

LEGG MASON ASSET MANAGEMENT HONG KONG LIMITED

Form ADV Part 2A Brochure

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THIS BROCHURE PROVIDES INFORMATION ABOUT THE QUALIFICATIONS AND BUSINESS PRACTICES OF LEGG MASON ASSET MANAGEMENT HONG KONG, LIMITED ("LMAMHK"). IF YOU HAVE ANY QUESTIONS ABOUT THE CONTENTS OF THIS BROCHURE, PLEASE CONTACT US AT (852) 3652-3000. THE INFORMATION IN THIS BROCHURE HAS NOT BEEN APPROVED OR VERIFIED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (the "SEC") OR BY ANY STATE SECURITIES AUTHORITY.

ADDITIONAL INFORMATION ABOUT LMAMHK ALSO IS AVAILABLE ON THE SEC'S WEBSITE AT www.adviserinfo.sec.gov. CLICK ON "INVESTMENT ADVISER SEARCH."

LMAMHK IS REGISTERED WITH THE SEC AS AN INVESTMENT ADVISER. LMAMHK'S STATUS AS A REGISTERED INVESTMENT ADVISER DOES NOT IMPLY A CERTAIN LEVEL OF SKILL OR TRAINING.

Item 2 - Material Changes

The following significant changes have been made to this Brochure since the November 2011 version:

- **Item 4:** Assets under management figure has been updated.

The descriptions of LMAMHK's China and Hong Kong equities investment strategies have been updated.
- **Item 7:** Governments and governmental agencies have been deleted from the list of LMAMHK's potential clients.
- **Item 8:** The descriptions of LMAMHK's methods of analysis and investment strategies and the risks associated with LMAMHK's strategies have been updated.
- **Item 10:** The description of the Legg Mason Global Asset Allocation Group has been eliminated as LMAMHK personnel no longer participate in such group.
- **Item 12:** The description of LMAMHK's trading practices, including the factors considered by LMAMHK in selecting brokers to execute transactions on behalf of client accounts, has been updated.
- **Item 13:** The description of the processes followed by LMAMHK in reviewing client accounts has been updated.
- **Item 16:** The description of the types of guidelines that are typically agreed to by LMAMHK and a client has been expanded.

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Item 4 - Advisory Business

About Legg Mason Asset Management Hong Kong Limited

Legg Mason Asset Management Hong Kong Limited (LMAMHK) provides discretionary investment management, investment advisory and related support services to a wide-range of institutional clients, including pension and profit-sharing plans, pooled investment vehicles and corporations.

With respect to its advisory services, LMAMHK is focused exclusively on generating alpha in the Hong Kong and China equities markets. We have a long track record managing assets in the Hong Kong markets since 1994. LMAMHK is an indirect, wholly-owned subsidiary of Legg Mason, Inc. (“Legg Mason”), and operates independently from other Legg Mason investment management subsidiaries. As of March 31, 2012, LMAMHK managed US\$733,800,162 of client assets on a discretionary basis.

LMAMHK is registered as an investment adviser with the United States (U.S.) Securities and Exchange commission (“SEC”) in order to offer and provide investment management services to institutional clients located in the U.S. **LMAMHK complies with the requirements of the U.S. Investment Advisers Act of 1940 (“U.S. Advisers Act”) only with respect to its U.S. clients.**

LMAMHK is licensed and regulated by the Securities and Futures Commission in Hong Kong to carry on regulated activities of the following types:

- Type 1 (dealing in securities – distribution of unit trusts)
- Type 4 (advising on securities)
- Type 9 (asset management) in Hong Kong

Separate Account Investment Strategies

LMAMHK offers a range of long only investment strategies from within the China and Hong Kong equities asset class. The sole objective of LMAMHK and its people is to provide our institutional clients with active and total return exposure and consistent levels of alpha generation across a full market cycle via a disciplined and fundamental approach.

Item 5 - Fees and Compensation

Fees Charged by LMAMHK

LMAMHK generally charges fees based on a percentage of assets under management. The amount of LMAMHK's fees is negotiable and generally depends upon a number of factors, including the nature of the services to be provided, the size of any portfolio which is to be managed and the investment parameters agreed with the client.

LMAMHK may agree with a particular client to a performance-based fee structure. Performance-based fee structures are available to eligible U.S.-based clients, are negotiable and will be in compliance with applicable laws and regulations, including the U.S. Advisers Act and Rule 205-3 under such Act. As of the date of this Brochure, LMAMHK does not have any performance-based fee structures in place with any of its clients.

How Fees are Charged

Fees are charged to and collected from each client in accordance with the terms of LMAMHK's investment management or advisory agreement with the client. Fees generally are payable by clients either monthly or quarterly in arrears. The client's agreement with LMAMHK may provide that LMAMHK is to invoice the client for payment of LMAMHK's fees. Alternatively, such agreement may authorize LMAMHK to deduct its fees from the client's account by instructing the client's custodian to debit the client's account and remit payment to LMAMHK.

Unit Investment Trust Fees

If all or a portion of an account's assets are invested in a unit investment trust managed by LMAMHK or an affiliate and such unit investment trust has an internal management fee, the investment management fees charged to the account will be based on (i) total account assets, including those invested in the unit investment trust, but with a credit for the client's share of the unit investment trust's internal management fees, or (ii) total account assets excluding those assets invested in such unit investment trust. In no event will client accounts be double charged investment management fees on assets invested in such unit investment trusts.

Brokerage and Other Transaction Costs

In addition to LMAMHK's fees, clients of LMAMHK may pay costs and charges to other parties in connection with their accounts or certain securities transactions. These may include: commissions, commission equivalents and other charges for executing transactions through broker-dealers; dealer mark-ups, mark-downs and spreads; auction fees; certain odd-lot differentials; SEC fees; exchange fees; transfer taxes; stamp taxes; regulatory transaction fees; and any other charges mandated by law or regulation. Please see Item 12 of this Brochure for information concerning LMAMHK's brokerage practices.

Other Fees and Expenses

In addition to LMAMHK's fees, unit investment trust fees and brokerage and other transaction costs, clients may pay other fees and expenses in connection with LMAMHK's advisory services, such as custodian fees to their custodians, wire and electronic fund fees, and other charges, taxes or fees mandated by applicable law.

Other Investment Products

In addition to the investment management strategies described in this document, LMAMHK and its affiliates may offer to the public investment products such as unit investment trusts or other pooled investment vehicles with investment styles and holdings that are identical and/or similar to those of the investment management strategies described in this document. These other investment products may be offered at differing fees and charges that may be higher or lower than the fees imposed by LMAMHK for the LMAMHK investment management services described in this document.

Termination

Generally, investment advisory or management contracts are terminable at will by either party upon written notice. Upon termination, generally fees will be prorated over the remaining term of the billing period.

Item 6 - Performance-Based Fees and Side-By-Side Management

Currently, LMAMHK only manages client accounts for fees that are based on a percentage of assets under management. In the future, LMAMHK may agree with a particular client to a performance-based fee structure. In such event, LMAMHK may manage accounts under both types of fee structures using the same investment strategy and invest the assets in such accounts in the same types of assets.

Client accounts with performance-based fees pay LMAMHK based on the performance in such accounts. Performance-based fee arrangements provide a heightened incentive for portfolio managers to make investments that may present a greater potential for return but also a greater risk of loss and that may be more speculative than would exist if only asset-based fees were applied. The side-by-side management of client accounts that pay performance-based fees and client accounts that only pay asset-based fees may create a conflict of interest as the portfolio manager may have an incentive to favor client accounts where LMAMHK has the potential to receive greater fees. For instance, a portfolio manager may be faced with a conflict of interest when allocating scarce investment opportunities given the possibly greater fees from client accounts that pay performance-based fees as opposed to client accounts that pay no performance-based fees. LMAMHK has written compliance policies and procedures designed to mitigate or manage these conflicts of interest. These include policies and procedures designed to ensure the fair and equitable allocation of investment opportunities, including initial public offerings (“IPOs”), and trade allocation procedures, which are described in Item 12 of this Brochure.

Item 7 - Types of Clients

Types of Clients

LMAMHK provides investment management, investment advisory and related support services to a range of institutional clients, which include or are expected to include:

- pension and profit-sharing plans
- pooled investment vehicles
- corporations

Conditions for Opening or Maintaining an Account

Depending on the nature of the services to be provided, LMAMHK may require a minimum dollar value of assets as a condition for opening or maintaining an account. Any pre-established minimum account size may be subject to variation depending upon the nature of the investments in an account and the client's financial circumstances, investment objectives and requirements.

Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis

LMAMHK adopts a fundamental, disciplined approach to managing investments in the Hong Kong and China Equity asset class. We believe detailed analysis is a necessary ingredient for successful investing. Our investment team conducts fundamental research by assessing key quantifiable drivers and risks. On an ongoing basis, company visits with management are conducted to better establish their financial outlook, financing profile, normal earnings power, reinvestment rates, normal growth rates and return objectives. It is through continuous dialogues with management to understand their business models, competitive advantages, vision and strategy that we would further substantiate our model's assumptions. The investment team often studies the segment breakdown by geographies and businesses as well as peer comparison and industry competitiveness. We use "sell side" research analysts for gathering information. We maintain direct contact with companies and relevant industry groups to help us with our modeling and analysis.

Investment Strategies

An overview of the strategies offered in relation to the Hong Kong and China Equities is included in the table following:

Hong Kong and China Equities	
Investment Aim	Outperformance of 3-4% over benchmark over a full market cycle
Benchmark	Based on: Hang Seng, FTSE - Hong Kong and China MSCI - China
Holdings	30-70
Tracking Error	6-8%
Parameters/constraints	+/-5% Sector +/-5% Stock
Availability	Segregated Mandate Commingled Vehicle

Major steps within our investment process include:

- Defining an investable universe (primarily based on liquidity, market capitalization, as well as diverse exposures to represent different industries within the market);
- Alpha generation – In-depth fundamental securities analysis (to rate stocks from 1-Strong Buy to 5-Strong Sell based on valuations and near-term catalysts assessments);
- Systematic and consistent portfolio construction rules based on stock ratings. Risk management to assess overall portfolio risks.

Risk Controls and Monitoring

Primary risk controls and risk monitoring processes as they pertain to investment and portfolio risk are embedded within LMAMHK's portfolio construction processes. These processes ensure that only the 'best' ideas generated by LMAMHK's investment teams are translated into active bets in our clients' portfolios, whilst LMAMHK is still able to deliver a final portfolio that is broadly representative of the investment universe in terms of characteristics and risk factors (such as defined ranges for tracking error and, where appropriate, internal or client-defined limits on deviations versus benchmark exposures to sectors and individual securities guidelines and constraints, etc.).

The investment team utilize a third party Barra-based and Axioma based risk models to monitor and understand the key risk factors and exposures (e.g. beta, size, style, VaR, etc.) that our strategies are subject to. These risk models are used purely for monitoring purposes rather than to drive investment decisions. Risk positions are actively monitored and all critical positions are reviewed in risk models prior to their implementation.

Given the un-leveraged nature of the long only strategies, concepts such as gross/net notional, counterparty and credit risk are not applicable. The only counterparty risk we are subject to is that associated with the brokers with whom we deal. To control this risk all brokers are subject to an extensive due diligence process prior to being admitted to LMAMHK's approved broker-dealer list. Further, all brokers are subject to on-going annual reviews to ensure that adequate financial standards are met.

Liquidity risk is a factor that is constantly monitored and captured within the investment process. We apply liquidity screens to ensure that extremely illiquid stocks are screened out of our investable universe. Furthermore, the investment processes utilized by the investment team place additional market capitalisation and liquidity criteria on all investment candidates.

In addition to being embedded in the investment processes our firm utilizes, identifying, assessing and continually monitoring investment risk is also formally addressed as part of Investment Committee meetings. The Committee has been established to provide investment risk oversight of investment teams and includes oversight of trading activities. Further, our Compliance team is responsible for monitoring investment risk as it pertains to the implementation of investment ideas into our client's portfolios by monitoring that the implementation of ideas is in line with client guidelines.

While the investment team and LMAMHK attempt to minimize risk, the value of investments in discretionary accounts may fluctuate due to the inherent risks of investing in the emerging markets.

Item 9 - Disciplinary Information

LMAMHK is required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of LMAMHK or the integrity LMAMHK's management. LMAMHK has no information to disclose under this Item 9.

Item 10 - Other Financial Industry Activities or Affiliations

Broker-Dealer Division of LMAMHK

Through its broker-dealer division, LMAMHK engages in retail marketing and distribution, through financial intermediaries, of unit investment trusts and mutual funds for which LMAMHK or its affiliates serve as investment adviser or manager (“Legg Mason Funds”).

Certain employees of LMAMHK are registered representatives of LMAMHK’s broker-dealer division. In their capacity as registered representatives, such employees may assist with marketing and distribution activities with respect to Legg Mason Funds. Such activities typically are focused on promoting Legg Mason Funds to financial intermediaries that sell such funds and do not involve direct contact with investors or potential investors. LMAMHK employees do not receive commissions, business or other compensation based on the sale of Legg Mason Funds, including as a registered representative of LMAMHK’s broker-dealer division. However, the marketing and distribution assistance furnished to LMAMHK’s broker-dealer division by such employees may lead to increased assets in Legg Mason Funds and increased investment advisory fee revenues for LMAMHK, which in turn may result in such employees receiving increased compensation in the form of salary or bonus from LMAMHK. LMAMHK does not believe that such activities create a material conflict of interest between LMAMHK and its investment advisory clients.

Relationship with Certain Affiliates

LMAMHK manages or advises various Legg Mason Funds.

As described in Item 8 of this Brochure, LMAMHK may invest client assets in unit investment trusts for which LMAMHK or an affiliate serves as investment adviser or manager. If all or a portion of an account’s assets are invested in a unit investment trust managed by LMAMHK or an affiliate and such unit investment trust has an internal management fee, the investment management fees charged to the account will be based on (i) total account assets, including those invested in the unit investment trust, but with a credit for the client’s share of the unit investment trust’s internal management fees, or (ii) total account assets excluding those assets invested in such unit investment trust. In no events will client accounts be double charged investment management fees on assets invested in such unit investment trusts. LMAMHK believes that such fee arrangements mitigate or obviate conflict of interest concerns with respect to such investments.

LMAMHK may delegate, on either a discretionary or non-discretionary basis, investment advisory responsibilities for all or a portion of a client account to an affiliated investment adviser pursuant to a sub-advisory agreement with such affiliated adviser. LMAMHK has such subadvisory arrangements with the following affiliated investment advisers:

- ClearBridge Advisors, LLC
- Legg Mason Capital Management, LLC.
- Legg Mason International Equities (Hong Kong) Limited t/a Esemplia Emerging Markets
- Western Asset Management Company
- Western Asset Management Company Limited
- Western Asset Management Company Pte. Limited
- Legg Mason Global Asset Allocation, LLC

Certain LMAMHK personnel are seconded to Legg Mason International Equities (Hong Kong) Limited, t/a Esemplia Emerging Markets in Hong Kong (“Esemplia HK”) to support the China and Hong Kong equities investment business. Esemplia HK is a dedicated active emerging markets equities asset manager offering a range of long only investment strategies from within the China and Hong Kong equities asset class. Esemplia HK’s sole objective is to provide institutional clients with active and total return exposure and consistent levels of alpha generation across a full market cycle via a disciplined and fundamental approach.

Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics

As part of an overall internal compliance program, LMAMHK has adopted policies and procedures (collectively, the “Code of Ethics”) imposing standards of business conduct. The Code of Ethics includes requirements to put client interests first and not to take inappropriate advantage of employment-related information. The Code of Ethics also imposes restrictions, described below, on employee personal securities transactions and accounts. Objectives of the Code of Ethics include mitigating or obviating potential conflicts of interests between employees and investment advisory clients and assuring compliance with applicable laws and regulations. Existing and prospective LMAMHK clients may obtain copies of the Code of Ethics by mailing a written request for such document to:

Legg Mason Asset Management Hong Kong Limited
12th Floor, York House, The Landmark,
15 Queen’s Road Central,
Hong Kong
Attention: Chief Compliance Officer

Investing and Trading in Securities Recommended to Clients

LMAMHK’s employees may from time to time acquire or sell for their personal accounts the same or similar securities, including individual securities and shares of pooled investment funds such as unit investment trusts, as those held in client accounts.

Investment and trading activities by LMAMHK employees in the same individual securities or investment funds held by LMAMHK client accounts may create conflicts of interest, or potential conflicts of interest, between LMAMHK’s employees and LMAMHK’s investment advisory clients. Such conflicts or potential conflicts could include:

- using knowledge of open, executed or pending portfolio transactions in a client account to profit from the market effect of such transactions;
- causing a client account to engage in a transaction in order to positively impact a personal investment holding; and
- using knowledge of portfolio holdings in an investment fund, including a unit investment trust, managed by LMAMHK to engage in a short-term trading strategy involving such fund.

LMAMHK has adopted a Personal Investment Policy. The Personal Investment Policy is intended to mitigate or obviate conflicts of interest or potential conflicts of interest between LMAMHK’s employees and LMAMHK’s investment advisory clients with respect to personal trading activities of LMAMHK employees.

Key elements of LMAMHK’s Personal Investment Policy include the following:

- Employees are prohibited from making a purchase or sale of a security at a time when they are in possession of nonpublic information, including information that LMAMHK is or may be considering a purchase or sale of such security on behalf of client accounts.
- Employees are subject to minimum holding period requirements with respect to their purchase of certain securities.
- Certain LMAMHK employees, including portfolio managers and other investment personnel, are subject to “blackout” periods during which they are prohibited from buying or selling an individual security that is being bought or sold, or has been bought and sold, for one or more client accounts.
- Employees are required to pre-clear their personal securities transactions with LMAMHK’s Compliance Department unless an exception applies.

- Employees must report all securities transactions to LMAMHK's Compliance Department or effect transactions through brokerage firms which have agreed to forward information regarding the transactions to LMAMHK's Compliance Department.

Personnel in LMAMHK's Compliance Department, under the supervision of LMAMHK's Chief Compliance Officer, have principal oversight responsibility with respect to trading conducted by LMAMHK's employees for their personal accounts.

LMAMHK's affiliates and their employees may from time to time acquire or sell securities held in LMAMHK client accounts. Conflict of interest concerns with respect to such investments are addressed primarily through reliance on Informational Barriers policies maintained by LMAMHK and LMAMHK's affiliates that restrict access by LMAMHK's affiliates and their officers, directors and employees to information relating to the investment intentions, activities, transactions and portfolio holdings of LMAMHK client accounts.

Investment of Client Account Assets in Unit Investment Trusts Managed by LMAMHK or an Affiliate

LMAMHK may invest in one or more unit investment trusts for which LMAMHK or an affiliate acts as investment manager, on behalf of an investment advisory client to the extent authorized by the applicable investment management agreement and guidelines. If such unit investment trusts have internal management fees, the investment management fees charged to the client's account will be based on (i) total account assets, including those invested in the unit investment trusts, but with a credit for the client's share of the unit investment trust's internal management fees, or (ii) total account assets excluding those assets invested in such unit investment trusts. In no event will client accounts be double charged investment management fees on assets invested in such unit investment trusts. LMAMHK believes that such fee arrangements mitigate or obviate conflict of interest concerns with respect to such investments.

Item 12 - Brokerage Practices

The investment team will take all reasonable steps to achieve the best quality of execution in relation to all transactions undertaken on behalf of clients in relation to financial instruments ("transactions"). Consequently we have in place both a policy and procedures with the objective to achieve the best possible execution result, taking into account the nature of the client's order, the client's guidelines and the market or execution venue in question. The policy aims to achieve the most beneficial terms practically available across a range of sometimes conflicting factors over a period of time. This is achieved by taking into account a spectrum of different aspects which are not limited only to price. Other factors including the overall cost of the transaction, the requirement for timely execution, the liquidity of the market, the size of the order and the nature of the financial transaction and whether the transaction is executed on a Regulated Market, Multilateral Trading Facility ("MTF") or over-the-counter ("OTC") are all considered. Any specific and/or general client instructions that may predetermine the manner we prioritize how to fill the client's transaction will also be taken into account. If there are no express instructions from the client we will use our own discretion to determine the factors that have to be considered to achieve best execution applying our understanding and experience of the market concerned.

Execution Process

The investment team will take all reasonable steps with the resources and processes in place to satisfy itself that it will be able to deliver "best execution". Situations where we execute transactions with a broker on either an agency or riskless principal basis, or if the broker "works" an order on our behalf we will seek to rely on the broker to assume the responsibility of best execution. In situations where we receive or request a quote from a broker on a principal basis we will assume the responsibility of best execution. Best execution may also be measured over time through several transactions with the counterparty rather than through a single transaction. It requires due diligence and consideration of the following:

- The character of the markets for the security (e.g. price, volatility, relative liquidity)
- The size and type of transaction
- Availability of quotation sources

Execution Process – Roles and Responsibilities

Portfolio managers are responsible for making investment decisions and originating trade orders, they do not usually execute transactions themselves. This is the responsibility of a separate dealing function to ensure a more effective monitoring of market prices and trading activity in order to achieve the best execution possible for client trades. Most of the client orders are market orders, however portfolio managers have the ability to place limit orders. Before placing the order with brokers we take into account any restrictions specified by our client. The investment team cannot invest in LMI securities or securities of any affiliated company without special explicit instructions to the contrary in the client account documentation. The investment team business undertakes transactions in the international equity and currency markets. Where there is no availability in the underlying equity we may use access products such as equity linked notes, participation notes or equity swaps.

Broker Selection

All our trades are executed with brokers who are on our approved broker list. We choose the appropriate counterparty according to which security we are trading. For a broker to be included in our approved broker list, the dealer, portfolio manager or research analyst (the sponsor) considers factors which would determine that the broker is able to offer good execution and other services in the relevant markets and/or instrument. The following criteria are used in varying priorities case by case for each entity:

- Reputation for integrity and sound financial practices;
- Acceptable financial health;
- Acceptable record of good and timely delivery and payment for trade settlement;
- Acceptable execution approach, considering price, cost, speed and likelihood of execution, size and nature of the order;
- Reliable counterparties (i.e. cooperative resolution of differences); and
- Provision of good service level with information of market conditions.

Periodic review is undertaken of the quality of brokerage services obtained, compliance with client directed brokerage instructions, the manner in which trades have been allocated among client accounts, and the processes and procedures for the approval and review of counterparties.

We also monitor the selection and approval/removal of brokers to effect securities transactions; evaluate and monitor target commission levels, review semi-annual broker vote procedure and results; perform at least a semi-annual review of approved brokers and review the execution approach of the brokers. Counterparty and commission target evaluations are held twice yearly through a survey among members of the investment team who provide evaluations of firms and individuals that have provided investment research over the preceding six-month period.

Client Directed Brokerage

Separate account clients have the ability to direct the investment team to use certain brokers in trading for their portfolios and the investment team will follow clients' instructions in this regard. However, the practice is discouraged as it is usually to clients' benefit to have a full range of brokers available. Additionally, clients requesting directed brokerage may not receive the benefit of block dealing where a better overall price can be obtained on transactions when bunched with other account trades.

Trade Aggregation

Wherever possible, to take advantage of execution opportunities, the investment team will look to aggregate orders within a strategy, or across different strategies, where common securities would be transacted. As all portfolios are broadly managed in the same manner, once a decision is made it is generally taken and applied across all accounts invested in the strategy (subject to any individual mandate restrictions). Trade allocations are automated and allocated on a pro rata basis (unless the size is such that a de minimis policy applies) to ensure all clients are treated equally. Where we believe large purchases or sales will have market impact, we attempt to execute smaller orders over a number of trading days as market conditions allow.

Item 13 - Review of Accounts

Portfolio Monitoring

Risk limits are monitored on an ongoing basis by both the investment team and by the independent compliance function for our firm. All limits are monitored using the Bloomberg system. In addition to the pre-trade checks carried out by the portfolio management team, the compliance officer for our firm is also responsible for completing checks on a post trade basis (typically T+1). For those guidelines/limits where automation is not possible, the compliance officer carries out post trade checks manually at least once a week.

In addition, we apply Barra-based risk models to monitor and understand the key risk factors and exposures (e.g. beta, size, style, VaR, etc.) that our clients' portfolios are subject to. These risk models assist us in monitoring the portfolios we manage and ensuring all the accounts within a given strategy remain in line with the investment guidelines of the strategy and the parameters of the client's mandate.

Review of Accounts

The Asia Investment Committee ("AIC") is responsible for a monthly overview of various aspects of the portfolio management process. It acts as the forum to ensure compliance with not only client investment objectives and guidelines, but also LMAMHK's investment policies. The AIC consists of representatives from the Investment teams, Risk team, Product team, Product Operations and Compliance.

The AIC reviews compliance with guidelines and investment processes and practices and discusses all other matters brought to its attention. The objectives of the Committee are:

- Verify that the funds are being managed in accordance with the applicable investment guidelines and restrictions by ensuring that controls are in place to detect compliance deviations and verifying the effectiveness of these control.
- Verify that the funds are being managed in accordance with the applicable risk diversification rules by reviewing, analyzing and reporting on investment activities and fund performance.
- Provide oversight over the investment activities being performed by the managers of the Hong Kong domiciled funds

Special reviews of a client's account status and activity may also be made upon request of a client.

Client Reporting

All clients receive regular periodic reporting in relation to the performance and positioning of the account with us. In addition to written reports, clients also receive information about their accounts verbally. While written reports are typically generated and delivered on a monthly, quarterly and annual basis, verbal reportage is typically carried out on a more ad hoc basis, as and when the client requests. In both regards, the type of information contained and delivered in the client report will cover areas such as performance information (typically over several different and applicable time frames – e.g. 1 month, 12 months, 3 years, 5 years, etc.), performance attribution, portfolio holdings information (such as top ten over/under weights), portfolio positioning (such as sector and geographic exposure), portfolio activity for the reporting period and our views regarding the outlook for the markets in which we invest.

As we are a boutique institutional investment manager, we seek to tailor our reports to the specific needs of our clients. Accordingly, client's reporting requirements are discussed in detail during the client take on process. In addition to regular periodic reporting, we also seek to provide other reports/commentary for clients, covering topical events in the markets within which we invest, on an ad hoc basis.

Item 14 - Client Referrals and Other Compensation

Neither LMAMHK nor any of its affiliates currently have any arrangements under which they directly or indirectly compensate any person who is not a “supervised person” of LMAMHK for client referrals. Supervised persons of LMAMHK include LMAMHK’s officers, directors, employees and other persons subject to LMAMHK’s supervision or direction. In the future, LMAMHK may enter into solicitation agreements with certain parties in order to compensate such parties for solicitation and other client-related services performed for clients and prospective clients of LMAMHK located in the United States. To the extent required by law, any such arrangements will be in compliance with Rule 206(4)-3 under the U.S. Advisers Act.

Affiliates of LMAMHK may make payments to or for the benefit of firms that may recommend LMAMHK’s investment management services. These payments may be for marketing, promotional and related expenses; for expenses incurred in connection with training or educational seminars for personnel of such firms; or for expenses incurred in connection with client or prospective client meetings relating to LMAMHK’s investment management services. In addition, affiliates of LMAMHK may provide personnel and clients (existing and prospective) of such firms with related items and benefits. These expenses, items and benefits may include, without limitation: training and meeting costs for personnel of such firms, including travel, lodging and meals for attendees; payments of costs for client/prospect meetings at which LMAMHK investment management services and/or other LMAMHK-affiliated investment products and services are discussed, including meals for attendees, room rental costs and meeting-related presentation materials; occasional meals and leisure/entertainment outings; de minimis gifts; and nominal value promotional items.

The amount of such payments and the value of such items and benefits may or may not be substantial. These payments, items and benefits could give firms and their personnel incentives to favor LMAMHK investment management services and other LMAMHK-affiliated investment products and services over those of investment management firms that do not provide the same payments, items and benefits. However, such payments, items and benefits are subject to internal policies that address and, in some cases, limit such payments, items and benefits with the overall aim to avoid compromising advice or recommendations given to clients by special incentives or compensation arrangements.

Item 15 - Custody

LMAMHK does not have physical custody of funds or securities in accounts of its U.S. clients. However, LMAMHK may be deemed to have constructive custody of the assets in a particular client account if LMAMHK has the authority pursuant to its agreement with the client to instruct the client's custodian to deduct and pay fees from the client's account.

Where LMAMHK may be deemed to have constructive custody of the assets in a client's account, LMAMHK will confirm that the broker-dealer, bank or other qualified custodian of the client's account will send quarterly or more frequent account statements directly to the client. A client should carefully review any account statements it receives directly from its qualified custodian. In addition, LMAMHK urges clients to compare account statements they receive directly from their qualified custodians to account statements and reports they receive from LMAMHK. Statements and reports received from LMAMHK may differ from statements received from the qualified custodian due to differences in accounting procedures, reporting dates or valuation methodologies with respect to certain securities.

Item 16 - Investment Discretion

LMAMHK accepts discretionary authority to manage securities accounts on behalf of its clients and substantially all of the accounts we manages are discretionary. As part of the client take on process we will review and negotiate an investment management agreement with the client, including a set of investment guidelines governing the management of the account. Amendments to these guidelines may take place on a periodic basis, with the express consent of both the client and LMAMHK.

Guidelines for the accounts being managed typically outline limitations in terms of types of instruments that can be used to implement the investment strategy, minimum requirements in terms of diversification across sectors and countries, maximum holdings of cash or equivalent securities and concentration limits in terms of any one issuer.

Our practice is to commence management of an account on behalf of a client only when guidelines have been set and agreed to in writing.

Item 17 - Voting Client Securities

General

LMAMHK has in place Proxy Voting Policies and Procedures. The Proxy Voting Policies and Procedures seek to ensure that LMAMHK votes proxies relating to equity securities in the best interest of client accounts. The following is a brief overview of the Proxy Voting Policies and Procedures.

LMAMHK votes proxies for each client account with respect to which it has been authorized or is required by law to vote proxies. In voting proxies, LMAMHK is guided by general fiduciary principles and seeks to act prudently and solely in the best interest of the beneficial owners of the accounts it manages. LMAMHK will vote proxies in the manner that it believes will be consistent with efforts to maximize shareholder values. LMAMHK may utilize an external service provider to provide it with information and/or a recommendation with regard to proxy votes. However, such recommendations do not relieve LMAMHK of its responsibility for the proxy vote. There may be occasions when different business units or different portfolio managers within the same business unit vote differently on the same issue.

Where proxy voting has been assigned to LMAMHK, clients generally cannot direct LMAMHK's vote with respect to a particular proxy solicitation.

Where proxy voting authority has been reserved to the client, the client is responsible for making arrangements with the client's custodian to receive proxy solicitation materials directly from the custodian. LMAMHK's policy is not to provide clients with advice or recommendations with respect to particular proxy solicitations where proxy voting authority has not been assigned to LMAMHK.

Where LMAMHK has the authority to vote proxies, it may choose not to, or not be in a position to, cast a proxy vote in circumstances where: (i) time constraints or administrative considerations make casting a vote not practicable; (ii) there are delays in remitting the proxy notices to LMAMHK by third parties; or (iii) LMAMHK determines, in its sole discretion, that the administrative cost of voting may outweigh the overall benefits to client accounts of casting the vote.

Conflicts of Interest

In furtherance of LMAMHK's goal to vote proxies in the best interests of its clients, LMAMHK follows procedures designed to identify and address material conflicts that may arise between LMAMHK's interests and those of its clients before voting proxies on behalf of such clients. If it is determined that a conflict of interest is material, LMAMHK's investment management and compliance personnel shall determine an appropriate method to resolve such conflict of interest before the proxy is voted. Such methods may include, without limitation, the following: (i) disclosing the conflict of interest to the client and obtaining the client's instruction as to how to vote the proxy, (ii) suggesting to the client that the client engage a third party to vote the proxy on the client's behalf, or (iii) removing the employee from the decision-making process in the case of a conflict of interest arising out of a particular employee's personal relationships.

A client request:

- (i) a copy of LMAMHK's Proxy Voting Policies and Procedures; and/or
- (ii) information concerning how LMAMHK voted proxies with respect to the securities held in your account.

Such request may be made by sending a written request to:

Legg Mason Asset Management Hong Kong Limited
12th Floor, York House, The Landmark,
15 Queen's Road Central,
Hong Kong
Attention: Chief Compliance Officer

Item 18 - Financial Information

LMAMHK is required in this Item 18 to provide you with certain disclosures about LMAMHK's financial condition. LMAMHK has no financial condition that impairs its ability to meet contractual commitments to clients.