

Sub-fund of UK-authorized Oeic  
Western Asset Management

**Named portfolio manager(s):**  
Ian Edmonds (since inception)  
**Peer group:** Global Bond Funds in Sterling  
Hedged

**Location:** London  
**Launch date:** May 2008  
**Fund size (January 2010):** £239m

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

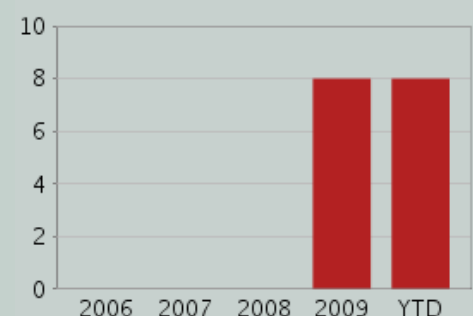
	3 Years
Fund	%
Standard & Poor's Peer Median	12.2%
Index**	20%
Fund Rank	/

Note: returns are cumulative

### 3 Year Risk Characteristics

Maximum Drawdown (%)
Volatility
Correlation
Beta

### 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 31/03/2010 on NAV to NAV basis, with gross income reinvested, in GBP.

Please see page 3 for required research analyst certification disclosure.

### Standard & Poor's opinion (March 2010)

This global multi-sector fund aims to beat a sterling-hedged composite benchmark by investing across the entire fixed income range. It used to have a structural bias toward spread product, including a preference for high quality MBS over government debt. Western Asset has adopted a more flexible approach since 2009, and now credit can be underweight and/or Treasuries overweight. Consequently, macro strategies will have a greater tracking error contribution.

The team in London has been strengthened with two experienced portfolio managers, but Ian Edmonds remains the lead manager of this fund. Edmonds kept a credit overweight throughout 2009 but has gradually increased exposure to Treasuries for two reasons. Firstly, he reduced holdings in MBS as spreads backed in to historic lows. Secondly, he wanted to balance the portfolio, so pure interest-rate duration could serve as a hedge against the overweight in corporate bonds, in case of a new bout of risk aversion.

This fund was launched in May 2008. It takes minimal currency risk but is otherwise very similar to the Irish-domiciled Legg Mason Western Asset Global Multi Strategy Fund (USD), which provides a track record going back to 2002. The two funds are more closely aligned since September 2009 after initial differences, mainly due to fund flows. This fund underperformed peer group and benchmark in 2008 but outperformed in 2009, due to overweights in high yield and subordinated financials.

We welcome the more pragmatic investment approach and the closer alignment with the sister fund. The fund retains its S&P A/V4 rating.

### Fund manager & team

Western Asset Management, based in Pasadena, is owned by Legg Mason. It is a specialist fixed income manager led by CIO Stephen Walsh. The group has more than 100 investment professionals managing around £300bn. Andrew Belshaw is head of London investments, which includes part of the global multistrategy team that draws on the firm's entire resources, and manages £35bn.

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.

Dipankar Shewaram - BSc (University College, London), MSc finance (LSE), CFA, joined Western Asset Management in 2009 from BlueBay where he spent seven years on the European investment grade desk. He had previously worked for ING Barings, BNP Paribas and Deutsche Asset Management as an emerging market investment manager/strategist.

Andrew Belshaw - economics (Manchester Polytechnic), Ph.D. (University of York), joined Western Asset Management in 2009 from BlackRock where he was head of sterling fixed income. He previously worked at M&G, Barings, Gartmore and Whittingdale.

### Management style

The fund has a dual objective: to generate a high total return and to beat its currency hedged composite index (50% BarCap Global Aggregate, 25% BarCap US High Yield 2% Issuer Capped, 25% JPMorgan EMBI+). It invests across the full range of fixed income asset classes. It has a more flexible approach since 2009, and now credit could be underweight and/or Treasuries overweight.

Western Asset's process is team-based and applies a long-term fundamental value philosophy. The global strategy team sets broad top-down themes and individual specialist teams make recommendations on sector and security allocation and currency views. The key decisions for this fund are sector and security selection.

Edmonds implements these ideas in line with the fund's guidelines. He has some discretion as to the amount of risk he takes on each trade.

Sector allocations can vary substantially. Historically, exposures to high yield and EMD have ranged from 20-35% and 0-35% respectively in the US dollar version of this fund. The portfolios are diversified and a risk manager participates in global strategy meetings, giving advice on correlations between holdings and bets.

# LEGG MASON FUNDS ICVC - LEGG MASON GLOBAL MULTI STRATEGY BOND FUND

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## Portfolio & performance analysis (January 2010)

This fund was launched in May 2008. It takes minimal currency risk but is otherwise very similar to the Irish-domiciled Legg Mason Western Asset Global Multi Strategy Fund (USD), which provides a track record back to 2002. However, differences in portfolio composition and fund flows meant that the performance of the two funds was significantly different until Q3 2009.

The USD version lost more in H2 2008 but then gained more in 2009 as it held more Tier I and older high yield issues, and made more money with currency strategies. Also, this fund grew from £11m to £239m over the past year, with cash holdings dragging on returns in a rising market.

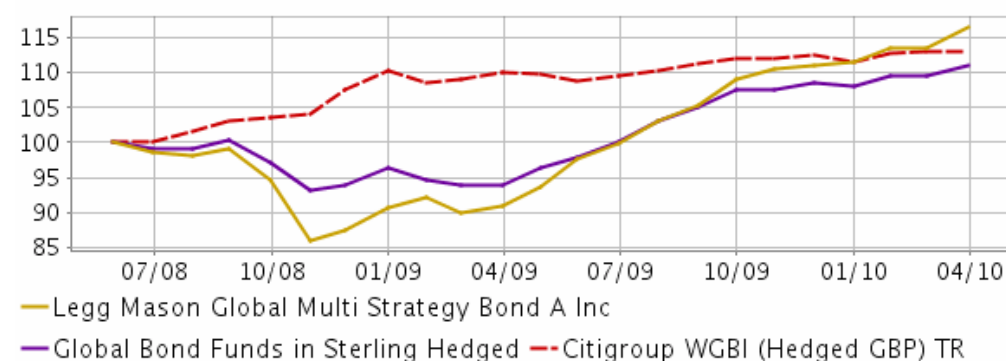
This fund has been overweight subordinated financials and high yield since launch. High yield remains the favoured asset class (30% of the fund) as the team expects default rates to fall significantly. Conversely, they kept an underweight in emerging markets debt over the past year, with a strong preference for EM corporates within the sub-sector.

18% of the fund comprised investment grade corporates at review, double the benchmark weight, a third of which was held in subordinated financials. They recently started to trim non-financial investment grade corporates.

The team was overweight MBS at the end of 2008 but sold them in the course of 2009 after spreads had narrowed substantially on the back of the Fed purchase programme. They invested most of the proceeds into Treasuries as a hedge against risks elsewhere in the portfolio, the credit overweight in particular.

The fund outperformed its composite benchmark by 120bps gross in 2009, after underperforming by 310bps gross from launch to end-2008. Returns were driven by overweights in high yield, subordinated financials and EM corporates. The fund is slightly ahead of the peer group median cumulatively since launch.

## Cumulative performance



## Discrete Performance (calendar years)

Fund	2009			YTD 31/03/2010		
	%	Rank	%	Rank	%	Rank
Index**	2.7	/	6.1	/	23.1	4/14
Median	2.3		3.3		12.1	
					4.5	5/18
					1.2	
					2.8	

\*\* Citi Curr-Hedged WGBl GBP!

Fund Benchmark: 50% BarCap Gbl Agg + 25% BarCap US HY 2% + 25% JPM EMBI+ (100% GBP hedged)

## Share class information

	Initial charge	Exit charge	Annual charge	Expense ratio	Lump sum	Savings plan	ISIN
A Inc							GB00B2R8FG10
Registered for sale	United Kingdom						

# STANDARD & POOR'S



## Sources of return (01/01/10)

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

## Portfolio characteristics

Effective duration (years)	5.33
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## Credit rating breakdown by CTD\* (01/01/10)

	Long	Short	Net
AAA	1.44	0	1.44
AA	0.35	0	0.35
A	0.73	0	0.73
BBB	1.18	0	1.18
BB	0.91	0	0.91
B	0.54	0	0.54
CCC & below	0.18	0	0.18

## Duration breakdown (01/01/10)

	Long	Short	Net
0-3 years	0.19	0	0.19
3-5 years	0.95	0	0.95
5-10 years	2.49	0	2.49
10+ years	1.70	0	1.70

## Asset allocation by CTD (01/01/10)

	Long	Short	Net
Governments/Supranational	1.66	0	1.66
Corporate Bonds	3.09	0	3.09
ABS/MBS/covered	0.19	0	0.19
Emerging market debt	0.30	0	0.30
Other	0.09	0	0.09

## Regional breakdown by CTD\* (01/01/10)

	Long	Short	Net	Curr %
North America	3.86	0	3.86	3
Europe ex-UK	1.46	0	1.46	-1
UK	0	0	0	98
Japan	0	0	0	-1
Emerging market debt	0.01	0	0.01	1

\* 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.