LEGG MASON GLOBAL ASSET MANAGEMENT

Legg Mason Western Asset Asian Opportunities Fund

QUICK VIEW

Key performance drivers

- The Fund increased 0.05%[1] in US dollar terms in December, outperforming the HSBC Asian Local Bond Overall Index, which fell 0.14%.
- The Fund's underweight bias to Asian currencies contributed.
- Overweight exposure to US dollar-denominated Asian investment grade credit proved beneficial.
- Underweight exposure to Malaysia helped but an overweight allocation to Indonesia hindered relative returns.

Views and positioning

- The manager remains cautious on high yield energy and Chinese industrial names due to sector and idiosyncratic risks.

Current activity and manager outlook

- In the manager's opinion, the manager believes monetary policy in Asia will increasingly be aligned more with that of China than the US, especially for Korea, Taiwan and Singapore.,
- The manager believes that the maturation of the Chinese economy could have negative effects on its trade partners as consumption becomes more insular.

Performance[1] to 31/12/15	1 Month	3 Months	YTD	1 Year	5 Years
Legg Mason Western Asset Asian Opportunities Fund	**0.05%**	**2.84%**	**-4.90%**	**-4.90%**	**0.71%**
HSBC Asian Local Bond Overall Index	-0.14%	2.32%	-3.17%	-3.17%	1.73%

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

Market Review

The HSBC Asian Local Bond Overall Index (ALBI) saw losses of -0.14% during the month of December, driven largely by declines in Asian currencies. Asian local currency bond markets saw diversified performance driven by domestic factors, with Taiwan outperforming on the back of monetary easing by the central bank while Indonesia underperformed on the back of emerging market (EM) beta risks going into year-end.

Fund Review

The Legg Mason Western Asset Asian Opportunities Fund was up 0.05%[1] in US dollar terms in December, outperforming its benchmark, the HSBC Asian Local Bond Overall Index, which decreased 0.14%.

The Fund outperformed the benchmark even as the broad indices were weaker for the month due to increasing differentiation in markets, as local factors outweighed beta moves driven by risk sentiment. The key contributor for the month was the Fund's underweight bias to Asian currencies as the US Federal Reserve (Fed) raised interest rates for the first time in nine years.

Overweight exposure to US dollar-denominated Asian investment grade credit continued to pay off, generating positive returns. Even though the Reserve Bank of India (RBI) kept rates unchanged, Governor Rajan reiterated RBI's accommodative stance to ease rates whenever possible, benefitting the Fund's overweight position in India.

Crude oil prices tumbled further during the month, sending oil-related Malaysia and Indonesia government bonds in the same direction. The Fund's underweight position in Malaysia added value, although an overweight allocation to Indonesia detracted in December.

With respect to Fund positioning, the manager favours US dollar-denominated bonds issued by Asian investment grade, BBB to BB+ rated cross-over credits, and Asia sovereigns/quasi-sovereign entities. The manager remains cautious on high yield energy and Chinese industrial names due to sector and idiosyncratic risks. The Fund is underweight selected high-beta Asian currencies and overweight low-beta high-yielding Asia currencies (e.g. the Indian rupee and Indonesian rupiah. The Fund's net exposure to Asia currencies (versus the ALBI) has been reduced to negative 2% (i.e. net long US dollar).

PLEASE REFER TO THE IMPORTANT INFORMATION ON THE FINAL PAGE.

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Fund Review (cont.)

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) vs. the Citi World Government Bond Index at over 300bps. Within the emerging market regions, the manager feels that Asia exhibits the strongest fundamentals and believes countries in the region could be key beneficiaries of lower energy prices.

Outlook

In the manager's opinion, as a region, policy and political certainty will likely remain a key anchor for stability. With the Fed's move, the manager believes monetary policy in Asia will increasingly be aligned more with that of China than the US, especially for Korea, Taiwan and Singapore. The maturation of the Chinese economy will likely have negative effects on its trade partners as consumption becomes more insular; this has been clearly felt in China's Asian trading partners as China produces more of what it consumes domestically. The downshift and more importantly structural shift in China's growth could have knock-on effects on closely-linked economies, specifically Taiwan, Hong Kong, Korea and Singapore. Korea's growth remains stymied by its large reliance on exports, at around 50% of GDP, and with 60% of its exports being orientated towards emerging markets. Korea also faces persistent competitive challenges arising from Bank of Japan's monetary accommodation. However, the developed economies within Asia could benefit from being technological leaders, with a well-educated workforce positioned to take advantage of the opportunities opening up within the region. The recycling of China's trade surplus via services may also see Asia benefit from tourism, specifically in Korea, Taiwan and Thailand. In the manager's view, China's capital account liberalisation could benefit Asia by way of greater Chinese outward direct investments and infrastructure financing. The manager believes emerging Asia should benefit from the continued steady expansion of its middle class, boosting support for a structural shift in economies towards the secondary and tertiary sectors. Singapore and Taiwan will likely outperform Korea and Hong Kong in this regard, in terms of growth in 2016. The slowdown in China, though, will exert pressure in the primary sectors, as a traditional export-orientated approach faces competitive headwinds against the still-strong manufacturing and logistical giant that is China's manufacturing complex. Within the emerging Asia economies, growth outperformance is likely to come from the Philippines and Malaysia while Thailand continues to grapple with the lack of fiscal support and the lack of clear policy leadership in Indonesia hampers growth prospects.

This Fund is managed by Western Asset Management

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[1] Source: Legg Mason, as of 31 December 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 -4.96% for 1 Month, -2.31% for 3 Months, -9.66% for YTD, -9.66% for 1 Year and -0.31% for 5 Years. Performance for periods above one year is annualised. **Investment involves risks. Past performance is not indicative of future results.**