

# BrandywineGLOBAL - Flexible Bond Fund

Class I: LFLIX Class A: LFLAX

Commentary | as of March 31, 2025

## Key Takeaways

- **Markets:** The global fixed income market generated a solid gain during the first quarter. Yields in the U.S. declined amid a flight to quality given concerns over a global trade war and the potential for moderating growth. The U.S. Federal Reserve (Fed) kept rates on hold in a range between 4.25% and 4.50%. The Bank of England (BoE) lowered rates 25 basis points (bps) to 4.50% in January and then held rates steady in March, while the European Central Bank (ECB) cut rates 25 bps in January and March. U.S. investment-grade and high-yield credit spreads widened but both posted positive total returns. Within high-yield, returns were well dispersed across the credit spectrum and returns improved incrementally as one moved higher up in quality. U.S. mortgage-backed security (MBS) spreads narrowed and generated a positive return over the quarter. The U.S. dollar fell 3.9% in the quarter, its weakest quarterly return since the third quarter of 2024.
- **Contributors:** Emerging market local currency sovereign exposures were strong contributors over the quarter, as was U.S. Treasury duration.
- **Detractors:** UK gilts detracted from performance.
- **Outlook:** We expect the April 2 tariff escalation and federal spending cuts to weigh on U.S. growth, while simultaneously fueling near-term inflation, creating a challenging stagflationary backdrop.

## Performance Review

- Emerging market local currency sovereign exposures were strong contributors over the quarter, particularly in Mexico, followed by Brazil. The Fund benefited from a rally in emerging market assets as the U.S. dollar weakened. Egyptian Treasury bills and hard currency Panamanian sovereign bonds also contributed, supported by high carry and improving fiscal narratives.
- U.S. Treasury duration also contributed meaningfully, as a combination of slowing economic growth, elevated policy uncertainty, and escalating trade tensions sparked a rally in bonds. However, UK gilts detracted from performance. While the BOE cut rates in February in response to weak growth data, yields rose slightly over the quarter due to concerns over rising government borrowing requirements.
- High-yield and investment-grade corporate credit both contributed to returns. Despite wider spreads, high-yield bonds delivered positive total returns, supported by strong carry and shorter duration positioning. Similarly, investment-grade corporate credit benefited from falling U.S. Treasury yields, which offset modest spread widening. Prime residential MBS exposure also contributed to the portfolio.
- Finally, exposure to the euro contributed as the currency appreciated due to a weaker dollar and improving investor sentiment following a major fiscal stimulus announcement from Germany.

## Outlook

- We expect the April 2 tariff escalation and federal spending cuts to weigh on U.S. growth, while simultaneously fueling near-term inflation, creating a challenging stagflationary backdrop. Gross domestic product (GDP) growth is likely to decelerate, while inflation remains elevated enough to keep the Fed cautious and reactive. At this point, we would most likely need a deep recession for yields to decline meaningfully from current levels.
- Looking globally, we believe the foundations are being laid for a broader growth convergence between the U.S. and other developed economies. As the effects of U.S. fiscal tightening take hold, other countries are beginning to lean more heavily on expansionary fiscal policy.
- Given that stagflation appears to be a more likely macroeconomic scenario, we see the best opportunities toward the front-end of the yield curve. Within high-yield, shorter-dated credits, particularly higher quality credits backed by strong fundamentals, offer compelling yields that provide a buffer against potential spread widening while avoiding potential interest rate risks in a volatile market environment. With better fundamentals and improved structure and support from adjacent markets, we believe any sell-off in high-yield will look different from past downturns.
- Mortgage-backed securities also offer compelling yield with limited interest rate risk, a higher quality skew, and a sound fundamental backdrop with a differentiated credit risk profile. We anticipate that further market turmoil may give us more opportunities to optimize the portfolio by investing in quality issuers at more attractive valuations.

## Fund Characteristics

	Fund
Distribution Frequency	Quarterly
Effective Duration	3.79 Years
30-Day SEC Yield (Class I)—With Waiver	7.66%
30-Day SEC Yield (Class I)—Without Waiver	7.66%

## Sector Allocation (% of Total)

Sector	Fund
Corporate Bond	51.99
Government Sovereign	17.42
Mortgage Backed Securities	15.64
Government Owned - No Guarantee	7.42
Collateralized Loan Obligation	2.13
Asset-Backed Securities	2.05
Bank Loan	1.75
Currency Derivatives	0.20
Other	0.07
Cash	1.34

## Credit Quality Allocation (% of Total)

Rating	Fund
AA	4.40
A	1.44
BBB	29.58
BB	29.01
B	26.71
CCC	7.14
CC	0.37
Cash & Cash Equivalents	1.35

## Average annual total returns and fund expenses (%)

Class	CUSIP	Ticker	Without Sales Charge							With Maximum Sales Charge							Expenses		Sales Charges		Inception
			3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	Gross	Net	Initial Charge	CDSC	Date
Class I	52471E449	LFLIX	2.12	2.12	3.97	2.23	3.74	—	4.43	2.12	2.12	3.97	2.23	3.74	—	4.43	0.76	0.75	—	—	5/31/2016
Class A	52471E456	LFLAX	2.08	2.08	3.78	1.99	3.50	—	4.18	-1.75	-1.75	-0.11	0.52	2.61	—	3.66	0.99	0.98	3.75	—	5/31/2016
Benchmark	—	—	2.78	2.78	4.88	0.52	-0.40	—	—	2.78	2.78	4.88	0.52	-0.40	—	—	—	—	—	—	—

## Benchmark(s)

Benchmark = Bloomberg U.S. Aggregate Index

**Performance data quoted represents past performance, which does not guarantee future results.** Current performance may be lower or higher than the figures shown. Principal value and investment returns will fluctuate, and investors' shares, when redeemed, may be worth more or less than the original cost. Performance would have been lower if fees had not been waived in various periods. Total returns assume the reinvestment of all distributions and the deduction of all fund expenses. Returns with sales charge reflect a deduction of the stated maximum sales charge. An investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. Returns for periods of less than one year are not annualized. All classes of shares may not be available to all investors or through all distribution channels. For current month-end performance, please visit [franklintempleton.com](http://franklintempleton.com).

Gross expenses are the fund's total annual operating expenses as of the fund's prospectus available at the time of publication. Actual expenses may be higher and may impact portfolio returns. Net expenses reflect contractual fee waivers, expense caps and/or reimbursements, which cannot be terminated prior to 12/31/2025 without Board consent. Additional amounts may be voluntarily waived and/or reimbursed and may be modified or discontinued at any time without notice.

Maximum sales charges have been updated as of August 15, 2022, please refer the Fund's prospectus for more information.

## What are the Risks?

**All investments involve risks, including possible loss of principal.** Fixed income securities involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. **Equity securities** are subject to price fluctuation and possible loss of principal. **Leverage** increases the volatility of investment returns and subjects investments to magnified losses and a decline in value. **Active and frequent trading** may increase a shareholder's tax liability and transaction costs. The portfolio is **non-diversified** and may invest in a relatively small number of issuers, which may negatively impact the fund's performance and result in greater fluctuation in the value of the fund's shares. The manager may consider **environmental, social and governance (ESG) criteria** in the research or investment process; however, ESG considerations may not be a determinative factor in security selection. In addition, the manager may not assess every investment for ESG criteria, and not every ESG factor may be identified or evaluated. These and other risks are discussed in the fund's prospectus.

## Glossary

A **basis point (bp, or bps)** is one one-hundredth of one percent (1/100% or 0.01%).

**Gilts** are bonds that are issued by the British government, and they are generally considered low-risk investments.

**Gross domestic product (GDP)** is the market value of all final goods and services produced within a country in a given period of time.

**Stagflation** is a seemingly contradictory condition described by slow economic growth and relatively high unemployment, or economic stagnation, which is at the same time accompanied by rising prices (i.e. inflation).

The **yield curve** shows the relationship between yields and maturity dates for a similar class of bonds.

## Important Information

**Prior to July 7, 2020, this fund was known as the BrandywineGLOBAL - Global Flexible Income fund. At that time, the investment objective and strategy also changed.**

The information provided is not a complete analysis of every material fact regarding any country, market, industry, security or fund. Because market and economic conditions are subject to change, comments, opinions and analyses are rendered as of the date of this material and may change without notice. A portfolio manager's assessment of a particular security, investment or strategy is not intended as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy; it is intended only to provide insight into the fund's portfolio selection process. Holdings are subject to change.

The **Bloomberg US Aggregate Index** is comprised of investment-grade, U.S. dollar-denominated government, corporate, and mortgage- and asset-backed issues having at least one year to maturity. Source: Bloomberg Indices.

Important data provider notices and terms available at [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com). All data is subject to change.

**Effective Duration** is a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change. Duration measures the sensitivity of price (the value of principal) of a fixed-income investment to a change in interest rates. The higher the duration number, the more sensitive a fixed-income investment will be to interest rate changes. The **30-day SEC yield** is calculated using the net income (interest and dividends) per share earned over a trailing 30-day period (annualized), divided by the fund's share price at the end of that period. It may not equal the fund's actual income distribution rate, which reflects the fund's past dividends paid to shareholders.

**Credit Quality** is a measure of a bond issuer's ability to repay interest and principal in a timely manner. The credit ratings shown are based on each portfolio security's rating as provided by Standard and Poor's, Moody's Investors Service and/or Fitch Ratings, Ltd. and typically range from AAA (highest) to D (lowest), or an equivalent and/or similar rating. For this purpose, the manager assigns each security the middle rating from these three agencies. When only two agencies provide ratings, the lower of the two ratings will be assigned. When only one agency assigns a rating, that rating will be used. Foreign government bonds without a specific rating are assigned a country rating, if available. Securities that are unrated by all three agencies are reflected as such. The credit quality of the investments in the Fund's portfolio does not apply to the stability or safety of the Fund. These ratings are updated monthly and may change over time.

**Please note, the Fund itself has not been rated by an independent rating agency.**

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**Before investing, carefully consider a fund's investment objectives, risks, charges and expenses. You can find this and other information in each prospectus, or summary prospectus, if available, at [www.franklintempleton.com](http://www.franklintempleton.com). Please read it carefully.**