

MAY 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
Fund (net)	0.04	0.16	1.07	1.47	1.90
Benchmark	0.00	0.01	0.06	1.01	1.33

Fund details

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

Calendar year performance (%)

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

Monthly review

What happened in the market?

While central banks resist using market expectations to commence the taper of stimulus, Federal Open Market Committee (FOMC) minutes reveal a desire to begin planning for QE taper; Bank of Canada recently embarked upon a taper of bond purchases, and Reserve Bank of New Zealand forecasts show a rise in its official cash rate (OCR) next year.

The Reserve Bank of Australia (RBA) is also expressly set to discuss possible adjustments to unconventional policy in July. The Australian Commonwealth Government's budget contained large stimulus to support the post-Covid economic recovery. Domestic economic data continued to show good momentum in the recovery. Yields finished lower, corporate issuance was lighter in May and tight spreads ground slightly tighter. Global bond yields moved around during the month as the monthly nonfarm payrolls disappointed but were followed by the monthly Consumer Price Index (CPI) release in the US, which was three times more than expected at 0.9%.

Domestically, the federal budget included a substantial expansion of the budget in support of the recovery, including extensions of some existing business programs such as full expensing of depreciable assets and loss carry back provisions, in addition to personal income tax cuts. Primary issuance in the corporate and asset-backed security (ABS) sectors was light relative to recent months, with A\$1.67 billion issued by banks and non-bank financials, while only A\$1.5 billion of asset-backed securities were issued (which included an inaugural consumer receivable deal from WISR Freedom Trust). Spreads continued to grind tighter on corporate and ABS sectors but wound out a little on Semi government as well as supranational, sovereign and agency (SSA) sectors due to swap spreads widening versus government bonds.

What happened in the Fund?

The Legg Mason Western Asset Conservative Income Fund returned 0.04% during May, outperforming the Bloomberg AusBond Bank Bill Index. Over the last 12 months, the Fund has returned 1.07%, outperforming the benchmark by 1.01%. Outperformance during May was primarily attributable to the Fund's corporate and asset backed allocations as spreads marginally tightened during the month.

What is the outlook?

As Australia plays catch-up in its vaccine program with ~21% of the adult population having received their first dose and 2.5% fully vaccinated, authorities around the country are acutely aware of the large and sudden outbreak of community infections in some countries that were Covid-free or close to it and which were far deeper into their vaccination programs but had relaxed pandemic social measures before the critical mass of vaccinations had been reached. With the labour data pointing to little disturbance from the end of the JobKeeper program in March and strong economic recovery that is well ahead of forecasts, market attention has remained focused on the likelihood that the RBA would not move its target bond to the November 2024 maturity in order to extend its Yield Curve Control. Instead, the RBA has slated its July board meeting as the time to discuss more thoroughly whether or not to move to the November 2024 bond. Similar moves from other central bankers now make it easier, currency-wise, for the RBA to at least commence guidance on the likely taper and removal of unconventional policy. Notwithstanding that, we expect both domestic and global central bankers to remain committed to extremely easy policy. We believe such conditions will continue to favour spread sectors, particularly corporate bonds, which have benefited from substantial support. In our opinion, these sectors should be the best performing fixed-income assets.

We continue to seek value in other parts of the corporate and ABS sectors. We have selectively increased our overall exposure to credit to take advantage of steeper credit curves. We will keep our interest rate positioning nimble to take advantage of volatility events and a very steep yield curve with rolldown effects that should help to add value.

Previously known as the Legg Mason Western Asset Cash Plus Fund. Past performance is not a reliable indicator of future performance.

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 35 Australian Short Term Fixed Interest funds as of 31 May 2021.

Qualitative



For enquiries, please contact Client Services team on 1800 679 541, email auclientadmin@franklintempleton.com or visit 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. **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). Before making an investment decision you should read the Product Disclosure Statement (PDS) carefully and you need to consider, with or without the assistance of a financial advisor, whether such an investment is appropriate in light of your particular investment needs, objectives and financial circumstances. The PDS is available and can be obtained by contacting Legg Mason Australia on 1800 679 541 or at www.leggmason.com.au. This product has not been prepared to take into account the investment objectives, financial objectives or particular needs of any particular person. Neither Legg Mason Australia, nor any of its related parties, guarantees the performance or the return of capital invested. Past performance is not indicative of future performance. Investments are subject to risks, including, but not limited to, possible delays in payments and loss of income or capital invested. These opinions are subject to change without notice and do not constitute investment advice or recommendation. **The Lonssec Rating** (assigned as follows: Legg Mason Western Asset Conservative Income Fund - October 2020) presented in this document are published by Lonssec Research Pty Ltd ABN 11 151 658 561 AFSL 421445. The Ratings are limited to "General Advice" (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial products. Past performance information is for illustrative purposes only and is not indicative of future performance. They are not a recommendation to purchase, sell or hold Legg Mason Asset Management Australia Limited products, and you should seek independent financial advice before investing in these products. The Ratings are subject to change without notice and Lonssec assumes no obligation to update the relevant documents following publication. Lonssec receives a fee from the Fund Manager for researching the products using comprehensive and objective criteria. For further information regarding Lonssec's Ratings methodology, please refer to our website at: <http://www.beyond.lonssec.com.au/intelligence/lonssec-ratings>. **The Professional Planner | Zenith Fund Awards** are determined using proprietary methodologies. Fund Awards were issued October 2018 and are solely statements of opinion and do not represent recommendations to purchase, hold or sell any securities or make any other investment decisions. Fund Awards are current for 12 months from the date awarded and are subject to change at any time. Fund Awards for previous years are referenced for historical purposes only. **Morningstar Awards 2020 ©. Morningstar, Inc.** All Rights Reserved. Awarded to Legg Mason Western Asset for Fund Manager of the Year Fixed Interest category in Australia. Neither Morningstar, its affiliates, nor the content providers guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution. Any general advice or 'class service' have been prepared by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892) and/or Morningstar Research Ltd, subsidiaries of Morningstar, Inc, without reference to your objectives, financial situation or needs. Refer to our Financial Services Guide (FSG) for more information at www.morningstar.com.au/sfsg.pdf. You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement before making any decision to invest. Our publications, ratings and products should be viewed as an additional investment resource, not as your sole source of information. Past performance does not necessarily indicate a financial product's future performance. To obtain advice tailored to your situation, contact a professional financial adviser. The Morningstar Rating is an assessment of a fund's past performance – based on both return and risk – which shows how similar investments compare with their competitors. A high rating alone is insufficient basis for an investment decision.