

AUG 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)	0.12	1.04	2.45	6.19	8.34	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?

Economic data released in August confirmed improving global growth despite the headwinds associated with the delta variant. In the U.S., the second estimate for second-quarter 2021 annualized GDP growth was 6.6% versus a 6.3% expansion the previous quarter. Growth in the eurozone, the U.K. and Japan also moved into positive territory after their economies contracted over the first quarter of the year. With the summer winding down, there were no meaningful policy changes by the U.S. Federal Reserve ("Fed"), the European Central Bank, the Bank of England or the Bank of Japan. From a yield perspective, after declining during the previous four months, the 10-year U.S. Treasury rate moved modestly higher in August. Meanwhile, 10-year yields in Germany, the U.K. and Japan also rose during the month. The U.S. dollar whipsawed during the month and ultimately ended August up 0.5%. As anticipated, August was a rather benign month in terms of developing country central bank activity. The emerging market bond asset class moved higher for a fifth consecutive month in August, with higher yielding government bonds outperforming. Emerging market currencies generated mixed results versus the U.S. dollar during the month.

What happened in the Fund?

The Fund posted a positive absolute return in August, up 0.12%. The Fund's U.S. high-yield allocation was the largest contributor to performance as the sector benefited from strong corporate earnings and spread tightening. European high-yield positioning was also additive for returns. Elsewhere, an exposure to structured credit, primarily U.S. residential mortgage-backed securities, continued to produce results. On the downside, the Fund's government sovereign exposure was the largest detractor in August, driven mainly by South Korea and France.

During the month, the Fund continued to modestly increase its duration. Monetary policy uncertainty has heightened volatility across the bond market, and the manager felt increasing duration was a prudent strategy. 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. The Fund continues to favor lower-quality investment-grade securities as well as higher-quality high yield issuers. The Fund's corporate credit allocation favors pro-cyclical companies and the manager is highly selective in its credit positioning, as valuations are not overly compelling. The manager also continues to focus on companies that have pricing power in the current environment.

What is the outlook?

In the manager's view, the trajectory of global GDP is expected to converge toward its pre-pandemic level, and growth is expected to be stable and long-lasting. The manager feels that inflation will largely be transitory, while retreats from policy stimulus are not expected to be turbulent. That said, there is no post-pandemic roadmap to follow. China is furthest along in its recovery, so its experience is worth noting. At this juncture, trends in social credit suggest slower growth this year and into 2022. Producer price inflation is soaring because of commodity prices, but consumer price inflation is stable so far. Bond yields have been drifting lower since November 2020 and the Shanghai Composite is up marginally, while Chinese authorities do not want a stronger currency.

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 77 Global Multi-Strategy Income as of 31 August 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 or visit leggmason.com.au.

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