

# APR 2021 | Commentary

## LEGG MASON WESTERN ASSET CONSERVATIVE INCOME FUND

### Investment objective

The Fund aims to achieve a before-fee-and-tax return in excess of the Bloomberg Ausbond Bank Bill Index over rolling one year periods.

### Performance (%)

	1 mth	3 mths	1 yr	3 yrs pa	5 yrs pa
<b>Fund (net)</b>	0.03	0.18	1.15	1.50	1.95
<b>Benchmark</b>	0.00	0.00	0.07	1.06	1.36

### Calendar year performance (%)

	2020	2019	2018	2017	2016
<b>Fund (net)</b>	0.94	2.03	1.95	2.43	2.87
<b>Benchmark</b>	0.37	1.50	1.92	1.75	2.07

### Fund details

Inception date	June 2001
Benchmark	Bloomberg AusBond Bank Bill Index
ISIN	AU60SSB01312
APIR	SSB0131AU

### Monthly review

#### What happened in the market?

Bonds rallied in April with several contributing factors: the global coronavirus picture remains sobering, particularly in India, despite a vaccine rollout in many countries; domestically, the vaccine rollout has been slow and was a reminder that Australia's international border would be closed for some time yet; the 1Q21 inflation print undershot market expectations. Other domestic data released in April was generally on the strong side, with the unemployment rate ratcheting lower again to 5.6% on record participation; however, there was a swing to part-time jobs versus full-time employment. Job advertisements and job vacancies showed continued strength. House prices continued to rise but the central bank shrugged off any financial stability concerns, pointing to the composition of buyers. Business conditions and confidence rose, as did consumer confidence. Australian Commonwealth Government Bond yields ended April 5-11 bps lower from the 5-year tenor outwards. The strongest rally was in the 12-year bond which rallied, and may have been influenced by the A\$14 billion issuance of the new November 2032 bond.

The primary market for corporate bonds was solid and dominated by utility and infrastructure issuers including Australia Gas Networks, Endeavour Energy, Transgrid, Transurban Queensland and Victoria Power Networks. Most deals were concentrated in the 7- to 10-year tenors. Residential MBS (RMBS) primary deals also continued apace with deals from Pepper, Firstmac, Torrens, Resimac, and first-time issuer Blackwattle. Spreads tightened on all sectors, with substantial tightening in the RMBS sector as repricing of secondary market securities continued in the wake of the strong primary issuance. The Australian dollar appreciated relative to the softer US dollar and pound sterling as commodity prices continued to rise although some of those gains were pared late in the month after a subdued CPI print.

#### What happened in the Fund?

The Legg Mason Western Asset Conservative Income Fund returned 0.03% during June, outperforming the Bloomberg AusBond Bank Bill Index. Over the last 12 months, the Fund has returned 1.15%, outperforming the benchmark by 1.08%. Outperformance was primarily attributable to the Fund's corporate and asset backed allocations as spreads tightened during the month.

#### What is the outlook?

We expect both domestic and global monetary policy to remain accommodative as central banks remain committed to extremely easy policy. We believe such accommodative conditions will continue to favor spread sectors, particularly corporate bonds, which have benefited from substantial support. In our opinion, these sectors should be the best performing fixed-income assets. With Australian major banks currently accessing extraordinarily cheap funding via the Term Funding Facility, they will have little need to tap the primary market for senior debt in the first half of 2021. This will likely maintain the technical dynamic that has seen spreads on senior bank paper tighten to extremely low levels. Therefore, we continue to seek value in other parts of the corporate sector. We have also selectively increased our overall exposure to credit to take advantage of steeper credit curves. This remains judicious, with the majority of the overweight still focused on shorter maturities to manage spread risk.

The Australian dollar continues to be underpinned by high commodity prices, particularly for iron ore. Upward pressure on yields and the currency from very favorable health and economic conditions remain concerns for the RBA and a significant reason for the central bank to maintain its message on accommodative policy for an extended period. Despite a deepening rift with China that has seen a number of Australia's export industries increasingly sidelined, commodity export prices remain elevated and provide some justification of the currency around the mid to high US\$0.70 range.

## Highlights

- Invests in a portfolio of Australian short duration credit, cash and cash-like securities
- Seeks to protect capital and deliver returns in excess of the cash rate
- Designed to capture relative value opportunities in duration management as well to identify securities with attractive yield characteristics

## 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.

### Western Asset

Western Asset Management is one of the world's leading fixed-income managers. With a focus on long-term fundamental value investing that employs a top-down and bottom-up approach, the firm has nine offices around the globe and deep experience across the range of fixed-income sectors. Founded in 1971, Western Asset has been recognized for an approach emphasizing team management and intensive proprietary research, supported by robust risk management.



## Ratings

### Quantitative



The Legg Mason Western Asset Conservative Income Fund received an overall rating of 3 stars out of 36 Australian Short Term Fixed Interest funds as of 30 April 2021.

### Qualitative



For enquiries, please contact Client Services team on 1800 679 541, email [auclientadmin@franklintempleton.com](mailto:auclientadmin@franklintempleton.com) or visit [leggmason.com.au](http://leggmason.com.au).

\*Prior to 6 July 2020, the Legg Mason Western Asset Conservative Income Fund ('Fund') was named the Legg Mason Western Asset Cash Plus Fund (Inception: June 2001). Please refer to the Client Notice for more information on this change. Past performance should not be relied upon as indicators of future performance of the Fund. A PDS dated 6 July 2020 has been issued and can be obtained by request or accessed on the Legg Mason website: [www.leggmason.com.au](http://www.leggmason.com.au). **Past performance is not a reliable indicator of future performance. Legg Mason Asset Management Australia Limited (ABN 76 004 835 849 AFSL 240827) is part of Franklin Resources, Inc.** Any reference to 'Legg Mason Australia' is a reference to Legg Mason Asset Management Australia Limited. Legg Mason Australia is the responsible entity of the Legg Mason Western Asset Conservative Income Fund (ARSN 088 670 197) (Fund). 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