

Legg Mason International Equities (Hong Kong) Limited

Form ADV – Part 2

Brochure

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This brochure provides information about the qualifications and business practices of Esemplia Emerging Markets ("Esemplia") the trading name of Legg Mason International Equities (Hong Kong) Limited. If you have any questions about the content 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 ("SEC") or by any state securities authority.

Additional information about Esemplia is also available on the SEC's website at www.adviserinfo.sec.gov

An investment adviser's registration with the SEC does not imply a certain level of skill or training.

Item 2. Material Changes

The following changes have been made to this Brochure from the October 2011 version:

Item 4: The current assets under management figure has been updated from the October 2011 Brochure.

Item 8: More detailed information has been provided under the "Risk" heading with respect to material risks related to the firm's strategies and investments.

Item 10: Further information is provided with respect to two of our affiliates which perform managerial oversight and provide distribution services for funds sub-advised by the firm. There is also information for our affiliate in London sharing the same trading name.

Item 11: The offer of a copy of the firm's Code of Ethics has now been included. We have also clarified that the personal trading policies extend to any account where an employee has a beneficial interest, not just limited to spouses and partners.

Item 12: The previous Brochure stated that the firm has a commission sharing program; this was incorrect and the statement has been removed.

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Item 4. Advisory Business

Esemplia Emerging Markets (Esemplia) is a dedicated active Emerging Markets equities asset manager. The firm offers a range of long only investment strategies from within the China and Hong Kong equities asset class. The sole objective of the firm 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.

Esemplia's investment team first commenced managing monies in the Hong Kong and China Equity Equities asst class in 1994, when they were established under the ownership of Salomon Brothers Hong Kong. Salomon Brothers was acquired by Travelers Group in 1998, and following the latter's merger with Citicorp that same year, Salomon Brothers became part of Citigroup Inc and the team a part of Citigroup Inc's asset management business – Citigroup Asset Management. The sale of Citigroup Asset Management to Legg Mason, Inc. ("LMI") in 2005 (December) resulted in the team being established as a stand-alone affiliate firm within the LMI group. In July 2011 the firm entered into a relationship with its affiliate in London (Legg Mason International Equities Limited) and now trades under the shared business name of Esemplia Emerging Markets.

Esemplia is ultimately wholly owned by Legg Mason Inc. Legg Mason, Inc. is a firm listed on the New York Stock Exchange. Further information about our ultimate parent can be found at www.leggmason.com

The total discretionary assets under management for the firm as at February 29, 2012, was USD 56,489,629.

Esemplia generally tailors its advisory services and products to client needs and requirements. Esemplia typically reviews and agrees investment objectives and guidelines in detail with new clients as part of the take on process and revisits objectives and guidelines with existing clients over time as their investment requirements change.

Esemplia does not participate in any wrap programs.

Item 5. Fees and Compensation

Esemplia provides management services to institutional clients and investment funds. In accordance with a client's investment management agreement or a fund's advisory agreement, fees are generally calculated quarterly based on an annualized percentage charge on the value of the assets managed. On a case by case basis, the firm will review and negotiate fees to ensure the alignment of interests between the firm and its clients or the funds it manages. Esemplia is also happy to discuss performance based fee arrangements with our clients and the methods available for remittance of payment. Esemplia typically bills clients for fees and receives payment at the clients' instruction, but occasionally a client may direct Esemplia to deduct fees from assets in accordance with the terms of a written agreement.

Fees paid by investment funds are structured on a case by case basis, where Esemplia is appointed by a fund vehicle to manage a sub-fund's portfolio of assets.

The following fee scale applies for investment via segregated mandate:

- US \$0-50m: 50 basis points of total assets under management
- US \$100m and above: 35 basis points of total assets under management

Esemplia may also offer prospects performance based investment management fees. Such fees would be typically structured as follows:

- 10% of excess return generated above the hurdle (as agreed), plus a discount on the base management fee (as outlined above) of between 5-10 basis points.

Management fees will be negotiated on a case by case basis and pertain to the provision of the investment services only.

Esemplia only provides investment management and advisory services. Esemplia does not receive compensation for custody, brokerage services, or any related administration functions which are distinct from management of assets. Esemplia's clients appoint their own custodians and agree custody terms independently, including fee terms.

In the course of trading for a client's portfolio, the account will incur broker and exchange charges which arise in the usual course of trading. Esemplia will seek to obtain the best possible execution result for the client in its selection of brokers. In doing so, Esemplia monitors and assesses the quality of trade decisions by considering a number of factors, such as price, the cost of the transaction, the need for timely execution, the liquidity of the market, the size of the order and the nature of the transaction.

Item 6. Performance Fees and Side-by-Side Management

Esemplia maintains fee schedules for different strategies, some of which may involve performance fees or other customized fee arrangements. In addition, we may also agree to the application of a performance based fee arrangement on client request. Such fee structures are typically constituted of a base fee on assets under management plus fee related to performance generated above a given hurdle.

Performance fee-based accounts are managed alongside accounts that have a more traditional fee structure (e.g. accounts that pay asset-based fees) in place. Although perceived conflicts of interest could arise as a result of this situation (as the firm could seek to favor performance based fee accounts in order to increase the potential for increased revenue) we do not believe any such conflict of interest exists, as we maintain a variety of policies and procedures designed to ensure that the risk of favoritism is mitigated.

In addition to managing client accounts with very little dispersion (i.e by utilizing the same investment guidelines across accounts) we also execute investment decisions via aggregate trades where possible. Such trade aggregation seeks to minimize execution costs and optimize the implementation of investment strategies for clients. Investment allocations are done in a manner that Esemplia believes is fair and equitable, with the presumption that similarly situated clients should generally participate in similar investment opportunities and trades. Rather than allocating trades based on the particulars of the fee schedules for individual clients, we allocate trades based on the proportionate size of each client's account (within the same investment strategy), making adjustments to accommodate individual client factors such as guidelines, investment objective and cash/liquidity requirements.

Esemplia maintains a variety of oversight mechanisms to monitor for situations where large discrepancies occur in client accounts, such as performance dispersion and tracking error differentials for accounts within the same strategy. From a regulatory monitoring perspective, Esemplia maintains a compliance monitoring program which has a component dedicated to reviewing allocations.

Item 7. Types of Clients

Esemplia's sole focus is to generate consistent levels of alpha from the emerging markets equity asset class for the firm's institutional global client base.

In addition to client's invested via segregated mandate, Esemplia is also the appointed investment manager or sub-advisor to a number of mutual funds and comingled vehicles.

While Esemplia does not apply a minimum requirement for opening a segregated account, we assess minimum requirements on a case by case basis.

Esemplia provides investment advisory services to institutional clients only, with these clients subject to anti-money laundering checks and "know your client" assessments.

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

Methods of Analysis

The firm 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 models assumptions. The investment team often study 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 Esemplia offers in relation to the Hong Kong and China Equities as well as China domestic A-Share Equities asset class is included in the table following:

	Hong Kong and China Equities	China Domestic A Share Equities
Investment Aim	Outperformance of 3-4% over benchmark over a full market cycle	A replication strategy to track the performance of the FTSE China A50 index
Benchmark	Based on: Hang Seng, FTSE - Hong Kong and China MSCI - China	FTSE A50
Holdings	30-70	30-70
Tracking Error	6-8%	1-3%
Parameters/constraints	+/-5% Sector +/-5% Stock	n/a
Availability	Segregated Mandate Commingled Vehicle	Commingled Vehicle

Major steps within our investment process include:

- I. Defining an investable universe (primarily based on liquidity, market capitalization, as well as diverse exposures to represent different industries within the market);
- II. 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);
- III. Systematic and consistent portfolio construction rules based on stock ratings. Risk management to assess overall portfolio risks.

Risk

Primary risk controls and risk monitoring processes as they pertain to investment and portfolio risk are embedded within the firm's portfolio construction processes. These processes ensure that only the 'best' ideas generated by the firm's investment teams are translated into active bets in our clients' portfolios, whilst the firm 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.).

Esemplia 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 firm's long only strategies, concepts such as gross/net notional, counterparty and credit risk are not applicable. The only counterparty risk the firm is 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 the firm'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 firm's 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 the firm's Investment Committee meetings. The Committee has been established by the firm's Board of Directors to provide investment risk oversight of the firm's investment teams and includes

oversight of the firm's 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 the firm 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

Esemplia has no disciplinary actions to report.

Item 10. Other Financial Activities and Affiliations

As a member of the LMI group, Esemplia is affiliated with a number of other specialist investment management firms within the group. All firms in the group operate and are managed in an independent manner meaning there is no sharing of investment intellectual capital or client sensitive information.

As the appointed sub-investment advisor to a number of Legg Mason registered funds, the firm has a unique relationship with Legg Mason Asset Management Hong Kong Limited and Legg Mason Investments (Europe) Limited which are responsible for the managerial oversight and distribution of these funds.

Furthermore, the firm has established an affiliation with its sister firm in London, Legg Mason International Equities Limited (which also trades as Esemplia Emerging Markets). Under the LMI model, affiliates operate autonomously with support provided by LMI in the form of capital, product distribution and certain support services. Our affiliation with Esemplia London allows us to benefit from the many synergies which exist between our respective firms. These two firms have shared support functions (legal, compliance, client management, finance) and investment team oversight, but not day to day management of accounts.

Further information regarding the structure and constitution of the LMI group of firms can be found at www.leggmason.com.

Item 11. Code of Ethics, Participation in Client Transactions and Personal Trading

All members of the Esemplia team are expected to exercise the highest ethical judgment and to comply with the laws applicable to their duties at all times. Esemplia's Code of Ethics ("CoE") policy covers all members of our firm and addresses the primary responsibility all employees have in relation to the fiduciary responsibility they have to the firm's clients. A copy of the firm's CoE is available upon request.

With regard to personal account trading, the CoE dictates that approval must be obtained from the firm's compliance representative prior to the opening of personal brokerage accounts; this includes accounts in which the employee has a beneficial interest. If approval is granted, employees must direct their brokers to supply to the firm duplicate copies of confirmations of all personal securities transactions in a timely and periodic manner (quarterly).

Trading undertaken by employees must be for investment purposes rather than for speculation. Consequently, employees may not profit from short term trading on the same or equivalent securities. All profits from short-term trades, including exchanges of proprietary open-end mutual funds or open-end mutual funds sub-advised by Esemplia, are subject to disgorgement.

Participation of Interest in Client Transactions

No employee shall purchase or sell any security in which they have any direct or indirect beneficial ownership if they have knowledge at the time of such transaction that the security is being purchased or sold, or is being considered for purchase or sale, by a client account. Additionally, an employee must not purchase or sell any securities for a personal account either on the same day or seven business days before/ after a client account trades in that security.

Item 12. Brokerage Practices

Esemplia 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

Esemplia 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. Esemplia cannot invest in LMI securities or securities of any affiliated company without special explicit instructions to the

contrary in the client account documentation. Esemplia 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 Esemplia to use certain brokers in trading for their portfolios and Esemplia 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, Esemplia 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 Esemplia's 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.

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

No compensation is given to clients for referrals of business.

Item 15. Custody

Esemplia does not maintain physical custody of client assets or operate as a custodian business. However, under the provisions of Rule 206(4)-2 under the Advisers Act, Esemplia may (in the very rare occasion) be deemed to have custody of client's assets because we either:

1. Have the ability to deduct the clients fees directly from a custodian account (pursuant to client authorization) or
2. We act as advisor and managing member for a client that is a pooled investment vehicle.

Physical custody of each client's assets is maintained with a qualified third party custodian selected by the client in an account in the client's name. "Qualified custodians" are defined under rule 206(4)-2 and generally include banks and savings associations, registered broker dealers, registered futures commission merchants and foreign financial institutions which customarily hold financial assets. Qualified custodians may charge fees that are separate from the fees Esemplia charges.

Each separate account client should carefully review the account statements from their custodian to ensure that they reflect appropriate activity in the account. Separate account clients may also receive separate accounts and reports from us. Each separate account client should compare the account statements that it receives from its qualified custodian with those that it receives from Esemplia.

Item 16. Investment Discretion

Esemplia accepts discretionary authority to manage securities accounts on behalf of its clients and substantially all of the accounts Esemplia 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 Esemplia.

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.

Esemplia's 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

Esemplia will accept authority to vote proxies on behalf of clients or clients may determine that they wish to retain the ability to vote themselves by directing their custodians. Where Esemplia is mandated to vote proxies, we are guided by general fiduciary principles. Our goal is to act prudently and in the best interests of our clients at all times. When voting proxies we consider all relevant factors that could affect the value of the investment and will vote in the manner which we believe is consistent with efforts to benefit, protect or maximize shareholder value in particular circumstances.

We rely on the clients' custodians as the holder of the securities to notify us when a vote is required on a security. Some custodians have delegated this to a third party proxy voting service. We are not able to vote proxies directly, however, we will notify the clients' custodians or the third party vendors of proxy voting decisions to be executed in relation to client portfolios.

In furtherance of our goal to vote proxies in the best interests of clients, we follow procedures designed to identify and address material conflicts which may arise between our interests and those of our clients before voting proxies.

Clients can receive information on how Esemplia has voted its securities on request.

Item 18. Financial Information

Esemplia undertakes an Internal Capital Adequacy Assessment Process (ICAAP) annually. The purpose of ICAAP is to ensure that the firm:

- Appropriately identifies, measures, aggregates and monitors the risks incurred by our operations;
- Possesses the capital coverage determined by internal regulations that are sufficient to cover the fundamental risks identified; and
- Has an adequate risk management system in place, which we continuously develop in accordance with the risks identified.

Additional Information

Esemplia welcomes further questions about any matter in this brochure or our firm generally.