

Specialist

Fund Manager/Adviser:

Christopher Zuehlsdorff (since September 2009), Alex Pillersdorf (since September 2009)

Location:

New York

Launch Date:

Fund Size (November 2009):

US\$28m

Fund benchmark:

8-10% annualised over 3-5 years

Group Contact No:

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Website:

www.leggmason.co.uk

S&P ID Number: ABC2009

Share class screened:

Fund



Further information on S&P's fund coverage can be found at www.FundsInsights.com

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INVESTMENT STYLE

	Value	Blend	Growth
Large-Cap			
Mid-Cap			
Small-Cap			

SOURCES ALPHA

	Low	Medium	High
Asset/geographic allocation			
Sector positioning			
Stock selection			
Currency overlay			
Quantitative strategies			
Derivative strategies			

STANDARD & POOR'S OPINION (JANUARY 2010)

Legg Mason has asked its affiliate, Permal, to manage this Ucits III multi-asset product. The benefits to the investor of the product structure are transparency, relatively low cost and liquidity (daily dealing).

The majority of the added value is expected to come from asset allocation, and this is reflected in the high proportion of ETFs (typically around three-quarters of the portfolio). We have been rating funds managed by Permal for 10 years, and throughout have recognised that strategy allocation has been an important contributor to the track record. However, the asset allocation contribution in this new mandate is greater than for the Permal's other products, where about 60-80% of the added value has come from fund manager selection.

To identify the top-down strategy contribution, Permal's risk management team has modelled the relationship between top-down factor inputs and the historic returns series of Permal Macro Holdings. About 74% of the variation in monthly

returns is explained by the top-down factor inputs over the past five years. Over this period the fund shows an annualised 9.8% (gross) return with 6.8% volatility. Permal uses the risk factor model and applies it as a base-line asset allocation for the new mandate. The base-line is subject to adjustment based on the top-down view formed in Permal's investment committee. Permal also applies its manager selection skills to the allocation to low/flexible beta Ucits III funds (which may be up to 40% of the portfolio).

Lead manager Christopher Zuehlsdorff and co-manager Alex Pillersdorf construct the portfolio from Ucits-eligible investments approved by the committee and based on the base-line systematic strategy and discretionary recommendations of the investment committee. Given the structured and team-based approach, drawing off Permal's track record based on strategy allocation and manager selection, the fund achieves a AA (NEW) rating.

FUND MANAGER & TEAM

At end-November 2009, Permal had about \$20bn funds under management and over 200 employees worldwide. This includes four senior investment committee members, 35 investment manager/analysts, five operational due diligence specialists and five in the legal support team. Key team members include:

Isaac Souede - CEO - MBA (University of Michigan), CPA, has held a number of operational positions, becoming CFO of Chemical Fabrics Corporation before joining Permal in 1985. He became president in 1996.

Jim Hodge - CIO - MBA (Harvard Business School), CPA, held a senior position at the New York Stock Exchange before moving to Permal in 1987. He is responsible for asset allocation as well as performance monitoring, and research and analysis of fund managers.

Robert Kaplan - deputy CIO - accounting (State University of New York at Albany), MBA (Columbia University), CPA, was an audit manager at Ernst & Young before joining Permal in 1996. He is deputy CIO and head of research.

Judy Tchou - senior manager - graduate (New York University), joined Permal in 1991. She shares responsibility for the discovery of managers and analysis of styles.

Christopher Zuehlsdorff - MBA (Carnegie Mellon University), worked in IT consulting before undertaking his MBA. In July 2003 he joined Permal as an analyst.

Alex Pillersdorf - finance (Emory University), started as a financial analyst in 2003 with Houlihan Lokey Howard & Zukin, advising on mergers and acquisitions. Joined Permal in 2005.

PORTFOLIO CHARACTERISTICS

No. of holdings	22
Turnover ratio (%)	NA
% in top 10	65



TOP 10 HOLDINGS (01/11/09)

	%
iShares Euro Government Bond 1-3 years	10.1
iShares USD Treasury Bond 1-3 years	10.0
ETFs All Commodities DJ-UBSCISM	7.6
Gold Bullion Securities	6.6
BH Macro Ltd USD	5.1
iShares Euro Corporate Bond	5.1
iShares USD Corporate Bond	5.1
iShares DJ EuroStoxx Small Cap	5.0
iShares GBP Index-Linked Gilt	5.0
iShares USD TIPS	5.0

* In top 10 holdings a year ago

ALLOCATION BREAKDOWN (01/11/09)

	Fund %
Alternatives	23.0
Cash	7.0
Commodities	15.0
Equity	20.0
Fixed interest	35.0

LEGG MASON PERMAL GLOBAL ABSOLUTE FUND

MANAGEMENT STYLE

- The fund aims to return 8-10% annualised over a market cycle of three to five years with 6-8% volatility through a global macro investment approach.
- Portfolio allocation is flexible, with no requirement to maintain exposure to any particular asset class. Approximate ranges for the broad asset classes are equities 0-40%, fixed income 20-80%, real assets (commodities, real estate and infrastructure) 0-40%, alternatives 0-40%, and cash 0-20%.
- ETFs and Ucits III funds are the main vehicles used to construct the portfolio. However, listed closed-end funds and a variety of derivatives may also be included.
- The process begins with a systematic strategy allocation based on modelling the main factors behind the historic returns series of Permal Macro Holdings.
- Within regular meetings Permal's investment committee provides a macro-economic view and recommended strategy allocations.
- Lead manager Christopher Zuehlsdorff and co-manager Alex Pillersdorf combine the guideline systematic strategy allocation with the discretionary view from the investment committee to construct the portfolio from Ucits-eligible assets.
- Fund selection favours managers with strong track records, based on some understandable edge, and those with tight risk control systems in place.
- The portfolio is reviewed monthly for re-balancing by Permal's managers and investment committee.
- Legg Mason Global Asset Allocation (LMGAA) implements the actual subscriptions, redemptions and new portfolio allocations (upon instructions from Permal).
- The LMGAA also performs monitoring for compliance and regulatory requirements in conjunction with Permal's investment and risk committee.
- The fund provides daily liquidity.

PORTFOLIO & PERFORMANCE ANALYSIS (NOVEMBER 2009)

At the beginning of November 2009 the portfolio included 22 holdings and its asset allocation breakdown was equities 20%, fixed income 35%, commodities 15%, alternative strategies 23% and cash 7%.

The geographical sub-sectors of equities were Europe 37%, Japan 38%, Asia-Pacific ex Japan 12% and emerging markets 12%.

Fixed income was divided into government bonds 57% and corporate bonds 43%.

Real asset strategies included gold 40%, other commodities 60%.

Alternative strategies included managers applying hedge strategies mainly through Ucits III products, but also closed ended funds (eg Brevan Howard Macro Ltd USD).

The fund was launched during September 2009 and therefore has little performance data.

The risk management team's modelling of return factors in Permal Macro Holdings is able to reproduce a 7.2% gross annualised return over the five years to end September 2009 with 5.8% standard deviation based on the key strategy factors. This is 2.6% points behind the actual return of Permal Macro Holdings.

Permal is aiming to make up the shortfall through adjusting the baseline strategy from the model according to its discretionary view formed within the investment committee and through value adding manager selection within the small allocation to actively managed funds (primarily in the alternatives allocation).