

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)	0.01	0.09	0.88	1.42	1.86
Benchmark	0.00	0.01	0.06	0.96	1.29

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 the Federal Reserve (Fed) continued to talk up the transitory nature of current inflation the Federal Open Market Committee (FOMC) median dot plot showed the first rise in the fed funds rate in 2023, followed by another that same year. This lowered long-term inflation expectations, as it suggested the Fed was willing to move sooner to curb inflation than previously anticipated. The lower inflation expectations led to lower long-term bond yields, causing the yield curve to flatten substantially.

Domestically, June started with the city of Melbourne in the midst of a two-week lockdown and ended with Sydney, Brisbane and Perth all in snap lockdowns of their own. Sydney was the most concerning of these, with numbers of infections with the delta variant of the coronavirus still rising at the end of the month. This echoed a number of countries around the world that were dealing with the spread of this particularly virulent strain and also contributed to the rally in bonds. Australian economic data was generally strong, with the 1Q21 GDP release indicating activity in the economy had fully returned to pre-pandemic levels and was broadly based. This was followed by monthly labour data where jobs grew by 115,000 and the unemployment rate dropped to 5.1% from 5.5% previously.

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.

What happened in the Fund?

The Legg Mason Western Asset Conservative Income Fund returned 0.01% during June, outperforming the Bloomberg AusBond Bank Bill Index. Over the last 12 months, the Fund has returned 0.88%, outperforming the benchmark by 0.82%. Outperformance during June was primarily attributable to the Fund's corporate and asset backed allocations.

What is the outlook?

The flattening of the yield curve in June was probably a little overdone in our opinion and we may look for opportunities to add steepeners considering the impact of huge support from fiscal and monetary policy on both domestic and global activity. We will keep our interest-rate positioning nimble to take advantage of volatility events and a yield curve that remains steep, despite recent flattening, with rolldown effects that should help to add value.

The Australian dollar continues to be underpinned by high commodity prices, particularly for iron ore. Upward pressure on yields and the currency from very favourable 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. However, as other central banks face pressure to taper, the RBA is likely to feel more comfortable with declining to shift to the November 2024 ACGB as the YCC target bond. 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 35 Australian Short Term Fixed Interest funds as of 30 June 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 Lonsec Rating** (assigned as follows: Legg Mason Western Asset Conservative Income Fund - October 2020) presented in this document are published by Lonsec 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 Lonsec assumes no obligation to update the relevant documents following publication. Lonsec receives a fee from the Fund Manager for researching the products using comprehensive and objective criteria. For further information regarding Lonsec's Ratings methodology, please refer to our website at: <http://www.beyond.lonsec.com.au/intelligence/lonsec-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.