

Legg Mason Western Asset Asian Opportunities Fund

QUICK VIEW

Key performance drivers

- The Fund slightly underperformed its benchmark index in April.
- Although yield curve positioning had a negative impact on relative returns, the Fund benefited from overweight duration in the Philippines, India and in China offshore bonds.
- Positioning in the Chinese offshore renminbi, Korean won and Indian rupee added value, though positions in the Malaysian ringgit and Philippine peso detracted.
- Issue selection contributed slightly, with the Fund continuing to profit from its overweight in US dollar credits.

Views and positioning

- The manager's long-term strategies have not changed given its confidence in the underlying fundamentals. The strength of government balance sheets, current account surpluses and declining inflationary pressures should provide support to government yields in most Asian countries.
- Activity over the month was concentrated in the credit space, with the manager participating in a number of new issuances in the primary market.
- The manager also sold off some credits in order to take profits.
- In local rates, some duration was taken off the ultra-long end in Singapore sovereign bonds, in anticipation of risk of a spike in US Treasuries later in the month.
- The manager reduced currency exposure in the Korean won, Indonesian rupiah and Indian rupee.

Current activity and manager outlook

- Global risk factors include heightened volatility leading to European council meetings in June, while a restive North Korea remains the perennial wild card.
- In the manager's opinion, yield-seeking inflows will continue to be a driver of fixed income returns in Asia, with a greater preference for local currency debt and shorter ends of curves. It also feels that improving fundamentals, the positive steps taken toward reforms and a supportive macro backdrop will be beneficial.

Performance ¹ to 30/04/13	1 Month	3 Months	1 Year	YTD
Legg Mason Western Asset Asian Opportunities Fund	1.35%	1.84%	7.82%	1.53%
HSBC Asian Local Bond Overall Index	1.50%	2.48%	7.24%	2.13%

Past performance is no guide to future returns and may not be repeated.

Market Review

Easy liquidity continued to dominate markets, with no end in sight to loose global monetary conditions. Gains were seen across financial assets, while commodity prices declined as liquidity overwhelmed tight valuations in both risky and safe-haven assets. Equity markets broke record levels in both developed and emerging markets. Fixed income assets did not skip a beat, with sovereign bonds holding up as well as credits despite strong supply in the latter.

Of the 10 onshore bond markets within the HSBC Asian Local Bond Overall Index, all markets generated positive returns for the month of April. The top-performing local market was India in light of policymakers' resolve to fix structural issues in the economy, as well as the recent decline in global commodity and gold prices, which provided some relief to its persistent and significant current account deficit. This also helped strengthen the rupee. Indeed, Asian currencies were mostly stronger for the month, with only the Philippine peso seeing a loss, and robust gains were seen in the Malaysian ringgit and Taiwanese dollar.

Fund Review

The Legg Mason Western Asset Asian Opportunities Fund rose by 1.35%¹ in US dollar terms in April, while its benchmark, the HSBC Asian Local Bond Overall Index, returned 1.50%.

Although yield curve positioning had a negative impact on relative returns, the Fund benefited from overweight duration in the Philippines, India and in China offshore bonds. The overweight to Asian currencies was also mildly positive, notably positioning in the Chinese offshore renminbi, Korean won and Indian rupee, though positions in the Malaysian ringgit and Philippine peso detracted from performance. Issue selection contributed slightly, with the Fund continuing to benefit from overweight exposure to US dollar credits.

Activity over the month was concentrated in the credit space, with the manager participating in a number of new issuances in the primary market. Meanwhile, the manager sold off some credits in order to take profits. In local rates, some duration was taken off the ultra-long end in Singapore sovereign bonds, in anticipation of risk of a spike in US Treasuries later in the month.

The manager reduced currency exposure in the Korean won, Indonesian rupiah and Indian rupee. Broadly, given the continued weakness of the yen and broad US dollar strength, the risk-return profile remains skewed towards near-term weakness in Asian currencies with the notable exception of the renminbi.

The manager continues to be selective in the primary issuance market, subject to its comfort with fundamentals and its strict valuation criteria.

PLEASE REFER TO THE IMPORTANT INFORMATION ON THE FINAL PAGE.

Legg Mason Western Asset Asian Opportunities Fund

Outlook

Global risk factors include heightened volatility leading to European council meetings in June. The manager does not expect territorial disputes in the South China Sea to have a significant economic impact due to the growing interdependence of countries party to these disputes. A restive North Korea, however, remains the perennial wild card.

The manager believes that yield-seeking inflows will continue to be a driver of fixed income returns in Asia, with a greater preference for local currency debt, the shorter end of curves and corporate bonds. Improving fundamentals, the positive steps taken toward reforms and a supportive macro backdrop will also be helpful factors. Portfolio inflows continue to be supportive, with relatively strong regional growth, improving margins, and better earnings prospects. Intra-region demand for fixed income is not expected to decline with rising pension assets and increasing insurance coverage as incomes rise. Prudential measures to regulate risk-taking behaviour will also imply that insurance and pension assets will maintain or increase their allocations to fixed income assets. Out of the region, demand is also strong, largely from a diversification perspective.

As in prior months, the manager's long-term strategies have not changed given its confidence in the underlying fundamentals. The strength of government balance sheets, current account surpluses and declining inflationary pressures should provide support to government yields in most Asian countries. While the exogenous risks have increased, the manager believes that a long-term approach will allow it to ride out any volatility in the medium term. Structural flows and favourable supply-demand dynamics continue to support government bonds.

This Fund is managed by Western Asset Management

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¹ Source: Legg Mason, as of 30 April 2013. Class A Acc USD performance is net of fees and is calculated on a NAV to NAV basis (USD), with any income and dividends reinvested, if any, without any initial charges but reflecting annual management fees. Performance figures inclusive of sales charge is -3.72% for 1 Month, -3.25% for 3 Months, 2.43% for 1 Year and -3.55% for YTD. **Investment involves risks. Past performance is not indicative of future results.**

IMPORTANT INFORMATION

The Fund may invest in certain types of derivatives for investment and/or efficient portfolio management purposes. Please refer to the prospectus for more information. Due to the investment policies of the Fund, this Fund may have particularly volatile performance.

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