

Western Asset Management Company Ltd

Form ADV — Part 2

Brochure

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This brochure provides information about the qualifications and business practices of Western Asset Management Company Ltd. If you have any questions about the contents of this brochure, please contact us at 011.81.3.4520.4300. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about Western Asset Management Company Ltd is also available on the SEC's website at www.adviserinfo.sec.gov.

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



Item 2. Material Changes

Not applicable.

Item 3. Table of Contents

Item 4. Advisory Business.....	3
Item 5. Fees and Compensation.....	5
Item 9. Disciplinary Information.....	17
Item 10. Other Financial Industry Activities and Affiliations	18
Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	20
Item 12. Brokerage Practices.....	27
Item 13. Review of Accounts	29
Item 14. Client Referrals and Other Compensation.....	31
Item 15. Custody.....	32
Item 16. Investment Discretion	33
Item 17. Voting Client Securities.....	34
Item 18. Financial Information.....	35
Additional Information	36
Appendix A—Investment Strategies	38
Appendix B—Investment Risks.....	44
Privacy Notice	54

Item 4. Advisory Business

Western Asset Management Company Ltd ("Western Asset Tokyo") is a supervised affiliate of Western Asset Management Company ("WAM"), one of the world's leading investment management firms, whose sole business is managing fixed-income portfolios, an activity the Firm has pursued for nearly 40 years.

WAM was founded in October 1971 by United California Bank (which later became First Interstate) and became an SEC-registered investment advisor in December of that year. In December 1986, Western Asset was acquired by Legg Mason, Inc. ("Legg Mason"), an NYSE-listed, independent asset management firm based in Baltimore, Maryland. WAM operates as an autonomous investment management company. WAM has entered into a revenue-sharing agreement with Legg Mason that allows WAM and its supervised affiliates to retain control over a substantial percentage of its revenues.

In December 2005, Legg Mason acquired a substantial part of Citigroup's asset management business in exchange for its brokerage and capital markets business. As a result of the transaction, WAM took responsibility for the fixed income assets and increased its global presence, adding offices in Melbourne, New York, Sao Paulo and Tokyo. Western Asset Tokyo is a registered financial instruments dealer whose business is investment advisory or agency business, investment management, and Type II Financial Instruments Dealing business with the registration number KLFB (FID) No. 427, and a member of JSIAA (membership number 011-01319).

Western Asset Supervised Affiliates

Western Asset Tokyo is one of a number of affiliated investment managers. All but the Australia-based affiliate are SEC-registered. Set forth below is a list of these affiliated entities and the dates as of when they were established or came under WAM management:

Entity	Jurisdiction	Date
Western Asset Management Company	United States	1971
Western Asset Management Company Limited	London	1996
Western Asset Management Company PTE. LTD	Singapore	2000
Western Asset Management Company PTY LTD	Australia	2005
Western Asset Management Company DTVM Limitada	Brazil	2005

Products and Services

Western Asset Tokyo provides investment management and advisory services for a broad range of fixed income portfolios, including broad market portfolios and more specialized and tailored portfolios. It does not manage equity portfolios except in limited circumstances, although certain types of instruments which may be considered to have equity characteristics, such as preferred stock and convertible instruments, are commonly found in certain fixed income investment portfolios that we manage. Western Asset Tokyo's principal investment strategies are as follows:

Absolute Return	Emerging Markets Local Currency
Asia External Debt	Emerging Markets Corporate
Asia Local Currency	Global Alpha Opportunities
Emerging Markets	Global Core Full Discretion (USD Hedged)

Global Core Full Discretion (Ex Japan, JPY Unhedged)	Managed Currency ^Q
Global Credit	US Bank Loan
Global Inflation-Linked (USD Unhedged)	US Core
Global Multi-Sector (USD Unhedged)	US Core Full Discretion
Global Kokusai ^Q	US Corporate
Japan Core	US High Yield
Japan Core Full Discretion	

Portfolio management may be sub-advised by other supervised affiliates. Appendix A contains more details about the products.

Western Asset Tokyo generally tailors its advisory services and products to client needs and requirements. It typically reviews and crafts investment objectives and guidelines in detail with new clients as part of the start up process, and revisits objectives and guidelines with existing clients over time as their investment requirements change.

Western Asset Tokyo managed \$886,791,283 in discretionary assets and \$34,795,276,592 in non-discretionary assets as of March 31, 2011. Western Asset Tokyo and its global affiliate's assets under management as of March 31, 2011 were \$455,749,044,605.

Advisory Services

In addition to its traditional discretionary investment management services, in 2010 WAM started an "Advisory Services" group. This group seeks to provide detailed, unbiased consulting advice on complex financial situations such as interest rate and foreign exchange hedges (typically through the use of derivatives) held by institutions, or valuation of structured products held by banks and insurance companies. This team of dedicated resources is a focal point by which advisory clients can access the full expertise of the broader Firm. This advice may or may not be combined with discretionary management.

Item 5. Fees and Compensation

Western Asset Tokyo provides fixed-income management services to a variety of primarily institutional clients. In accordance with a client's investment management agreement, fees are generally calculated quarterly based on an annualized percentage charge on the value of the portfolio and typically billed in advance. Fees generally are not negotiable, but may be under exceptional circumstances. In the event of account termination, fees paid in advance will be prorated to the date of termination specified in the notice of termination, and any unearned portion thereof will be refunded to the client. Although agreements are individually negotiated and may vary, either clients or Western Asset Tokyo, generally, have the right to terminate the advisory agreement by giving the other party thirty (30) days written notice. Existing clients may be currently charged per a fee schedule that was agreed to in the past and which may differ from Western Asset Tokyo's current fee schedule.

Western Asset Tokyo will normally negotiate a performance-based fee on request subject to any regulatory limits on fees. In such an arrangement, compensation is typically based on account performance relative to a mutually agreed benchmark. Performance-based fees vary depending on the extent to which Western Asset is authorized to employ a full array of investment techniques. In certain cases Western Asset Tokyo may be paid a percentage of the account's return (*e.g.* 20%), typically above a "hurdle" or base return. Please see Item 6, "Performance-Based Fees and Side-by-Side Management" for information concerning conflicts of interests related to Western Asset Tokyo's accounts that pay performance-based fees.

Western Asset Tokyo typically acts solely as portfolio manager for an account and not as custodian or another service provider. Clients will pay separate fees to third parties for those services. Western Asset Tokyo's affiliate, WAM, does maintain a family of privately offered commingled funds, primarily for those institutions seeking a strategic or opportunistic allocation to a certain investment sector or strategy in which certain of Western Asset Tokyo's clients may invest. Those funds will pay custodian and administrative fees and other expenses to third party custodians, administrators and service providers such as accountants and lawyers, reducing the return to investors. Western Asset Tokyo is also a sub-adviser to mutual funds administered by Legg Mason and its other affiliates. Those funds will pay management, administration and other fees to Legg Mason or its other affiliates.

Almost all fixed income instruments trade at a bid/ask spread and without an explicit brokerage charge. Accordingly, while there is not a formal trading expense, clients will bear the implicit trading costs reflected in these spreads. See Item 12, "Brokerage Practices" below for more information about Western Asset's brokerage practices.

Western Asset Tokyo typically bills clients for fees but at client direction and agreement may deduct fees from assets. Western Asset Tokyo believes its fees are similar to those charged by many other investment advisory firms for similar services; however, fixed-income management services may be available from other sources for lower fees.

Neither Western Asset Tokyo nor its supervised persons accept compensation for the sale of securities or other investment products.

Current Fee Schedule

Below is a copy of Western Asset Tokyo's current standard fee schedule.

Strategy	Fee	Minimum Account/Fee Size
Absolute Return	0.63% on first USD 100 million (0.60% without tax) 0.42% on amounts over USD 100 million (0.40% without tax)	The minimum separate account size is \$200 million; minimum fee is \$400,000
Asia External Debt	0.42% on first USD 50 million (0.40% without tax) 0.21% on amounts over USD 50 million (0.20% without tax)	The minimum separate account size is \$50 million
Asia Local Currency	0.42% on first USD 50 million (0.40% without tax) 0.21% on amounts over USD 50 million (0.20% without tax)	The minimum separate account size is \$25 million
Emerging Markets	0.42% on first USD100 million (0.40% without tax) 0.21% on amounts over USD100 million (0.20% without tax)	The minimum separate account size is \$25 million
Emerging Markets Local Currency	0.42% on first USD100 million (0.40% without tax) 0.21% on amounts over USD100 million (0.20% without tax)	The minimum separate account size is \$50 million
Emerging Corporate	0.42% on first USD100 million (0.40% without tax) 0.21% on amounts over USD100 million (0.20% without tax)	The minimum separate account size is \$50 million
Global Alpha Opportunities	Management Fee: 1.05% on the first USD100 million (1.00% without tax) Participation Fee: 15.75% on the first USD100 million (15.0% without tax) Management Fee: 0.7875% on the balance above USD100 million (0.75% without tax) Participation Fee: 13.125% on the balance above USD100 million (12.5% without tax)	The minimum separate account size is \$50 million
Global Core Full Discretion (USD Hedged)	0.42% on first USD 100 million (0.40% without tax) 0.21% on amounts over USD 100 million (0.20% without tax)	The minimum separate account size is \$50 million
Global Core Full Discretion (Ex Japan, JPY Unhedged)	0.42% on first JPY 10 billion (0.40% without tax) 0.21% on amounts over JPY 10 billion (0.20% without tax)	The minimum separate account size is JPY ¥5 billion
Global Credit	0.3675% on first USD100 million (0.35% without tax) 0.18375% on amounts over USD100 million (0.175% without tax)	The minimum separate account size is \$50 million
Global Inflation-Linked (USD Unhedged)	0.42% on first USD 100 million (0.40% without tax) 0.21% on amounts over USD 100 million (0.20% without tax) 0.315% on first USD100 million (0.30% without tax) 0.1575% on amounts over USD100 million (0.15% without tax)	The minimum separate account size is \$50 million

Strategy	Fee	Minimum Account/Fee Size
Global Multi-Sector (USD Unhedged)	0.42% on first USD 100 million (0.40% without tax) 0.21% on amounts over USD 100 million (0.20% without tax)	The minimum separate account size is \$50 million
Global Kokusai ^Q (Ex Japan, JPY Unhedged)	<i>For accounts with tracking error/excess return targets up to 200 bps:</i> 0.315 of 1% on first JPY 10 billion (0.30% without tax) 0.1575 of 1% on amounts over JPY 10 billion (0.15% without tax) <i>For accounts with tracking error/excess return targets above 200 bps:</i> 0.42 of 1% on first JPY 10 billion (0.40% without tax) 0.21 of 1% on amounts over JPY 10 billion (0.20% without tax)	The minimum separate account size is JPY ¥5 billion
Japan Core	0.2625 of 1% on first JPY 5 billion (0.25% without tax) 0.1575 of 1% on amounts over JPY 5 billion (0.15% without tax)	The minimum separate account size is JP¥5 billion.
Japan Core Full Discretion	0.315 of 1% on first JPY 5 billion (0.30% without tax) 0.21 of 1% on amounts over JPY 5 billion (0.20% without tax)	The minimum separate account size is JP¥5 billion.
Managed Currency ^Q	0.315 of 1% on first JPY 10 billion (0.30% without tax) 0.1575 of 1% on amounts over JPY 10 billion (0.15% without tax)	The minimum separate account size is \$20 million
US Bank Loan	0.42% on first USD 100 million (0.40% without tax) 0.21% on amounts over USD 100 million (0.20% without tax)	The minimum separate account size is \$50 million
US Core	0.315 of 1% on first JPY 10 billion (0.30% without tax) 0.21% on amounts over USD100 million (0.20% without tax)	The minimum separate account size is \$75 million
US Core Full Discretion	0.315% on first USD100 million (0.30% without tax) 0.21% on amounts over USD100 million (0.20% without tax)	The minimum separate account size is \$75 million
US Corporate	0.315% on first USD100 million (0.30% without tax) 0.1575% on amounts over USD 100 million (0.15% without tax)	The minimum separate account size is \$75 million
US High Yield	0.42% on first USD 100 million (0.40% without tax) 0.21% on amounts over USD 100 million (0.20% without tax)	The minimum separate account size is \$50 million

Fees include Japan national and local consumption tax (5%).

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

Western Asset Tokyo maintains fee schedules for different strategies, some of which may involve performance fees or other customized fee arrangements. In addition, Western Asset Tokyo may agree to specific performance fees or other fee arrangements upon client request as well. Such performance fee-based accounts are managed alongside accounts that have a more traditional fee structure (*e.g.*, accounts that pay asset-based fees), typically by the same portfolio manager or team. This arrangement inherently creates a conflict of interest as Western Asset Tokyo has an incentive to favour performance-based fee accounts in order to increase its revenues. Moreover, in situations where Western Asset Tokyo is paid a performance fee, it may have an economic incentive to make riskier investments and/or pursue riskier strategies than it otherwise would. There are other potential conflicts that arise from the management of accounts with conflicting investment strategies and accounts in which Western Asset Tokyo has a proprietary interest. These conflicts could cause Western Asset Tokyo to favour particular accounts with different strategies or allocate investments to accounts in which it has a significant ownership or financial interest ("proprietary accounts"). Western Asset Tokyo seeks to mitigate this conflict through a variety of means.

First, Western Asset Tokyo discloses that this conflict exists to ensure that clients and potential clients are aware of the risks posed by different fee schedules and Western Asset Tokyo's management of proprietary accounts. Once clients are aware of these potential conflicts, they can evaluate the implications of these conflicts and Western Asset's approach to mitigate these conflicts.

Second, Western Asset Tokyo maintains a variety of policies and practices that are designed to reduce the potential for favouritism. Western Asset Tokyo maintains compliance policies and procedures that it believes are reasonably designed to result in fair allocations of investment opportunities to clients over time, even though a specific trade allocation may have the effect of benefiting one or more accounts over other accounts when viewed in isolation. Western Asset Tokyo frequently bunches (or aggregates) orders to minimize execution costs and optimize the implementation of investment strategies for clients. Allocations to each account are specified by the trader prior to placing orders. If such orders were partially filled or resulted in multiple prices, allocations to each account are determined on a pro-rata basis depending on the allocations originally specified prior to such trades. This allocation method is disclosed to clients when negotiating the investment management agreement with Western Asset Tokyo.

Third, Western Asset Tokyo maintains a variety of oversight mechanisms to monitor for situations that might suggest further inquiry would be prudent or that raise potential concerns. From an investment perspective, there are a variety of resources utilized to monitor performance and portfolio management measures such as dispersion and tracking error. Similarly situated accounts are grouped together in Western Asset Tokyo's systems and data is available to a wide audience beyond a particular portfolio manager. Please see Item 13, "Review of Accounts" in this Form ADV for more information about how client accounts are reviewed. From a regulatory monitoring perspective, Western Asset Tokyo maintains a compliance monitoring program which has a component dedicated to reviewing allocations through a variety of means. For example, accounts where Western Asset Tokyo has a proprietary interest are identified and relevant trades subjected to particular scrutiny. Exception reports produced in the process of performance composite construction are reviewed to identify outliers.

Western Asset Tokyo also maintains policies to identify and monitor the potential conflicts between "alternative investment" or "hedge fund" accounts and other accounts. "Alternative Investments" or "hedge funds" are commonly understood to mean the development, broad distribution and management of investment vehicles that have no investment benchmarks and use long/short strategies and/or investment leverage. Western Asset Tokyo also may work with separate account clients to manage portfolios that have similar characteristics to "alternative investments" or "hedge funds." Western Asset Tokyo maintains

additional monitoring for such accounts to seek to ensure that its trade allocation decisions are consistent with its fiduciary duties and are fair and equitable over time.

Alternative Investments Policy

In managing alternative investment and long-only accounts, Western Asset Tokyo must assure that all accounts are treated fairly in connection with the allocation of investment opportunities and related trading decisions. Western Asset Tokyo has established policies and procedures that govern investment decision making and trade allocation process for alternative investment accounts. The policies and procedures are designed to meet the fiduciary duties owed to clients, to avoid conflicts of interest, and to meet applicable requirements under the Advisers Act.

While alternative investment (AI) and long-only (LO) accounts share a common investment philosophy, they are subject to different investment objectives and may follow different investment strategies. In general, AI Accounts have greater investment flexibility than LO Accounts. For example, unlike LO Accounts:

- AI Accounts are seldom managed to a benchmark;
- AI Accounts focus on short-term investment horizons and engage in opportunistic trading to take advantage of market inefficiencies;
- AI Accounts can short securities and pursue market neutral, relative value strategies (i.e., strategies that use long and short positions in combination with one another) to seek sources of return that are not correlated with broad market fluctuations; and
- AI Accounts may leverage their portfolios using various financial instruments to increase the potential return of an investment.

Because of these considerations, trading decisions for AI and LO accounts are not identical even though the same portfolio manager may manage both AI and LO accounts. Whether a particular investment opportunity is allocated to only AI accounts or to AI and LO Accounts will depend on the investment strategy being implemented. If, under the circumstances, an investment opportunity is appropriate for both AI and LO accounts, then the investment opportunity generally will be allocated to AI and LO accounts on a pro-rata basis.

Item 7. Types of Clients

Western Asset Tokyo is primarily an institutional manager and may provide investment management services to private and public pension funds, foundations, endowments, insurance companies, international entities, U.S. and non-U.S. government institutions, U.S. and non-U.S. mutual funds, collateralized debt/loan obligations issuers and private investment funds.

Western Asset Tokyo's 32 employees perform investment services for a variety of clients. Western Asset Tokyo's current clients include corporate, mutual fund and pensions and client portfolios range from money markets to absolute return.

Western Asset Tokyo and its affiliates' global presence includes 896 employees and a client base totaling 535, representing 42 countries, 1,086 accounts, and \$447.2 billion in assets under management as of March 31, 2011.

Tokyo-Based Client Base — March 31, 2011

Client Type	Client Count	Percentage of Clients (rounded)
Corporate*	1	20%
Investment Companies	1	20%
Pensions	3	60%
GRAND TOTAL	5	100%

* Includes other businesses not listed

Please refer to Item 5 "Fees and Compensation" for additional information regarding minimum account size requirements.

Private Funds

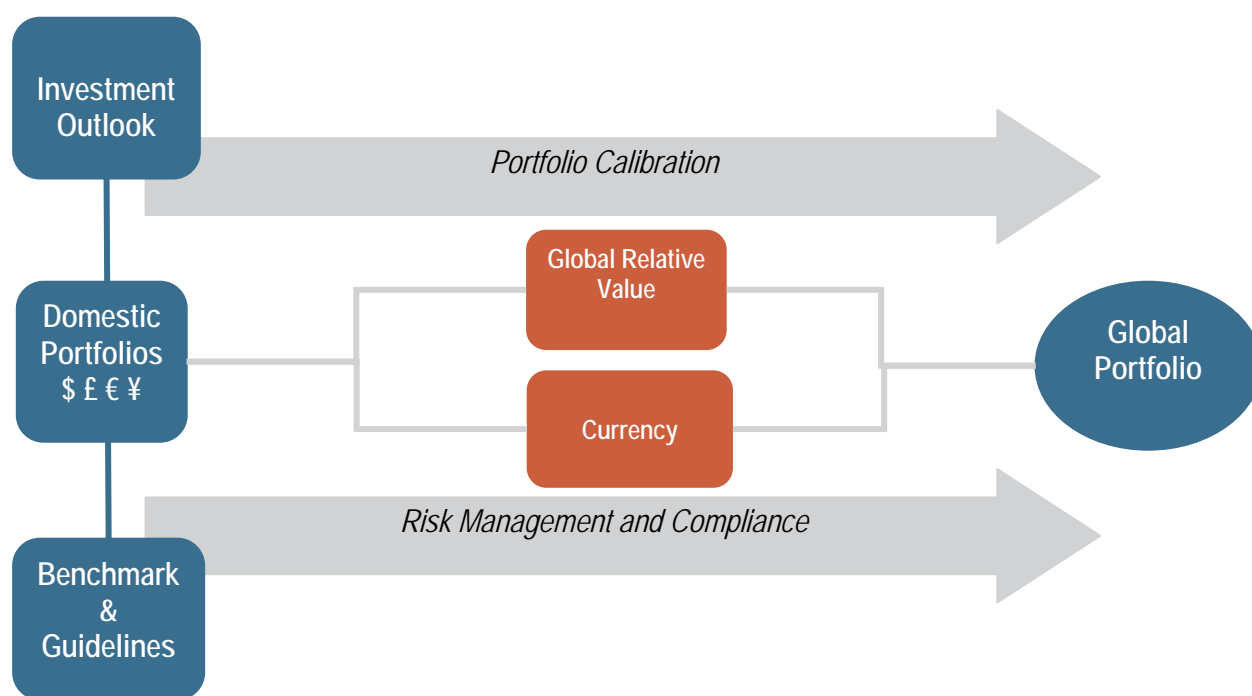
As of June 30, 2011 Western Asset Tokyo's affiliate, WAM, is also the Managing Member and investment manager of 34 private commingled investment funds. These funds are primarily designed to provide Western Asset Tokyo's clients with opportunistic asset diversification in an effort to augment investment strategies in seeking a client's overall objectives. Investment in the funds is available to all clients with whom Western Asset Tokyo has signed an Investment Management Agreement and may be used in instances where a client does not meet Western Asset Tokyo's investment minimum for a separate account. The funds may also be utilized as a vehicle to launch a new strategy or product that may not initially create demand worthy of separate account minimums

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

Western Asset Tokyo offers a full range of fixed income products, including Absolute Return, Core and Core Full, Credit and Corporate/High Yield, Emerging/Developing Market, Inflation Linked, Liquidity/Money Market, Long Duration, Mortgage Backed/Structured Product, Municipal Bond/Tax Efficient, Portable Alpha, Short Duration and Sovereign. While its general philosophy and approach is similar for all products, specific analysis and strategies will vary based on the product. More detailed descriptions of strategies are included in Appendix A "Investment Strategies". A general statement of Western's Asset Tokyo's investment philosophy is included below.

There can be no assurance that Western Asset Tokyo will be successful in implementing any investment strategy. Investing in securities involves the risk of loss which clients should be prepared to bear. A description of the material investment risks associated with Western Asset Tokyo's investment strategies is included in Appendix B "Material Investment Risks".

Global Investment Process



Investment Strategy & Process

The strategic goal at Western Asset Tokyo is to add value to client portfolios while adhering to a disciplined risk control process. The investment management team seeks to exceed benchmark returns while constraining overall risk. Western Asset Tokyo's investment philosophy combines traditional analysis with innovative technology applied to all sectors of the market. Western Asset Tokyo believes inefficiencies exist in the fixed-income markets and attempts to add incremental value by exploiting these inefficiencies across all eligible market sectors. The key areas of focus are:

- Sector & subsector allocation
- Issue selection
- Duration
- Term structure

These areas represent the primary sources of value added in active fixed-income management. Different investment approaches result from the relative weight attributed to each factor. For example, historical analyses of core portfolio performance attribution indicate that sector allocation and issue selection contribute the majority of value added by Western Asset Tokyo, while duration and term structure decisions account for the remainder.

Sector & Subsector Allocation

For broader market accounts Western Asset Tokyo seeks to successfully rotate among and within sectors of the bond market, generally preferring non-government sectors because they typically offer higher relative yields and have tended to outperform the broad market over long market cycles. Members of the Global Investment Strategy Committee, which is comprised of Western Asset Tokyo's senior investment personnel, including senior investment members in its affiliates' geographic locations, are responsible for overseeing Western Asset Tokyo's investment products, including the formulation of strategy, and continually analyzing the broad economic environment to determine its potential impact on sector performance. They study historical yield spreads, identify the fundamental factors that influence yield spread relationships and relate these findings to Western Asset Tokyo's projections to seek to determine attractive alternatives.

Western Asset Tokyo's analysts continually augment this process by providing detailed analyses of specific sectors. For example, corporate analysis includes credit quality studies and historical yield spread analysis and mortgage analysis includes the use of external research which integrates the components of prepayment, housing turnover, default and refinancing rates.

Issue Selection

Issue selection is a bottom-up process to determine securities Western Asset Tokyo believes are mispriced or undervalued. The sector teams provide an ongoing assessment of changing credit characteristics and securities with traits such as floating interest rates, hidden underlying assets or credit backing and securities issued in mergers. Also assessed are newly issued securities. Armed with these sector and issue analyses, the sector teams and portfolio manager select issues opportunistically.

Duration

Normally, Western Asset Tokyo will seek to limit interest rate risk by restricting portfolio deviation to a percentage (typically 20% for core accounts) above or below benchmark duration (although this limit varies by or may not apply to different investment processes). The Global Investment Strategy Group decides on a duration target based on a comprehensive analysis of domestic and international macroeconomic factors, as well as the general political environment. The underlying belief is that interest rates are primarily determined by the level and direction of inflation and that inflation is primarily a monetary phenomenon. The Global Investment Strategy Group weighs its views against market expectations, taking on more risk as its views diverge from the market and less risk as they converge. Western Asset does not attempt to time the market, but rather to identify and stay with long-term trends.

Term Structure

Western Asset Tokyo closely monitors shifts in the yield curve, since the relationship between short, intermediate and long maturity securities is essential for constructing a long-term investment horizon. The Global Investment Strategy Group determines implications of the yield curve's shape, along with projections of central bank policy and market expectations, and formulates a yield curve strategy to be implemented by portfolio managers.

Bloc Allocation

In global portfolios, the decision by the global investment team to reduce the weight of one economic bloc relative to benchmark weights and increase the weight of another is motivated by the perception that overall market returns are going to be superior in the bloc whose weight has been increased, or that opportunities for enhancing returns through active management are better there. This kind of bloc re-weighting does not usually affect the strategic variables within the bloc, like sector allocation and term structure.

Currency

The specific objective of Western Asset's currency management is to seek to reduce the impact of currencies on portfolio tracking error and capitalize on long-term currency trends through active hedging. Western Asset seeks to add value to portfolios through the active management of currency volatility.

Western Asset Tokyo believes that currencies tend to follow distinct trends over long periods of time. These are determined by a combination of fundamental macroeconomic factors and by direct investment and portfolio-related capital flows. Western Asset Tokyo derives its long-term currency views primarily from fundamental shifts in economic growth, real interest rates, current account and trade imbalances and governmental macro-economic policies. Western Asset Tokyo also analyzes non-fundamental indicators based on time-charts of exchange rates. Western Asset complements this analysis with a tactical analysis utilizing its own comprehensive database of monthly currency and derivative markets data to analyze relative value across currencies and volatility trends in exchange rates. Once allocations for bond markets and currencies are made, given the generally higher volatility inherent in currency markets, the currency exposure is carefully monitored and managed actively, primarily using forward foreign exchange contracts and, where allowed, currency options.

Forward foreign exchange contracts are Western Asset Tokyo's most commonly used instrument for currency management as they enable currency shifts to be made for low transaction costs without disturbing the underlying portfolio. Where client guidelines permit and where appropriate given Western Asset Tokyo's views on volatility, Western Asset Tokyo uses OTC and/or exchange-traded currency options as an alternative to forward currency positions. In instances of non-convertibility of emerging markets currencies, non-deliverable forward contracts are entered into and, if economic and permitted by client guidelines, structured products may be purchased.

Portfolio Diversification

Western Asset Tokyo's investment process seeks significant diversification, via several avenues depending on the investment product. Western Asset Tokyo seeks to use multiple independent strategies to capture return and seeks to weight them so that no one strategy has a disproportionate impact. In addition, Western Asset Tokyo seeks to diversify portfolios by sector. Western Asset Tokyo's portfolios are further diversified by issuer and issue. The exact nature of this process may vary by product. For example, issuer diversification normally increases as quality decreases.

Risk Management

Western Asset Tokyo defines risk as lack of information about the future. A fundamental tenet of investing is that markets provide premiums to investors to incent them to take on risk – that is, to take on investments whose future outcomes involve risk and/or uncertainty. By carefully managing the types and amounts of risk taken, asset managers can collect the market premium for risk while avoiding offsetting losses.

In defining risk, Western Asset Tokyo seeks to identify aspects of its investments that can lead to uncertainty about the future in order to help predict risk. Some of these aspects include (but are not limited to) exposures to the level of interest rates, the shape of the yield curve, volatility, convexity, inflation, prepayments, credit spreads, defaults, and foreign exchange. Other prominent risks include liquidity (funding and market) and counterparty risk. Western Asset Tokyo looks at its exposures to these items (usually as a differential to benchmark exposures), as well as its estimates of how volatile these items will be and how they will relate to each other.

An independent Risk Management Department assesses risk in portfolios that represent each of the major strategies that Western Asset Tokyo manages. Risk Management provides its analyses to the Market and Credit Risk Committee ("MCRC") and to the portfolio managers running the strategies. MCRC evaluates the various sources of risk that impact clients' portfolios, and establishes action plans and prudent internal warning levels to align investment teams with client risk tolerances. Chaired by WAM's Chief Risk Officer, it consists of senior members from WAM and Western Asset Tokyo's portfolio management, risk management and client service teams. It meets formally, and at a minimum on a monthly basis. Portfolio managers work with Risk Management to evaluate existing portfolios and prospective portfolios to understand the possible risk consequences of various portfolio structures under consideration.

While no metric can fully capture the behavior and risks of a portfolio, the members of the MCRC utilize certain metrics as tools to help augment their qualitative understanding of market and credit risk. For the MCRC's consideration, the risk management group produces forward-looking estimates of future risk behavior, including:

Volatility ratio—The ratio of the volatility (standard deviation) of the portfolio to the volatility of its benchmark. This ratio will tend to be greater than one in environments where investment managers feel risk will be rewarded, and less than one in environments where they feel risk will be punished.

Tracking error—The volatility of the difference in portfolio returns and benchmark returns. Estimated tracking error indicates how much the portfolio's returns may differ from the benchmark's, and should be in line with the client's risk tolerance.

Performance—Large positive or negative performance relative to benchmark is an indication of portfolio risk. While this measure is backward-looking, it serves as a backstop to indicate risks that might not have been detected in forward-looking measures.

The MCRC also considers concentrations in single obligors and in strategies, and seeks to guide portfolios to appropriate levels of diversification. Other regular analyses include:

Liquidity analysis—market liquidity of key portfolios, reflecting the ease of turning those portfolios into cash on short notice.

Predictions/outcomes—checking the relationships our risk analyses predict between top exposures in the portfolio, and the return on the portfolio.

Risk trends—the evolution of risk metrics over time, indicating whether portfolios are de-risking; flat; or increasing risk.

Stress testing and scenario analysis—key long-term funds are subjected to extreme market stresses (such as the 1998 Russian debt crisis), while US money market funds are subjected to SEC-mandated shocks.

Counterparty risk is also evaluated on both a current exposure (market value) basis and a risk adjusted basis. The latter takes into account market-implied default and recovery rates of counterparties.

There is, of course, no assurance that the risk management processes and procedures described below will be effective. Further, the risk management process does not necessarily lead to a reduction in risk, but seeks to provide an overview of the risks in portfolios for consideration by portfolio managers.

Methodology for Stress Testing Hedged Position Risk

As part of its daily analytics process, Western Asset Tokyo continuously stress tests its portfolios in order to assess their behavior under a variety of interest rate and spread scenarios. The correlation assumptions used in these simulations are continually revised on the basis of historical experience and the judgment of senior investment professionals. The objective of scenario analysis is to help ensure that portfolio risk is well diversified and that tracking error will not exceed expectations. Scenario analyses include a full revaluation of all securities, including a re-estimation of prepayment models in the case of mortgage-backed securities. Portfolio managers receive a daily report which estimates the likely performance behavior of all portfolios under their supervision under a variety of what-if scenarios (*e.g.*, if interest rates rise 50 or 100 basis points ("bps"), if the yield curve steepens or flattens, if spreads widen by 50 bps).

Scenario analysis and stress testing are helpful because they allow Western Asset Tokyo to evaluate the impact on portfolios of various changes in interest rates and the shape of the yield curve. Western Asset finds worst-case scenarios particularly helpful, primarily because it allows the investment team to evaluate outcomes when correlations converge toward 1, and/or Western Asset Tokyo can see the severe impact of the unusual combination of interest rates rising and spreads widening.

Credit Risk Management

WAM and Western Asset Tokyo use a proprietary model for assessing credit risk. The model's main goal is to set ratings according to probable issuer and counterparty default rates.

The model may be used, among other things, to:

- Chart the trend of the quality of risk of issuers and counterparties;
- Characterize the quality of issuers and counterparties for internal credit processes;
- Optimize portfolios;
- Price securities issued by non-financial companies and banks;
- Establish limits for issuers and counterparties.

Market Risk Management

Fixed Income

- **Value-at-Risk (VaR):** We use MAPS, a risk management tool for daily calculation of VaR co-variance of portfolios. VaR is a financial value that indicates maximum portfolio loss based on statistical analysis. It takes into consideration the market value of securities (corporate bonds) and the statistical expectation of a change in price within a defined time horizon and level of confidence. To determine VaR, the risk factors for each asset are broken

down and their exposure to each one is calculated. VaR is a combination of exposure to risk factors and their variances, taking correlations between factors into consideration.

- **Stress Testing:** As with VaR, Stress Testing indicates the financial value of maximum portfolio loss; an economic model defined by the Fixed-income Committee as opposed to statistical models used to determine this. The Stress Testing model makes it possible to estimate potential portfolio loss given an adverse crisis scenario (for example, a sharp rise in interest rates or a loss in currency value or stock markets).
- **Immunization Model:** We use a proprietary model based on duration and convexity to determine the degree of immunization of our portfolios to yield curve variations on a daily basis. The model makes it possible to determine interest rate exposure at various points on the curve by consolidating the position of various types of interest-rate sensitive securities and derivatives.

Liquidity Risk Management

Liquidity risk management is an important part of Western Asset Tokyo's investment process. It is controlled, for each security, through the combination of two main variables: volumes traded in the secondary market and the security's weight in the portfolio. Based on these inputs, the number of days needed to liquidate different percentages of the portfolio is calculated as well as the portfolio's percentage that can be converted into cash within one business day. These measures are also based on the premise that the sales must be spread through time, so that they represent, on average, no more than a certain percentage of daily traded volumes, avoiding impact on asset prices.

Additionally, for retail funds and portfolios with higher exposure to illiquid assets, such as CDs and corporate bonds, the most liquid portion of the portfolios (e.g. government bonds) is compared to the worst historical redemptions within different windows (e.g. 1 full month).

Item 9. Disciplinary Information

Western Asset Tokyo has no disciplinary actions to report.

Western Asset Tokyo's affiliate, WAM, has the following administrative proceeding to report:

On September 28, 2001, the Securities and Exchange Commission issued an order instituting a public administrative proceeding, making findings and imposing sanctions. Western Asset was alleged to have failed to have reasonably supervised a former portfolio manager who was found to have provided two commingled funds with inaccurate prices for several troubled securities. Without admitting or denying the SEC's findings, Western Asset Management Company consented to the entry of the order and was censured and fined \$50,000.

Item 10. Other Financial Industry Activities and Affiliations

Western Asset Tokyo has several sister-company affiliates which are under common management and supervision. With client permission Western Asset Tokyo may delegate all or a portion of management of an account to one of these entities. Conversely one of these entities can delegate portfolio management of an account to Western Asset Tokyo. The entities are:

- [Western Asset Management Company](#) (Pasadena and New York) which is registered with the Securities and Exchange Commission and the National Futures Association
- [Western Asset Management Company Limited](#) (London) which is authorized and regulated by the Financial Services Authority and registered with the Securities and Exchange Commission
- [Western Asset Management Company Distribuidora de Títulos e Valores Mobiliários Limitada](#) (Sao Paulo) which is authorized and regulated by Comissão de Valores Mobiliários and Banco Central do Brasil and registered with the Securities and Exchange Commission
- [Western Asset Management Company Pty Ltd](#) (Melbourne) ABN 41 117 767 923 which is the holder of the Australian Financial Services Licence 303160
- [Western Asset Management Company Pte. Ltd.](#) (Singapore) Co. Reg. No. 200007692R which is a holder of a Capital Markets Services Licence for fund management and regulated by the Monetary Authority of Singapore and registered with the Securities and Exchange Commission

Registration or licensing with a regulatory body does not imply endorsement by such body of any Western Asset entity.

As previously noted, Western Asset Tokyo's ultimate parent, Legg Mason, Inc., is also the parent of Legg Mason Investor Services, LLC ("LMIS"), a broker-dealer registered under the Securities Exchange Act of 1934. Western Asset does not presently have any referral or other similar business arrangement with LMIS.

LMIS is the principal underwriter and distributor of the Legg Mason affiliated open-end funds to which Western Asset Tokyo serves as sub-adviser. Other affiliates of Legg Mason, Legg Mason Fund Adviser, Inc. and Legg Mason Partners Fund Advisor, LLC, each of which is an SEC registered investment adviser, serve as investment managers or advisers of those funds. Western Asset Tokyo is also a sub-adviser to several SEC registered closed-end funds, some of which are advised by these Legg Mason entities or other SEC registered investment advisers.

A number of WAM's employees, including members of management, are registered with FINRA as registered representatives of LMIS. WAM employees registered as LMIS representatives actively market WAM money market funds. However, these employees do not receive sales commissions from LMIS.

WAM is registered as a commodity pool operator and a commodity trading advisor. A number of WAM employees, including members of management, are registered as Associated Persons or Registered Principals with the National Futures Association.

Affiliations and Conflicts of Interest

Although Western Asset Tokyo is committed to acting in the best interests of its clients, in some situations there may be conflict of interest between Western Asset Tokyo's interests and a client's interests or there may be conflicts in the interests of multiple clients. Many of these conflicts of interest are inherent in operating an investment advisory business. For example, Western Asset Tokyo may have an incentive to resolve a matter in favor of clients that are affiliates of Western Asset Tokyo over clients that are not affiliates. Western Asset Tokyo has adopted policies and procedures that it believes are reasonably designed to

mitigate these conflicts of interest.

The investment adviser affiliates of Western Asset Tokyo that are listed above may provide advice to their clients with respect to investment strategies that are similar to or the same as strategies offered by WAM. Those advisory affiliates may purchase on behalf of their clients the same securities that Western Asset Tokyo may purchase for our clients. As a result, the interests of Western Asset Tokyo's clients may conflict with the interests of the clients of these affiliated advisers. For example, if an investment adviser affiliate implements a portfolio management decision for its client ahead of, or contemporaneously with, a decision Western Asset Tokyo makes for its client(s), the market impact of the decision made by Western Asset Tokyo's advisory affiliate could result in one or more of Western Asset Tokyo's clients receiving less favorable trading results than they otherwise would. Western Asset Tokyo's trade allocation and trade aggregation procedures do not typically apply to portfolio management decisions and trading executed by investment advisory affiliates for their clients that are not clients of Western Asset Tokyo.

Western Asset Tokyo provides investment advice to a large number of clients. In some circumstances officers or employees of Western Asset Tokyo may service as members of a board of directors of (or have similar responsibilities with respect to) a pooled investment vehicle that pays fees to Western Asset Tokyo, which in some circumstances could be performance-based fees. As a result, it is possible that the Western Asset Tokyo officers and employees who serve in such capacities may have potential conflicts of interest with the pooled vehicle. Each such officer or employee of Western Asset Tokyo who serves in such a capacity carefully considers his or her obligations to the pooled vehicle and endeavors to resolve any such conflicts fairly.

Please see Item 11, "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" for additional information regarding conflicts of interest that arise as a result of Western Asset Tokyo's investment advisory activities.

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

All investment advisory firms owe a fiduciary duty to their clients. In its role as a fiduciary, Western Asset Tokyo endeavors to eliminate and/or mitigate conflicts and potential conflicts of interest. Because conflicts of interest are endemic in the context of externally managed accounts, however, Western Asset's efforts to identify conflicts are ongoing. Western Asset Tokyo has adopted a variety of controls such as policies, procedures, and oversight mechanisms in order to address the conflicts and potential conflicts of interest discussed below that may arise in the course of Western Asset Tokyo's business as an investment adviser.

Following are summaries of a number of policies adopted by Western Asset Tokyo in an effort to address and mitigate these types of conflicts of interest.

Code of Ethics

Western Asset Tokyo's employees and all persons associated with Western Asset Tokyo are required to follow Western Asset Tokyo's Code of Ethics. Subject to satisfying the Code of Ethics and applicable laws, Western Asset Tokyo employees and affiliates may trade for their own accounts in securities that are held in client accounts. The Code of Ethics emphasizes Western Asset Tokyo's fiduciary obligation to put client interests first. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of employees will not interfere with the responsibility to make decisions in the best interest of clients.

The principal terms of the Code as it applies to personal trading are as follows:

- Employees must provide detailed reporting on personal trades, including quarterly transaction and annual holdings reports. Employees must also give Western Asset Tokyo notice of all brokerage accounts so that the duplicate copies of trade confirmations can be sent to the Legal and Compliance Department.
- Employees must pre clear all equity and fixed income trades with certain exclusions such as for money market instruments and government securities.
- An employee is limited to 75 transactions (buys or sells) per quarter.
- Securities must be held for 180 days excluding money market instruments, government securities and 60 days for open-end funds advised by WAM.
- Investment professionals may not participate in initial public offerings ("IPOs"). IPOs for other employees and all private placements must be pre cleared and approved by the Legal and Compliance Department.
- Investment professionals may not trade in a security within 7 days of a trade made for a client (the black out period is one day for other employees).

In order to monitor personal transactions, Western Asset Tokyo receives copies of all broker confirmations and statements for employees' personal securities transactions in order to monitor compliance with the Code. The Legal and Compliance Department is responsible for monitoring compliance with the Code of Ethics. Violations are reported to Western Asset Tokyo's Chief Compliance Officer and Western Asset Tokyo's Management Committee. Successive violations are subject to increasingly serious consequences, including termination of employment and other sanctions.

The entire discussion under this heading is a summary and is qualified in its entirety by Western Asset Tokyo's Code of Ethics, Conflicts of Interest Policy, Gifts and Entertainment Policy and Personal Investments with Business Contacts Policy. A copy of Western Asset Tokyo's Code of Ethics is available to any client or prospective client upon request.

Political Contributions

Investment advisers that, directly or indirectly, use political or charitable contributions in an effort to influence a fiduciaries' decision to hire or retain Western Asset Tokyo (*i.e.*, "pay-to-play") risk suffering significant legal sanctions and harm to their business and reputation from such practices. As a general matter, neither Western Asset Tokyo nor any of its employees may make any political contributions to influence a government entity, official or candidate to hire or retain Western Asset Tokyo or a Legg Mason affiliate as investment adviser, invest or maintain an investment in any fund advised or sub-advised by Western Asset Tokyo or a Legg Mason affiliate, or influence Western Asset Tokyo's access to or allocation of securities issued by that government entity. In addition, neither Western Asset Tokyo nor its employees may make political contributions with the intent to accomplish something indirectly that would be otherwise prohibited directly.

All Western Asset Tokyo employees and their immediate family are required to pre-clear all political contributions made to any candidate (both those that are successful and those that are unsuccessful) or incumbent for any elective office at any level of government in the United States through designated individuals in the Legal and Compliance Department. This includes all federal, state and local contributions, but does not include contributions to political action committees or political parties. Once pre-cleared, employees must confirm the details of the contribution, if made, including the name of the candidate, the office, and the date and amount of the contribution. Contributions may not be made to a political action committee or political party to make a contribution to a particular candidate through indirect means that would otherwise require pre-clearance if made directly.

Western Asset Tokyo may be required to forego fees for certain accounts in circumstances where certain staff made contributions during or within the 2 years before their employment with Western Asset Tokyo.

Service as a Director

No Western Asset Tokyo employees may serve on the board of directors of any public company.

For service on the boards of private companies, prior written authorization of the WAM's General Counsel or Chief Compliance Officer is required. They will evaluate such roles to determine whether the company is or could become an appropriate investment for client accounts and whether the company is likely to go public in the foreseeable future. Such evaluation may result in the employee being required to forego their director role based on the actual or potential conflicts of interest that may exist. If approval is granted and such company contemplates going public, the employee must notify the Legal and Compliance Department as soon as reasonably feasible and must resign that position prior to going public. In addition, if authorized, appropriate safeguards and procedures may be implemented through information barriers or other means to prevent the employee from making investment decisions or recommendations with respect to that company.

In addition to obtaining prior approval, employees who serve on the board of a private company must disclose such role when asked to disclose personal affiliations or associations. If the employee, in their role as director, has investment control over the assets of the company, the employee may be deemed to have a beneficial interest in the investment activities of the company and the investment activities of the company would become subject to Western Asset Tokyo's Code of Ethics.

Gifts and Entertainment

Western Asset Tokyo employees may be offered or may receive gifts and entertainment such as hosted dinners or other events from persons that are personally in a position, or potentially in a position, to do business with Western Asset Tokyo such as clients, broker-dealers, consultants, vendors or other business contacts (generally known as "business contacts"). To ensure that Western Asset Tokyo's employees are not beholden to a business contact and that their judgment remains unimpaired in this regard, Western Asset Tokyo employees may only accept appropriate and reasonable gifts and entertainment as further detailed in Western Asset Tokyo's gifts and entertainment policy.

In summary

- Employees may not keep gifts with a value in excess of ¥10,000 and may not accept cash or cash equivalents in any amount.
- Entertainment events (dinners, sporting and entertainment events) must be reported to the Legal and Compliance Department.
- To the extent the event has a value in excess of ¥10,000 employees must contribute the excess to a Western Asset Tokyo selected charity. Events with a value in excess ¥30,000, events outside the metropolitan area in which the employee resides and events involving family members require senior management approval.
- Normal business lunches are not subject to these provisions.

Outside Business Activities

Employees' personal activities, associations or functions may create potential conflicts of interest. The personal interests of Western Asset Tokyo personnel must not be placed improperly before the interests of Western Asset Tokyo or its clients. Outside business activities broadly include becoming employed by any other person or entity, receiving compensation from any other person or entity, or servicing as an officer, director or partner of another entity. Even if not technically included within this definition, all Western Asset Tokyo employees are committed to be mindful of their personal activities and associations and the potential conflicts of interest that arise for Western Asset Tokyo and its clients. Any employees engaging in outside business activity involving a financial services industry (i.e., banking, securities, brokerage, insurance, etc.) is required to receive pre-clearance from either the WAM's General Counsel or Western Asset Tokyo's Chief Compliance Officer.

Personal Investment with Business Contacts

To avoid conflicts or potential conflicts, any investment knowingly made by a Western Asset Tokyo employee together with a Western Asset Tokyo Business Associate ("Business Associate") in a Personal Investment must be approved in advance. Business Associates are considered: (i) any client, potential client, vendor, broker or other third party that does or desires to do business with Western Asset Tokyo, (ii) persons that are associated with those entities described in (i) above who are personally in a position to actually or potentially be involved in doing business with Western Asset Tokyo, or (iii) entities controlled by persons described in (ii) above.

A "Personal Investment" is any investment: (a) in a non-publicly traded entity such as a joint venture, partnership, limited liability company, new or existing business or similar type of business enterprise, (b) in real estate, real property or in a new or existing

business, or (c) in non-publicly traded securities or any type of restricted investment limited to persons who meet only particular sophistication or financial qualification criteria.

Any approved investment must be re-submitted for approval if circumstances materially change or information provided in the course of obtaining approval becomes materially inaccurate.

Conflicts of Interest

Set forth below is a description of certain potential conflicts of interest that may arise in the course of Western Asset Tokyo's activities for its own account and for the accounts of its clients, including pooled investment vehicles and separately managed accounts.

Conflicts Related to Portfolio Management of Multiple Accounts

Western Asset Tokyo acts as investment adviser to pooled vehicles and separately managed accounts that have similar investment objectives and pursue similar investment strategies. As a result, certain investments identified by Western Asset Tokyo may be appropriate for multiple clients. Decisions to buy and sell investments for each client advised by Western Asset Tokyo are made with a view toward achieving such client's investment objectives, however Western Asset Tokyo may face conflicts of interest in allocating investment opportunities among accounts because Western Asset might receive greater fees or compensation from some accounts than others. Moreover, a particular investment may be bought or sold for only one client or in different amounts and at different times for more than one but less than all clients, even though it could have been bought or sold for other clients at the same time. In addition, when a particular investment is bought or sold for two or more clients on the same date, there can be no assurance that a client will not receive less (or more) of the investment than it would otherwise receive if Western Asset Tokyo did not have a conflict of interest among clients. Also, a particular investment may be bought for one or more clients when one or more other clients are selling the investment. Investment decisions for clients are made by Western Asset Tokyo in its best judgment, but in its sole discretion, taking into account such factors as Western Asset Tokyo believes to be relevant. Such factors may include investment objectives, regulatory restrictions, availability and liquidity of the investment, current holdings, availability of cash for investment, the size of the investments generally and limitations and restrictions on a client's account that are imposed by the client. In effecting transactions, it may not always be possible, or consistent with the investment objectives of Western Asset Tokyo's various clients, to take or liquidate the same investment positions at the same time or at the same prices. Western Asset Tokyo generally is not under any obligation to share any investment, idea or strategy with all of its clients.

Western Asset Tokyo seeks to manage and/or mitigate the potential conflicts of interest described above by following procedures with respect to the allocation of investment opportunities among its clients, including the allocation of limited opportunities. Information regarding these procedures is provided under Item 6, "Performance-Based Fees and Side-by-Side Management." Notwithstanding these procedures, if Western Asset Tokyo implements a portfolio decision for one client ahead of, or contemporaneous with, another client, the market impact of the investment decision could result in one or more clients receiving more favorable trading results or reduced costs at the expense of one or more other clients.

Conflicts may arise when clients invest in different parts of an issuer's capital structure, including circumstances in which one or more clients own private securities or obligations of an issuer and other clients may own publicly traded securities of the same issuer. Western Asset Tokyo may also, for example, direct a client to invest in a tranche of a structured finance vehicle, such as a collateralized loan or debt obligation, where we are also, at the same or different time, directing another client to make investments in a different tranche of the same vehicle, which tranche's interests may be adverse to other tranches. Western

Asset Tokyo may also cause a client to purchase from, or sell assets to, an entity, such as a structured finance vehicle, in which other clients may have an interest. These transactions could have an adverse effect on the clients that have interest in the structured finance vehicle. There may also be conflicts where, for example, a client holds certain loans of an issuer, and that same issuer has issued other loans or instruments that are owned by other clients or by an entity, such as a structured finance vehicle, in which other clients have an interest. In this situation, Western Asset may take actions with respect to the assets held by one client that are potentially adverse to the other clients, for example, by foreclosing on loans or by putting an issuer into default. In negotiating the terms and conditions of any such investments, or any subsequent amendments or waivers, Western Asset Tokyo may find that the interests of a client and the interests of one or more other clients could conflict. In these situations, decisions over proxy voting, corporate reorganization, how to exit an investment, or bankruptcy matters (including, for example, whether to trigger an event of default or the terms of any workout), may result in conflicts of interest. Similarly, if an issuer in which a client and one or more other clients directly or indirectly hold different classes of securities (or other assets, instruments or obligations issued by such issuer or underlying investments of such issuer) encounters financial problems, decisions over the terms of any workout will raise conflicts of interests (including, for example, conflicts over proposed waivers and amendments to debt covenants). For example, a debt holder may be better served by a liquidation of the issuer in which it may be paid in full, whereas an equity or junior bond holder might prefer a reorganization that holds the potential to create value for the equity holders. Although in some cases Western Asset Tokyo may refrain from taking certain actions or making investments on behalf of clients because of conflicts (potentially disadvantaging the clients on whose behalf the actions are not taken or investments not made), in other cases Western Asset Tokyo will not refrain from taking actions or making investments on behalf of some clients that have the potential to disadvantage other clients.

Any of the foregoing conflicts of interest will be resolved on a case-by-case basis. Any such resolution will take into consideration the interests of the relevant clients, the circumstances giving rise to the conflict and applicable laws. Clients should be aware that conflicts will not necessarily be resolved in favor of their interests, and in fact may be resolved in favor of clients that pay Western Asset Tokyo higher fees or performance-based fees or in which Western Asset or its affiliates have a significant proprietary interest. There can be no assurance that any actual or potential conflicts of interest will not result in a particular client receiving less favorable investment terms in certain investments than if such conflicts of interest did not exist.

Western Asset Tokyo also acts as the investment adviser to pooled vehicles that Western Asset Tokyo recommends to clients or, pursuant to the discretionary authority granted to Western Asset Tokyo by a client, in which Western Asset Tokyo causes a client to invest. This gives rise to conflicts of interest for Western Asset Tokyo because it is paid an asset-based fee by certain of the pooled vehicles and, as a result, has an incentive to cause clients to invest in these pooled vehicles and thereby increase the vehicle's assets and Western Asset Tokyo's fee. Western Asset Tokyo will generally credit the amount of any advisory and shareholder service fees paid to it by the pooled vehicle in respect of such account's investment in the pooled vehicle against the fee payable by the account to Western Asset Tokyo pursuant to its investment advisory agreement. This credit will not necessarily eliminate the conflict and Western Asset Tokyo may continue to have a financial incentive to favor causing clients to invest in Western Asset-affiliated pooled investment vehicles. In addition, Western Asset Tokyo acts as the investment adviser to pooled investment vehicles that pay performance-based fees. The procedures Western Asset Tokyo follows to manage the conflicts of interest that arise as a result of the side-by-side management of accounts paying performance-based fees and asset-based fees is included under Item 6, "Performance-Based Fees and Side-by-Side Management."

Western Asset Tokyo, for its own account or the account of a client, could take a position through a derivative instrument that is linked to a client (or an affiliate thereof) or to an issuer of a security held by a client. It is possible that the structure or characteristics of such derivatives could adversely affect one or more clients. For example, the derivative could represent a leveraged investment, which could make it more likely (due to events of default or otherwise) that there could be significant changes in the values of the underlying securities or the securities of the counterparty to the derivative instrument.

Participation or Interest in Client Transactions

Western Asset Tokyo does not engage in proprietary trading or investing for its own account. However, Western Asset Tokyo anticipates that, in appropriate circumstances and consistent with client investment objectives, it or an affiliate may recommend the purchase or sale of securities in which Western Asset Tokyo or one of its affiliates, employees or clients, directly or indirectly, has a financial interest. This may include circumstances where Western Asset Tokyo or one of its affiliates or employees invests in a pooled investment vehicle that clients invest in or where Western Asset or one of its affiliates may be paid a performance fee by a pooled investment vehicle (see Item 6, "Performance-Based Fees and Side-By-Side Management"). Western Asset Tokyo or one of its affiliates, employees or clients may sell securities or other property at the same time that Western Asset Tokyo is recommending the security or other property to other clients or may buy securities or other property at the same time it is recommending that other clients sell the security or other property.

Conflicts Related to Information Known by Western Asset Tokyo

In connection with its activities, Western Asset Tokyo may receive information that is not generally available to the public. Western Asset Tokyo is not obligated to make such information available to its clients or to use such information to effect transactions for its clients. Also, at times, Western Asset Tokyo's members or employees may come into possession of material, non-public information. Under applicable law, Western Asset Tokyo is prohibited from improperly disclosing or using such information, including for the benefit of a client. Western Asset Tokyo maintains policies and procedures that preclude trading on the basis of, or taking any other action to take advantage of, material non-public information. These procedures may limit Western Asset Tokyo from being able to purchase or sell securities of the issuer to whom the material, non-public information pertains, rendering illiquid any such security already in a client's account until such time as the ban on trading is lifted.

Western Asset Tokyo may make information about a client's portfolio positions available to unrelated third parties. These third parties may use that information to provide additional market analysis and research to Western Asset Tokyo. Western Asset Tokyo may use that market analysis and research to provide investment advice to clients other than the client whose portfolio positions were used for the analysis.

Additionally, Western Asset Tokyo may purchase access to information such as subscriptions to periodicals, participation in conferences, research papers, and access to surveys and quarterly performance data from organizations affiliated with professional consultant firms. Western Asset Tokyo does not make payments to these firms conditioned on favorable evaluations of Western Asset Tokyo and payments are not made to reward these firms for client referrals. Nonetheless, these firms may believe that they have a financial incentive to give favorable evaluations of Western Asset Tokyo to their clients and may therefore operate as if they are faced with a conflict of interest. Clients should inquire of their consultants as to whether Western Asset Tokyo purchases or receives any information from such consultant or any affiliate thereof.

To the extent Western Asset Tokyo causes its clients to invest in a Western Asset Tokyo-affiliated pooled vehicle, Western Asset Tokyo may become aware of information with respect to such pooled vehicle that is not available to other investors in the pooled vehicle. Western Asset Tokyo is not permitted to communicate or act upon such information in a way that disadvantages other investors in the pooled vehicle and, if such information is material, non-public information, Western Asset Tokyo may be unable to purchase or sell securities of the pooled vehicle to which the material, non-public information pertains.

Conflicts Related to Cross Trades

To the extent permitted by applicable law, Western Asset Tokyo's compliance policies and procedures, and a client's investment

guidelines, Western Asset Tokyo may engage in “cross trades” where, as investment manager to a client account, Western Asset Tokyo causes that client account to purchase a security directly from another client account without the interpositioning of a broker-dealer. This might be done in an effort to reduce transaction costs, increase execution efficiency, and capitalize on timing opportunities. Cross trades present a conflict of interest because Western Asset Tokyo represents the interests of both the selling account and the buying account in the same transaction. As a result, clients for whom Western Asset Tokyo executes cross trades bear the risk that one counterparty to the cross trade may be treated more favorably by us than the other party, particularly in cases where the first party pays Western Asset Tokyo higher management fees. Additionally, there is a risk that the price of a security bought or sold through a cross trade may not be as favorable as it might have been had the trade had been executed in the open market. See Item 12, “Brokerage Practices” for information on Western Asset Tokyo’s policies and procedures related to cross trades.

Conflicts Related to Valuation

In many cases, Western Asset Tokyo’s fees are based on the value and performance of the assets held in the client account. Western Asset Tokyo generally does not price securities or other assets for purposes of determining fees. However, to the extent permitted by applicable laws, Western Asset Tokyo, or an affiliate, may be charged with the responsibility to, or have a role in, determining asset values with respect to Western Asset Tokyo products or accounts from time to time and Western Asset Tokyo, or an affiliate, may be required to price a portfolio holding when a market price is not readily available or when Western Asset Tokyo has reason to believe that the market price is unreliable. To the extent Western Asset Tokyo’s fees are based on the value or performance of client accounts, Western Asset Tokyo would benefit by receiving a fee based on the impact, if any, of an increased value of assets in an account. When pricing a security, Western Asset Tokyo attempts, in good faith and in accordance with applicable laws, to determine the fair value of the security or other assets in question. Western Asset Tokyo generally relies on prices provided by a custodian, a broker-dealer or another third-party pricing service for valuation purposes. When market quotations are not readily available or are believed by Western Asset Tokyo to be unreliable, the security or other assets may be valued by Western Asset Tokyo or an affiliate in accordance with applicable valuation procedures.

Item 12. Brokerage Practices

Almost all fixed income instruments trade at a bid/ask spread and without an explicit brokerage charge. Accordingly, while there is not a formal trading expense or commission, clients will bear the implicit trading costs reflected in these spreads.

Western Asset Tokyo maintains a variety of policies and practices to address its approach for trading on behalf of clients. These policies are designed to ensure that Western Asset Tokyo is being thoughtful when executing transactions on behalf of clients and honoring its fiduciary obligation to seek best execution.

Western Asset Tokyo seeks to obtain best execution of its clients' trades through monitoring and effectively controlling the quality of trade decisions. The circumstantial and judgmental aspects involved in obtaining best execution with respect to a particular trade are not always quantifiable. Therefore, it is not feasible to define a single measurement basis for best execution on a trade-by-trade basis. Instead, Western Asset Tokyo focuses on establishing processes, disclosures, and documentation, which together form a systematic, repeatable, and demonstrable approach to seeking best execution.

In addition, when selecting a broker, individuals making trades on behalf of clients are obliged to consider the full range and quality of a broker's services, including execution capability, commission rate (including markups or markdowns), price, the value of research provided, financial responsibility and responsiveness. Western Asset Tokyo is not obligated to merely get the best price or lowest commission, but rather should determine whether the transaction represents the best qualitative execution for the account.

In selecting brokers for execution, Western Asset Tokyo seeks to ensure that brokers are selected on the merits and not because of other reasons. Western Asset Tokyo maintains an approved broker list which is designed to limit trading only to those brokers who demonstrate desk strength, knowledgeable sales coverage, quality research, capital commitment and financial stability. Trades may only be executed with those brokers on the list. Additional scrutiny and monitoring is conducted for those brokers with whom trades involving direct counterparty risk (i.e., risk beyond settlement risk) may be executed.

Western Asset Tokyo does not trade with any affiliated brokers and does not engage in principal trading. As described in Item 6, "Performance-Based Fees and Side-by-Side Management," Western Asset Tokyo maintains policies to address the risks associated with trading for accounts in which it has a significant ownership or financial interest. Western Asset Tokyo also does not make trading decisions on behalf of registered investment companies on the basis of the involvement of a broker in the distribution and sales activities for those funds. In fact, in most cases, Western Asset Tokyo's role is limited to acting as investment adviser and its staff has no knowledge of the distribution arrangements for sub-advised open-end funds. While Western Asset Tokyo maintains some referral arrangements from time to time, Western Asset Tokyo does not direct trade activity on the basis of whether it maintains referral arrangements with any broker-dealer.

Western Asset Tokyo's philosophy is not to make use of arrangements where brokerage business is promised in exchange for benefits of proprietary or third-party services (i.e., soft dollars or soft commissions). However, in the event that circumstances arise that suggest that entering into a soft dollar arrangement for the purchase of research services is prudent and in the best interests of its clients, Western Asset Tokyo maintains a policy and procedure to govern that process. If Western Asset Tokyo enters into a soft dollar arrangement, its policy is to only pay for services that directly assist in the investment decision-making process and benefit the best interest of its clients. In maintaining this standard, all arrangements and services must benefit all clients who would participate in soft dollar trades. Further, all proposed arrangements and/or services must be submitted to the Broker Review Committee for approval prior to their implementation. Such approved soft dollar arrangements could involve Western Asset Tokyo causing a client to pay, or being deemed to have paid, commission rates (including markups or

markdowns) that are higher than those Western Asset Tokyo could have otherwise obtained in order to obtain research or brokerage services. To the extent that client brokerage commissions (or markups or markdowns) are used to obtain research or other services, Western Asset Tokyo would receive a benefit because it may, in that case, not need to produce or pay for the research, products or services received.

Western Asset Tokyo may receive research or other services (both solicited and unsolicited) from brokers in the ordinary course of trading on behalf of clients. These items are not received pursuant to arrangements or agreements to exchange brokerage activity for services or benefits and are not considered to be obtained using soft dollars. Western Asset Tokyo is not obliged to direct brokerage in order to receive such information, however receipt of such research or services may be considered in its best execution decisions when executing trades. As a result, Western Asset Tokyo may have any incentive to select or recommend a broker based on its interest in receiving the research or other products or services that the broker provides to Western Asset Tokyo in the ordinary course of trading for clients, rather than our clients' interest in receiving the most favorable execution.

Western Asset Tokyo does not maintain directed brokerage arrangements on its own initiative and generally recommends against them in light of the unique features of the fixed-income market and the potential impact on its trading decisions. However, clients may request that Western Asset Tokyo direct the client's brokerage to a particular broker. A directed brokerage arrangement involves a client directive obligating Western Asset Tokyo to utilize a particular broker or brokers without regard to best execution. Directed brokerage arrangements do not encompass client preferences, goals or instructions that are subject to Western Asset Tokyo's obligation to obtain best execution. Western Asset Tokyo's ability to obtain best execution for the client may be hindered by the directed brokerage relationship and that the client may forego any benefit from savings on execution costs that Western Asset Tokyo could obtain for its other clients through negotiating for volume discounts with brokers.

Western Asset Tokyo may engage in internal cross trades where prudent, in compliance with SEC and Department of Labor rules, and where permitted by client contracts. Western Asset Tokyo does not engage in agency cross transactions (i.e., transactions in which Western Asset Tokyo earns a fee other than its advisory fee). Internal cross trades are subject to Rule 17a-7 under the Investment Company Act of 1940 for US mutual funds. Western Asset Tokyo does not permit internal cross trades involving one or more retirement accounts (e.g., subject to ERISA). In other cases, Western Asset Tokyo will ensure that any internal cross transactions are in the best interests and appropriate for both clients, the transactions should remain consistent with Western Asset Tokyo's obligations to seek best execution, and an independent or objective pricing mechanism is used.

As described in Item 6, "Performance-Based Fees and Side-by-Side Management," Western Asset Tokyo frequently bunches (aggregates) orders for client accounts. Please see that item for further information about Western Asset Tokyo's policy on trade aggregation and the allocation of investments.

Item 13. Review of Accounts

As a core investment matter, on a daily basis member's of every account's assigned portfolio management team are responsible for overseeing that account subject to the overall supervision of the account's portfolio manager. As part of this process, Western Asset Tokyo's Risk Management Department produces a series of standard reports that focus on a portfolio's structure and risk relative to its benchmark, as well as any updates to each portfolio's structure. These reports are reviewed by members of both the investment and risk management teams and used to seek to structure the account properly in accordance with Western Asset Tokyo's expectations.

Portfolios are formally reviewed on a regular basis. In this process, groups of similarly managed accounts in the same product are examined by the group of portfolio managers responsible for the portfolios being reviewed, several portfolio analysts, and local senior investment officers, including the CIO. The analysts provide a series of reports that list common portfolio and risk statistics, as well as individual portfolio performance. These reports serve as a basis for ensuring all the accounts in the grouping have remained line with current product strategy, the other accounts in the group, and their specific client goals.

Analytics and Risk Management Review

Western Asset Tokyo has a dedicated Analytics and Risk Management Department with a separate reporting structure from the Investment Management Department. The Analytics and Risk Management Department provides analysis and reports used by Western Asset Tokyo to monitor portfolios. The Department monitors portfolios in the ordinary course as follows:

- On a daily basis each portfolio's key characteristics, such as duration, spread duration, convexity and other analytics are computed for unusual changes or amounts. Portfolios may have daily reports using returns based value at risk analyses or daily portfolio based and returns based tracking error reports.
- On a biweekly basis the Risk Department undertakes a more intensive review of portfolios and strategies looking at portfolio risk versus articulated return generating themes to seek to address any misalignments of risk and reward themes and at a comparison of portfolio risk versus client risk tolerances.
- On a monthly basis a representative account of each strategy run by Western Asset Tokyo is analyzed in depth to produce a risk 'dashboard' indicating key risks. This dashboard is provided to the Market and Credit Risk Committee for review Please see discussion of Risk Management under Item 8, "Methods of Analysis, Investment Strategies and Risk of Loss" for further information about the Market and Credit Risk Committee,

Portfolio Compliance Review

Western Asset Tokyo maintains a Portfolio Compliance group as part of its Legal and Compliance Department that plays an important role in the mitigation of risk by providing daily monitoring of portfolio trading activity. The function is independent of portfolio management and marketing, reporting to the Head of Risk Management and Operations. All client portfolios are monitored every day through both post trade and pre trade procedures. Upon an account's inception the guidelines are programmed into Western Asset Tokyo's automated monitoring system (except for a limited number of guidelines which must be monitored by compliance officers manually.) Western Asset Tokyo maintains portfolio compliance officers and systems directly on the trading desk to provide pre-trade checks for investments. Not all guidelines and tests are currently able to be monitored on a pre-trade basis. In addition a compliance officer is assigned to each account. Each morning, compliance officers receive exception reports that cover variables specified by client guidelines. Compliance officers research the exceptions and if they

appear to represent violations, alert the portfolio teams to bring the accounts back into compliance.

Reports to Clients

The portfolio managers and members of the US Broad Market Committee, described above, regularly report to the boards of directors of the registered investment companies that are advised or sub-advised by Western Asset Tokyo concerning the investment performance of such accounts. These reports are typically a combination of oral and written reports. Client relationship managers and members of the investment teams for the private funds and separately managed accounts managed by Western Asset Tokyo provide written or oral reports to clients at various frequencies, including daily, monthly, quarterly and annually. Reports may include some or all of the following, in addition to other information: performance information, information regarding portfolio holdings and characteristics of the portfolio (*e.g.*, average effective duration of the portfolio), market value and transaction information, a summary of the investment mandate, a summary of the relevant market conditions that has affected the performance of the investment portfolio and may affect performance in the future, commentary on relevant markets and/or commentary on the investment strategy. The frequency and content of such reports may be determined based on client preferences and/or regulatory requirements. Other reports also may be generated in response to client requests.

Item 14. Client Referrals and Other Compensation

Under certain circumstances, Western Asset Tokyo may pay individuals or corporations for referring new clients. Rule 206(4)-3 under the Investment Advisers Act of 1940 (the "Advisers Act") imposes the following restrictions, among others, on the payment of cash referral fees:

- No fee may be paid to a person who has been the subject of certain disciplinary actions as set forth in Rule 206(4)-3.
- There must be a written contract between Western Asset Tokyo and the referring party before any prospective client can be solicited.
- The referring party must provide each prospective client with a copy of Western Asset Tokyo's Brochure and a copy of a special disclosure statement.
- Western Asset Tokyo must receive from the referred client prior to or at the time of entering into any advisory contract, a signed and dated acknowledgment of the client's receipt of the Brochure and the special disclosure document, unless the referring party is affiliated with Western Asset Tokyo.

Western Asset Tokyo must make a *bona fide* effort to ascertain whether the referring party has complied with the written contract, and have a reasonable basis for believing that the referring party has so complied.

To the extent that Western Asset Tokyo maintains referral arrangements, compensation is generally based on a percentage of assets or revenues for a period of time.

For the avoidance of doubt, parties such as affiliates of Western Asset Tokyo or employees of Western Asset Tokyo may introduce prospective clients to Western Asset Tokyo without being subject to a referral arrangement. Such introductions are not generally subject to compensation arrangements for the payment of referral fees. Western Asset Tokyo employees may be compensated as part of their duties, but an employee carrying out their job functions is not considered to be acting pursuant to a referral agreement and no disclosure statement or written referral agreement is required. Regardless, a Western Asset Tokyo employee must disclose their affiliation with Western Asset Tokyo when communicating with a prospect or potential client. If a party affiliated with Western Asset Tokyo makes an introduction, Western Asset Tokyo's preference is that they disclose their affiliation but there is no referral agreement or other enforcement mechanism to ensure such disclosure. If that affiliated party makes introductions and receives cash compensation from Western Asset Tokyo for referrals, the arrangement must be memorialized in writing and the affiliated party must disclose their affiliation with Western Asset Tokyo to prospective clients. However, in such cases, compliance is not required with the brochure disclosure, acknowledgement and affirmation provisions of Rule 206(4)-3 and as described above.

Western Asset Tokyo does not receive economic benefits from someone who is not a client for providing investment advice or other advisory services to its clients.

Item 15. Custody

Western Asset Tokyo does not intend to maintain physical custody of client assets. However, under the provisions of Rule 206(4)-2 under the Advisers Act, Western Asset Tokyo may be deemed to have custody of a client's assets because it either: i) has the ability to deduct the client's fees directly from a custodian account (pursuant to client authorization) or ii) Western Asset Tokyo or its affiliates acts as adviser and Managing Member for a client that is a pooled investment vehicle.

Physical custody of each client's assets is maintained with a qualified third-party custodian in an account either in the client's name or, in the case of a private fund, the name of the legal entity. Even in the case of Western Asset Tokyo's sponsored pooled private funds, an unaffiliated third party qualified custodian maintains custody of the funds' assets. "Qualified custodians" are defined under Rule 206(4)-2 generally include banks and savings associations, registered broker-dealers, registered futures commission merchants and foreign financial institutions that customarily hold financial assets. Qualified custodians may charge fees that are separate from Western Asset Tokyo's fees.

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

Item 16. Investment Discretion

Western Asset Tokyo accepts discretionary authority to manage securities accounts on behalf of its clients and substantially all of the accounts Western Asset Tokyo manages are discretionary.

As part of the client intake process Western will review and negotiate an investment management agreement with the client. Typically included or attached to the agreement is a set of investment guidelines governing the management of the account. These are reviewed and discussed with the client upon inception and if Western Asset Tokyo or the client desires to amend them. Western Asset Tokyo will not normally commence management of the account without a signed and agreed investment management agreement and guidelines.

Clients will typically seek to limit the account to an agreed set of permitted types of instruments and include requirements for diversification of issuers and sectors, maximum or minimum allocations to asset classes, ratings classifications, currency denomination and other similar characteristics highly dependent on the nature of the account. Western Asset Tokyo seeks to accommodate these requests subject to concerns about maintaining the account's ability to meet its objective and Western Asset Tokyo's ability to program the limitations into its compliance systems.

Item 17. Voting Client Securities

As a fixed income manager, Western Asset Tokyo does not normally receive proxies to vote common stock. However, it has adopted a policy to address the few instances where voting is required.

Proxy Policy and Process

Western Asset Tokyo's proxy voting procedures are designed and implemented in a way that is reasonably expected to ensure that proxy matters are handled in the best interest of our clients. While the guidelines included in the procedures are intended to provide a benchmark for voting standards, each vote is ultimately cast on a case-by-case basis, taking into consideration Western Asset Tokyo's contractual obligations to our clients and all other relevant facts and circumstances at the time of the vote (such that these guidelines may be overridden to the extent Western Asset Tokyo deems appropriate). A summary of the voting procedures is included below. A full copy of the policy and procedures is available upon request. You may also request information detailing how proxies were voted with respect to securities held in your portfolio(s).

Proxy Voting Procedures Summary

Once proxy materials are received they are processed in the following manner:

- a. Proxies are reviewed to determine accounts impacted.
- b. Impacted accounts are checked to confirm Western Asset Tokyo voting authority.
- c. A review is undertaken to identify any material conflicts of interest.
- d. If a material conflict of interest exists, (i) to the extent reasonably practicable and permitted by applicable law, the client is promptly notified, the conflict is disclosed and Western Asset Tokyo obtains the client's proxy voting instructions, and (ii) to the extent that it is not reasonably practicable or permitted by applicable law to notify the client and obtain such instructions (e.g., the client is a mutual fund or other commingled vehicle or is an ERISA plan client), Western Asset Tokyo seeks voting instructions from an independent third party.
- e. Research analysts or portfolio managers determine votes on a case-by-case basis taking into account the voting guidelines contained in Western Asset Tokyo's procedures. Depending on the best interest of each individual client holding the applicable security that is to be voted, Western Asset Tokyo may vote the same proxy differently for different clients. The analyst's or portfolio manager's basis for their decision is documented.
- f. Proxies are voted in accordance with the determination received from steps (d) or (e).

Item 18. Financial Information

Not applicable.

Additional Information

Western Asset Tokyo believes the following information may be of interest and/or important for you to know about certain of its policies and practices.

Error Correction Policy

Western Asset Tokyo's general policy, except where contractual arrangements or regulatory requirements provide otherwise, is (i) to make a client account whole for any net loss associated with a breach or an error or (ii) to retain in a client's account, a net gain resulting from an error.

Western Asset Tokyo categorizes breaches and errors as follows:

1. Breaches of investment guidelines and/or investment restrictions resulting from any transaction or other factor whereby a transaction and/or portfolio is not consistent with:
 - a. Regulatory requirements/restrictions (examples include, but are not limited to, legally improper or prohibited purchases/sales of securities; improper transactions with affiliates; legally improper or prohibited cash/currency transactions).
 - b. Client mandates (includes prospectus for a fund).
2. Operational Errors:
 - a. Trading errors include, but are not limited to, execution of incorrect security transaction (other than as described above for breaches of guidelines, restrictions or regulations).
 - b. Settlement errors.

Once Western Asset Tokyo has confirmed that a breach or error has occurred in a client portfolio, it is Western Asset Tokyo's policy that the error will be corrected promptly or, in the case of guideline breaches, the client will be promptly contacted to obtain a waiver. If the waiver is declined, the error will be promptly corrected. If the breach, after correction, results in a gain to the client, that gain is retained in the client portfolio. If the client suffers a loss as a result of the breach, Western Asset Tokyo will reimburse the account. The calculation of the amount of any loss will depend on the facts and circumstances of any breach or error and the exact methodology may vary. For example, in certain circumstances, when evaluating the potential adverse impact of a breach, relative analysis may be considered to compare the returns of an ineligible investment to other comparable eligible securities, benchmarks, indices or other indicators. The basis of calculation of a loss will be shared with the client for discussion. In the event of a loss, Western Asset Tokyo will review the calculation with (or make the calculation available to) the affected client. The client will be asked which method of reimbursement they prefer. The client may choose to receive compensation by check, wire or may receive a reduction in fees. *De minimis* losses of amounts under ¥5 typically are not reimbursed.

If Western Asset Tokyo is aware of errors in client accounts that are not its responsibility, Western Asset Tokyo will facilitate communications with third parties in order to arrange appropriate resolution of the error.

Western Asset Tokyo will notify clients of breaches or errors only if they have adversely affected their accounts (measured by the total return gain or loss resulting from the breach or error) unless otherwise requested to do so by the client. In cases of breaches involving a derivative, the question of whether the account has been damaged will normally include an analysis of whether the account could have achieved similar investment exposure through other derivatives or the cash markets. If the underlying exposure was permitted, Western Asset Tokyo will normally take the view that the portfolio was not harmed.

Class Action Suit Filings

Unless specifically agreed otherwise, Western Asset Tokyo will not take action or render advice involving legal action on behalf of a client with respect to securities or other investments held in the client's account or issuer's thereof, which become the subject of legal notices or proceedings, including securities class actions and bankruptcies.

Dual Employment by Affiliates

From time to time employees of Western Asset Tokyo, including portfolio management employees, may also be employed by entities affiliated with Western Asset Tokyo, for certain designated purposes and subject to certain conditions designed to ensure compliance with applicable regulatory requirements. In such cases, the affiliated entity shall be responsible for the supervision of the activities of any such appointed employee with respect to the services they provide on behalf of the affiliated entity.

Appendix A—Investment Strategies

Absolute Return

Description: Western Asset's Absolute Return strategy employs actively managed, diversified fixed-income portfolios. Portfolio construction is based on Western's fundamental view of the fixed-income markets and is independent of broad market benchmarks.

Objective: Maximize return consistent with the current market environment and outperform the broad market over the course of a market cycle.

Approach: Construct a portfolio in which the manager intends to actively manage sector, duration and term structure exposure. The manager will be opportunistic and will make tactical changes based on our fundamental assessment of current market conditions.

Asia External Debt

Description: Western Asset's Asia External Debt Bond composite includes portfolios that employ an active, team-managed investment approach around a long-term, value-oriented investment philosophy. These portfolios use diversified strategies in all sectors of the Asian external bond market in seeking to add value while minimizing risk.

Objective: Exceed the benchmark by 100 to 150 basis points annually over the course of a market cycle while approximating benchmark risk.

Approach: Construct a diversified portfolio of Asian sovereign, quasi-sovereign and corporate issuers denominated in US Dollars. The strategy seeks to add value through sector allocation, country allocation / duration, sub-sector and issue selection, yield curve positioning and currency. The strategy seeks to control portfolio risk through broad diversification across strategies, active risk budgeting and scenario analysis.

Asia Local Currency

Description: Western Asset's Asia Local Currency composite includes portfolios that employ an active, team-managed investment approach around a long-term, value-oriented investment philosophy. These portfolios use diversified strategies and all sectors of the Asian fixed-income market in seeking to add value while minimizing risk.

Objective: Exceed the benchmark return by 100 to 150 basis points annually over the course of a market cycle while approximating benchmark risk.

Approach: Construct a diversified portfolio of Asian government bonds in their local currencies with a controlled exposure to non-government issuers. The strategy seeks to add value through country allocation/duration, currency, duration, yield curve positioning, sector allocation and sub-sector and issue selection. The strategy seeks to control portfolio risk through broad diversification across strategies, active risk budgeting and scenario analysis.

Emerging Markets

Description: Western Asset's Emerging Markets strategy employs an actively managed approach that is risk controlled and assimilates Western Asset's top-down global economic views with analysts' fundamental and relative value views regarding emerging market country and sector opportunities in an effort to build and maintain a portfolio that generates superior risk-adjusted returns.

Objective: Exceed the benchmark return by 150 basis points annually over the course of a market cycle while approximating benchmark risk.

Approach: Construct and maintain a diversified portfolio of government and corporate issuers in emerging market countries. The strategy seeks to add value through sector rotation, issuer/issue selection and country rotation. Western uses various tools, both external and proprietary, to help identify, measure and manage portfolio risk.

Emerging Markets Local Currency

Description: Western Asset's Emerging Markets Local Currency strategy employs an actively managed approach that is risk controlled and assimilates Western Asset's top-down global economic views with analysts' fundamental and relative value views regarding emerging market country and local currency opportunities in an effort to build and maintain a portfolio that generates superior risk-adjusted returns.

Objective: Exceed the benchmark return by 150 basis points annually over the course of a market cycle while approximating 300 basis points tracking error.

Approach: Construct and maintain a diversified portfolio of local currency issuers in emerging market countries. The strategy seeks to add value through country selection, issuer/issue selection and currencies. Western uses various tools, both external and proprietary, to help identify, measure and manage portfolio risk.

Emerging Markets Corporate Aggregate

Description: Western Asset's Emerging Markets Corporate Aggregate composite includes portfolios that employ an actively managed approach that is risk controlled and assimilates Western Asset's top-down global economic views with analysts' fundamental and relative value views regarding emerging market country and corporate credit opportunities in an effort to build and maintain a portfolio that generates superior risk-adjusted returns.

Objective: Exceed the benchmark return by 150 basis points annually over the course of a market cycle while approximating 300 basis points tracking error.

Approach: Construct and maintain a diversified portfolio of corporate and quasi-sovereign issuers in emerging market countries. The strategy seeks to add value through corporate subsector relative weightings, and issuer/issue selection. Western uses various tools, both external and proprietary, to help identify, measure and manage portfolio risk.

Global Alpha Opportunities

Description: Western Asset's Global Alpha 1 strategy focuses on relative value and arbitrage opportunities using diversified strategies and liquid securities, independent of broad market benchmarks.

Objective: Maximize absolute return and significantly outperform 3-month LIBOR (3mL) over the long term, targeting annualized returns of 3mL + 7% with expected annualized returns volatility of 5-7%, resulting in a target information ratio of 1.0-1.5. The product can be customized to an investor's excess return objectives and risk tolerance by allowing for higher risk leverage.

Approach: Utilize both qualitative and quantitative approaches in order to perform top-down and bottom-up analyses and construct a diversified portfolio of independent alpha sources using strategies in global rates, credit, volatility, currency and commodity markets. Proprietary relative value models combined with professional insights and experience of the portfolio management team are used to determine the relative value positions that seek to provide optimal risk/return characteristics. Strict investment discipline will be applied at all times and will include appropriate sizing of trades based on risk budgeting and on monitoring the performance of individual trades with adherence to take-profit and stop-loss limits. Primarily invest in derivative securities, allowing for a customizable risk/return profile. Expect to predominantly hold securities with high liquidity and pricing transparency.

Global Core Full Discretion (USD Unhedged)

Description: Western Asset's Global Core Full Discretion (USD Hedged) strategy employs an active, team-managed investment approach around a long-term, value-oriented investment philosophy. These portfolios use diversified strategies and all sectors of the fixed-income market in seeking to add value while minimizing risk.

Objective: Exceed the benchmark return by 150 basis points annually over the course of a market cycle while approximating benchmark risk.

Approach: Construct a portfolio using global fixed-income markets and currencies with a bias towards non-sovereign

securities, especially corporate and mortgage-backed securities. The strategy seeks to add value through bloc and currency allocation as well as sector concentration and issue selection. The strategy seeks to control portfolio risk through broad diversification across markets/sectors, duration control and active hedging of currency exposure.

Global Core Full Discretion (Ex Japan, JPY Unhedged)

Description: Western Asset's Global Core Full Discretion (Ex Japan, JPY Unhedged) strategy employs an active, team-managed investment approach around a long-term, value-oriented investment philosophy. These portfolios use diversified strategies and all sectors of the fixed-income market in seeking to add value while minimizing risk..

Objective: Exceed the benchmark return by 150 basis points annually over the course of a market cycle while approximating benchmark risk.

Approach: Construct a portfolio using global fixed-income markets and currencies with a bias towards non-sovereign securities, especially corporate and mortgage-backed securities. The strategy seeks to add value through bloc and currency allocation as well as sector concentration and issue selection. The strategy seeks to control portfolio risk through broad diversification across markets/sectors, duration control and active hedging of currency exposure.

Global Credit

Description: Western Asset Global Credit strategy employs an actively managed investment approach which utilizes the expertise of a large and experienced team of credit analysts, risk analysts and portfolio managers. Western Asset believes that the ability to integrate superior fundamental credit research with relative value analysis will drive performance in credit portfolios.

Objective: Seeks to take advantage of the historically wide spreads currently available globally in the credit sector of the fixed income markets.

Approach: Construct and maintain an unleveraged, diversified portfolio of investment grade corporate bonds based on the fundamental and relative value views of the Western Asset Global Credit team. The strategy seeks to add value through issuer and issue selection and sector and industry rotation.

Global Inflation Linked (USD Unhedged)

Description: Western Asset's Global Inflation-Linked (USD Unhedged) strategy employs an active, team-managed investment approach around a long-term, value-oriented investment philosophy. These portfolios use diversified strategies in seeking to add value while minimizing risk.

Objective: Maximize real return annually over the course of a market cycle while emphasizing real capital preservation.

Approach: Construct a portfolio primarily of inflation-indexed securities. The strategy seeks to add value through country selection, term structure, issue selection, duration management and currency management.

Global Multi-Sector (USD Unhedged)

Description: Western Asset's Global Multi-Sector (USD Unhedged) strategy employs an active, team-managed investment approach around a long-term, value-oriented investment philosophy. These portfolios use diversified strategies and all sectors of the fixed-income market in seeking to add value while minimizing risk.

Objective: Exceed the benchmark return by 200 basis points annually over the course of a market cycle. Provide income and capital appreciation.

Approach: Construct a strategic multi-sector high yield portfolio by investing in global fixed-income markets and currencies. Primarily, these are mortgage- and asset-backed securities, high-yield corporate securities, investment-grade corporate and securities and emerging market securities. The strategy seeks to add value through active sector selection and by security selection. The strategy seeks to control portfolio risk through broad diversification across markets and sector.

Global Kokusai^o (Ex Japan, JPY Unhedged))

Description: Western Asset's Global Kokusai^o strategy employs proprietary models and a rigorous quantitative investment discipline combined with the professional insights and experience of portfolio managers. These portfolios focus on global relative value and independence of diversified strategies, including currency allocations, country allocations, duration positioning, and yield curve positioning.

Objective: Excess return objectives are customizable based on investors risk tolerance. Investors can target excess return ranging from 100 to 400 basis points annually over the course of a market cycle, with corresponding 100 to 400 basis points tracking error targets.

Approach: Utilize a model-driven investment discipline and construct a diversified portfolio of independent alpha engines using all major global markets. The strategy seeks to add value through country and currency allocation, as well as duration and yield curve positioning. Rigorous analyses are performed using proprietary quantitative models combined with professional insights and experience of the portfolio management team to determine the relative value positions that seek to provide optimal risk/return characteristics. Risk/return is customizable without the use of financial leverage.

Japan Core

Description: Western Asset's Japan Core strategy includes portfolios that employ an active, team-managed investment approach around a long-term, value-oriented philosophy. These portfolios use diversified strategies and all investment-grade sectors of the fixed-income market in seeking to add value while minimizing risk.

Objective: Exceed the benchmark return by 50 to 75 basis points annually over the course of a market cycle while approximating benchmark risk.

Approach: Construct a portfolio using all major fixed-income sectors with a bias towards non-government, especially corporate, mortgage-backed and asset-backed securities. This strategy allows for international securities, and derivative positions based on the relative valuation of foreign interest rates and currencies. This portfolio seeks to add value through sector rotation, yield curve positioning, issue selection and duration management.

Japan Core Full Discretion

Description: Western Asset's Japan Core Full Discretion composite includes portfolios that employ an active, team-managed investment approach around a long-term, value-oriented philosophy. These portfolios use diversified strategies and all sectors of the fixed-income market in seeking to add value while minimizing risk..

Objective: Exceed the benchmark return by 100 to 125 basis points annually over the course of a market cycle while approximating benchmark risk.

Approach: Construct a portfolio using all major fixed-income sectors with a bias towards non-government. This strategy allows for opportunistic investments in high-yield, emerging market and international securities, and derivative positions based on the relative valuation of foreign interest rates and currencies. This portfolio seeks to add value through sector rotation, yield curve positioning, issue selection and duration management.

Managed Currency^o

Description: Western Asset's Managed Currency^o strategy employs an active, team-managed investment approach using quantitative, disciplined and diversified currency strategies that seek to add value while minimizing risk.

Objective: Exceed a cash equivalent benchmark by at least 150 basis points annually over the course of a market cycle.

Approach: Construct a diversified portfolio of currencies by rigorously analyzing and monitoring factors generated by a proprietary model, and exploiting inefficiencies using a quantitative, disciplined approach

US Bank Loan

Description: Western Asset's US Bank Loan strategy employs an active, team-managed investment approach around a long-term, value-oriented investment philosophy. These portfolios use diversified strategies and non-investment-grade sectors of the fixed-income market in seeking to add value while minimizing risk.

Objective: Exceed the benchmark return by 50 to 75 basis points annually over the course of a market cycle while approximating benchmark risk.

Approach: Construct a diversified portfolio consisting of bank loans. The strategy seeks to add value through subsector rotation and issue/issuer selection. The strategy seeks to control risk through industry and issuer diversification.

US Core

Description: Western Asset's US Core strategy employs an active, team-managed investment approach around a long-term, value-oriented investment philosophy. These portfolios use diversified strategies and all investment-grade sectors of the fixed-income market in seeking to add value while minimizing risk.

Objective: Exceed the benchmark return by 75 basis points annually over the course of a market cycle while approximating benchmark risk.

Approach: Construct a portfolio using all major fixed-income sectors with a bias towards non-Treasuries, especially corporate, mortgage-backed and asset-backed securities. The strategy seeks to add value through sector rotation, issue selection, duration and term structure weighting.

US Core Full Discretion

Description: Western Asset's US Core Full Discretion strategy employs an active, team-managed investment approach around a long-term, value-oriented investment philosophy. These portfolios use diversified strategies and all sectors of the fixed-income market in seeking to add value while minimizing risk.

Objective: Exceed the benchmark return by 115 basis points annually over the course of a market cycle while approximating benchmark risk.

Approach: Construct a portfolio using all major fixed income sectors with a bias towards non-Treasuries. This strategy allows for opportunistic investments in high yield, emerging markets and non-dollar securities. The strategy seeks to add value through sector rotation, yield curve positioning, issue selection and duration management.

US Corporate

Description: Western Asset's US Corporate strategy employs an actively managed approach that is risk controlled and assimilates Western Asset's top-down macro-economic views with credit analysts' fundamental and relative value views regarding industry and issuer opportunities in an effort to build and maintain a portfolio that generates strong risk-adjusted returns.

Objective: Exceed the benchmark by 75 basis points annually over the course of a market cycle while approximating benchmark risk.

Approach: Construct and maintain a diversified portfolio of investment-grade bonds. The strategy seeks to add value through issue selection and sector rotation. Western uses various tools, both external and proprietary, to seek to identify, measure and manage portfolio risk.

US High Yield

Description: Western Asset's US High Yield strategy employs an actively managed approach that is risk controlled and assimilates Western Asset's top-down macro-economic views with credit analysts' fundamental and relative value views regarding industry and issuer opportunities in an effort to build and maintain a portfolio that generates superior risk-adjusted returns.

Objective: Exceed the benchmark return by 150 basis points annually over the course of a market cycle while approximating benchmark risk.

Approach: Construct and maintain a diversified portfolio of high-income securities. The strategy seeks to add value through issuer/issue selection and sector rotation. Western uses various tools, both external and proprietary, to seek to identify, measure and manage portfolio risk.

Appendix B—Investment Risks

Below is a brief summary of the material risks associated with the significant strategies and methods of analysis used by Western Asset Tokyo. Investing in securities and other financial instruments involves a risk of loss that clients should be prepared to bear. All investment strategies carry some degree of investment, market and political risk. The risks involved for different client accounts will vary based on each client's investment strategy and the type of securities or other investments held in the client's account. Clients should be aware that not all of the risks listed below will pertain to every account; certain risks may only apply to certain strategies. Not all risks are described below.

Interest Rate Risks

The market value of an account's investments will change in response to changes in interest rates. During periods of declining interest rates, the values of fixed income securities generally rise. Conversely, during periods of rising interest rates, the values of such securities generally decline. The magnitude of these fluctuations is generally greater for securities with longer maturities. Notwithstanding the foregoing, because of the resetting of interest rates, adjustable rate securities are less likely than non-adjustable rate securities of comparable quality and maturity to increase significantly in value when market interest rates fall or to decrease significantly in value when interest rates rise (in each case, depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). As a result of principal prepayment features, the values of asset-backed securities generally fall when interest rates rise, but their potential for capital appreciation in periods of falling interest rates is limited because of the prepayment feature. To the extent an account invests in fixed income securities paying no interest, such as zero coupon and principal only and interest only securities, the account will be exposed to additional interest rate risk. In addition, interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules.

Credit Risks

An account is also subject to credit risk (*i.e.*, the risk that an issuer of securities will be unable to pay principal and/or interest when due, or that the value of a security will suffer because investors believe the issuer is less able to pay). Financial strength and solvency of an issuer are the primary factors influencing credit risk. In addition, subordination, lack or inadequacy of collateral or credit enhancement for a debt instrument affects its credit risk.

In some cases, the credit risk may be broadly gauged by credit ratings. Changes by recognized rating services in their ratings of securities and changes in the ability of an issuer to make scheduled payments may also affect the value of these investments. However, ratings are only the opinions of the agencies issuing them and are not absolute guarantees as to quality of the rated securities. Additionally, Western Asset Tokyo may rely on its own independent analysis of the credit quality and risks associated with individual securities considered for an account, rather than relying on ratings agencies or third-party research. Therefore, Western Asset Tokyo's capabilities in analyzing credit quality and associated risks will be particularly important, and there can be no assurance that it will be successful in this regard.

Government securities are subject to varying degrees of credit risk depending upon how the securities are supported. Not all government securities are backed by the full faith and credit of a national government.

Market Risks

Even in the absence of a credit downgrade or default, the price of fixed income securities held by an account may decline significantly due to reduction in market demand. Market demand for fixed income securities is amplified by liquidity risks.

Management Risks

The investment strategies, techniques and risk analyses employed, while designed to enhance returns, may not produce the desired results. The assessment of a particular security or assessment of market, interest rate or other trends could be incorrect, which can result in losses.

Loans, Loan Participations and Loan Assignments Risks

Bank loans may not be readily marketable and may be subject to restrictions on resale. There can be no assurance that future levels of supply and demand in loan trading will provide an adequate degree of liquidity and no assurance that the market will not experience periods of significant illiquidity in the future.

Investments in loans through direct assignment of a lender's interests may involve additional risks to an account. For example, if a secured loan is foreclosed, the account could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral.

Participation interests in a portion of a debt obligation typically result in a contractual relationship only with the institution participating out the interest, not with the borrower. An account must rely on the seller of the participation interest not only for the enforcement of its rights against the borrower, but also for the receipt and processing of principal, interest, or other payments due under the loan. This may subject an account to greater delays, expenses, and risks than if it could enforce its rights directly against the borrower. In addition, an account generally will have no rights of set-off against the borrower, and may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. In addition, under the terms of a participation agreement, an account may be treated as a creditor of the seller of the participation interest (rather than of the borrower), thus exposing an account to the credit risk of the seller in addition to the credit risk of the borrower. Additional risks include inadequate perfection of a loan's security interest, the possible invalidation or compromise of an investment transaction as a fraudulent conveyance or preference under relevant creditors' rights laws, the validity and seniority of bank claims and guarantees, environmental liabilities that may arise with respect to collateral securing the obligations, and adverse consequences resulting from participating in such instruments through other institutions with lower credit quality.

A loan is often administered by a bank or other financial institution that acts as agent for all holders. The agent administers the terms of the loan, as specified in the loan agreement. Unless, under the terms of the loan or other indebtedness an account has direct recourse against the borrower, it may have to rely on the agent to enforce its rights against the borrower.

A number of judicial decisions in the United States and elsewhere have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories (collectively termed "lender liability"). Generally, lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in a creation of a fiduciary duty owed to the borrower or its other creditors or shareholders.

In addition, under common law principles that in some cases form the basis for lender liability claims, if a lending institution (i) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower to the detriment of other creditors of such borrower, a court may elect to subordinate the claim of the offending lending institution to the claims of the disadvantaged creditor or creditors, a remedy termed "equitable subordination."

Western Asset Tokyo may, with respect to its management of investments in certain loans for an account, seek to remain flexible to purchase and sell other securities in the borrower's capital structure, by remaining "public." In such cases, it will seek to avoid receiving material, non-public information about the borrowers to which an account may lend (through assignments,

participations or otherwise) which may place an account at an information disadvantage relative to other lenders. If its personnel do come into possession of material, non-public information about the issuers of loans that may be held by an account or other accounts managed by it, its ability to trade in other securities of the issuers of these loans will be limited pursuant to applicable securities laws.

Asset-Backed (Including Mortgage-Backed) Securities Risks

Payment of interest and repayment of principal on asset-backed securities largely depends on the cash flows generated by the underlying assets backing the securities. The amount of market risk associated with investments in asset-backed securities depends on many factors, including the deal structure (*i.e.*, determinations as to the required amount of underlying assets or other support needed to produce the cash flows necessary to service interest and principal payments), the quality of the underlying assets, the level of credit support, if any, provided for the securities, and the credit quality of the credit-support provider, if any. Asset-backed securities involve risk of loss of principal if obligors of the underlying obligations default and the defaulted amounts exceed the securities' credit support.

In addition, principal repayment could be materially slowed depending on the cash flows generated by the underlying assets and/or principal losses may materially reduce payments received by an investor. The obligations underlying asset-backed securities, in particular securities backed by pools of residential and commercial mortgages, also are subject to unscheduled prepayment. Consequently, early payment associated with mortgage-backed securities may cause these securities to experience significantly greater price and yield volatility than traditional fixed income securities. During periods of falling interest rates, the rate of mortgage loan prepayments usually increases, which tends to decrease the life of mortgage-backed securities. During periods of rising interest rates, the rate of mortgage loan prepayments usually decreases, which tends to increase the life of mortgage-backed securities.

The value of asset-backed securities also may be affected by other factors, such as the availability of information concerning the pool and its structure, the creditworthiness of the servicing agent for the pool and its ability to service the underlying collateral, the originator of the underlying assets, or the entities providing the credit enhancement. Additionally, the value of asset-backed securities is subject to risks associated with the servicers' performance. In addition, the insolvency of entities that generate receivables or that utilize the underlying assets may result in a decline in the value of the underlying assets as well as costs and delays.

An unexpectedly high rate of defaults on the mortgages held by a mortgage pool may limit substantially the pool's ability to make payments of principal or interest to an account as a holder of subordinated securities, reducing the values of those securities or in some cases rendering them worthless; the risk of such defaults is generally higher in the case of mortgage pools that include so-called 'subprime' mortgages. An unexpectedly high or low rate of prepayments on a pool's underlying mortgages may have a similar effect on subordinated securities. In addition, certain types of asset-backed securities may experience losses on the underlying assets as a result of certain rights provided to consumer debtors under federal and state law.

Risks of Collateralized Debt Obligations

Investing in CDOs may entail a variety of unique risks. Among other risks, CDOs may be subject to prepayment risk, credit risk, liquidity risk, market risk, structural risk, legal risk and interest rate risk (which may be exacerbated if the interest rate payable on a structured financing changes based on multiples of changes in interest rates or inversely to changes in interest rates). Additional risks include, without limitation: (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments; (ii) the possibility that the quality of the collateral may decline in value or default, due to factors such as the performance of a structure of the issuer thereof, the availability of any credit enhancement, the level and timing of payments and recoveries on, and the characteristics of, the underlying receivables, loans or other assets that are being

securitized, remoteness of those assets from the originator or transferor, the adequacy of and ability to realize upon any related collateral and the capability of the servicer of the securitized assets; (iii) market and liquidity risks affecting the price of a structured finance investment, if required to be sold, at the time of sale; and (iv) if the particular structured product in which an account is invested is invested in a security in which such account is also invested, this would tend to increase such account's overall exposure to the credit of the issuer of such securities.

In many securitizations and CDO and CLO transactions, there are asset and counterparty performance requirements that must be met to ensure income is paid to all investors, rather than being retained in a lock-up or cash reserve as additional credit or liquidity support for senior investors. If an account takes subordinated positions in such transactions, it could result in an elimination, deferral or reduction of the income received by the account.

The underlying collateral in a loan portfolio or securitization is not necessarily individually assessed prior to purchase. Losses may occur not only because of default, but an adverse change in interest rates, poor servicing by an account manager, prepayment occurring outside historical averages, adverse credit spread moves, basis risk movements and lower than assumed collateral recovery rates, among others. Such losses within the collateral may adversely impact the loan portfolio or securitization assets in which an account may invest.

Lower-Rated Securities Risks

Lower-rated securities reflect a greater possibility that adverse changes in the financial condition of the issuer or in general economic conditions (including, for example, a substantial period of declining earnings), or both, or an unanticipated rise in interest rates, may impair the ability of the issuer to make payments of interest and principal. Such lower-rated securities also may be in default. Many issuers of lower-rated securities are highly leveraged, and their relatively high debt-to-equity ratios create increased risks that their operations might not generate sufficient cash flow to service their debt obligations. In addition, many issuers may be (i) in poor financial condition, (ii) experiencing poor operating results, (iii) having substantial capital needs or negative net worth or (iv) facing special competitive or product obsolescence problems, and may include companies involved in bankruptcy or other reorganizations or liquidation proceedings. Certain of these securities may not be publicly traded, and therefore it may be difficult to obtain information as to the true condition of the issuers. Overall declines in the below investment-grade bond and other markets may adversely affect such issuers by inhibiting their ability to refinance their debt at maturity. The inability (or perceived inability) of issuers to make timely payments of interest and principal would likely make the values of securities held by an account more volatile and could limit its ability to sell its securities at prices approximating the values placed on such securities. Lower-rated securities are generally less liquid than higher-rated securities.

When an account invests in securities in the lower rating categories, the achievement of the account's goals is more dependent on Western Asset Tokyo's ability than would be the case if it were investing in securities in the higher rating categories.

Inflation Linked Securities Risks

The value of inflation-linked securities generally fluctuates in response to changes in real interest rates, which are in turn tied to the relationship between nominal interest rates and the rate of inflation. 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 the inflation-linked securities in an account's portfolio will decline. Moreover, because the principal amount of inflation linked securities would be adjusted downward during a period of deflation, an account will be subject to deflation risk with respect to its investments in these securities.

The periodic adjustment of U.S. inflation linked securities is currently tied to the Consumer Price Index for Urban Consumers ("CPI-U"), which is calculated monthly by the U.S. Bureau of Labor Statistics. The CPI-U is a measurement of changes in the cost of living, made up of components such as housing, food, transportation, and energy. Inflation linked securities issued by a

non-U.S. government are generally adjusted to reflect changes in a comparable inflation index calculated by that government. There can be no assurance that the CPI-U or any other inflation index will accurately measure the real rate of inflation in the prices of goods and services.

Risks of Derivative Instruments

A derivative is a financial contract the value of which depends upon, or is derived from, the value of underlying assets, reference rates or indices. Derivatives may relate to securities, interest rates, currencies or currency exchange rates, inflation rates, commodities and other indices or assets, and include futures contracts and related options, foreign currency contracts, swap contracts, options, forward contracts, repurchase or reverse repurchase agreements or other over-the-counter contracts. All derivative instruments involve risks different from, and potentially greater than, the risks associated with investing directly in securities and other more traditional assets, including:

- Management Risk. Derivative products are specialized instruments that require investment techniques and risk analyses different from those associated with stocks and bonds. The use of a derivative requires an understanding not only of the underlying instrument but also of the derivative itself. In particular, the use and complexity of derivatives require the maintenance of adequate controls to monitor the transactions entered into and the ability to assess the risk that a derivative adds to a portfolio.
- Counterparty Risk. This is the risk that a loss may be sustained as a result of the failure of the other party to a derivative (usually referred to as a "counterparty") to comply with the terms of the derivative contract.
- Documentation Risk. Many derivative instruments also have documentation risk. Because the contract for each over-the-counter derivative transaction is individually negotiated with a specific counterparty, there exists the risk that the parties may interpret contractual terms (*e.g.*, the definition of default) differently and thus may need to compromise their claims or seek a third-party determination, which could result in the counterparty's interpretation prevailing over the account's.
- Liquidity Risk. If a derivative transaction is particularly large or if the relevant market is illiquid (as is the case with many over-the-counter derivatives), it may not be possible to initiate a transaction or liquidate a position at an advantageous price. Less liquid derivatives may also fall more in price than other securities during market falls. During these periods of market disruptions, an account may have a greater need for cash to provide collateral for large swings in the mark-to-market obligations arising under the derivatives used by it.
- Leverage Risk. Because many derivatives have a leverage component (*i.e.*, a notional value in excess of the assets needed to establish and/or maintain the derivative position), adverse changes in the value or level of the underlying asset, rate or index can result in a loss substantially greater than the amount invested in the derivative itself. Certain derivatives have the potential for unlimited loss, regardless of the size of the initial investment.
- Other Risks. Other risks in using derivatives include the risk of mispricing or improper valuation of derivatives. Derivatives also involve the risk that changes in their value may not correlate perfectly with the assets, rates or indices they are designed to track. The risk may be more pronounced when outstanding notional amounts in the market exceed the amounts of the referenced assets. Derivatives are also subject to currency and other risks. Suitable derivatives are not available in all circumstances. In addition, Western Asset Tokyo may decide not to use derivatives to hedge or otherwise reduce an account's risk exposures. Counterparties to derivatives contracts may have the right to terminate such contracts if an account's net asset value declines below a certain level over

a specified period of time. The exercise of such a right by the counterparty could have a material adverse effect on an account.

Counterparty Risks

An account is exposed to counterparty risk to the extent it uses over-the-counter derivatives, enters into repurchase agreements, lends its portfolio securities, or allows an over-the-counter derivative counterparty to retain possession of collateral. If a counterparty fails to meet its contractual obligations, goes bankrupt, or otherwise experiences a business interruption, an account could miss investment opportunities or otherwise hold investments it would prefer to sell, resulting in losses.

There can be no assurance that a counterparty will be able or willing to make timely settlement payments or otherwise meet its obligations, especially during unusually adverse market conditions. An account may invest in derivatives and/or execute a significant portion of its securities transactions through a limited number of counterparties and events that affect the creditworthiness of any of those counterparties may have a pronounced effect on it.

Options Risks

The value of options written by an account will be affected by many factors, including changes in the value of underlying securities or indices, changes in the dividend rates of underlying securities (or in the case of indices, the securities comprising such indices), changes in interest rates, changes in the actual or perceived volatility of financial markets and underlying securities, and the remaining time to an option's expiration. The value of an option also may be adversely affected if the market for the option is reduced or becomes less liquid. If an account writes a call option and does not hold the underlying security or instrument, the amount of loss is theoretically unlimited.

There can be no assurance that a liquid market will exist when an account seeks to close out an option position. If an account were unable to close out an option that it had purchased on a security, it would have to exercise the option in order to realize any profit or the option may expire worthless.

Hedging Risk

Certain investment strategies may involve hedging certain risks, such as market risk and interest rate risk, through the use of various derivative instruments. However, it is generally not possible to eliminate all risk of adverse market movement. Suitable hedging transactions may not be available in all circumstances, and there can be no assurance that the account will engage in these transactions to reduce exposure to risks when that would be beneficial or that the hedging strategy if used will be successful.

Investment in Non-U.S. Securities Risks

Investment in securities of non-U.S. issuers presents certain special risks, including those resulting from future political, legal, and economic developments, which could include favorable or unfavorable changes in currency exchange rates, exchange control regulations (including currency blockage), expropriation, nationalization, or confiscatory taxation of assets, adverse changes in investment capital or exchange control regulations (which include suspension of the ability to transfer currency from a country), political changes, diplomatic developments, difficulty in obtaining and enforcing judgments against non-U.S. entities, the possible imposition of the applicable country's governmental laws or restrictions, and the reduced availability of public information concerning issuers. In the event of a nationalization, expropriation or other confiscation of assets, an account could lose its entire investment in a security. Legal remedies available to investors in certain jurisdictions may be more limited than those available to investors in the United States. Issuers of non-U.S. securities may not be subject to the same degree of regulation as U.S. issuers. Furthermore, non-U.S. issuers are not generally subject to uniform accounting, auditing and financial reporting standards or other regulatory practices and requirements comparable to those applicable to U.S. issuers. There is

generally less government supervision and regulation of non-U.S. exchanges, brokers and issuers than there is in the United States, and there is greater difficulty in taking appropriate legal action in non-U.S. courts. There are special tax considerations that apply to securities of non-U.S. issuers and securities principally traded overseas.

The costs associated with investment in debt securities of non-U.S. issuers, including withholding taxes, brokerage commissions and custodial fees, may be higher than those associated with investment in debt securities of U.S. issuers. Securities of many non-U.S. issuers may be less liquid and their prices more volatile than those of comparable U.S. issuers. In addition, non-U.S. securities transactions may be subject to difficulties associated with the settlement of such transactions. Non-U.S. markets have different clearance and settlement procedures which in some markets have at times failed to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures. Delays in settlement could result in temporary periods when assets of an account are uninvested and no return is earned thereon. The inability of an account to make intended security purchases due to settlement problems could cause it to miss attractive investment opportunities. Settlement failures could also adversely affect an account's performance. The inability to dispose of a security due to settlement problems could result in losses to an account due to subsequent declines in value of the security.

Investment in Emerging Market Issuers

An account may from time to time invest in emerging market issuers. The risks described above including the risks of nationalization or expropriation of assets, are typically increased to the extent that an account invests in emerging market issuers. Investments in emerging market issuers are speculative and subject to greater risks.

The securities, derivatives and currency markets of emerging market countries are generally smaller, less developed, less liquid and more volatile than the securities and currency markets of the United States and other developed markets. There also may be a lower level of monitoring and regulation of securities markets in emerging market countries, and the activities of investors in such markets and enforcement of existing regulations may be extremely limited.

The currencies of certain emerging market countries have experienced a steady devaluation relative to the dollar, and continued devaluations may adversely affect the value of the assets of any portfolio denominated in such currencies. Many emerging market countries have experienced substantial, and in some periods extremely high, rates of inflation for many years, and continued inflation may adversely affect the economies and securities markets of such countries.

Underlying Currency Risks

Currency risk is the risk that fluctuations in exchange rates may negatively affect the value of an account's investments. Currency risk includes the risk that currencies in which an account's investments are traded, in which the account receives income and/or in which the account has taken on an active investment position will decline in value relative to its base currency. In the case of hedging positions, currency risk includes the risk that the currency to which an account has obtained exposure declines in value relative to the currency being hedged.

Currency exchange rates may fluctuate significantly over short periods of time for a number of reasons, including changes in supply and demand in the currency exchange markets, actual or perceived changes in interest rates, and intervention (or the failure to intervene) by U.S. and non-U.S. governments or central banks or supra-national agencies such as the International Monetary Fund, and currency controls or other political and economic developments.

Officials in non-U.S. jurisdictions may from time to time take actions in respect of their currencies that could significantly affect the value of an account's assets denominated in those currencies or the liquidity of such investments. The currency markets of emerging market countries are generally more volatile than the currency markets of the United States and other developed countries (and at times may be extremely volatile).

In addition, certain emerging market currencies are traded using only non-deliverable forwards, which are settled in cash based on the price of such currencies, and there is a risk that the price used to calculate the amount payable in connection with the settlement of such a contract will not reflect the value of the underlying currency. Certain emerging market currencies are illiquid, and in certain cases, an account may not be able to convert certain currencies into U.S. dollars, in which case Western Asset Tokyo may decide to purchase dollars in a parallel market where the exchange rate could be materially and adversely different. The exchange rates for emerging market currencies may be particularly affected by exchange control regulations.

Sovereign Debt Risks

A governmental entity's willingness or ability to repay principal and interest when due may be affected by, among other factors, its cash flow situation, the extent of its reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the governmental entity's policy toward the International Monetary Fund, the political constraints to which a governmental entity may be subject, and changes in governments and political systems. At certain times, certain countries (particularly emerging market countries) have declared moratoria on the payment of principal and interest on external debt. Governmental entities may also depend on expected disbursements from other governments, multilateral agencies and others to reduce principal and interest arrearages on their debt. The commitment on the part of these governments, agencies and others to make such disbursements may be conditioned on a governmental entity's implementation of economic reforms and/or economic performance and the timely service of such debtor's obligations. Failure to implement such reforms, achieve such levels of economic performance or repay principal or interest when due may result in the cancellation of such third parties' commitments to lend funds to the governmental entity, which may further impair such debtor's ability or willingness to service its debts in a timely manner. Consequently, governmental entities may default on their sovereign debt. There is no bankruptcy proceeding by which sovereign debt on which governmental entities have defaulted may be collected in whole or in part.

Investments in Other Commingled Investment Vehicles

An account may invest in commingled investment vehicles, including commingled investment vehicles sponsored, advised or sub-advised by Western Asset Tokyo or its affiliates. Such investment vehicles may have limited liquidity and any investment by an account in such vehicles will have the risks inherent in the instruments in which such vehicles invest. It is possible that such investment vehicles may make in kind distributions or redemptions. An account may bear certain fees and expenses of a commingled investment vehicle.

Convertible Securities Risk

Convertible securities are typically issued by smaller capitalized companies whose stock prices may be volatile. The price of a convertible security often reflects variations in the price of the underlying common stock in a way that non-convertible debt does not. A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by an account is called for redemption, the portfolio will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third-party. Any of these actions could have an adverse effect on an account.

Equity and Preferred Securities Risks

Equity securities are generally volatile and more risky than some other forms of investment. Equity securities of companies with relatively small market capitalizations may be more volatile than the securities of larger, more established companies and than the broad equity market indices.

Certain preferred stocks contain provisions that allow an issuer under certain conditions to skip or defer distributions. Preferred stocks often are subject to legal provisions that allow for redemption in the event of certain tax or legal changes or at the issuer's

call. In the event of redemption, an account may not be able to reinvest the proceeds at comparable rates of return. Preferred stocks are subordinated to bonds and other debt securities in an issuer's capital structure in terms of priority for corporate income and liquidation payments, and therefore will be subject to greater credit risk than those debt securities. Preferred stocks may trade less frequently and in a more limited volume and may be subject to more abrupt or erratic price movements than many other securities, such as common stocks, corporate debt securities and U.S. government securities. The market prices of preferred shares are subject to changes in interest rates and are more sensitive to changes in the issuer's creditworthiness than are the prices of debt securities.

Liquidity Risks

An account may invest in assets and derivatives that it may not be able to readily sell or dispose of, including securities whose disposition is restricted by securities laws. The effect of liquidity risk is particularly pronounced when low trading volume, lack of a market maker, the size of the position being sold, or legal restrictions (including daily price fluctuation limits or "circuit breakers") limit or prevent an account's ability to initiate a transaction, sell assets or close derivative positions at desirable prices. (An account is also exposed to liquidity risk when it has an obligation to purchase particular securities (for example, as a result of entering into reverse repurchase agreements, writing a put, or closing out a short position).

Limitations on liquidity of an account's investments could prevent a successful sale thereof, result in delay of any sale, or reduce the amount of proceeds that might otherwise be realized. In addition, an account's holdings in securities for which the relevant market is or becomes less liquid are more susceptible to loss of value. Less liquid securities also may fall more in price than other securities during periods when markets decline generally. Also, because illiquid securities may be difficult to value, the values realized on their sale may differ from the values at which they are carried by an account.

Commodity Markets Risks

Substantial risks are involved in trading instruments based upon commodity price movements. The prices of such investments may be highly volatile and market movements are difficult to predict. Commodity prices are influenced by a wide range of factors. Actions of and changes in governments, and political and economic instability, in commodity-producing and -exporting countries may affect the production and marketing of commodities. In addition, commodity-related industries throughout the world are subject to greater political, environmental, and other governmental regulation than many other industries. Changes in government policies and the need for regulatory approvals may adversely affect the products and services of companies in the commodities industries.

Concentration of Investments Risks

To the extent an account concentrates its investments in one or more countries, the value of its assets will be especially affected by economic, political and other factors affecting such country or countries. During times when an account invests its assets in one issuer or a small number of issuers, the value of its assets will be subject to an increased risk of loss if an issuer in which it invests were unable to make interest or principal payments or if the market value of the issuer's securities were to decline.

Borrowing and Leverage Risks

If permitted by investment policies, an account may purchase securities on margin, may borrow money, may use derivatives (including reverse repurchase agreements), and may lend its securities, each of which may cause its portfolio to be leveraged. Leverage increases an account's losses when the value of its investments decline. An account could be subject to a "margin call," under which it would be required to either deposit additional funds with a broker or suffer mandatory liquidation of securities pledged to a broker if the securities pledged to a broker to secure its margin accounts decline in value.

Municipal Security Risk

Municipal securities are subject to interest rate and credit risks. There may be less information available on the financial condition of issuers of municipal securities than for public corporations. The market for municipal bonds may be less liquid than for taxable bonds. A portion of the income may be taxable. Some investors may be subject to Alternative Minimum Tax. Capital gains distributions, if any, are taxable.

Market Disruption and Geopolitical Risk

Geopolitical events may disrupt securities markets and adversely affect global economies and markets. Those events as well as other changes in foreign and domestic economic and political conditions could adversely affect the value of an account's investments.

Privacy Notice

The following notice is being provided on behalf of Western Asset Management Company Ltd:

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From time to time, we may collect a variety of personal nonpublic information about you, including:

- Information we receive from you on applications and forms, via the telephone, through our websites, correspondence, e-mail or other communications (including face-to-face meetings), such as your social security number, income, occupation and birth date;
- Information about your transactions with us, our affiliates, or others, such as your purchases, sales, or account balances; and
- Information we receive from consumer reporting agencies, such as your credit worthiness and credit history.

As a matter of policy, we do not disclose your nonpublic personal information, except as permitted by applicable law or regulation or as disclosed below. For example, we may share the information described above with others in order to process your transactions or service your accounts. We may also be obligated to disclose nonpublic personal information if required by the Securities and Exchange Commission or other federal or state regulatory agencies. We may also provide the information described above to companies that perform marketing or administrative services on our behalf, such as printing and mailing, or to other financial institutions with whom we have joint marketing agreements. We will require these companies to protect the confidentiality of this information and to use it only to perform the services for which we hired them. We do not supply your nonpublic personal information to third parties for their marketing purposes.

With respect to our internal security procedures, we maintain physical, electronic, and procedural safeguards that comply with federal standards to help protect your nonpublic personal information, and we restrict access to nonpublic, personal information about you to those employees who need to know that information to provide products or services to you.

If you decide at some point either to close your account(s) or become an inactive customer, we will continue to adhere to the privacy policies and practices discussed above with respect to your nonpublic personal information.