

Legg Mason Western Asset Asian Opportunities Fund

QUICK VIEW

Key performance drivers

- The Fund was down 2.19%¹ in US dollar terms in October, underperforming the Markit iBoxx Asian Local Bond Index, which fell 2.04%.
- Underweights in Singapore and Thailand contributed, but overweights in Korea, Malaysia, the Philippines and Indonesia detracted.
- Weakness in Asian currencies had a beneficial impact.
- US dollar-denominated Asian investment grade credit exposure helped.

Views and positioning

- In terms of positioning, the manager favours US dollar-denominated bonds issued by Asian investment grade cross-over credits and Asian sovereigns/quasi-sovereign entities.

Current activity and manager outlook

- The manager believes Asian local currency bonds continue to offer attractive value versus developed markets.
- Within emerging markets, the manager feels that Asian countries exhibit the strongest fundamentals and are likely to be key beneficiaries of lower energy prices.

Performance ¹ to 31/10/16	1 Month	3 Months	YTD	1 Year	5 Years
Legg Mason Western Asset Asian Opportunities Fund	-2.19%	-1.84%	8.80%	7.75%	1.48%
Markit iBoxx Asian Local Bond Index ²	-2.04%	-1.66%	7.57%	6.41%	1.88%

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

Market Review

The Markit iBoxx Asian Local Bond Index (ALBI) fell 2.04 % in October. Year-to-date, however, the index is up 7.57%. Asian local currency bonds had a reversal of fortunes this month, driven by a shift higher in yields across most markets, alongside expectations of a rate hike by the US Federal Reserve (Fed). Asian rates sold off across most markets, except India, in light of the continued dovishness of the country's central bank following its rate cut. China onshore and India led outperformance over the month, with positive returns of 1.21% and 0.81%, respectively. The biggest losses were seen in South Korea and the Philippines. The larger-than-average losses were driven by domestic bond market technicals. Asian currencies experienced broad declines versus the US dollar, notably the Korean won, which weakened 4.20% against the greenback.

Fund Review

The Legg Mason Western Asset Asian Opportunities Fund decreased 2.19%¹ in US dollar terms in October, underperforming its benchmark, the Markit iBoxx Asian Local Bond Index, which was down 2.04%.

In terms of country/duration, the Fund's broad overweight positioning detracted, as gains in underweights in Singapore and Thailand were offset by losses due to overweights in Korea, Malaysia, the Philippines and Indonesia on the back of an upward move in yields across most of Asian markets. The overweight in India was positive, as India outperformed the rest of Asia. The overweight curve positioning in the 5- to 10-year part of higher quality markets was negative at the long end of Asian curves. The weakness in Asian currencies contributed, however; the Fund benefitted from underweights in the Singapore dollar, Korean won, Thai baht and the onshore Chinese yuan. Nonetheless, overweights in the Indian rupee and offshore Chinese yuan weighed on relative returns. Meanwhile, the Fund's overweight in US dollar-denominated Asian investment grade credit continued to pay off.

In terms of positioning, the manager favours US dollar-denominated bonds issued by Asian investment grade cross-over credits and Asian sovereigns/quasi-sovereign entities. The manager remains mindful of China issuer concentration risk in the US dollar Asia credit universe and high yield bonds.

PLEASE REFER TO THE IMPORTANT INFORMATION ON THE FINAL PAGE.

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Outlook

Asian growth continues to improve, supported largely by emerging Asia on the back of accommodative monetary policy, domestic consumption and a pick-up in fiscal expenditures. In the manager's opinion, headline inflation will also likely see some upward bias, as base effects should drive energy inflation up towards the end of the year. Inflationary pressures, however, remain low in Asia, with large output gaps, high inventory levels and low wage pressures. Unlike developed markets, Asian economies have not reached the limits of monetary policy, even though they are clearly aware of the limited effectiveness of aggressive monetary policy. Asian economies also have more room when it comes to fiscal policy, with Japan likely to take the lead with fiscal stimulus after pushing the limits of its monetary policy.

Against this backdrop, the manager believes that Asian local currency bonds continue to offer good value versus developed markets. Within the emerging market (EM) regions, the manager feels that Asia exhibits the strongest fundamentals, is a key beneficiary of lower energy prices and is a recipient of institutional inflows in EMs.

This Fund is managed by Western Asset Management

¹ Source: Legg Mason, as of 31 October 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 -7.08% for 1 Month, -6.75% for 3 Months, 3.36% for YTD, 2.36% for 1 Year and 0.44% for 5 Years. Performance for periods above one year is annualised. **Investment involves risks. Past performance is not indicative of future results.**

² Markit iBoxx Asian Local Bond Index since 1 May 2016. On or before 29 April 2016, the benchmark was HSBC Asian Local Bond Overall Index.

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. Due to the investment policies of the Fund, this Fund may have particularly volatile performance.

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