

JUN 2021 | Commentary

LEGG MASON MARTIN CURRIE TACTICAL ALLOCATION FUND

Investment objective

The Fund aims to earn an after-fee return in excess of the Benchmark over rolling five-year periods.

Performance (%)						Fund details	
	1 mth	3 mths	1 yr	3 yrs pa	5 yrs pa	Inception date	September 1998
Fund (net)	0.49	1.77	6.23	6.45	8.32	Benchmark	50% S&P/ASX 200 Accumulation Index 50% Bloomberg AusBond Treasury Index
Benchmark	1.62	5.05	12.25	7.38	7.33	ISIN	AU60SSB01304
						APIR	SSB0130AU

Calendar year performance (%)					
	2020	2019	2018	2017	2016
Fund (net)	10.47	13.20	-1.62	8.19	10.70
Benchmark	3.85	15.47	1.19	7.63	7.31

Monthly review

What happened in the Fund?

The Fund was up 0.49% (net of fees) in June and 1.77% for the quarter. The Fund's relative underperformance was driven by the underweight to Australian equities as the sector returned 8.29% (as measured by the S&P/ASX 200 Accumulation Index) over the quarter. During June, the allocations within the Fund remained largely unchanged. At the end of Q2, Australian Fixed Income is the largest allocation within the Fund (82%), with the balance split across Australian Equities (5%) and Cash (12%).

What happened in the market?

The Australian equity market rose 2.15% in June (as measured by the S&P/ASX 200 Accumulation Index), and 8.3% for the quarter.

At the sector level, information technology was the best performer, supported by a decline in bond yields, which fell on peak growth data and tapering talk from the US Federal Reserve, despite concerns of inflation which is seen as transitional. The technology sector is also benefitting from the banking sector's adoption of Buy Now Pay Later (BNPL) services. Consumer discretionary was also strong, while utilities were the weakest sector, dragged down by AGL Energy. Unusually, energy was also weak despite an elevated oil price.

The Bloomberg Ausbond Composite Index returned 0.69% due to the rally in mid- to long-dated bonds. The Fixed Income allocation within the Fund outperformed the broader Australia Fixed Income return during June and also for the quarter. Tighter spreads in the corporate sector where portfolios have the largest overweight combined with carry on the sector to provide the majority of alpha. An overweight in semi government spread duration, detracted due to spread widening but was offset by a small overweight in the supranationals, sovereigns and agency (SSA) sector

Spread sectors were mixed as the corporate sector tightened 2.5 bps on average and the SSA sector was around 1.5 bps tighter. The semi government sector widened around 7 bps on average, however, as the NSW budget projected a higher future debt requirement than previously forecast. Covid lockdowns post-JobKeeper also risked bringing higher financial burdens to state coffers and left the sector out of favour. Corporate issuance was solid through June with 6- to 10-year deals from AGI Finance, Lend Lease, Charter Hall and Wesfarmers, as well as an A\$250 million B+ rated issue from Emeco that was oversubscribed. Bendigo and Adelaide Bank tapped the market with a 5-year senior bond and Macquarie Bank issued A\$750 million of Tier-2 capital securities. The Australian dollar depreciated more than 3% relative to the strengthening United States dollar, a little less than 2% relative to the Japanese yen and a little over 1% on its trade-weighted index. The Reserve Bank of Australia's (RBA) relatively dovish rhetoric on monetary policy versus some international peers, Covid shutdowns and a lagging vaccination program were some of the reasons for the currency's depreciation.

Highlights

- A diversified portfolio of Australian equities, fixed income and cash designed to take advantage of relative asset class mispricing
- Tilted toward the relatively undervalued asset class in anticipation that it will outperform as it returns to assessed fair value
- Asset allocation switching provides another level of diversification in addition to the underlying equity and fixed income strategies

About us

Franklin Templeton

Franklin Resources, Inc., is a global investment management organisation, operating as Franklin Templeton, which is headquartered in California. Franklin Resources, Inc., provides, through its subsidiaries, deep investment expertise across all asset classes - including equity, fixed income, and multi-asset solutions. Franklin Resources, Inc. is listed on the New York Stock Exchange and has employees in over 34 countries.

Martin Currie

Martin Currie, our global equity specialist manager, has a presence in Australia since 1954. Today Martin Currie is a leading provider of active equity solutions in Australia, managing a growing suite of equity, multi-sector and tailored strategies across a common investment research platform.



Meet the team

Martin Currie's investment process draws on a wide range of proprietary fundamental and quantitative research metrics. The Fund benefits from the close collaboration of the well-resourced and experienced team that includes Matthew Lambert and Reece Birtles.



Matthew Lambert
Portfolio Manager
With firm since 1997



Reece Birtles, CFA, GAICD
Chief Investment Officer
With firm since 1995

For enquiries, please contact Client Services team on 1800 679 541, email auclientadmin@franklintempleton.com or visit leggmason.com.au.

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