LEGG MASON
GLOBAL ASSET MANAGEMENT

# Legg Mason Western Asset
# Southeast Asia Special Situations Trust

| Performance[1] to 28/02/15 | 1 Month | 3 Months | YTD | 1 Year | 5 Years |
|---|---|---|---|---|---|
| **Legg Mason Western Asset Southeast Asia Special Situations Trust** | **0.42%** | **0.02%** | **5.22%** | **-2.96%** | **5.38%** |
| MSCI South East Asia Index | 1.96% | 2.31% | 3.70% | 13.66% | 9.28% |

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

## Market Review

Markets continued their upwards grind during the month of February, aided by monetary easing stimulus by central banks across the region. Australia and Indonesia surprised investors with interest rate cuts, joining India, China and Singapore, which had taken similar measures since the start of the year. South Korea and New Zealand have left their doors open for rate cuts down the road. Recent central banks moves may have been triggered by low inflation readings (negative in some cases), in part driven by lower oil prices. While some may argue this is a case of good disinflation, the fact remains that debt levels remain elevated in many parts of the global economy and prospects of negative inflation raises the hurdle for debtors even further. Japan's lost decades are a stark reminder of what happens in such an environment. Thanks to Prime Minister Abe’s policy of aggressive quantitative easing (Abenomics), Japan is tentatively emerging from its crisis. The unintended consequence of recent monetary easing actions has been to raise the spectre of currency wars. With global trade still in the doldrums in spite of economic recovery in the US, currency devaluations have become the name of the game. This beggar-thy-neighbour policy, while clearly a zero-sum game, has been a last ditch desperate attempt to boost exports. It remains to be seen whether any of these policy actions will help lift economic activity, although there is no doubt it has helped lift financial markets.

## Fund Review

The Legg Mason Western Asset Southeast Asia Special Situations Trust was up 0.42%[1] in SG dollar terms in February, underperforming its benchmark, the MSCI Southeast Asia Index, which rose 1.96%.

The positive contributors were attributed to the overweight in consumer staples and the underweight of the materials sector. Positive geographical contribution came from the underweight in Malaysia.

The overweight in both the energy sector and the information technology sector both detracted from performance. On a geographical basis the underweight position in Singapore and the overweight position in China detracted from performance.

## Outlook

Indonesia’s rate cut has been described by some to be premature as its exchange rate is still vulnerable to external account concerns. Nevertheless, Bank Indonesia is likely to have judged that growth concerns outweighed all others with GDP growth slowing to 5% in 2014. We continue to be underweight the market as we believe Jokowi does not hold sufficient political clout to push through all the reforms that the market expects. Jokowi’s recent attempts to exert his authority comes across as an over compensation of his shortcomings and could backfire.

Overall market conditions for stock-picking remain challenging, notwithstanding easy monetary conditions, due to the limited breath of market leadership (whether by country, sector or market capitalisation), as well as narrowness in stock dispersions. The recent broadening of leadership to the energy and materials sector is welcoming, though a more sustained trend needs to be established. We continue to believe our core holding of companies are executing well and it will be a matter of time before the market recognises their value.

[1] Source: Havenport , as of 31 January 2015. Performance is calculated on gross basis.

**This Fund is managed by Havenport Asset Management**

PLEASE REFER TO THE IMPORTANT INFORMATION ON THE FINAL PAGE.

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