

GIVE YOUR GLOBAL BONDS MORE CURRENCY

Legg Mason's Fixed Income Choice

Many investors assume that investing in global bonds is just about buying bonds, but that's not the complete picture. When you invest in global bond markets you also get foreign currency exposure and currency can actually be a major driver of global bond fund returns. You can neutralise your currency exposure through hedging if you like, but currency positions offer the potential to add significant additional value to your portfolio if managed well.

Leverage your currency

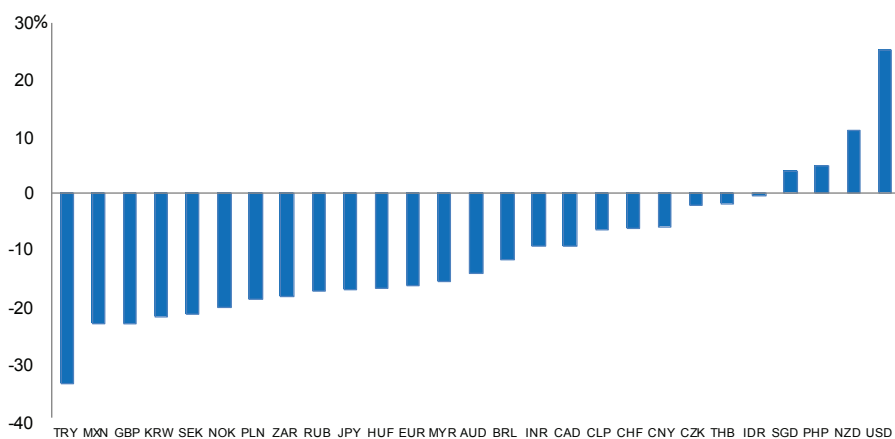
When investing globally, country and currency decisions are intertwined. To purchase a particular bond, you typically also have to hold this investment in the local currency. What you then decide to do with your foreign currency exposure can have a major impact on your overall returns.

You can view currency exposure as an unintended consequence of investing in global bonds and hedge it so that it does not impact returns. This is a relatively low risk strategy, but the opportunity cost of this approach is that your portfolio can't benefit from favourable currency moves.

Alternatively, you can treat currency as a separate investment decision and actively manage it with the aim of reducing risk and generating additional returns. This strategy separates the currency from the bond investment decision, with your fund manager choosing when to maintain the currency exposure and when to hedge it out. Like most financial instruments, currencies can trade away from measures of 'fair value' (see chart below) and the degree of under/over valuation is one of the major drivers of active currency decisions.

Under or over-valued - currency deviations from long-term 'fair' value

Percentage deviation from BGIM purchasing power parity



Source: Brandywine Global, as at 31 December 2017

Brandywine Global - A proven global bond and currency specialist

Launched in March 2011, the Legg Mason Brandywine Global Opportunistic Fixed Income Fund is a pioneering global unconstrained strategy managed by a vastly experienced and deeply resourced team. The Fund has a 'go anywhere', opportunistic style, with strict risk limits in place to avoid over-exposure to any one sector or issuer.

Brandywine Global actively manages currency exposure as part of its global bond investment process, and this is one of the distinguishing features of the Fund. Currency is important because the real yield must be captured in the investor's local currency. Brandywine seeks to invest in bonds with high real yields that are denominated in appreciating currencies and hedges any currency exposure in countries with high real yields but overvalued currencies.

The Fund is a highly rated, multiple industry award winner that is A\$716m¹ in size. Returns have been attractive since inception, placing it in the first quartile in its peer group over 1 year, 5 years and since inception (Morningstar)².

Brandywine  GLOBAL

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GLOBAL ASSET MANAGEMENT

Past performance is no indication of future performance.

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1_ As at February 2018.

2_ Source: Morningstar Direct. Ranked in the first quartile in its peer group among 56 funds (1 year), 45 funds (5 years) and 42 funds (since inception) within Morningstar Bonds Global category as at 28 February 2018. © 2018 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. 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.