

Legg Mason Western Asset Southeast Asia Special Situations Trust

QUICK VIEW

Key performance drivers

- The Fund underperformed its benchmark, returning 0.82%¹ in August against the MSCI South East Asia Index, which gained 2.11%.
- Stock selection in Singapore (Ezion) and Indonesia detracted from performance while the Philippines (ICTS) continued to be a positive contributor.
- Exposure to consumer discretionary and telecommunication services sectors outperformed while positions in energy and financial sectors were a drag.

Views and positioning

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

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 Southeast Asia Special Situations Trust	0.82%	5.64%	0.64%	2.99%	0.01%
MSCI South East Asia Index	2.11%	7.12%	9.71%	10.04%	4.05%

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 Southeast Asia Special Situations Trust returned 0.82%¹ in SG dollar terms in August, underperforming its benchmark, the MSCI Southeast Asia Index, which gained 2.11%.

Stock selection in Singapore and Indonesia detracted from performance while the Philippines continued to be a positive contributor. Holdings in consumer discretionary and telecommunication services sectors outperformed while those in energy and financial sectors were a drag.

In the Philippines, the Fund's recent purchase of International Container Terminal Services (ICTS) rallied more than 25% as a recovery in emerging market economies translate to better container volumes at ICTS's ports. While in Singapore, holdings in Ezion continued to be impacted by negative news flows surrounding the oil & gas service industry. The company has recently concluded a rights issue which will support it through current rough waters.

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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.

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 -4.22% for 1 Month, 0.36% for 3 Months, -4.39% for YTD, -2.16% for 1 Year and -1.01% 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.

Source : Havenport Asset Management and Legg Mason. This document, provided by Legg Mason Asset Management Singapore Pte. Limited ("Legg Mason"), is for information only and does not constitute an offer or solicitation to buy or sell any units in any fund.

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