

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

**Location:** London  
**Launch date:**  
**Fund size (January 2009):** US\$12m

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

Report date March 2009

## Investment Style

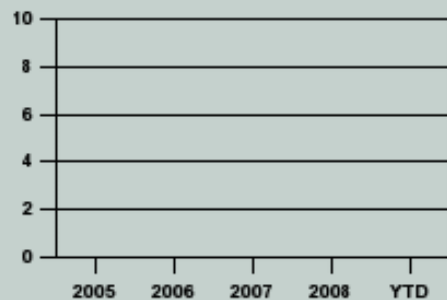
	Inv Grade	Blend	Sub Inv Grade
Govt			
Corp			
Emerging			
ABS/MBS			

## Performance Statistics

	Launch
Fund	-9.4%
Standard & Poor's Peer Median	1.7%
Index**	10.2%
Fund Rank	11/13
Volatility Adjusted Ranking	/10

Note: returns are cumulative

## 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 31/12/2008 on NAV to NAV basis, with gross income reinvested, in GBP.

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

This is a multi-strategy fund but should be thought of more as a diversified spread product portfolio. It was launched in May 2008 and is very similar to its dollar-based Irish-domiciled sister fund but will take less currency risk (unhedged exposure is capped at 20%). Western operate a deep-value philosophy and so the fund will usually have a structural underweight to Treasuries and other high-quality government debt; AAA agency mortgages are used instead to diversify and control credit risk in the portfolio.

Stephen Walsh has been promoted to CIO from his position as deputy, but Western's fixed income capability remains otherwise relatively stable and well-resourced, with more than 120 investment professionals averaging 17 years' experience.

The fund has been overweight credit beta since launch, through exposures in high yield and subordinated financials. Conversely, it has had held minimal Treasuries and high-quality government sovereigns.

The chart adjacent is blank as the fund does not yet have a full discrete calendar year's performance. Since launch to end-2008 it has trailed its composite benchmark (see below) by 310bps before fees. All spread sectors lost ground to Treasuries and high-quality sovereigns in 2008, although Tier I financials and high yield were the worst performers. Some (albeit minimal) yen exposure helped buffer the declines.

While cognisant of Western's deep-value approach, we feel the team could have been more pragmatic in helping to cushion the fund's losses. We have reduced the S&P rating to AV4.

## Fund manager & team

Western Asset Management, based in Pasadena, is owned by Legg Mason. It is a specialist fixed income manager with more than 120 investment professionals managing over \$500bn.

Ian Edmonds - graduate (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.

Stephen Walsh - CIO - BS finance (University of Colorado), started his career in 1981 as a portfolio manager at Atlantic Richfield, running limited-duration portfolios, and moved to Security Pacific Investment Managers in 1988. He joined Western in 1991.

## Management style

The fund has a dual objective: to generate a high total return and to outperform its currency hedged composite index (50% Barcap Global Aggregate, 25% Barcap High Yield 2% Issuer Capped, 25% JPMorgan EMBI+). It invests across the full range of fixed income asset classes but is structurally biased towards spread sectors.

Western's process is team-based. The global strategy team sets broad top-down themes and individual specialist teams make recommendations on sector and security allocation and currency views. The most important decisions for this fund involve the trend of real interest rates globally, country, bottom-up sector and security selection and curve trades. Unhedged currency exposure is limited to 20%.

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, conservative allocations have included 40% in governments, 20% each in MBS, investment grade corporates and high yield with a zero exposure to emerging market debt. Respective allocations to aggressively constructed portfolios have been 5%, 15%, 10%, 35% and 35%.

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Sub-fund of UK-authorized Oeic  
Legg Mason Investments



## Portfolio & performance analysis (January 2009)

Western began adding credit risk in the fourth quarter of 2007 at the expense of government bonds and emerging market debt. The team had been wary of LBO risk affecting industrials earlier in the year and maintained their preference for financials during late 2007/early 2008. Within financials, they sought the higher yielding subordinated issues including Tier I paper. The manager stopped increasing the exposure to the sector in the first quarter of 2008. More generally, he thinks new issues will represent the best opportunities in corporate credit because they are at a discount to the secondary market.

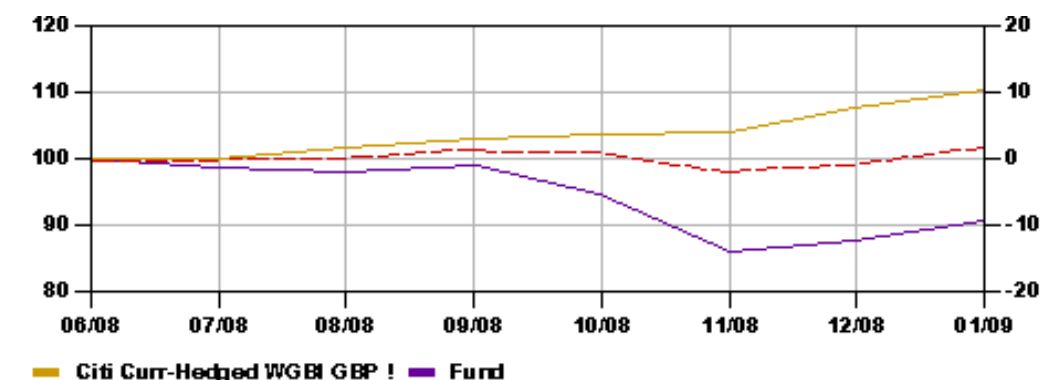
In keeping with the value-driven investment philosophy, the portfolio remains underweight Treasuries. The team has instead been adding to agency backed mortgages as a diversification trade. Exposure to TIPS was also increased towards the end of 2008 on the view they provided cheap insurance against inflation. Within government bonds, the team currently favours euro interest rates exposure where the ECB has been slower in cutting rates. There are no holdings in European peripheral countries.

The fund is long yen and the Brazilian real against the euro, although has minimal currency risk overall.

The fund has a short track record, having only been launched in May 2008. Since then to year-end, it underperformed its composite benchmark by 310bps before fees as Western's value approach and propensity to favour spread sectors weighed on returns.

An underweight in G3 government debt and overweight in high yield and subordinated financials (mainly in Tier I issues) has been the primary detractor from performance.

## Cumulative performance



## Discrete Performance (calendar years)

	2005		2006		2007		2008		YTD 31/12/2008	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	6.6		2.7		6.1		11.5			
Index**	6.6		2.7		6.1		11.5			
Median	5.7		2.4		3.4		-0.2			

\*\* Citi Curr-Hedged WGBI 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							

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

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

## Portfolio characteristics

Effective duration (years)	4.53
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## Credit rating breakdown by CTD\* (01/01/09)

	Long	Short	Net
AAA	0.82	0.00	0.82
AA	0.15	0.00	0.15
A	0.47	0.00	0.47
BBB	0.79	0.00	0.79
BB	0.60	0.00	0.60
B & below	0.70	0.00	0.70

## Duration breakdown (01/01/09)

	Long	Short	Net
0-3 years	0.57	0.00	0.57
3-5 years	1.77	0.00	1.77
5-10 years	1.26	0.00	1.26
10+ years	0.94	0.00	0.94

## Asset allocation by CTD (01/01/09)

	Long	Short	Net
Governments/supranationals	1.56	0.00	1.56
Corporates	2.25	0.00	2.25
ABS/MBS/covered	0.47	0.00	0.47
Emerging market debt	0.27	0.00	0.27

## Regional breakdown by CTD\* (01/01/09)

	Long	Short	Net	Curr %
North America	2.91	0.00	2.91	0
Europe ex-UK	1.25	0.00	1.25	-3
UK	0.13	0.00	0.13	99
Japan	0.19	0.00	0.19	3
Emerging market debt	0.27	0.00	0.27	1

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

## 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 performance consistency of the management team and/or approach 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.

### 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.

### 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 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.

10/14/2008

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