

JUN 2021 | Commentary

## LEGG MASON 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)	0.40	1.84	1.42	9.22	8.26	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?

While the COVID Delta variant has muted enthusiasm for the economic recovery in some regions, improved vaccine rates in many developed countries fuelled optimism for sustainable economic recoveries as the year progresses. In the U.S., first-quarter 2021 annualized GDP growth was 6.4% versus a 4.3% expansion during the previous quarter. In contrast, the eurozone and Japanese economies contracted 0.6% and 1.3% quarter-over-quarter, respectively. This slowdown was partly attributed to the COVID-19 containment measures in some countries in early 2021. As largely anticipated, the U.S. Federal Reserve ("Fed"), the European Central Bank, the Bank of England and the Bank of Japan all maintained their accommodative stances in June, although inflationary concerns remained on the forefront. From a yield perspective, the 10-year U.S. Treasury rate fell for a third consecutive month in June as growth expectations moderated given the potential for less fiscal and monetary stimulus. Meanwhile, 10-year yields in Germany, the U.K. and Japan modestly declined. After weakening in April and May, the U.S. dollar rallied in June, rising 2.8%, 1.1% and 2.7% versus the euro, the pound and the yen, respectively. Most developing country central banks were on hold over the first five months of the year. However, this trend partially reversed course in June due to rising inflation and pockets of improving growth. During the month, central banks in Mexico, Brazil, Russia, Hungary and the Czech Republic pushed rates higher. The emerging market (EM) bond asset class posted a positive return for a third straight month in June. This was driven by overall strong risk appetite and higher oil prices. Meanwhile, EM currencies largely declined versus the U.S. dollar.

#### What happened in the Fund?

The Fund posted a positive absolute return in June. Duration positioning, led by the Fund's exposure in investment-grade credit, contributed to performance. Cyclical, especially within the energy sector, added the most value as oil prices continued to rally, allowing companies to significantly increase future earnings. The second largest contributor was the Fund's position in credit default swaps, primarily in the European Union. An allocation to structured product was also beneficial. Delinquencies continue to trend lower within residential real estate, and strong housing fundamentals remain a positive backdrop for further spread compression. During the month, the Fund increased its allocation to mortgage-backed securities. Most of the allocation remains in residential mortgage-backed securities. However, the manager is also finding opportunities within the collateralized mortgage obligation (CLO) and commercial mortgage-backed security (CMBS) sectors. Meanwhile, the Fund reduced its overall duration by roughly 1.5 years. Policy uncertainty continues to add heightened volatility across the bond market. The Fund continues to be positioned for higher rates going forward, but strong technical moves during the second quarter continue to provide headwinds for yields to move upward.

#### What is the outlook?

Macro signs currently point to a synchronous reopening boom, with investors positioned for a utopic future. Current surveys and asset price profiles imply expectations for strong and long-lasting economic growth, a transitory spike in inflation and a smooth tapering of the Fed's balance sheet at some point in the future. These indicators assume an end to the pandemic's influence. That said, there are no guarantees surrounding this sanguine view and there is no historical recovery road map for navigating a world full of pandemic-related distortions, along with substantial stimulus measures set to be dialed back in various stages. In addition, we potentially face the biggest tax hikes in the U.S. in over 50 years. For the moment, the focal point of investment uncertainty is the recent spike in inflation, which the Fed believes is transitory. In our view, it is too soon to answer the inflation question. A longer-lasting inflationary outlook seems unlikely without a meaningful decline in the U.S. dollar. By the end of the year, we believe the U.S. unemployment rate should be significantly lower. For developed market sovereign bonds, we expect the second half of 2021 will be like the environment we witnessed during the second quarter of this year—a directionless trading bias, lacking in conviction, which keeps most developed market bond yields range-bound. Meanwhile, the forces that propelled the U.S. dollar higher in 2020 have started to moderate, causing the greenback to trade more in a sideways range since the beginning of this year. We believe select EM currencies that lagged the global recovery are still likely to generate attractive returns in the second half of this year, while the U.S. dollar, more broadly, is likely to remain range-bound for the balance of 2021.

## 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 Legg Mason Brandywine Global Income Optimiser Fund received an overall rating of 5 stars out of 84 Global Multi-Strategy Income as of 30 June 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

With firm since 2009

### Jack P McIntyre, CFA

Portfolio Manager

With firm since 1998

### Anujeet Sareen, CFA

Portfolio Manager

With firm since 2016

### Tracy Chen, CFA, CAIA

Portfolio Manager, Structured Credit

With firm since 2008

For enquiries, please contact Client Services team on 1800 679 541, email [auclientadmin@franklintempleton.com](mailto:auclientadmin@franklintempleton.com) or visit [leggmason.com.au](http://leggmason.com.au).

**Past performance is not a reliable indicator of future performance.** Legg Mason Asset Management Australia Limited (ABN 76 004 835 849 AFSL 240827) is part of Franklin Resources, Inc. group. Any reference to 'Legg Mason Australia' is a reference to Legg Mason Asset Management Australia Limited. Legg Mason Australia is the responsible entity of the Legg Mason Brandywine Global Income Optimiser Fund (ARSN 618 213 488) (Fund). Before making an investment decision you should read the Product Disclosure Statement (PDS) carefully and you need to consider, with or without the assistance of a financial advisor, whether such an investment is appropriate in light of your particular investment needs, objectives and financial circumstances. The PDS is available and can be obtained by contacting Legg Mason Australia on 1800 679 541 or at [www.leggmason.com.au](http://www.leggmason.com.au). This product has not been prepared to take into account the investment objectives, financial objectives or particular needs of any particular person. Neither Legg Mason Australia, nor any of its related parties, guarantees the performance or the return of capital invested. Past performance is not indicative of future performance. Investments are subject to risks, including, but not limited to, possible delays in payments and loss of income or capital invested. These opinions are subject to change without notice and do not constitute investment advice or recommendation. **The 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. 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 Legg Mason Asset Management 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** ("Zenith") Australian Financial Services License No. 226872 rating (Legg Mason Brandywine Global Income Optimiser Fund assigned February 2019) referred to in this document 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 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 <http://www.zenithpartners.com.au/RegulatoryGuidelines>. **The Professional Planner | Zenith Fund Awards** are determined using proprietary methodologies. Fund Awards were issued October 2017 and are solely statements of opinion and do not represent recommendations to purchase, hold or sell any securities or make any other investment decisions. Fund Awards are current for 12 months from the date awarded and are subject to change at any time. Fund Awards for previous years are referenced for historical purposes only. © 2020 Morningstar, Inc. All rights reserved. Neither Morningstar, its affiliates, nor the content providers guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution. Any general advice or 'class service' have been prepared by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892) and/or Morningstar Research Ltd, subsidiaries of Morningstar, Inc, without reference to your objectives, financial situation or needs. Refer to our Financial Services Guide (FSG) for more information at [www.morningstar.com.au/s/fsg.pdf](http://www.morningstar.com.au/s/fsg.pdf). You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement before making any decision to invest. Our publications, ratings and products should be viewed as an additional investment resource, not as your sole source of information. Past performance does not necessarily indicate a financial product's future performance. To obtain advice tailored to your situation, contact a professional financial adviser. The Morningstar Rating is an assessment of a fund's past performance – based on both return and risk – which shows how similar investments compare with their competitors. A high rating alone is insufficient basis for an investment decision.