



MEMORANDUM

DATE: February 2020
TO: State of Delaware Office of the State Treasurer (OST)
FROM: Cammack Retirement Group
RE: Fund Recommendation – Templeton Global Bond Fund

Cammack Retirement Group is recommending *Templeton Global Bond Fund* (“fund”) for Watch due to changes in the management team (2018). There has also been recent underperformance relative to its prospectus benchmark and peers.

In late 2018, Sonal Desai stepped down to take on the role of CIO at Franklin Templeton. Calvin Ho was elevated to co-manager alongside Michael Hasenstab. Michael Hasenstab has been the lead manager since 2001. Calvin Ho was elevated to co-manager following Sonal Desai’s promotion in late-2018. Calvin Ho has worked on the Global Macro team since 2005.

2019 was a challenging year for the relative performance of the strategy. The sharp decline in interest rates was the key source of the fund’s underperformance given its negative duration. Negative yielding debt, which the fund does not own, had its yields decrease even further which hurt the relative performance of the fund. However, the fund’s currency positioning has aided performance. Overall, the fund is defensively positioned. Templeton has expanded its holdings in safe-haven currencies, such as the Yen and is seeking to capitalize on their view that interest rates will rise and market volatility will increase. Over the long term, the manager has delivered strong returns on both an absolute and relative basis. Due to its differentiated approach, the fund has historically provided uncorrelated returns to the broader bond market, therefore increasing diversification opportunities in a portfolio.

Morningstar recently reclassified this world bond strategy into its non-traditional bond category. While the move is somewhat explainable in light of the fund’s unconstrained mandate, we do not believe the peer group is directly comparable. Most of the funds in the nontraditional bond category are U.S.-centric, low-volatility bond strategies that invest primarily in corporate credit. The fund’s strategy follows an opportunistic approach to investing in global government bonds and currencies. The manager seeks to add value via three main sources: yield curve/duration, currencies, and sovereign credit. While the fund’s prospectus benchmark is the FTSE World Government Bond Index, the manager follows a more unconstrained approach and it is not uncommon for the fund’s positioning to vary significantly from its benchmark.