ADVANCE
ASSET MANAGEMENT

ADVANCE INTERNATIONAL FIXED INTEREST MULTI-BLEND FUND

As at 31 December 2022

FUND OVERVIEW

	Wholesale	Retail
Inception date	28 February 2001	31 July 2004
APIR	ADV0067AU	ADV0088AU
Fund size (AUD millions)	$1,544.04	
Investment objective	To provide a source of income from international 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]	0.55	1.30
Buy/sell spread (%)	0.10 / 0.10	0.00 / 0.00

FUND PERFORMANCE[2]

	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since Inception % pa
Total Net return	(1.08)	1.46	(11.53)	(2.84)	(0.12)	5.43
Growth return	(1.08)	1.46	(11.53)	(6.43)	(3.49)	(0.56)
Distribution return	-	-	-	3.59	3.37	5.99
Benchmark return~	(1.31)	0.64	(12.28)	(3.17)	(0.22)	5.47

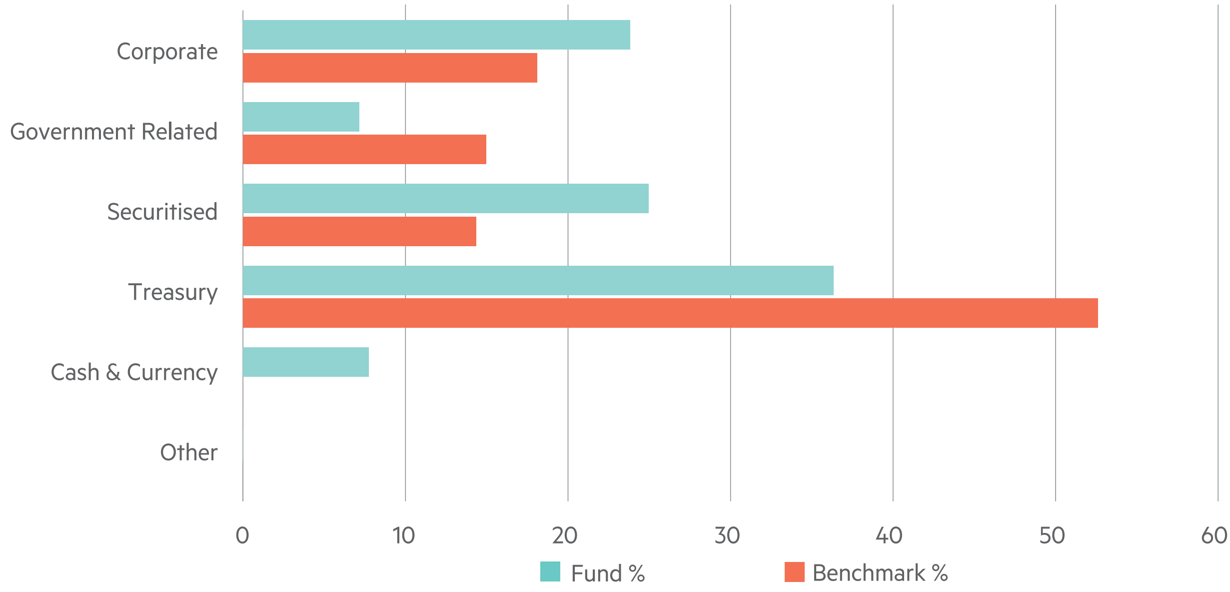
~ Benchmark: Barclays Global Aggregate Bond Index (fully hedged) in Australian dollars

TOP 5 ISSUERS

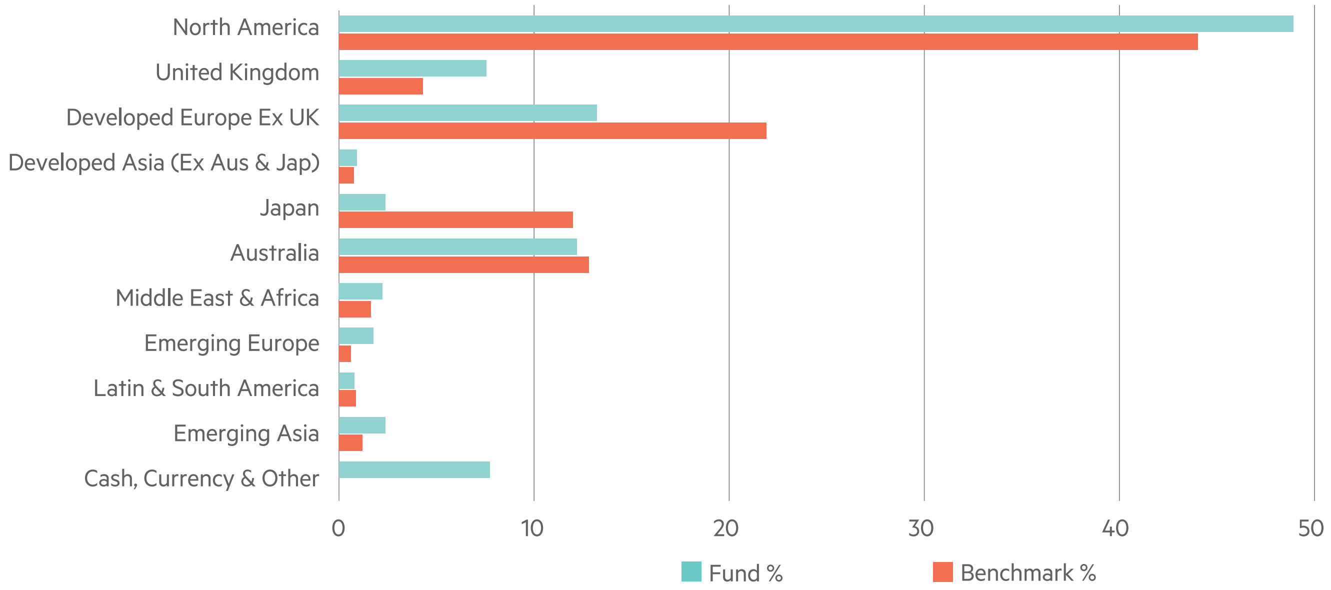
	Fund (%)	Benchmark (%)
Government of the United States of America	13.78	16.72
Government of Japan	13.66	11.77
Federal National Mortgage Association	10.06	0.12
Federal Home Loan Mortgage Corp.	3.08	0.12
Government of Germany	1.98	2.23

Please refer to the end of this report for the footnotes

SECTOR ALLOCATIONS[3,4]



REGIONAL ALLOCATIONS[3,4]



CREDIT QUALITY[3,4,5]

	Fund %	Benchmark %
AAA	41.17	38.88
AA	8.25	14.03
A	26.84	31.06
BBB	17.11	15.68
Sub Investment Grade	3.63	0.35
Not Rated	(4.73)	0.00
Cash & Derivatives	7.72	0.00

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FUND CHARACTERISTICS[6]

	Portfolio	Benchmark
Effective Duration (Contribution)	5.31	6.64
Years to Maturity (Years)	10.59	10.40
Effective Yield (%)	3.96	3.75

FUND UPDATE

Relative manager performance was positive over the month, with all four managers, Standish, Wellington, PIMCO and WAM, outperforming the benchmark.

Standish outperformed the benchmark, with most of the alpha attributed to active positioning in the developed market rates space. Relative underweights in US, German and Canadian duration all contributed.

PIMCO also delivered positive excess returns with the contributors being overweight exposures to financial corporate and long exposures towards securitized credit as spreads tightened. Underweight exposure to non-financial investment grade credit however detracted.

Wellington outperformed the benchmark over the month. While the duration, currency and yield curve strategies contributed, country strategies however detracted.

Western slightly outperformed the benchmark over the month. The yield-curve positioning, currency positioning, and an underweight to Japanese duration contributed. However, an overweight to US, UK and core European duration and an overweight to US high-yield corporate bonds detracted.

Government bond markets were broadly weaker in December and yields ended the month higher, as a result of hawkish central bank announcements, action by the Bank of Japan (BoJ) towards the end of the month and developments in China's management of Covid. Chinese officials eased several Covid related restrictions, which is expected to see economic activity improve despite new Covid case numbers rising sharply. This combined with signs that inflationary pressures are easing saw risk sentiment improve.

The Bank of Japan broadened the tolerance for its yield curve control target band on the 10yr JGB yield from 25bps to 50bps. This leaves the yield curve control now +/- 50bps around 0%. The BoJ messaged this decision around removing yield curve shape distortions and providing more flexibility around achieving their inflation target of 2%. However, the move surprised the market driving yields higher globally as the expectation is now that the BOJ will need to hike rates to curb their rising inflation.

In Europe, European Central Bank (ECB) raised rates by 0.5 percentage points following two previous hikes of 0.75 percentage points, taking the refinancing rate to 2.5% and the deposit facility rate to 2.0%. Previously the ECB had stated that it expected inflation to stay above its mid-term target of 2% for the next three years, while ECB President Christine Lagarde emphasised that rates will rise for some time to come, saying markets could expect "another 50 basis-point rise at our next meeting and possibly at the one after that, and possibly thereafter." The ECB also said it would begin quantitative tightening beginning in March 2023. The eurozone experienced its first decline in annual inflation for 2022 in November.

In the US, the Federal Reserve (Fed) tightened monetary policy once again in December, taking the Fed Funds rate to 4.25%-4.50%. Fed Chair Jerome Powell had indicated policymakers could moderate the pace of interest rate hikes and the smaller rate hike was widely anticipated. Consumer inflation fell back for the fifth consecutive month, and by more than expected. There was also some modestly positive labour market news as non-farm payrolls data early in the month exceeded market expectations. The Fed lowered its GDP forecast for 2023 and raised its inflation forecast, though the recent fall in inflation has encouraged the hope that the extent and pace of future rate hikes will become more muted. US core CPI fell to its lowest in over a year, and YoY reading for headline CPI came in at +7.1% in November, vs. +7.3% expected. The US 10-year and 2-year yields increased by 27 bps and 12 bps to 3.87% and 4.43% respectively.

Global credit market performance was mixed in December. With rates higher across the yield curve, the broader fixed income market posted negative returns, though credit spreads fell marginally across most sectors. High yield bonds started the month positively on optimism that inflation may be cooling before hawkish Fed rhetoric weighed on the asset class over the latter half of December. Bloomberg US Aggregate Index ended the month down -0.45%. Within the securitized sectors, agency mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities outperformed the duration-equivalent government bonds.

The Bloomberg Barclays Global Aggregate Bond Index returned a negative -1.31% over the month, bringing the one-year performance to -12.28%.

Please refer to the end of this report for the footnotes

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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