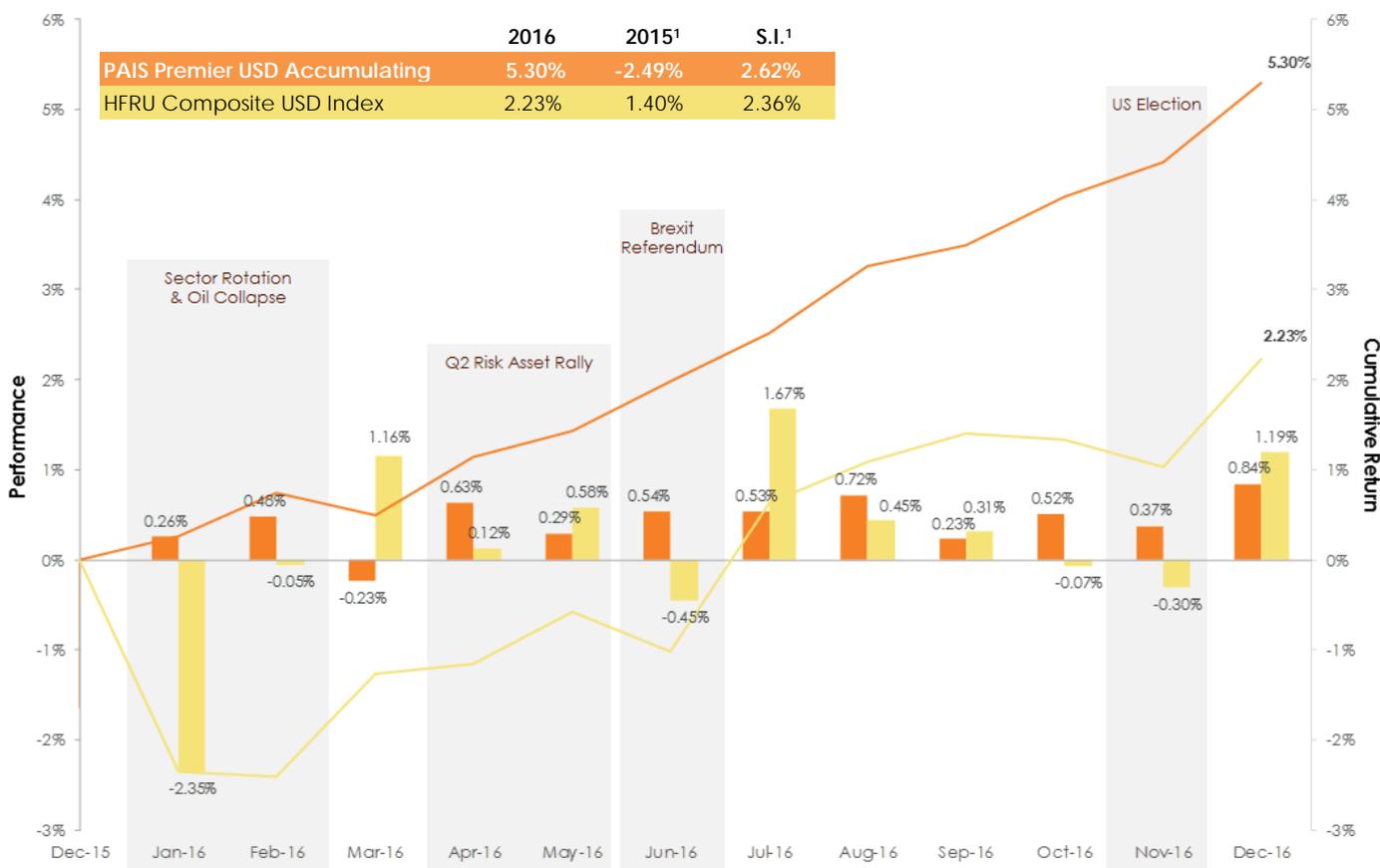


Permal Alternative Income Strategy 2016 Annual Review

Permal Alternative Income Strategy (Premier Class USD, Accumulating) generated a gain of +5.3% in 2016 while the HFRU Hedge Fund Composite USD Index gained +2.2%.

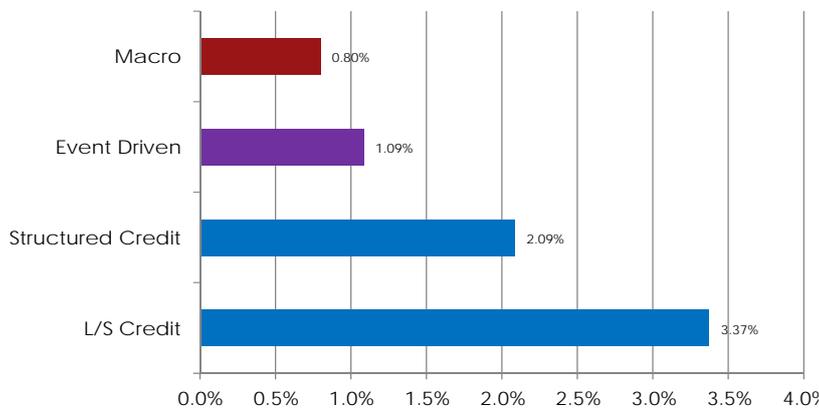
2016 Fund Performance vs. HFRU Composite USD Index¹



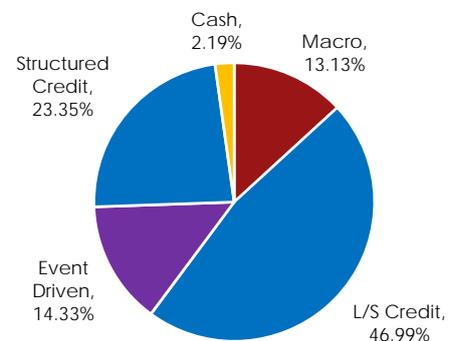
Q1 2016 began with a continuation of last year's market turmoil, as concerns of a US recession dominated headlines. Additionally, fears surrounding decelerating worldwide growth – in China, in particular – and the impact on demand for energy and other commodities drove prices lower across most global risk assets. The Fund held in well during the opening six-week sell-off, even posting a positive return in January, as the Macro allocation generated strong performance benefiting from long positioning in bonds and rates as the market turmoil caused safe haven flows into the asset class. The Event Driven allocation also posted a positive first six weeks as many of the hard catalyst idiosyncratic deals in the portfolio proved somewhat immune to the market's direction. The US Credit allocation posted a small positive in January as the manager was able to build out their short book early in the month with single-name CDS and CDX, both which benefited as credit spreads widened. During the second half of the quarter, the tone reversed sharply amid additional stimulus from the ECB as well as the Fed lowering its median projected expectation for the pace of further rate hikes. While the reversal proved difficult for the Macro allocation as several of the trend-following models were whipsawed, the Structured Credit allocation benefited from the improved environment for risk assets posting a strong month in March, which carried into Q2 as RMBS securities advanced with credit spread narrowing from their peak in mid-February.

¹ Inception date: August 25, 2015. As of December 31, 2016. Premier Class USD Accumulating performance presented net of fees. Past performance is not a guide to future results. Source: Bloomberg.

YTD 2016 Performance Contribution by Strategy¹



2016 Year-end Strategy Allocation²



In Q2 2016, the global economy showed signs of stabilization, providing a foundation for equity markets to register modest gains despite heightened volatility around the UK Brexit vote in late June. The Fund posted three positive months, as the Long/Short Credit and Structured Credit allocations benefited from the improved market conditions producing gains in their long books, while the Macro and Event Driven allocations detracted marginally, giving back some of their Q1 gains. The US-focused Credit manager generated positive performance in several long positions in credit instruments in the energy and mining sectors that recovered along with oil prices. The Macro allocation, while slightly negative for the quarter, posted a strong number in June, profiting from the market volatility around the Brexit vote and proving out the thesis for its inclusion in the portfolio.

Early in Q3, risk assets extended the rally that began after the Brexit referendum vote, boosted by strong economic data, better-than-expected corporate earnings results, and expectations that global central banks would continue to provide monetary stimulus. Global corporate bonds performed admirably over the quarter as the Bloomberg US Corporate Bond Index rose by 1.43%, while the BofA Merrill Lynch US High Yield Index generated 5.49%, benefiting from spreads tightening beyond historical levels. With the spread tightening tailwind, the Fund posted three positive months once again fueled by strong performance from the Long/Short Credit allocation, both in the US and Europe. Specifically, the European Credit manager profited from several High Yield securities including a credit instrument in a French E&P company that received an offer to buy a large stake from an Indonesian state oil company at a significant premium. Macro was the lone negative strategy allocation for the quarter as long bond positioning based on multi-year trends suffered in the risk-on environment.

In Q4 2016, markets were shaped by speculation and the result of the long-awaited outcome of the US Presidential election. Markets responded dramatically to the Trump win, with a risk-on rally, increased dispersion and a sharp rotation from growth to value and defensives to cyclicals. Credit markets held firm and spreads generally narrowed with riskier, higher-yielding names outperforming. Government bond yields rose, however, especially in longer-dated issues, as Central Banks in developed markets made their desire for steeper yield curves clear. The Structured Credit allocation continued to contribute positively to the Fund's performance building on an impressive year with positive returns in every month but March. The portfolio benefited from continued favorable trading conditions in RMBS and from several themes including a clean-up call CLO strategy, or sourcing 2.0 CLOs that are likely to be called at par. The Event Driven allocation also capped off a strong year with a positive fourth quarter as several deals in the portfolio closed including the acquisition of a prominent Social Networking company by a large blue chip Software & Services firm. Both of the Long/Short Credit managers posted their third straight positive quarter, with the tailwind of credit spread tightening continuing to benefit positions across its long book. In particular, the US-focused manager gained on positive developments in the restructuring of a bankrupt coal credit. Lastly, after several months of suffering from the reversal in the long-term bullish trend in global sovereign bonds and rates, the Macro manager provided robust gains in November and December on the heels of the US election as long US dollar and long global equity index positioning drove returns.

¹ Performance contribution is gross of fees. Past performance is not a guide to future results. See Important Information page for risks and performance disclosures.

² Asset Allocation subject to change.

Source: EnTrustPermal.

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While the Fund is audited on an annual basis, the performance numbers are unaudited and include dividends reinvested.

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