LEGG MASON
GLOBAL ASSET MANAGEMENT

Legg Mason Western Asset Southeast Asia Special Situations Trust

QUICK VIEW

Key performance drivers

- The Fund underperformed its benchmark, rising 2.15%[1] in June against the MSCI South East Asia Index, which returned 2.58%.
- Overall, stock selection in Philippines and Thailand helped performance while those in Malaysia and Singapore detracted.
- Exposure to technology and telecommunication services detracted while exposure to consumer discretionary and health care aided performance.

Views and positioning

- The Fund's largest overweights are in the industrials and energy sectors.
- The largest underweight exposure is in the financials ex real estate sector.

Current activity and manager outlook

- Brexit has helped boost prospect for the US rate cycle turning benign and of renewed monetary easing across most parts of the world.
- The sub-manager believes earnings revision in Asia appears to have troughed for now, helped by rebounding commodity price and a strong dollar no longer rising unabatedly.
- The sub-manager believes that Brexit will lead to a short term pullback at most, but any stock market recovery will be driven by risk aversion.

Performance[1] to 30/06/16	1 Month	3 Months	YTD	1 Year	5 Years
Legg Mason Western Asset Southeast Asia Special Situations Trust	**2.15%**	**-0.60%**	**-2.69%**	**-14.08%**	**-3.18%**
MSCI South East Asia Index	2.58%	0.50%	5.07%	-5.09%	1.98%

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

Market Review

Global markets took a tumble after the unexpected results of the United Kingdom's referendum on the future of its European Union membership. Most investors were not positioned for the "Brexit" result and this was reflected in one of history's most dramatic declines in the sterling pound as well as global equity markets. Sovereign bonds around the world conversely had one of its best rallies as investors sought refuge in safe haven assets, including that of the US dollar, yen and gold. The outcome of the referendum will certainly raise questions on the sustainability of the European Union project but fears of a parallel with the UK's ejection from the European Monetary Union in 1992 or the global financial crisis in 2008 are unfounded. There have been no signs of financial distress and central bank liquidity swap lines have not been activated so far. If and when any casualties emerge from the dramatic asset price movements, central banks are well prepared to intervene. The selloff in asset prices have been orderly and the adjustment of the sterling pound will allow the country to reflate thereafter. A technical recession in the UK is almost a given as well as some knock-on impact on global economic growth. On the other hand, Brexit may just be the perfect excuse for central banks around the world to extend further monetary easing and for governments to seriously consider fiscal easing. This will provide some relief to Asian markets which had come under pressure by prospects of US interest rate tightening. The impact of Brexit on Asia may be more financial flow than trade-related. Trade between the UK and Asia ex Japan is relatively limited and while trade with the EU is more significant, the ongoing weakness in the EU economy has already been priced into forecasts. Any potential weakness could be offset by additional monetary and fiscal easing. Indonesia, India and Korea have been leading the way on interest rate cuts and Korea recently announced a fiscal budget boost.

Fund Review

The Legg Mason Western Asset Southeast Asia Special Situations Trust returned 2.15%[1] in SG dollar terms in June, underperforming its benchmark, the MSCI Southeast Asia Index, which returned 2.58%.

Stock selection in Philippines and Thailand were the main contributors to performance whereas those in Malaysia and Singapore detracted. The Fund has been significantly overweight in Philippines for a considerable period of time and this has consistently aided performance. The sub-manager is also turning more positive and has recently increased its exposure in Thailand.

From a sector allocation perspective, the Fund's exposure to technology and telecommunication services stocks posed a drag on performance while exposure in consumer discretionary and health care boosted performance.

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Outlook

While the impact of Brexit on Asian equities is unlikely to extend much beyond the initial shock, and while it isn't a replay of 2008, Brexit nevertheless serves to refocus investors' attention on the plethora of unresolved macro-economic challenges that have hobbled financial investments and risk taking in general for so many years now. The sub-manager is encouraged that following a prolong underperformance against the MSCI World index, valuation for the MSCI Asia ex Japan index hovers near crisis lows. The prospect for the US rate cycle turning benign and of renewed monetary easing across most parts of the world is helpful, thanks to Brexit. Global economic growth continues to have downside risks however, even more so now with Brexit. This is a change at the margin of a fact the sub-manager was already focused on. Earnings revision in Asia appears to have troughed for now, in part helped by a US dollar no longer rising unabatedly, and commodity prices that are rebounding. This too is helpful for Asia. The challenge however is that Asia is but one of so many cogs in the global economic and financial wheel, that investors cannot confidently assert themselves with deep conviction without worrying about unintended consequences and tail risks of events unknown or unknowable elsewhere around the world. In sum, Brexit will lead to a short term pullback at most, but any stock market recovery will be driven by risk aversion, a perverse trend the sub-manager believes we are by now all too familiar with.

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 30 June 2016, 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 -2.96% for 1 Month, -5.57% for 3 Months, -7.55% for YTD, -18.38% for 1 Year and -4.17% for 5 Years. **Investment involves risks. Past performance is not indicative of future results.**