

JUN 2021 | Commentary

LEGG MASON QS INVESTORS GLOBAL EQUITY FUND

Investment objective

The Fund aims to earn an after-fee return in excess of the Benchmark over rolling three-year periods.

Performance (%)					
	1 mth	3 mths	1 yr	3 yrs pa	5 yrs pa
Fund (net)	3.68	9.11	29.08	13.32	14.96
Benchmark	4.71	9.33	27.50	14.50	14.73

Calendar year performance (%)					
	2020	2019	2018	2017	2016
Fund (net)	3.92	22.53	0.05	15.62	7.02
Benchmark	5.73	27.97	1.52	13.33	7.92

Fund details	
Inception date	September 1998
Benchmark	MSCI World Index (ex Australia) in AUD
ISIN	AU60SSB01262
APIR	SSB0126AU

Monthly review

What happened in the market?

The MSCI World ex-Australia Index returned 4.71% in June. Global equity markets were mixed during June 2021. Sentiment was generally dominated by expectations of how central banks would respond to rising inflation caused by increasing demand, supply chain disruptions and higher commodity prices. The US Federal Reserve (Fed) projected there could be two interest-rate hikes in 2023 (earlier estimates put the first rate hike in 2024), which was initially perceived to be a hawkish move. However, later in the month, many investors began to focus on vaccine progress and continued economic recovery in certain major countries. Developed stock markets were mixed but collectively advanced ahead of a global index while emerging equity markets were flat overall, also on mixed underlying results.

Broad US equity indexes closed the month higher as investors recalibrated their expectations for inflation, interest rates and risks introduced by a firming economic reboot. The Fed kept the federal funds target rate unchanged at its June meeting. However, its overall policy tone shifted in a hawkish direction as the Fed raised its forecasts for growth and inflation and as a majority of Fed officials brought forward their projected expectations for rate hikes. European stock markets were mixed as inflation concerns appeared to outweigh signs of the economic recovery picking up. The European Central Bank (ECB) in June raised its economic forecast for the euro area but stated it intends to continue its accommodative monetary stimulus. The ECB president said underlying price pressures are expected to increase somewhat this year due to temporary supply constraints and domestic demand recovery but are likely to remain subdued. In Asia, Japanese equities contended with uninspiring economic data amid rising coronavirus cases and slow vaccine rollouts.

What happened in the Fund?

The Fund returned 3.68% in June, net of fees. Stock selection detracted value for the month; the selection effects in the U.S. were the main detractor. Selection within the U.S. region was the main reason for underperformance, particularly in the Information Technology, Communication Services, and Financials ex Banks sectors. Selection was also negative in the New Zealand and Canada, Continental Europe, and the U.K. regions. Across sectors, selection was weak in Information Technology, Financials ex Banks, and Health Care. The impact of region/sector allocations was effectively neutral.

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 the U.K., and the largest underweight was in New Zealand and Canada region. The Fund was most overweight in Industrials and most underweight in Utilities.

What is the outlook?

As we close out the second quarter of 2021, growth expectations continue on an upward trend as central banks remain accommodative. Cyclical value stocks most beaten down in the COVID crisis continue to make gains with the market anticipating the recovery from the pandemic-induced recession. The spread between 'cheap' and 'expensive' stock continues to be historically wide in both Value and Cash Flow factors outside the US, though the strong rally has brought Value back to more neutral levels in the US Small Cap space.

There are still near-term risks from COVID-19 as vaccine roll outs globally continue to be slow and the worrisome Delta variant gains traction. Inflation too is a near term concern, as it could lead to a tightening of accommodative fiscal policies. With all this said, investor optimism may outweigh these residual concerns. Value-oriented names appear likely to continue to benefit as consumer and corporate spending patterns begin to normalize and investors continue to roll out of pandemic lock down winners.

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

- Provides core, active global equity exposure with a long track record of alpha generation
- Competitive pricing structure
- An attractive alternative to passive investment that blends well with more concentrated, factor biased investment strategies

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.

QS Investors

QS Investors is a quantitative asset manager that provides multi-asset class and global equity solutions. Their approach unites intellectual and academic precision with the power of data and technology in their quest to elevate the certainty of outcomes they deliver. Effective October 1, 2020, QS Investors and Franklin Templeton Multi-Asset Solutions combined capabilities to form Franklin Templeton Investment Solutions with the primary goal of offering best-in-class

Meet the Portfolio managers

Joseph S. Giroux (industry since 1993), leads the team that manages your Fund. They believe quantitative investing provides a better framework to be more creative when solving for client challenges. By taking a systematic approach, they can better test their insights, manage risk and target the investment outcomes a client wants through a deeper understanding of investment and human dynamics.

Ratings

Quantitative



The Legg Mason QS Investors Global Equity Fund received an overall rating of 4 stars out of 249 Equity World Large Blend funds as of 30 June 2021.

Qualitative



For enquiries, please contact Client Services team on 1800 679 541, email auclientadmin@franklintempleton.com or visit leggmason.com.au.

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