

Bonds are Back

Centrepont Alliance

June 2023



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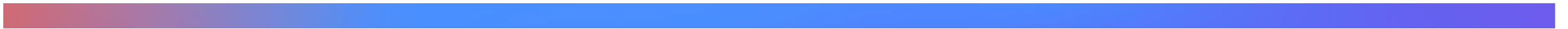
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About Franklin Templeton



Franklin Templeton is a global leader in asset management serving clients in over 160 countries



We are the sixth largest independent asset manager in the world, with¹:

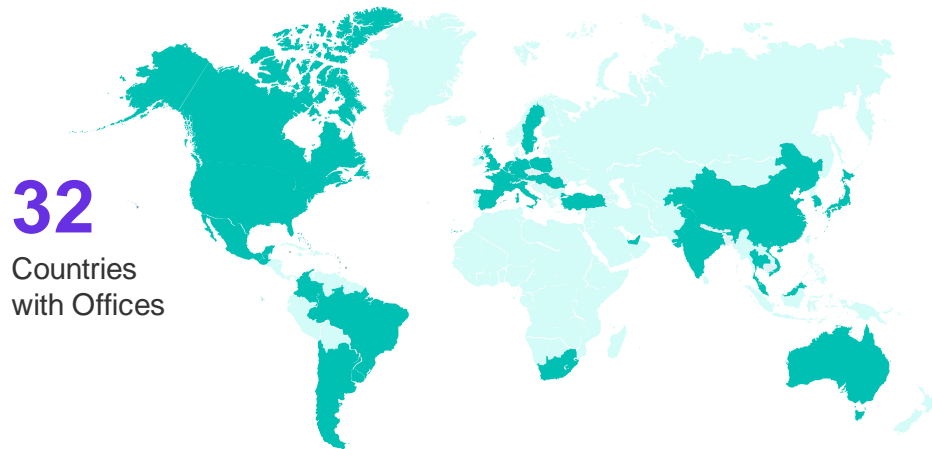
75+
years of asset
management experience

\$2.1 Trillion
(AUD) total assets
under management

1,250+
investment professionals²

8,500+
employees globally

We have one of the industry's broadest global footprints



The strength and experience
of a global leader

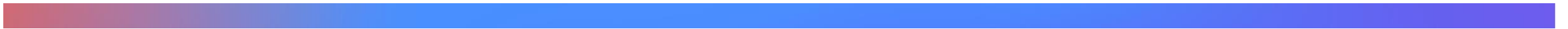
- We are the world's top cross-border fund manager³

1. As of 31/03/2023. Source: Morningstar.

2. Investment professionals include portfolio managers, research analysts, research associates, investment support and executives of Franklin Templeton and subsidiary investment management groups.

3. As of March 2022. Franklin Templeton was ranked first in the cross-border management group category by PwC in their 2022 Benchmark Your Global Fund Distribution Report, which ranks asset managers on the number of countries in which their cross-border funds are distributed. Franklin Templeton has not paid any compensation for obtaining or using the ranking provided by PwC.

About Western Asset



About Western Asset

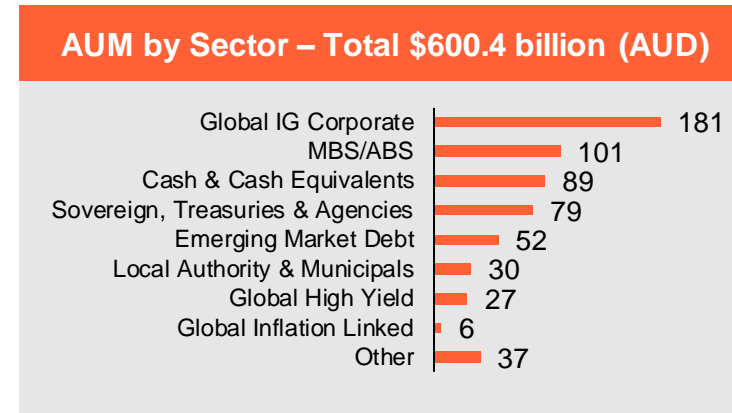
Western Asset is a globally integrated fixed-income manager, sourcing ideas and investment solutions worldwide.

Western Asset At a Glance

- Founded in 1971. Specialist Investment Manager of Franklin Resources, Inc. since July 31, 2020
- Fixed-income value investors
- \$600.4 billion (AUD) AUM
 - \$511.7 billion (AUD) long-term assets
 - \$88.7 billion (AUD) cash and cash equivalent assets
- 738 employees

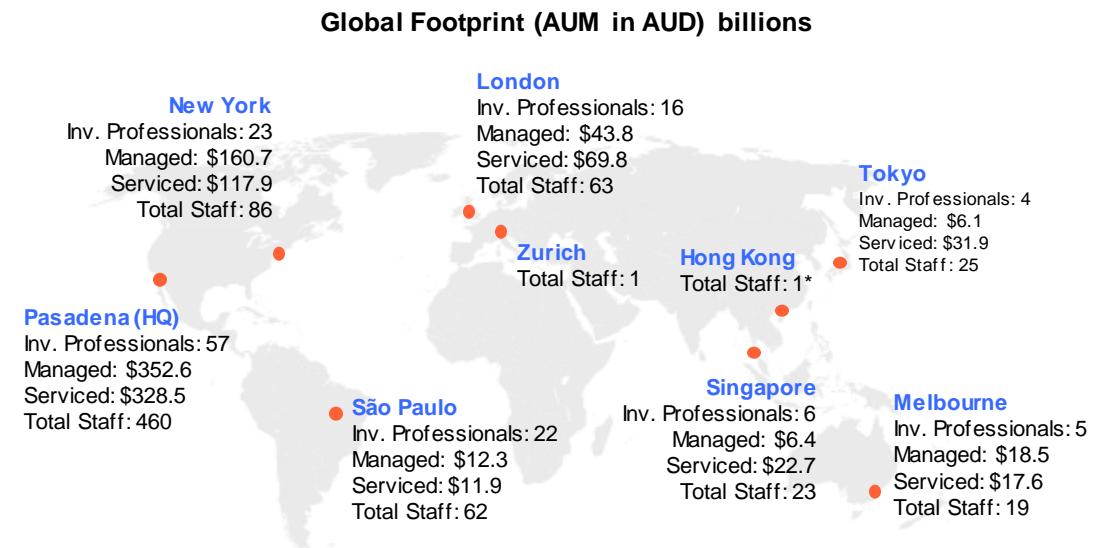
Organizational Pillars

- Clients first
- Globally integrated
- Team-based
- Active fixed-income
- Integrated risk management



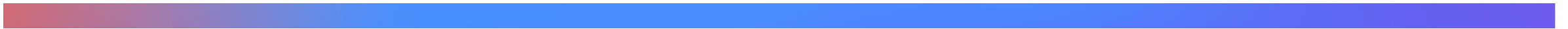
Western Asset's Deep Global Integration Allows Us to Source Investment Ideas and Investment Solutions Across Regions

Investment Management	<ul style="list-style-type: none"> • 133 investment professionals on five continents and in seven offices • 25 years average experience • 42 portfolio and quantitative analysts in portfolio operations
Client Service & Marketing	<ul style="list-style-type: none"> • 166 staff dedicated to client service • Specialized teams to meet individual client needs
Risk Management & Operations	<ul style="list-style-type: none"> • Independent risk management function with 35 professionals including 12 PhDs • 290 staff dedicated to globally integrated operations

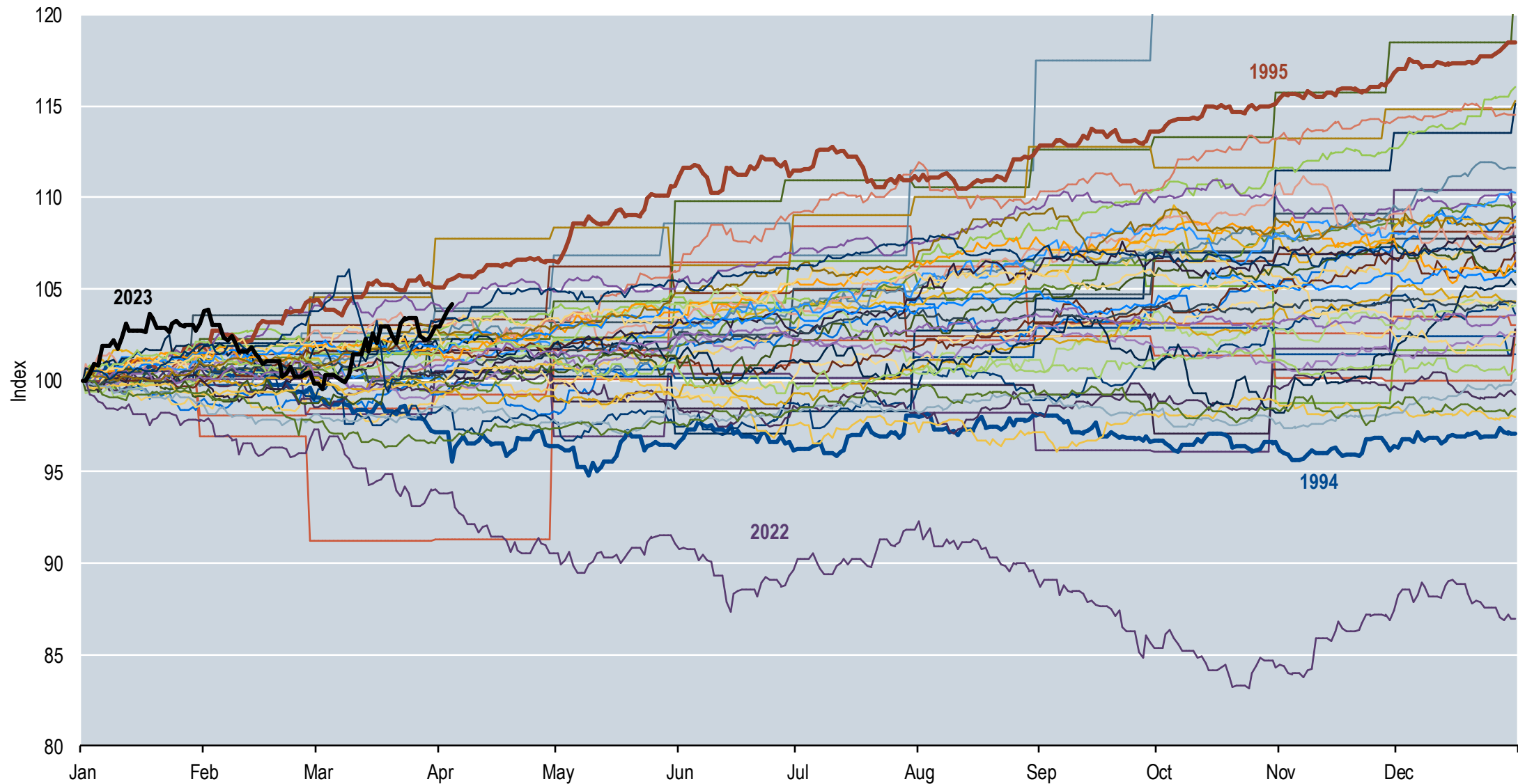


Source: Western Asset. As of 31 Mar 23 *Splits time between Hong Kong and Singapore offices

Year in Review



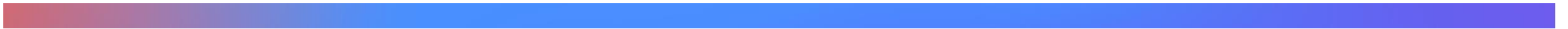
Index History for Context



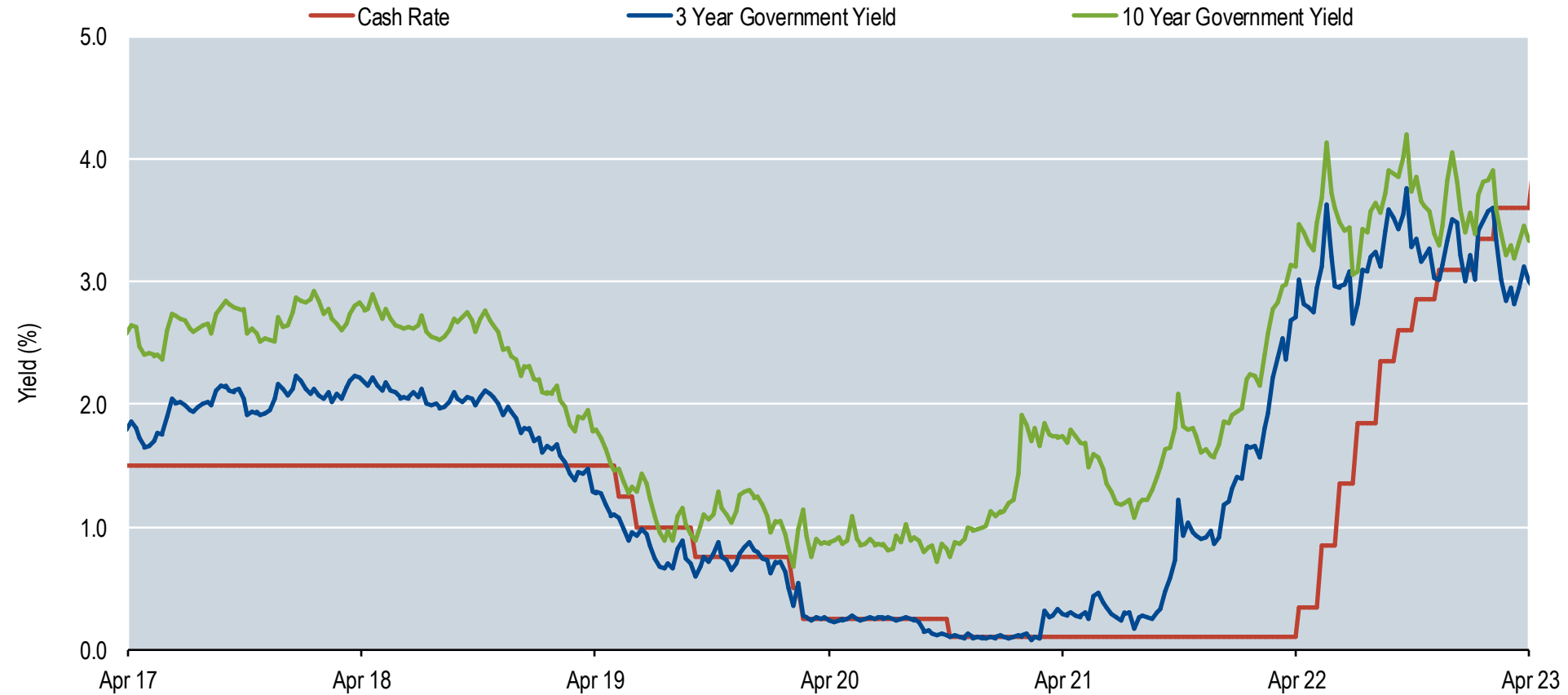
Source: Bloomberg. As of 30 Apr 23
Bloomberg US Aggregate Index
Past performance is no guarantee of future results.

Role Restored

Attractive yields, correlation benefits and defensive attributes are back



Australian Cash Rate and Government Yields



Based on weekly data.
Source: Bloomberg. As of 30 Apr 23

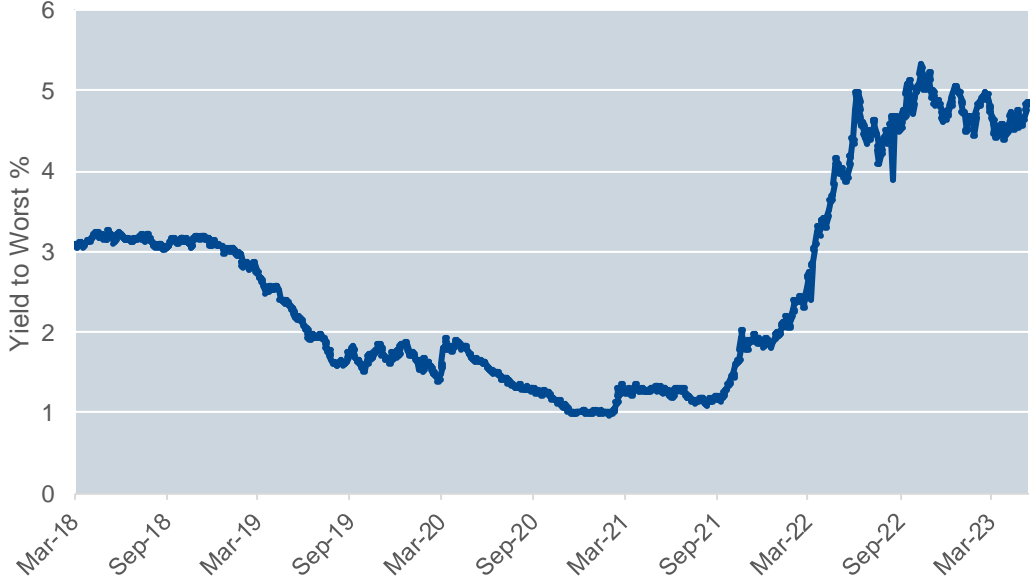
Benchmark Yields Attractive

Bloomberg AusBond Composite 0+ Yr Index YTW



Source: Bloomberg. As at 24 May 23

Bloomberg AusBond Credit 0+ Yr Index YTW



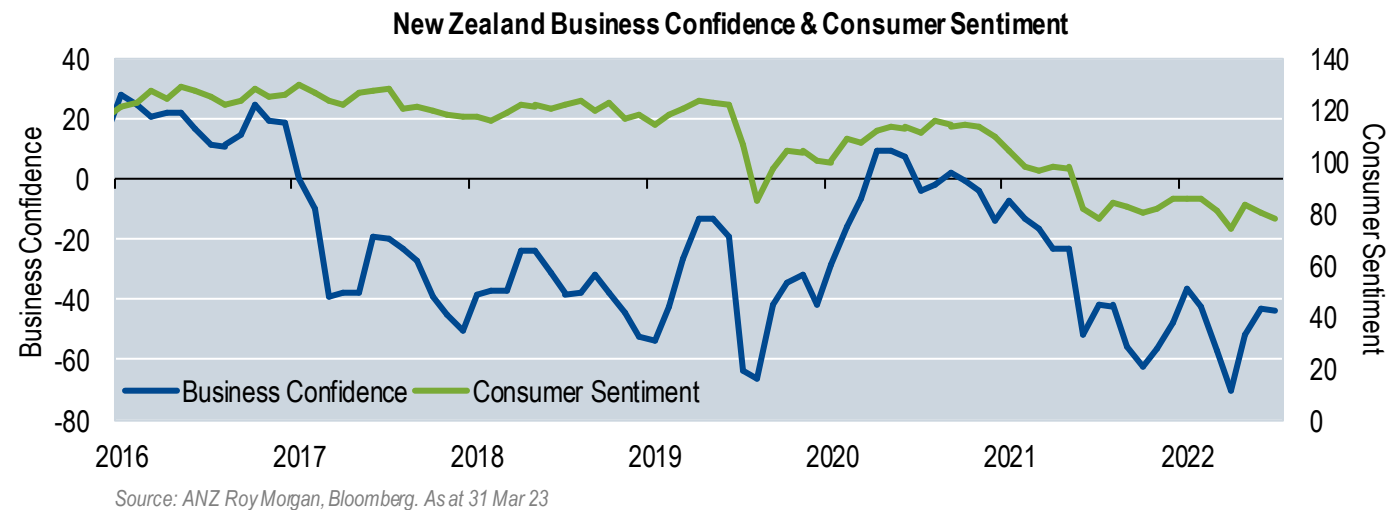
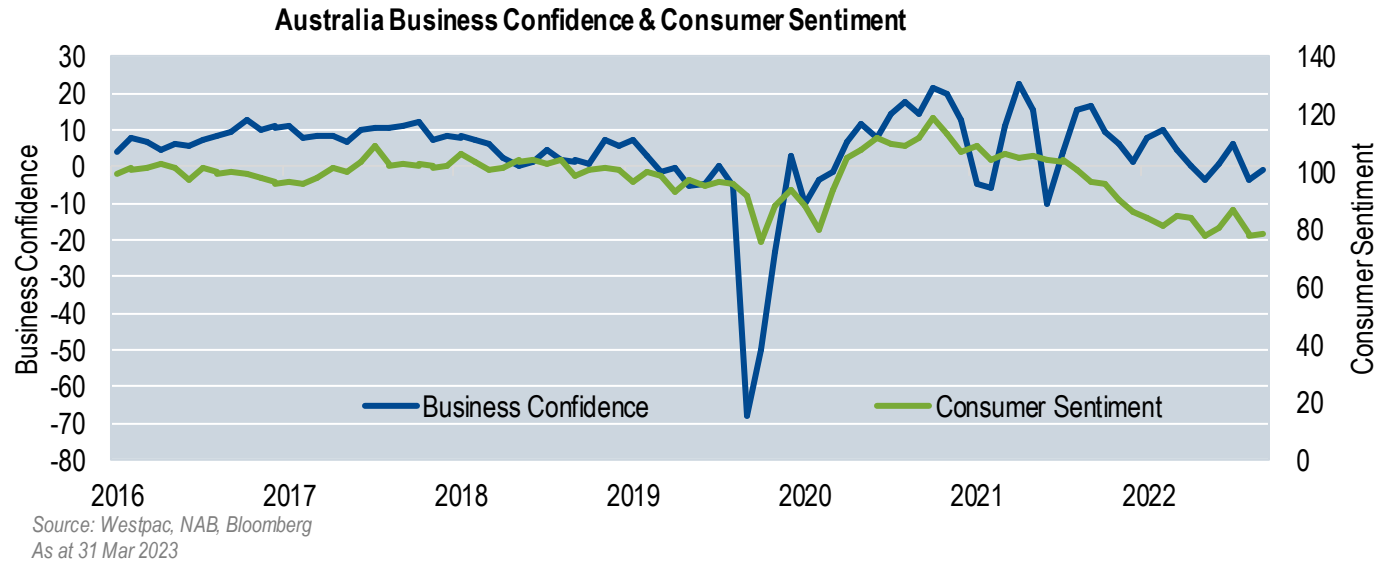
Source: Bloomberg. As at 24 May 23

Market Outlook - Australia

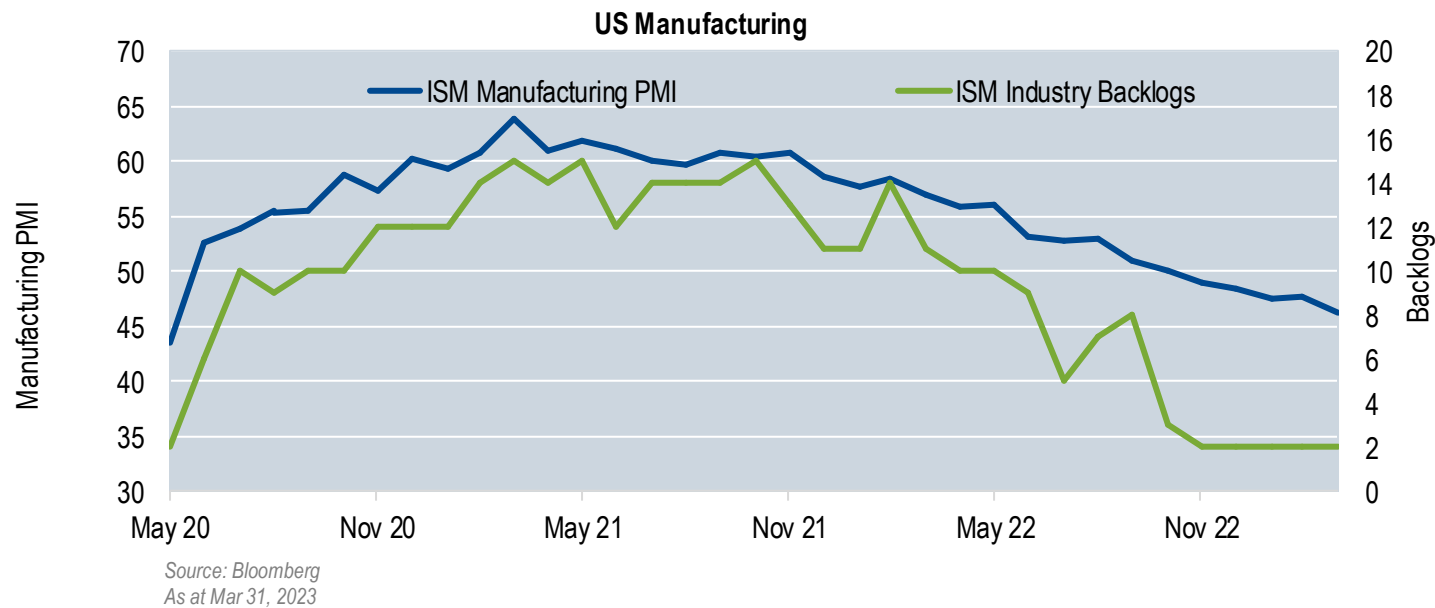
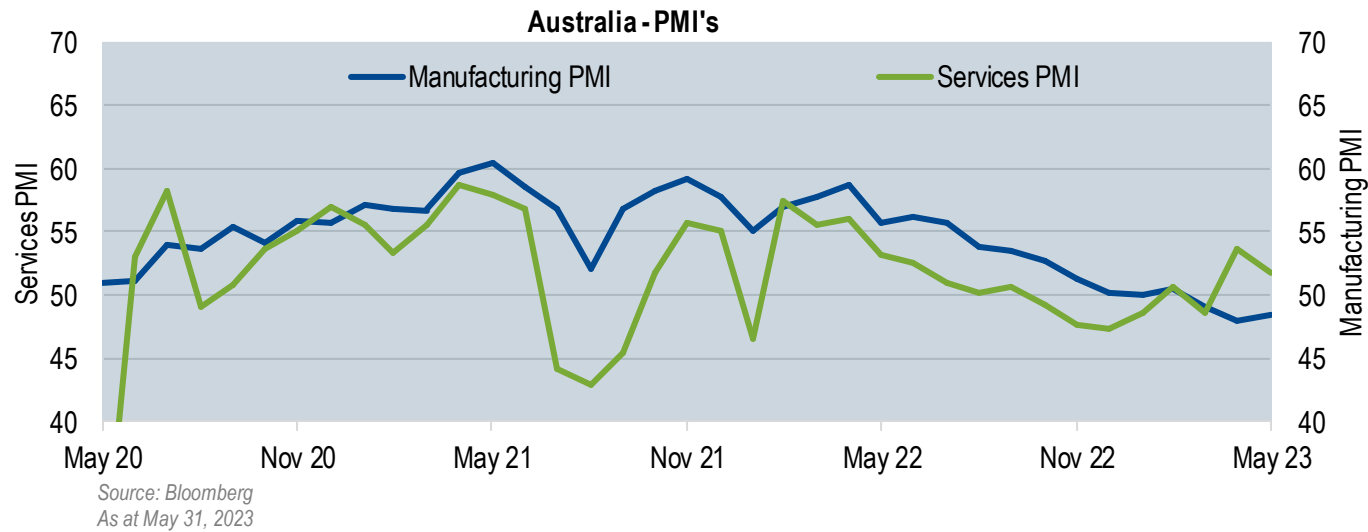


Confidence and Sentiment Indicators Deteriorating

Declining real incomes and growth concerns are impacting businesses and consumers alike

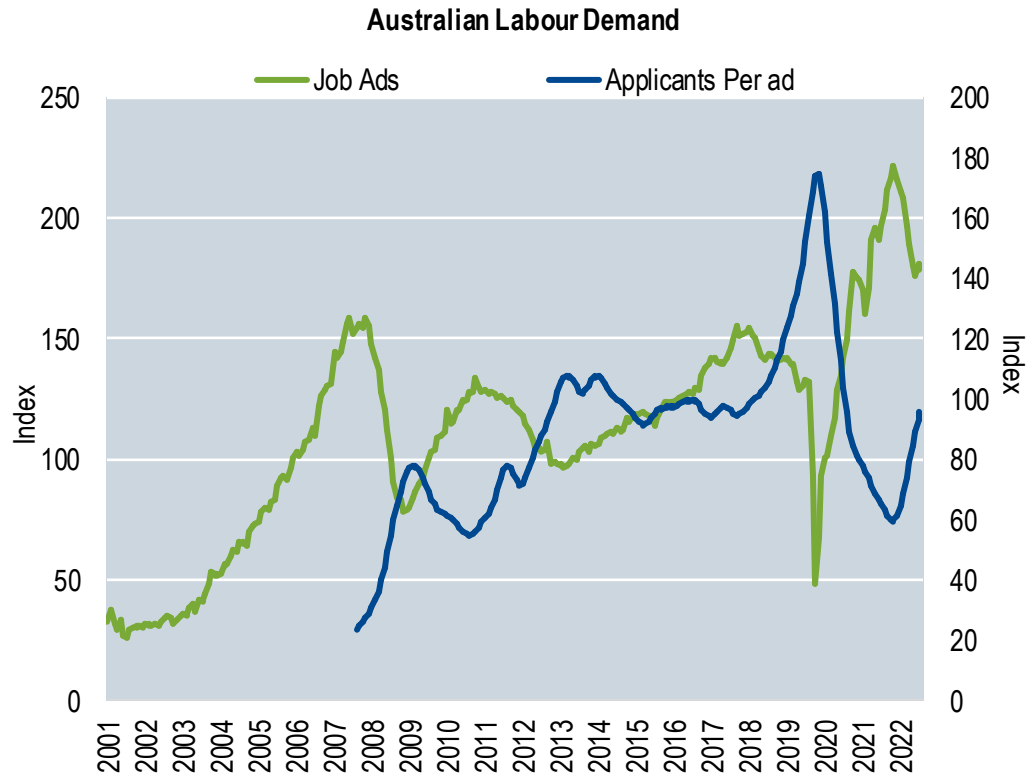


Growth indicators softening and supply chains have healed

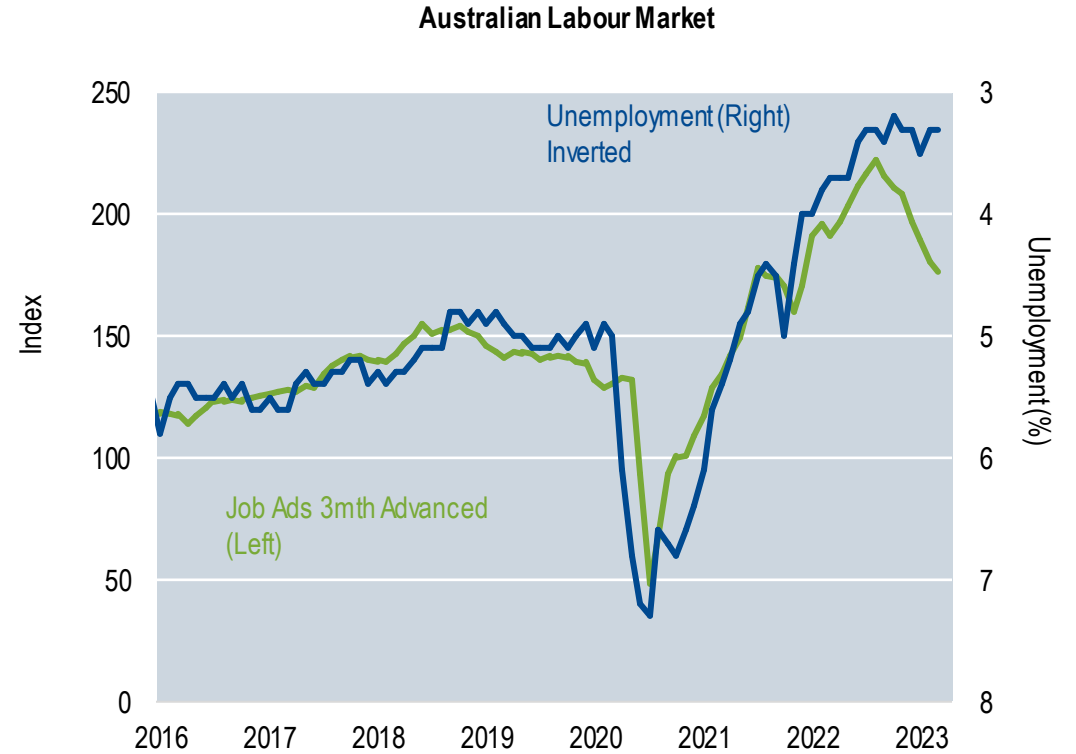


Job Openings Australia

Job ads the best leading indicator for the employment rate in the short run



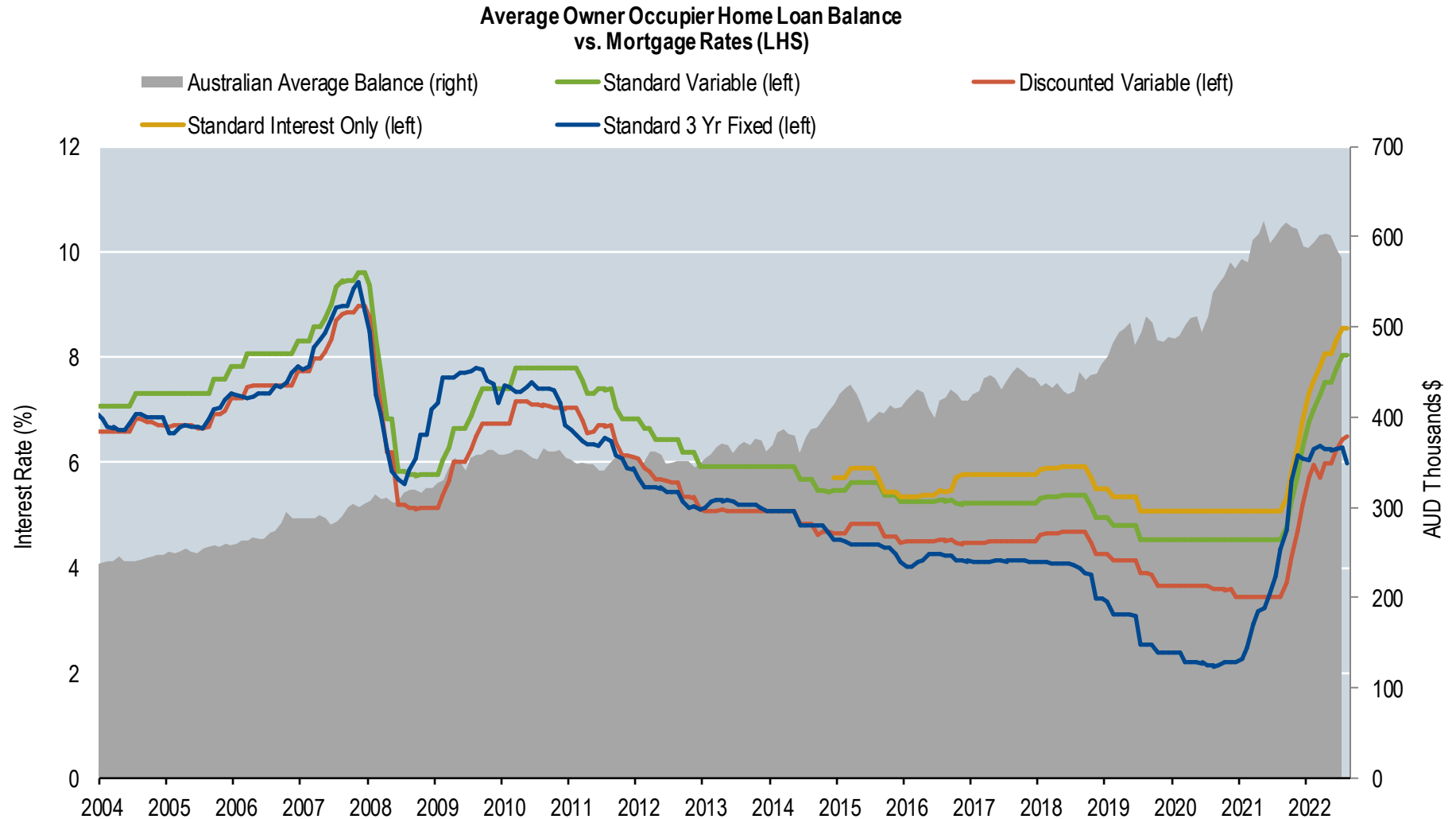
Source: Seek, As at March 2023



Source: ABS, Seek As at March 2023

Household Sector – Rates and Loan Size

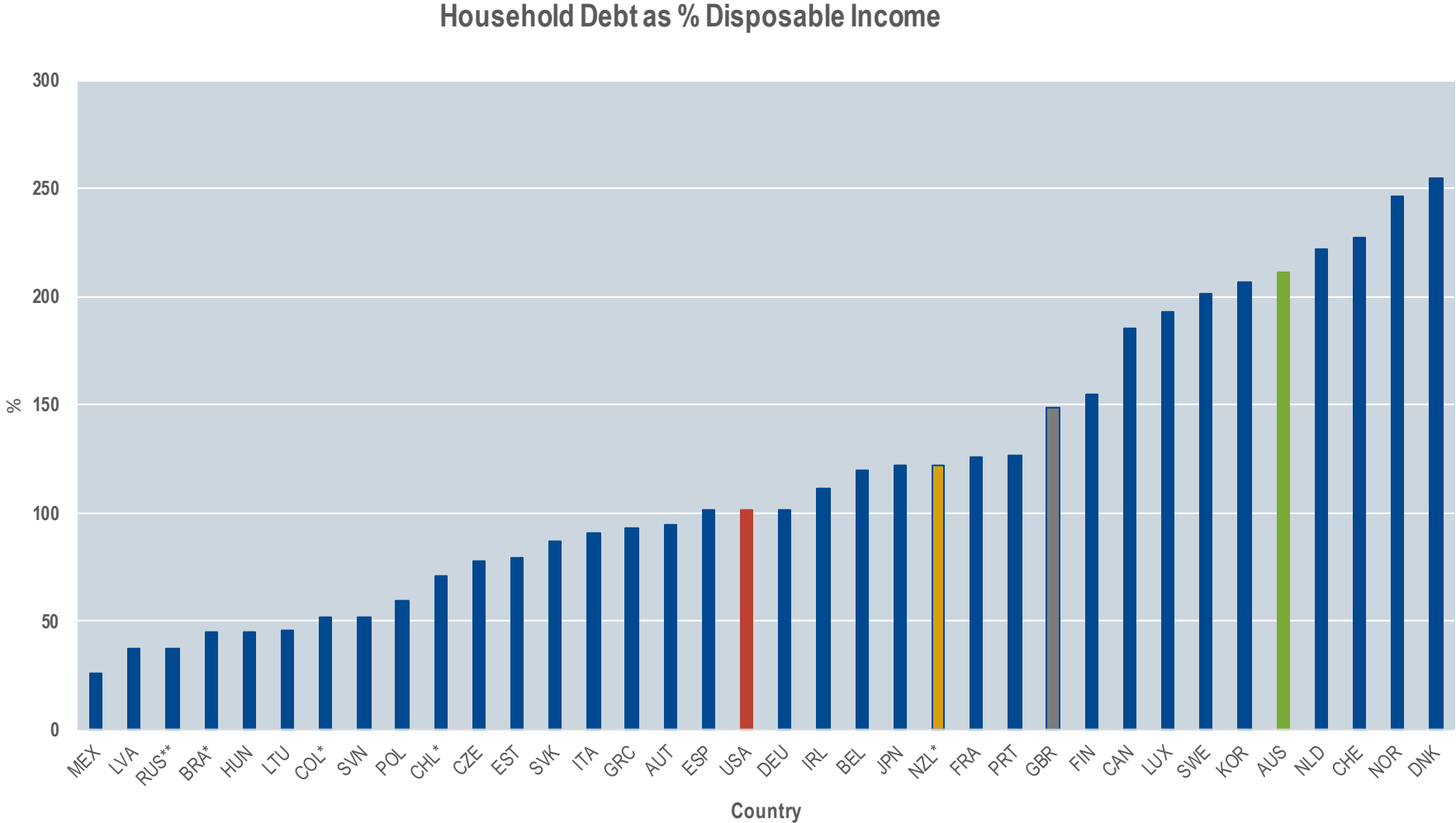
Fixed rate 'cliff' largest over the coming quarter - A key consideration for the RBA



Source: RBA, ABS. As of 30 Apr 23. Australian Average Balance as of 31 Mar 23

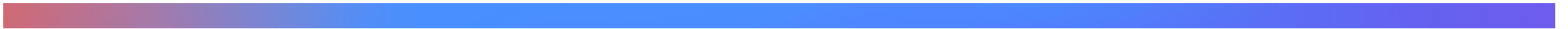
Household Sector – Debt to Disposable Income

Reduced impetus to hike based on transmission mechanism



Source: OECD as at Dec 2021
*As at 2020
**As at 2019

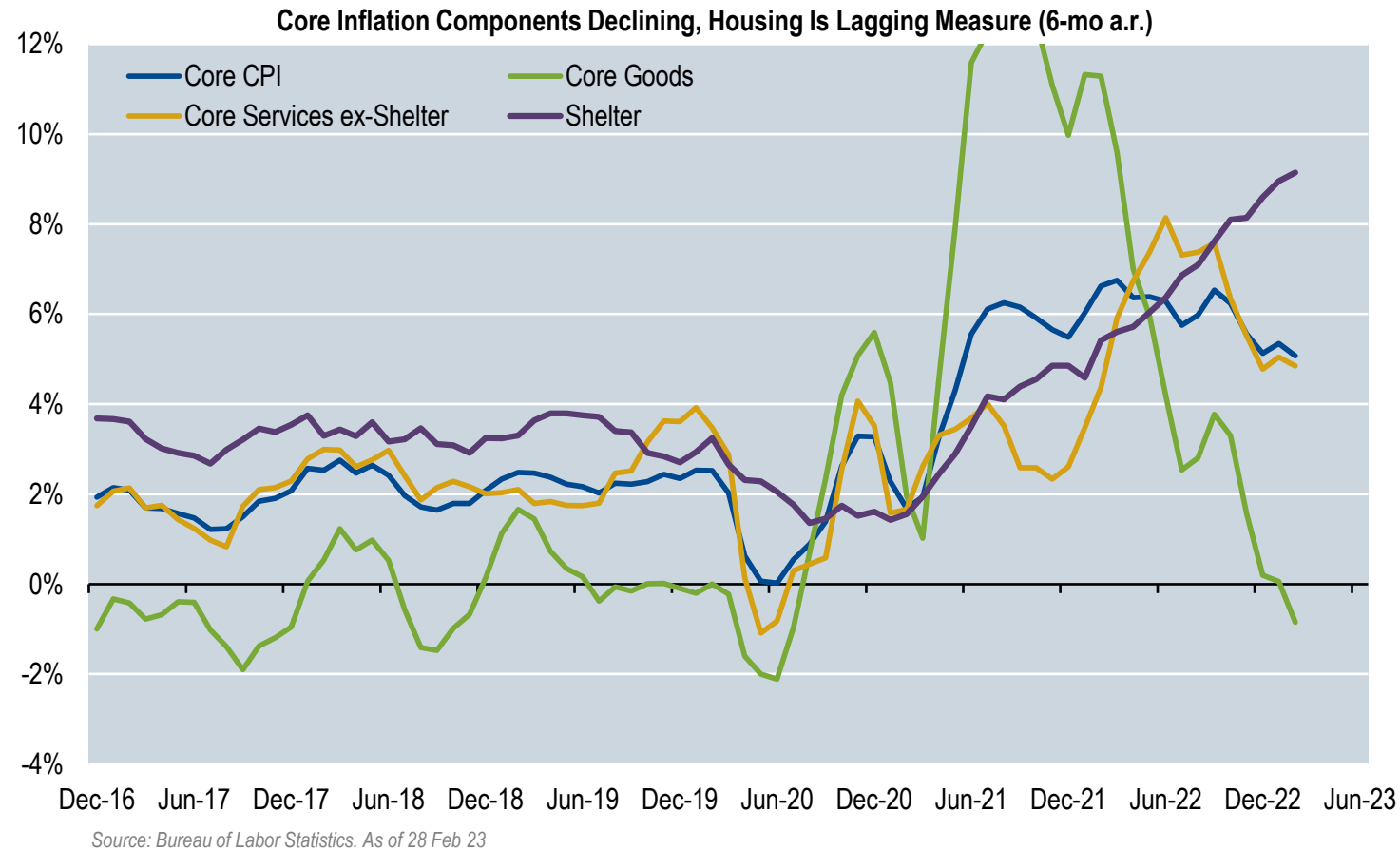
Market Outlook - Global



Inflation Moderation Bumpy

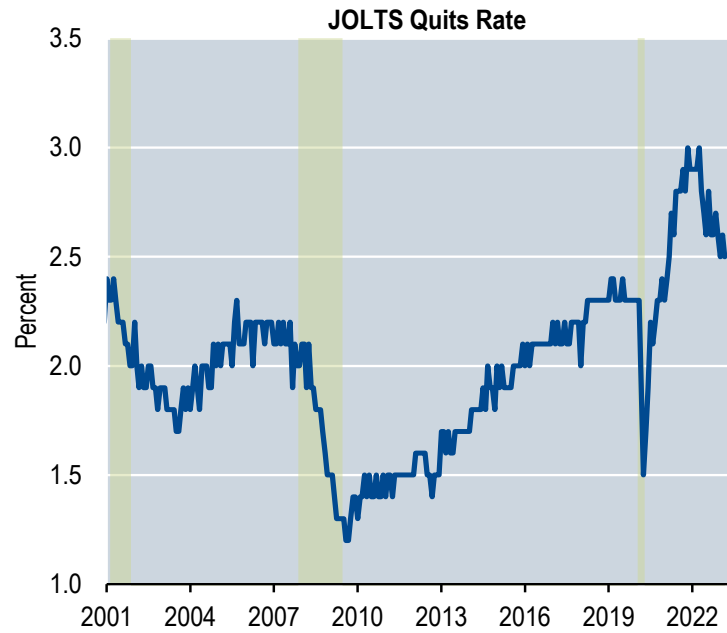
“The process of getting inflation back down to 2% has a long way to go and is likely to be bumpy.”

– Fed Chair Powell, March 22, 2023

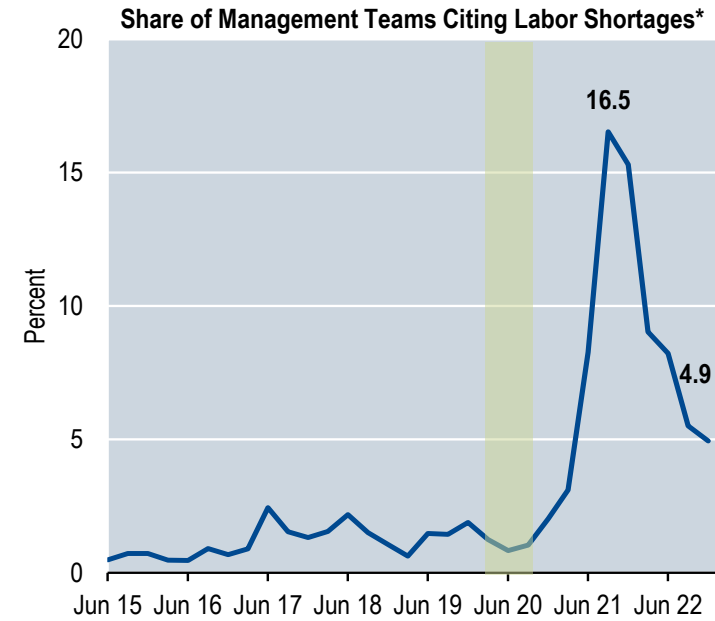


Labor Market Becoming Less Tight

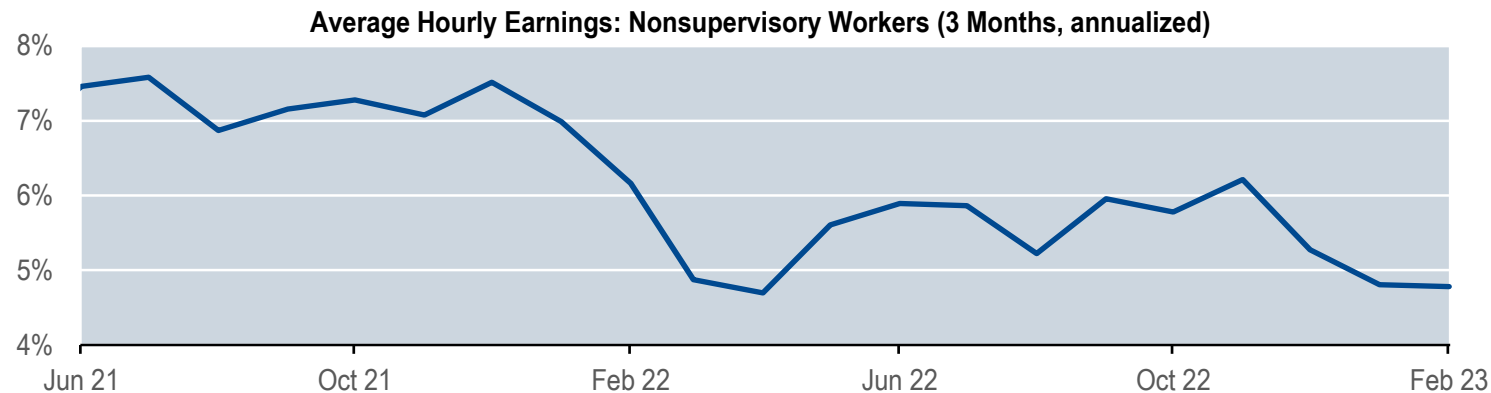
Easier Time Retaining and Hiring Workers – Wage Pressure falling



Source: Haver Analytics, Goldman Sachs. As of 31 Mar 23



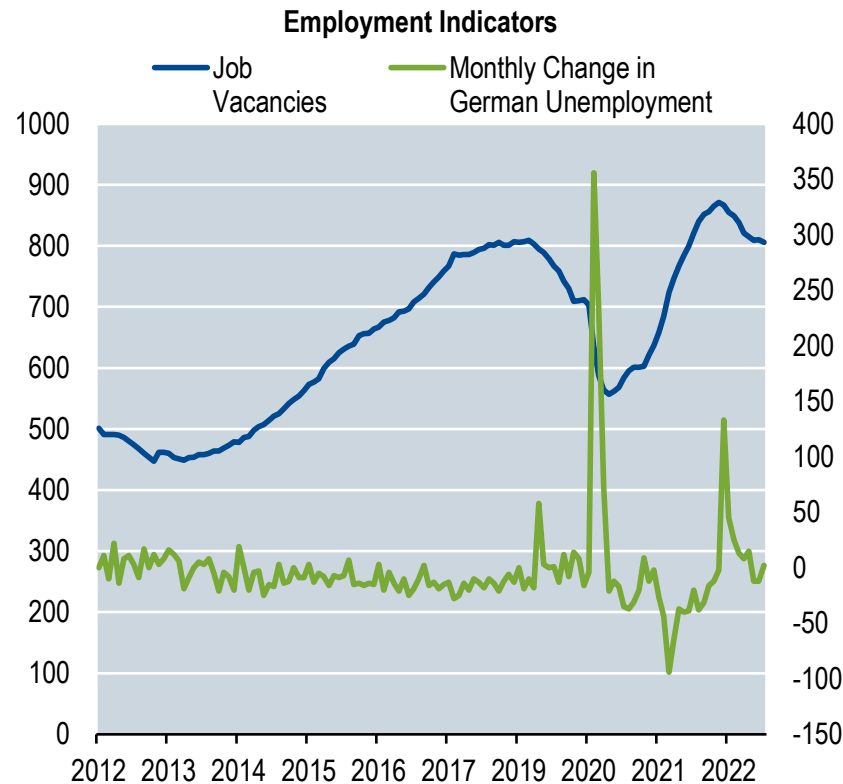
Source: Haver Analytics, Goldman Sachs. As of 31 Dec 22
 *On Russell 3000 quarterly conference calls. Keywords are "labor shortage" or "worker shortage."
 Note: NBER recessions shaded.



Source: Federal Reserve. As of 28 Feb 23

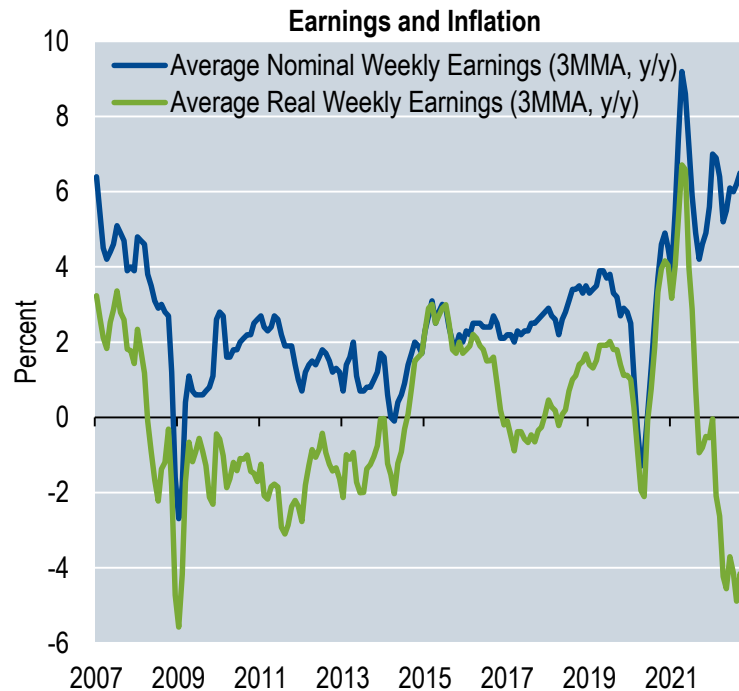
Europe's Growth Prospects Have Improved but Remain Weak

- Demand has improved but forward looking indicators remain soft
- Past support to production from healing supply chains and large order backlogs are receding
- Jobs market has slowed modestly but remains buoyant

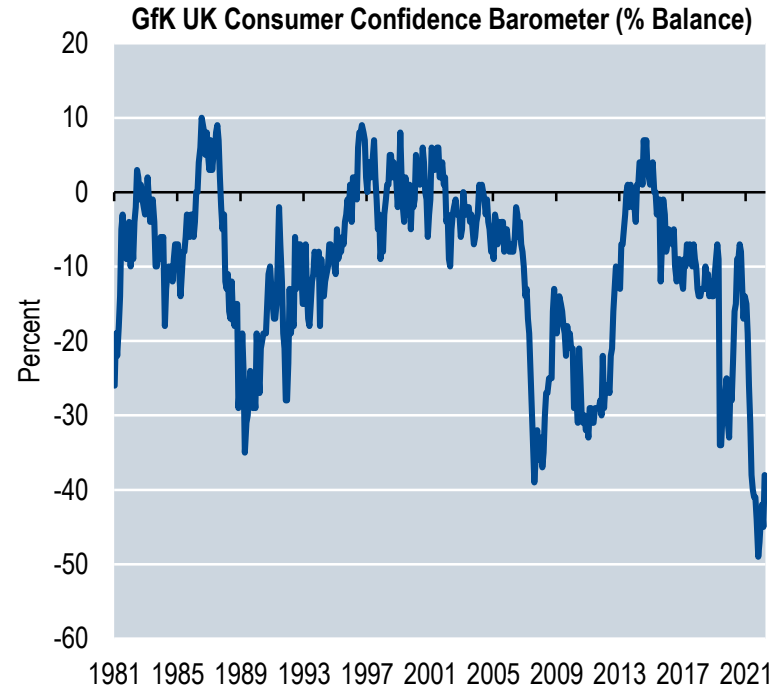


United Kingdom: Slowing Activity

- Bank of England has raised the policy rate meaningfully and active gilt sales are underway
- Deeply negative real wage growth and higher costs of living (energy and food inflation) reduce discretionary spending
- Higher mortgage costs further squeeze household budgets and the property market is weakening
- Market turmoil last Autumn acted as a confidence shock and further tightened financial conditions
- Consumer sentiment is at all-time lows, even lower than the pandemic and GFC



Source: Office for National Statistics/ Haver Analytics. As of 31 Dec 22

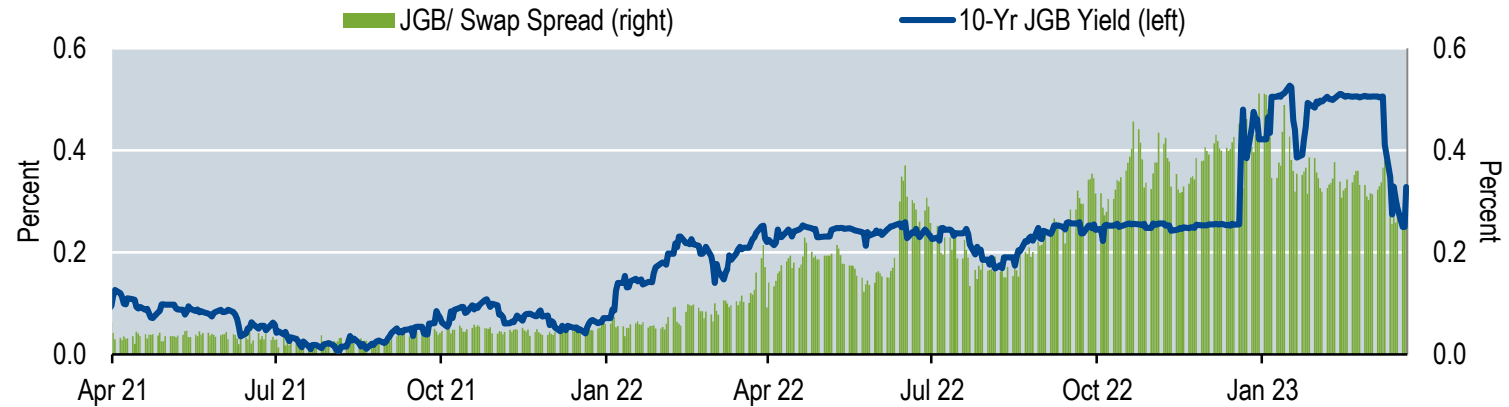


Source: GfK NOP/ Bloomberg. As of 28 Feb 23

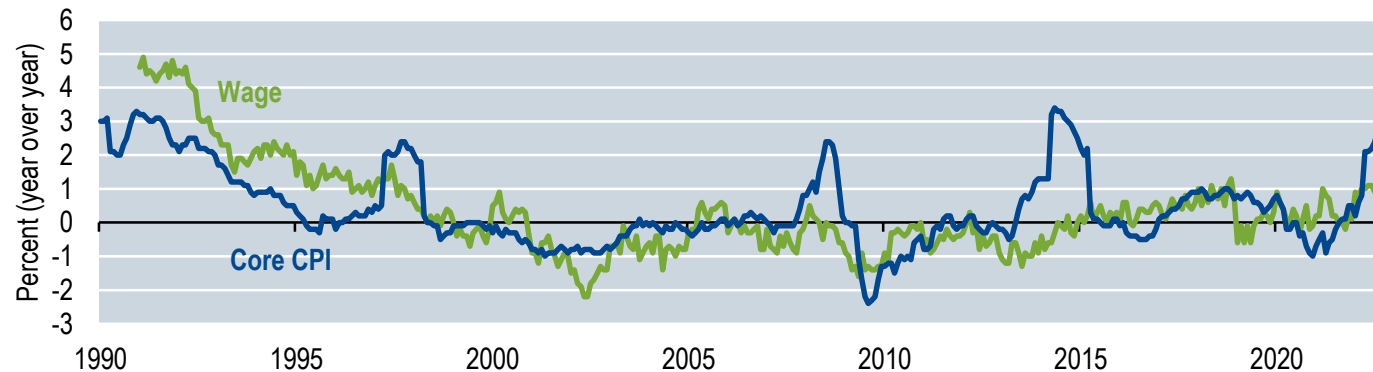
The above reflects current opinions of Western Asset and are subject to change with market conditions.

Japan: Investors Continue to Show Doubts About Yield Curve Control (YCC)

We're seeing wider spreads between JGBs and Swap rates.



Wage Pressure Is Building but Remains Contained Despite the Elevated Core CPI



Source: Bloomberg As of 31 Jan 23

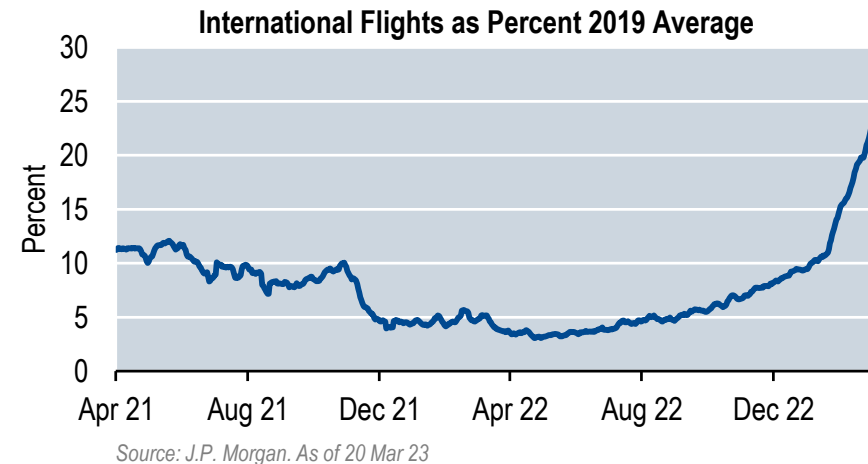
- The BoJ expects core inflation to rise by 2.9% YoY for FY2022 and by 1.6% YoY for FY2023 and 2024 respectively
- The BoJ mentioned that achieving the price stability target of 2 percent requires wage increases

China Outlook: Cyclical Rebound, Secular Concerns



2023 Growth

- Abrupt exit from zero-Covid strategy in early December sets the stage for growth recovery in the first half of 2023
- Broad policy accommodation should nonetheless remain intact until the economy is on strong footing
- Support for property market should help contain further fallout from current market doldrums
- Consumption will be a key growth driver, although the trend in China remains unimpressive
- Services should see a strong boost from increased travel – both domestic and international

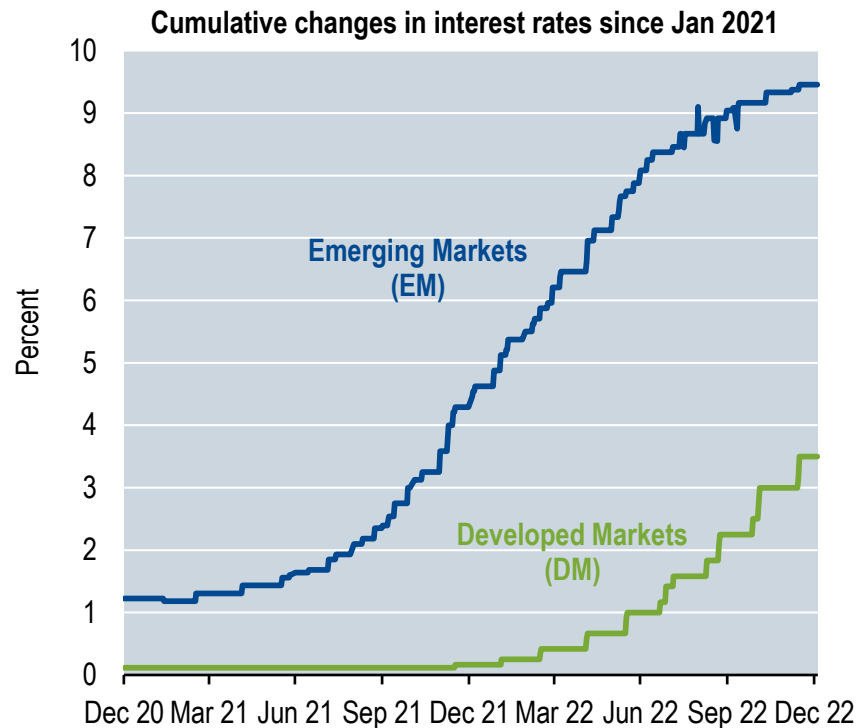


EM Monetary Tightening Cycle to Consolidate in 2023

Following aggressive hikes in the past year and given nascent signs of abating inflation risk, the policy focus of EM central banks will pivot toward growth.

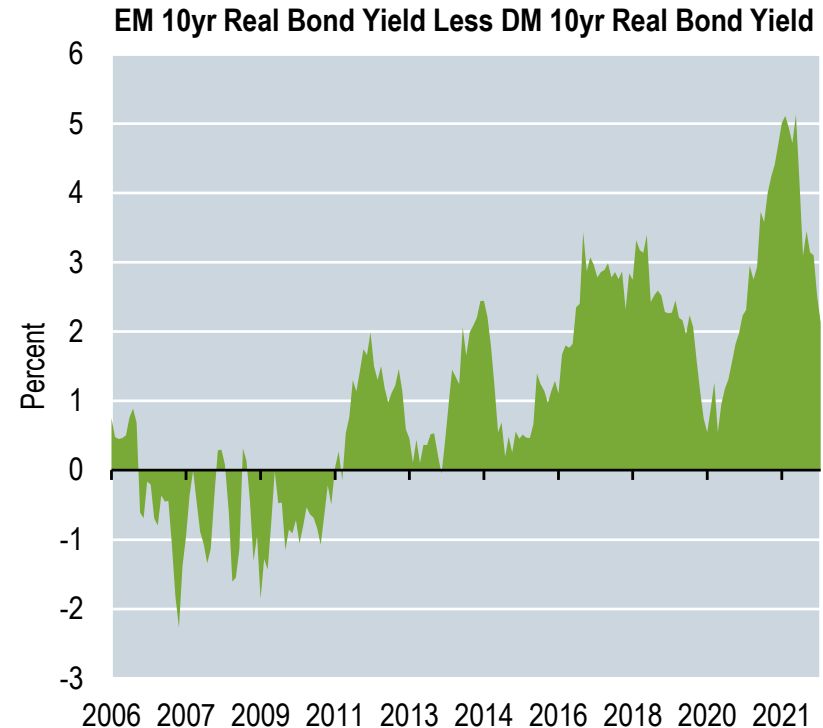
EM central banks are closer to the end of the tightening cycle relative to the developed world.

Adjusted for inflation, select EM local yields are attractive.



Source: Bloomberg. As of 3 Jan 22

Note: Emerging Markets (EM)=Average of Brazil, Chile, Czech Republic, Mexico, Peru and Poland; Developed Markets (DM)=Average of US, EU and UK



Source: HSBC October 2022

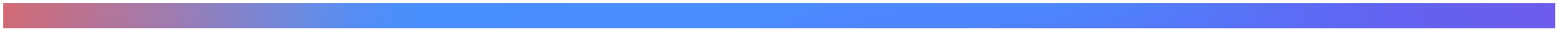
Table Discussion

When next rebalancing fixed Income, I expect to:

- Increase allocations with a preference for active managers
- Increase allocations with a preference for passive managers
- Decrease allocations to either manager style
- Keep the allocation the same

Active Management Critical

Duration, yield curve, sector and security opportunities presented by ongoing volatility.

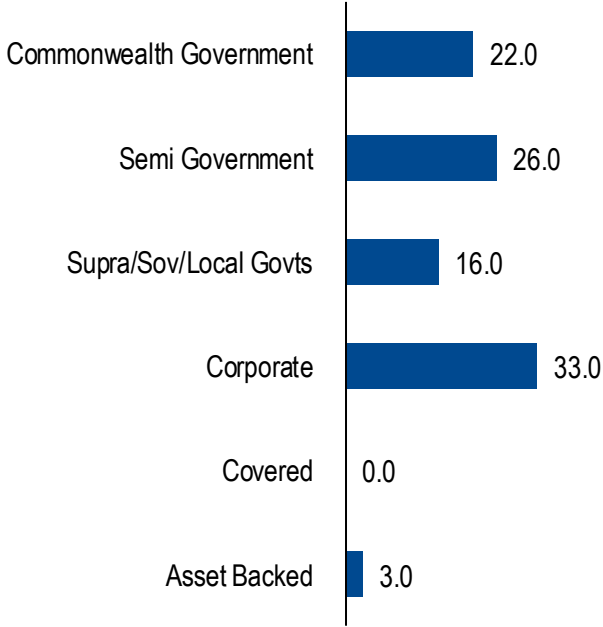


Benchmark Composition – Pre GFC to now



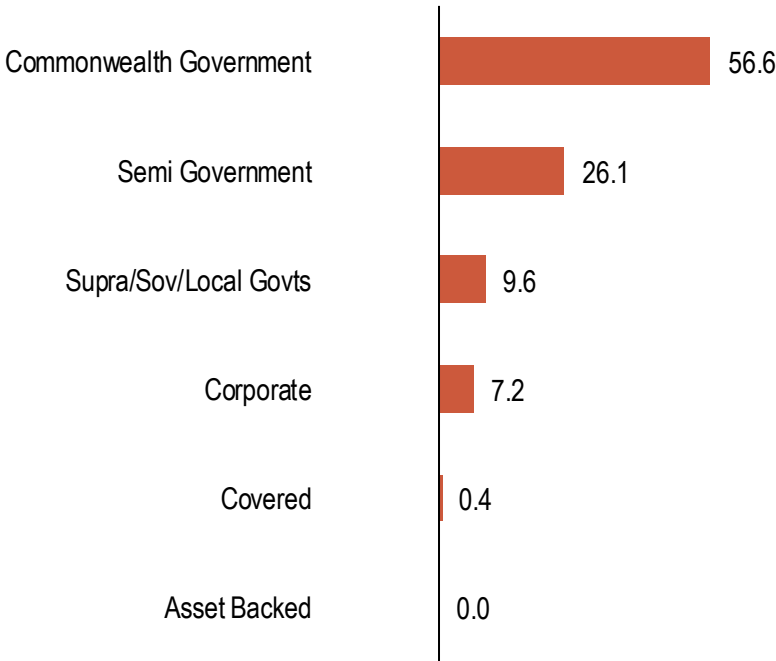
December 2006

UBS Australian Composite Bond Index(%)



April 2023

Bloomberg AusBond Composite 0+ Yr Index(%)

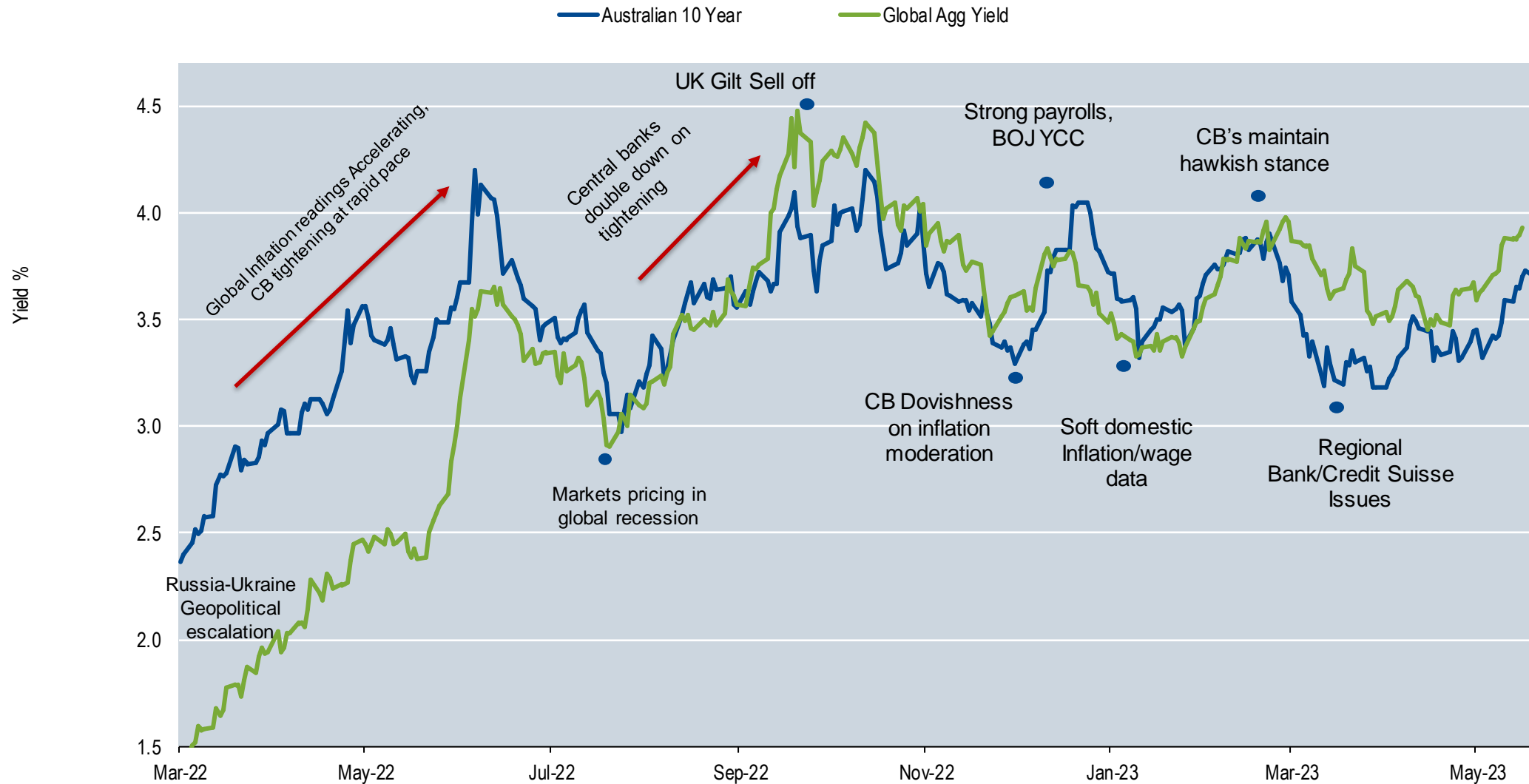


Source: Western Asset

Total may not sum due to rounding. Past performance is not a guarantee of future performance.

10 Year Bond Yield

A wild ride for yields with active management critical



Source: Bloomberg, Western Asset As of 31 May 23

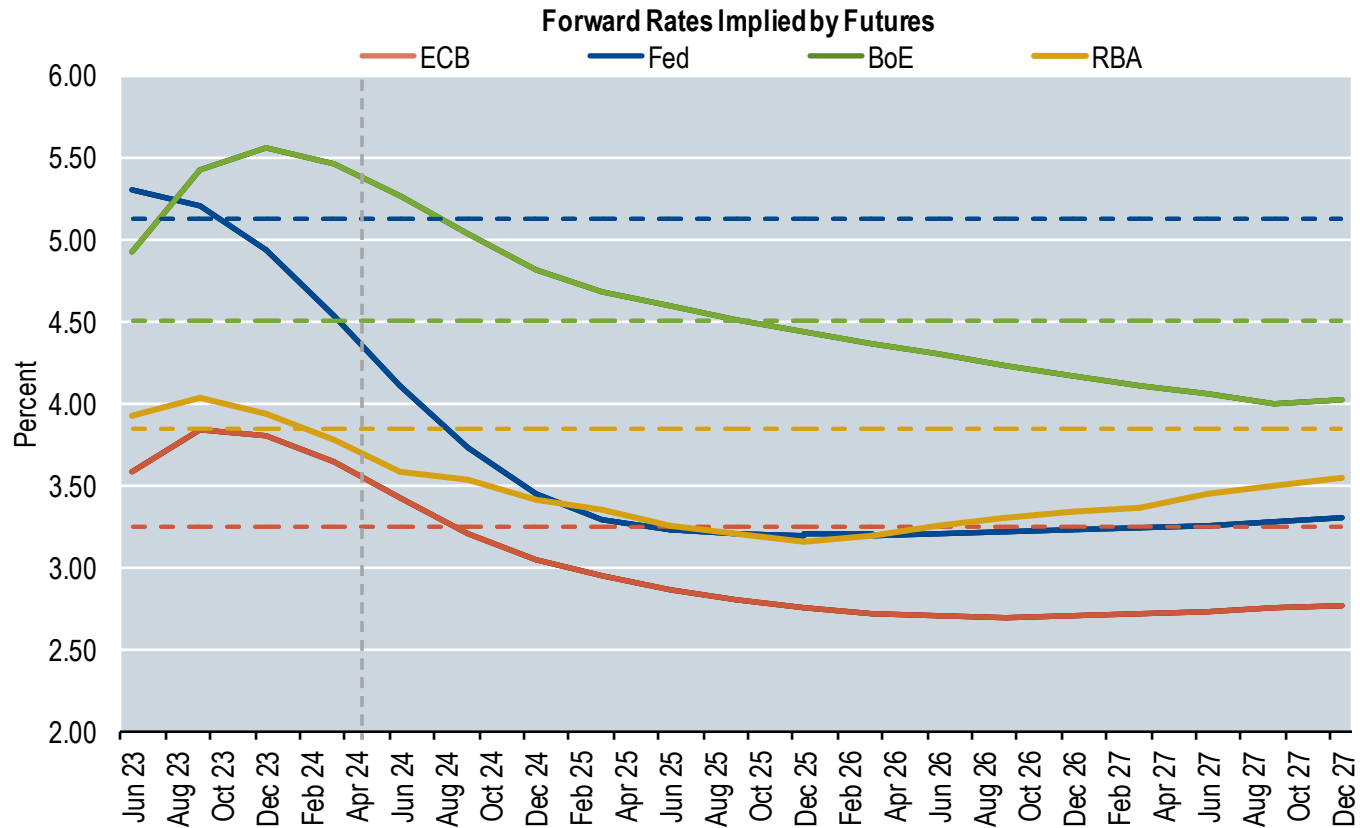
Market Implied Policy Rate Paths

Policy rate paths implied by futures

Fed: No more hikes. 2 cuts fully priced by year end.

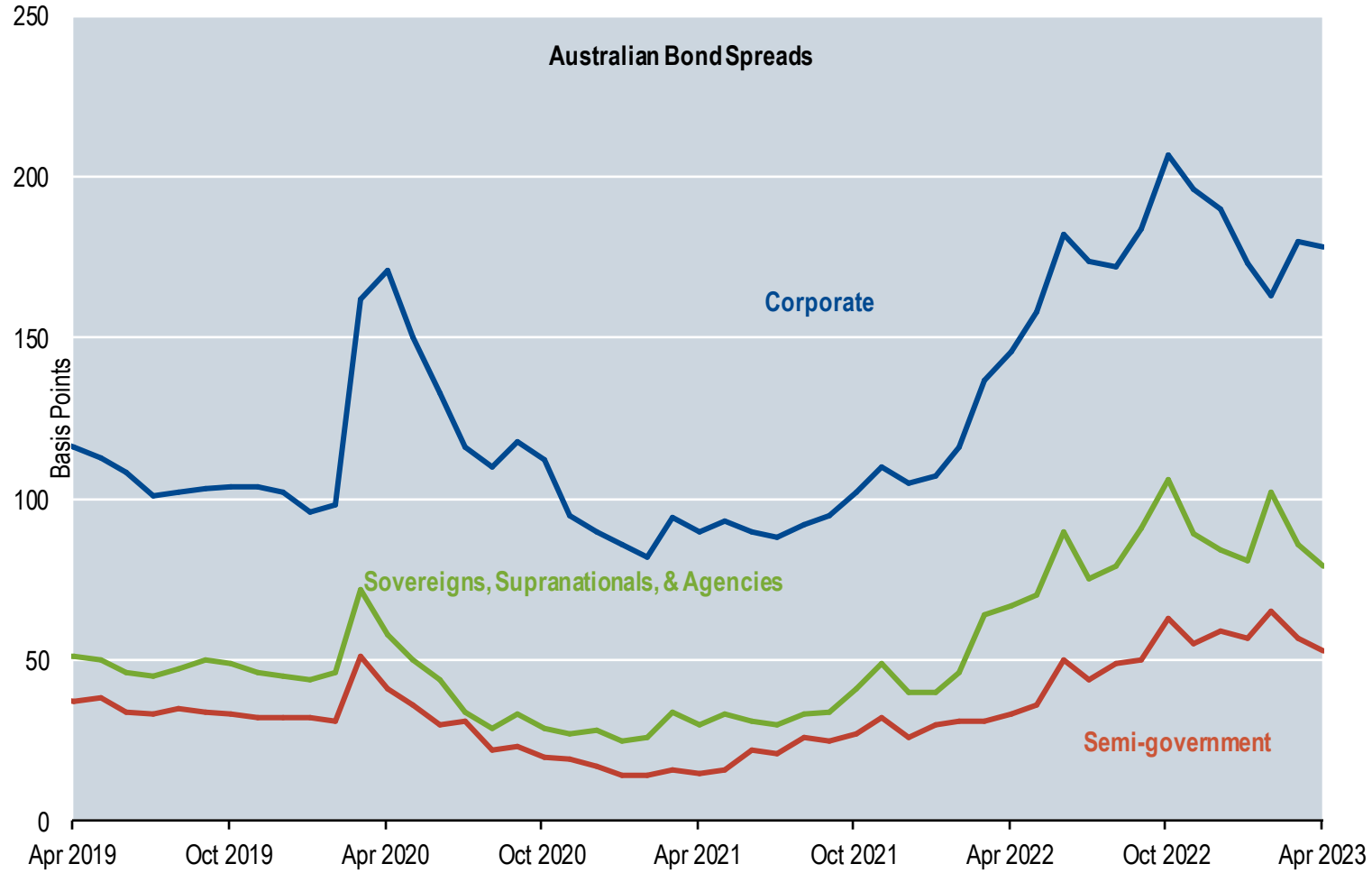
ECB: 2 more hikes fully priced. No cut before end Q124.

BoE: 2 more hikes almost fully priced. No cut before Q124.



Source: Bloomberg. As 30 May 23

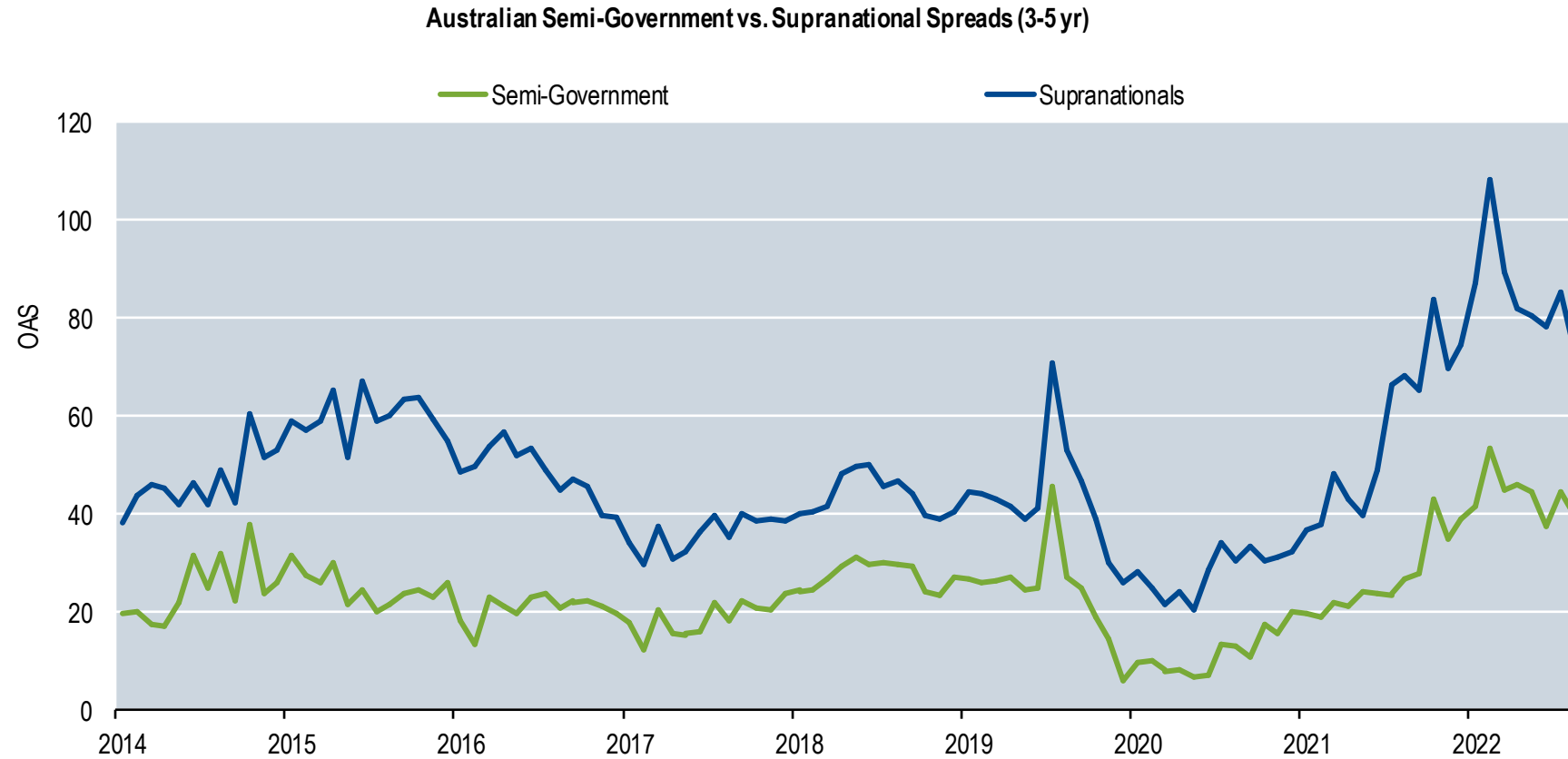
Australian Bond Spreads



Source: Bloomberg. As of 30 Apr 23

Australian Bond Spreads

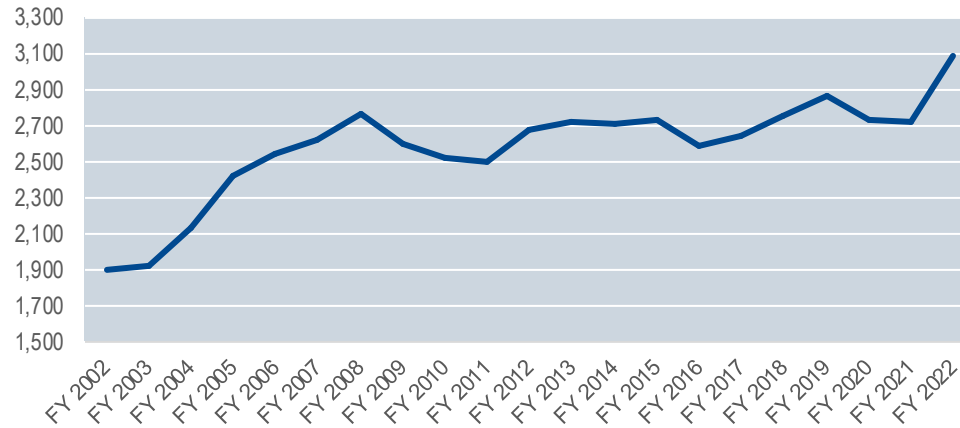
Higher rated Supranationals trading at premium yields



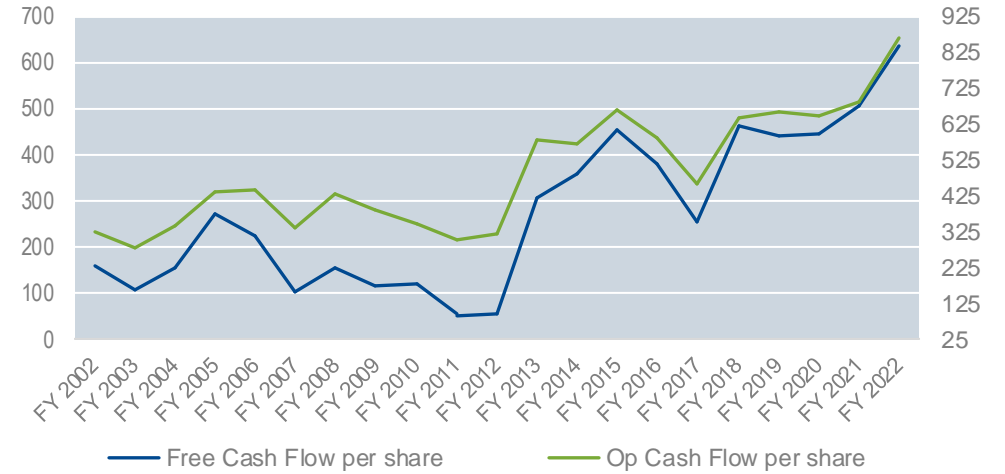
Source: Bloomberg. As at 30 Apr 23

Cash Flow and Debt Metrics Support Investment-Grade Credit

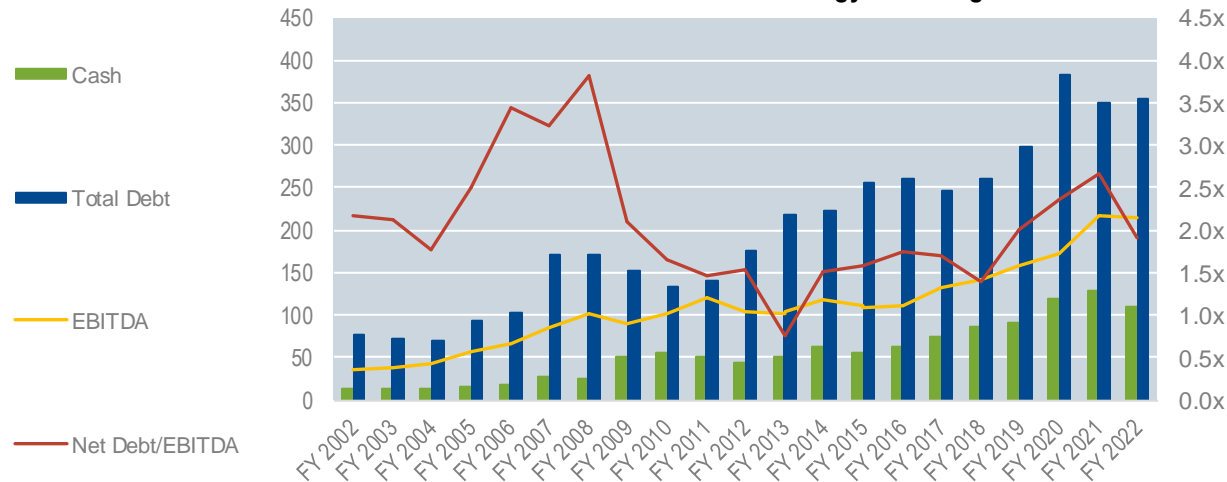
ASX 200 - Sales Revenue per Share



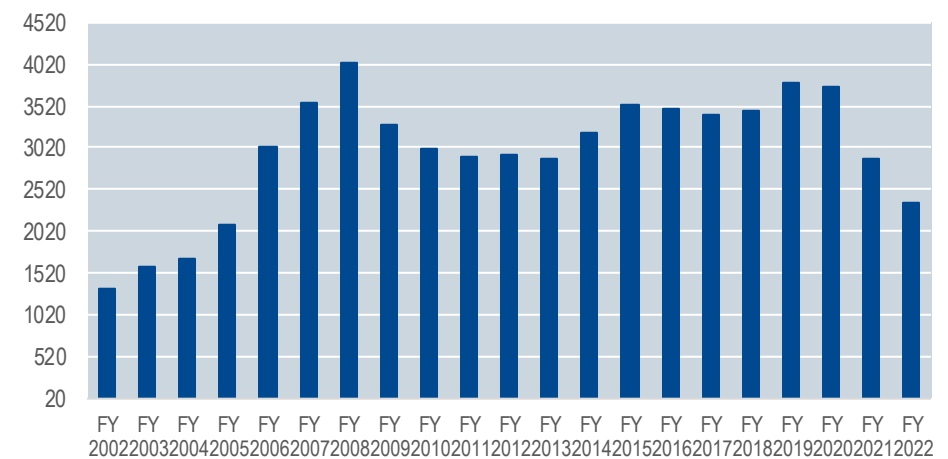
ASX 200 - Cash Flows



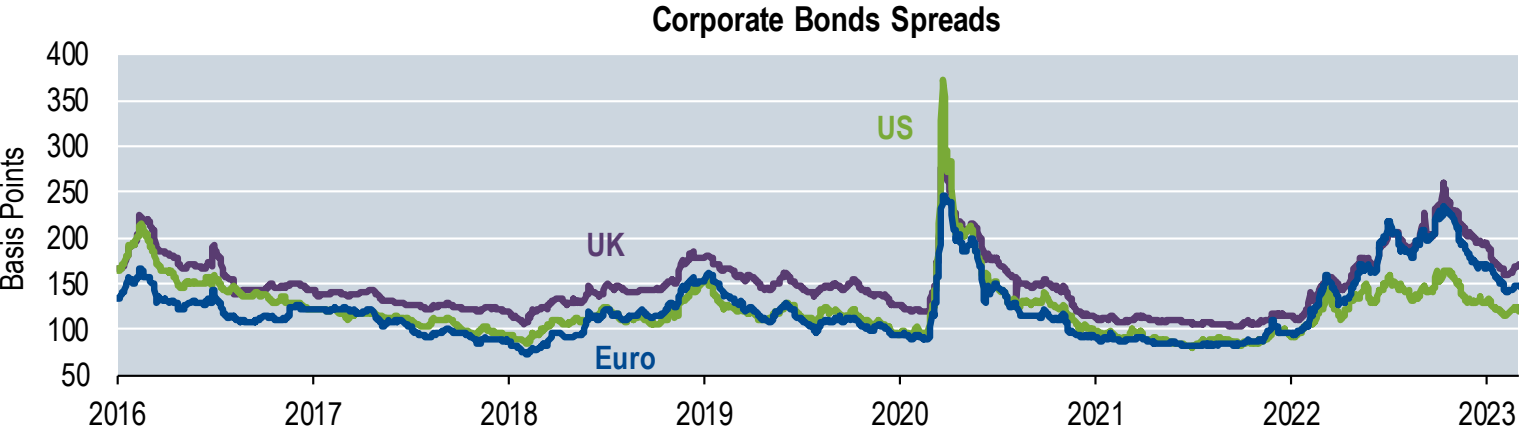
ASX 200 ex Financials & Energy - Leverage



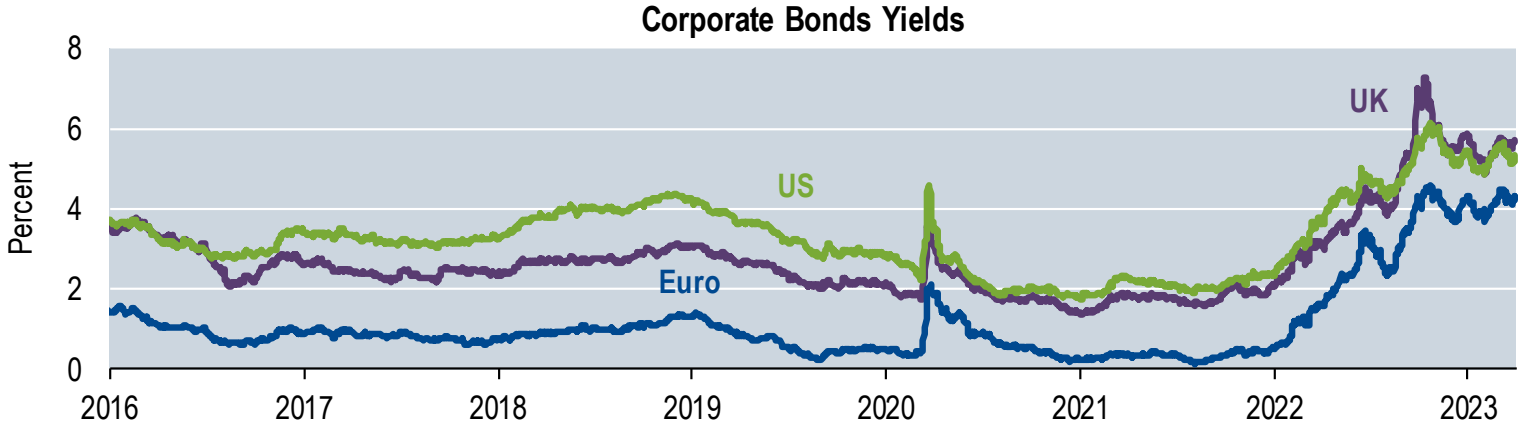
ASX 200 Net Debt



Source: ASX, Bloomberg. As of 31 Dec 22



Source: Bloomberg. As of 31 Mar 23



Source: Bloomberg. As of 31 Mar 23

Summary

-
- The reset in yields has been swift and painful
-
- As a mean reverting asset class, a recovery is underway and we expect significant additional upside
-
- Much higher starting yields, diversification potential and renewed defensive properties are compelling
-
- Economic uncertainty and ongoing volatility presents opportunities for active management
-
- Fundamentals are superior to those in prior periods of slowing growth.
-

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Risk Disclosure

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