37)	0.01
Cash & Derivatives	15.33	0.00

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

	Portfolio	Benchmark
Effective Duration (Contribution)	5.41	5.61
Years to Maturity (Years)	8.22	6.40
Effective Yield (%)	2.11	1.91

## FUND UPDATE

The Fund underperformed the benchmark during the month of February.

Our underlying managers delivered a negative result over the month. Pandal underperformed the benchmark with the physical portfolio driving the bulk of the underperformance. AMP also underperformed, despite interest rate management benefitting performance, this was insufficient to offset the drag from credit positioning which detracted as the impact of credit spread widening more than offset the contribution from excess carry. Finally, Janus Henderson detracted as its long duration position relative to the benchmark, together with an overweight exposure across credit both added to negative excess returns.

It was a volatile month for markets in February with inflationary concerns seeing yields move higher for most of the month before geopolitical events saw risk aversion increase.

Central bank meetings in Europe early in the month saw European yields soar with the European Central Bank (ECB) turning notably hawkish. Whilst policy settings remain unchanged, ECB President Lagarde in a press conference noted that the Governing Council were “unanimous with their serious concern about the inflation outlook”. Previous references to rate hikes being unlikely in 2022 were notably missing in the conference. The ECB’s data dependence was highlighted and Lagarde signalled an openness to rate hikes against upside inflation risks.

On the same day, the Bank of England (BoE) tightened monetary policy by a further 25 basis points to 0.50%. Despite the near 50 basis point move, the BoE Governor Bailey’s tone in the press conference was more dovish than his ECB counterpart. The Governor noted that in the second half of the year there is a clear risk that inflation is moving lower and ‘there is a clear risk we could go under target’.

In the United States and after months of undershooting expectations, non-farm payroll data finally came out stronger than expected. Even more impressive was the upward revision of 709k jobs over the past two months. Had it not been for Omicron, the numbers may have been even greater. The unemployment rate at 4% was a little higher than expected but even this was due to positive developments with the participation rate rising by 0.3% as more people are re-entering the workforce.

In Australia, market moves followed those offshore over the month. The Reserve Bank of Australia (RBA) released their latest set of forecasts in their Statement on Monetary Policy (SOMP). For the RBA to tighten monetary policy they need to see actual inflation sustainably around 2.5%. In their forecasts the RBA see trimmed mean peaking at 3.25% for the year ending June 2022. After that, the RBA sees annual inflation at 2.75% until mid-2024. Yet somehow, despite their own forecasts having inflation at 2.75% or above for the next 2.5 years, the RBA don't see that inflation as having been 'sustainable'. The unemployment rate is forecast to reach 3.75% by the end of 2022 and remain there over the forecast horizon. The reason for the RBA's deference is that wage inflation is seen as only reaching 3% by mid-2023. Wage inflation is one of the last dominoes that the RBA is waiting to fall before embarking on monetary policy tightening. Wage price index data for the fourth quarter was released during the month, indicating wages rose by 0.65% and taking the annual increase to 2.3%. The increase, however, won't be enough to shake the RBA from their belief that the cash rate will remain unchanged for an extended period.

Against this backdrop, Australian yields continued to climb in February after large selloffs in January. Late February saw yields retrace some of the selloff as developments in the Ukraine hit risk markets. Ten-year bonds finished the month 0.25% higher at 2.16% having briefly touched above 2.3%. Three-year bonds were 0.22% higher, with the April 2025 going from 1.32% to 1.54% having peaked at 1.7%.

Credit spreads sold off in February on the back of geopolitical and inflation concerns. The Australian iTraxx index (series 36) traded in a large 20 basis points range finishing 18 basis points wider to 93 basis points. Australian physical credit spreads were 5 basis points wider on average. The best performing sector was banks which moved out 3 basis points, whilst the worst performing sector was infrastructure that widened 11 basis points. Semi-government bonds also underperformed moving out 7 basis points to commonwealth government bonds.

The Australian bond market as measured by the AusBond Composite Index declined by -1.21% for the month of February.

- 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.

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