LEGG MASON
GLOBAL ASSET MANAGEMENT

Legg Mason Western Asset Global High Yield Fund

QUICK VIEW

Key performance drivers

- The Fund increased 1.57%[1] in US dollar terms in June, while its benchmark, the Barclays Global High Yield Index (Hedged) USD, was up 1.21%.
- Geographic allocation was neutral.
- Sector allocation was beneficial.
- Issue selection added value.
- Ratings positioning bolstered 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.
- The Fund is overweight the energy sector.

Current activity and manager outlook

- In the manager's opinion, global economic growth should remain subdued.
- The manager believes the default rate should remain low for the foreseeable future.
- The manager believes high yield fundamentals are still strong.

Performance[1] to 30/06/16	1 Month	3 Months	YTD	1 Year	5 Years
Legg Mason Western Asset Global High Yield Fund	**1.57%**	**6.54%**	**7.15%**	**-3.01%**	**2.47%**
Barclays Global High Yield Index (Hedged) USD[2]	1.21%	5.12%	8.77%	4.52%	6.83%

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

Market Review

The global high yield market generated its fifth consecutive positive monthly performance in June 2016, returning 1.21%. Over the past five months, the asset class has returned over 10% and it has returned over 12.50% since the low-water mark on February 11. While posting a positive absolute return, the asset class did underperform similar-duration Treasuries, producing 30 basis points (bps) of negative excess returns in June. As a result, the option-adjusted spread (OAS) for the Index widened 20 bps, ending June at 578 bps. In sympathy with generally declining interest rates, the Index yield-to worst (YTW) narrowed 9 bps month-over month to 6.79%, the lowest reading since

July 2015. For the month, global high yield underperformed investment grade corporates and US dollar-denominated emerging markets (EMs), while it outperformed the S&P 500.

Fund Review

The Legg Mason Western Asset Global High Yield Fund rose 1.57%[1] in US dollar terms in June, while its benchmark, the Barclays Global High Yield Index (Hedged) USD, increased 1.21%.

Geographic allocation had a neutral impact on performance due to an overweight to the outperforming US high-yield region and an underweight to bottom-performing pan-euro high yield, which offset an underweight to the top-performing EM region.

Sector allocation added value, due in large part to an overweight to top-performing energy, which returned 3.23%, and an underweight to underperforming capital goods, which returned 0.29%.

Issue selection helped relative returns, due in large part to all ten of the largest overweights outperforming and six of the ten largest underweights underperforming.

Ratings positioning boosted relative performance due to an overweight to the outperforming CCC rating category, which returned 2.11%, and an underweight to the underperforming BB rating category, which returned 0.67%.

Over the past few months, the manager has made some moves to reduce overall portfolio risk. The manager believes some risk reduction was prudent given that global high yield valuations have narrowed over 210 bps and generated a total return of 12.51% since mid-February. Specifically, the manager has reduced positions in a number of high-beta exploration and production companies in favour of selected 'fallen angels' that the manager believes have a path to restore investment grade ratings.

PLEASE REFER TO THE IMPORTANT INFORMATION ON THE FINAL PAGE.

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Outlook

The manager's base-case scenario is for global economic growth to remain subdued. The manager puts a low probability of recession in any major economic zone. In the manager's opinion, the UK's vote to leave the European Union will most likely depress economic activity to some extent, but the manager believes that central bank policymakers have tools at their disposal they can deploy in the event that economic indicators slow meaningfully from current levels. Credit fundamentals in the high yield market appear to be in solid condition, except in commodity-based industries that have come under a degree of distress due to collapsing prices. That said, the generally favourable financial condition of the ex-commodity market is evident when looking at the asset class's default experience. Excluding commodity issuers, the market default rate is below 1%. With little in the way of high yield bonds maturing within the next two years, the manager believes the default rate should remain low for the foreseeable future.

Strategically, the manager likes the value proposition offered by lower rated high yield. The spread between BB and CCC rated bonds is 46% wide of the 10-year average. In general, CCCs offer over 700 bps of incremental yield. To offset increased volatility associated with the lower rating categories, the Fund holds overweights to a number of lower beta subsectors, including transportation and consumer-non-cyclicals, and underweights to high-beta sectors including metals and mining and technology. The manager believes US high yield is a more attractive relative value play than either EM or pan-euro high yield and the Fund is underweight both of those regions in favour of US high yield. The manager also maintains a long duration position that should potentially act as a hedge in the event that high yield spreads widen meaningfully. The manager continues to have strong conviction in the Fund's energy overweight, and expects crude prices to continue to recover through the balance of 2016 and into next year. The manager believes fundamentals, by and large, are still strong and expects them to remain so, given its macro view on economic activity.

This Fund is managed by Western Asset Management

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[1] Source: Legg Mason, as of 30 June 2016. 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 -3.51% for 1 Month, 1.22% for 3 Months, 1.79% for YTD, -7.86% for 1 Year and 1.43% 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.

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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