

# Western Asset UK£ Inflation Linked Plus Bond Fund

MANAGED BY WESTERN ASSET

DATA AS OF 31 OCTOBER 2010

## FUND PROFILE

### FUND OBJECTIVES

To maximise total return, through income and capital appreciation, by investing primarily in inflation indexed debt securities that are denominated in pound sterling.

### INCEPTION DATE

25.07.2005

### FUND INDEX

FTSE-A Index-Linked Gilts Over 5 Years Index

### TOTAL NET ASSETS OF ALL SHARE CLASSES

31.92m GBP

### MONTH END NAV - LM GBP ACCUMULATING SHARE CLASS

1,307.86 GBP

### SEDOL - LM GBP ACCUMULATING SHARE CLASS

BOFLNV9

### ISIN - LM GBP ACCUMULATING SHARE CLASS

IE00BOFLNV95

### TICKER SYMBOL - LM GBP ACCUMULATING SHARE CLASS

WAUKILP

### RISK STATISTICS (WEIGHTED AVERAGE)

Life	18.99 Years
Effective Duration	16.46 Years
Current Yield (gross of expenses) <sup>1</sup>	1.26%
Cashflow Yield (gross of expenses) <sup>1</sup>	3.06%
S&P Credit Quality	AAA

### MINIMUM SUBSCRIPTION

#### INSTITUTIONAL SHARE CLASS

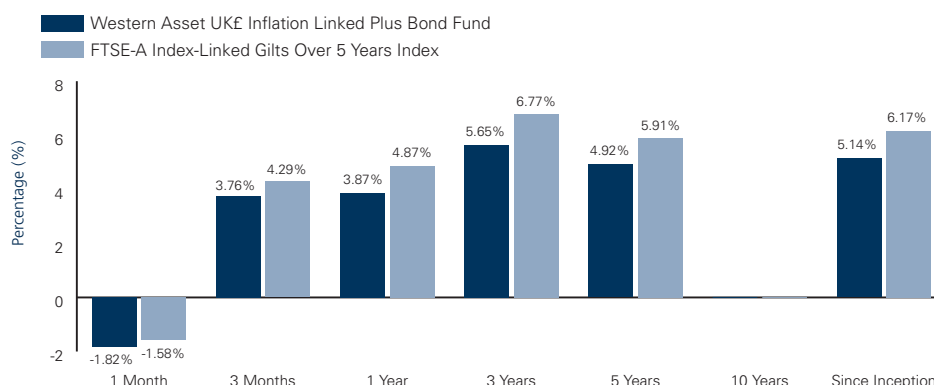
Initial Investment  
- £5,000,000  
Subsequent Investment  
- £100,000

#### FINANCIAL INTERMEDIARY SHARE CLASS

Initial Investment  
- £1,000,000  
Subsequent Investment  
- £100,000

NOT ALL SHARE CLASSES ARE AVAILABLE TO ALL INVESTORS OR DISTRIBUTION CHANNELS. PERFORMANCE OF OTHER SHARE CLASSES CAN VARY AS A RESULT OF DIFFERENCES IN FUND FEES.

## FUND PERFORMANCE – (GBP)



Calendar Year Returns	2005*	2006	2007	2008	2009	YTD
Fund - NAV	6.59%	1.31%	7.33%	2.84%	3.81%	5.21%
Fund Index	6.23%	2.65%	8.56%	3.31%	5.57%	6.17%

\* From 25/07/05

The Fund performance reflects the combined performance of all the active share classes that are available for this Fund. Investors in individual share classes may experience different performance due to various factors including currency, fees and inception dates.

### COUNTRY OF ISSUE BREAKDOWN

Holding	Fund	Index
United Kingdom	82.92%	100.00%
United States	2.74%	0.00%
Australia	2.37%	0.00%
Germany	1.61%	0.00%
Netherlands	0.52%	0.00%
Cash & Cash Equivalents	9.84%	0.00%

### CURRENCY OF ISSUE BREAKDOWN

Holding	Fund	Index
British Pound	82.62%	100.00%
Euro	3.06%	0.00%
United States Dollar	2.26%	0.00%
Australian Dollar	2.22%	0.00%
Cash & Cash Equivalents	9.84%	0.00%

### CURRENCY EXPOSURE

Holding	Fund	Index
British Pound	99.92%	100.00%
United States Dollar	1.31%	0.00%
Canadian Dollar	0.89%	0.00%
Swedish Krona	0.05%	0.00%
Australian Dollar	-0.03%	0.00%
Euro	-1.06%	0.00%
Japanese Yen	-1.08%	0.00%

### SECTOR BREAKDOWN

Holding	Fund	Index
Inflation Protected Securities	86.96%	100.00%
Governments	1.69%	0.00%
Corporate - Investment Grade	1.37%	0.00%
Corporate - High Yield	0.15%	0.00%
Cash & Cash Equivalents	9.84%	0.00%

### S&P CREDIT RATING BREAKDOWN

Holding	Fund	Index
AAA	87.25%	100.00%
AA	0.15%	0.00%
A	1.23%	0.00%
BBB	0.91%	0.00%
BB	0.47%	0.00%
C	0.15%	0.00%
Cash & Cash Equivalents	9.84%	0.00%

<sup>1</sup> Yields (gross of expenses) are not representative for an individual share class as the yield does not deduct the Total Expense Ratio or any applicable taxes that an investor may be subject to.

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## INVESTMENT PHILOSOPHY

The foundation of Western's philosophy for management of UK inflation-linked portfolios is a thorough examination of the real interest rate curve, the level of real interest rates, the expected inflation rate priced into nominal treasury yields, and the relative volatility of real yields to nominal yields.

## INVESTMENT APPROACH TO UK£ INFLATION-LINKED PLUS PORTFOLIOS

**Duration.** Limiting interest rate risk relative to the benchmark duration is Western's primary tool for risk control. The Investment Strategy group decides on a duration target based on a comprehensive analysis of domestic and international macroeconomic factors as well as the general political environment. The underlying belief is that interest rates are primarily determined by the level and direction of inflation, and that inflation is primarily a monetary phenomenon. The Investment Strategy Group weighs its views against market expectations, taking on more risk as its views diverge from the market and less risk as they converge. The consensus is not to attempt to time the market, but rather to identify and stay with long-term trends.

**Yield Curve.** Western closely monitors shifts in the yield curve, for the relationship between short, intermediate and long-maturity securities is essential to constructing a long-term investment horizon. The Investment Strategy Group determines the implications of the yield curve's shape, along with projections of central bank policy, market and inflation expectations, and formulates a yield curve strategy to be implemented by the Portfolio Managers. With excessive market volatility in the last several years, Western's nominal yield curve strategies have proven to be an important source of value added. The Firm will apply similar active yield curve strategies to the "real" curve.

**Sector & Sub-sector Allocation.** Western will primarily use UK issued inflation-linked bonds. However, should Western determine that certain international inflation-linked issues are liquid enough and have a better risk return pattern hedged back into sterling than UK inflation-linked bonds, the Firm would utilise this sector on an opportunistic basis. From a global perspective, the Firm analyses the projected economic environment in a wide range of countries to determine how this will affect the market behaviour of the various sectors worldwide. Non-UK securities are chosen which have a strong probability of exceeding domestic returns. Additionally, as opportunities arise in the corporate and agency inflation-indexed markets, Western sees potential value in switching between those issuing sectors and that of U.K. governments.

For the plus sectors, non-UK investment-grade sovereigns are used opportunistically as additional sectors within the UK mandate. Any foreign investments may be held on a hedged or unhedged basis, according to the Firm strategy.

**Issue Selection.** The initial universe of securities is composed of all the UK inflation-linked issues, other sectors of the broad UK fixed income market, and non-UK inflation indexed securities. Inflation-linked issues are evaluated based on Western's outlook for real interest rate levels, curve shape, and CPI accrual. This gives us an estimate of the expected return on UK inflation-linked securities. Based on these estimates, Western works with our sector specialists to evaluate whether their sector of the UK broad market offers better value than UK inflation-linked bonds, perhaps by offering higher yields or better expected total returns through spread tightening. Non-U.K. inflation linked securities are also evaluated to determine whether they offer more attractive real yields or higher potential inflation accruals than UK inflation-linked bonds.

## IMPORTANT INFORMATION

Legg Mason Institutional Funds plc are managed by Western Asset, which consists of the following entities: Western Asset Management Company (Pasadena), Western Asset Management Company Limited (London), Western Asset Management Company Pte. Ltd. (Singapore) and Western Asset Management Company Ltd (Tokyo).

This is a sub-fund (Fund) of Legg Mason Institutional Funds plc, an umbrella fund with segregated liability between sub-funds, established as an open-ended investment company with variable capital and incorporated with limited liability under the laws of Ireland with registered number 352814. It qualifies, and is authorised in Ireland by the Financial Regulator as an undertaking for collective investment in transferable securities and is a section 264 Scheme as recognised by the FSA.

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**Source for performance figures:** Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted. Performance greater than one year is annualised.

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