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***ASIAN LOCAL CURRENCY BOND MARKET LITTLE KNOWN GEM FOR INVESTORS, SAYS  
LEGG MASON AFFILIATE WESTERN***

***- Fourth largest domestic bond market in the world –***

**London – 24 Aug 2010 – Rajeev de Mello, Head of Asian Investments at Legg Mason affiliate Western Asset Management,** believes investors are underestimating the opportunities for Asian local currency bond markets.

**De Mello explains,** “The Asian local currency bond market is actually twice the size of the UK bond market and the fourth largest globally, following the US, the Eurozone and Japan. Despite this, few investors have picked up on the significant transformation of the asset class. In fact, continued improvements in economic fundamentals have led the vast majority of the region’s sovereign debt to be upgraded to investment grade.

“The region continues to offer investors the opportunity to pick up higher yields in countries such as Indonesia and the Philippines, which are still rated below investment grade. Similarly, many investors perceive Asian local government bond markets to be a homogeneous asset class, but overall returns, the drivers of performance and volatility differ significantly by country within the region, providing investors with attractive investment opportunities.”

Western suggests the asset class as a whole offers investors an attractive risk/reward trade-off compared to other sectors of the global fixed income universe such as emerging market hard currency debt or global high yield. And despite Asian bonds having generated strong returns over the past year, the asset class still offers attractive yields compared to other regions. Furthermore, better management of government finances and more disciplined monetary policy through the widespread adoption of inflation targets has reduced the volatility of bond market returns across Asia.

**He continues,** “The potential for currency appreciation is one of the aspects that makes the asset class compelling to foreign investors. Indeed, the gains in productivity that are fuelling strong economic growth in the region is one factor driving the structural appreciation of Asian currencies, which will add to the total returns generated for foreign investors. The recent news regarding a change in China’s currency policy, allowing a gradual appreciation of the Yuan, is likely to encourage similar appreciation across much of Asian, adding to the positive currency outlook.

**De Mello adds,** “Investors shouldn’t mistakenly believe that Asian bond returns are largely driven by the currency returns. In fact, bond returns were by far the largest driver over recent years, with currency returns merely amplifying those gains.”

**De Mello concludes,** “The issuance of local currency bonds by governments has increased significantly over the past decade. While the development of bond markets started from a very low base in some countries, the expansion of bond issuance was driven by factors such as strong economic growth and, more recently, increased supply in order to finance government stimulus programmes during the global credit crisis. As the region is barely represented in global bond indices and therefore in global bond portfolios based on them, more focused Asian bond funds provide a good entry point for investors wishing to allocate a proportion of their portfolio to the asset class.”

**-Ends-**

**Notes to editors**

**About Legg Mason Global Asset Management**

**About Legg Mason**

Legg Mason is a global asset management firm with \$659 billion in assets under management as of July 31, 2010. The Company provides active asset management in many major investment centres throughout the world. Legg Mason is headquartered in Baltimore, Maryland, and its common stock is listed on the New York Stock Exchange (symbol: LM).

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Western Asset is one of the world’s leading global fixed income managers. With offices in the United States, London, Tokyo, Singapore, Hong Kong, Melbourne and Sao Paulo, the company offers clients a full range of local and cross-border fixed income products.

By devoting all of its resources to fixed income, Western Asset can provide a full commitment to clients in every area. This focused approach has generated positive long-term returns in a variety of products with varying risk disciplines. Western Asset's long performance track record and global presence has positioned the company to continue its commitment to excellence in fixed income investment management and client service.

Notes to Editor

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