LEGG MASON
GLOBAL ASSET MANAGEMENT

Legg Mason Western Asset Global High Yield Fund

QUICK VIEW

Key performance drivers

- The Fund decreased 3.56%¹ in US dollar terms in December, while its benchmark, the Barclays Global High Yield Index (Hedged) USD, was down 2.31%.
- Geographic allocation was negative.
- Sector allocation was detrimental.
- Issue selection hurt.
- Ratings positioning weighed on relative returns.

Views and positioning

The Fund is overweight in securities rated CCC and below.

- The Fund is underweight BB rated high yield debt, as this is typically more sensitive to rising rates.

Current activity and manager outlook

- The manager believes that the global economy should provide support for credit markets in 2016.
- The manager feels volatility is likely to remain high in emerging market debt and currency markets.

Performance[1] to 31/12/15	1 Month	3 Months	YTD	1 Year	5 Years
Legg Mason Western Asset Global High Yield Fund	**-3.56%**	**-2.80%**	**-8.21%**	**-8.21%**	**1.94%**
Barclays Global High Yield Index (Hedged) USD[2]	-2.31%	-0.31%	-0.69%	-0.69%	6.03%

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

Market Review

The Barclays US Global High Yield Bond Index returned -2.31% on a US dollar (‘USD’) hedged basis in December 2015, dropping the annual return into negative territory as well. The Global High Yield Index underperformed duration neutral US Treasuries (USTs) by 207 basis points (bps), also pushing the annual excess return into the red. The index’s yield-to-worst (YTW) rose 64 bps month-over-month to 8.12%, the highest such reading in over three-and-a-half years. The option-adjusted spread (OAS) of the index increased 52 bps ending 2015 at 638 bps. For the month, global high yield underperformed investment grade corporates and the S&P 500.

Fund Review

The Legg Mason Western Asset Global High Yield Fund fell 3.56%¹ in US dollar terms in December, while its benchmark, the Barclays Global High Yield Index (Hedged) USD, decreased 2.31%.

Geographic allocation had a negative impact on performance due to underweights to outperforming European and emerging market (EM) high yield, and an overweight allocation to underperforming US high yield.

Sub-sector allocation weighed on relative performance due in large part to an overweight to underperforming energy and underweights to outperforming financials and communications.

Issue selection detracted due in large part to selection within energy.

Ratings positioning proved detrimental due to an overweight to the underperforming CCC rating category and an underweight to the outperforming BB rating category.

Outlook

2015 was an extremely challenging year for high yield as commodities remained under significant pressure and concerns over global growth provided strong headwinds for the asset class and all risk assets. The manager looks for a much different outcome for global high yield in 2016. The manager believes that the global economy should provide support for credit markets in 2016.

PLEASE REFER TO THE IMPORTANT INFORMATION ON THE FINAL PAGE.

LEGG MASON
GLOBAL ASSET MANAGEMENT

Legg Mason Western Asset Global High Yield Fund

Outlook (cont.)

From a regional perspective, the only area in which the manager has significant concerns is EMs. Brazil's continued struggle in fiscal reform and political instability, along with China's economic downshift and currency devaluation over the past several months, have exacerbated the high-volatility environment in the EM bloc. Against a backdrop of persistent growth headwinds in EM countries and in response to the Fed lift-off, the manager feels volatility is likely to remain high in EM debt and currency markets. China has been at the centre of the market turbulence. In the manager's opinion, the Chinese policy moves in August raised more questions than provided answers. Looking ahead, the manager expects Chinese policymakers to maintain a relatively stable set of policies aimed at supporting growth and not disrupting markets.

According to the manager, the prospects for European growth look better than they did 12 months ago. The improvement is largely due to a more aggressive policy from the European Central Bank (ECB). For example, private loan growth in the eurozone has turned positive for the first time in a few years, a direct consequence of easier monetary policy. Another tailwind for Europe has been the substantial depreciation in the euro, also due to the ECB's actions. In the US, the manager's forecast remains for a 1.5%-2.0% growth trend. US labour market conditions have improved and, although current inflation remains low, both remain consistent with the US Federal Reserve's (Fed's) dual mandate of full employment and price stability. The manager believes the Fed's monetary policy normalisation process will be conducted very gradually, expecting the pace of rate increases to be very slow, and that a sustained rise in long-term US bond yields is unlikely while inflation remains subdued.

In the manager's view, credit fundamentals (ex-commodity issuers) are sound. The manager believes that the significant weakness experienced in the second half of last year was overdone, as investor risk sentiment soured with macro concerns mounting. Default rates, while trending marginally higher, are likely to stay below the historical average despite expected further volatility in commodity driven sub-sectors. The manager believes reined-in supply and steady global demand could lead to the bottoming and eventual recovery in commodity prices in the latter half of 2016. Therefore, the manager maintains the Fund's overweight bias to the energy sector. In the manager's view, relative value presents compelling opportunities in select CCC and B credits over BBs. Valuations in the CCC rating category are at an approximately 1000-bp discount to BBs; this was wider only during the height of the financial crisis. The manager recognises that market volatility is unlikely to dissipate overnight and will only do so amid signs of a stable global economy and improving commodity prices. The manager believes signs of both will be seen by mid-2016, at which point high yield investors should be rewarded for their patience.

This Fund is managed by Western Asset Management

PLEASE REFER TO THE IMPORTANT INFORMATION ON THE FINAL PAGE.

LEGG MASON
GLOBAL ASSET MANAGEMENT

Legg Mason Western Asset Global High Yield Fund

[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 -8.38% for 1 Month, -7.66% for 3 Months, -12.80% for YTD, -12.80% for 1 Year and 0.90% for 5 Years. Performance for periods above one year is annualised. **Investment involves risks. Past performance is not indicative of future results.**

[2] As of 01/05/2009 the benchmark for the Fund changed from a composite benchmark, 80% Citigroup High Yield Market Index and 20% JPMorgan Emerging Markets Bond Index Global, to the Barclays Global High Yield Index (Hedged) USD.