

Advance Australian Fixed Interest Multi-Blend Fund

- Retail Units

Fund overview

ARSN	087 295 234
APIR	ADV0029AU
Commencement date	30 June 1994
Fund size (AUD)	\$0.6m
Benchmark	Bloomberg AusBond Composite 0+ Yr Index
Recommended investment timeframe	At least 3 years
Risk label	Low to medium
Minimum initial investment	Closed to new investors
Distribution frequency	Quarterly
Investment management fee pa*	1.20%

*Additional fees and charges may apply.

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.

Investment strategy

The Fund invests in a wide range of Australian issued government, semi-government and corporate fixed interest securities and instruments. The Fund may also invest in debt securities issued by supranationals and non-Australian governments and corporates. All foreign exposures are fully hedged to Australian dollars.

Investment managers

As the Responsible Entity, Advance Asset Management Limited ('AAML') selects investment managers for Advance Australian Fixed Interest Multi-Blend Fund - Retail Units ('the Fund') and we manage and monitor the managers on your behalf. Therefore we may remove, replace, or appoint additional investment managers at our discretion at any time.

For information on the Fund's investment managers, please refer to the Manager List for the Fund available at mercer.com.au/mercerfunds.

Performance review

Total return	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	7 years % pa
After fees and costs ^{1,2}	0.5	-2.7	-1.8	-4.2	-0.4	-0.3
Benchmark	0.5	-2.6	-1.5	-3.5	0.6	0.8

Notes: **Past performance is not a reliable indicator of future performance.**

- Returns are calculated using month end exit prices and assume distributions are reinvested. Returns over 12 months are annualised.
- Performance figures are calculated after deduction of investment management fees and costs, and any applicable performance fees.

Market update

In July, global equity markets maintained current upward momentum with most regions delivering solid, positive returns. On the other hand, fixed income performance was mixed, although in this “risk on” phase of the cycle, riskier parts of the sector fared better.

A combination of further declines in headline inflation, resilient economic data, particularly from the US, and market expectations that the current interest rate hiking cycle is nearing an end, led to positive investor sentiment throughout the month.

The advanced Q2 2023 US GDP growth figure was reported late month, coming in at 2.4% and surprising market economist estimates of 1.8%. On the flipside, UK and Eurozone growth was close to flat. Benefitting from the base effects of emerging from its extensive 2022 Covid lockdown, China's GDP growth rate was measured at an annualised 6.3%, though a little below 7.3% expectations. Forward-looking composite purchasing manager indices (PMI) kept falling across the globe in July, with Japan the only region holding steady. PMIs for the services sector continue to outpace manufacturing though are easing towards 50, an important level that is considered the line between expansion and contraction.

Inflation data continued to decline, somewhat aided by the impact of last year's energy price surge rolling off. US headline Consumer Price Index (CPI) fell to 3.0% p.a and is at the lowest level since early 2021. Similarly, CPI data across the UK, Eurozone and Australia, continues to show easing inflationary conditions, albeit at higher levels than the US. CPI has flatlined at near zero in China. Japan was the only major country that recorded a marginal increase in its inflation rate during Q2 2023. Central banks continued to err on the side of caution, increasing rates by 25bps in the US and Eurozone and 50bps in the UK, where inflation remains the highest among major developed economies. Central banks continued to emphasise a data-driven approach to future rate adjustments. In the US, which is furthest ahead in the inflation cycle, markets are now pricing in a greater than 50% chance that the Fed's policy rate has peaked and interest rate cuts maybe forthcoming in 2024.

Over July, Hedged Developed Markets Overseas Shares delivered a 2.8% return. US indices were broadly in line with international developed markets, however, Emerging Markets (unhedged) outperformed with a positive 4.9% return. Value modestly outperformed growth over the period, although when looking on a year-to-date basis, mega-cap tech stocks still dominate returns and has led to increased market concentration within that segment of global markets. In the US, with roughly half of S&P500 companies having reported their Q2 2023 earnings, FactSet currently projects a 7% quarter over quarter (QoQ) earnings decline, which would be the softest quarterly outcome since the height of Covid's impact. That said, to date the majority of companies have reported better than expected earnings results.

Hedged Overseas Government Bonds returned -0.4% over the month, as bond yields across most regions increased in July. Yields on both key long bonds in the US (10-year and 30-year) rose by approximately 15bps over the month. Outside the US, Japan's 10-year yield rose by around 19bps, which is noteworthy following the Bank of Japan's announcement that it will further increase the upper tolerance range for the 10-year yield (now 1.0% vs 0.5% previously). The UK was the only major economy where the 10-year yield fell, albeit modestly.

Australian Shares returned 2.9%, marginally outperforming their overseas counterparts in July. Financials (4.9%) and Energy (8.4%) were the strongest sectors of the market, while Healthcare (-1.5%), and Materials (1.4%) detracted.

Fixed interest

Global bond markets were generally mixed over July with the Barclays Capital Global Aggregate Bond Index (Hedged) returning 0.5% and FTSE World Government Bond (ex-Australia) Index (Hedged) returning -0.4%. Apart from the UK where yields dropped (-8bps to 4.31%), ten-year bond yields moved higher across the major jurisdictions including the US (14bps to 3.95%), Germany (8bps to 2.47%) and Japan (19bps to 0.58%). Two-year bond yields were more mixed with decreases in Germany (-11bps to 3.10%) and the UK (-28bps to 4.98%), an increase in the US (4bps to 4.98%) and unchanged in Japan (0.00%).

Returns for most Australian bondholders were positive over July as 10-year bond yields increased slightly (2bps to 4.05%), but shorter dated bonds dropped with five-year bond yields (-12bps to 3.84%) and two-year bond yields (-15bps to 4.05%) lower.

Further Information

Please contact your financial adviser or:

Go to mercer.com.au/mercerfunds
Email InvestorHelpAU@mercer.com
Call 1300 728 928

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