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), 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)	**3.39**	**2.76**	**9.64**	**4.57**	**5.53**	**55.36**
Benchmark: FTSE World Government Bond Index (USD)	1.11	0.94	7.00	7.83	4.13	43.27

Rolling 12-month performance (%)[1] – period ending	28.02.18	28.02.17	29.02.16	28.02.15	28.02.14
Class A Acc. (USD)	**9.64**	**3.48**	**-7.83**	**2.86**	**-1.89**
Benchmark	7.00	-1.24	2.04	-4.53	1.15

Monthly review

What happened in the market? February opened with a sharp correction that reintroduced turbulence to financial markets after an extended period of uncharacteristic low volatility. Most equity markets declined, with the S&P 500 Index ending its record 15-month streak. Bond market returns were generally flat, with the exception of U.S. Treasuries. Treasury yields finished higher across the curve as the 10-year neared 3%. Yields fluctuated in response to shifting expectations for inflation and rate increases, but they pulled back at month end after President Trump announced plans for substantial tariffs. In Europe, benchmark 10-year yields for French OATs (Obligations assimilables du Trésor) and German bunds, as well as U.K. gilts, were largely unchanged or slightly lower for the month, while Spanish and Portuguese yields ticked higher. Despite the pending election, Italian BTPs (Buoni del Tesoro Poliennali) reflected surprising confidence, with the 10-year yield falling slightly. Spreads between Italian and German sovereigns compressed, suggesting investors may expect a sanguine election outcome in the form of a coalition government. While any resulting flight to quality failed to materialize in the German market – which helped keep bund yields at their highest levels in several years – euro-skeptic risks could still be a factor for Italy. Although European growth remained solid, inflation slowed slightly and remained short of target, which will likely keep the European Central Bank (ECB) on a cautious path toward removing stimulus. Political pressures impacted Mexican and South African markets differently; yields on bonos were slightly higher as election and trade uncertainty continued, while South African assets rallied in the wake of President Jacob Zuma's resignation. The Bank of Japan (BoJ) trimmed its asset purchases as the economy posted its eighth consecutive quarterly expansion; yields on 10-year and longer-dated Japanese government bonds closed lower.

While commodity markets and global growth remained constructive, emerging market assets and currencies were pressured by weak Chinese manufacturing data, the stronger USD, and the potential for higher borrowing costs, concerns that were amplified after slightly hawkish testimony by the Fed's new chair, Jerome Powell. Many bond markets and their currencies sold off. However, despite developed market reflation, inflation in many emerging markets remained low, attracting investors to high real yields in countries like Brazil and Russia. The Indian rupee dropped, but the country's rate of growth surpassed that of China, with India becoming the world's fastest-growing economy again.

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 (down 1.7%) fell against the USD amid softer inflation data.
- South Africa
  - Our overweight exposure to South African sovereign bonds contributed to excess return
  - Political pressures impacted South African markets and South African assets rallied in the wake of President Jacob Zuma's resignation.
- United States
  - Our overweight exposure to U.S. Treasuries contributed to excess return
  - Bond market returns were generally flat, with the exception of U.S. Treasuries. Treasury yields finished higher across the curve as the 10-year neared 3%.

NEGATIVE:

- Sweden
  - Our overweight exposure to the Swedish krona detracted from excess return
  - The Swedish krona (down 4.7%) was impacted by a host of disappointing numbers, including growth, trade, consumer sentiment, and retail sales.
- Japan
  - Our underweight exposure to the Japanese yen detracted from excess return One exception to the negative performance against the USD was the Japanese yen (up 2.5%).
  - The yen was propelled by strong economic growth.
- United Kingdom
  - Our overweight exposure to the British pound sterling detracted from excess return
  - Brexit concerns weighed on the British pound (down 2.8%) ahead of the draft European Union (EU) withdrawal treaty and its potential implications for the Irish border.

What did the portfolio manager do? The portfolio manager made several portfolio changes in February. First, the team added a Colombian peso non-deliverable forward (NDF) position. What stands out as potential catalysts for the team include: growth, lower inflation, monetary accommodation, higher oil prices, continued attention to fiscal discipline (including tax reform), and the potential for an appreciating currency.

The team reduced the Norwegian krone (NOK), Polish zloty (PLN), Swedish krona (SEK) and pound sterling (GBP) by approximately 2-2.5% and shifted this into USD. The team's view of a better growth outlook in Europe has not changed. European central banks, largely, have not begun the process of hiking policy rates. The U.S. Federal Reserve will likely continue to raise interest rates through 2018, while the National Bank of Poland (NBP) has maintained a dovish posture, despite the tighter labor market and the pickup in inflation. Economic and monetary forces should provide some support for USD, but the team still believes the long-term trend for USD is further depreciation. The strong European economy and the beginning of an NBP hiking cycle later this year should support PLN. Taken together, this provides the team with a tactical opportunity to take advantage of an oversold dollar, even as the team believes the structural move in USD will be lower.

The team reduced its Australian dollar (AUD) exposure and added to USD position as well. The Australian economy remains in good shape, benefiting from a stronger global economy. AUD is attractive on a purchasing power parity (PPP) basis, but monetary policy remains accommodative, while the U.S. Federal Reserve (Fed) is on a path toward interest rate normalization and balance sheet reduction. In sum, the team took advantage of an oversold USD.

The team added again to its Japanese yen position, increasing the yen position by about 4%. The yen has been the best-performing G-10 currency thus far this year, and it's aided by a solid growth backdrop, with the economy posting seven consecutive quarters of positive growth. The yen remains attractive on a purchasing power parity (PPP) basis, and it's one of the more attractive currencies, based on its real effective exchange rate. Lastly, traders, despite the strength in the yen this year, still maintain sizable yen short positions, which, if reversed, could support further yen appreciation.

In another move, the team decided to take additional USD exposure by reducing the Indian rupee exposure to zero. Near-term, the team finds the U.S. economy's fundamental underpinnings and the currently oversold position of USD as supporting the tactical shift into the greenback. The rupee is undervalued, both on a purchasing power parity basis and according to our short-term trading model. Inflation is currently above the mid-point of the central bank's 2-6% target range. Near-term, the rupee could come under further pressure, and those concerns prompted the team to take rupee exposure to zero.

What is the outlook? The team believes synchronized global growth should continue to provide a constructive backdrop for global capital flows in the first half of 2018. The Fed is expected to continue monetary tightening through balance sheet reductions and a series of federal funds rate increases, while the ECB and BoJ bond-buying programs are set to decrease. The pace of normalization should remain slow and steady, but building inflationary pressures may complicate the path to normalization for developed market central banks. Emerging market fundamentals generally are still attractive, supported by strong export demand and accommodative central bank policies. The team believes key structural factors remain positive and that they will continue to support economic expansion characterized by stable, self-sustaining growth and relatively low inflation.

This Fund is managed by Brandywine Global Investment Management

[1] Source: Legg Mason, as of 28 February 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 (2.76%), 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 28 February 2018. Base currency: US dollar.

IMPORTANT INFORMATION

Investors of fixed income funds are subject to various risks, including but not limited to, credit risks, liquidity risks and interest rate risks.

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Exchange rate changes may cause the value of overseas investments to rise or fall. Where the Fund's base currency is not US/HK Dollars, US/HK Dollar-based investors are exposed to exchange rate fluctuations.

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