LEGG MASON
GLOBAL ASSET MANAGEMENT

- **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 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 capital appreciation and income by investing at least two-thirds of its Net Asset Value in investment grade debt securities denominated in the currencies of, or issuers located primarily in developed countries around the world. The Sub-Investment Manager will concentrate investments in undervalued markets that provide the best opportunity for declining interest rates and a return to lower real rates over time.
- Investors will be exposed to debt securities (including risks of Government securities, rated and unrated securities), interest rate, credit, liquidity, concentration, and currency risks.
- The Fund may invest in inflation protected securities, whose value generally fluctuates in response to changes to interest rates.
- 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.

Legg Mason Brandywine Global Fixed Income Fund

Fund performance

Cumulative (%)[1]	3-Month	YTD	1-Year	3-Year	5-Year	Since inception
Class A Acc. (USD)	**-2.44**	**1.65**	**5.79**	**4.87**	**1.34**	**53.68**
Benchmark: FTSE World Government Bond Index (USD)	-1.06	0.56	5.08	7.45	2.97	42.73

Rolling 12-month performance (%)[1] – period ending	30.04.18	30.04.17	30.04.16	30.04.15	30.04.14
Class A Acc. (USD)	**5.79**	**-0.79**	**-0.09**	**-0.83**	**-2.56**
Benchmark	5.08	-3.61	6.09	-5.50	1.40

Monthly review

What happened in the market? April witnessed some significant milestones, including a few that seemed long overdue. The 10-year U.S. Treasury yield breached 3% for the first time in over four years. Consumer prices also rose as manufacturers faced increased costs due to higher oil and steel prices, along with rising wage pressures. The U.S. Commerce Department reported that the March personal consumption expenditures (PCE) index hit 2%, the Federal Reserve's (Fed) target inflation level. Higher inflation and trade tensions increased market expectations for an additional Fed rate hike this year. Treasury yields rose along the curve, with the 10-year finishing the month just under 3%. However, the spread between 10-year and longer-dated Treasuries narrowed, suggesting investors remain skeptical about rapidly accelerating inflation. Simmering trade friction weighed on Europe as delays in U.S. steel and aluminium tariffs created uncertainty. The European Central Bank (ECB) reiterated its dovish stance as the pace of eurozone growth slowed. Benchmark 10-year yields were generally flat across core Europe, including U.K. gilts, French government bonds, and German bunds. Mexico reported higher-than-expected first quarter growth, the fastest pace in a year and a half. The uptick in growth was attributed to a recovery in industrial production and growth within services. However, this stronger economic data was offset by uncertainty around the coming election and the growing prospect of an Andres Manuel Lopez Obrador government, and the nearing resolution to North American Free Trade Agreement (NAFTA) negotiations. Yields on 10-year and longer-dated Mexican bonos closed higher for April. The South African bond market weakened in tandem with emerging markets and the selloff in U.S. Treasuries, under pressure from stronger U.S. inflation expectations and the recovering dollar. A nationwide strike also snarled South Africa's public transit system and dampened sentiment.

The U.S. dollar (USD) gained against virtually all currencies for the month, buoyed by higher interest rates and relatively stronger economic data. Both the euro (down 1.3%) and yen (down 2.7%) fell against the USD. British pound sterling (down 1.8%) weakened as disappointing manufacturing data diminished expectations for a Bank of England rate hike in May. The Norwegian krone (down 2.1%) faced softer domestic inflation data and a leveling off of growth. Trade concerns continued to weigh on the Australian dollar (down 1.7%) and the Swedish krona (down 4.7%), as both countries remain particularly susceptible to trade disruptions. Several currencies declined alongside more emerging economies, including the Mexican peso (down 3.2%) and the Polish zloty (down 2.4%). However, both countries saw their domestic growth improve during the month. The South African rand (down 5.1%) came under similar pressure, exacerbated by the disruptive labor strike. The Canadian dollar (CAD, up 0.6%) was an exception to the trend against the USD. The loonie rallied against the greenback after Canada reported unexpectedly strong gross domestic product (GDP) data.

Investment Aim: The Fund seeks to maximise total return through capital appreciation and income by investing at least two-thirds of its Net Asset Value in investment grade debt securities denominated in the currencies of, or issuers located primarily in developed countries around the world. The Sub-Investment Manager will concentrate investments in undervalued markets that provide the best opportunity for declining interest rates and a return to lower real rates over time.

What happened in the Fund?[2]

POSITIVE:

- Eurozone
  - Our underweight exposure to the euro contributed to excess return. The euro fell (down 1.3%) amid higher interest rates and relatively stronger economic data in the U.S.
- Japan
  - Our underweight exposure to the Japanese yen contributed to excess return. The yen fell (down 2.7%) against the stronger USD and the potential for a more hawkish Fed outlook, while the Bank of Japan kept policy unchanged and dropped its targeted timing for reaching 2% inflation by 2019.
- United States
  - Our overweight exposure to US Treasuries contributed to excess return (underweight duration). Consumer prices also rose as manufacturers faced increased costs due to higher oil and steel prices, along with rising wage pressures. The 10-year U.S. Treasury yield breached 3% for the first time in over four years - yields rose along the curve, with the 10-year finishing the month just under 3%.

NEGATIVE:

- Mexico
  - Our overweight exposure to Mexican peso sterling detracted from excess return. Mexico reported higher-than-expected first quarter growth, the fastest pace in a year and a half. Several currencies declined alongside more emerging economies, including the Mexican peso (down 3.2%).
- Sweden
  - Our overweight exposure to the Swedish krona detracted from excess return. Trade concerns continued to weigh on the Swedish krona (down 4.7%), as the country remains particularly susceptible to trade disruptions.
- Brazil
  - Our overweight exposure to the Brazilian real detracted from excess return. The Brazilian real (down 5.7%) and the bond markets was weak against rising political uncertainty ahead of coming elections in both countries.

What did the portfolio manager do? The team reduced exposure to the yen by about 5% – yen exposure fell from 12% to the current level of 7%. Year-to-date the yen has been the strongest G-10 performer, with the yen appreciating 5.4% (followed closely by the Norwegian krone). Additionally, the team feels the rising fears of protectionism are a bit exaggerated and that would portend more of a “risk-on” environment, an environment that typically results in yen depreciation. In sum the team felt it was prudent to reduce exposure, given the yen’s solid year-to-date performance and the fading economic momentum.

Oppositely, the team decided to add to its CAD exposure, increasing it by roughly 5%. During the first quarter CAD stood out as a weak currency, declining some 2.75%, and oil prices were firming indicating the prospects for better economic growth globally should have carried CAD higher. Analysts and investors had been concerned about the slowdown in Canadian growth. Western Canada oil prices are up over 45% since the February low, with the differential narrowing with the West Texas Intermediate Cushing Crude spot price (WTI). A Bank of Canada (BOC) rate hike could be in the offing, giving the currency some support. The futures market has a hike priced in for the July meeting, which should help the currency. CAD continues to be undervalued, according to our metrics, including purchasing power parity (PPP), the real effective exchange rate, and our econometric model.

In additional to CAD, the team decided to add to its Mexican exposure, with a target of approximately 14%. Mexican fundamentals appear likely to improve and the prospect of an Andres Manuel Lopez Obrador (AMLO) government appears to be less of a negative variable, especially given the onerous task for Moreno to gain a majority of congressional seats. Yields remain higher than fair value. Real yields remain attractive, which is likely to be enhanced by further declines in inflation. Additionally, our econometric work pegs Bonos as the most undervalued bond, based on its deviation from fair value. Finally, the peso appears undervalued, as measured by purchasing power parity and the real effective exchange rate, with the currency appearing a bit expensive, according to our model. In sum, an improving array of fundamentals, while recognizing the political risk backdrop, led the team to increase the Mexican exposure.

What is the outlook? The team remains constructive on the global economy, a view reinforced by ongoing signs of broad-based growth, albeit at a potentially slower pace. The team expects fiscally stimulative policies to increasingly come into play this year. The USD may continue to embark on countertrend moves, but the team does not expect a sustained bull market. Building inflationary pressures could complicate the path to normalization for developed market central banks, and the team will continue to watch these developments closely. However, they expect the overall pace of normalization to remain slow and steady. Although trade concerns could create stress for markets, current tensions should not present a major risk to global markets. Given that backdrop, select emerging markets should continue to perform well, supported by strong export demand and economic fundamentals, as well improved current account positions and accommodative central bank policies.

This Fund is managed by Brandywine Global Investment Management

[1] Source: Legg Mason, as of 30 April 2018. Class A Acc USD performance is net of fees and is calculated on a NAV to NAV basis (USD). Performance for periods greater than one year is cumulative. Performance is based on reinvestment of any income and capital gains distribution derived from securities held in the Fund. Inception date: 9 May 2007. Class A Acc USD calendar year net of fees performance for year-to-date (1.65%), 2017 (10.24%), 2016 (2.55%), 2015 (-9.12%), 2014 (2.93%) and 2013 (-4.03%). Benchmark: FTSE World Government Bond Index. **Investment involves risks. Past performance is not indicative of future results.**

[2] Currency performance sourced from Bloomberg in spot return, as at 31 March 2018. Base currency: US dollar.