

Brandywine Global Income Optimiser Fund

MAR 2023 | 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)	1.85	2.71	-6.79	1.32	2.12

Fund details

Inception date	May 2017
ISIN	AU60SSB05156
APIR	SSB0515AU

Calendar year performance (%)

	2022	2021	2020	2019	2018
Fund (net)	-13.54	0.90	15.12	8.95	-1.33

Monthly review

What happened in the market?

The global fixed income market experienced volatility in March, but it ended the month posting a positive return. The month began with concerns about the Federal Reserve's response to persistent inflation and the growth repercussions from monetary tightening. Then, the collapse of Silicon Valley Bank overshadowed the inflation and monetary concerns. Fears of contagion quickly spread and investors' demand for the safety of government debt drove their yields sharply lower. U.S. investment-grade credit and high-yield credit spreads widened, but they both posted positive total returns as rates declined. U.S. mortgage-backed securities spreads also widened and generated a positive return as mortgage rates declined.

What happened in the Fund?

The Fund gained 1.85% (net) over the month of March. Developed market bond duration, specifically U.S. Treasuries and German bunds, were positive for performance. The Fund's emerging market government bonds were beneficial, driven by allocations to Brazil, Colombia and Mexico. From a currency positioning perspective, exposures to the Brazilian real, Columbian peso and Mexican peso were additive for returns, as they all strengthened versus the U.S. dollar. Finally, the Fund's allocation to U.S. corporate investment-grade bonds was rewarded. On the downside, a short duration position to Japan detracted from returns, as the Bank of Japan maintained its accommodative monetary policy and yields declined.

From a positioning perspective, the investment team's view, safe haven duration and remaining liquid are appropriate in the current environment. The team believes increasing risks of recession justify some ballast in the Fund, including approximately 3.4 years of U.S. Treasury duration and 0.4 year of German bund duration. The Fund remains invested in liquid parts of the bond market should further volatility occur. The team also feels that U.S. corporate bonds provide a yield cushion for the portfolio. Given higher yields, there is a large amount of cushion for further spread widening to occur and still achieve a positive return. The team continues to favour lower-quality investment-grade securities as well as higher quality high-yield issuers. The Fund owns credits that the team feels comfortable holding for a longer time period, even with spread volatility. Finally, the Fund maintains select foreign currency positions, including a modest allocation to emerging market currencies. In the team's view, the U.S. dollar will likely weaken in 2023 given U.S. relative monetary policy tightening set to peak and decelerating U.S. growth.

What is the outlook?

The investment team believes the current environment makes a strong case in support of the Fund's positioning. The team has been concerned with macro tail risks due to lagged effects of the most aggressive rate hike cycle in modern history. The situation with Silicon Valley Bank and Credit Suisse is another example of cracks beneath the surface. The team has advocated caution in its strategies, taking advantage of value but staying up in quality, and relying on developed market government bonds, specifically U.S. Treasuries, to provide value and protection. Although spread volatility will most likely stay elevated in the short term, the team believes yields offer investors compelling income to compensate for the bumpy ride. Investors must contemplate the starting point in terms of price, yield and spread relative to the economic outlook. And today, that starting point is compelling given the fundamental backdrop, in the team's view. All told, the team remains confident about bond markets for the remainder of the year because of the opportunities they offer from different economic scenarios, whether it is a hard or soft economic landing. There are also numerous signs showing that inflation has peaked, including economies slowing at a time when the lag effects of tight financial conditions are impacting underlying economies.

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.



Ratings

Qualitative



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

Anujeet Sareen, CFA
Portfolio Manager

Jack P McIntyre, CFA
Portfolio Manager

Tracy Chen, CFA, CAIA
Portfolio Manager, Structured Credit

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