

# Legg Mason EnTrustPermal Alternative Income Strategy Fund

Performance to 30.06.17 <sup>1</sup>		1 Month	3 Months	YTD	
Legg Mason EnTrust Permal Alternative Income Strategy Fund		0.10%	1.00%	2.21%	
HRFX Global Hedge Fund Index		0.21%	0.88%	2.56%	
Rolling 12-month performance period ending	30.06.17	30.06.16	30.06.15	30.06.14	30.06.13
Fund	5.54%	N/A	N/A	N/A	N/A
Index	6.00%	N/A	N/A	N/A	N/A

Past performance is not a reliable indicator of future results

## Monthly review

**What happened in the market?** Some nervousness returned in June as investors re-examined current valuations in equities, fixed income and currencies in light of expected transitioning of central bank policies. As expected, the U.S. Federal Reserve raised rates in June and the European Central Bank left rates unchanged, but both banks along with the Bank of England each indicated that policy normalization was on its way. This could mark the beginning of the end of an eight year period of accommodative monetary policy in major economies that has had a major influence on asset prices. June saw reversal in some recent trends as the U.S. dollar weakened, sovereign bonds sold off and longer-dated interest rates increased; and during the last week of June, the market leading Technology sector sold off sharply, ending June lower even as stocks moved generally higher for the month.

**What happened in the fund?** Monthly performance was positive and better than benchmark as four of six sub-advisors posted positive results. Structured Credit, Emerging Markets (EM) Credit, Event Driven and European Credit were positive contributors, while U.S. Credit and Systematic Macro were detractors.

**What did the portfolio manager do?** The fund decreased the allocation to Systematic Macro at the margin, as BH-DG's models are currently long equity indices and fixed income. It also increased the European Credit allocation slightly, as Eiffel has begun to deploy more risk with the political risks in Europe somewhat subsiding after the market-friendly result in the French election. The current portfolio consists of core allocations to European Credit, US Credit and Structured Credit and satellite allocations to EM Credit, Event Driven and Systematic Macro.

**What is the outlook?** The manager remains cautious on corporate credit markets due to frothy valuations and risks such as a reigniting of China slowdown fears or a more material back-up in interest rates that might trigger a sharp increase in corporate defaults and corporate spread widening. The corporate credit opportunity set is strong for long/short credit managers who keep net market exposure low, keeping dry powder for future opportunities while focusing on catalyst driven situations. Outside of corporate credit, the manager is finding value in the structured credit markets, including catalyst-driven non-agency residential mortgage-backed strategies, synthetic commercial mortgage-backed strategies, and other asset-backed subsets. The floating rate feature of many of these structures may prove to be attractive to investors who are searching for incremental yield and protection against rising short term interest rates. In addition, generally speaking, the manager believes structured credit assets have lagged the sharp rally in corporate credit markets, while their underlying fundamentals continue to be strong.

<sup>1</sup>Performance calculations are EnTrustPermal estimates and based on performance before associated fund fees and do not incorporate trading costs. As a result, attribution data does not sum to fund performance.

Attribution - Month	Return (%)*
Long/Short Credit (US & Europe)	-0.02
Structured Credit	+0.33
EM Credit	+0.05
Event Driven	+0.04
Systematic Macro	-0.11
Attribution - YTD	Return (%)*
Long/Short Credit (US & Europe)	0.50
Structured Credit	1.80
EM Credit	0.20
Event Driven	1.00
Systematic Macro	0.00

**Investment Aim & Description:** The Fund seeks to provide total return comprised of capital appreciation and income through a multi-manager, multi-strategy that allocates its assets to a select group of discretionary SubAdvisers

## IMPORTANT INFORMATION:

**This Fund is managed by EnTrustPermal. N.B. The Fund changed its name on March 15, 2017. The Fund was previously called the Permal Alternative Income Strategy**

<sup>1</sup>Source: Legg Mason as at 30/06/2017 for Class P Acc. US Dollar shares. Cumulative performance is calculated on a NAV to NAV basis, with gross income reinvested and after deduction of annual fund expenses. Past performance is not a reliable indicator of future results. This fund/share class has not been in existence long enough to show a longer performance period. Past performance is no guarantee of future results. The EnTrustPermal Alternative Income Strategy is a sub-fund of Legg Mason Alternative Funds ICAV ("LMAF"), an umbrella fund with segregated liability between sub-funds, established as an Irish collective asset-management vehicle with variable capital, organised as an undertaking for collective investment in transferable securities ("UCITS") within the meaning of the UCITS regulations having registration number C139549. LMAF is authorised by the Central Bank of Ireland. It should be noted that the value of investments and the income from them may go down as well as up. Investing in a sub-fund involves investment risks, including the possible loss of the amount invested. Past performance is not a reliable indicator of future results. This information and data in this material has been prepared from sources believed reliable but is not guaranteed in any way by Legg Mason Investments (Europe) Limited nor any Legg Mason, Inc. company or affiliate (together "Legg Mason"). No representation is made that the information is correct as of any time subsequent to its date. Manager of advisers: The fund's performance is subject to the performance of the underlying sub-investment advisers to which the fund manager has allocated investment. Bonds: There is a risk that issuers of bonds held by the sub-advisers may not be able to repay the bond or pay the interest due on it, leading to losses for the Underlying Fund. The sub-advisers may invest in lower rated or unrated bonds, which carry a higher degree of risk than higher rated bonds. Liquidity: In certain circumstances it may be difficult to sell the fund's investments because there may not be enough demand for them in the markets, in which case the fund may not be able to minimise a loss on such investments. Asset-backed securities: The sub-advisers may invest in asset-backed securities. The timing and size of the cash-flow from these are not fully assured and could result in losses for the Underlying Fund. Real Estate Investment Trusts: The sub-advisers may invest in REITs. Investment in REITs poses similar risks as investing directly in real estate, including changing values, tax rules and other laws. The value of investments in REITs and the level of cash flow generated for distributions to investors may be affected by defaults by borrowers and tenants. Hedging: The sub-advisers may use derivatives to reduce the risk of movements in exchange rates between the currency of the investments held and the base currency of the fund itself (hedging). However, hedging transactions can also expose the fund to additional risks. Derivatives: The sub-advisers make significant use of derivatives. The use of derivatives can result in greater fluctuations of the fund's value and may cause the fund to lose as much as or more than the amount invested. Fund counterparties: The fund may suffer losses if the parties that it trades with cannot meet their financial obligations. Performance fee: The fund's performance fee structure may result in a performance fee being paid even though the expected growth of the fund's net assets has not been realised. 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. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situations or needs of investors. The Distribution Yield reflects the amounts that may be expected to be distributed over the next 12 months as a percentage of the Net Asset Value of the class as at the reported date. It is based on a snapshot of the portfolio on that day and does not include any subscription charges and investors may be subject to tax on distributions. The current yield is the gross annual income (interest or dividends) paid out by the underlying investments within the fund divided by their current price. Past performance is not a reliable indicator of future results. Cash flow yield takes into account capital expenditures and other ongoing costs a business incurs against its market price per share. 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