

Franklin Global Responsible Investment Fund

JUN 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)	-4.56	-6.06	-14.08	-4.22	8.99
MSCI World ESG Leaders Index (AUD)	-4.00	-8.06	-16.53	-5.34	8.39
MSCI World Index (AUD)	-4.72	-8.47	-15.95	-6.48	7.72

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?

Global Investor concerns about persistently high inflation, tightening monetary policy, geopolitical instability and slower global economic growth pressured global financial markets in the second quarter of 2022. Record-high inflation in multiple countries driven by consumer demand and continued supply-chain disruptions prompted many central banks to raise interest rates. Additionally, the ongoing Russia-Ukraine war and resulting sanctions continued to disrupt trade and pushed crude oil and natural gas prices to record highs, though natural gas prices ended the quarter lower. Recession fears increased along with high inflation, rising interest rates and surging government bond yields, dampening consumer sentiment in many countries. In this environment, global equity markets posted the worst quarterly decline since the beginning of the COVID-19 pandemic in early 2020 and the worst first half of a year in more than three decades. As measured by MSCI indexes in US-dollar terms, developed market equities performed worse than a global index, while emerging and frontier market equities performed better than it, with all major regions posting double-digit percentage losses. In terms of investment style, global value stocks declined significantly amid the second quarter's broad-based selloff but performed much better than global growth stocks.

What happened in the Fund?

The Fund fell 6.06% (net of fees) over the June quarter, outperforming the benchmark as measured by the (MSCI World ESG Leaders Index (AUD)) which in comparison fell 8.06% over the quarter.

Stock selection added the most value across region/sectors, with the United States being the main contributor as the Consumer Discretionary sector showed the most strength. Continental Europe and Japan also added value, but New Zealand & Canada and the United Kingdom detracted. From a sector perspective, Consumer Discretionary and Communication Services were strongest while Real Estate was the largest detractor. Regional allocation effects were positive with overweight to U.K. being the largest contributor.

The global stock selection model was positive for the quarter, despite some weakness in June especially in the Valuation and Alternative dimensions. For the full quarter, the Valuation dimension results were positive with both value and cash flow factors adding value. The Sentiment dimension was mixed; behavioural factors were strong, earnings growth factors added modest value and expectations factors detracted. The impact of the Alternative Dimension was negative.

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 United Kingdom, and the largest underweight was to Japan. The portfolio was most overweight in Information technology and most underweight in Banks.

What is the outlook?

The lack of an easy route to a stable resolution to the war in Ukraine suggests that the impact on markets may persist. At the very least, this compounds the uncertainty from an already challenging environment including the impact of a persistent COVID threat on the global economic recovery, as well as inflation concerns and resulting monetary policy changes. Elevated commodity prices are already being felt in current levels of inflation and have complicated central bank policy decisions.

Despite the momentum of growth decelerating, accentuated by the impact of geopolitics and ongoing policy tightening, we anticipate continued above-trend global growth in the near-term as consumers in developed economies broadly remain in a strong financial position. Thus 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

Qualitative



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

* Please read Product Disclosure Statement (PDS)

Past performance is not a reliable indicator of future performance.

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