LEGG MASON
GLOBAL ASSET MANAGEMENT

Macro Views. Tactical Opportunities.

LEGG MASON WESTERN ASSET MACRO OPPORTUNITIES BOND FUND

After years of low interest rates and strong equity markets, bond investors face many challenges – among them, heightened volatility and the prospect of higher interest rates at some point in the future. The Legg Mason Western Asset Macro Opportunities Bond Fund offers investors a flexible, high-conviction approach that has the potential for attractive returns in all environments and low correlations to traditional investments.

MAY 2015

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THE NEED FOR FLEXIBLE BOND STRATEGIES

Investors in traditional bond funds are facing historically low yields and significant potential losses should interest rates or inflation rise in the coming years. Unconstrained bond strategies, which have flexibility to capture long-term value opportunities and tactically manage risks, can offer a solution to this challenge.

The **Legg Mason Western Asset Macro Opportunities Bond Fund** is an unconstrained global macro fixed income UCITS fund that seeks to maximise total return relative to a volatility limit.

The Fund uses a top-down strategy combined with a bottom-up selection process supported by Western Asset's Global Investment Strategy Committee. The Fund can invest in a very broad opportunity set – in global sovereign and corporate debt, emerging markets and foreign exchange. Through active management and flexible guidelines the Fund is able to focus on specific sectors and securities offering long-term value. In addition, the Fund dynamically manages duration, yield curve and volatility. These macro strategies are designed to provide a source of investment returns during periods of rising or falling interest rates and also protection for the Fund's longer term risk positions during periods of market stress.

The Fund's global reach, investment flexibility and thematic focus on credit valuations, changes in interest rates and volatility conditions give the Fund the potential to manage and profit from volatile conditions and uncertainty over the future path of interest rates.

The Legg Mason Western Asset Macro Opportunities Bond Fund has the ability to move to alternative sectors when they offer the potential for better returns.

Although not restrained by a market index, the Fund does have broad investment guidelines to avoid excessive concentration in a specific sector or country.

Up to 50% can be invested in the following: high yield bonds, emerging markets bonds and non-US dollar exposure. The Fund can also hold assets such as mortgage-backed securities, inflation-protected securities and municipal bonds.

Derivatives (futures, options and credit default swaps) can be used to take tactical short- to medium-term positions to either protect the core portfolio or to attempt to take advantage of shorter term opportunities.

> "The global economy is changing fast. This creates risks – and opportunities, and calls for a more flexible approach to fixed income investment. An index-free strategy can move tactically, seizing opportunities in both bullish and bearish markets – while carefully managing risk."

Ken Leech, Portfolio Manager

Market challenge

- Rates may stay low for an extended period of time
- Rates may rise due to inflation/QE tapering, etc.
- With historically low rates the risk of outcomes is asymmetrically against the long-only investor
- How to take advantage of "non-traditional" opportunities without specialised mandates, i.e. emerging markets
- Common fixed income benchmarks are concentrated with sovereign debt

"Unconstrained" solution

- Broad investment guidelines offer flexibility with respect to exposure, direction and sector
- Increased opportunity set for relative value strategies
- May express negative views, can be outright negative duration in rising rate environment
- "Unconstrained" guidelines offer potential for manager to add alpha vs. benchmarked strategies

MACRO OPPORTUNITIES:
A COMPELLING PROPOSITION

The Legg Mason Western Asset Macro Opportunities Bond Fund can offer:

Superior risk-adjusted return potential

The Macro Opportunities strategy used by the Fund has demonstrated its ability, in uncertain market conditions, to deliver positive annualised returns normally associated with equity investments, within risk limits that are somewhat higher than for traditional core bond investments.

Attractive diversification within a broader portfolio

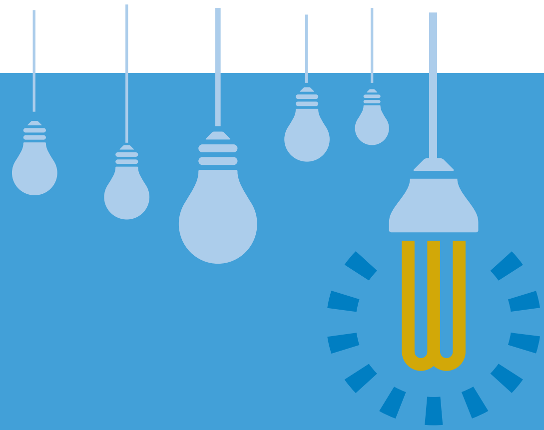
The Fund's negative or low correlations to equities and traditional fixed income assets make it an appropriate vehicle to diversify sources of return within a traditional portfolio.

Access to CIO expertise

The Fund offers direct access to the expertise of Ken Leech, the CIO of Western Asset Management who has more than 30 years' investment experience and oversees firm-wide fixed income assets of $455 billion*.

* Source: Western Asset as at 31 March 2015. Figures rounded.

Past performance is no guarantee of future results. The value and income derived from investments may go down as well as up.



How is Macro Opportunities different?

This Ireland domiciled UCITS Fund has few peers. A high conviction, liquid, pure alpha vehicle targeting maximisation of total return relative to a 10% annual volatility limit, the Fund is quite different from unconstrained "beta-rotator" vehicles targeting a cash-plus return, or unconstrained strategies having a long-only bias. The Legg Mason Western Asset Macro Opportunities Bond Fund also makes a significant use of derivatives – necessary for taking certain positions, such as negative duration. As the Fund bears little resemblance to most cautious-by-nature fixed income products, it will probably be unsuitable for conservative fixed income investors.

Historically, (between March 2012 and April 2015) the strategy's annualised volatility has been well within the 10% volatility limit.

The evolution of the Legg Mason Western Asset Macro Opportunities all-weather approach to bond investing

Western Asset's Macro Opportunities Strategy

January 2000: Launch of Western Asset's first unconstrained strategy

March 2012: Cayman domiciled fund is launched

August 2013: US domiciled fund is launched

November 2013: Ireland domiciled **Legg Mason Western Asset Macro Opportunities Bond Fund** is launched

31 December 2014: Total Strategy AUM of US$5.2 billion

MAXIMISING RETURNS, MANAGING RISK

FUND SNAPSHOT

Opportunistic and tactical
Active portfolio management of macro strategies captures tactical return opportunities and attempts to protect the Fund from principal losses during periods of extreme stress in credit markets.

Low correlation to equity and traditional fixed income markets
The Fund is not managed to a benchmark and has the flexibility to take long and short positions in duration (-5 to +10 years) and in individual fixed income securities and sectors. The Fund also takes concentrated positions to reflect the Fund manager's strong conviction. This approach has consistently generated returns that have negative correlations with equity markets and low correlations with traditional fixed income markets.

Nimble in responding to market events
Active management of yield curve, volatility and duration is a source of returns during rising or falling rates as well as a hedge to risk assets during market stress. The focus on liquidity and preservation of capital is consistent with traditional bond strategies.

No leverage, limited volatility
The Fund invests only in fixed income securities, does not employ financial leverage and seeks to limit volatility to below 10% on an annual basis.

Best ideas, value-focused team
Three major themes drive the Fund's composition: credit valuations, changes in interest rates and volatility conditions. The idea generation in the Fund reflects Western Asset's long-term fundamental value outlook based on Western's Global Investment Strategy Committee, which is represented by senior investment professionals from seven investment offices around the globe and is chaired by the Fund's manager and Western Asset's CIO Ken Leech.

A rigorous investment process that seeks to maximise total return and limit risk

Trade selection

* Manager selects each trade from both Western Asset and self-generated ideas
* Manager reduces risk in the absence of compelling opportunities

Trade size key determinant

* Manager positions exposures in a way to maximise alpha sources he believes will generate the best risk-adjusted returns
* Primarily a qualitative process governed by manager's experience
* Risk management team provides quantitative inputs to assist in the process
* Small number of trades drives strategy performance

Cash and derivatives used to express ideas

* Choice of which securities to use when implementing trades is made with consideration for:
  - Liquidity
  - Relative cheapness
  - Risk/reward profile
* Global rates frequently use futures and options
* Core credit positions frequently use cash bonds
* Top-down credit views expressed using index derivatives (CDX)

MANAGING
THE FUND

Ken Leech, Western Asset's Chief Investment Officer, has more than 30 years' experience and has been successfully running macro, unconstrained strategies at Western Asset for over thirteen years.

Ken takes in-depth, proprietary research from Western's sector specialists, and builds the Legg Mason Western Asset Macro Opportunities Bond Fund with a combination of:

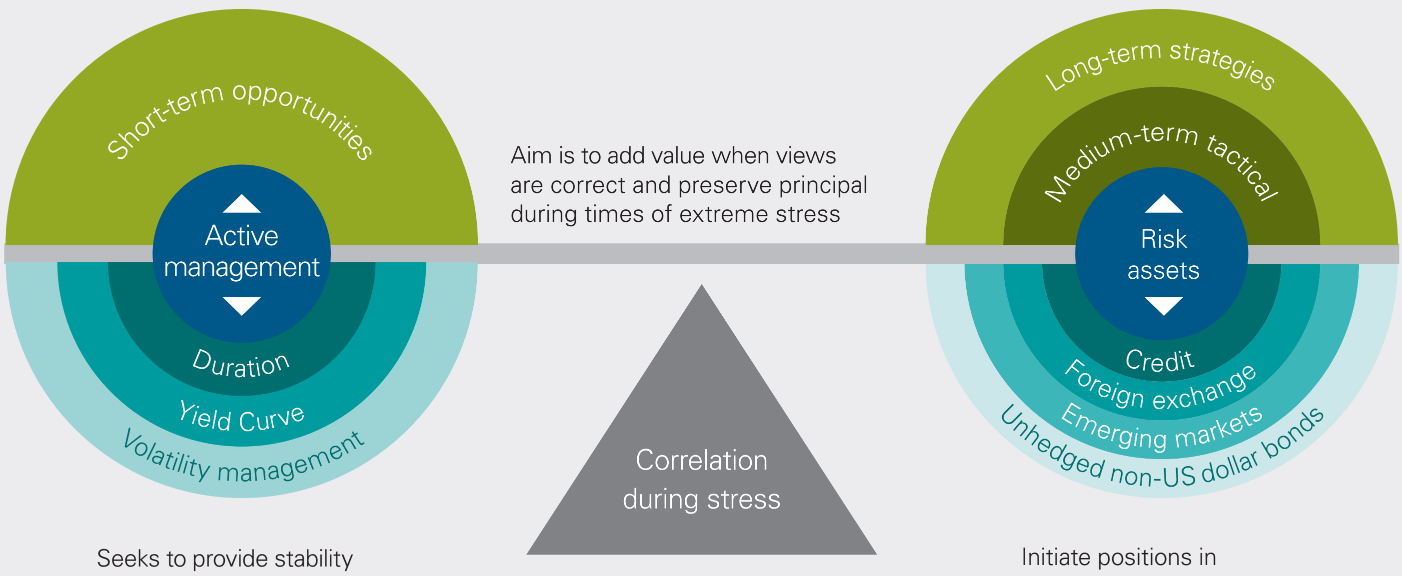
A core portfolio based on long-term strategic themes expected to play out: Here the focus is on long-term value and investment tends to be in 'cash' bonds (as opposed to derivatives), with a typical holding period of six months or more.

Medium-term tactical positions are taken in an attempt to protect the core portfolio or take advantage of market dislocations.

Very short-term opportunistic positions are taken as the manager actively manages duration, yield curve exposure and volatility to provide stability in volatile markets, or to enhance returns when views are correct.

Allocations between long-term strategic themes, medium-term tactical positions and very short-term positions depend on the current market and the manager's conviction.

Active management of short-term market conditions can complement, or mitigate, medium- to long-term risk climates



Seeks to provide stability during periods of volatility

Initiate positions in undervalued credit, with a long-term perspective to realise value

Correlation measures how two asset classes move in relation to each other, with values ranging from +1 to -1. Positive correlation means asset classes move together. Negative correlation is when asset classes move in the opposite direction of one another.

Active management does not ensure gains or protect against market declines. The Fund's shares, when redeemed, may be worth more or less than the original cost.

A BROAD RANGE
OF OPPORTUNITIES

Macroeconomic events are changes in global economies, typically brought about by shifts in government and central bank policies which impact interest rates and, in turn, all financial instruments. Macro managers aim to anticipate such events and invest in, or avoid, financial instruments whose prices are most directly influenced by these trends.

> The manager is able to go beyond 'cash' bonds to find performance opportunities and to mitigate risk in both up and down markets.

The Legg Mason Western Asset Macro Opportunities Bond Fund's core portfolio is built around major macro themes. In addition, the Fund can take advantage of short-term tactical macro opportunities which will usually be traded through derivatives.

Long-term strategic theme example:

Peripheral Europe - In the manager's view, the central bank has done enough to take a systemic banking crisis off the table, and monetary policy remains accommodative. While some economic growth indicates progress, structural problems remain.

The manager wants to have long positions in select peripheral European markets given the European Central Bank's ability to fund them indefinitely, but has gone short on the euro currency versus the US dollar given the long-term direction of the ECB.

Tactical opportunity example:

Rates trade - In March 2014, US Federal Reserve Chair Janet Yellen sounded optimistic about the economy and indicated that the Fed might raise rates sooner than previously expected. The market aggressively discounted a hike in the official rate, sending the US dollar and Treasury yields sharply higher. The Fund's manager, taking the view that short rates were unjustifiably high, went long euro-dollar contracts. In the second quarter of 2014, expectations of US growth prospects became less optimistic, sending yields lower across the curve. The Fund benefited from this rally.

Opportunistic value trade example:

Risk asset - One example of a successful opportunistic value trade was the record-breaking US$49 billion of new issuance in Verizon bonds in the US in September 2013. Due to the size of the deal – the issue was the largest corporate bond issuance ever – Verizon wanted to make sure that the deal was received well by the market and priced the issue relatively cheaply. Through Western Asset's bottom-up research team, the manager of the Macro Opportunities strategy determined that Verizon could shoulder the issue with reasonable ease, that the price was actually attractive compared to secondary spreads and that the spreads should decline once the Verizon bonds were traded in the market. Verizon's 30-year bond, in which the manager took a 3.5% position, was priced to yield 6.6% and the spread tightened considerably after the issuance, resulting in a profit for the Legg Mason Western Asset Macro Opportunities Bond Fund. As of 30 April 2015, the Verizon issue was still held in the Fund.

Information correct as of 30 April 2015 and subject to change.

Past performance is no guarantee of future results. The value and income derived from investments may go down as well as up. Individual securities mentioned are intended as examples only and are not to be taken as advice nor are they intended as a recommendation to buy or sell any investment or interest.

MANAGING DURATION, YIELD CURVE AND VOLATILITY

Broad investment guidelines provide the flexibility to offset risk in challenging markets, or to enhance short-term opportunities.

The Legg Mason Western Asset Macro Opportunities Bond Fund's approach allows for active trading through derivative exposures, implementing positive, neutral or negative views on interest rates or yield curve valuations on a short-term basis. This can also help to protect the portfolio, and can be a powerful tool in volatile markets.

The manager can even take a negative duration position in an attempt to profit from rising rates. This makes the Fund an attractive option for investors who want to limit their interest rate exposure compared to other fixed income funds.

Effective duration range -5 to +10 years

Exposure to different parts of the yield curve is also managed actively in order to capture value in discrepancies where they arise or to avoid those bonds that are, in the manager's view, over-priced.

Potential volatility of the portfolio's holdings is also very carefully monitored; the manager can hedge out the volatility of certain positions by adding other positions. He can also trade volatility instruments (financial instruments that track the value of implied volatility of other derivative securities).

The Fund's investment aim is to maximise total return within a volatility limit of 10% per annum.

The **yield curve** compares bonds of different maturities issued by the same (government) issuer. All other things being equal, one would expect the bonds further out on the yield curve to offer higher yields as there is more room for uncertainty. However, the yield curve can change according to short-term market sentiment and supply and demand, and this can create opportunities for active managers to add value or reduce risk, by adding or reducing exposure to certain parts of the curve.

Duration is a measurement of how much the price of a bond – or the value of a portfolio in aggregate - is likely to fluctuate when there is a change in interest rates. The higher the duration number, the more sensitive a bond is to interest rate changes. If interest rates rise, the bond price will fall; if interest rates fall, the bond price will rise. Duration is expressed in numbers of years.

A STRONG TEAM APPROACH

Ken Leech
Chief Investment Officer

Prashant Chandran, CFA
Head of Derivatives

With US $445 billion* assets under management, Western Asset is one of the world's leading fixed income managers. It emphasises a strong team approach and intensive proprietary research, supported by robust risk management. The firm's objective is to provide diversified portfolios that are tightly controlled and managed for the long term. By combining traditional analysis with innovative technology, Western Asset seeks to add value by exploiting inefficiencies across sectors.

The Legg Mason Western Asset Macro Opportunities Bond Fund is managed by Ken Leech. Ken is Chief Investment Officer at Western Asset. He has more than 30 years' investment experience overall, and joined Western Asset Management in 1990 specifically to bring his macro skills to the portfolio management team. Western has successfully managed macro strategies since then.

Ken is supported by Western Asset's Head of Derivatives, Prashant Chandran. Prashant has 16 years' investment experience and joined Western Asset in 2007.

Ken takes full advantage of the in-depth research provided by Western Asset, where groups of specialists are dedicated to different market sectors. The investment responsibilities of each sector team are distinct, yet results are derived from the constant interaction that unites the sector teams into a cohesive whole.

* Source: Western Asset as at 31 March 2015. Figure rounded.

To find out more about Legg Mason Western Asset Macro Opportunities Bond Fund, speak to your Legg Mason representative.

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