

Franklin Global Responsible Investment Fund

SEP 2022 | Commentary

Investment objective

The Fund aims to earn an after-fee return in excess of the MSCI World ESG Leaders Index ("Performance Benchmark"), in Australian dollars over rolling three-year periods.

Performance (%)

| | 1 mth | 3 mths | 6 mths | 1 yr | 3 yrs pa |
|------------------------------------|-------|--------|--------|--------|----------|
| Fund (net) | -3.18 | -0.80 | -6.82 | -8.14 | 6.86 |
| MSCI World ESG Leaders Index (AUD) | -3.21 | -1.11 | -9.08 | -10.46 | 6.05 |
| MSCI World Index (AUD) | -3.29 | 0.33 | -8.17 | -9.71 | 6.24 |

Calendar year performance (%)

| | 2021 | 2020 | 2019 | 2018 | 2017 |
|------------|-------|------|------|------|------|
| Fund (net) | 36.63 | 0.32 | - | - | - |
| Benchmark | 32.35 | 5.03 | - | - | - |

Fund details

| | |
|-----------------------|------------------------------------|
| Inception date | May 2019 |
| Performance Benchmark | MSCI World ESG Leaders Index (AUD) |
| Benchmark | MSCI World Index (AUD) |
| ISIN | AU60SSB57389 |
| APIR | SSB5738AU |

Quarterly review

What happened in the market?

Following a strong rally during the first half of the third quarter, global equities fell sharply during the remainder of the period, marking a third consecutive quarterly decline. Investors worried that the global economy would weaken further or enter a recession as many central banks tighten monetary policy. Global manufacturing activity contracted in September for the first time since June 2020 as output fell, new orders decreased and international trade contracted. Although inflationary pressures began to ease as the price of many commodities declined, annual inflation rates remained near or at record highs in multiple regions, prompting many central banks to continue raising interest rates. The equity rally in the quarter's first half was fuelled by optimism that the US Federal Reserve (Fed) would start cutting interest rates in 2023. However, that sentiment vanished after the release of the Fed's July meeting minutes and hawkish comments made by Fed officials and other central bankers at the Jackson Hole Economic Symposium in late August. And the selloff in US and global stocks intensified in September as the Fed raised rates for the fifth time in 2022 and reiterated its focus on bringing down inflation despite potentially adverse economic effects. In this environment, developed and frontier market equities fared better than the global index, while emerging market equities significantly underperformed.

What happened in the Fund?

The Fund fell 0.80% (net of fees) over the September quarter, outperforming the benchmark as measured by the (MSCI World ESG Leaders Index (AUD)) which in comparison fell 1.11% over the quarter.

Stock selection was the main detractor across region/sectors, with Continental Europe, the United States, and the United Kingdom showing the most weakness. The New Zealand & Canada region was the sole positive contributor. From a sector perspective, Information Technology and Consumer Discretionary were the largest detractors while Industrials added to value. Regional allocation effects were effectively neutral.

The global stock selection model produced positive results in Sentiment and Alternatives, but was negative across Valuation for the quarter. Across the Valuation Dimension, negative results were driven by Value factors which more than offset positive performance from Cash Flow factors. Sentiment Dimension results were strong across factors, led by Earnings Growth factor results. Behavioural and Expectations factors were also positive. The Alternative Dimension added value as well.

At month end, the Fund was attractively valued with a lower 12-month forward PE than the benchmark. The Fund was well diversified across regions and sectors. The largest region overweight was to Continental Europe, and the largest underweight was to Japan. The Fund was most overweight in Industrials and most underweight in Materials.

What is the outlook?

While strong earnings reports and guidance from several companies led to some investor optimism in July, concerns persist about high inflation, tightening monetary policy, geopolitical instability and slower global economic growth as evidenced by the rapid negative turn in August which persisted in September. At the very least, these concerns compound the uncertainty from an already challenging environment including the impact of a persistent COVID threat on the global economic recovery, as well the lack of an easy route to a stable resolution to the war in Ukraine. Elevated commodity prices are already being felt in current levels of inflation and have complicated central bank policy decisions.

While a global slowdown appears to be underway, accentuated by the impact of geopolitics and ongoing policy tightening, we are confident that investors will continue to reward stocks that are attractively valued and invest in companies that have solid growth prospects and the ability to generate cash for their shareholders. We believe that our well-diversified, disciplined strategy will serve investors well in this environment.

Highlights

- Investment approach that seeks attractively valued companies that also embody good and improving Environmental, Social and Governance (ESG) practices with the aim of delivering more sustainable returns
- An ethical screen which actively screens out companies that do not meet the Fund's ethical investment criteria*

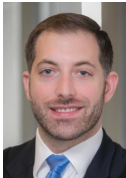
About us

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.

Meet the Portfolio managers

Franklin Templeton Australia has appointed Franklin Advisers, Inc., part of Franklin Templeton Investment Solutions (FTIS) to be the investment manager. FTIS translates a wide variety of investor goals into portfolios powered by Franklin Templeton's best thinking around the globe. The team includes more than 100 investment professionals, specialising in strategic asset allocation and tactical positioning, fundamental and quantitative research, active integration, and risk management. For this strategy, FTIS integrates quantitative and qualitative analysis into an agile investment approach. The investment strategy is derived from multiple sources of proprietary investment insights seeking to systematically harness insights from behavioural finance and traditional qualitative research. The process is diversified, systematic and adaptive and seeks to deliver consistent, repeatable and risk-controlled returns. The key personnel for this fund include Michael LaBella CFA, Russel Shtern CFA, and Joseph Giroux.



Michael LaBella, CFA



Joseph S. Giroux

Ratings

Quantitative



The Franklin Global Responsible Investment Fund received an overall rating of 5 stars as at 30 September 2022.

Qualitative



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

Past performance is not a reliable indicator of future performance.

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