ADVANCE
ASSET MANAGEMENT

ADVANCE DEFENSIVE YIELD MULTI-BLEND FUND

As at 31 January 2022

FUND OVERVIEW

	Wholesale
Inception date	5 October 2012
APIR	ADV0173AU
Fund size (AUD millions)	$1,236.26
Month end redemption unit price	$0.9813
Investment objective	To provide returns of 2% pa after fees above the benchmark over the short to medium term.
Recommended investment timeframe	5 years
Minimum initial investment	$5,000
Distribution frequency	Quarterly
Management costs (%) pa[1]	0.55
Buy/sell spread (%)	0.07 / 0.17

FUND PERFORMANCE[2]

	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since Inception % pa
Total Net return	(0.51)	(0.62)	(0.58)	1.30	1.45	2.10
Growth return	(0.51)	(0.62)	(3.87)	(0.72)	(0.88)	(0.20)
Distribution return	-	-	3.29	2.02	2.32	2.30
Benchmark return	0.01	0.01	0.03	0.57	1.08	1.74

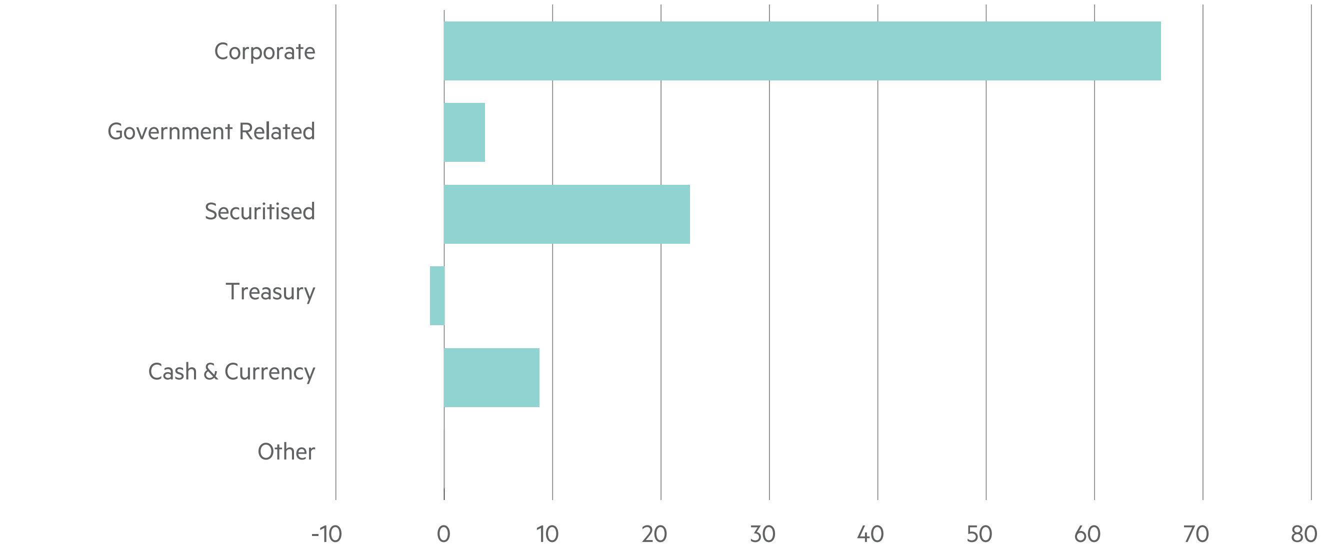
Benchmark: Bloomberg AusBond Bank Bill Index[SM]

TOP 5 ISSUERS

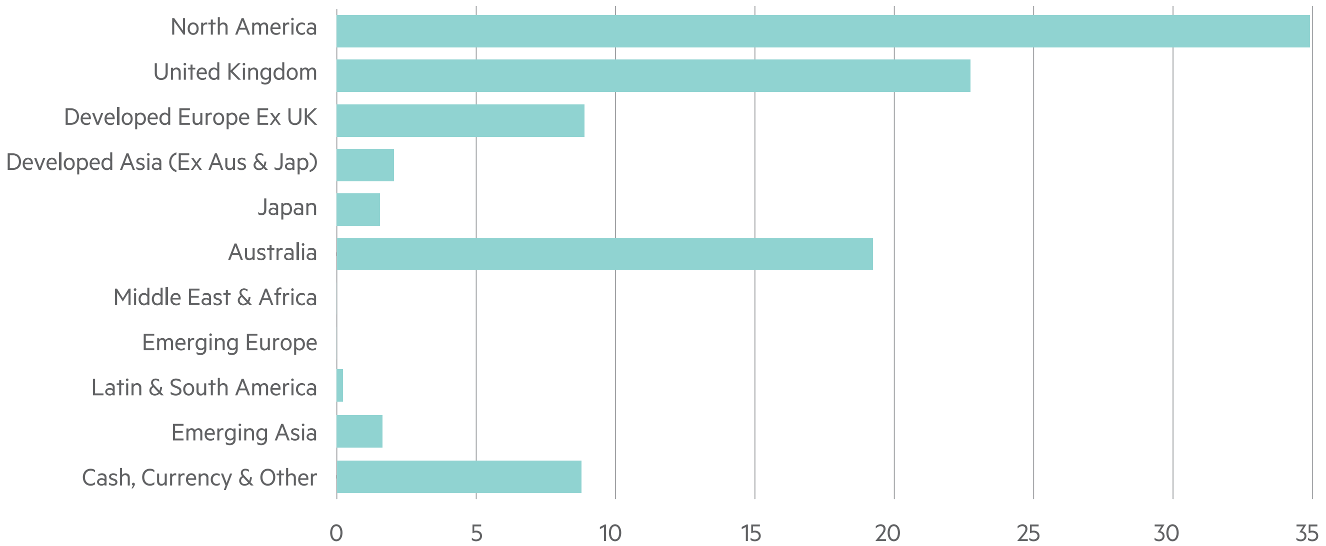
	Fund (%)
Government of the United States of America	6.57
Ripon Mortgages Plc	2.20
Uniform Mortgage Backed Securities	1.44
Federal National Mortgage Association	1.41
Goldman Sachs Group Inc.	1.31

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 (%)
AAA	14.20
AA	5.19
A	17.73
BBB	51.48
Sub Investment Grade	10.76
Not Rated	(8.12)
Cash & Derivatives	8.77

FUND CHARACTERISTICS[6]

	Portfolio	Benchmark
Effective Duration (Contribution)	1.61	0.12
Years to Maturity (Years)	12.99	0.12
Effective Yield (%)	2.12	0.05

Please refer to the end of this report for the footnotes

FUND UPDATE

The Advance Defensive Yield Multi Blend Fund underperformed the benchmark during the month of January.

Performance was negative with most of our underlying managers underperforming the benchmark.

Notwithstanding the positive carry from the portfolio's credit positions, our underlying manager's performance was firmly negative as rates increased substantially across the curve. This has had an impact on the capital value of the securities. Exposure to corporate credit also detracted as both investment grade and high yield trailed duration-matched Treasuries, while securitized products only marginally lagged Treasuries, with allocations detracting modestly. TCW and TwentyFour were the main detractors in the portfolio over the month of January. Kapstream was able to mitigate the impacts of rising rates owing to a lower overall modified duration number than its comparable global counterparts.

A hawkish tilt in major central banks' rhetoric, mixed global macroeconomic data underscored by persistent inflation, and geopolitical uncertainty surrounding the Russia-NATO conflict marked a volatile start of year. Most fixed income sectors uncharacteristically underperformed in conjunction with the increase in sovereign yields.

Global government bond yields traded over a wide range during January, ending the month higher. Markets continued to adjust to the potential for earlier, faster monetary policy tightening by major developed market (DM) central banks while Omicron-variant related growth fears subsided. At the Federal Reserve's (Fed) first policy meeting of the year, the central bank gave the clearest hint that an interest hike was highly likely in March. In his press conference following the meeting, Fed Chair Powell stated that the Federal Open Market Committee "is of a mind to raise the federal funds rate at the March meeting, assuming that conditions are appropriate for doing so." These conditions, which include a tight labour market and increasingly entrenched inflation, would appear to be met. The market continues to price in as many as four hikes in 2022.

Across Europe, in the UK, core Consumer Price Index (CPI) inflation for December meaningfully surpassed expectations at 5.4% year-over-year (YoY), the highest growth rate for 30 years. A 0.25% Bank Rate hike to 0.50% is now fully priced. European Central Bank (ECB) officials remained somewhat dovish regarding future policy tightening, stating that policy rate hikes are not expected this year. However, higher-than-expected December inflation data led markets to anticipate interest rate hikes in 2022 across the Eurozone.

Against this backdrop, most global sovereign yields rose markedly, in line with the hawkish tone of major central banks. US Treasury yields rose, particularly in the front-end of the curve, reflecting the Fed's hawkish tone and the signal of a March rate hike. In Europe, UK gilt yields rose. Bund yields finished the month in positive territory for the first time since May 2019. Chinese yields declined after the People's Bank of China eased policy while Russian yields jumped higher driven by the ongoing geopolitical concerns.

Credit markets had a weaker month with investment grade (IG) index spreads ending the month 14bp wider. US high yield also underperformed European high yield with the Bloomberg Barclays US Corporate High Yield Index (average OAS credit spread) widening 59bps compared to the European index which widened 40bps. Global credit bonds underperformed duration-equivalent government bonds as spreads widened. Within the securitized sectors, agency mortgage-backed securities and commercial mortgage-backed securities underperformed, while asset-backed securities outperformed duration-equivalent government bonds, respectively.

On the currency front, the USD appreciated versus most major currencies as markets priced in a more aggressive series of Fed rate hikes. Trade and commodity-linked currencies including AUD, SEK, NZD underperformed amid broad USD strength post-FOMC minutes, notwithstanding resilient domestic, labour, and inflation data releases.

FUND STRATEGY

The Fund invests in a diversified mix of fixed interest, cash and cash equivalent securities and instruments in both Australian and international markets, with an emphasis on liquidity and capital stability regardless of the overall direction of fixed interest and cash markets. The ability of the Fund's investment strategy to produce investment returns will be dependent on a number of factors including the asset allocation and investment selection skills of the investment managers, market conditions and specific risk factors. The Fund does not have specific diversification guidelines or limits. Although there are no geographical restrictions on where assets may be located, they will typically be located in Australia, Europe and the United States. The base currency of the Fund is Australian dollars however the assets of the Fund may be denominated in a variety of currencies.

There have been no material changes in the Fund's strategy this month.

FUND RISK PROFILE

3 Low – Medium. Low to medium risk of short-term loss. Likely to produce low to medium returns over the minimum suggested timeframe.

There have been no material changes in the Fund's risk profile this month.

KEY SERVICE PROVIDERS

The responsible entity of the Fund is Advance Asset Management Ltd.

JP Morgan Chase Bank N.A. is the custodian and administrator of the Fund.

PwC is the external auditor of the financial statements of the Fund. In addition, an individual partner of PwC acts as the auditor of the Fund's Compliance Plan.

The underlying investment managers for the Fund are:

> Kapstream Capital Pty Ltd

> TwentyFour Asset Management (TwentyFour)

> Trust Company of the West (TWC)

There have been no material changes in the Fund's key service providers this month.

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. 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

AD40671-0321sx