Brandywine Global Income Optimiser Fund

JUN 2022 I Commentary

Investment objective

The Fund's investment objective is to seek to generate a high and consistent level of income in all market conditions over a full market cycle with a secondary objective of capital preservation.

Performance (%)

	1 mth	3 mths	1 yr	3 yr pa	5 yr pa
Fund (net)	-2.75	-6.96	-11.81	1.57	2.50

Calendar year performance (%)

	2021	2020	2019	2018	2017
Fund (net)	0.90	15.12	8.95	-1.33	-

Fund details

Inception date	May 2017
ISIN	AU60SSB05156
APIR	SSB0515AU

Monthly review

What happened in the market?

The global fixed income market fell sharply during the second quarter. There was no shortage of headwinds facing the market, led by elevated and persistent inflation. Investor sentiment was also impacted by the ongoing war in Ukraine, supply chain bottlenecks, and recessionary fears. This created a "perfect storm" for the bond market. The Federal Reserve (Fed) met twice during the quarter and raised interest rates at its May and June meetings. The Bank of England also aggressively tightened monetary policy, pushing rates 25 basis points higher for a fifth consecutive time in June. The European Central Bank also threw in the towel, as it plans to raise its key interest rates by 25 basis points at its July and September meetings. U.S. investment-grade and high-yield credit spreads widened during the quarter due to rising rates, investor risk aversion, and increased recessionary fears. U.S. mortgage-backed security spreads also widened and generated a negative total return over the quarter. The U.S. dollar maintained its status as a safe haven and gained 6.5% over the quarter, boosting its year-to-date return to 9.4%. This marked the greenback's best first half of the year since 2010. The emerging market bond asset class fell sharply during the second quarter as investors fled riskier assets. The vast majority of emerging market currencies also declined versus the U.S. dollar.

What happened in the Fund?

The Fund fell 2.75% (net of fees) over the month of June. The high yield allocation was the largest detractor for the quarter. Price action was initially driven by front-end rates moving higher; however, spread widening became the larger catalyst of returns toward the end of the quarter. As of quarter end, spreads had returned to levels last seen in the summer of 2020. The selloff in high yield was broad in nature, although the strategy was particularly hurt by bonds within the lowest quality segments (i.e., single B and below).

Developed market duration returned mixed results over the quarter. While yields were generally higher during the quarter, the market saw a sizable reversal in rate hike expectations in mid-June after the Fed raised its policy rate by 75 basis points. The small relief rally provided some offset to the negative return contributions from the first two and a half months. The strategy's exposure to short-dated U.S. Treasury floating rate notes provided protection during heightened volatility. Overall, there were limited opportunities to achieve positive returns during the quarter, with all segments including investment-grade corporates and securitized assets achieving negative returns.

What is the outlook?

Market volatility could remain elevated amid a backdrop of central bank tightening, persistent inflation, the war in Ukraine, global supply chain disruptions, and weakening global economic data. In terms of the Fed, it has a precarious balancing act as it looks to play "catch up" in its fight against inflation without dragging down the economy. The potential for a policy mistake is real as the Fed aggressively raises rates and initiates quantitative tightening. If the Fed overshoots, a recession would likely follow. For the last 18 months, the U.S. has been the growth driver of the world, with the greenback's strength being a logical by-product.

In contrast, China's economy has been contracting, Europe never rebounded on the scale of the U.S. recovery, and Japan's central bank has resisted upward pressure on bond yields. However, the U.S. economy is slowing, and recession risks are rising. U.S. dollar strength, the erosion in real disposable income, and tightening financial conditions are all factors in play. With the U.S. dollar testing the upper end of its seven-year range and most price metrics flagging fairly deep discounts in many other currencies relative to the greenback, the stage could be set for a dollar relapse to its historical trading range. One factor which may militate against this development at least temporarily is the Fed's plan to draw down its balance sheet.

Looking ahead, our investment outlook hangs on the durability of high inflation. We will maintain our macro-oriented, value-driven investment approach and remain focused on the long term. Higher market volatility could introduce more opportunities for global investment managers.

Highlights

- Aims to provide an attractive and stable income by investing across diverse sources of income in global fixed income markets
- Seeks the best global income opportunities, with a strong focus on protecting capital
- Seeks to limit downside risk by rotating risk across different sectors of the fixed income market and through tactical hedging of credit and interest rate risk

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.

Brandywine Global

Acting with conviction and discipline, Brandywine Global looks beyond short-term, conventional thinking to rigorously pursue long-term value. Since 1986, Brandywine Global has provided a range of differentiated fixed income, equity and alternative solutions from its headquarters in Philadelphia, USA and offices around the globe.

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MONEY MANAGEMENT Celebrating 30 Years — FUND MANAGER OF THE YEAR 2017 | Lonsec — FINALIST Global Fixed Income

FUND MANAGER OF THE YEAR 2018 MONEY MANAGEMENT Lonsec — WINNER Global Fixed Income

Ratings

Quantitative

MORNINGSTAR ★★★★

The Morningstar Analyst Rating™ for Brandywine Global Opportunistic Fixed Income strategy is 4 stars as at 30 June 2022.

Qualitative

Recommended

Zenith RECOMMENDED

Meet the team

The Fund is led by a team of long-tenured investment professionals who provide a broad range of experience across global sovereign bond, currency, emerging market debt, and corporate and structured credit markets. The portfolio management team includes:

Brian L Kloss, JD, CPA
Portfolio Manager
With firm since 2009

Anujeet Sareen, CFA
Portfolio Manager
With firm since 2016

Jack P McIntyre, CFA
Portfolio Manager

Tracy Chen, CFA, CAIA
Portfolio Manager, Structured Credit

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