

Legg Mason Western Asset Asian Enterprise Trust

QUICK VIEW

Key performance drivers

- The Fund rose 5.64%¹ in August, outperforming its benchmark, the MSCI AC Asia ex Japan Index, which returned 4.92%.
- Stock selection in Taiwan (ASPEED Technology), India (Yes Bank and Shree Cement) and China (Li Ning Company) contributed positively to performance.
- Overweight exposure in consumer discretionary and materials sectors benefited performance while holdings in Energy and Consumer Staples sectors subtracted.

Views and positioning

- The Fund's largest overweight exposure is in the consumer discretionary sector.
- The largest underweight exposures are in the information technology and telecommunication services sectors.

Current activity and manager outlook

- The sub-manager believes the magnitude of the rally in regional markets has made valuations less compelling than where it was at the beginning of the year.
- Increased prospects of a US interest rate hike and a stronger US dollar, conditions which have been supportive of markets in the past, suggest that markets could consolidate recent gains.
- The sub-manager believes that US rate outlook and the lack of investors' confidence in Central Banks remain major headwinds.

Performance ¹ to 30/06/16	1 Month	3 Months	YTD	1 Year	5 Years
Legg Mason Western Asset Asian Enterprise Trust	5.64%	10.12%	1.96%	3.00%	2.04%
MSCI AC Asia ex Japan Index	4.92%	10.34%	6.61%	9.46%	6.50%

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

Market Review

The MSCI AC Asia ex Japan index chalked up its third successive month of gains. The improved performance of recent months may be attributed to the benign US dollar as well as to ETF fund inflows driven by a shift away from low yielding developed markets. The challenge for active investors has been this skew of flows to passive funds and the corresponding outperformance of large-cap benchmark stocks, regardless of company fundamentals. Year-to-date, the large-cap index has returned 11.3% versus 4.0% for small-cap indices respectively². Since 2008, there has been one other year of significance in which large-caps outperformed small-caps materially. There was an 11% gap in 2011, when market confidence was shaken by the Euro crisis. Although markets are up this year, a gap of such magnitude is typically associated with periods of market stress or loss of confidence. It is therefore our contention that the rally, aided by passive flows is masking an underlying lack of confidence regarding global Central Banks policy stance that should not be lightly dismissed.

This notwithstanding, corporate earnings estimates are finally seeing upward revisions, reversing a continuous downtrend for the past year while leading economic indicators are showing signs of a turnaround. Based on PMI readings, manufacturing new orders for Korea, Taiwan and Japan are in expansionary territory for the first time in 2 years and export volumes for these countries have shown a strong up-tick. Transport data such as freight volumes in Asia has also been rising³. The best performing sectors have been cyclicals such as Technology, Materials and Energy, with early indications that the rally is broadening to the financial sector. While it is still early days, these green shoots are certainly encouraging.

Fund Review

The Legg Mason Western Asset Asian Enterprise Trust rose 5.64%¹ in SG dollar terms in August, outperforming its benchmark, the MSCI AC Asia ex Japan Index, which returned 4.92%.

Stock selection in Taiwan, India and China contributed positively to performance while positions in Korea and Hong Kong detracted. Overweight in Consumer Discretionary and Materials sectors benefited the portfolio while holdings in Energy and Consumer Staples sectors subtracted.

In Taiwan, positions in ASPEED Technology benefited as its key clients Microsoft and Amazon accelerate their cloud data center spending. The trend of cloud migration continues to favour Internet Service Providers as customers shift more workload to the cloud and consolidate their data center footprint.

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Fund Review (cont.)

In India, the Fund's holdings in Yes Bank and Shree Cement performed well. Yes Bank continues to roll out its retail footprint while its dominance in corporate loans continues to take market share from state-owned banks. Shree Cement reported better-than-expected results which benefited from a low base and expanded margins.

In China, holdings in Li Ning Company soared more than 30% after investors became more comfortable that the company had recovered from losses in the prior years to record strong earnings this year.

Outlook

The magnitude of the rally in regional markets has made valuations less compelling than where it was at the beginning of the year, when the price-earnings ratio was one standard deviation below its 10-year average. As of now, the ratio is sitting a little above the mean. Coupled with increased prospects of a US interest rate hike and a stronger US dollar, conditions which have been supportive of markets in the past, suggest that markets could consolidate recent gains. The prospect for further market gains will have to be underpinned by the improvement in economic leading indicators and continued earnings growth, but US rate outlook and the lack of investors' confidence in Central Banks remain major headwinds.

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 31 August 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 0.35% for 1 Month, 4.61% for 3 Months, -3.13% for YTD, -2.15% for 1 Year and 0.99% for 5 Years. **Investment involves risks. Past performance is not indicative of future results.**

² Source: Bloomberg in USD terms, at 31 August 2016.

³ Source: UBS, as at 31 August 2016.

IMPORTANT INFORMATION

The fund may invest in derivatives for hedging and/or efficient portfolio management purposes, and transferable securities embedding a financial derivative may be used for the purposes of hedging, efficient portfolio management and/or optimising returns. The fund's net asset value may have higher volatility characteristics as a result of its portfolio management style.

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Registration Number (UEN): 200007942R

SG160932