LEGG MASON
GLOBAL ASSET MANAGEMENT

Legg Mason Western Asset Global Bond Trust

QUICK VIEW

Key performance drivers

- The Fund returned -0.79%[1] in SG dollar terms in January, in line with the benchmark which returned -0.78%.
- Underweight duration positions to German bunds contributed from performance.
- Curve flattening bias positions in the US and tactical trading over the month added value as longer-dated bonds outperformed shorter-dated maturities.
- Long Polish zloty versus the Singapore dollar was additive but long Mexican peso versus the Singapore dollar subtracted from returns.

Views and positioning

- Hold a long US duration position with a bias towards 30-year US maturities.
- Remain tactical with respect to US yield curve positioning.

Current activity and manager outlook

- The Manager believe global growth of around 3% is sustainable, but high debt loads and other headwinds, including low productivity and aging populations, continue to flash a cautionary sign in many economies.
- The manager's focus remains on longer-term fundamentals with diversified strategies to manage risk.

Performance[1] to 31/01/17	1 Month	3 Months	YTD	1 Year	5 Years
Legg Mason Western Asset Global Bond Trust	**-0.79%**	**-4.03%**	**-0.79%**	**-2.13%**	**2.61%**
Citigroup World Government Bond Index ex Japan hedged to S$	-0.78%	-2.44%	-0.78%	0.39%	3.64%

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

Market Review

Optimism over a pro-growth, pro-business agenda under the new US administration spilled over into the new year with US equities and credit markets grinding higher. Longer-dated US bonds and the US dollar, however, were pressured by increasing uncertainty over the new administration's trade policies (specifically, the future role of the US in the Trans-Pacific Partnership and the North American Free Trade Agreement); confusion over its immigration policies, which sparked a domestic and global political backlash; and rhetoric from over the valuation of the US dollar, which precipitated a broad-based rally across global currency markets. While emerging markets (EMs) such as Mexico were initially impacted by these developments, the asset class as a whole recovered into month-end. Meanwhile, stronger growth and inflation data and increased political uncertainty pushed European government bond yields sharply higher, especially in Italy and in France.

Fund Review

The Legg Mason Western Asset Global Bond Trust returned -0.79%[1] in SG dollar terms in January, in line with its benchmark, the Citigroup World Government Bond Index ex Japan hedged to S$, which returned -0.78%.

Underweight duration positions to German bunds, UK gilts and Japanese government bonds contributed to performance. A long position in Italy subtracted as Italian government bonds underperformed German bunds. Overweight to Mexican and Polish government bonds also had a negative impact on performance.

A curve flattening bias in the US, and tactical trading over the month added value as longer-dated bonds outperformed shorter-dated maturities. Long Polish zloty versus the Singapore dollar was additive but long Mexican peso versus the Singapore dollar subtracted from returns.

Outlook

Markets have priced in the expectation of an imminent and radical shift in US growth. While we don't dismiss this possibility, we also recognize that disappointment would prove painful. In our opinion, the current steady but unspectacular global growth and low inflation backdrop have not materially changed.

PLEASE REFER TO THE IMPORTANT INFORMATION ON THE FINAL PAGE.

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Outlook (cont.)

We believe global growth of around 3% is sustainable, but high debt loads and other headwinds, including low productivity and aging populations, continue to flash a cautionary sign in many economies. We expect that any improvement in the global recovery is going to continue to take time as well as require ongoing policy support. While we have modestly reconfigured global portfolio positioning to reflect a stronger US growth scenario, we also recognize that the optimistic scenario reflected in current market pricing is likely to be gradual and may be overdone in the near term.

In the US, fiscal stimulus and the withdrawal of anti-growth regulations is expected to provide a more favorable climate for business and growth. Growth could accelerate and the Federal Reserve (Fed) could tighten more meaningfully. Most importantly, the market's optimistic growth expectation is based on policies that may come over the next 12 months, but the bond market has already raised interest rates today. We continue to believe the Fed will remain cautious, especially in the first half of 2017, mindful of the many unknowns surrounding the new administration's policies. We continue to hold a long US duration position in global portfolios with a bias towards 30-year US maturities, and remain tactical with respect to yield curve positioning. We maintain an allocation to US TIPS as a hedge to any unexpected rise in inflation and maintain short duration positions in core European bonds and Japan.

With volatility likely to remain elevated, we continue to look for opportunities to benefit from market anomalies. Our focus remains on longer-term fundamentals with diversified strategies to manage risk.

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[1] Source: Legg Mason, as of 31 January 2017, based on Class A (SGD) Acc. Performance is net of fees and is calculated on NAV-NAV basis (SGD), with any income and dividends reinvested, without any initial sales charges but reflecting annual management fees. Performance for periods greater than one year is annualised. Performance figures inclusive of sales charge is -3.77% for 1 Month, -6.91% for 3 Months, -3.77% for YTD, -5.06% for 1 Year and 1.99% for 5 Years. **Investment involves risks. Past performance is not indicative of future results.**