

Legg Mason

Brandywine Global Opportunistic Fixed Income Trust

Objective

The Trust aims to earn a before fees and taxes return of 2% p.a. in excess of the benchmark over a complete market cycle of three to five years.

Benchmark

Citigroup World Government Bond Index, hedged into Australian dollars.

Value

\$48,871,482

Performance (before fees and taxes)

	Trust %	Benchmark %
1 month	1.25	0.93
3 months	3.15	1.51
1 year	16.45	11.79

Past performance is no indication of future performance.

Profile

Portfolio Characteristics

Modified duration (years)	5.77
Average credit quality (Standard & Poor's)	BBB+

Sector Allocations

	%
Government sovereign	53.5
Government regional agencies	10.0
Municipal bonds	1.8
Corporate bonds	17.7
Mortgage backed securities	0.5
Cash and currency	16.5

Market Review

Developed Global Bond Markets

A weaker-than-expected U.S. jobs report and renewed euro-zone tensions increased valuations for sovereign debt, pressuring yields lower in most high quality sovereign markets. Australian and New Zealand bond markets produced some of the best returns in the universe since benign inflation readings and elevated currency valuations led traders to price in a greater probability for interest rate cuts from both countries' central banks. The U.S. Treasury market rallied in reaction to the weak early-month jobs report; then yields drifted even lower at the end of the month after the Federal Reserve Chairman reiterated that additional stimulus would be provided should employment and inflation expectations remain subdued. The Mexican market, which typically trades with a tight correlation to U.S. yields, also gained. In contrast, U.K. and Canadian sovereign markets delivered less-substantial, only coupon-like returns after their respective central banks communicated a bias for neutralising or tightening monetary policy.

Returns in euro-denominated sovereign markets showed a further decoupling in April—a positive sign that contagion symptoms are contained for now. Spanish, Italian, and, to a lesser degree, French sovereign markets produced negative absolute returns and rising yields in reaction to an unexpected downgrade of Spain's credit rating. German yields fell, however, as did Portuguese and Irish yields. Poland's sovereign market produced modestly positive returns as fears of a banking crisis in the neighbouring euro zone subsided despite the overall economic outlook remaining weak. South African bonds gained in value as investors await the likely probability of the country being included in the Citigroup World Government Bond Index in October 2012.

Currencies

Mixed currency returns further illustrated that financial markets were decoupling from systemic risk in April. Asian currencies all rose against the dollar in April, including the Malaysian ringgit (up 1.2%) and Korean won (up 0.6%), after China and the U.S. hinted at increasing policy stimulus near month-end. The Japanese yen (up 3.5%) also regained a portion of the depreciation which occurred earlier in the year. The British pound (up 1.5%) and the Canadian dollar (up 1.1%) rallied too, on signals from both countries' central banks that policy would remain neutral or tighten in the future. Moreover, the pound continues to benefit from its role as a regional safe-haven alternative to the euro (down 0.8%), which weakened after Standard and Poor's mid-month downgrade of Spain's sovereign credit rating and the release of recessionary-like European manufacturing data.

After sharp appreciation year-to-date for the Mexican peso (down 1.5%), the currency gave back some of its recent gains following the weak U.S. jobs report. The Polish zloty (down 1.7%) fell on disappointing economic news out of the neighboring euro zone. Lastly, repeated intervention efforts from Brazil's central bank to weaken the real (down 3.7%) weighed on its performance.

Credit: Corporate Debt and Non-Agency Mortgage Markets

European and U.S. investment-grade credit spreads increased modestly in April, but coupon payments and falling treasury yields helped both sectors deliver positive absolute returns. Although Spanish and Italian sovereign bond yields notably increased during the month, firmness in European credit markets shows that contagion fears are contained for now.

Compared to where they began the year, loss-adjusted yields in the non-agency mortgage market closed meaningfully lower by the end of April. Since that time, lower-quality mortgage assets have outperformed. We continue to prefer higher-quality mortgage bonds, due to better price and cash-flow stability.

Emerging Markets

The Turkish lira (up 1.4%) and Hungarian forint (up 1.7%) added to attractive year-to-date performance during a month when most risk-oriented assets slumped. Hungarian sovereign debt, and to a lesser extent the forint, benefited after Prime Minister Victor Orban announced a “breakthrough” in negotiations with the European Commission. The commission’s consent is needed before the International Monetary Fund will provide financing assistance. The Turkish lira benefited from a continuation of very high interest rates and a decrease in the price of oil. Turkey’s trade balance is sensitive to oil prices.

Performance

The Legg Mason Brandywine Global Opportunistic Fixed Income Trust outperformed its benchmark by 0.3% over the month. Performance in the last 12 months is 4.7% ahead of benchmark.