LEGG MASON
GLOBAL ASSET MANAGEMENT

News Release

- **INVESTMENT INVOLVES RISKS. The value of the Fund can be volatile and investors may not get back the amount originally invested. Past performance is not indicative of future results.**
- The Legg Mason Western Asset Asian Opportunities Fund is a sub-fund of Legg Mason Global Funds plc, an open-ended umbrella investment company constituted in Ireland. The Fund seeks to maximise total return through income and capital appreciation by investing at least 70% of its Net Asset Value in debt securities issued by Asian issuers and in derivatives on Asian interest rates and currencies.
- Investors will be exposed to debt securities (including risks of Government securities), credit, liquidity, concentration, currency, Asian market, custody and settlement and China market risks.
- The Fund may be invested in 'non-investment grade' debt securities, which carry a higher degree of counterparty default and liquidity risks.
- The Fund may invest in mortgage-backed securities and asset-backed securities, which may give rise to higher liquidity, credit, counterparty and interest rate risks.
- The Fund may use certain types of financial derivative instruments ("FDIs") extensively for investment and other non-hedging purposes, which may involve a higher degree of risk such as counterparty, volatility, liquidity, leverage and valuation risks. The Fund may suffer a total or significant loss arising from the extensive use of FDIs.
- The Fund may invest in emerging markets which involve special risks, including liquidity, volatility, currency, political, economic, legal and regulatory risks.
- The directors of Legg Mason Global Funds Plc may at their discretion pay dividends out of capital of a Distributing Plus Share Class. The payment of dividends out of capital effectively amounts to a return or withdrawal of an investor's original capital investment or of capital gains attributable to that original investment. Such distribution will result in a corresponding immediate decrease in the Net Asset Value per share of these Share Classes.
- Investors should not invest based on this marketing material alone. Offering documents should be read for further details, including the risk factors.

For Immediate Release

Contact Information:

Legg Mason Global Asset Management
Joanne Chew
+65 6317 8931
jchew@leggmason.com

Teneo Strategy
Jenny Lai
+852 3655 0517
jenny.lai@teneostrategy.com

Western Asset 2H outlook: Investment-grade Asia bonds in a 'sweet spot'

Hong Kong, 4 July 2018 — Asia's growth story remains robust, despite frequent headlines about geopolitical tensions, and investment-grade Asia bonds are in a "sweet spot" to deliver returns based on attractive risk-adjusted yields and high credit quality. This according to portfolio analyst Desmond Fu at Western Asset Management, a globally integrated fixed-income manager with assets under management (AUM) of US$431.1 billion as at 31 March 2018. Western Asset is an affiliate of Legg Mason Global Asset Management, which has US$747 billion in AUM (as of 31 May 2018).

"Global growth and inflation continue to improve and central banks are cautiously moving towards interest rate normalisation," says Mr. Fu. "Economies in Asia are bright spots in this growth story and we see the potential for investors in the region to reconsider their asset allocation to position themselves to participate in this growth."

Ronald Liu, Vice President of Business Development for Legg Mason Global Asset Management, explains that many clients in Asia have invested heavily in credit – including US and Asia high-yield names – to benefit from the yield compression story that has been playing out since 2009. This has led to credit concentration in many regional bond portfolios, with sometimes significant concentration on the lower end of the credit spectrum.

Mr. Fu, who helps manage the Legg Mason Western Asset Asian Opportunities Fund which invests in high-quality Asian sovereign bonds, said: “In current market conditions, we see the potential for investors to benefit from regional growth by adjusting their portfolio allocation to include high-quality investment-grade Asian fixed income.”

“This investment approach has the dual benefit of providing exposure to economies which will benefit in China’s Belt and Road Initiative while also providing a degree of insulation from credit risk in the event of a significant market dislocation.”

Asia outlook: Monetary policy to diverge from the US Fed’s

In addition to Asian credit, Mr. Fu also shared his outlook for Asian economies and monetary policy. More broadly, Asia is positioned to benefit from relative political stability and smoother economic growth as the region’s economies grow more closely tied to that of China. The convergence in monetary policies of Asia’s central banks is increasingly led by the People’s Bank of China (PBoC) and likely to diverge from that of the US Fed. This should lead to lower volatility for Asian bonds, which are supported by strong technical factors.

According to Mr. Fu, “Markets with the potential to outperform this year include domestically orientated growth economies that are underpinned by positive demographics and supportive monetary and fiscal policy. These include Indonesia, the Philippines, India and Thailand.”

“On the other hand, externally orientated economies such as South Korea, Hong Kong, Taiwan and Singapore could suffer due to geopolitical tension, especially those with less favourable demographics and limited policy headroom,” continues Mr. Fu.

“Investors may reduce their exogenous risk by maintaining their exposure in US dollar Asia credits and insulating themselves from rates that display a large correlation to US Treasuries,” he said.

EMs better equipped, but protectionist policies a risk

Overall, Mr. Fu sees growth returning to emerging markets (EM) – including those in Asia – and notes that “EM sovereigns are now better equipped to combat exogenous shocks. In addition, EM US dollar bond yields, when adjusted for earnings, remain attractive compared with their developed market counterparts. However, this could be disrupted by US protectionism, US dollar strength or if US or global interest rates rise faster than expected.”

From a technical standpoint, this lends EMs long-term strategic appeal and boosts their potential to deliver diversification benefits. “Global allocations to EM have already increased given these improved fundamentals and a “softer” Trump scenario,” says Mr. Fu. “Furthermore, the EM investor base is now more stable, given a reduction in hot-money players post the 2013 taper tantrum.”

To maximise the potential of EM investment, Mr. Fu advocates avoiding countries facing structural political and economic challenges. At the same time, investors can selectively “buy the dips” in countries and credits with greater insulation from global risk.

Growth and inflation improving globally

Speaking on Western Asset’s global investment outlook, Mr. Fu said risk appetite remains high. He adds: “Global growth and inflation are improving from subdued levels as central banks cautiously signal their path to normalisation.” He expects the US Fed to take a cautious approach to its rate hike trajectory as asymmetrical risks weigh on its future monetary policy decisions.

The biggest global risks to watch out for this year include: geopolitical events, which can arise quickly and are hard to quantify; an increase in protectionism, which would be detrimental to EMs, as populist politics risk making countries more insular; and higher-than-expected inflation, which would cause rates to move up sharply, according to Mr. Fu.

A lower-probability scenario that could be much more damaging for corporate profits is global economic weakness. Mr. Fu explains, "Any serious slowdown in growth would cause risk assets to react quickly and severely, given today's higher global debt loads."

Mr. Freeman Tsang, Director of Business Development, Head of China and Hong Kong Retail for Legg Mason Global Asset Management, echoes these comments, pointing out that high-quality Asian and EM bonds are attractive options for investors who want capital growth while diversifying away from global risks. "As we approach the 10th anniversary of the onset of the Global Financial Crisis, investors can keep in mind the lessons learned, working to build investment portfolios that are risk aware while also being positioned for growth. As global yields remain at or near historic lows, we see an opportunity for investors to consider high-quality Asian bonds as sources of stable income."

# # #

About Legg Mason Global Asset Management
Guided by a mission of Investing to Improve Lives™, Legg Mason helps investors globally achieve better financial outcomes by expanding choice across investment strategies, vehicles and investor access through independent investment managers with diverse expertise in equity, fixed income, alternative and liquidity investments. Legg Mason's assets under management are $747 billion as of 31 May 2018. To learn more, follow us on LinkedIn, Twitter, or Facebook.

About Western Asset
Western Asset Management is one of the world's leading fixed-income managers with US$431.1 billion in assets under management as of 31 March 2018. The firm is a wholly owned, independently operated subsidiary of Legg Mason, Inc. (NYSE: LM) From offices in Pasadena, Hong Kong, London, Melbourne, New York, São Paulo, Singapore, Tokyo and Dubai, the company provides investment services for a wide variety of global clients, across an equally wide variety of mandates.