

Legg Mason Brandywine Global Income Optimiser Fund*

Fund performance

Annualised (%) ¹	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	Since inception
Class A Acc USD	1.74	4.03	4.03	1.79	4.18	2.75	3.62
Class A Acc USD (inclusive of sales charge)	-3.34	-1.18	-1.18	-3.30	2.41	1.70	2.68

Past performance is not a reliable indicator of future results

Monthly review

What happened in the market? Most risk assets rebounded after sustaining significant losses in late 2018. Recessionary fears created a challenging market environment at the beginning of the year, prompting the Federal Reserve Board (“Fed”) and the European Central Bank to lower their respective growth outlooks. To address flagging U.S. and global growth, the Fed surprised to the upside by pledging to maintain a neutral policy stance in 2019. The Fed’s pivot away from hawkishness ignited a broad-based rally in global credit markets, with the U.S. high-yield bond market posting a near-decade high in performance. After lagging for several quarters, European credit markets were reinvigorated by an increase in new issuance activity, as well as spread compression. Meanwhile, U.K. credit spreads compressed in the face of Brexit uncertainty, although issuance was anemic. In general, global credit spreads compressed as corporate bond yields fell in tandem with risk-free sovereign rates.

What happened in the Fund? The Fund posted a positive return in March. Higher-quality G10 sovereign bonds rallied, and while emerging market government bond yields were stable, their rally was muted and lagged developed market peers. Developed market sovereigns contributed the most to the Fund’s performance in March, followed by investment-grade corporates. Elsewhere, developed market duration positioning was beneficial. The retreat in developed market yields also paved the way for longer-duration investment-grade credit to rally. The decline in interest rates, the surprise policy accommodation by the Fed, and the snapback in crude oil prices created a constructive backdrop for the corporate bond market. Meanwhile, leveraged loans and other floating-rate instruments trailed in terms of performance, given the retreat in rates. Economic data suggested that recessionary fears were overdone, although the U.S. and European economies should continue to slow—an important reason why market participants expect the credit cycle will be extended. U.S. and European housing markets also benefited from the decline in interest rates, which should create additional momentum for home sales during the spring and summer. On the downside, the Fund’s currency positioning in Brazil, Argentina and the eurozone detracted from results, as they all weakened against the U.S. dollar in March.

What did the portfolio manager do? There were no material sector positioning changes to the Fund during the month. However, roughly three years of duration was added to the Fund’s developed market sovereign exposure, through positions in Australia, the U.K. and Japan. Elsewhere, the Fund closed out of its small position in the Argentinean peso.

What is the outlook? Data released in the first quarter suggest that stimulus efforts in China are beginning to take hold, which should be supportive of economic growth going forward, while the U.S. economy is projected to slow. The extreme pessimism at the beginning of year fostered a shift in U.S. monetary policy by stalling Fed normalization—a delay that should benefit global credit markets, particularly U.S. corporate bonds and residential mortgage-backed securities. The break in Fed tightening suggests the current credit cycle will be extended beyond expectations, thus averting the imminent onset of a U.S. recession. With the Fed on pause, continued stability in commodity prices, and a forthcoming trade deal, the manager feels we could see global economic sentiment turn more positive. Benign inflation should allow major central banks to remain relatively accommodative and, therefore, sustain the constructive backdrop for bond markets. A China-led recovery would help emerging markets while also bolstering growth in Europe. However, in the near term the manager will remain cautious until there are signs of sustainable stabilization in the macro backdrop.

Investment Aim: The Fund seeks to maximise income yield in all market conditions while preserving capital by investing in investment grade and high-yielding debt securities and financial derivative instruments.

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IMPORTANT INFORMATION:

This Fund is managed by Brandywine Global Investment Management

¹ Source: Legg Mason. Performance is calculated on a NAV to NAV basis (in USD terms) with income and dividends reinvested, if any, without initial charges but reflecting annual management fees. Performance for periods above one year is annualised. **Investment involves risks. Past performance is not indicative of future results.** Inception Date: 30 August 2013.

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