

Legg Mason Western Asset Global Multi Strategy Fund

QUICK VIEW

Key performance drivers

- The Fund returned -2.41%¹ in US dollar terms in December.
- Exposure to US and Italian Treasuries, and US high yield, detracted.
- A short in the South Korean won and a long Indian rupee position added value.

Views and positioning

- The Fund is short the euro and South Korean won.
- In terms of activity, the manager took profits in selected European high yield names and participated in a sterling-denominated high yield new issue.

Current activity and manager outlook

- The manager anticipates a fragile global recovery, largely due to policy accommodation from central banks around the world.
- The manager expects the pace of rate increases by the US Federal Reserve to be very slow and gradual.

Performance ¹ to 31/12/15	1 Month	3 Months	YTD	1 Year	5 Years
Legg Mason Western Asset Global Multi Strategy Fund	-2.41%	-1.43%	-5.28%	-5.28%	1.03%

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

Market Review

Most global bond markets underperformed over the course of the month. Within government bonds, European government bonds were generally down versus other sovereign bond markets, with Italy, Spain, the UK, France and Germany posting negative returns in local currency terms. The increase in eurozone yields was due to the market's disappointment over European Central Bank (ECB) policy easing. Positive performance came from selected markets, such as Canada, Japan, South Korea and Australia. Corporate bonds and other spread sectors underperformed. Emerging markets (EMs) - across all three sectors - also registered negative returns with US dollar EM sovereigns and US dollar corporates faring the worst. EM currencies continued to weaken versus the US dollar and this led to significantly negative returns for EM local debt in US dollar terms. Currency performance for the month versus the US dollar was mixed. The New Zealand dollar, Swiss franc, Japanese yen and the Swedish krona were amongst the best-performing currencies. The Argentine peso was the worst performer of the month, although the Russian ruble, Mexican peso and the South African rand also weakened versus the US dollar.

Fund Review

The Legg Mason Western Asset Global Multi Strategy Fund returned -2.41%¹ in US dollar terms in December.

Allocations to US and Italian Treasuries were detrimental as both of these government bond markets underperformed. In addition, the Fund's significant allocation to US high yield also detracted, as high yield bond prices declined. The Fund's allocation to both US and European investment grade corporate bonds hurt too. The manager's preference for hard currency EM corporates and US dollar EM sovereigns over local currency EM also weighed on performance as local currency EM sovereign debt outperformed the other two sectors.

From a currency perspective, a short in the South Korean won and a long Indian rupee position added value, while marginally long positions in the Mexican peso and the Brazilian real, as well as the short euro, were negative.

In terms of activity, from a credit standpoint, the manager took profits in some select European high yield names and participated in a sterling-denominated high yield new issue. The manager also reduced duration by 0.5 years early in the month in anticipation of a rate increase in the US. Closer to the Fed announcement, the manager reduced the US curve flattener. The manager also reduced exposure to German inflation-linked bonds given downward pressure on inflation and added to Italian

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Legg Mason Western Asset Global Multi Strategy Fund

Fund Review (cont.)

government bonds on weakness post the ECB meeting. In EMs, given increased pressure on oil and Brazilian assets from politics and rating downgrades, the manager switched out of some of the Petrobras holdings.

Outlook

The manager believes the global recovery, though fragile, will continue, largely due to policy accommodation from central banks around the world. Global inflationary pressures remain very subdued. The decline in commodity prices could support global growth by increasing real consumer incomes and corporate earnings.

In the US, the manager forecasts a trend of 1.5% to 2.0% growth in 2016. US labour market conditions appear to 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 Fed started the monetary policy normalisation process in December, but the manager expects the pace of rate increases to be very slow and gradual. The manager anticipates that the Fed will continue to hike rates in 2016, with at least one more increase at the March meeting, before reconsidering its strategy later in the year. The manager believes a sustained rise in long-term US bond yields is unlikely while inflation remains subdued. The manager expects global bond yields to remain in relatively tight ranges over the next year, so tactical duration and yield curve management strategies will be key macro strategies.

Against this backdrop, the manager's focus remains on longer-term fundamentals with diversified strategies to manage risk. The Fund remains invested in spread product sectors in an attempt to take advantage of attractive valuations, using duration opportunistically as valuations change, and to try and mitigate downside risks.

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 -7.29% for 1 Month, -6.36% for 3 Months, -10.01% for YTD, -10.01% for 1 Year and 0.00% for 5 Years. Performance for periods above one year is annualised. **Investment involves risks. Past performance is not indicative of future results.**

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.

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