LEGG MASON
GLOBAL ASSET MANAGEMENT

Legg Mason Western Asset Global Bond Trust

QUICK VIEW

Key performance drivers

- The Fund returned -0.64%[1] in February, outperforming its benchmark, which returned -0.72%.
- The Fund's underweight to US duration at the start of the month and sector allocation to US agency mortgages contributed positively.
- Overweight in Italian government bonds was a major drive of performance, however a long position in 30 year Mexican government bonds detracted.
- A long Mexican peso currency position benefitted the fund marginally.

Views and positioning

- Tactical duration management and yield curve management remain key macro strategies.
- The Fund remains underweight to the euro and overweight Italian government bonds.

Current activity and manager outlook

- The manager expects the Fed to initiate policy normalization in the second half of 2015, although the pace of rate increases is likely to be very slow and gradual.
- Europe's growth remains sluggish but more recent evidence of a modest recovery in both borrowing and lending and firmer domestic demand in Germany should support slightly stronger eurozone growth in coming months.
- The manager believe the divergent growth and policy stance versus the US will facilitate further euro weakness and support peripheral European bond spreads.

Performance[1] to 31/01/15	1 Month	3 Months	YTD	1 Year	5 Years
Legg Mason Western Asset Global Bond Trust	**-0.64%**	**2.65%**	**2.12%**	**9.31%**	**3.29%**
Citigroup World Government Bond Index ex Japan hedged to S$	-0.72%	2.79%	2.02%	9.42%	3.34%

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

Market Review

Global bond markets were mixed in February as core government bond markets reversed the strong gains seen at the start of the year and risk assets enjoyed a broad-based rally. The US dollar benefitted from signals that the Federal Reserve (Fed) was preparing the ground for moving off its zero rate policy. Investors' improved risk appetite was supported by a better outlook for economic growth in Europe and Japan, more monetary policy stimulus in China, a stabilization in energy prices and an easing in the uncertainty over Greece and Ukraine. Despite a loss in momentum for their economies' recoveries, the US Treasury (UST) and UK gilts markets led declines in government bond markets as higher oil prices and further tightening in labour markets refocused investors' attention on the potential timing for interest rate rises. German and Japanese bond yields were mostly unchanged given the prospect of more quantitative easing (QE) and negative net issuance in both countries. Peripheral European markets outperformed as Greece reached an agreement with its official creditors to extend its bailout funding by four months.

Fund Review

The Legg Mason Western Asset Global Bond Trust returned -0.64%[1] in SG dollar terms in February, outperforming its benchmark, the Citigroup World Government Bond ex Japan Index, which returned -0.72%.

An underweight to US duration at the start of the month contributed to performance as US Treasury yields rose. Short duration positions in Japan and Europe also contributed to performance as Japanese and German government bonds yields closed the month higher.

An overweight position in Italian government bonds was a major driver of performance as the 30-year Italian spread relative to long dated German bunds contracted during the month. However, performance was partially offset by higher yields on 30-year Mexican government bonds where the Fund retained a long position. In terms of currency position, a long Mexican peso exposure benefitted the fund marginally.

Outlook

The US is the bright spot among the developed market economies. US labor market conditions continue to improve and although current inflation remains low, both remain consistent with the Fed's dual mandate of full employment and price stability. The manager expects the Fed to initiate policy normalization in the second half of 2015, although the pace of rate increases is likely to be very slow and gradual.

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Outlook (cont.)

The reasoning is that while the Fed wants to shift its policy away from emergency settings, it also wants to avoid tightening US financial conditions. As a result, even though a sustained rise in long-term US bond yields is unlikely while inflation remains subdued, short-dated bond valuations appear more attractive in the event that growth disappoints. Tactical duration management and yield curve management remain key macro strategies.

In Europe, growth remains sluggish but more recent evidence of a modest recovery in both borrowing and lending and firmer domestic demand in Germany should support slightly stronger eurozone growth in coming months. The European Central Bank is targeting an aggressive expansion of its balance sheet via targeted longer-term refinancing operations and has added sovereign debt to its asset purchase policy in an attempt to stave off further deflationary forces. The manager think that it is unlikely that monetary policy alone will be successful in repairing the broken credit mechanism, and think it will need to be complemented by fiscal stimulus. The manager believe the divergent growth and policy stance versus the US will facilitate further euro weakness and support peripheral European bond spreads relative to Germany despite the risks from a standoff over Greece's debts. The Fund remains underweight to the euro and overweight Italian government bonds.

This Fund is managed by Western Asset Management Company Pte. Ltd.

[1] Source: Legg Mason, as of 28 February 2015, based on Class A (SGD) Acc. Performance is net of fees and is calculated on NAV-NAV basis (SGD), with any income and dividends reinvested, without any initial sales charges but reflecting annual management fees. Performance for periods greater than one year is annualised. Performance figures inclusive of sales charge is -3.62% for 1 Month, -0.43% for 3 Months, -0.94% for YTD, 6.03% for 1 Year and 2.67% for 5 Years. **Investment involves risks. Past performance is not indicative of future results.**

SG1503023