

LEGG MASON GLOBAL ASSET ALLOCATION, LLC

Form ADV Part 2A Brochure

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THIS BROCHURE PROVIDES INFORMATION ABOUT THE QUALIFICATIONS AND BUSINESS PRACTICES OF LEGG MASON GLOBAL ASSET ALLOCATION, LLC (“LMGAA”). IF YOU HAVE ANY QUESTIONS ABOUT THE CONTENTS OF THIS BROCHURE, PLEASE CONTACT US AT (212) 886-9200. 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 LMGAA ALSO IS AVAILABLE ON THE SEC’S WEBSITE AT www.adviserinfo.sec.gov. CLICK ON “INVESTMENT ADVISER SEARCH.”

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

Item 2 - Material Changes

This Brochure serves as our annual updating amendment. We last filed our Brochure with the SEC on January 23, 2014. The following is a summary of significant changes or updates made to this Brochure since the last annual update of the Brochure (dated June 14, 2013):

- Items 4 and 10 have been updated to reflect Legg Mason, Inc.’s acquisition of QS Investors, LLC (“QS Investors”) on May 30, 2014, and that QS Investors, Legg Mason Global Asset Allocation, LLC (“LMGAA”) and Batterymarch Financial Management, Inc. (“Batterymarch”) have become subject to common management and investment oversight. To facilitate such relationship and to allow QS Investors employees to assist LMGAA and Batterymarch in its management of client accounts, QS Investors employees have been “dual hatted” into LMGAA and Batterymarch. As part of the integration, effective June 30, 2014, LMGAA will change its name to QS Legg Mason Global Asset Allocation, LLC.
- Items 11 and 17 have been revised to reflect recent updating changes in LMGAA’s Code of Ethics and Proxy Voting Policy and Procedures.
- A discussion of performance-based fees and side-by-side management was added under Item 6.
- Item 10 was revised to remove the discussion of certain LMGAA employees acting as registered representatives of Legg Mason Investor Services, LLC.

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Commonly Used Terms

The following terms are used throughout this Brochure.

- **“LMGAA”** means Legg Mason Global Asset Allocation, LLC.
- **“LMGAA Affiliate”** means an entity that is under common ownership with LMGAA.
- **“Fund-of-Funds”** means an investment fund that invests in a group of Underlying Funds selected by LMGAA. Underlying Funds may include Affiliated Funds, LMGAA-Advised Funds and/or Non-Affiliated Funds.
 - **“Underlying Fund”** means an investment fund in which a Fund-of-Funds or a Sleeve of a Manager-of-Managers arrangement (see below) invests all or a portion of its assets. Underlying Funds may include mutual funds, closed-end investment companies, ETFs or other investment funds.
 - **“Affiliated Fund”** means an Underlying Fund that is managed or advised by a LMGAA Affiliate.
 - **“LMGAA-Advised Fund”** means an Underlying Fund that is managed or advised by LMGAA.
 - **“Non-Affiliated Fund”** means an Underlying Fund that is managed or advised by an entity that is not a LMGAA affiliate.
 - **“ETF”** means “exchange-traded fund.” An ETF is an investment fund that is priced and traded on an exchange throughout the day like individual stocks.
- **“Manager-of-Managers arrangement”** means an arrangement in which various Sleeves of a client’s account are managed by Underlying Managers selected by LMGAA.
 - **“Underlying Manager”** means an investment management firm that manages one or more Sleeves of a client’s account under a Manager-of-Managers arrangement. Underlying Managers may include Affiliated Managers, LMGAA and Non-Affiliated Managers.
 - **“Affiliated Manager”** means an Underlying Manager that is a LMGAA Affiliate.
 - **“Non-Affiliated Manager”** means an Underlying Manager that is not a LMGAA Affiliate.
 - **“Sleeve”** means the portion of a “Manager-of-Managers” client account allocated to an Underlying Manager. All or a portion of the assets in a Sleeve may be invested in an Underlying Fund by the Sleeve’s Underlying Manager.
 - **“LMGAA-Managed Sleeve”** means a Sleeve for which LMGAA serves as the Underlying Manager.

Item 4 - Advisory Business

About LMGAA

LMGAA is a wholly-owned subsidiary of Legg Mason, Inc., a publicly traded company (“Legg Mason”). Legg Mason is a global asset management firm that provides investment management and related services to a wide range of institutional and individual clients through various subsidiaries, including LMGAA.

LMGAA commenced operations as a registered investment adviser in November 2006. As of March 31, 2014, LMGAA managed, advised or administered approximately \$7.88 billion in client assets. Such amount consists of approximately \$4.33 billion of client assets managed by LMGAA on a discretionary basis, approximately \$3.43 billion of client assets managed by LMGAA on a non-discretionary basis, and approximately \$109 million of client assets for which LMGAA provides administration and/or general non-discretionary investment advisory services.

On May 30, 2014, Legg Mason completed its acquisition of QS Investors. Legg Mason intends to integrate LMGAA and Batterymarch into QS Investors over time with the goal of creating a combined investment platform with solutions, quantitative equity, and multi-manager asset allocation capabilities. Effective as of May 30, 2014, QS Investors, LMGAA, and Batterymarch became subject to common management and investment oversight. Please see Item 10 for more information.

Additionally, as a result of the integration of LMGAA and QS Investors, effective June 30, 2014, LMGAA will change its name to QS Legg Mason Global Asset Allocation, LLC.

Services Provided by LMGAA

- **General**

LMGAA’s primary business is providing asset allocation and manager or fund selection advisory services to a variety of clients with multi-asset class portfolios. Such clients include or are expected to include U.S. registered investment companies, investment funds domiciled and registered in non-U.S. jurisdictions, and other institutional clients such as pension plans, Section 529 college savings plans, state and local governmental entities, endowments, foundations, corporations, trusts and other business entities. Each such client typically is structured as a Fund-of-Funds or as a Manager-of-Managers arrangement. Asset allocation and manager or fund selection advisory services may be provided by LMGAA on either a discretionary or non-discretionary basis.

- **Asset Allocation Services**

Asset allocation advisory services may include target allocation advice, under which LMGAA will allocate portfolio assets to particular asset classes based on prescribed targets. Typically, the client and LMGAA establish such targets based on asset allocation recommendations furnished by LMGAA.

Asset allocation advisory services also may include strategic or tactical asset allocation advice, under which LMGAA may vary the asset allocation in the client’s account. The client and LMGAA may agree upon ranges within which LMGAA may vary its asset allocation advice.

- **Funds-of-Funds**

As an adviser to a client account that is structured as a Fund-of-Funds, LMGAA determines or recommends allocations to the various Underlying Funds in which such Fund-of-Funds invests and provides investment advice with respect to the acquisition, holding and disposition of such Underlying Funds’ shares.

- **Manager-of-Managers Arrangements**

As an adviser to a client account that is structured as a Manager-of-Managers arrangement, LMGAA determines or recommends allocations to the account’s various Sleeves and provides investment advice with respect to the selection, retention and termination of Underlying Managers.

- **LMGAA-Managed Sleeves**

LMGAA also may serve as an Underlying Manager for a Sleeve of a client account structured as a Manager-of-Managers arrangement. With respect to a LMGAA-Managed Sleeve, LMGAA may invest client assets in fixed income and equity securities, ETFs, other investment companies, exchange-traded notes, master limited partnerships, structured notes and derivative instruments, including swaps, forwards, futures and options. ETFs and other investment companies in which LMGAA may invest assets of a LMGAA-Managed Sleeve include, without limitation, ETFs and investment companies that hold commodity-linked investments, hold equity securities issued by real estate investment trusts (REITs), pursue “short” investment strategies such as seeking a return similar to the inverse, or a multiple of the inverse, of a reference index, and pursue a futures-based momentum methodology in an attempt to track prices of commodity and financial futures contracts.

For some client accounts that are structured as Manager-of-Managers arrangements, LMGAA may invest client assets in a LMGAA-Managed Sleeve in a manner designed to produce returns comparable to those of a particular benchmark index. For this purpose, LMGAA uses proprietary and/or licensed risk models and optimization software and generally does not engage in fundamental, company-specific security analysis with respect to securities purchased and sold.

- **Risk Management Advisory Services**

With respect to certain client accounts, LMGAA may implement a combination of risk management strategies that attempt to reduce downside volatility within the client accounts. These strategies include Dynamic Risk Management and Event Risk Management, which are described in Item 8 (Methods of Analysis, Investment Strategies and Risk of Loss). Through these strategies, a client account gives up some of the potential for high total return that could be achieved if the account were to follow its target allocation under positive market conditions. In exchange, the strategies are intended to reduce significant declines in the account’s value under negative market conditions.

- **Portfolio Implementation Services**

LMGAA also may provide portfolio implementation and trade placement services for client accounts for which a LMGAA Affiliate or an unaffiliated investment adviser provides asset allocation and fund selection advisory services. Such client accounts may also invest in fixed income and equity securities, exchange-traded notes, forwards and derivatives contracts, and other instruments determined by the LMGAA Affiliate or the unaffiliated investment adviser.

- **Cash Management Services**

With respect to certain client accounts, LMGAA may be responsible for arranging for the temporary investment of cash balances existing from time to time in such client accounts. Such cash balances may be invested in repurchase agreements, money market funds or other short-term instruments or vehicles.

- **Other**

From time to time, LMGAA may agree with a client to provide investment advisory and management services that are different from or in addition to those described above.

Client Investment Guidelines and Restrictions

LMGAA manages or advises each client account in accordance with investment guidelines agreed to with the client. Such investment guidelines may impose restrictions or limitations on investing in specific securities or types of securities. Investment guidelines, including restrictions and limitations, may be set forth in the investment management or advisory agreement between LMGAA and the client. In the case of a client that is an investment fund, investment guidelines, including restrictions and limitations, may be set forth in the fund’s prospectus or other offering document.

Item 5 - Fees and Compensation

Fees Charged by LMGAA

LMGAA's investment advisory fees are based on a percentage of assets in client accounts, including accounts for which LMGAA provides portfolio management services and accounts for which LMGAA provides non-discretionary advice or portfolio implementation and trade placement services. In general, all fees are subject to negotiation based on the circumstances of the client and other factors, including but not limited to the type and size of the account and the type of advisory and client-related services to be provided to the account.

How Fees are Charged

Fees are charged to and collected from each client in accordance with the terms of LMGAA's investment management, investment advisory or other service agreement with the client. Fees generally are payable by clients either monthly or quarterly in arrears. The client's agreement with LMGAA may provide that LMGAA is to invoice the client for payment of LMGAA's fees. Alternatively, such agreement may authorize LMGAA to send its invoice to the client's custodian, which then debits the client's account and remits payment to LMGAA. In the case of a client that is an investment fund sub-advised by LMGAA, the fund's manager or adviser may be responsible for calculating and paying LMGAA's fees without being invoiced by LMGAA.

Investment Fund Fees

A Fund-of-Funds client advised by LMGAA will indirectly bear the fees and expenses charged by the Underlying Funds in which it invests. Such fees and expenses are in addition to any investment advisory fee that may be paid directly to LMGAA. In the case of an Underlying Fund that is an Affiliated Fund, the Affiliated Fund's fees and expenses will include an advisory fee paid to a LMGAA Affiliate. In the case of an Underlying Fund that is a LMGAA-Advised Fund, the LMGAA-Advised Fund's fees and expenses will include an advisory fee paid to LMGAA. Depending on the contractual arrangement agreed to by the client and LMGAA and applicable law, fees paid by an Affiliated Fund to a LMGAA Affiliate and by a LMGAA-Advised Fund to LMGAA may or may not be credited against the advisory or service fees otherwise charged by LMGAA.

LMGAA may provide asset allocation and fund selection services for no advisory fee to certain Fund-of-Funds clients whose portfolios are wholly or substantially comprised of Underlying Funds that are Affiliated Funds and/or LMGAA-Advised Funds. Under such arrangements, the Underlying Funds will pay the LMGAA Affiliates and/or LMGAA separate advisory fees, and the client will indirectly bear the fees and expenses of such Underlying Funds.

If an Underlying Manager in a Manager-of-Managers arrangement invests client assets in Underlying Funds, the client will indirectly bear the fees and expenses charged by such Underlying Funds in addition to paying an investment advisory fee directly to LMGAA and/or the Underlying Manager.

If a Fund-of-Funds client advised by LMGAA is a college savings plan and invests in Underlying Funds that are Non-Affiliated Funds, LMGAA and LMGAA Affiliates may receive and retain fees from such Non-Affiliated Funds or the adviser or distributor of such funds in respect of assets invested in such funds. Fees received from Non-Affiliated Funds are not credited against the investment advisory fees otherwise charged by LMGAA to the college savings plan. Such fee arrangements are designed to help offset LMGAA's expenses associated with maintaining an investment in a Non-Affiliated Fund on behalf of a college savings plan and may be a factor considered by LMGAA in selecting Underlying Funds in which to invest college savings plan assets. Such fee arrangements are disclosed to and consented to by the applicable college savings plan sponsor and are disclosed to college savings plan participants in applicable offering documents.

Please see Item 10 (Other Financial Industry Activities and Affiliations), Item 11 (Code of Ethics, Participation or Interest in Client Transactions and Personal Trading) and Item 14 (Client Referrals and Other Compensation) for a discussion of conflicts of interest faced by LMGAA related to fees received by LMGAA and LMGAA Affiliates from Affiliated Funds, LMGAA-Advised Funds and Non-Affiliated Funds.

Underlying Manager Fees

In the case of a Manager-of-Managers arrangement, the client typically will pay investment advisory fees to the Underlying Manager of each Sleeve in addition to LMGAA's investment advisory fee.

In the case of a Manager-of-Managers arrangement where the Sleeves are managed by LMGAA Affiliates, the client may pay separate advisory fees to LMGAA and the LMGAA Affiliates. Alternatively, the client may pay a single fee to LMGAA with the understanding that LMGAA will compensate each LMGAA Affiliate separately for its subadvisory services.

In the case of a Manager-of-Managers arrangement that has one or more LMGAA-Managed Sleeves, LMGAA may or may not receive a separate fee for managing such LMGAA-Managed Sleeves in addition to the advisory fee it receives for providing services to the account as a whole.

Please see Item 10 (Other Financial Industry Activities and Affiliations) for a discussion of conflicts of interest faced by LMGAA related to Underlying Manager fees in a Manager-of-Managers arrangement.

Brokerage and Other Transaction Costs

In addition to LMGAA's advisory fees, clients of LMGAA will incur brokerage and other transaction costs in connection with securities transactions that LMGAA engages in for their accounts. Such costs may include brokerage commissions, commission equivalents, mark-ups and mark-downs, odd-lot differentials, exchange fees, SEC fees, transfer taxes, stamp taxes and other transaction costs. Please see Item 12 of this Brochure for information concerning LMGAA's brokerage practices. Unlike ordinary mutual funds, the purchase or sale of shares of ETFs typically involves brokerage transactions which generally require the payment of commissions or commission equivalents. In the case of a Manager-of-Managers arrangement, the client typically will pay the transaction costs incurred by Underlying Managers in buying and selling securities for their respective Sleeves.

Transition - Related Costs

In connection with a transition from one Underlying Fund or Underlying Manager to another as a result of a LMGAA replacement decision, a client may temporarily hold a basket of securities (e.g., due to an Underlying Fund's satisfaction of a redemption out of such fund on an in-kind basis) during the transition period. In such event, LMGAA will seek to liquidate the securities received as soon as practicable unless the successor Underlying Fund or the successor Underlying Manager indicates that it is willing to accept such securities. The transaction costs associated with such liquidation, as well as any market impact on the value of the securities being liquidated, will be borne by the client.

Other Fees and Expenses

In addition to LMGAA's fees, Underlying Fund fees, Underlying Manager fees and brokerage and other transaction costs, clients may pay other fees and expenses in connection with LMGAA's advisory services, such as custodian fees to their custodians, wire transfer and electronic fund fees, and other charges, taxes or fees mandated by any federal, state or other applicable law.

Fees Upon Termination of Investment Management or Advisory Agreement

Investment advisory contracts are generally terminable at will by either party upon prior written notice. If an investment advisory contract is terminated prior to the end of a billing cycle, fees for the shortened billing period generally will be prorated based on the length of time during which services were provided by LMGAA. Service agreements for Section 529 college savings plans typically have multi-year terms and can only be terminated on a "for cause" basis prior to expiration of the term.

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

Performance-Based Fees

While LMGAA does not currently have any client fee arrangements where it charges performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client), LMGAA may, on occasion, manage accounts subject to performance-based fees in addition to or instead of standard fees. By managing performance fee-based accounts alongside standard fee-based accounts, portfolio managers and LMGAA face certain inherent conflicts. In particular:

- A portfolio manager may be incentivized to allocate more attractive investment opportunities to accounts that generate performance fees versus those that generate standard fees;
- A portfolio manager may take undue risk in accounts that generate performance fees with an aim to inflate performance;
- A portfolio manager whose compensation is heavily correlated to performance may take on excessive risk with an aim to inflate performance; and
- LMGAA may benefit from assigning higher value to securities in accounts that generate performance fees.

In order to help manage and mitigate these inherent conflicts, LMGAA maintains a variety of policies, controls, and reviews, many of which are described in greater detail in Item 12. Consistent with LMGAA's fiduciary duty to its clients, each of these controls has been designed to ensure that all clients are treated fairly and equitably.

Side by Side Management

Each of LMGAA's investment strategies are managed by a team of portfolio managers. As such, portfolio managers simultaneously manage multiple types of accounts for a number of clients. Accounts within a given strategy or across strategies may charge higher or lower fees than other accounts and may present conflicts similar to those previously addressed under "Performance-Based Fees" above. LMGAA maintains a number of controls to address these conflicts, many of which are described in Item 12.

It is important to note that accounts with similar investment objectives may be managed differently at times, which may lead to a difference in performance. While the same investment practices are generally applied to all accounts within a given strategy, investment decisions are made specifically to meet the unique objectives of each client. Differences in clients' investment objectives, risk tolerance, investment guidelines, available funds, or other restrictions/ prohibitions may lead to different investment decisions, and ultimately different performance, even among similar accounts within the same strategy. Please see Item 12 for more detail on controls designed to ensure fair and equitable treatment of all client accounts.

Lastly, certain of LMGAA's portfolio managers may manage long-only accounts alongside accounts that buy securities both long and short ("dual management arrangements"). When dual management arrangements exist, there may be instances in which a portfolio manager holds a long position in a security in one account while holding the same security short in another account (or vice versa). Selling a security short may result in a decrease of its value; conversely, purchasing a security may result in an increase in its value. Since certain client positions may be conflicted under these arrangements, LMGAA has implemented policies and procedures specifically designed to address dual management arrangements reasonably designed to ensure that all of clients are treated fairly and equitably.

Item 7 - Types of Clients

Types of Clients

LMGAA provides (or has provided) investment advisory services to a wide variety of institutional clients, which include or are expected to include:

- U.S. and non-U.S. investment funds (including U.S.-registered mutual funds)
- endowments
- foundations
- state and local governmental entities
- pension and profit-sharing plans
- Section 529 college savings plans
- corporations and other similar business entities

Conditions for Opening or Maintaining an Account

Depending on the nature of the services to be provided, LMGAA 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 and Investment Strategies - Asset Allocation and Manager/Fund Selection Advisory Services

LMGAA's primary business is providing asset allocation and manager or fund selection advisory services to a variety of clients with multi-asset class portfolios. As an adviser to a client account that is structured as a Fund-of-Funds, LMGAA determines or recommends allocations to the various Underlying Funds in which such Fund-of-Funds invests and provides investment advice with respect to the acquisition, holding and disposition of such Underlying Funds' shares. As an adviser to a client account that is structured as a Manager-of-Managers arrangement, LMGAA determines or recommends allocations to the account's various Sleeves and provides investment advice with respect to the selection, retention and termination of Underlying Managers.

The investment analysis method adopted by LMGAA with respect to its provision of asset allocation and manager or fund selection advisory services generally involves fundamental analysis with an awareness of market behavior. This fundamental analysis also includes a proprietary analysis of macroeconomic factors and their relationships with equity earnings, equity valuations, interest rates, fixed income valuations, monetary policy, and economic growth. Such fundamental analysis is viewed within a context of current market conditions (i.e., price movement, fund flows and overall market sentiment). LMGAA investment professionals discuss and reconcile the differences between fundamental views and market views to reach a consensus on investment decisions.

The investment analysis performed by LMGAA is based on a broad range of macroeconomic, financial and economic data, research, news and related commentary, including information on global and regional economies, the performance of investment funds and related managers, political developments, monetary policy, forecasting and statistical information, risk measurement analysis, other types of performance analysis and other information which may affect the economy and/or security prices. Such information may be obtained from a variety of sources, including research materials prepared by other firms, regulatory filings with the Securities Exchange Commission (including prospectuses and annual reports), and corporate rating services. LMGAA also may use its own proprietary research and information from visits or communications with investment advisers to Underlying Funds and Underlying Managers. LMGAA also may utilize analytical and statistical software to analyze and compare potential strategic asset allocations and potential combinations of funds or managers.

LMGAA's advisory services with respect to the selection and retention of Underlying Funds and Underlying Managers are based on both quantitative and qualitative assessments. Quantitative assessments typically include a performance attribution analysis for the applicable sources of investment return, a statistical analysis of historical returns and portfolio characteristics, and additional financial and economic analyses. Qualitative assessments typically include a review of the background and qualifications of key investment personnel, investment processes, organizational stability and business changes, client service resources, compliance procedures and risk controls, regulatory filings, due diligence discussions and periodic on-site visits. LMGAA may invest in Underlying Funds, including Affiliated Funds and LMGAA-Advised Funds, that have a limited operating and performance history where LMGAA determines that such investment is consistent with the Fund-of-Fund's investment objectives.

In response to adverse market, economic or political conditions or in other similar circumstances, LMGAA may reserve the right to take temporary defensive positions in money market funds, repurchase agreements or cash.

Methods of Analysis and Investment Strategies - LMGAA-Managed Sleeves

LMGAA also may serve as an Underlying Manager for a Sleeve of a client account structured as a Manager-of-Managers arrangement.

Where LMGAA serves as an Underlying Manager with respect to a LMGAA-Managed Sleeve, LMGAA uses a variety of quantitative and fundamental asset allocation, analytical and investment techniques to select portfolio investments, consistent with the client's investment objectives and guidelines. Such techniques take into account various macroeconomic factors including LMGAA's expectations for monetary policy and for economic growth, as well as analysis of valuation trends in equity and fixed income markets.

The investment analysis performed by LMGAA is based on a broad range of macroeconomic, financial and economic data, research, news and related commentary, including information on global and regional economies, the performance of investment funds and related managers, political developments, monetary policy, forecasting and statistical information, risk measurement analysis, other types of performance analysis and other information which may affect the economy and/or security prices. Such information may be obtained from a variety of sources, including research materials prepared by other firms, LMGAA's own proprietary research, regulatory filings with the Securities and Exchange Commission (including prospectuses and annual reports), and corporate rating services. LMGAA also may utilize analytical and statistical software to analyze and compare potential investments in LMGAA-Managed Sleeves.

Where LMGAA serves as an Underlying Manager with respect to a LMGAA-Managed Sleeve, LMGAA may invest client assets in fixed income and equity securities, ETFs, other investment companies, exchange-traded notes, master limited partnerships, structured notes and derivative instruments, such as swaps, forwards, futures and options. ETFs and other investment companies in which LMGAA may invest assets in a LMGAA-Managed Sleeve include, without limitation, ETFs and investment companies that hold commodity-linked investments, hold equity securities issued by real estate investment trusts (REITs), pursue "short" investment strategies such as seeking a return similar to the inverse, or a multiple of the inverse, of a reference index, and pursue a futures-based momentum methodology in an attempt to track prices of commodity and financial futures contracts.

For some client accounts that are structured as Manager-of-Managers arrangements, LMGAA may invest client assets in a LMGAA-Managed Sleeve in a manner designed to produce returns comparable to those of a particular benchmark index. For this purpose, LMGAA uses proprietary and/or licensed risk models and optimization software designed to analyze the attractiveness of risk/reward profiles and to provide information concerning the positions that a client account could hold in order to produce returns comparable to those of a particular benchmark index. In this process, LMGAA considers the index constituent securities as its investment universe and, using the risk models and optimization software, determines the appropriate subset of securities in which to invest to minimize the tracking error to the relevant index. LMGAA generally will not engage in fundamental, company-specific security analysis with respect to securities purchased and sold as part of this process.

Methods of Analysis and Investment Strategies - Risk Management Advisory Services

With respect to certain client accounts, LMGAA may implement a combination of risk management strategies that attempt to reduce downside volatility within the client accounts. These strategies include Dynamic Risk Management and Event Risk Management.

Dynamic Risk Management attempts to limit losses by allocating account assets away from equity and long-term instruments and into short-term defensive instruments that are expected to decline in value less than riskier assets in the event of market declines. In addition, LMGAA may be authorized to invest account assets in index options and futures contracts that are expected to increase in value in the event of market declines. In response to certain levels of negative account performance, LMGAA may deviate from the account's target allocation by increasing the account's exposure to short-term defensive instruments ("de-risking") based on a proprietary formula that takes into account the account's value, macro-economic conditions and the account's underlying volatility. LMGAA, in its discretion, determines the levels and timing for Dynamic Risk Management. If LMGAA determines that de-risking is no longer appropriate, it will reverse the process by selling short-term defensive instruments and purchasing equity funds and long-term fixed income funds in accordance with the account's target allocation.

Event Risk Management seeks to reduce the impact to a client account of market declines during a short period of time by investing a small portion of account assets in options and futures contracts that are expected to increase in value in the event of declines in the broad equity and bond markets. LMGAA determines the amount of the account's assets to allocate to this strategy subject to applicable account guidelines. LMGAA typically uses the services of its affiliate, Western Asset Management Company, to implement the strategy on behalf of a client account.

In response to adverse market, economic or political conditions or in other similar circumstances, LMGAA may reserve the right to take temporary defensive positions in money market funds, repurchase agreements or cash.

Transition Management

In connection with a transition from one Underlying Fund or Underlying Manager to another, a client may temporarily hold a basket of securities (e.g., due to an Underlying Fund's satisfaction of a redemption out of such fund on an in-kind basis) during the transition period. In such event, LMGAA will seek to liquidate the securities received as soon as practicable unless the successor Underlying Fund or the successor Underlying Manager indicates that it is willing to accept such securities. The transaction costs associated with such liquidation, as well as any market impact on the value of the securities being liquidated, will be borne by the client.

If a Fund-of-Funds or Manager-of-Managers client account holds, or is expected to hold, a substantial cash position during the transition from one Underlying Fund to another or from one Underlying Manager to another, LMGAA may reserve the right to invest directly for the interim period in investments which are intended to track a market index or model basket of securities, including but not limited to index funds, ETFs, futures contracts, options on futures contracts or other similar index-related derivatives.

Risk of Loss and Other Risks

Set forth below is a summary of the material risks associated with LMGAA's significant investment strategies and methods of analysis. Also set forth below is a summary of the material risks associated with some of the common types of securities and other instruments in which client assets may be invested, either directly, in the case of client assets held in Sleeves managed by LMGAA, Affiliated Managers or Non-Affiliated Managers, or indirectly through investment in Underlying Funds. LMGAA provides investment advisory services across a broad range of asset classes and investment types. LMGAA does not primarily recommend any particular type of security or other instrument to its clients.

The information contained in this Brochure cannot disclose every potential risk associated with LMGAA's significant investment strategies and methods of analysis or the various types of securities or other instruments in which client assets may be invested. It is possible that one or more risks that this Brochure does not identify may result in losses in client accounts. The information in this Brochure also cannot disclose all of the risks associated with a particular client account. Rather, the information in this Brochure is intended to be a general description of the nature and risks of some of the common types of investment strategies and types of investments that clients may include in their investment guidelines for their accounts. Clients should not include investment strategies and investment types in their investment guidelines unless they understand the applicable risks. Clients should be satisfied that such investment strategies and investment types are suitable for their accounts in light of their circumstances, investment objectives and financial situation. A client of LMGAA that is a pooled investment vehicle also should review the specific risk disclosures included in the prospectus or other offering document for such pooled investment vehicle.

Clients should be aware that an investment is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Past performance or any prediction or forecast is not a guarantee or indicative of future results. LMGAA cannot guarantee that investment objectives associated with any strategy or client account will be met.

Risk in General

All LMGAA clients are subject to the following general risks:

LMGAA's investment strategies involve a risk of loss, which clients should be prepared to bear.

- A client account may not achieve its investment objective.
- The value of a client account, as well as the investment return of an account, may fluctuate significantly.

Risks Associated with LMGAA's Asset Allocation and Fund/Manager Selection Advisory Services

LMGAA's asset allocation and fund/manager selection advisory services involve the following risks:

- Allocation and Fund/Manager Selection Risk. A client account's ability to achieve its investment objective depends upon LMGAA's skill in determining the account's asset allocation and in selecting the account's

Underlying Funds or Underlying Managers. The value of a client account may decrease or underperform if LMGAA's judgment about market trends or the attractiveness of asset classes, investment styles, Underlying Funds or Underlying Managers is incorrect.

- Asset Class Variation Risk. A client account's Sleeves or Underlying Funds will invest principally in the securities constituting their asset class (*i.e.*, equity or fixed income). However, under normal market conditions, an Underlying Fund or Sleeve may vary the percentage of its assets in these securities (subject to any applicable investment guidelines or regulatory requirements). Depending upon the percentage of securities in a particular asset class held by an account's Underlying Funds or Sleeves at any given time and the percentage of the account's assets invested in various Underlying Funds or Sleeves, the account's actual exposure to the securities in a particular asset class may vary substantially from its intended allocation for that asset class.
- Portfolio Selection Risk. The value of a client account may decrease if the judgment of an Underlying Fund's portfolio managers or the judgment of an Underlying Manager about the attractiveness of, value of or market trends affecting a particular security, industry or sector, country or region, or about market movements, is incorrect. In addition, the investment models used by an Underlying Fund's portfolio managers or by Underlying Managers to evaluate securities or securities markets are based on certain assumptions concerning the interplay of market factors and do not assure successful investment. The interplay of these factors may change from their historical patterns due to prolonged adverse market conditions or financial crises similar to the financial crisis that began in 2008. Although an Underlying Fund's portfolio managers or an Underlying Manager may attempt to hedge or protect against investment losses, there is no assurance that their judgment about whether and when to do so will be correct, or that hedges will succeed. Hedging strategies may not always work as intended, and in specific cases, an Underlying Fund or a Sleeve of a client account may be worse off than if it had not used such strategies.
- Multi-Manager Risk. While LMGAA monitors each Underlying Manager in a Manager-of-Managers arrangement and monitors the overall management of client accounts, LMGAA and each Underlying Manager make investment decisions for client accounts independently from one another. It is possible that the investment styles used by an Underlying Manager for a Sleeve will not always be complementary to those used by other Underlying Managers, which could adversely affect the performance of a client's account. In addition, one Underlying Manager may buy the same securities that another Underlying Manager sells. Therefore, the client account would bear the cost of these trades without accomplishing any investment purpose.
- Fund-of-Funds Cost Risk. A client account that invests in Underlying Funds may have higher investment costs than a client account that only invests directly in individual securities. An Underlying Fund may change its investment objective or policies without the client account's approval, which could force the client account to withdraw its investment from such Underlying Fund at a time that is unfavorable to the client account. In addition, one Underlying Fund may buy the same securities that another Underlying Fund sells. Therefore, the client account would indirectly bear the costs of these trades without accomplishing any investment purpose.
- Affiliated Funds and Affiliated Managers Risk. Assets in a Fund-of-Funds client account may be invested in Affiliated Funds and in LMGAA-Advised Funds. Assets in a Manager-of-Managers client account may be allocated to Sleeves managed by Affiliated Managers and to LMGAA-Managed Sleeves. This may present LMGAA with a conflict of interest. Please see Items 10, 11 and 14 of this Brochure for a discussion of such conflicts of interest.
- Non-Diversification Risk. To the extent that a client account invests in a smaller number of Underlying Funds or allocates its assets to a smaller number of Underlying Managers, the client account will be more susceptible to negative events affecting such Underlying Funds or the securities in Sleeves managed by such Underlying Managers.
- Risk Associated with Types of Investments and Investment Techniques. Subject to applicable investment guidelines, client accounts may be invested in various types of securities and investments, either directly, in the case of client assets held in Sleeves managed by LMGAA, Affiliated Managers or Non-Affiliated Managers, or indirectly through investment in Underlying Funds. Please see "Risks Associated with

Certain Types of Investments and Investment Techniques” below for a description of the risks associated with certain types of investments and investment techniques.

- Model Risk. LMGAA’s investment strategies utilize proprietary research to analyze securities and help portfolio managers make investment decisions. While LMGAA maintains controls reasonably designed to protect the integrity and efficacy of the quantitative models and data used to formulate investment decisions, LMGAA can make no guarantee that the models and data will remain accurate and/or produce the desired or intended results over time.
- Key Person Risk. The success of a strategy or account is largely dependent on the skill and expertise of LMGAA’s investment professionals and research staff. Although each of the strategies are managed by a team of professionals, the loss of key personnel could have an adverse impact on the performance of a given strategy or account.
- Regulatory Risk. The financial services industry is highly regulated and constantly evolving. Changes to regulations may impede LMGAA’s ability to offer certain products and services, invest in certain products, asset classes or markets, and/or may require LMGAA to alter its strategies or practices in order to comply with new rules and directives. Further, changes to regulations, such as those related to derivatives, may increase costs associated with trading or investing in certain products, or make certain products, such as swaps, more difficult to trade or value. LMGAA cannot predict the impact or effect, if any, of future regulatory reform on the strategies currently managed or products and services currently provided.

Risks Associated with LMGAA’s Management of LMGAA-Managed Sleeves

Client accounts with LMGAA-Managed Sleeves are subject to the following risks:

- Portfolio Selection Risk. The value of a client account may decrease if LMGAA’s judgment about the attractiveness, value of or market trends affecting a particular security, industry or sector, country or region, or about market movements, is incorrect. In addition, the investment models used by LMGAA’s portfolio managers to evaluate securities or securities markets are based on certain assumptions concerning the interplay of market factors and do not assure successful investment. Although LMGAA’s portfolio managers may attempt to hedge or protect against investment losses, there is no assurance that their judgment about whether and when to do so will be correct, or that hedges will succeed. Hedging strategies may not always work as intended, and in specific cases a client account may be worse off than if LMGAA had not used such strategies.
- Risks Associated with Index Tracking Investing. The assumptions built into the risk models and optimization software utilized by LMGAA to invest certain client account assets in a manner designed to produce returns comparable to those of a particular benchmark index may cause such models and software to produce investment recommendations that may result in an index tracking error that is greater than expected and, therefore, returns that are not closely correlated to the returns of the index with respect to a client account. In addition, because LMGAA does not conduct any fundamental, company-specific security analysis with respect to securities purchased and sold as part of the index tracking investing process, the value of a client account may decrease if account assets are invested in securities that are less attractive than other securities in the index from fundamental investment perspective.
- Risks Associated with Types of Investments and Investment Techniques. Subject to the investment guidelines applicable to a LMGAA-Managed Sleeve, the assets in LMGAA-Managed Sleeves may be invested in various types of securities and investments, either directly or indirectly through investment in Underlying Funds. Please see “Risks Associated with Certain Types of Investments and Investment Techniques” below for a description of the risks associated with certain types of investments and investment techniques.

Risks Associated with Risk Management Advisory Services

LMGAA’s risk management advisory services involve the following risks:

- Allocation Risk. An account’s ability to achieve its investment objectives depends upon LMGAA’s skill in determining the account’s asset allocation, creating and applying formulas for de-risking or ending de-

risking, and determining when to engage in risk management strategies. In implementing the Dynamic Risk Management or Event Risk Management strategies, a client account will be subject to heightened allocation risk, as LMGAA will have discretion in determining the account's asset allocation. If an account's exposure to short-term defensive instruments is increased at inopportune times or for extended periods of time, the account may experience lower performance or greater losses. There is no guarantee that the Dynamic Risk Management or the Event Risk Management strategies will work as intended or prevent an account from incurring losses.

- **Defensive Investing Risk.** A client account may have significant exposure to short-term defensive instruments as a result of implementation of the Dynamic Risk Management strategy. If a client account has significant exposure to short-term defensive instruments or engages in options and futures transactions for hedging purposes, it may be more difficult for the account to achieve high total returns.
- **Dynamic Risk Management Strategy Risk.** A client account may sell underlying fund holdings, including shares of ETFs, in implementing the Dynamic Risk Management strategy. During periods of market volatility, the share prices of ETFs may deviate significantly from their net asset values. Therefore, selling shares of ETFs during periods of market volatility may result in greater losses than redeeming mutual fund holdings. A client account may incur additional trading costs due to implementation of the Dynamic Risk Management strategy, which may reduce the account's performance. If derivatives are used to implement the Dynamic Risk Management strategy, the account will be subject to additional risks. See "Risks that Relate Primarily to Derivatives."
- **Event Risk Management Strategy Risk.** The Event Risk Management strategy may involve entering into transactions involving options and futures that are expected to increase in value during the occurrence of certain market events. An instrument used to hedge market risk could lose all or a portion of its value even in a period of severe market stress. Implementation of the strategy may result in a client account holding options and futures positions that take contradictory views on market movements. The costs of purchasing and selling these instruments may reduce an account's return. An account may not be able to close out a position at the desired time or price. See "Risks that Relate Primarily to Derivatives" for additional information concerning the risks associated with options and futures transactions.

Risks Associated with Certain Types of Investments and Investment Techniques

A client account may be exposed to the following types of risks either directly, in the case of client assets held in Sleeves managed by LMGAA, Affiliated Managers or Non-Affiliated Managers, or indirectly through investment in Underlying Funds and other types of investment vehicles. Please refer to the Underlying Funds' Prospectuses, Statements of Additional Information, or other offering documents for a more complete discussion of risks specific to each Underlying Fund.

General Investment and Portfolio Risks

- **Market and Interest Rate Risk.** The securities markets are volatile and market prices may decline generally. Securities fluctuate in price, sometimes rapidly or unpredictably, based on changes in a company's financial condition and overall market and economic conditions, such as real or perceived adverse economic or political conditions, inflation, changes in interest or currency rates, lack of liquidity in the markets or adverse investor sentiment. Market prices of securities also may go down due to events or conditions that affect particular sectors or issuers. If the market prices of the securities owned in a Sleeve of a client account or by an Underlying Fund fall, the value of the client account will decline. The value of securities owned in a Sleeve of a client account or by an Underlying Fund also may go down when interest rates rise. A rise in rates tends to have a greater impact on the prices of longer term or longer duration securities.

The equity and debt capital markets in the United States and internationally, including in Europe more recently, have experienced unprecedented volatility. The financial crisis that began in 2008 has caused a significant decline in the value and liquidity of many securities; in particular, the values of some sovereign debt and of securities of issuers that purchase sovereign debt have fallen, credit has become more scarce worldwide and there has been significant uncertainty in the markets. This environment could make identifying investment risks and opportunities especially difficult. These market conditions may continue or get worse and it is difficult to predict their magnitude or duration. In response to the

crisis, the U.S. and other governments and the Federal Reserve and certain foreign central banks have taken steps to support financial markets. The withdrawal of this support, failure of efforts in response to the crisis, or investor perception that such efforts are not succeeding could also negatively affect the value and liquidity of certain securities.

- Issuer Risk. The value of a security can go up or down more than the market as a whole and can perform differently from the value of the market as a whole, often due to disappointing earnings reports by the issuer, unsuccessful products or services, loss of major customers, major litigation against the issuer or changes in government regulations affecting the issuer or the competitive environment. An Underlying Fund or Sleeve of a client account may experience a substantial or complete loss on an individual security. Historically, the prices of securities of small and medium capitalization companies have generally gone up or down more than those of large capitalization companies, although even large capitalization companies may fall out of favor with investors.
- Liquidity Risk. Some securities owned in a Sleeve of a client account or by an Underlying Fund may be difficult to sell, or be illiquid, particularly during times of market turmoil. Illiquid securities also may be difficult to value, especially in changing markets. If a Sleeve of a client account or an Underlying Fund is forced to sell an illiquid asset to meet redemption requests or other cash needs, such Sleeve or Underlying Fund may be forced to sell at a loss or at a price lower than the portfolio managers believe is appropriate. If a Sleeve of a client account or an Underlying Fund is unable to sell a deteriorating security because the market is illiquid, losses may be magnified.
- Geographic Concentration Risk. Geographic concentration risk is the risk of loss from concentrating investments in a particular geographic region, such as a single U.S. state or region (e.g., New England, Gulf Coast), and not more broadly diversifying investments across multiple geographic regions. A client account, Sleeve or Underlying Fund that concentrates investments in a particular geographic region will have a greater risk of loss from developments that negatively affect securities issuers with significant business or other financial exposure to the region. Examples of such developments include: regional disasters such as earthquakes, hurricanes and floods; deteriorating finances of regional governmental securities issuers (e.g., states, municipalities); regional infrastructure problems such as power outages or transport facility shutdowns or restrictions; and economic, demographic or regulatory changes that negatively affect the region's business environment.
- Industry Concentration Risk. Industry concentration risk is the risk of loss from concentrating investments in a particular industry and not more broadly diversifying investments across multiple industries. A client account, Sleeve or Underlying Fund that concentrates investments in a particular industry will have a greater risk of loss from developments that negatively affect companies in that industry. Examples of such developments include: regulatory or other government policy changes that negatively affect the industry; changes in business methods, technologies or consumer preferences that reduce demand for the industry's products or services; alternative product/service competition from new or pre-existing industries; and shortages of, or increased costs for, industry personnel, raw materials or product components.
- Issuer Concentration Risk. Issuer concentration risk is the risk of loss from concentrating investments in individual securities of a smaller number of issuers (i.e., making larger investments in individual securities) instead of more broadly diversifying investments in securities across a larger number of issuers. A client account, Sleeve or Underlying Fund that concentrates investments in a smaller number of issuers will have a greater risk of loss from developments that negatively affect those issuers than a client account, Sleeve or Underlying Fund that invests in a greater number of issuers.
- High Volatility Risk. High volatility risk is the risk of loss associated with investments that tend to fluctuate in value more than other investments. A client account, Sleeve or Underlying Fund with high volatility risk typically involves more speculative investments than a portfolio that does not have such risk. More speculative investments increase the client's risk of loss. In addition, high volatility increases the chance that a client account, Sleeve or Underlying Fund will incur significant investment losses if and when the Sleeve's or Underlying Fund's portfolio managers decide to sell one or more securities held in the Sleeve or Underlying Fund.

Additional Risks that Relate Primarily to Equity Investments

- **Stock Market and Equity Securities Risk.** The securities markets are volatile and the market prices of equity securities owned in a Sleeve of a client account or by an Underlying Fund may decline generally. Securities fluctuate in price based on changes in a company's financial condition and overall market and economic conditions, such as real or perceived adverse economic or political conditions, inflation, changes in interest rates, lack of liquidity or adverse investor sentiment. Changes in market conditions will not have the same impact on all types of securities. The value of a security may also fall due to specific conditions that affect a particular sector of the securities market or a particular issuer. If the market prices of the equity securities owned in a Sleeve of a client account or by an Underlying Fund fall, the value of a client's account will decline. The value of a client's account also may go down when interest rates rise. A rise in rates tends to have a greater impact on the prices of longer term or duration securities.
- **Growth and Value Investing Risk.** Growth or value securities as a group may be out of favor and underperform the overall equity market while the market concentrates on other types of securities. Growth securities typically are very sensitive to market movements because their market prices tend to reflect future expectations. When it appears those expectations will not be met, the prices of growth securities typically fall. Growth securities may also be more volatile than other investments because they often do not pay dividends. The value approach to investing involves the risk that stocks may remain undervalued. An Underlying Fund or Underlying Manager may, like many growth or value funds and managers, weight investments toward certain industries, thus increasing the Underlying Fund's or client's exposure to factors adversely affecting issuers within those industries.
- **Large Capitalization Company Risk.** Large capitalization companies may fall out of favor with investors.
- **Small and Medium Capitalization Company Risk.** An Underlying Fund or a Sleeve of a client account may be invested in the securities of small and medium capitalization companies. Small and medium capitalization companies may fall out of favor with investors; may have limited product lines, operating histories, markets or financial resources; or may be dependent upon limited management groups. Smaller companies are often involved in actual or anticipated reorganizations or restructurings and it may be difficult to obtain information as to their financial conditions. The prices of securities of small and medium capitalization companies generally are more volatile than those of large capitalization companies, especially in the short term, and are more likely to be adversely affected than large capitalization companies by changes in earnings results and investor expectations or poor economic or market conditions, including those experienced during a recession. Securities of small and medium capitalization companies may underperform large capitalization companies, may be harder to sell at times and at prices the Underlying Fund's portfolio managers or the Underlying Manager believe appropriate, may be difficult to value and may offer greater potential for losses.

Additional Risks that Relate Primarily to Fixed Income Investments

- **Interest Rate Risk.** When interest rates rise, the value of fixed income securities generally falls. A change in interest rates will not have the same impact on all fixed income securities. Generally, the longer the maturity or duration of a fixed income security, the greater the impact of a rise in interest rates on the security's value. In addition, different interest rate measures (such as short- and long-term interest rates and U.S. and foreign interest rates), or interest rates on different types of securities or securities of different issuers, may not necessarily change in the same amount or in the same direction.

Certain fixed income securities pay interest at variable or floating rates. Variable rate securities tend to reset at specified intervals, while floating rate securities may reset whenever there is a change in a specified index rate. In most cases, these reset provisions reduce the impact of changes in market interest rates on the value of the security. However, some securities do not track the underlying index directly, but reset based on formulas that may produce a leveraging effect; others may also provide for interest payments that vary inversely with market rates. The market prices of these securities may fluctuate significantly when interest rates change.

- **Credit Risk.** If an issuer or guarantor of a security held by a client account or an Underlying Fund or a counterparty to a financial contract with the client account or Underlying Fund defaults, is downgraded, is perceived to be less creditworthy, becomes insolvent or files for bankruptcy or a security's credit rating is downgraded or the credit quality or value of an underlying asset declines, the value of the account's or Underlying Fund's investment typically will decline. If an Underlying Fund or a client account enters into financial contracts (such as certain derivatives, repurchase agreements, reverse repurchase agreements, and when-issued, delayed delivery and forward commitment transactions), it will be subject to the credit risk presented by the counterparty. In addition, an Underlying Fund or a client account may incur expenses to protect its interest in securities experiencing these events. Credit risk is broadly gauged by the credit ratings of the securities in which an Underlying Fund or a client account invests. However, ratings are only the opinions of the companies issuing them and are not guarantees as to quality. Securities rated in the lowest category of investment grade (Baa/BBB) may possess certain speculative characteristics.
- **High Yield or "Junk Bond Risk".** Debt securities that are below investment grade, or "junk bonds," are speculative, have a higher risk of issuer default, tend to be less liquid and are more difficult to value than higher grade securities. Junk bonds tend to be volatile and more susceptible to adverse events and negative sentiments. Investing in these securities subjects an Underlying Fund or a Sleeve of a client account to increased price sensitivity to changing interest rates; greater risk of loss because of default or declining credit quality; or an issuer's inability to make interest and/or principal payments due to adverse company specific events or changes in economic conditions. Junk bonds are also subject to the risk of negative perceptions of the high yield market depressing the price and liquidity of high yield securities. These negative perceptions could last for a significant period of time.
- **Prepayment or Call Risk.** Many fixed income securities give the issuer the option to repay or call the security prior to its maturity date. Issuers often exercise this right when interest rates fall. Accordingly, if an Underlying Fund or a Sleeve of a client account holds a fixed income security subject to prepayment or call risk, it may not benefit fully from the increase in value that other fixed income securities generally experience when interest rates fall. Upon prepayment of the security, the Underlying Fund or Sleeve would also be forced to reinvest the proceeds at then current yields, which would be lower than the yield of the security that was paid off. In addition, if the Underlying Fund or Sleeve purchases a fixed income security at a premium (at a price that exceeds its stated par or principal value), the Underlying Fund or Sleeve may lose the amount of the premium paid in the event of prepayment.
- **Extension Risk.** When interest rates rise, repayments of fixed income securities, particularly asset- and mortgage-backed securities, may occur more slowly than anticipated, extending the effective duration of these fixed income securities and locking in below market interest rates. This may cause the investments in an Underlying Fund or in the Sleeve of a client account to be more volatile.

Additional Risks that Relate Primarily to Non-U.S. Investments (Equity and Fixed Income)

- **Foreign Investments Risk.** An Underlying Fund's or Sleeve's investments in securities of foreign issuers involve greater risk than investments in securities of U.S. issuers. Foreign countries in which an Underlying Fund or Sleeve may invest or where the securities in which it invests are traded may have markets that are less liquid, less regulated and more volatile than U.S. markets, may suffer from political or economic instability and may experience negative government actions, such as currency controls or seizures of private businesses or property. Values may also be affected by foreign tax laws and restrictions on receiving the investment proceeds from a foreign country. In some foreign countries, less information is available about issuers and markets because of less rigorous accounting and regulatory standards than in the United States. Because the value of a depositary receipt is dependent upon the market price of an underlying foreign security, depositary receipts are subject to most of the risks associated with investing in foreign securities directly. Currency fluctuations could erase investment gains or add to investment losses.
- **Emerging Markets Risk.** The risks of foreign investment are greater for investments in issuers in emerging market countries. Emerging market countries typically have economic and political systems that are less fully developed, and that can be expected to be less stable, than those of more advanced countries. Emerging markets securities are often particularly sensitive to market movements because

their market prices tend to reflect future expectations. When it appears those expectations will not be met, the prices of these securities typically fall. Lower trading volumes may result in a lack of liquidity and increased price volatility. An investment in emerging market securities should be considered speculative.

- **Currency Risk.** The value of investments in securities denominated in foreign currencies increases or decreases as the rates of exchange between those currencies and the U.S. dollar change. Currency exchange rates can be volatile, and are affected by factors such as the forces of supply and demand in the foreign exchange markets, the general economic conditions, actual or perceived changes in interest rates, the actions of the U.S. and foreign governments or central banks, the imposition of currency controls, speculation and political developments in the U.S. or abroad. An Underlying Fund or Sleeve will also incur currency conversion costs.
- **Currency Derivatives Risk.** Currency futures, forwards or options may not always work as intended, and in specific cases an Underlying Fund or Sleeve may be worse off than if it had not used such instrument(s). There may not always be suitable hedging instruments available. Even where suitable hedging instruments are available, an Underlying Fund or Sleeve may not hedge its currency risks.
- **Sovereign Debt Risk.** Sovereign government and supranational debt involves many of the risks of foreign and emerging market investments as well as the risk of debt moratorium, repudiation or renegotiation, and an Underlying Fund or Sleeve may be unable to enforce its rights against the issuers.

Additional Risks that Relate Primarily to Derivatives

- **Derivatives Risk.** Using derivatives, especially for non-hedging purposes, may involve greater risks to an Underlying Fund or Sleeve of a client account than investing directly in securities, particularly as these instruments may be very complex and may not behave in the manner anticipated. Certain derivatives transactions may have a leveraging effect on an Underlying Fund or Sleeve. Even a small investment in derivative contracts can have a significant impact on an Underlying Fund's or Sleeve's market, interest rate or currency exposure. Therefore, using derivatives can disproportionately increase losses and reduce opportunities for gains when stock prices, currency rates or interest rates are changing. An Underlying Fund or Sleeve may not fully benefit from or may lose money on derivatives if changes in their value do not correspond as anticipated to changes in the value of the Underlying Fund's or Sleeve's holdings. Using derivatives may increase volatility, which is the characteristic of a security, an index or a market to fluctuate significantly in price within a short time period. Holdings of derivatives also can make an Underlying Fund or Sleeve less liquid and harder to value, especially in declining markets. Derivatives are subject to counterparty risk, which is the risk that the other party in the transaction will not fulfill its contractual obligation.

Swap agreements, a type of derivative instrument, will tend to shift the investment exposure of an Underlying Fund or Sleeve of a client account from one type of investment to another. Credit default swap contracts involve special risks and may result in sudden and substantial losses to an Underlying Fund or Sleeve of a client account. Credit default swaps may in some cases be illiquid, and they increase credit risk since an Underlying Fund or a Sleeve of a client account has exposure to both the issuer of the referenced obligation and the counterparty to the credit default swap. Historically, there has been no central exchange or market for credit default swap transactions, which made them difficult to trade and value, especially in the event of market disruptions. Recent legislation requires most swaps to be executed through a centralized exchange or regulated facility and be cleared through a regulated clearing house but such legislation is still in the implementation stage. The swap market could be disrupted or limited as a result of this legislation, which could adversely affect an Underlying Fund or Sleeve of a client account. Moreover, the establishment of a centralized exchange or market for swap transactions may not result in swaps being easier to trade or value.

Structured notes are subject to interest rate risk and are also subject to credit risk with respect both to the borrower and to the issuer of the underlying investment. If the underlying investment or index does not perform as anticipated, the investment might pay less interest than the stated coupon payment or repay less principal upon maturity. The terms of structured notes may provide that in certain circumstances no principal is due at maturity, which may result in a complete loss of invested capital.

Structured notes may be more volatile, less liquid and more difficult to accurately price than less complex securities and instruments or more traditional debt securities.

Risks associated with the use of derivatives are magnified to the extent that a large portion of the Underlying Fund's or Sleeve's assets are committed to derivatives in general or are invested in just one or a few types of derivatives.

In times of market turmoil or abrupt change, many investors and market makers may hesitate to purchase complex instruments or even quote prices for them, which may make valuation difficult and/or drive down the price.

Additional Risks that Relate to Other Types of Investments and Investment Techniques

- **Commodities Risk.** An Underlying Fund's or Sleeve's investment in commodity-linked instruments may subject the Underlying Fund or Sleeve to greater volatility than investments in traditional securities. The value of commodity-linked instruments may be affected by changes in overall market movements, commodity index volatility, prolonged or intense speculation by investors, changes in interest rates or factors affecting a particular industry or commodity, such as drought, floods, other weather phenomena, livestock disease, embargoes, tariffs and international economic, political and regulatory developments.
- **Inflation-Indexed Securities Risk.** The values of inflation-indexed fixed income securities generally fluctuate in response to changes in real interest rates (approximately nominal interest rates minus the inflation rate). Therefore, if inflation rates were to rise faster than nominal interest rates, the value of inflation-indexed securities would likely increase. In contrast, if nominal interest rates increased faster than the inflation rates, the value of inflation-indexed securities would likely decrease. Although the principal value of inflation-indexed securities declines in periods of deflation, holders at maturity receive no less than the par value of the security. However, if an Underlying Fund or Sleeve purchases inflation-indexed securities in the secondary market whose principal values have been adjusted upward due to inflation since issuance, it may experience a loss if there is a subsequent period of deflation or lower level of inflation. If inflation is lower than expected during the period an Underlying Fund or Sleeve holds an inflation-indexed security, the Underlying Fund or Sleeve may earn less on the security than on a conventional bond.

If real interest rates rise (*i.e.*, if interest rates rise for reasons other than inflation, for example, due to changes in currency exchange rates), the value of inflation-indexed securities held by an Underlying Fund or Sleeve will decline. Moreover, because the principal amount of inflation-indexed securities would be adjusted downward during a period of deflation, an Underlying Fund or Sleeve will be subject to deflation risk with respect to its investments in these securities. Inflation-indexed securities are tied to indices that are calculated based on rates of inflation for prior periods.

- **REITs Risk.** Investments in REITs expose an Underlying Fund or Sleeve to risks similar to investing directly in real estate. The value of these underlying investments may be affected by changes in the value of the underlying real estate, the quality of the property management, the creditworthiness of the issuer of the investments, and changes in property taxes, interest rates and the real estate regulatory environment. Investments in REITs are also affected by general economic conditions.
- **ETF and ETN Risk.** An Underlying Fund or Sleeve may gain exposure to commodities, REITs and other investments by investing in ETFs and exchange-traded notes, or ETNs, that focus on these types of investments. Investing in an ETF or ETN will give the Underlying Fund or Sleeve exposure to the securities that the ETF or ETN holds in its portfolio. An Underlying Fund or Sleeve may invest in "short" ETFs which carry additional risks because they may invest in a variety of derivatives and may engage in short sales. ETFs are bought and sold based on market values, which rarely equal the actual net asset value of their portfolio holdings and, therefore, they could trade at either a premium or discount to net asset value. However, the trading prices of index-based ETFs tend to closely track the actual net asset value of the underlying portfolios. An Underlying Fund or Sleeve will generally gain or lose value on holdings of an ETF consistent with the performance of the index on which the ETF is based. An Underlying Fund or Sleeve will indirectly bear its pro rata share of the fees and expenses incurred by an ETF it invests in, including advisory fees, and will pay brokerage commissions in

connection with the purchase and sale of shares of ETFs. ETFs that invest in commodities may be, or may become, subject to regulatory trading limits that could hurt the value of their securities. Additionally, ETNs and some ETFs are not structured as investment companies and thus are not regulated under the Investment Company Act of 1940. An ETN's value generally depends on the performance of the underlying index and the credit rating of the issuer and, unlike bonds, it has no periodic interest payments and principal is not protected.

- Tracking Error Risk. An Underlying Fund or Sleeve may hold long or short positions through investments in investment funds and other instruments, such as ETFs or ETNs, whose investment objectives are to track (positively or negatively) the performance of a particular market or benchmark index. The performance of these funds and instruments, however, may not match that of the indices the funds or instruments are designed to track, either on a daily or longer-term basis. Factors such as expenses, imperfect correlation between a fund's or instrument's investments and those of its underlying index, rounding of share prices, changes to the composition of the underlying index, regulatory policies, high portfolio turnover rate and the use of leverage all contribute to tracking error.
- Master Limited Partnership (MLP) Risk. The value of an investment in a MLP may be directly affected by factors affecting natural resources commodity prices and the commodity markets generally. The volatility and interrelationships of commodity prices also can indirectly affect certain MLPs due to the potential impact on the volume of commodities transported, processed, stored or distributed. An Underlying Fund's or Sleeve's investment in an MLP may be adversely affected by market perceptions that the performance and distributions or dividends of MLPs are directly tied to commodity prices.
- Closed-End Fund Risk. Shares of closed-end funds in which an Underlying Fund or Sleeve invests may trade at either a premium or discount to the fund's net asset value. An Underlying Fund or client account Sleeve that invests in closed-end funds will pay brokerage commissions in connection with the purchase and sale of shares of closed-end funds.
- Hedge Funds Risk. A client account may invest in Underlying Funds that are not registered as investment companies and whose portfolio managers may not be registered as investment adviser. As a result, the client account as an investor in the Underlying Funds would not have the benefit of certain protections afforded to investors in registered investment companies.
- Mortgage-Backed and Asset-Backed Securities Risk. The value of investments in mortgage-backed and asset-backed securities is subject to interest rate risk and credit risk. These securities are also subject to the risk that borrowers will prepay the principal on their loans more quickly than expected (prepayment risk) or more slowly than expected (extension risk), which will affect the yield, average life and price of the securities. In addition, faster than expected prepayments may cause the Underlying Fund or Sleeve of a client account to invest the prepaid principal in lower yielding securities and slower than expected prepayments may reduce the potential for such Underlying Fund or Sleeve to invest in higher yielding securities.
- Mortgage-Backed Security Risk (Government-Sponsored Enterprises or GSEs). Debt and mortgage-backed securities issued by GSEs such as FNMA and FHLMC are neither insured nor guaranteed by the U.S. Treasury and are not backed by the full faith and credit of the U.S. government. Such securities are only supported by the credit of the GSE. The U.S. government has provided financial support to FNMA and FHLMC, but there can be no assurance that it will support these or other GSEs in the future.
- Non-Publicly Traded Securities. Non-publicly traded securities may involve a high degree of business and financial risk and may result in substantial losses. These securities may be less liquid than publicly traded securities, and an Underlying Fund or a Sleeve of a client account may take longer to liquidate these positions than would be the case for publicly traded securities. Although these securities may be resold in privately negotiated transactions, the prices realized from these sales could be less than those originally paid by an Underlying Fund or Sleeve of a client account. Further, companies whose securities are not publicly traded may not be subject to the disclosure and other investor protection requirements that would be applicable if their securities were publicly traded.

- Convertible Securities Risk. Convertible securities are subject both to the stock market risk associated with equity securities and to the credit and interest rate risks associated with fixed income securities. When the market price of the equity security underlying a convertible security decreases, the convertible security tends to trade on the basis of its yield and other fixed income characteristics. As the market price of the equity security underlying a convertible security rises, the convertible security tends to trade on the basis of its equity conversion features.
- Repurchase Agreements Risk. Repurchase agreements could involve certain risks in the event of default or insolvency of the seller, including losses and possible delays or restrictions upon an Underlying Fund's or Sleeve's ability to dispose of the underlying securities. To the extent that, in the meantime, the value of the securities that the Underlying Fund or Sleeve has purchased has decreased, the Underlying Fund or Sleeve could experience a loss.
- Portfolio Turnover Risk. Active and frequent trading by an Underlying Fund or in a Sleeve may lead to the realization of higher short-term capital gains, which would lead to increased tax liability. Frequent trading also increases transaction costs, which could detract from an Underlying Fund's or Sleeve's performance.
- Leveraging Risk and Reverse Repurchase Agreements. An Underlying Fund or Sleeve may take on leveraging risk by, among other things, engaging in derivative transactions or reverse repurchase agreements. When an Underlying Fund or Sleeve engages in transactions that have a leveraging effect on its portfolio, the value of the Underlying Fund or Sleeve will be more volatile and all other risks tend to be compounded. This is because leverage generally magnifies the effect of any increase or decrease in the value of the Underlying Fund's or Sleeve's underlying assets or creates investment risk with respect to a larger pool of assets than the Underlying Fund or Sleeve would otherwise have. Engaging in such transactions may cause the Underlying Fund or Sleeve to liquidate positions when it may not be advantageous to do so to satisfy its obligations or meet segregation requirements.
- Short Sale Risk. An Underlying Fund or Sleeve may engage directly in short sales (the sale of a security or other asset that it does not own with the hope of purchasing the same security or asset at a later date at a lower price). In addition, an Underlying Fund or Sleeve may invest in ETFs which engage in short sales. An Underlying Fund or Sleeve may also enter into a short position through a short derivative position using a futures contract or swap agreement. An Underlying Fund or Sleeve may suffer significant losses if assets on which the Underlying Fund or Sleeve, or an ETF in which the Underlying Fund or Sleeve invests, holds a short position appreciate rather than depreciate in value. The amount of any gain will be decreased, and the amount of any loss increased, by the amount of the premium, dividends, interest or expenses the Underlying Fund, Sleeve or ETF may be required to pay in connection with the short sale or short position. While the possible loss on a security that is purchased is limited to the price paid for the security, there is no limit on the amount of loss on a security that is sold short or on which an Underlying Fund or Sleeve, or an ETF in which the Underlying Fund or Sleeve invests, holds a short position. Such transactions create leverage.
- Securities Lending Risk. Lending securities involves the risk of possible delay in receiving additional collateral, delay in recovery of the securities when the loan is called or possible loss of collateral should the borrower fail financially. An Underlying Fund or Sleeve could also lose money if its short-term investment of the cash collateral declines in value over the period of the loan.
- Asset Segregation Risk. In connection with certain transactions that may give rise to future payment obligations, including many types of derivatives, an Underlying Fund or Sleeve of a client account may be required to maintain a segregated amount of cash or liquid securities to cover the position. Segregated securities cannot be sold while the position they are covering is outstanding, unless they are replaced with other securities of equal value. As a result, there is the possibility that segregation of a large percentage of the Underlying Fund's or Sleeve's assets may, in some circumstances, limit the portfolio manager's flexibility.
- Cash Management and Defensive Investing Risk. The value of the investments held by the Underlying Funds or Sleeves for cash management or defensive investing purposes may be affected by changing interest rates and by changes in credit ratings of the investments. If an Underlying Fund or client account holds cash uninvested, it will be subject to the credit risk of the depository institution holding

the cash. If a significant amount of an Underlying Fund's or Sleeve's assets are used for cash management or defensive investing purposes, it will be more difficult for the Underlying Fund or Sleeve to achieve its investment objective.

Risks Associated with Investment in Funds Instead of Directly in Securities and Other Investments

A client account that invests in Underlying Funds instead of directly in securities and other investments may be exposed to the following additional types of risks:

- **Fund-of-Funds Cost Risk.** A client's cost of investing may be higher than the cost of investing directly in individual securities. An Underlying Fund may change its investment objective or policies without the client's approval, which could force a client to withdraw its investment from such Underlying Fund at a time that is unfavorable to the client. In addition, one Underlying Fund may buy the same securities that another Underlying Fund sells. Therefore, the client account would indirectly bear the costs of these trades without accomplishing any investment purpose.
- **Risk of Increase in Expenses.** A client's cost of investing may increase if an Underlying Fund's fee limitation is changed or terminated or if average net assets decrease. Net assets are more likely to decrease and Underlying Fund expense ratios are more likely to increase when markets are volatile.
- **Affiliated Funds Risk.** Assets in a client's account may be invested in Affiliated Funds and in LMGAA-Advised Funds. This may present LMGAA with a conflict of interest. For example, LMGAA may have an incentive to allocate a client's assets to Affiliated Funds and to LMGAA-Advised Funds. Please see Items 10, 11 and 14 of this Brochure for a discussion of such conflicts of interest.
- **LMGAA Client Portfolio Rebalancing Risk.** An Underlying Fund may experience relatively large redemptions or investments due to a rebalancing of a LMGAA client account with an investment in such Underlying Fund. In such event, the Underlying Fund may be required to sell securities or to invest cash at a time when it is not advantageous to do so. Rebalancing may increase brokerage and/or other transaction costs of the Underlying Fund, increase the Underlying Fund's expenses or result in the Underlying Fund becoming too small to be economically viable. Rebalancing may also adversely affect an Underlying Fund's performance and thus the LMGAA client account's performance. The impact of rebalancing is likely to be greater when a LMGAA client account has a significant investment in such Underlying Fund.
- **Fund-of-Funds Investment Risk.** An Underlying Fund in which a LMGAA client invests also may be an underlying investment for other accounts that are managed by LMGAA or by other entities as "funds-of-funds." As a result, from time to time, such Underlying Fund may experience relatively large redemptions or investments and could be required to sell securities or to invest cash at a time when it is not advantageous to do so. Such investment activity may increase brokerage and/or other transaction costs of the Underlying Fund, increase the Underlying Fund's expenses or result in the Underlying Fund's becoming too small to be economically viable. Such activity also may adversely affect an Underlying Fund's performance and thus the LMGAA client account's performance.
- **Valuation Risk.** The sales price an Underlying Fund could receive for any particular portfolio investment may differ from the Underlying Fund's valuation of the investment, particularly for securities that trade in thin or volatile markets or that are valued using a fair value methodology (for example, when a security is illiquid or its price is not readily available, or when events after the close of a foreign market affect the value of a security traded in or currency of that market).

Item 9 - Disciplinary Information

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

Item 10 - Other Financial Industry Activities or Affiliations

On May 30, 2014, Legg Mason completed its acquisition of QS Investors. Legg Mason intends to integrate LMGAA and Batterymarch into QS Investors over time with the goal of creating a combined investment platform with solutions, quantitative equity, and multi-manger asset allocation capabilities. Effective as of May 30, 2014, QS Investors, Batterymarch and LMGAA became subject to common management and investment oversight. To facilitate this relationship, QS Investors employees have been “dual hatted” into each of Batterymarch and LMGAA, LMGAA employees have been dual hatted into each of QS Investors and Batterymarch, and Batterymarch employees have been dual hatted into QS Investors and LMGAA. In addition, individuals in senior management positions at QS Investors have been appointed to the same positions at each of Batterymarch and LMGAA. QS Investors employees that have been dual hatted into Batterymarch and LMGAA may assist Batterymarch and LMGAA in their management of client accounts. QS Investors, Batterymarch and LMGAA have adopted compliance policies and procedures, including the Code of Ethics, that are substantially similar in all material respects, and the three firms have a common Chief Compliance Officer.

Status of LMGAA as Registered Commodity Trading Adviser

As part of its regular advisory and management business, LMGAA may provide investment advice or recommendations to certain of its advisory clients relating to or involving commodity interests subject to the jurisdiction of the Commodity Futures Trading Commission. Accordingly, LMGAA is registered as a Commodity Trading Advisor with the National Futures Association (NFA). In addition, certain employees of LMGAA are registered with the NFA as Associated Persons and Principals of LMGAA. An Associated Person is an individual permitted to solicit funds on behalf of a commodity trading advisor, which allows such individual to discuss investment strategies involving commodity interests with clients and prospects.

Relationships between LMGAA and LMGAA Affiliates that are Material to LMGAA’s Advisory Business

- **Legg Mason Investor Services, LLC**

Legg Mason Investor Services, LLC serves as distributor for the following U.S. registered investment companies advised or sub-advised by LMGAA:

- the Legg Mason Lifestyle Funds;
- the Legg Mason Dynamic Multi-Strategy VIT Portfolio;
- the Legg Mason Dynamic Multi-Strategy Fund;
- the Permal Alternative Core Fund;
- the Legg Mason Strategic Real Return Fund; and
- the Legg Mason Target Retirement Series.

Legg Mason Investor Services, LLC also serves as the distributor of interests in the Scholars Choice College Savings Program, a Section 529 college savings plan, and provides certain marketing, administrative and recordkeeping services with respect to such plan. The Scholars Choice College Savings Program is a Fund-of-Funds client of LMGAA.

- **Investment Companies and Other Pooled Investment Vehicles Sponsored by LMGAA Affiliates**

LMGAA advises or sub-advises various U.S. registered investment companies, including:

- the Legg Mason Lifestyle Funds;
- the Legg Mason Dynamic Multi-Strategy VIT Portfolio;
- the Legg Mason Dynamic Multi-Strategy Fund;

- the Permal Alternative Core Fund;
- the Legg Mason Strategic Real Return Fund; and
- the Legg Mason Target Retirement Series.

LMGAA serves as investment adviser or sub-adviser for such investment companies pursuant to an advisory or subadvisory agreement with Legg Mason Partners Fund Advisor, LLC, a LMGAA affiliate, which serves as the manager of such investment companies.

In the case of the Permal Alternative Core Fund, Permal Asset Management Inc., a LMGAA Affiliate, determines the fund's allocation among asset classes and the fund's allocation to Underlying Funds and other investments and LMGAA provides portfolio implementation and trade placement services to implement Permal Asset Management Inc.'s advice.

LMGAA also advises or sub-advises various non-U.S. investment companies and investment trusts, which include:

- the Legg Mason Select Funds established under the Legg Mason Funds Investment Series (Luxembourg), a Luxembourg-domiciled series fund;
- the Legg Mason Managed Solutions Sub-Funds established under the Legg Mason Managed Solutions SICAV, a Luxembourg-domiciled series fund;
- the Legg Mason Permal Global Absolute Fund, an open-ended investment company organized under the laws of Ireland; and
- the Legg Mason Fund Series sub-funds established under Legg Mason Fund Series, a Hong Kong-domiciled series unit trust.

LMGAA serves as investment manager or sub-adviser for such non-U.S. investment companies pursuant to an investment management, advisory or sub-advisory agreement with a LMGAA Affiliate. The LMGAA Affiliate is Legg Mason Investments (Luxembourg) S.A. in the case of the Luxembourg-domiciled series funds, Legg Mason Investments (Europe) Limited in the case of the Legg Mason Permal Global Absolute Fund and Legg Mason Asset Management Hong Kong Limited in the case of the Hong Kong-domiciled series unit trust sub-funds.

In the case of the Legg Mason Permal Global Absolute Fund, Permal Investment Management Services Limited, a LMGAA Affiliate, determines the fund's allocation among asset classes and the fund's allocation to Underlying Funds and other investments and LMGAA provides portfolio implementation and trade placement services to implement Permal Investment Management Services Limited's advice. LMGAA also provides certain compliance services related to monitoring the fund's compliance with prospectus and regulatory limitations and requirements.

In the case of the Hong Kong-domiciled series unit trust sub-funds, LMGAA determines allocation among asset classes and provides, in part, portfolio implementation and trade placement services to implement the non-discretionary advice on each sub-fund's investments received from ClearBridge Investments, LLC and Legg Mason International Equities (Hong Kong) Limited, both LMGAA Affiliates. With respect to the remainder of the sub-funds' portfolios, LMGAA invests the sub-funds' assets in a manner designed to produce returns comparable to those of a particular benchmark index by using proprietary and/or licensed risk models and optimization software.

• **Funds-of-Funds - Affiliated Funds and LMGAA-Advised Funds**

The Underlying Funds in which a Fund-of-Funds client account invests may be comprised of Affiliated Funds, LMGAA-Advised Funds or Non-Affiliated Funds or a combination of such funds. A Fund-of-Fund's prospectus or other offering document typically will identify the Underlying Funds in which the Fund-of-Funds invests, including Affiliated Funds, LMGAA-Advised Funds and Non-Affiliated Funds.

If the interests of a Fund-of-Funds and any Affiliated Fund or LMGAA-Advised Fund were ever to become divergent, it is possible that a conflict of interest could arise and affect how LMGAA investment professionals fulfill their fiduciary duties to such Fund-of-Funds or how LMGAA Affiliate investment professionals fulfill their

fiduciary duties to the Affiliated Funds, or how LMGAA investment professionals fulfill their fiduciary duties to the LMGAA-Advised Fund. If such a possibility arises, LMGAA, the applicable LMGAA Affiliate and other interested parties, including the board of directors and officers of the applicable funds, would carefully analyze the situation and take all steps they believe reasonable to minimize, and where possible eliminate, the potential conflict.

- **Manager-of-Managers Arrangements - Affiliated Managers**

The Underlying Managers for a client account structured as a Manager-of-Managers arrangement may be comprised of LMGAA Affiliates, Non-Affiliated Managers, or a combination of both. With respect to LMGAA-Managed Sleeves under certain Manager-of-Managers arrangements, LMGAA serves as the Underlying Manager for such sleeves. Certain LMGAA Affiliates serving as Underlying Managers for client accounts may provide advice on commodity interests (e.g., futures and options on futures) as part of their management of such client accounts. Such LMGAA Affiliates may be registered as commodity trading advisors depending on the nature and extent of the commodity advice they provide. LMGAA Affiliates serving as Underlying Managers in various Manager-of-Managers arrangements include or are expected to include:

- Batterymarch Financial Management, Inc.;
- Brandywine Global Investment Management, LLC;
- ClearBridge Investments, LLC;
- Legg Mason International Equities Limited;
- Royce & Associates, LLC;
- Western Asset Management Company;
- Western Asset Management Company (Asia) Pte Ltd.; and
- Western Asset Management Company Limited.

- **Other Relationships with LMGAA Affiliates**

LMGAA provides Legg Mason Asset Management (Japan) Co., Ltd. ("LM Japan") with non-discretionary investment advisory services for use by LM Japan as an input in making asset allocation determinations for certain Japan-domiciled trusts of which LM Japan is the investment trust management company.

Conflicts of Interest

- **Funds-of-Funds**

As described in Item 5 (Fees and Compensation) of this Brochure, a Fund-of-Funds client advised by LMGAA will indirectly bear the fees and expenses charged by the Underlying Funds in which it invests. Such fees and expenses are in addition to any investment advisory fee that may be paid directly to LMGAA. In the case of an Underlying Fund that is an Affiliated Fund, the Affiliated Fund's fees and expenses will include an advisory fee paid to a LMGAA Affiliate. In the case of an Underlying Fund that is a LMGAA-Advised Fund, the LMGAA-Advised Fund's fees and expenses will include an advisory fee paid to LMGAA. Depending on the contractual arrangement agreed to by the client and LMGAA, fees paid by an Affiliated Fund to a LMGAA Affiliate and by a LMGAA-Advised Fund to LMGAA may or may not be credited against the advisory or service fees otherwise charged by LMGAA.

If a Fund-of-Funds client advised by LMGAA is a college savings plan and invests in Underlying Funds that are Non-Affiliated Funds, LMGAA and LMGAA Affiliates may receive and retain fees from such funds or the adviser or distributor of such funds in respect of such invested assets. Fees received from Non-Affiliated Funds are not credited against the investment advisory fees otherwise charged by LMGAA to the college savings plan. Such fee arrangements are designed to help offset LMGAA's expenses associated with maintaining an investment in a Non-Affiliated Fund on behalf of a college savings plan and may be a factor considered by LMGAA in selecting funds in

which to invest college savings plan assets. Such fee arrangements are disclosed to and consented to by the applicable Section 529 college savings plan sponsors and are disclosed to college savings plan participants in applicable offering documents.

LMGAA's advice to a Fund-of-Funds client to invest in LMGAA-Advised Funds, Affiliated Funds and Non-Affiliated Funds may cause fees to be paid to LMGAA and LMGAA Affiliates. The amount of fees received by LMGAA and LMGAA Affiliates from such funds will vary. In light of such fee arrangements, LMGAA may be viewed as having the following conflicts of interest in providing asset allocation and fund selection advisory services:

- LMGAA may have an incentive to advise that client assets be invested in LMGAA-Advised Funds instead of in Affiliated Funds or Non-Affiliated Funds.
- LMGAA may have an incentive to advise that client assets be invested in Affiliated Funds instead of in Non-Affiliated Funds.
- LMGAA may have an incentive to advise that client assets be invested in Affiliated Funds that have higher advisory fees than other Affiliated Funds.
- LMGAA may have an incentive to advise that client assets be invested in Non-Affiliated Funds that are willing to pay LMGAA and LMGAA Affiliates service-related fees.
- LMGAA may have an incentive to advise that client assets be invested in Non-Affiliated Funds that pay LMGAA and LMGAA Affiliates higher service-related fees than other Non-Affiliated Funds.
- LMGAA may have an incentive to vary its asset allocation advice to increase the compensation paid to LMGAA and LMGAA Affiliates in light of the differential in fees paid to LMGAA and LMGAA Affiliates by LMGAA-Advised Funds, Affiliated Funds and Non-Affiliated Funds.

However, LMGAA believes that such conflicts are mitigated in several ways, as described below.

- **Manager-of-Managers Arrangements**

As described in Item 5 (Fees and Compensation) of this Brochure, a Manager-of-Managers client typically will pay investment advisory fees to the Underlying Manager of each Sleeve in addition to LMGAA's investment advisory fee. However, in the case of a Manager-of-Managers arrangement where all of the Sleeves are managed by LMGAA Affiliates or by LMGAA, the client may pay a single fee to LMGAA with the understanding that LMGAA will compensate each LMGAA Affiliate separately for its subadvisory services.

In certain Manager-of-Managers arrangements which include a select group of Affiliated Managers only, LMGAA may use a portion of its advisory fee to compensate each Affiliated Manager. LMGAA's fee is generally based on a percentage of total portfolio assets under such arrangements. Under such arrangements, each Affiliated Manager's compensation is generally based on a percentage of the portfolio assets allocable to such Affiliated Manager, and the rates of such fees among the Affiliated Managers may vary. Accordingly, when LMGAA increases allocations to Affiliated Managers receiving less compensation than other Affiliated Managers, the aggregate amount payable from LMGAA to all Affiliated Managers participating in the arrangement will decrease, thereby increasing LMGAA's net compensation. Conversely, when LMGAA decreases allocations to such Affiliated Managers, LMGAA's net compensation will decrease. In light of such fee arrangements, LMGAA may be viewed as having the following conflicts of interest in providing asset allocation and manager selection advisory services:

- LMGAA may have an incentive to advise that client assets be invested with Affiliated Managers that charge lower advisory fees than other Affiliated Managers.
- LMGAA may have an incentive to vary its asset allocation advice in order to increase LMGAA's net compensation in light of the differential in fees to be paid to Affiliated Managers by LMGAA.

However, LMGAA believes that such conflicts of interest are mitigated in several ways, as described further below.

In other Manager-of-Managers arrangements which may include Sleeves managed by Affiliated Managers, Sleeves managed by Unaffiliated Managers and LMGAA-Managed Sleeves, LMGAA receives an advisory fee based on a percentage of total portfolio assets in such arrangements, and no portion of such fee is used to compensate the Underlying Managers. The client pays a separate advisory fee to each Underlying Manager for the advisory services it provides with respect to its respective Sleeve. When LMGAA manages one or more LMGAA-Managed Sleeves under such arrangements, LMGAA may or may not receive a fee for managing such Sleeves in addition to the fee it receives for providing services to the account as a whole that is based on a percentage of total account assets. Under such arrangements, LMGAA's advice to allocate assets in a client's portfolio to a Sleeve managed by an Affiliated Manager will cause fees to be paid to such Affiliated Manager. The rate of fees earned by an Affiliated Manager may be greater than the rate of fees earned by another Affiliated Manager managing a different Sleeve. If LMGAA receives a fee for managing one or more LMGAA Managed Sleeves in addition to the fee it receives for providing services to the account as a whole, LMGAA's advice to allocate assets in a client's portfolio to a LMGAA Managed Sleeve will cause additional fees to be paid to LMGAA. In light of such fee arrangements, LMGAA may be viewed as having the following conflicts of interest in providing asset allocation and manager selection advisory services:

- LMGAA may have an incentive to advise that client assets be invested in LMGAA-Managed Sleeves instead of in Sleeves managed by Affiliated Managers or Non-Affiliated Managers.
- LMGAA may have an incentive to advise that client assets be invested in Sleeves managed by Affiliated Managers instead of in Sleeves managed by Non-Affiliated Managers.
- LMGAA may have an incentive to recommend that client assets be invested in Sleeves managed by Affiliated Managers that charge higher fees than other Affiliated Managers.
- LMGAA may have an incentive to vary its asset allocation advice in order to increase the compensation paid to LMGAA and Affiliated Managers in light of the fees paid by client accounts to LMGAA and Affiliated Managers with respect to Sleeves managed by LMGAA and Affiliated Managers.

However, LMGAA believes that such conflicts of interest are mitigated in several ways, as described below.

- **Mitigation of Conflicts of Interest**

LMGAA believes that the conflicts of interest described above in Fund-of-Funds and Manager-of-Managers arrangements are mitigated in several ways.

- First, LMGAA is operated as a separate business unit which is subject to its own set of compliance policies and procedures and which is independent of any Affiliated Manager or LMGAA Affiliate (other than QS Investors and Batterymarch) that serves as an adviser to an Affiliated Fund.
- Second, the asset allocation and fund/manager selection and retention advice provided by LMGAA with respect to a Fund-of-Funds or Manager-of-Managers arrangement is based on fundamental and market-related investment analyses, as described in Item 8 of this Brochure.
- Third, LMGAA's asset allocation advice may be subject to guidelines that establish target asset allocations and/or establish allocation bands that limit LMGAA's ability to vary on account's asset allocation. Such guidelines generally are set forth in the applicable management, advisory or services agreement, or otherwise agreed to in writing by LMGAA and the client. In the case of a client account that is an investment fund, such guidelines typically are disclosed to shareholders of, or participants in, such investment fund in accordance with applicable law. In addition, LMGAA's compliance team regularly monitors LMGAA's adherence to such guidelines.
- Fourth, certain Fund-of-Funds or Manager-of-Managers arrangements may have established limitations on the aggregate investments that may be made in Affiliated Funds or LMGAA-Advised Funds or in Sleeves managed by Affiliated Managers or LMGAA or have specific quantitative and qualitative criteria (which may be set forth in the applicable management, advisory or services agreement) that are to be used by LMGAA in evaluating Underlying Funds, including Affiliated Funds and LMGAA-Advised Funds, and Underlying Managers, including Affiliated Managers and LMGAA.

- Fifth, the fee arrangements applicable under a Fund-of-Funds or a Manager-of-Managers arrangement, as well as any affiliation (or the potential for affiliation) between LMGAA and certain Underlying Funds or Underlying Managers, generally are set forth in the applicable management, advisory or services agreement or otherwise disclosed by LMGAA to the client. In the case of a client account that is an investment fund, the applicable fee arrangements and any affiliation (or the potential for affiliation) between LMGAA and certain Underlying Funds and Underlying Managers generally are disclosed, to the extent practicable, to shareholders of, or participants in, such investment fund in accordance with applicable law.
- Sixth, depending on the specific nature of a client relationship, LMGAA's asset allocation and fund/manager selection advisory services may be subject to the prior approval of the client (in the case of a non-discretionary client relationship) or subject to review and oversight by the client or its board of directors or trustees.
- Seventh, LMGAA is subject to, and intends to comply with, fiduciary standards when investing or making recommendations with respect to client assets.

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, LMGAA has adopted a code of ethics (“Code of Ethics”) and other related policies and procedures (“Related Policies”). The Code of Ethics and Related Policies are based on the principle that LMGAA owes a fiduciary duty to its clients. The Code of Ethics emphasizes that LMGAA employees must avoid activities, interests and relationships that might (i) present a conflict of interest or the appearance of a conflict of interest with LMGAA’s clients, or (ii) otherwise interfere with LMGAA’s ability to make decisions in the best interests of the firm’s clients. The Code of Ethics and Related Policies impose standards of business conduct, including requirements to put client interests first and not to take inappropriate advantage of employment-related information. The Code of Ethics and Related Policies also impose restrictions, described below, on employee personal securities transactions and accounts.

The Code of Ethics and Related Policies are intended to mitigate or obviate potential conflicts of interest between LMGAA’s employees and investment advisory clients and assure compliance with applicable laws and regulations. Existing and prospective LMGAA clients may obtain copies of the Code of Ethics and Related Policies by contacting their account representative.

Investing and Trading in Securities Recommended to Clients

LMGAA’s employees may from time to time acquire or sell shares of a Fund-of-Funds advised by LMGAA for their personal accounts. LMGAA’s employees also may from time to time acquire or sell shares of a Fund-of-Fund’s Underlying Funds, including Affiliated Funds and LMGAA-Advised Funds, for their personal accounts.

LMGAA’s employees may from time to time acquire or sell for their personal accounts the same or similar securities, including shares of pooled investment funds, as those held in Sleeves of a Manager-of-Managers client account, including Sleeves managed by LMGAA Affiliates and LMGAA-Managed Sleeves.

Investment and trading activities by LMGAA employees in the same investment funds or individual securities held by LMGAA client accounts may create conflicts of interest, or potential conflicts of interest, between LMGAA’s employees and LMGAA’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 a Fund-of-Funds or in Underlying Funds, including Affiliated Funds and LMGAA-Advised Funds, to engage in a short-term trading strategy involving such Underlying Funds.

LMGAA has adopted Policies and Procedures on Personal Trading Activities (“Personal Trading Policy”). The Personal Trading Policy is intended to mitigate or obviate potential conflicts of interest between LMGAA’s employees and LMGAA’s investment advisory clients with respect to personal trading activities of LMGAA employees.

Key elements of LMGAA’s Personal Trading 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 to the effect that LMGAA, an Underlying Fund or an Underlying Manager is or may be considering a purchase or sale of such security.
- Employees are prohibited from engaging in securities transactions that involve the use of nonpublic knowledge of the portfolio holdings of an Affiliated Fund or a LMGAA-Advised Fund to engage in any short-term or other trading strategy involving such fund.

- Employees are subject to a 30 day holding period with respect to their purchases of reportable securities and a 60 day holding period with respect to their purchase of shares of a Fund-of-Funds advised by LMGAA, an Affiliated Fund or a LMGAA-Advised Fund.
- Employees may not participate in initial public offerings (IPOs) or other new issues.
- LMGAA 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 LMGAA’s Compliance Department unless an exception applies.
- Employees must report all securities transactions to LMGAA’s Compliance Department or effect transactions through brokerage firms which have agreed to forward information regarding the transactions to LMGAA’s Compliance Department.

In addition to the Personal Trading Policy, LMGAA and LMGAA Affiliates maintain Informational Barrier policies and procedures that restrict LMGAA’s access to information relating to the investment intentions, activities, transactions and portfolio holdings of Affiliated Funds and in Sleeves managed by LMGAA Affiliates. In addition, the Affiliated Funds are subject to Portfolio Holdings Disclosure policies that allow LMGAA and its employees access only to portfolio holdings information that has been publicly disclosed.

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

The Code of Ethics and associated policies also include provisions that address where the potential for conflicts exist. These include:

- Reporting of all gifts & entertainment exchanged between our employees and external business partners, including clients, consultants, brokers, and vendors.
- Limits on the type, frequency, and value of business gifts and entertainment given or received by our employers.
- Pre-clearance and reporting of all political contributions made by employees.
- Reporting of all outside business activities that may be in conflict with an employee’s job responsibilities and/or duty to clients.

LMGAA Affiliates and their employees also may from time to time acquire or sell shares of a Fund-of-Funds advised by LMGAA, shares of a Fund-of-Fund’s Underlying Funds and securities held in the Sleeves of a Manager-of-Managers client account. Conflict of interest concerns with such investments are addressed primarily through reliance on Informational Barriers policies maintained by LMGAA and LMGAA Affiliates that restrict access by LMGAA Affiliates (other than QS Investors and Batterymarch) and their officers, directors and employees to information relating to the investment intentions, activities, transactions and portfolio holdings of LMGAA client accounts.

Securities in which LMGAA or a LMGAA Affiliate has a Material Financial Interest

As described in Item 5 (Fees and Compensation) of this Brochure, a Fund-of-Funds client advised by LMGAA will indirectly bear the fees and expenses charged by the Underlying Funds in which it invests. Such fees and expenses are in addition to any investment advisory fee that may be paid directly to LMGAA. In the case of an Underlying Fund that is an Affiliated Fund, the Affiliated Fund’s fees and expenses will include an advisory fee paid to a LMGAA Affiliate. In the case of an Underlying Fund that is a LMGAA-Advised Fund, the LMGAA-Advised Fund’s fees and expenses will include an advisory fee paid to LMGAA. Depending on the contractual arrangement agreed to by the client and LMGAA, fees paid by an Affiliated Fund to a LMGAA Affiliate and by a LMGAA-

Advised Fund to LMGAA may or may not be credited against the advisory or service fees otherwise charged by LMGAA.

If a Fund-of-Funds client advised by LMGAA is a college savings plan and invests in Underlying Funds that are Non-Affiliated Funds, LMGAA and LMGAA Affiliates may receive and retain fees from such funds or the adviser or distributor of such funds in respect of such invested assets. Fees received from Non-Affiliated Funds are not credited against the investment advisory fees otherwise charged by LMGAA to the college savings plan. Such fee arrangements are designed to help offset LMGAA's expenses associated with maintaining an investment in a Non-Affiliated Fund on behalf of a college savings plan and may be a factor considered by LMGAA in selecting funds in which to invest college savings plan assets. Such fee arrangements are disclosed to and consented to by the applicable Section 529 college savings plan sponsors and are disclosed to college savings plan participants in applicable offering documents.

LMGAA's advice to a Fund-of-Funds client to invest in LMGAA-Advised Funds, Affiliated Funds and Non-Affiliated Funds may cause fees to be paid to LMGAA and LMGAA Affiliates. The amount of fees received by LMGAA and LMGAA Affiliates from such funds will vary. In light of such fee arrangements, LMGAA may be viewed as having the following conflicts of interest in providing asset allocation and fund selection advisory services:

- LMGAA may have an incentive to advise that client assets be invested in LMGAA-Advised Funds instead of in Affiliated Funds or Non-Affiliated Funds.
- LMGAA may have an incentive to advise that client assets be invested in Affiliated Funds instead of in Non-Affiliated Funds.
- LMGAA may have an incentive to advise that client assets be invested in Affiliated Funds that have higher advisory fees than other Affiliated Funds.
- LMGAA may have an incentive to advise that client assets be invested in Non-Affiliated Funds that are willing to pay LMGAA and LMGAA Affiliates service-related fees.
- LMGAA may have an incentive to advise that client assets be invested in Non-Affiliated Funds that pay LMGAA and LMGAA Affiliates higher service-related fees than other Non-Affiliated Funds.
- LMGAA may have an incentive to vary its asset allocation advice in order to increase the compensation paid to LMGAA and LMGAA Affiliates in light of the differential in fees paid to LMGAA and LMGAA Affiliates by LMGAA-Advised Funds, Affiliated Funds and Non-Affiliated Funds.

LMGAA believes that the conflicts of interest are mitigated in several ways:

- First, LMGAA is operated as a separate business unit which is subject to its own set of compliance policies and procedures and which is independent of any LMGAA Affiliate (other than QS Investors or Batterymarch) that serves as an adviser to an Affiliated Fund.
- Second, the asset allocation and fund selection and retention advice provided by LMGAA with respect to a Fund-of-Funds is based on fundamental and market-related investment analyses, as described in Item 8 of this Brochure.
- Third, LMGAA's asset allocation advice to a Fund-of-Funds may be subject to guidelines that establish target asset allocations and/or establish allocation bands that limit LMGAA's ability to vary an account's asset allocation. Such guidelines generally are set forth in the applicable management, advisory or services agreement, or otherwise agreed to in writing by LMGAA and the client. Such guidelines also are disclosed to shareholders of, or participants in, the Fund-of-Funds in accordance with applicable law. In addition, LMGAA's compliance team regularly monitors LMGAA's adherence to such guidelines.
- Fourth, certain Fund-of-Funds arrangements may have established limitations on the aggregate investments that may be made in Affiliated Funds or LMGAA-Advised Funds or have specific quantitative and qualitative criteria (which may be set forth in the applicable management, advisory or services agreement)

that are to be used by LMGAA in evaluating and recommending Underlying Funds, including Affiliated Funds and LMGAA-Advised Funds.

- Fifth, the fee arrangements applicable under a Fund-of-Funds arrangement, as well as any affiliation (or the potential for affiliation) between LMGAA and certain Underlying Funds, generally are set forth in the applicable management, advisory or services agreement or otherwise disclosed by LMGAA to the client. In the case of a Fund-of-Funds, the applicable fee arrangements and any affiliation (or the potential for affiliation) between LMGAA and certain Underlying Funds generally are disclosed, to the extent practicable, to shareholders of, or participants in, the Fund-of-Funds in accordance with applicable law.
- Sixth, depending on the specific nature of a Fund-of-Funds client relationship, LMGAA's asset allocation and fund selection advisory services may be subject to the prior approval of the client (in the case of a non-discretionary client relationship) or subject to review and oversight by the client or its board of directors or trustees.
- Seventh, LMGAA is subject to, and intends to comply with, fiduciary standards when investing or making recommendations with respect to client assets.

If the interests of a Fund-of-Funds and any Affiliated Fund or LMGAA-Advised Fund were ever to become divergent, it is possible that a conflict of interest could arise and affect how LMGAA investment professionals fulfill their fiduciary duties to such Fund-of-Funds, how LMGAA Affiliate investment professionals fulfill their fiduciary duties to the Affiliated Fund, or how LMGAA investment professionals fulfill their fiduciary duties to the LMGAA-Advised Fund. If such a possibility arises, LMGAA, the applicable LMGAA Affiliate and other interested parties, including the board of directors and officers of the applicable funds, would carefully analyze the situation and take all steps they believe reasonable to minimize, and where possible eliminate, the potential conflict.

Item 12 - Brokerage Practices

Best Execution

It is LMGAA's policy to seek best execution when placing trades with broker-dealers for the purchase or sale of ETF shares or individual securities on behalf of client accounts. Because LMGAA provides advisory services consisting primarily of asset allocation and manager or fund selection advisory services to clients, it places trades for the purchase and sale of individual securities on behalf of its clients only in certain limited situations. Best execution consists of obtaining the most favorable result, considering the full range of services provided, within the current parameters of the market. Best execution is not necessarily measured by the circumstances surrounding a single transaction but may be measured over time through multiple transactions.

Factors Considered in Selection of Broker-Dealers

The primary factors that may be considered by LMGAA in selecting a specific broker-dealer to execute a transaction may include, but are not limited to, the following:

- the reliability and financial condition of the broker-dealer;
- the availability of capital commitment;
- the price level;
- the commission, mark-up or spread level;
- the quality of execution, taking into account the promptness of execution, the ability to execute the full size of the trade, and the nature and difficulty of the trade;
- confidentiality;
- specialized expertise;
- ability to deliver transaction proceeds on the trade date or before the regular settlement date (if accelerated settlement is necessary); and
- the quality and scope of any pre-trade or post-trade analysis (which are typically offered by transition management brokers).

Best execution is therefore not purely a function of price and commission level, but represents the best qualitative execution under the circumstances.

No Participation in "Soft Dollar Arrangements"

LMGAA does not direct client brokerage transactions to any broker-dealer in exchange for products and services (e.g., third party or proprietary research), other than execution services for securities transactions on behalf of its clients, or otherwise participate in "soft dollar" arrangements. Although LMGAA does not participate in any such arrangement, LMGAA may receive research from broker-dealers through which securities transactions are executed. However, LMGAA does not consider such research as a factor under its policy to seek best execution for its clients.

Counterparties on Over-the-Counter Derivatives Transactions

To the extent permitted by the investment policies and guidelines applicable to a client account, LMGAA may enter into various types of over-the-counter derivatives transactions, including swaps, options, foreign currency forwards and repurchase transactions on behalf of such client account. Such transactions involve potential counterparty credit risk for LMGAA's clients beyond that associated with normal exchange securities transactions that settle shortly after trade date and with exchange-traded derivative transactions (e.g., futures and options). LMGAA has adopted risk management policies and procedures relating to over-the-counter derivatives transactions to seek to mitigate the exposure of LMGAA client accounts to counterparty credit risk in connection with such transactions. Such policies and procedures include reviewing and monitoring the financial condition and credit rating of counterparties, engaging in such transactions only with approved counterparties, implementing counterparty credit risk exposure limits with respect to each client account, and seeking to negotiate appropriate documentation containing credit support provisions and early termination rights in the event of a credit downgrade of the counterparty.

LMGAA's Brokerage Committee

LMGAA's Brokerage Committee maintains an "approved list" of broker-dealers that may be used to execute ETF transactions, an "approved list" of broker-dealers that may be used to execute individual securities transactions and an "approved list" of broker-dealers and other financial institutions that may be utilized by LMGAA as a counterparty in over-the-counter derivatives transactions. The same broker-dealer may be included on the approved list for ETF transactions, the approved list for individual securities transactions and the approved list for over-the-counter derivatives transactions. The Brokerage Committee meets on a quarterly basis and regularly reviews LMGAA's trading activity.

Aggregation of Client Orders

In cases where LMGAA determines to purchase or sell the same security for two or more client accounts, it is LMGAA's general policy to aggregate or bunch client orders when it is determined that it is in the best interests of clients and is consistent with the duty to seek best execution. In such event, the transaction will be allocated to client accounts according to one or more methods designed to ensure that such allocation is equitable and fair. Aggregated orders receive the average price for the transaction and share transaction costs on a pro rata basis.

Item 13 - Review of Accounts

Frequency and Nature of Account Reviews

Client account reviews are generally conducted on a monthly basis. In the case of a Fund-of-Funds arrangement, the review process includes analyses of the applicable Fund-of-Funds as well as the Underlying Funds and its investment advisers. In the case of a Manager-of-Managers arrangement, the review process includes analyses of the overall portfolio as well as the various portfolio sleeves and Underlying Managers.

The review process includes both quantitative and qualitative elements. The quantitative elements of the client account review include:

- a performance attribution analysis for the applicable sources of investment return;
- a statistical analysis of historical returns and portfolio characteristics; and
- additional financial and economic analyses.

The qualitative aspects of the client account review are primarily focused on the Underlying Managers or the investment advisers to Underlying Funds, as applicable. Qualitative reviews typically include a review and assessment of:

- the background and qualifications of key investment personnel;
- investment processes;
- organizational stability and business changes;
- client service resources;
- compliance procedures and risk controls; and
- regulatory filings.

Such reviews also may include diligence discussions and periodic on-site visits.

LMGAA may invest in Underlying Funds, including Affiliated Funds and LMGAA-Advised Funds, that have a limited operating and performance history where LMGAA determines that such investment is consistent with a Fund-of-Fund's investment objectives.

In the case of LMGAA-Managed Sleeves, LMGAA portfolio managers review such Sleeves and the securities and other instruments held within such Sleeves on a daily basis. Such reviews generally focus on the continued investment appropriateness of the Sleeve's composition, in light of factors such as the investment objective and strategy applicable to the Sleeve and market conditions. To the extent applicable, such reviews may include consideration of the Sleeve's performance relative to benchmark performance. As part of such reviews, portfolio managers may utilize performance attribution analysis to help assess portfolio diversification and understand differences in portfolio composition relative to that of the applicable benchmark.

In the case of client accounts where LMGAA's services consist of providing portfolio implementation and trade placement services for Fund-of-Funds for which a LMGAA Affiliate provides asset allocation and fund selection advisory services, the scope of client account reviews is limited to confirming that LMGAA has implemented the client's portfolio in accordance with such LMGAA Affiliate's instructions and applicable investment guidelines.

Personnel Responsible for Conduct of Reviews

Client account reviews are conducted under the direct supervision of firm senior management. LMGAA's Investment Strategy Analysts, Portfolio Managers, and Asset Allocation Analysts assist in the gathering and review of applicable investment data and investment adviser information, perform quantitative and qualitative analyses, and provide other supporting services under the direction of management during the course of the review process.

Client Reports

LMGAA's clients generally receive annual and either monthly or quarterly written statements regarding their accounts. Account statements typically include performance attribution and return information and related

commentary. Depending on the nature of services to be provided and the client's objective, however, LMGAA may provide reports to a client on other than a monthly or quarterly and annual basis and may vary the content of those reports in consultation with that client.

Item 14 - Client Referrals and Other Compensation

Fees Received by LMGAA and LMGAA Affiliates from Someone other than a Client

As described in Item 5 (Fees and Compensation) of this Brochure, a Fund-of-Funds client advised by LMGAA will indirectly bear the fees and expenses charged by the Underlying Funds in which it invests. Such fees and expenses are in addition to any investment advisory fee that may be paid directly to LMGAA. In the case of an Underlying Fund that is an Affiliated Fund, the Affiliated Fund's fee and expenses will include an advisory fee paid to a LMGAA Affiliate. In the case of an Underlying Fund that is a LMGAA-Advised Fund, the LMGAA-Advised Fund's fees and expenses will include an advisory fee paid to LMGAA. Depending on the contractual arrangement agreed to by the client and LMGAA, fees paid by an Affiliated Fund to a LMGAA Affiliate and by a LMGAA-Advised Fund to LMGAA may or may not be credited against the advisory or service fees otherwise charged by LMGAA.

If a Fund-of-Funds client advised by LMGAA is a college savings plan and invests in Underlying Funds that are Non-Affiliated Funds, LMGAA and LMGAA Affiliates may receive and retain fees from such funds or the adviser or distributor of such funds in respect of such invested assets. Fees received from Non-Affiliated Funds are not credited against the investment advisory fees otherwise charged by LMGAA to the college savings plan. Such fee arrangements are designed to help offset LMGAA's expenses associated with maintaining an investment in a Non-Affiliated Fund on behalf of a college savings plan and may be a factor considered by LMGAA in selecting funds in which to invest college savings plan assets. Such fee arrangements are disclosed to and consented to by the applicable Section 529 college savings plan sponsors and are disclosed to college savings plan participants in applicable offering documents.

Conflicts of Interest Relating to Fees Received by LMGAA and LMGAA Affiliates from Someone other than a Client

LMGAA's advice to a Fund-of-Funds client to invest in LMGAA-Advised Funds, Affiliated Funds and Non-Affiliated Funds may cause fees to be paid to LMGAA and LMGAA Affiliates. The amount of fees received by LMGAA and LMGAA Affiliates from such funds will vary. In light of such fee arrangements, LMGAA may be viewed as having the following conflicts of interest in providing asset allocation and fund selection advisory services:

- LMGAA may have an incentive to advise that client assets be invested in LMGAA-Advised Funds instead of in Affiliated Funds or Non-Affiliated Funds.
- LMGAA may have an incentive to advise that client assets be invested in Affiliated Funds instead of in Non-Affiliated Funds.
- LMGAA may have an incentive to advise that client assets be invested in Affiliated Funds that have higher advisory fees than other Affiliated Funds.
- LMGAA may have an incentive to advise that client assets be invested in Non-Affiliated Funds that are willing to pay LMGAA and LMGAA Affiliates service-related fees.
- LMGAA may have an incentive to advise that client assets be invested in Non-Affiliated Funds that pay LMGAA and LMGAA Affiliates higher service-related fees than other Non-Affiliated Funds.
- LMGAA may have an incentive to vary its asset allocation advice to increase the compensation paid to LMGAA and LMGAA Affiliates in light of the differential in fees paid to LMGAA and LMGAA Affiliates by LMGAA-Advised Funds, Affiliated Funds and Non-Affiliated Funds.

LMGAA believes that the conflicts of interest are mitigated in several ways:

- First, LMGAA is operated as a separate business unit which is subject to its own set of compliance policies and procedures and which is independent of any LMGAA Affiliate (other than QS Investors and Batterymarch) that serves as an adviser to an Affiliated Fund.

- Second, the asset allocation and fund selection and retention advice provided by LMGAA with respect to a Fund-of-Funds is based on fundamental and market-related investment analyses, as described in Item 8 of this Brochure.
- Third, LMGAA's asset allocation advice to a Fund-of-Funds may be subject to guidelines that establish target asset allocations and/or establish allocation bands that limit LMGAA's ability to vary on account's asset allocation. Such guidelines generally are set forth in the applicable management, advisory or services agreement, or otherwise agreed to in writing by LMGAA and the client. Such guidelines also are disclosed to shareholders of, or participants in, the Fund-of-Funds in accordance with applicable law. In addition, LMGAA's compliance team regularly monitors LMGAA's adherence to such guidelines.
- Fourth, certain Fund-of-Funds arrangements may have established limitations on the aggregate investments that may be made in Affiliated Funds or LMGAA-Advised Funds or have specific quantitative and qualitative criteria (which may be set forth in the applicable management, advisory or services agreement) that are to be used by LMGAA in evaluating and recommending Underlying Funds, including Affiliated Funds and LMGAA-Advised Funds.
- Fifth, the fee arrangements applicable under a Fund-of-Funds arrangement, as well as any affiliation (or the potential for affiliation) between LMGAA and certain Underlying Funds, generally are set forth in the applicable management, advisory or services agreement or otherwise disclosed by LMGAA to the client. In the case of a Fund-of-Funds, the applicable fee arrangements and any affiliation (or the potential for affiliation) between LMGAA and certain Underlying Funds generally are disclosed, to the extent practicable, to shareholders of, or participants in, the Fund-of-Funds in accordance with applicable law.
- Sixth, depending on the specific nature of a Fund-of-Funds client relationship, LMGAA's asset allocation and fund selection advisory services may be subject to the prior approval of the client (in the case of a non-discretionary client relationship) or subject to review and oversight by the client or its board of directors or trustees.
- Seventh, LMGAA is subject to, and intends to comply with, fiduciary standards when investing or making recommendations with respect to client assets.

Client Referrals

Neither LMGAA nor any LMGAA Affiliate directly or indirectly compensates any person who is not a "supervised person" of LMGAA for client referrals to LMGAA. Supervised persons of LMGAA include LMGAA's officers, partners, directors and employees, and other persons subject to LMGAA's supervision or direction.

Item 15 - Custody

LMGAA does not have physical custody of funds or securities in client accounts. However, LMGAA may be deemed to have constructive custody of the assets in a particular client account if LMGAA has the authority pursuant to its agreement with the client to instruct the client's custodian to deduct and pay LMGAA's fees from the client's account. LMGAA also may be deemed to have constructive custody of the assets in a particular client account if LMGAA is responsible for establishing and maintaining custody arrangements to hold and maintain such client's funds and securities and has the authority to instruct the custodian with respect to the transfer or withdrawal of funds and securities from the client's account in order to provide contracted for services and to collect fees owed to LMGAA and its affiliates for such services.

Where LMGAA may be deemed to have constructive custody of the assets in a client's account, LMGAA 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, LMGAA urges clients to compare account statements they receive directly from their qualified custodians to account statements and reports they receive from LMGAA. Statements and reports received from LMGAA 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. Clients should contact their account representative if they are not receiving accounts statements from their custodian.

Item 16 - Investment Discretion

LMGAA may provide investment advisory services on either a discretionary or non-discretionary basis. Before assuming discretionary authority over a client account, LMGAA enters into a written investment management or similar agreement with the client that sets forth the nature and extent of LMGAA's discretionary authority over the client's account.

LMGAA provides investment advisory services to client accounts in accordance with investment guidelines agreed to with the client. Such investment guidelines may impose restrictions or limitations on investing in specific securities or types of securities. Investment guidelines, including restrictions and limitations, may be set forth in the investment management or advisory agreement between LMGAA and the client. In the case of a client that is an investment fund, investment guidelines, including restrictions and limitations, may be set forth in the fund's prospectus or other offering document.

Item 17 - Voting Client Securities

General

In the case of certain client accounts, LMGAA has proxy voting authority with respect to the securities held in such accounts. In the case of other client accounts, proxy voting authority is reserved to the client or assigned to a party other than LMGAA, such as an Underlying Manager in a Manager-of-Managers arrangement. Whether LMGAA has proxy voting responsibility with respect to a particular client account typically is determined by the terms of LMGAA's investment management, advisory or other service agreement with the client.

LMGAA has adopted a Proxy Voting Policy and Procedures. The Proxy Voting Policy and Procedures applies where LMGAA has proxy voting authority over a client account. In voting proxies, LMGAA 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. LMGAA will vote proxies in a manner that it believes will be consistent with efforts to maximize shareholder values. LMGAA also will seek to identify and address conflicts of interest it may face in voting proxies on behalf of client accounts.

Under LMGAA's Proxy Voting Policy and Procedures, LMGAA has delegated responsibility for effecting its clients' proxy votes to Institutional Shareholder Services ("ISS"), an independent third-party proxy voting specialist. ISS votes LMGAA's clients' proxies in accordance with ISS's proxy guidelines or, in extremely limited circumstances, LMGAA's specific instructions. Where a client has given specific instructions as to how a proxy should be voted, LMGAA will notify and direct ISS to carry out those instructions. Where no specific instruction exists, LMGAA will follow the procedures set forth in its Proxy Voting Policy and Procedures and vote such proxies in accordance with ISS's guidelines.

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. LMGAA'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 LMGAA.

Funds-of-Funds

For any Fund-of-Funds that is a Section 529 college savings plan, the Proxy Voting Policy and Procedures generally requires LMGAA to vote proxies for shares of any Underlying Funds on a case-by-case basis in accordance with the general fiduciary principles set forth above. LMGAA follows the conflict of interest procedures described below before voting shares of any Underlying Funds that are Affiliated Funds or LMGAA-Advised Funds.

For any Fund-of-Funds that is a U.S. registered investment company, LMGAA generally will vote the proxies for the shares of any Underlying Funds that are Affiliated Funds or LMGAA-Advised Funds in accordance with an "echo voting" procedure. Under echo voting, proxies for shares of the Underlying Fund are voted in the same proportion as shares held by other shareholders of such Underlying Fund are voted. The use of an echo voting procedure is subject to review by LMGAA on a case by case basis. LMGAA may vote proxies for shares of Affiliated Funds or LMGAA-Advised Funds in accordance with other approved procedures in accordance with applicable legal and regulatory requirements. With respect to proxy voting for the shares of any Underlying Funds that are Non-Affiliated Funds held by a Fund-of-Funds, LMGAA will vote such proxies in accordance with the general fiduciary principles set forth above. However, LMGAA will vote such proxies in accordance with an echo voting procedure to the extent required by procedures adopted by LMGAA with respect to investments in Non-Affiliated Funds to comply with applicable legal and regulatory requirements.

Manager-of-Managers Arrangements

In the case of a Manager-of-Managers arrangement, each Underlying Manager typically exercises proxy voting authority over the securities in the Sleeve managed by such Underlying Manager. LMGAA will exercise proxy voting authority over the securities in a LMGAA-Managed Sleeve.

LMGAA-Managed Sleeves

In voting proxies with respect to individual securities held in a LMGAA-Managed Sleeve, LMGAA's general policy is to vote in accordance with the recommendations of ISS. In instances where ISS has not made any recommendations with respect to a proxy issue, LMGAA will generally vote in accordance with ISS's proxy voting guidelines. A summary of ISS's standard proxy voting guidelines is available upon request. LMGAA is not required to follow ISS's recommendations or guidelines, and retains full responsibility for voting proxies in accordance with the general principles described above. LMGAA may vote contrary to ISS's recommendation on a proxy issue or contrary to ISS's general proxy voting guidelines if it believes such a contrary vote to be in clients' best interests.

With respect to proxy voting for the shares of an ETF held in a LMGAA-Managed Sleeve, LMGAA will vote such proxies in accordance with the general fiduciary principles set forth above. However, LMGAA will vote such proxies in accordance with an echo voting procedure to the extent required by procedures adopted by LMGAA with respect to investments in unaffiliated ETFs to comply with applicable legal and regulatory requirements.

Portfolio Implementation Services

Where LMGAA provides portfolio implementation and trade placement services for a Fund-of-Funds for which a LMGAA Affiliate provides asset allocation and fund selection advisory services, LMGAA will vote proxies relating to the Underlying Funds in accordance with the instructions of such LMGAA Affiliate.

Transition Management

In connection with a transition from one Underlying Fund or Underlying Manager to another as a result of a replacement decision, a client may temporarily hold a basket of securities (e.g., due to an Underlying Fund's satisfaction of a redemption out of such fund on an in-kind basis) during the transition period. In such event, LMGAA will seek to liquidate the securities received as soon as practicable unless the successor Underlying Fund indicates that it is willing to accept such securities. LMGAA does not seek to vote proxies with respect to such securities (should one or more proxy record dates happen to fall within a transition period) because of the transitory nature of LMGAA's holdings of such securities and the scope of LMGAA's responsibilities with respect to such securities.

Conflicts of Interest

In furtherance of LMGAA's goal to vote proxies in the best interest of clients, LMGAA follows procedures designed to identify and address material conflicts that may arise between LMGAA's interests and those of its clients before voting proxies relating to shares of Underlying Funds or individual securities on behalf of such clients. Such procedures generally do not apply to proxy voting for a Fund-of-Funds that is a U.S. registered investment company with respect to shares of Affiliated Funds or LMGAA-Advised Funds in light of the echo voting protocol generally followed for such Funds-of-Funds, as described above.

LMGAA generally takes the position that non-LMGAA relationships between a LMGAA Affiliate (other than QS Investors and Batterymarch) and an issuer do not present a conflict of interest for LMGAA in voting proxies with respect to such issuer. Such position is based on the fact that LMGAA is operated as an independent business unit from other Legg Mason business units (other than QS Investors and Batterymarch) as well as on the existence of informational barriers between LMGAA and LMGAA Affiliates (other than QS Investors and Batterymarch).

LMGAA believes that its Proxy Voting Policy and Procedures and reliance on ISS for independent proxy voting recommendations reasonably ensure that potential material conflicts are minimized, consistent with LMGAA's fiduciary duty. Accordingly, proxies that will be voted in accordance with the ISS's proxy guidelines or in accordance with specific client instructions are not subject to the conflicts of interest procedures described in LMGAA's Proxy Voting Policy and Procedures for items that are referred to LMGAA by ISS.

How to Request Proxy Voting Information or a Copy of LMGAA's Proxy Voting Policy and Procedures

A client may request (i) a copy of LMGAA's Proxy Voting Policy and Procedures; and/or (ii) information concerning how LMGAA voted proxies with respect to securities held in the client's account by contacting their account representative.

Item 18 - Financial Information

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

Item 19 - Other Matters

Privacy

As required by the U.S. Gramm-Leach Bliley Act of 1999, each of the federal financial regulators has adopted privacy rules governing the use of consumer personal information. The privacy notice requirements of Regulation S-P only apply to customers/consumers of a U.S. registered investment adviser that are natural persons. It does not apply to customers/consumers that are legal entities. Such requirements, therefore, do not apply to the clients of LMGAA, which are limited to institutional clients and do not include natural persons.

Class Action Lawsuits and Other Legal Proceedings

From time to time, securities or other investments held in clients' accounts may be the subject of legal proceedings ("Legal Proceedings"), including but not limited to bankruptcies, class action lawsuits, and other shareholder litigation. Except as expressly agreed to in writing or as otherwise required under applicable law, LMGAA does not render any advice or initiate, pursue or take any other action on behalf of clients with respect to Legal Proceedings. The right to take such actions is expressly reserved to the client.

Error Resolution Procedures

LMGAA's Error Resolution Procedures cover errors made in the investment decision-making process as well as errors in the trading process. The correction method used by LMGAA for an error must put the client in the same position the client would have been in had the error not occurred (i.e., the client must be made whole for any error-related losses and costs suffered). Gains realized in a client account because of an error caused by LMGAA generally will remain in the client's account. In the case of a trade error discovered before settlement, LMGAA may seek to have the broker cancel the erroneous trade if the transaction is flat or at a loss.