

DEC 2021 | Commentary

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	-0.14	0.20	1.05	1.51
Benchmark	0.00	0.01	0.03	0.63	1.11

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?

In December the case for commencement of Reserve Bank of Australia (RBA) policy normalisation intensified a notch in December. This was because first, the release of lockdown-affected 3Q21 GDP beat expectations by a good margin, then the huge bounce-back in jobs data had an increasing number of economists expecting the RBA to cease its bond purchase program at its next meeting in February as a pre-cursor to lifting policy rates around mid-2022. Meanwhile, the RBA maintained a dovish tilt, reiterating its case for why interest rates were unlikely to rise in 2022 but at the same time appearing to walk of its previous guidance for rates remaining on hold until at least 2024.

Swap spreads reversed some of the recent widening to finish tighter over the month and caused most spread sectors to tighten as well. Corporate, semi-government and supranational, sovereign and agency (SSA) bond sector spreads tightened 3-4 bps on average. Issuance was limited to a handful of one-year deals from banks, a six-year deal from REIT Centuria and a five-year unrated deal from New Zealand insurer Partners Life as the market wound down into year-end.

The Australian dollar rebounded, outperforming the US dollar and euro by almost 2% and the Japanese yen by nearly 4% as investors brought forward expectations for higher policy rates in the wake of strong data.

What happened in the Fund?

The Fund returned -0.04% (net of fees) during December, marginally underperforming the Bloomberg AusBond Bank Bill Index by 4bps. The small underperformance was largely attributable to the portfolio's Asset Backed allocation, which detracted as spreads widened during the month. Over the last 12 months, the fund has returned 0.20% (net of fees) outperforming the benchmark by 17 bps.

What is the outlook?

As central banks embark on taper of asset purchase programs, with cash rate normalisation, either imminent or already underway, we expect both domestic and global monetary conditions to remain easy for some time as emergency settings are gradually removed with a keen eye on achievement of policy objectives.

We continue to seek value in the corporate and asset backed sectors and selectively add exposure to credit to take advantage of steeper credit curves. This remains judicious, with the majority of the overweight still focussed on shorter maturities to manage spread risk. We shifted from a slight duration overweight to a slight duration underweight, neutralising a long position in the 3-year key rate while positioning for a fatter curve between the 10-year and 30-year maturities. As always, we will keep our interest-rate positioning nimble and seek to take advantage of volatility and yield-curve steepness.

The currency is likely to retain some upward momentum if labour data for December shows another outsized jump, and especially so if 4Q21 CPI shows any spike when released in late January. If so, markets are likely to again price more aggressive RBA action. Despite a deepening rift with China that has seen a number of Australia's export industries sidelined and needing to find destinations outside China, commodity exports continue to underpin strong net exports and provide some justification for the currency to return to 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 Western Asset Conservative Income Fund received an overall rating of 3 stars out of 39 Australian Short Term Fixed Interest funds as of 30 September 2021.

Qualitative



For enquiries, please contact Client Services team on 1800 673 776, email auclientadmin@franklintempleton.com or visit franklintempleton.com.au.

This publication is issued for information purposes only and does not constitute investment or financial product advice. It expresses no views as to the suitability of the services or other matters described in this document as to the individual circumstances, objectives, financial situation, or needs of any recipient. You should assess whether the information is appropriate for you and consider obtaining independent taxation, legal, financial or other professional advice before making an investment decision. Please read the relevant Product Disclosure Statements (PDSs) and any associated reference documents before making an investment decision. In accordance with the Design and Distribution Obligations and Product Interventions Powers requirements, we maintain Target Market Determinations (TMD) for each of our Funds. All documents can be found via www.franklintempleton.com.au or by calling 1800 673 776. Issued by Franklin Templeton Australia Limited (ABN 76 004 835 849, AFSL 240827). Franklin Templeton Australia Limited as Responsible Entity has appointed Western Asset Management Company Pty Ltd. as the fund manager of the Western Asset Conservative Income Fund (ARSN 886 701 97). **The Lonssec Rating** (assigned as follows: Legg Mason Western Asset Conservative Income Fund - August 2021) 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 Franklin Templeton 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-Morningstar Awards 2020](http://www.beyond.lonssec.com.au/intelligence/lonssec-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/s/fsg.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.