

# Western Asset UK£ Long Duration Bond Fund

MANAGED BY WESTERN ASSET

DATA AS OF 31 OCTOBER 2010

## FUND PROFILE

### FUND AIM

To maximise total return, through income and capital appreciation, by investing primarily in longer duration debt securities denominated in pounds sterling.

### INCEPTION DATE

25.07.2005

### FUND INDEX

50% FTSE-A Gilts Over 15 Years Index & 50% BofA Merrill Lynch Sterling Non-Gilts Index

### TOTAL NET ASSETS OF ALL SHARE CLASSES

78.86m GBP

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

1,214.50 GBP

### SEDOL - LM GBP ACCUMULATING SHARE CLASS

BOFLNWO

### ISIN - LM GBP ACCUMULATING SHARE CLASS

IE00BOFLNWO3

### TICKER SYMBOL - LM GBP ACCUMULATING SHARE CLASS

WAUKLDB

### RISK STATISTICS (WEIGHTED AVERAGE)

Life	20.04 Years
Effective Duration	11.19 Years
Current Yield (gross of expenses) <sup>2</sup>	3.47%
Cashflow Yield (gross of expenses) <sup>2</sup>	3.80%
S&P Credit Quality	AA

### MINIMUM SUBSCRIPTION

#### INSTITUTIONAL SHARE CLASS

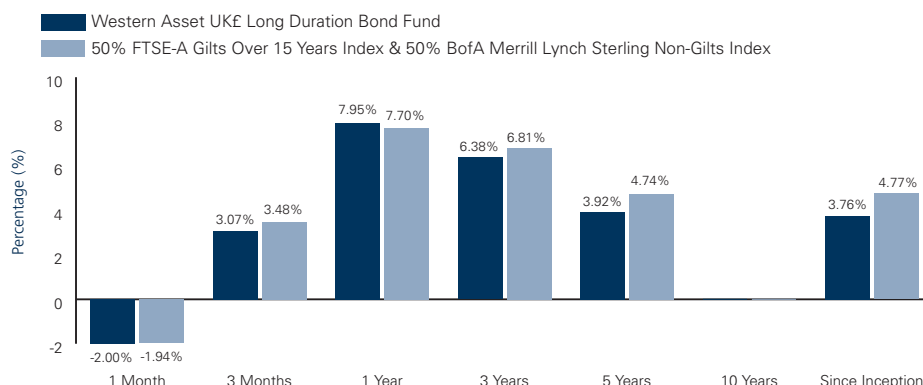
Initial Investment  
- £5,000,000  
Subsequent Investment  
- £100,000

#### 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	4.38%	-1.56%	0.56%	-1.92%	9.38%	9.57%
Fund Index	5.08%	0.43%	2.27%	4.74%	3.00%	9.79%

\* 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.

## COMPOSITE PERFORMANCE (PRELIMINARY NET OF FEES IN GBP)

Annualised Total Returns	1 mo	3 Mos	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception 31.03.98
Composite	-2.36%	3.05%	7.54%	6.67%	4.08%	5.94%	6.62%
Composite Index <sup>1</sup>	-2.27%	3.59%	7.04%	7.35%	5.15%	5.79%	6.50%

Calendar Year Returns	2005	2006	2007	2008	2009	YTD
Composite	10.50%	-1.64%	0.75%	-2.92%	11.56%	9.12%
Composite Index <sup>1</sup>	10.72%	0.38%	2.86%	4.29%	5.22%	9.15%

The returns of the above composite, managed similarly to the fund, are not indicative of the returns that could be gained from the fund.

## COUNTRY OF ISSUE BREAKDOWN

Holding	Fund	Index
United Kingdom	71.77%	71.94%
United States	11.57%	5.88%
Netherlands	2.33%	1.33%
France	2.21%	3.13%
Italy	1.12%	1.57%
Japan	0.56%	0.36%
Germany	0.56%	4.90%
Sweden	0.29%	0.51%
Jersey	0.28%	0.10%
Others	6.19%	10.28%
Cash & Cash Equivalents	3.12%	0.00%

## CURRENCY OF ISSUE BREAKDOWN

Holding	Fund	Index
British Pound	92.28%	100.00%
United States Dollar	4.47%	0.00%
Euro	0.13%	0.00%
Cash & Cash Equivalents	3.12%	0.00%

## CURRENCY EXPOSURE

Holding	Fund	Index
British Pound	99.93%	100.00%
Euro	0.11%	0.00%
United States Dollar	-0.04%	0.00%

## SECTOR BREAKDOWN

Holding	Fund	Index
Governments	49.54%	50.00%
Corporate - Investment Grade	37.18%	30.97%
Asset-Backed Securities	9.44%	5.21%
Mortgage-Backed Securities	0.47%	0.58%
Corporate - High Yield	0.25%	0.00%
Supranationals & Agencies	0.00%	13.24%
Cash & Cash Equivalents	3.12%	0.00%

## S&P CREDIT RATING BREAKDOWN

Holding	Fund	Index
AAA	56.05%	64.90%
AA	5.20%	7.60%
A	23.06%	17.57%
BBB	11.41%	9.93%
BB	1.03%	0.00%
D	0.12%	0.00%
Cash & Cash Equivalents	3.12%	0.00%

<sup>1</sup> Asset-weighted return of benchmarks for all accounts participating in the UK Long Duration IG F&O Composite.

<sup>2</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.

PAST PERFORMANCE IS NO GUIDE TO FUTURE RETURNS AND MAY NOT BE REPEATED.

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# Western Asset UK£ Long Duration Bond Fund

MANAGED BY WESTERN ASSET

## INVESTMENT PHILOSOPHY

Western's investment philosophy is to provide diversified, tightly controlled, value-oriented portfolios through:

- Long-term value investing. Long-term value investing is Western Asset's fundamental approach. As sector rotators, the Firm seeks out the greatest value by assiduously analysing all sectors of the fixed-income market.
- Multiple strategies. Western employs multiple strategies, designed so that results do not depend on one or two opportunities and that no single adverse market event should have an overwhelming effect on results. Western believes this incremental approach can add value over time and can help to reduce volatility in normal market conditions.

Western's fixed-income discipline emphasises a team approach that unites groups of specialists dedicated to different market sectors. The investment responsibilities of each sector group are distinct, yet results are derived from the constant interaction that unites the specialty groups into a cohesive investment management team.

## INVESTMENT APPROACH TO UK£ LONG DURATION PORTFOLIOS

The strategic goal at Western is to add value to investment portfolios while adhering to a disciplined risk control process. The key areas of focus are:

- Duration
- Yield Curve
- Sector & Sub-Sector Allocation
- Issue Selection

These areas represent the primary sources of value added in active fixed-income management. Different investment approaches result from the weight attributed to each factor.

**Duration.** Limiting interest rate risk is Western's most basic risk control tool. 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. Risk is managed by controlling yield curve relative to a target portfolio and by assessing the convexity of the Firm's holdings.

**Sector & Sub-Sector Allocation.** Western has been successfully rotating among and within sectors of the bond market, including non-government sectors, because they typically offer higher relative yields and have tended to outperform the broad market over long market cycles, and overseas bonds because of their relatively high yields particularly when hedged to Sterling. Members of the Investment Strategy Group continually analyse the broad economic environment to determine the potential impact on sector performance.

**Issue Selection.** Issue selection is a bottom-up process to determine mispriced or undervalued securities. The sector teams provide an ongoing assessment of securities. Also assessed are newly issued securities. Armed with these analyses, the sector teams and portfolio manager select issues opportunistically.

## 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.

This Fund is offered solely to non-US investors under the terms and conditions of the Fund's current prospectus. This document does not constitute an invitation to invest. The value of investments and the income from them can go down as well as up and investors may not get back the amounts originally invested. The value of investments and the income from them can be affected by changes in interest rates, in exchange rates, general market conditions, political, social and economic developments and other variable factors. Please refer to the Simplified Prospectus and Prospectus documentation, which describe the full objective and risk factors associated with this Fund. This document is for use by professional clients and eligible counterparties only - it is not aimed at or for use by retail clients.

This information does not constitute any investment advice or investment recommendations. The analysis of this document is based on historic data, collected by Legg Mason Investments (Europe) Ltd sourced from Western Asset Management Ltd for its own use; the data is communicated for information purposes only.

**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. **Composite performance figures:** Please note that the composite performance figures are for illustrative purposes only and have been used to demonstrate the longer term track record of the investment strategy followed by the investment manager. There are differences between the composite and the related Fund, including differences in the number of holdings, strategy, the amount of assets under management, cash flows fees and expenses and applicable regulatory requirements, including investment and borrowing restrictions – this means the past performance of the composite is not indicative of the future performance of the Fund. Please refer to the additional disclaimer relating to the composite performance figures at the back of this document.

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## Western Asset UK£ Long Duration Bond Fund

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UK Long Duration Investment Grade Futures & Options  
Composite  
Composite Inception Date: 31/03/98  
Composite Creation Date: 30/04/05

	No. of Accounts	Mkt. Value (mil.)	Net Total Return	Gross Total Return	Custom Index	% Firm Assets	Dispersion	Firm Assets (mil.)
2000	1	\$29	7.12%	7.50%	7.05%	0.04%	n/a	\$76,504
2001	1	\$36	3.32%	3.58%	-0.53%	0.04%	n/a	\$94,186
2002	1	\$34	10.86%	11.18%	9.72%	0.03%	n/a	\$112,087
2003	5	\$627	6.22%	6.53%	4.99%	0.42%	n/a	\$148,333
2004	10	\$1,634	8.68%	9.01%	8.20%	0.83%	n/a	\$197,837
2005	10	\$1,612	10.50%	10.83%	10.72%	0.65%	1.09%	\$249,233
2006	9	\$1,645	-1.65%	-1.36%	0.38%	0.32%	0.50%	\$510,172
2007	7	\$1,442	0.75%	1.06%	2.86%	0.23%	1.60%	\$621,493
2008	5	\$678	-2.92%	-2.63%	4.29%	0.13%	n/a	\$505,660
2009	4	\$603	11.56%	11.89%	5.22%	0.13%	-na-	\$482,218
Q3 2010	3	\$382	11.76%	12.01%	11.68%	0.08%	-na-	\$469,406

**Description:** Western Asset's UK Long Duration composite includes portfolios that employ an active, team-managed investment approach around a long-term, value-oriented investment philosophy. These portfolios use diversified strategies and all investment-grade sectors of the fixed-income market in seeking to add value while minimizing risk.

**Objective:** Exceed the benchmark return by 100 basis points annually over a 3- to 5-year period while approximating benchmark risk.

**Benchmark Description:** The current benchmark is a blended asset-weighted average of the performance results of all the benchmarks in the Composite. Indices which compose the benchmark are: FTSE Government 15+, FTSE Inflation-Linked 5+, BofA Merrill Lynch Sterling Non Gilts, BofA Merrill Lynch Sterling Non Gilts 10+, BofA Merrill Lynch U.K. Gilts, 25+ Years, BofA Merrill Lynch 25+ Year UK Inflation-Linked Gilt Index, iBoxx Sterling Non-Gilts 15+ and JP Morgan Government Bond Index Global exUK, GBP Hedged indices.

**Base Currency:** GBP | **Composite Minimum:** £25 million as of 4/1/07 (previously £5 million)

**Fee Schedule:** .30 of 1% on first £60 million, .15 of 1% on amounts over £60 million. The minimum separate account size is £75 million.

#### Western Asset has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

The Firm has been verified for the period from January 1, 1993 to December 31, 2009. Past investment results are not indicative of future investment results.

For GIPS® purposes, the Firm is defined as Western Asset, a primarily fixed-income investment manager comprised of Western Asset Management Company, Western Asset Management Company Limited, Western Asset Management Company Pte. Ltd., Western Asset Management Company Ltd, Western Asset Management Company Pty Ltd, and Western Asset Management Company Distribuidora de Títulos e Valores Mobiliários (DTVM) Limitada, with offices in Pasadena, New York, London, Singapore, Tokyo, Melbourne and São Paulo. Each Western Asset company is a wholly owned subsidiary of Legg Mason, Inc. ("Legg Mason") but operates autonomously, and Western Asset, as a firm, is held out to the public as a separate entity. Western Asset Management Company was founded in 1971.

The former Citigroup Brazil's asset management business, located in São Paulo, was integrated into Western Asset Management Company DTVM Limitada (previously known as Western Asset Management Company Limitada), and was subsequently incorporated into the definition of the Firm in March 2009.

The Firm is comprised of several entities as a result of various historical acquisitions made by Western Asset and their respective performance has been integrated into the Firm in line with the portability requirements set forth by GIPS.

The Composite is valued monthly. The Composite returns are the asset-weighted average of the performance results of all the accounts in the Composite. Investment advisory fees are not deducted in computing the gross of fee performance results. Net of fee results are calculated using the highest tier structure of the composite fee schedule. The portfolios in the composites are all actual, fee-paying and performance fee-paying, fully discretionary accounts managed by the Firm for at least one full month. Investment results shown are for taxable and tax-exempt accounts and include the reinvestment of all earnings. Any possible tax liabilities incurred by the taxable accounts have not been reflected in the net performance. Composite performance results are time-weighted net of trading commissions and other transaction costs including non-recoverable withholding taxes. Additional information regarding policies for calculating and reporting returns is available upon request.

The returns for the account in the Composite are calculated using a time-weighted rate of return adjusted for weighted cash flows. Prior to September 1, 2001, the Firm revalued each account when an external cash flow equal to or greater than 10% occurred in an account. Monthly performance returns prior to and after the date of the cash flow were calculated and geometrically linked to derive a monthly performance return. Effective September 1, 2001, the cash flow threshold was changed to 5% of each account's market value. The decrease in the threshold was made to enhance the accuracy of the accounts' returns. Trade date accounting is used since inception and market values include interest income accrued on securities held within the accounts. Performance is calculated using asset values denominated in a base currency. Composite assets at year-end presented in the Schedule are translated to U.S. dollars using end of year exchange rates.

Composite returns are measured against a market index. The market index is unmanaged and provided to represent the investment environment existing during the time periods shown. For comparison purposes, the market index is a fully invested index, which includes reinvestment of income, and its performance has been linked in the same manner as the Composite. The returns for this unmanaged index do not include any transaction costs, management fees or other costs.

The Composite dispersion of annual returns is measured by the standard deviation of asset-weighted account returns represented within the Composite. For each annual period, accounts with less than 12 months of returns are not represented in the dispersion calculation. Periods with five or fewer accounts are not statistically representative and are not presented. Where account guidelines permit, futures and options are used to implement new account strategies with minimum cost to the account. Futures and options may also be used occasionally to hedge market exposure or add incremental value at the margin. At no time would the use of derivatives result in the accounts included in the Composite being leveraged.

A complete list and description of Western Asset's composites is available upon request. Please contact Veronica A. Amici at 626•844•9535 or ramici@westernasset.com. All returns for strategies with inception prior to January 1, 2000 are available upon request.