

## SEP 2021 | Commentary

### BRANDYWINE GLOBAL INCOME OPTIMISER FUND

#### 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 (%)						Fund details	
	1 mth	3 mths	6 mths	1 yr	3 yr pa	Inception date	May 2017
Fund (net)	-0.70	-0.07	1.77	6.50	8.05	ISIN	AU60SSB05156
Calendar year performance (%)						APIR	SSB0515AU
	2020	2019	2018	2017	2016		
Fund (net)	15.12	8.95	-1.33	-	-		

#### Monthly review

##### What happened in the market?

The global economy has made great strides from the depth of the pandemic-induced recession. While the COVID-19 delta variant has tempered growth in parts of the world, it is not expected to trigger a similar downturn given the rollout of several effective vaccines. While several developed country central banks maintained their accommodative monetary stances, some central banks have telegraphed their intentions to start paring back their quantitative easing programs in the fourth quarter. From a yield perspective, after initially falling, the 10-year U.S. Treasury rate moved sharply higher in August and September. This turnaround was triggered by expectations for continued growth, higher inflation and Federal Reserve ("Fed") tapering. Ten-year yields in Germany, the U.K. and Japan also rose during the quarter. After falling in July and fluctuating in August, the U.S. dollar moved sharply higher in September, at one point hitting its highest level since November 2020. Demand for the greenback increased along with longer-term Treasury yields. Also fueling demand for the U.S. dollar was expectations less asset purchases by the Fed, which could propel yields higher. Less accommodative monetary policies are starting to be the norm in many developing countries as central banks look to tame rising inflation. After five consecutive months of positive returns, the emerging market bond asset class experienced a setback in September as risk aversion increased and spreads widened. Emerging market currencies largely fell versus the U.S. dollar during the quarter.

##### What happened in the Fund?

The Fund fell -0.70% during September, and was down -0.07% over the quarter. Within the high-yield credit market, cyclicals, especially energy-related securities, contributed to the Fund's performance, as both oil and natural gas prices increased over the quarter. Exposure to the U.S. mortgage-backed market was also additive for returns as it continues to be supported by higher home prices and a muted foreclosure environment. On the downside, tactical exposure to high-quality government bonds across the U.S. and Europe was a significant detractor from results late in the third quarter. Finally, the Fund's exposure to Mexican sovereign bonds was a headwind for performance, as they were negatively impacted by central bank rate hikes as a result of rising inflation, coupled with Fed's perceived hawkishness.

From a credit perspective, the Fund continues to favor issuers within sectors that maintain pricing power. The Fund also has minimal exposure to select emerging market hard currencies. The Fund increased its duration throughout the quarter and ended the period at 5.4 years. This was primarily executed through investments in high-quality government bonds in the U.S. and France, as well as higheryielding European periphery securities. Policy uncertainty has heightened volatility across the bond market, and increasing duration felt like the prudent move. The Fund has been positioned for higher rates going forward, but increased macro risks have called into question the reflationary narrative in the near term. Finally, the Fund continues to favor lower-quality investment-grade securities and relatively higher-quality highyield issuers. The Fund's corporate credit portfolio remains allocated to cyclical companies, and the manager remains selective in its credit exposure, as valuations are not overly compelling.

##### What is the outlook?

Economic uncertainties persist given the headwinds from the delta variant. However, this is not expected to derail a sustainable global recovery. The trajectory of global GDP is expected to converge toward pre-pandemic levels. While central banks view inflation as being largely transitory, it is too soon to say whether this will pan out. Meanwhile, global fiscal policy is set for a major contraction and is poised to be pared back in various stages. China has been reducing the central government budget deficit, although it maintains a watchful eye over existing property sector woes. The Fed's anticipated tapering and rising energy prices, particularly in Europe and Japan, are potential risks going into 2022. Persistent earnings growth, the search for yield, and continued Fed purchases should support current spread levels, where default rates continue to trend toward historic lows. Delinquencies continue to be lower for residential real estate, and strong housing fundamentals remain a positive backdrop within structured the product market.

## 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

### Quantitative



The Brandywine Global Income Optimiser Fund received an overall rating of 5 stars out of 72 Global Multi-Strategy Income as of 30 September 2021.

### 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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All documents can be found via [www.franklintempleton.com.au](http://www.franklintempleton.com.au) or by calling 1800 673 776. To make an initial investment in the Brandywine Global Income Optimiser Fund in accordance with the TMD, a retail investor must have received appropriate financial advice. Please call our Client Services team at 1800 673 776 to obtain the Application Form. 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 Management LLC as the fund manager of the Brandywine Global Income Optimiser Fund (ARSN 618 213 488). **Lonsec Rating** (assigned as follows: Legg Mason Brandywine Global Income Optimiser Fund - March 2021) presented in this document are published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421445. 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