LEGG MASON
GLOBAL ASSET MANAGEMENT

Legg Mason Western Asset Southeast Asia Special Situations Trust

QUICK VIEW

Key performance drivers

- The Fund fell 1.14%[1] in March, underperforming its benchmark, the MSCI South East Asia Index, which increased by 0.50%.
- Underweight in Financials and Singapore contributed to performance.
- Overweight in Utilities and Consumer Staples sectors helped performance.
- Overweight positions in Philippines and underweight in Malaysia added to performance.

Views and positioning

- The Fund's largest overweights are in the Energy and Information Technology sectors.
- The largest underweight exposures are in the Financials and Telecommunication Services sectors.

Current activity and manager outlook

- The sub-manager remains its overweight positions in Philippines. The recent performance of the Philippines market highlights its increasing resilience to external macroeconomic concerns and in the sub-manager's opinion, is an oasis of equity and savings.
- The sub-manager is still holding onto its energy services overweight even as valuations have ratcheted down to distress levels. The sub-manager is not seeing anything fundamentally troubling and is willing to trade pain for longer term gains.

Performance[1] to 31/03/15	1 Month	3 Months	YTD	1 Year	5 Years
Legg Mason Western Asset Southeast Asia Special Situations Trust	**-1.14%**	**3.78%**	**3.78%**	**-7.69%**	**1.93%**
MSCI South East Asia Index	0.50%	4.22%	4.22%	11.72%	7.80%

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

Market Review

Asian equities ended a featureless month marginally lower. With the notable exception of China "A" share market, and to a far lesser extent Philippines and Korea, the performance of most other markets were lacklustre to poor. The Asia Pacific region continues to be in easing mode, with Korea, India and China announcing further rate cuts. This tailwind has aided the Korean and the "A" share markets. The advance in Korea was reasonably broad based. The "A" share rally this month follows the consolidation in January and February, which in turn was a response to its explosive move from late last year. "H" shares continue to be decoupled from the "A" shares, although the anticipation of "H" shares playing catch up caused a spike in the final week of March that reversed the year-to-date negative returns on the Hang Seng China Enterprises Index. Regulators are now intending for domestic mutual fund managers to be able to purchase "H" shares. This notwithstanding, the sense of mixed fortunes across both markets reflect the prevailing mixed sentiments on China. In contrast to the "A" share market, India succumbed to an expected and overdue correction, post budget and rate cut. Some foreign flow reversal has been detected in the 8.5%[2] selloff from its peak in early March. This correction has been orderly and we remain sanguine on its prospects.

Numerous crosswinds are influencing Asian markets, but none more so than the relentless ascent of the US dollar, the prospect of a Fed rate hike, and what this all means to the Asian region which is already experiencing growth headwinds. The latest guidance from the Fed served to assuage investors that it is leaning towards lifting rates later rather than sooner. This has led to a modest correction in the US Dollar Index (DXY) this month.

Fund Review

The Legg Mason Western Asset Southeast Asia Special Situations Trust fell 1.14%[1] in SG dollar terms in March, underperforming its benchmark, the MSCI Southeast Asia Index, which rose 0.50%.

The underperformance came from the Fund's underweight exposure to Financials. Underweight in Singapore detracted from performance. Contribution to positive performance came from the overweight in Utilities and in Consumer Staples. The underweight in Malaysia and overweight in Philippines added to performance.

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Outlook

The recent performance of the Philippines market highlights the increasing resilience to external macroeconomic concerns, in particular the strength of the US dollar and the occasional US rate hike concerns. It is useful to remind ourselves of the reasons for this resilience. For one, it has been growing its international reserves and is in a fortunate position where reserves exceed external debt. The country has been running a positive current account surplus for the past decade. Its debt to Gross Domestic Product (GDP), at around 50%, is one of the lowest in the world. The loans-to-deposit ratio of the banking industry, at around 60%, remains one of the lowest in the world. Consumers are far from being leveraged, with a debt to GDP of only 6%. In a world struggling with too much debt, the Philippines is an oasis of equity and savings.

The sub-manager has hung onto its energy services overweight despite the negative impact on performance in recent months. Analysts have viciously applied their scalpels to earnings forecasts. This notwithstanding, valuation have been ratcheted down to distress levels. Investors are adopting a wait and see attitude until such time the narrative for oil turns constructive but once this narrative inflects, the sub-manager expects stocks to be sharply higher just on short covering alone. Crude has stayed within a narrow band for some time now, and rig count in the US has fallen as it has expected. The sub-manager is not seeing anything fundamentally troubling that is causing it to change its view and is prepared to trade pain for longer term gains.

The managers of the Fund are Western Asset Management Company Pte. Ltd. Havenport Asset Management Pte. Ltd. has been appointed as the sub-manager of the Fund.

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[1] Source: Legg Mason, as of 31 March 2015, based on Class A (SGD) Acc. Performance is calculated on NAV-NAV basis, with net income and dividends reinvested, if any (SGD terms). Performance for periods greater than one year is annualised. Performance figures inclusive of sales charge is -6.08% for 1 Month, -1.41% for 3 Months, -1.41% for YTD, -12.30% for 1 Year and 0.89% for 5 Years. **Investment involves risks. Past performance is not indicative of future results.**

[2] Source: Bloomberg, as at March 2015.

IMPORTANT INFORMATION

The fund may invest in derivatives for hedging and/or efficient portfolio management purposes, and transferable securities embedding a financial derivative may be used for the purposes of hedging, efficient portfolio management and/or optimising returns.The fund's net asset value may have higher volatility characteristics as a result of its portfolio management style.

Source : Havenport Asset Management and Legg Mason. This document, provided by Legg Mason Asset Management Singapore Pte. Limited ("Legg Mason"), is for information only and does not constitute an offer or solicitation to buy or sell any units in any fund.

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