LEGG MASON
GLOBAL ASSET MANAGEMENT

Legg Mason Western Asset Asian Opportunities Fund

QUICK VIEW

Key performance drivers

- The Fund decreased 1.77%[1] in US dollar terms in May, underperforming the HSBC Asian Local Bond Overall Index, which fell 1.51%.
- An overweight to the long end of Korean bonds and overweights in China offshore and the Philippines contributed.
- Currency positioning detracted.

Views and positioning

- The manager favours US dollar-denominated Asian investment grade and cross-over credits, Asia sovereigns and quasi-sovereign entities.
- The manager remains cautious on high yield property and energy names due to headline and idiosyncratic risks.
- The manager is avoiding outright high-beta positions in Asian currencies against the US dollar.

Current activity and manager outlook

- In the manager's opinion, Asia exhibits the strongest fundamentals within the emerging markets and is likely to be key beneficiary of lower energy prices.
- The manager will be focusing on cross currency positions with positive carry during the current period of US dollar consolidation.
- The manager believes that Asian local currency bonds continue to offer attractive value versus developed markets.

Performance[1] to 31/05/15	1 Month	3 Months	YTD	1 Year	5 Years
Legg Mason Western Asset Asian Opportunities Fund	**-1.77%**	**-1.25%**	**-0.01%**	**-1.09%**	**3.50%**
HSBC Asian Local Bond Overall Index	-1.51%	-0.64%	0.37%	0.15%	4.08%

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

Market Review

The HSBC Asia Local Bond Overall Index (ALBI) saw losses of 1.51% for the month of May. The performance of ALBI members was mixed for the month in local currency terms. All markets had positive returns with the exception of Singapore, China onshore, Indonesia and Thailand. The offshore China bond market led the field as expectations of further depreciation were put aside with the People's Bank of China (PBoC) firmly anchoring the Chinese yuan and speculators trimming losses on positions. Indonesia was the month's laggard in light of the slow pace of reforms and continued weakness in the country's growth outlook.

There was a resumption of broad US dollar strength given expectations of a first US Federal Reserve (Fed) rate hike and investors continued to take on hedges in Asian currencies. The Korea won underperformed for the month in line with moves in the Japanese yen while the Thai baht also struggled on the back of the Bank of Thailand's clearly dovish monetary stance. The only outperforming currencies against the dollar for the month were the Chinese yuan complex (given the PBoC's strong anchoring) and the Philippine peso, which was supported by firm remittance inflows.

Fund Review

The Legg Mason Western Asset Asian Opportunities Fund was down 1.77%[1] in US dollar terms in May, underperforming its benchmark, the HSBC Asian Local Bond Overall Index, which fell 1.51%.

In terms of country allocation, an overweight to the long end of Korean bonds contributed, after statements made by Korean Finance Minister Choi fuelled market enthusiasm for an additional rate cut. The manager continues to be bullish on Korea Treasury bonds due to a combination of ageing demographics, a limited supply of quasi-sovereign bonds in Korea and pressure from quantitative easing in Japan.

Overweights in China offshore and the Philippines also added value; domestic monetary policies anchored rates in spite of moves in US Treasury markets. However, overweight positions in Singapore, Thailand and Indonesia were detrimental.

Currency positioning detracted given broad US dollar strength. Most Asian currencies saw losses versus the US dollar with the exception of the Philippine peso and the Chinese yuan. The Fund benefited from overweights in these currencies as well as tactical underweights in the other currencies. However, this was outweighed by the negative impact of overweights in the Indian rupee and Indonesian rupiah, both of which were victims of US dollar strength and higher US Treasury yields.

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Fund Review (cont.)

In terms of issue selection, positioning in US dollar credits, specifically investment grade credits, contributed to performance although the manager remains cautious with a focus on bottom-up selection in its choice of issues.

Outlook

The manager favours US-dollar denominated Asian investment grade and cross-over credits, Asia sovereigns and quasi-sovereign entities. The manager remains cautious on high yield property and energy names due to headline and idiosyncratic risks. The manager is also avoiding outright high-beta positions in Asian currencies versus the US dollar, which remains in a positive cycle. High-beta Asian currency positions are crossed (e.g. an overweight exposure to the Chinese yuan versus an underweight allocation to the Taiwanese dollar). Looking ahead, the manager expects to focus on cross-currency positions with positive carry (e.g. overweight exposure to the Indian rupee versus and underweight to the Singapore dollar) under this period of US dollar consolidation. Currently, the Fund's yield stands at approximately 150 basis points (bps) higher than the benchmark[2]. The manager believes that Asian local currency bonds continue to offer attractive value versus developed markets, with the yield spread between the JPMorgan Government Bond Index (Emerging Markets Asia) and the Citigroup World Government Bond Index at a high of 400bps. In the manager's opinion, Asia exhibits the strongest fundamentals within the emerging market regions and Asian countries could be key beneficiaries of lower energy prices.

This Fund is managed by Western Asset Management

PLEASE REFER TO THE IMPORTANT INFORMATION ON THE FINAL PAGE.

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[1] Source: Legg Mason, as of 31 May 2015. 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 -6.68% for 1 Month, -6.19% for 3 Months, -5.01% for YTD, -6.03% for 1 Year and 2.45% for 5 Years. Performance for periods above one year is annualised. **Investment involves risks. Past performance is not indicative of future results.**

[2] Source: Legg Mason, as of 31 May 2015.

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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