

Sub-fund of Irish domiciled open-ended investment company  
 Fund owner: Legg Mason Investments  
 Fund manager/adviser: Brandywine Global Investment Management

### Named portfolio manager(s):

Stephen Smith (since launch), David Hoffman (since launch), Jack McIntyre (since January 2006)

**Location:** Philadelphia

**Launch date:** September 2003

**Fund size (January 2011):** US\$357m

**Contact group:** +44 20 7070 7444 or [www.leggmason.co.uk](http://www.leggmason.co.uk)

**Peer group:** global bonds in USD unhedged

Further information on S&P's fund coverage can be found at [www.FundsInsights.com](http://www.FundsInsights.com)

Report date March 2011

### Investment style

	Inv Grade	Blend	Sub Inv Grade
Govt			
Corp			
Emerging			
ABS/MBS			

### Performance statistics

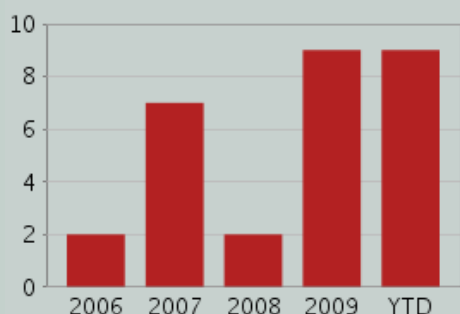
	Three years
Fund	19.4%
Standard & Poor's peer median	17.2%
Index**	18.9%
Fund rank	96/292
Volatility Adjusted Ranking	160/292

Note: returns are cumulative

### Three year risk characteristics

Maximum monthly drawdown (%)	-9.5
Volatility	10.9
Correlation	0.7
Beta	1.6

### Calendar year decile ranks



Decile ranking in discrete annual periods. First decile shown as rank 10, second decile as rank 9, with tenth decile as rank 1.

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### Standard & Poor's opinion (March 2011)

With more than 90 years of combined industry experience, Brandywine's global bond portfolio management team of three is one of the most experienced around.

However, while the team has remained remarkably stable, the process has changed. Since July 2010, the portfolio no longer makes tactical allocations to credit, and will instead focus exclusively on active government bond and currency strategies, making the fund more comparable to its government bond benchmark. However, the investment approach remains benchmark-agnostic as the team targets relative value opportunities across sovereign debt/agencies and currencies. The investment style favours high real yielding countries with potential for currency appreciation, although interest rate and currency decisions are taken independently of one another.

Brandywine's value approach is geared towards longer-term trading strategies, which may result in positions being taken prematurely. This affected performance in 2008 when non-agency MBS and corporate credit were bought, only for spreads to widen further. Nevertheless, the fund has since recovered well with median- and benchmark-beating returns in 2009 and 2010.

We expect the changes to the investment guidelines, along with Brandywine's emphasis on absolute risk control, to result in a performance profile that is less sensitive to the credit cycle going forward. In the meantime, the fund retains its S&P A/V4 rating.

### Fund manager & team

Portfolio managers Stephen Smith, David Hoffman and Jack McIntyre are supported by six analysts and three traders. The team has been extremely stable. Brandywine manages \$22.8bn in fixed income.

**Stephen Smith** - BSc economics, business administration (Xavier University), began his career in 1976 at First Pennsylvania Bank and moved to Munsch and Smith Management as a founding partner in 1980. He went to Provident Capital Management in 1984 and Mitchell Hutchins Asset Management in 1988. He joined Brandywine in 1991.

**David Hoffman** - BA art history (Williams College), CFA, began his career at Provident National Bank in 1975 and moved to INA Capital Management in 1979. He was head of fixed income investments at Columbus Circle Investors from 1983 and left to set up Hoffman Capital, investing in financial futures, in 1991. He joined Brandywine in 1995.

**Jack McIntyre** - BBA finance (University of Massachusetts), MBA finance (Stern NYU), CFA, joined Brandywine in 1998, bringing with him 11 years of industry experience.

**Francis Scotland** - economics (Queens University, Ontario), MA economics (University of Western Ontario), worked as an economist for the Bank of Canada (1977 to 1984), before moving to the BCA Research Group, where he became editor-in-chief and head global strategist. He joined Brandywine as director of global macro research in 2005.

### Management style

The fund aims to outperform the Citi World Government Bond index by 2% a year over a market cycle using a benchmark-agnostic approach.

The Brandywine investment philosophy is long-term and driven by valuation-based fundamentals. The team targets undervalued currencies and countries offering high real rates of return (based on trailing CPI), while at the same time applying an important qualitative overlay.

The managers sometimes hedge currency exposure or own a currency without the corresponding interest rate risk. The fund no longer makes tactical allocations to credit. The team can spend between six and 12 months researching an investment and may hold positions for several years.

The managers do not use tracking error or VaR for risk management, but focus on upside/downside capture ratios. The fund's positions are relatively concentrated and the managers focus on long-term trends rather than short-term technical movements. As a result, it can have periods of significant short-term underperformance.

# LEGG MASON GLOBAL FUNDS PLC - LEGG MASON BRANDYWINE GLOBAL FIXED INCOME FUND

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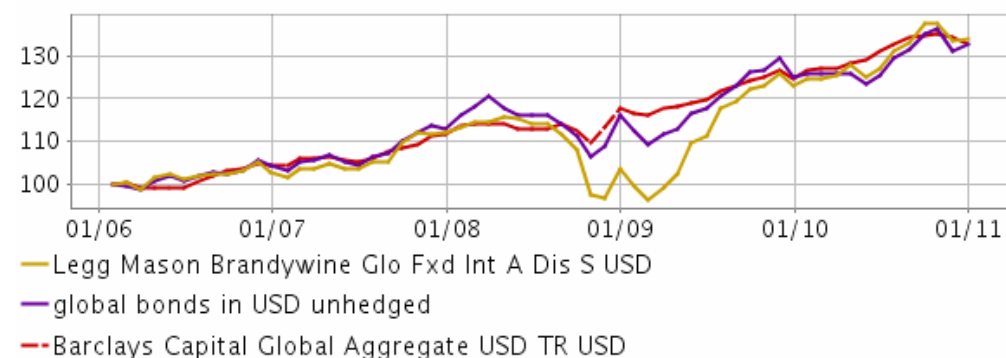
## Portfolio & performance analysis (January 2011)

At year-end, the fund had 82% exposure to sovereign debt, 2% to sovereign agencies, 9% in regional agencies and 7% cash. Duration was overweight the benchmark by 0.8 years. The team expects unemployment in the US to start falling, but without a corresponding (appreciable) rise in core inflation. They think that inflation expectations priced into the TIPS market are too high, and for this reason, are avoiding the sector for the time being.

The portfolio has a zero exposure in Japan, which has been used to fund overweight positions in the US (via longer maturity bonds), Australia, Poland, Malaysia, South Korea, Sweden, Norway, Canada and New Zealand, with corresponding overweights in their respective currencies. Norway is being held as a defensive play as it tends to offer good protection during periods of risk aversion. The team has avoided France and has a significant underweight in Germany. It is similarly defensive on Spain and Italy and is bearish on the euro, instead preferring the US dollar and sterling.

Performance ranks second quartile over three and five years cumulatively. The fund has recovered well following a difficult 2008, when the value-driven approach led the fund into credit risk too early. It outperformed the benchmark by +1720bps (gross) in 2009, matching the extent of underperformance the previous year. The fund was ahead by 463bps in 2010, with sector allocation and security selection - including non-agency MBS, US credit and Australian exposure - driving the bulk of the gains (+333bps). The underweight in Japanese yen weighed on returns, although currency decisions were additive overall. Duration and yield curve decisions made a small positive contribution to performance.

## Cumulative performance



## Discrete performance (calendar years)

	2006		2007		2008		2009		YTD 31/12/2010	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	4.0	195/229	8.8	85/260	-7.4	260/293	18.6	58/321	8.7	57/349
Index**	4.3		7.0		5.3		6.0		6.5	
Median	5.4		8.1		2.1		8.4		5.6	

\*\* Barclays Capital Global Aggregate USD TR USD  
 Fund Benchmark: Citi World Government Bond index  
 Share class screened: IE0033637442 (A Dis S USD)

## Sources of return

	Low	Average	High
Portfolio duration			
Credit spreads			
Country / sectors			
Yield curve positioning			
Currency exposure			
Derivatives			

## Portfolio characteristics \* (1 January 2011)

Effective duration (years)	7.1
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## Credit rating breakdown

	Long	Short	Net
Not available			

## Duration breakdown

	Long	Short	Net
0-3 years	2.52	0.00	2.52
3-5 years	0.55	0.00	0.55
5-10 years	1.39	0.00	1.39
10+ years	2.67	0.00	2.67

## Asset allocation

	Long	Short	Net
Governments/supranationals	6.54	0.00	6.54
Agencies	0.59	0.00	0.59

## Regional breakdown

	Long	Short	Net	Curr %
Emerging markets debt	0.07	0.00	0.07	3.55
Europe ex UK	1.24	-0.08	1.16	15.34
Japan	0.00	0.00	0.00	0.00
North America	4.03	0.00	4.03	49.71
UK	0.77	0.00	0.77	14.48
Other	1.02	0.00	1.02	16.92

\* Credit rating exposures are expressed in spread duration terms. All others expressed in interest rate duration years.

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## Symbols and definitions

### Long-only fund ratings

**AAA** The fund demonstrates the highest standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

**AA** The fund demonstrates very high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

**A** The fund demonstrates high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

### Fund-of-hedge-funds ratings

#### Absolute return fund ratings

#### Specialist fund ratings

**AAA** The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

**AA** The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

**A** The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

### Ucits III flexible beta fund ratings

**AAA** The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.

**AA** The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.

**A** The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.

### All fund ratings

**Not Rated (NR)** Funds designated as Not Rated currently do not meet the requisite performance standards and/or the minimum qualitative criteria to achieve a fund rating.

**Under Review (UR)** Ratings are placed Under Review when significant management changes occur at the fund manager or fund management team level and Standard & Poor's Fund Services has not had the opportunity yet to evaluate their impact on the qualitative appraisal.

**(New)** Signifies where a major event has occurred for which there is no fund-specific track record available. This includes: funds recently launched, the implementation of a new investment process or mandate and may include structural changes within a fund team.

**Tenure Review (TR)** The fund manager/team involved in the management of the fund does not currently have the minimum 12 months' relevant investment management experience required to be eligible to be considered for a rating.

**Long-term fund management rating LTFMR** The fund has been rated in the A/AA/AAA fund rating band for five consecutive years or more, and continues to hold a rating.

### Bond fund volatility ratings

The bond fund volatility rating is our current opinion of a fund's sensitivity to changing market conditions. Volatility ratings evaluate the fund's sensitivity to interest rate movement, credit risk, investment diversification or concentration, liquidity, leverage and other factors. For V1-V4 categories, risk is considered relative to a portfolio composed of government securities and denominated in the base currency of the fund.

**V1** Bond funds that possess low sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within one to three years, and denominated in the base currency of the fund. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising the highest quality fixed income instruments with an average maturity of 12 months or less. Within this category, certain funds are designated with a plus sign (+), indicating extremely low sensitivity to changing market conditions.

**V2** Bond funds that possess low to moderate sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within three to seven years, and denominated in the base currency of the fund.

**V3** Bond funds that possess moderate sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within seven to 10 years, and denominated in the base currency of the fund.

**V4** Bond funds that possess moderate to high sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing beyond 10 years and denominated in the base currency of the fund.

**V5** Bond funds that possess high sensitivity to changing market conditions. These funds may be exposed to a variety of significant risks including high concentration risks, high leverage, and investments in complex structured and/or less liquid securities.

**V6** Bond funds that possess the highest sensitivity to changing market conditions. These funds include those with highly speculative investment strategies with multiple forms of significant risks, with little or no diversification benefits.

### Absolute return fund N ratings

The N rating is Standard & Poor's indication of a fund's potential capital stability in normal markets. It is a qualitative rating but is based on annualised weekly downside deviation. N1 is the most stable and N9 the least.