0215 I 2019

ASIA CHART OF THE WEEK

Real assets can lower portfolio correlation

January 2019 saw an increase in risk appetite globally. Developed and Emerging market assets were simultaneously bid up. While this was a welcomed reprieve from the market decimation in December 2018, it also brought back heightened correlation between assets and regions. Therein lies the issue…markets that rise together, fall together.

In portfolio allocation, piecing together low and/or negatively correlated assets adds to performance over time by ensuring any downside is managed well.

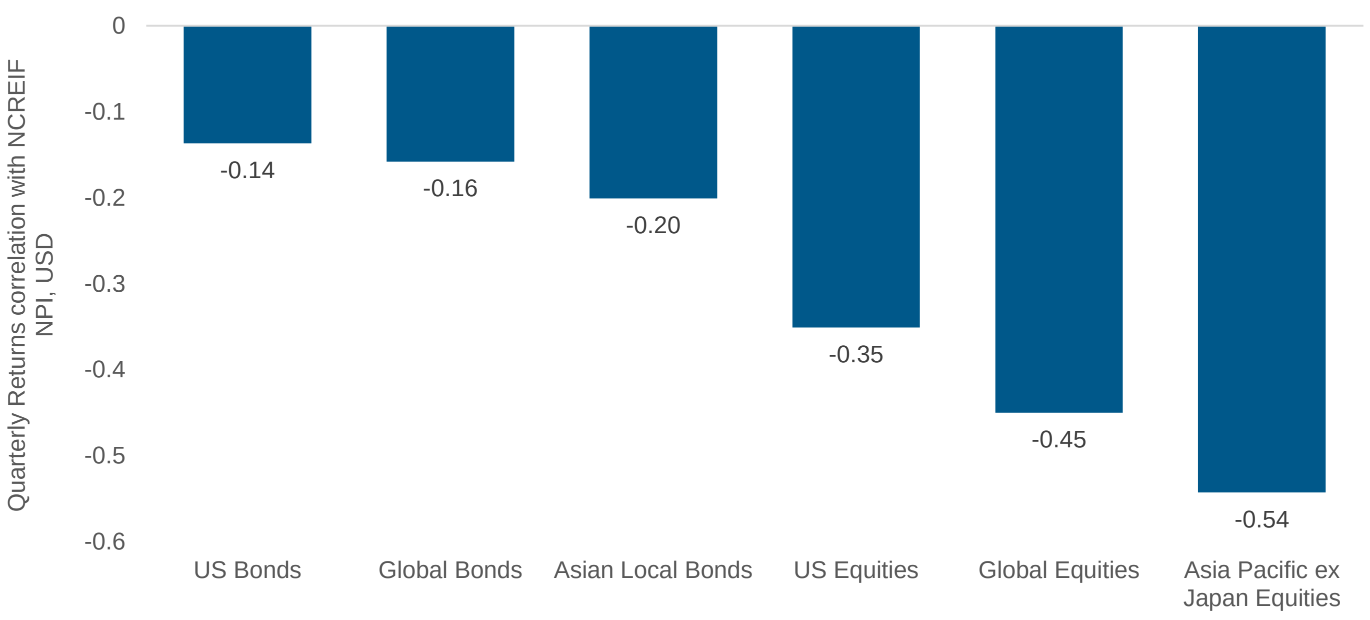
Over the last 10 years, core private (or direct) US real estate has proven to be a key diversifier. Key reasons include stable cash flows, and fundamentally benefiting from several well-identified socioeconomic and demographic trends (e-commerce, logistics, consumption, family patterns, green living) that are translating into strong growth for various types of real estate in the US.

As at 31 December 2018, direct US Real Estate displayed desirable negative correlations with asset classes globally, including Asia. US Equities (-0.35), US Bonds (-0.14), Global Bonds (-0.16), Global Equities (-0.45), Asian Local Bonds (-0.20) and Asia Pacific ex Japan Equities (-0.54).

The bottom line

Real assets are alternative investments with risk and return characteristics dissimilar to traditional investments. Institutional investors such as education endowment funds* have been using them to great effect managing risks and enhancing long term returns. A large part of that ability comes from lowering correlation within the portfolio which over time, can have drastically positive impact on returns.

Chart: Direct US Real Estate (NCREIF NPI) displays negative correlations with traditional asset classes (31 March 2009 to 31 December 2018)



Note: The NCREIF Property Index (NPI) is a quarterly, unleveraged composite total return for private commercial real estate properties held for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors and held in a fiduciary environment. Please visit https://www.ncreif.org/data-products/property/ for more information.

Source: Legg Mason, Bloomberg, MSCI, Standard and Poor's, National Council of Real Estate Investment Fiduciaries. 15 February 2019. Data as of 31 December 2018, unless stated otherwise. Returns in USD. *https://news.yale.edu/2018/10/01/investment-return-123-brings-yale-endowment-value-294-billion. US Bonds refer to the Bloomberg Barclays US Aggregate Bond Index. Global Bonds refer to the Bloomberg Barclays Global Agg Treasuries Index. Asian Local Bonds refer to the Markit iBoxx Asian Local Bond Index. US Equities refer to the S&P 500 Index. Global Equities refer to MSCI All Country World Index. Asia Pacific ex Japan Equities refer to the MSCI Asia Pacific ex Japan Index. Past performance is no guarantee of future results. Please note that an investor cannot invest directly in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges.

LEGG MASON
GLOBAL ASSET MANAGEMENT

IMPORTANT INFORMATION:

All investments involve risk, including possible loss of principal.

The value of investments and the income from them can go down as well as up and investors may not get back the amounts originally invested, and can be affected by changes in interest rates, in exchange rates, general market conditions, political, social and economic developments and other variable factors. Investment involves risks including but not limited to, possible delays in payments and loss of income or capital. Neither Legg Mason nor any of its affiliates guarantees any rate of return or the return of capital invested.

Equity securities are subject to price fluctuation and possible loss of principal. Fixed-income securities involve interest rate, credit, inflation and reinvestment risks; and possible loss of principal. As interest rates rise, the value of fixed income securities falls.

International investments are subject to special risks including currency fluctuations, social, economic and political uncertainties, which could increase volatility. These risks are magnified in emerging markets.

Commodities and currencies contain heightened risk that include market, political, regulatory, and natural conditions and may not be suitable for all investors.

Past performance is no guarantee of future results. Please note that an investor cannot invest directly in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges.

Important Information:

The opinions and views expressed herein are not intended to be relied upon as a prediction or forecast of actual future events or performance, guarantee of future results, recommendations or advice. Statements made in this material are not intended as buy or sell recommendations of any securities. Forward-looking statements are subject to uncertainties that could cause actual developments and results to differ materially from the expectations expressed. This information has been prepared from sources believed reliable, but the accuracy and completeness of the information cannot be guaranteed. Information and opinions expressed by either Legg Mason or its affiliates are current as at the date indicated, are subject to change without notice, and do not take into account the particular investment objectives, financial situation or needs of individual investors.

The information in this material is confidential and proprietary and may not be used other than by the intended user. Neither Legg Mason or its affiliates or any of their officer or employee of Legg Mason accepts any liability whatsoever for any loss arising from any use of this material or its contents. This material may not be reproduced, distributed or published without prior written permission from Legg Mason. Distribution of this material may be restricted in certain jurisdictions. Any persons coming into possession of this material should seek advice for details of, and observe such restrictions (if any).

This material may have been prepared by an advisor or entity affiliated with an entity mentioned below through common control and ownership by Legg Mason, Inc. Unless otherwise noted the "$" (dollar sign) represents U.S. Dollars.

This material is only for distribution in those countries and to those recipients listed.

All investors in the UK, professional clients and eligible counterparties in EU and EEA countries ex UK and Qualified Investors in Switzerland.
Issued and approved by Legg Mason Investments (Europe) Limited, registered office 201 Bishopsgate, London EC2M 3AB. Registered in England and Wales, Company No. 1732037. Authorized and regulated by the Financial Conduct Authority. Client Services +44 (0)207 070 7444.

All Investors in Hong Kong and Singapore:
This material is provided by Legg Mason Asset Management Hong Kong Limited in Hong Kong and Legg Mason Asset Management Singapore Pte. Limited (Registration Number (UEN): 200007942R) in Singapore.

This material has not been reviewed by any regulatory authority in Hong Kong or Singapore.

All Investors in the People's Republic of China ("PRC"):
This material is provided by Legg Mason Asset Management Hong Kong Limited to intended recipients in the PRC. The content of this document is only for Press or the PRC investors investing in the QDII Product offered by PRC's commercial bank in accordance with the regulation of China Banking Regulatory Commission. Investors should read the offering document prior to any subscription. Please seek advice from PRC's commercial banks and/or other professional advisors, if necessary. Please note that Legg Mason and its affiliates are the Managers of the offshore funds invested by QDII Products only. Legg Mason and its affiliates are not authorized by any regulatory authority to conduct business or investment activities in China.

This material has not been reviewed by any regulatory authority in the PRC.

Distributors and existing investors in Korea and Distributors in Taiwan:
This material is provided by Legg Mason Asset Management Hong Kong Limited to eligible recipients in Korea and by Legg Mason Investments (Taiwan) Limited (Registration Number: (98) Jin Guan Tou Gu Xin Zi Di 001; Address: Suite E, 55F, Taipei 101 Tower, 7, Xin Yi Road, Section 5, Taipei 110, Taiwan, R.O.C.; Tel: (886) 2-8722 1666) in Taiwan. Legg Mason Investments (Taiwan) Limited operates and manages its business independently.

This material has not been reviewed by any regulatory authority in Korea or Taiwan.

All Investors in the Americas:
This material is provided by Legg Mason Investor Services LLC, a U.S. registered Broker-Dealer, which includes Legg Mason Americas International. Legg Mason Investor Services, LLC, Member FINRA/SIPC, and all entities mentioned are subsidiaries of Legg Mason, Inc.

All Investors in Australia:
This material is issued by Legg Mason Asset Management Australia Limited (ABN 76 004 835 839, AFSL 204827) ("Legg Mason"). The contents are proprietary and confidential and intended solely for the use of Legg Mason and the clients or prospective clients to whom it has been delivered. It is not to be reproduced or distributed to any other person except to the client's professional advisers.

Companies in the infrastructure industry may be subject to a variety of factors that could adversely affect their business or operations, including high interest costs in connection with capital construction programs, high degrees of leverage, costs associated with governmental, environmental and other regulations, the effects of economic slowdowns, increased competition from other providers of services, uncertainties concerning costs, the level of government spending on infrastructure projects, and other factors.

Investment in real estate entails significant risks and is suitable only for certain investors as part of an overall diversified investment strategy and only for investors able to withstand a total loss of investment.

© 2019 Legg Mason Investor Services, LLC, member FINRA, SIPC. Legg Mason Investor Services, LLC is a subsidiary of Legg Mason, Inc.

Tracking Number: **TN19-020**