Brandywine Global Income Optimiser Fund

JUN 2023 | Commentary

Investment objective

The Fund's investment objective is to generate a high and consistent level of income over a full market cycle with a secondary objective of downside protection.

Performance (%)

	1 mth	3 mths	1 yr	3 yr pa	5 yr pa
Fund (net)	1.28	0.74	0.92	-0.94	2.46

Calendar year performance (%)

	2022	2021	2020	2019	2018
Fund (net)	-13.54	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 was volatile and weakened during the second quarter. Investor sentiment was impacted by several events, including persistently high inflation, hawkish central bank monetary policy, a contentious debt ceiling debate in the U.S., high-profile bankruptcies in the banking industry and numerous geopolitical issues. On the monetary front, after raising rates for a 10th consecutive time in May, the Federal Reserve (Fed) took a well-telegraphed pause at its meeting in June. However, with inflation remaining well above its target, Fed Chair Jerome Powell made it clear that additional rate hikes would be necessary. Similar hawkish comments were made by the European Central Bank and the Bank of England, both of which continued tightening monetary policy throughout the quarter, with more hikes expected as the year progresses. As recession concerns moderated, the 10-year U.S. Treasury rate moved higher over the quarter, ending at 3.81%. U.S. high-yield credit spreads narrowed during the second quarter and posted a positive total return. While U.S. investment-grade credit spreads also narrowed, increased interest rates generated a negative total return. U.S. mortgage-backed security (MBS) spreads modestly widened and generated a negative total return during the quarter. Finally, the U.S. dollar modestly advanced (but is down 0.6% year to date), the emerging market debt asset class rallied and their currencies generated mixed results versus the greenback during the quarter.

What happened in the Fund?

The Fund gained 1.28% (net) over the month of June. Emerging market local currency sovereign bonds and their respective currencies was the largest contributor over the quarter, specifically to Colombia, Brazil and Mexico as each of these countries are showing signs of peak inflation. U.S. corporate high-yield bond exposure also generated a positive return as credit spreads narrowed, with industrials and financials in particular outperforming. U.S. corporate investment-grade exposure was flat for the quarter. U.S. prime MBS exposure also generated a positive return given the resiliency in the U.S. residential housing market.

The Fund's primary detractor was U.S. Treasury duration, as yields moved higher later in the quarter given comments from Powell on the likelihood of additional rate hikes. Short Japanese duration exposure also detracted, as the Bank of Japan maintained its accommodative stance despite rising inflation. Finally, the Japanese yen detracted given the widening monetary policy divergence between Japan and the U.S.

From a positioning perspective, duration stayed relatively consistent over the quarter. However, the Fund rolled down the curve with a portion of its U.S. Treasury duration exposure. The position is now split between the 10-year part of the curve and the 30-year part of the curve. U.S. dollar exposure was trimmed, as we believe the dollar will weaken given that U.S. relative monetary policy tightening is set to peak. The Fund slightly increased its emerging market sovereign local currency exposure, including to Brazil, Colombia and Mexico, as many emerging markets are experiencing disinflation. A position to the Japanese yen was also initiated, as it reached new year-to-date lows. The Japanese economy also continued to perform well. The Fund also took profits on its prime MBS exposure late in the quarter. Within U.S. corporate credit, the Fund took select exposure from the intermediate part of the curve in favour of shorter-duration credits. Given the inversion of the U.S. treasury yield curve, shorter-duration credits and their yields offered a favourable risk-return profile. Within U.S investment-grade credit, the Fund trimmed technology names in favour of financials.

What is the outlook?

The outlook for the global bond market is largely predicated on the future path of inflation. We are not discounting other global macro factors clouding the current outlook—like mania in artificial intelligence, war in Europe, climate change anxiety or China's underwhelming reopening—but we believe the most important macro factor right now is inflation. We reiterate that booms follow busts which follow booms. The pandemic lockdown bust triggered a massive policy reaction that fuelled a boom in cryptocurrencies, equity markets, real estate, the economy and, ultimately, inflation. But the boom then triggered a reflexive policy reaction in the other direction. In the last year, the federal funds rate moved to 5.25% from 1%, money supply growth measured by M2 nosedived to -4.6% from 8.4% and the balance sheet growth rate retreated to -6% from 12%. Correspondingly, economic and financial conditions have been normalizing, with dominos falling in the same sequence in which they rose during the boom. Real economic growth in the U.S. has fallen back in line with pre-pandemic levels while nominal income and spending growth rates have realigned after three years of complete distortion. Inflation is the last domino to fall in this sequence of normalization. We believe its retreat to date has been well in advance of any expected effects stemming from Fed tightening.

Past performance is not a reliable indicator of future performance.

Highlights

- The Fund invests in a diversified portfolio of global fixed income securities.
- A professional managed active portfolio, seeking the best global fixed income opportunities.
- Aims 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 options. Franklin Resources, Inc. is listed on the New York Stock Exchange and has employees in over 34 countries.

Brandywine Global

Brandywine Global looks beyond short-term, conventional thinking to rigorously pursue long-term value for investors. Since 1986, Brandywine Global has pursued long-term value for clients through a wide range of differentiated fixed income, equity, and alternative solutions. The firm thrives on a culture of debate that encourages ideas, respects diverse viewpoints and invites candid discussion. Brandywine Global operates from its headquarters in Philadelphia and offices in London, Singapore, Toronto, and Montreal.

Ratings

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:

Jack P McIntyre, CFA
Portfolio Manager
With firm since 1998

Anujeet Sareen, CFA
Portfolio Manager
With firm since 2016

Brian Kloss, JD, CPA
Portfolio Manager
With firm since 2010

Tracy Chen, CFA, CAIA
Portfolio Manager
With firm since 2009

Renato Latini, CFA
Portfolio Manager
With firm since 2007

Michael Arno, CFA
Portfolio Manager
With firm since 2007

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

Past performance is not a reliable indicator of future performance.

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 Brandywine Global Investment Manager as the fund manager of the Brandywine Global Income Optimiser Fund (ARSN 618 213 488). **The Lonsec Rating** (assigned as follows: Brandywine Global Income Optimiser Fund - September 2022) 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 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 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 Zenith Investment Partners** (ABN 27 103 132 672, AFS Licence 226872) ("Zenith") rating (assigned Brandywine Global Income Optimiser Fund—(SSB0515AU) March 2023) referred to in this piece is limited to "General Advice" (s766B Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual, including target markets of financial products, where applicable, and is subject to change at any time without prior notice. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of, and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Past performance is not an indication of future performance. Zenith usually charges the product issuer, fund manager or related party to conduct Product Assessments. Full details regarding Zenith's methodology, ratings definitions and regulatory compliance are available on our Product Assessments and at Fund Research Regulatory Guidelines.