

**Named portfolio manager(s):**  
Michael Buchanan (since April 2005)  
**Peer group:** US High Yield

**Location:** Pasadena  
**Launch date:** February 2004  
**Fund size (August 2009):** US\$77m

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

Report date June 2010



### Investment Style

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

### Performance Statistics

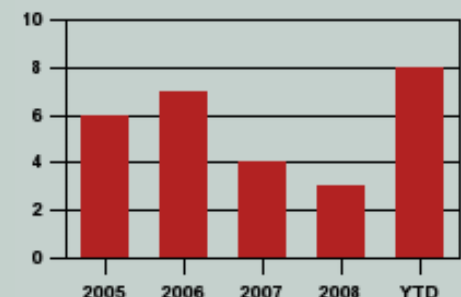
	3 Years
Fund	-1.1%
Standard & Poor's Peer Median	3.3%
Index**	11.8%
Fund Rank	178/259

Note: returns are cumulative

### 3 Year Risk Characteristics

Maximum Drawdown (%)	Medium	-36.5
Volatility	Medium	16.8
Correlation	High	1.0
Beta	High	1.0

### 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.

Performance Data Source - © 2009 Morningstar, Inc. All Rights Reserved. All statistical data on this report has been run to 31/07/2009 on NAV to NAV basis, with gross income reinvested, in US Dollars.

Please see page 3 for required research analyst certification disclosure.

### Standard & Poor's opinion (October 2009)

This fund is run out of Pasadena by Legg Mason's specialist fixed income subsidiary, Western Asset Management. However, the team has a global presence, with analysts located in London, Singapore and elsewhere. The high yield/leveraged loans team comprises three dedicated portfolio managers, 10 global high yield analysts, three traders and two risk professionals. Lead manager on the fund is Michael Buchanan who heads Western's overall credit capability.

The investment process combines top-down sector rotation strategies with bottom-up security selection, and the latter will typically drive around two-thirds of any alpha generation. The team is placing more emphasis on relative value when identifying potential trades.

Western has decided against moving to an ex-financials index following the inclusion of downgraded subordinated bank debt into the high yield indices earlier in 2009. This has had a detrimental effect on relative performance versus the benchmark as the manager has maintained an underweight to subordinated financials, which have rallied strongly since March 2009. Despite this, the fund has a relatively high beta overall and has therefore performed well against the peer group in 2009. This follows a disappointing 2008 when risk was added too early (ie, before Lehman's bankruptcy) to the portfolio. Performance is third quartile over three years cumulatively.

Western's deep value approach can mean that they are from time to time too early in executing strategies. In recognition of the team's experience, however, we feel comfortable retaining the S&P A/V5 rating.

### Fund manager & team

Michael Buchanan heads Western's credit team. Western manages \$13.5bn in high yield investments.

Michael Buchanan - graduate (Brown University), CFA, started with Conseco Asset Management in 1990. He was a high yield manager with BlackRock from 1998 to 2003. He joined Western Asset Management in 2005 from Credit Suisse.

Ian Edmonds - BSc mathematics (University College, London), started his career with Bacon & Woodrow. In 1994 he joined Lehman Brothers Global Asset Management, later acquired by Western Asset Management. He covers European high yield markets.

### Management style

The fund objective is to outperform the Barcap US Corporate High Yield 2% Constrained index using an investment style driven by fundamental analysis of relative value.

The manager applies a team-based approach, taking bets relative to the benchmark based on the credit analysts' research convictions.

The investment process begins with broad top-down themes and sector views, but the main emphasis is on relative value-driven stock selection. The team favours companies that show stable free cashflow over a market cycle and have good covenants.

The global credit team meets weekly to discuss stock selection ideas, typically focusing on a different sector at each session.

The portfolio is normally broadly diversified, with about 140-180 issuers held. The fund guidelines allow it to have up to 20% in non-US names, but the manager mainly sticks to US-based investments. Portfolio duration is usually kept within 10% of the benchmark position.

Risk control focuses on bets taken relative to the index. Off-benchmark bets, such as EMD investments, will not normally exceed 15% in aggregate. Tools used by the manager include Credit Delta, Lehman Point and an in-house attribution model.

# LEGG MASON GLOBAL FUNDS PLC - LEGG MASON WESTERN ASSET US HIGH YIELD FUND

Sub-fund of Irish domiciled open-ended investment company  
Legg Mason Global Asset Management



## Portfolio & performance analysis (August 2009)

The team identified opportunities in the market in mid-2008 and began adding risk so that the portfolio was overweight CCC bonds. The overweight in lower quality credits has been maintained, however the manager has begun selling out of some of the fund's higher beta securities. He has been buying some senior secured high yield paper with solid asset protection. The fund is currently overweight in defensive sectors, although the manager favours the higher beta names within these sectors.

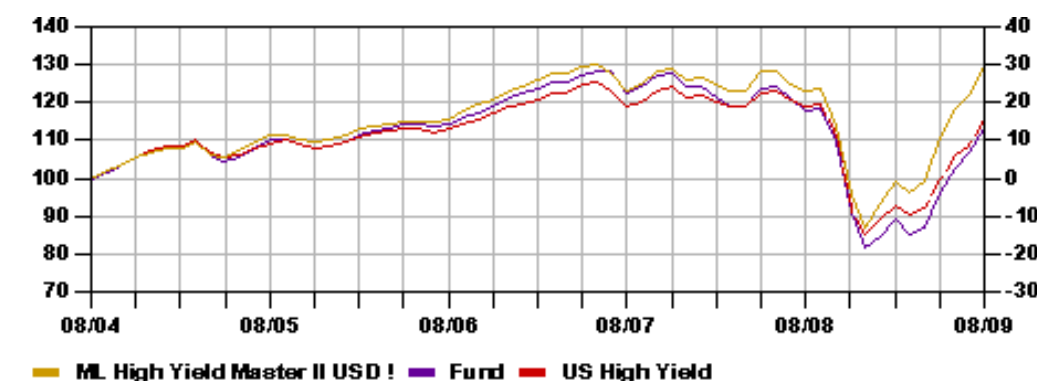
The portfolio has around half the benchmark's (increased) weighting in financials, which the manager attributes to ongoing uncertainty in the sector together with the lack of transparency in earnings, making fundamental evaluation difficult.

At the time of review, the fund was overweight B, CCC and CCs, but has offset this risk somewhat with around 9% in cash and with its defensive industry allocation.

Performance ranks third quartile over three and five years cumulatively. Adding risk in the months leading up to Lehman's bankruptcy was premature and cost the fund in both absolute and relative terms in Q4 2008. However, as risk appetite has returned to the market in 2009, the fund has benefited from the manager's preference for lower-rated credits, which have rallied particularly well.

Nevertheless, it - along with many other high yield funds - is trailing its benchmark in 2009. This is in part due to an underweight in subordinated financials which lost their investment grade status earlier this year, but have since recovered strongly.

## Cumulative performance



## Discrete Performance (calendar years)

	2005		2006		2007		2008		YTD 31/07/2009	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	1.9	97/208	11.6	79/238	1.3	177/278	-31.7	238/326	33.2	111/359
Index**	2.7		11.9		1.9		-26.2		38.4	
Median	1.6		10.0		2.3		-26.9		29.8	

\*\* ML High Yield Master II USD!

Fund Benchmark: Barcap U.S. Corporate High Yield 2% Issuer Capped

## Share class information

	Initial charge	Exit charge	Annual charge	Expense ratio	Lump sum	Savings plan	ISIN
A	5.00	0	1.45				IE0034203152

Registered for sale: Austria, Belgium, Finland, France, Germany, Hong Kong, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom

## Sources of return (01/08/09)

	Low	Average	High
Portfolio Duration	[Bar chart]		
Credit Spreads	[Bar chart]		
Country / Sectors	[Bar chart]		
Yield Curve Positioning	[Bar chart]		
Currency Exposure	[Bar chart]		
Derivatives	[Bar chart]		

## Portfolio characteristics

Effective duration (years)	3.92
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## Credit rating breakdown by CTD\*

(01/08/09)

	Long	Short	Net
AAA	0	0	0
AA	0	0	0
A	0.08	0	0.08
BBB	0.28	0	0.28
BB	1.39	0	1.39
B	1.37	0	1.37
CCC & below	0.74	0	0.74

## Duration breakdown (01/08/09)

	Long	Short	Net
0-1 year	0.14	0	0.14
1-3 years	0.27	0	0.27
3-5 years	1.94	0	1.94
5-7 years	1.07	0	1.07
7+ years	0.50	0	0.50

## Asset allocation by CTD

(01/08/09)

	Long	Short	Net
Corporates	3.92	0	3.92

\* CTD = Contribution to duration. Credit rating exposures are expressed in spread duration terms.

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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-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.

### Absolute Return 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.

### Specialist Fund Ratings

**AAA** The fund demonstrates the highest standards of quality based on its investment process and management's consistency of performance relative to its own objectives.

**AA** The fund demonstrates very high standards of quality based on its investment process and management's consistency of performance relative to its own objectives.

**A** The fund demonstrates high standards of quality based on its investment process and management's consistency of performance relative to its own objectives.

### All Fund Ratings

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

**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

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** 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 comprised of 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 comprised of 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.