

Western Asset Management Company Distribuidora de Titulos e Valores Mobiliarios Limitada

Form ADV — Part 2

Brochure

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This brochure provides information about the qualifications and business practices of Western Asset Management Company Distribuidora de Titulos e Valores Mobiliarios Limitada. If you have any questions about the contents of this brochure, please contact us at 55.11.3478.5083. 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 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

There are no material changes to report.

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Item 4. Advisory Business

Although Western Asset Management Company Distribuidora de Títulos e Valores Mobiliários Limitada ("Western Asset Brazil") is registered as an investment adviser with the United States Securities and Exchange Commission ("SEC"), consistent with SEC staff pronouncements, it adheres to the requirements of the Investment Advisers Act of 1940 (the "Act") only with respect to its dealings with US clients; its relationships with non-US clients are not governed by the Act, and thus non-US clients do not get the benefit of the protections afforded by that Act. Unless otherwise noted herein, this Part 2 of Form ADV describes Western Asset Brazil's operations with its US clients and not its operations with its non-US clients.

In light of the asset classes and security types that will be purchased and sold for US clients, Western Asset Brazil expects to buy and sell at the same time for US and non-US clients and trade them together in block trades where possible.

If Western Asset Brazil undertakes investment of asset classes and security types that require separation of non-US from US clients for trading or presents potential conflicts of interest, Western Asset Brazil will adopt and disclose policies reasonably designed to address these potential conflicts. Market practice and applicable regulation vary between Brazilian and U.S. clients regarding cross trading among accounts. Accordingly, Western Asset Brazil has adopted policies to address these differences. See Item 12, "Brokerage Practices"

History

Western Asset Brazil is a supervised affiliate of Western Asset Management Company ("WAM"), one of the world's leading investment management firms, whose sole business is managing investment portfolios, primarily fixed-income, an activity the Firm has pursued for over 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, WAM was acquired by Legg Mason, Inc. ("Legg Mason"). Legg Mason is an NYSE-listed, independent asset management firm based in Baltimore, Maryland. However, Western Asset operates as an autonomous investment management company and the two Firms have a revenue-sharing agreement that allows Western Asset to retain control over a substantial percentage of its revenues.

Western Asset Supervised Affiliates

Western Asset Brazil is one of a number of WAM-supervised affiliated investment managers in non-US jurisdictions. 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 Limited	United Kingdom	1986
Western Asset Management Company PTE. LTD	Singapore	2000
Western Asset Management Company PTY LTD	Australia	2005
Western Asset Management Company DTVM Limitada	Brazil	2005
Western Asset Management Company LTD.	Japan	2005

The company that would become Western Asset Brazil commenced operations in November 1970 as part of Citibank's Brazilian corporate banking operation. In April 1998, the asset management operation became a formal division within the corporate banking operation. In December 2005, the division was acquired by Legg Mason in connection with its purchase of Citigroup Asset Management, and a portion of the division now operates as Western Asset Brazil, located in Sao Paulo.

Western Asset Brazil provides investment management services for separately managed accounts and mutual funds for both retail and institutional clients. Western Asset Brazil is accredited by the Brazilian Securities and Exchange Commission (Comissão de Valores Mobiliários or "CVM") to act as a manager of bonds and securities and is registered with the Central Bank of Brazil (Banco Central do Brasil or "BCB") as a broker dealer. Western Asset Brazil's people, processes and technology are closely integrated with other Western Asset affiliates located in the United States, United Kingdom, Australia, Singapore and Japan.

Products and Services

Western Asset Brazil provides fixed-income, equities and balanced investment management and advisory services for a wide variety of clients. For US-clients, equities strategies are not available. Western Asset Brazil's principal investment products available for US clients are as follows:

Primary Strategies Available to US Investors

Brazil Break-Even Inflation
 Brazil Corporate
 Brazil Duration Management IRF-M
 Brazil Global Currencies
 Brazil IMA
 Brazil IMA Ex-C
 Brazil Inflation Linked Active Management
 Brazil Inflation Linked Active Management IMA-B5
 Brazil Inflation Linked IMA-B
 Brazil Inflation Linked IMA-B5
 Brazil Inflation Linked IMA-B5+
 Brazil Limited Duration (Brl Unhedged)
 Brazil Multimarkets Without Equities – Conservative
 Brazil Multimarkets Without Equities – Moderate
 Brazil Nominal And Real Rate Active Management
 Brazil Nominal And Real Rate Low Volatility
 Brazil Overnight Linked CDI
 Brazil Overnight Linked Selic
 Brazil Structured Credit

Appendix A contains more details about the products.

Western Asset Brazil can tailor its advisory services and products to the needs and requirements of clients. Western Asset Brazil typically reviews and crafts investment objections and guidelines in detail with new clients as part of the start up process and with existing clients over time as their investment requirements change.

Western Asset Brazil managed \$9,318,419,619 in assets as of December 31, 2015, all of them discretionary.

Item 5. Fees and Compensation

Western Asset Brazil provides fixed-income, equities and balanced management services to a wide variety of clients. In accordance with a client's investment management agreement, generally, fees are calculated on a daily or monthly basis on the value of portfolio and billed daily, monthly or quarterly, in accordance with the agreement. Fees are not billed in advance. In the event of an account termination, fees will be prorated to the date of termination specified in the notice of termination. Although agreements are individually negotiated and may vary, either clients or Western Asset, generally, have the right to terminate the advisory agreement by giving the other party thirty (30) days written notice.

Fees generally are not negotiable, but may be under exceptional circumstances.

Western Asset Brazil 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 the Firm is authorized to employ a full array of investment techniques. In certain cases Western Asset Brazil 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's accounts that pay performance-based fees.

Western Asset Brazil typically acts solely as portfolio manager for an account and not as custodian or another service provider. For portfolios where clients are responsible for hiring the custodian, clients will pay separate fees for those services directly to the respective custodian. When Western Asset hires the custodian, the Firm is responsible itself for custody fee payments. In case of mutual funds, 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 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. Unlike its fixed-income counterparts, investments in equity and derivatives instruments typically bear a fixed brokerage fee. See Item 12, "Brokerage Practices" below for more information about Western Asset's brokerage practices.

Western Asset Brazil typically deducts fees from assets. Western Asset Brazil 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 Brazil nor its supervised persons accept compensation for the sale of securities or other investment products.

Current Fee Schedule

The Firm offers several different products with varying fees that could be lower than those depicted below. Investment management services fee schedules for separate accounts and mutual funds portfolios, Western Asset Brazil's primary business, are as follows:

Strategy	Fee
Brazil Overnight Linked CDI	115 bps
Brazil Overnight Linked SELIC	25 bps
Brazil Duration Management IRF-M	25 bps
Brazil Inflation Linked IMA-B	
Brazil Inflation Linked IMA-B5	
Brazil Inflation Linked IMA-B5+	
Brazil Break-Even Inflation	
Brazil Limited Duration (BRL Unhedged)	37.5 bps
Brazil IMA Ex-C	35 bps
Brazil IMA	55 bps
Brazil Inflation Linked Active Management IMA-B5	
Brazil Inflation Linked Active Management	
Brazil Corporate	
Brazil Nominal and Real Rate Low Volatility	60 bps
Brazil Nominal and Real Rate Active Management	120 bps
Brazil Multimarkets without equities - Conservative	75 bps + performance fee
Brazil Multimarkets without equities - Moderate	
Brazil Structured Credit	70 bps
Brazil Global Currencies	75 bps
NOTE: The strategies listed below are NOT available to US Investors	
Brazil BDR	150 bps
Brazil US Index	100 bps
Brazil USD Linked	100 bps
Brazil Equity IBrX	90 bps
Brazil Equity IBrX50	
Brazil Equity Dividend Yield	150 bps
Brazil Equity ISE	200 bps
Brazil Equity Ibovespa	
Brazil Equity Total Return	
Brazil Equity Long and Short	
Brazil Multimarkets All Asset classes - Aggressive	145 bps + performance fee
Brazil Multimarkets All Asset classes - Conservative	75 bps + performance fee
Brazil Multimarkets All Asset classes - Moderate	

These fees are the maximum rate charged for each strategy, but there are clients paying less than this value in some strategies according to its size, restrictions, limits, and similar considerations. There is no minimum size for any strategy.

The chart was developed based on rates of separate accounts and mutual funds. For commingled funds, fees disclosed in this chart refer to the amounts paid to Western Asset Brazil (they do not reflect fees paid to distributors, custodians, transfer agencies, etc.).

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

Western Asset Brazil maintains fee schedules for different strategies, some of which may involve performance fees or other customized fee arrangements. In addition, Western Asset Brazil 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 the Firm has an incentive to favour performance-based fee accounts in order to increase its revenues. Moreover, in situations where Western Asset Brazil is paid a performance fee, the Firm 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 Brazil has a proprietary interest. These conflicts could cause Western Asset Brazil 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 Brazil seeks to mitigate this conflict through a variety of means.

First, Western Asset Brazil 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 Brazil's management of proprietary accounts

Second, Western Asset Brazil maintains a variety of policies and practices that are designed to reduce the potential for favouritism. Western Asset Brazil maintains compliance policies and procedures that the Firm 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 Brazil frequently bunches (or aggregates) orders to minimize execution costs and optimize the implementation of investment strategies for clients. Investment allocations are done in a manner that Western Asset Brazil believes is fair and equitable, with the presumption that similarly situated clients should generally participate in similar investment opportunities and trades. The most common means of allocating investment opportunities is to allocate based on the proportionate size of each client's account, making adjustments to accommodate individual client factors such as: unique investment goals and guidelines, available cash, liquidity requirements, odd lot positions, minimum allocations, existing portfolio holdings compared to the target weightings and regulatory restrictions. Allocations are developed based on clients with common investment strategies rather than on the particular fee schedules for particular clients.

Third, Western Asset Brazil 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 the Firm'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 maintains a compliance monitoring program which has a component dedicated to reviewing allocations through a variety of means. For example, accounts where Western Asset 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 Brazil 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 Brazil also may work with separate account clients to manage portfolios

that have similar characteristics to “alternative investments” or “hedge funds.” Western Asset Brazil maintains additional monitoring for such accounts to ensure that the Firm’s trade allocation decisions are consistent with Western Asset’s fiduciary duties and are fair and equitable over time. Please see “Alternative Investments Policy” in the “Additional Information” section of this Form ADV for more information.

Item 7. Types of Clients

Western Asset Brazil's 67 employees perform investment services for a wide variety of clients. The Firm's clients include charitable, corporate, health care, insurance, mutual fund, public and union organizations, and client portfolios range across an equally wide variety of mandates, from money markets to emerging markets to balanced funds. Western Asset Brazil's client base totals 64 with 165 accounts and \$9,318,419,619 in assets under management as of December 31, 2015. As of that date Western Asset Brazil had no U.S. clients.

Brazil Client Base — December 31, 2015

Client Type	Client Count	Percentage of Clients (rounded)
Corporate	44	68%
Fund Distributor	9	19%
Insurance	7	10%
Financial Adviser	1	1%
Public	3	2%
GRAND TOTAL	64	100%

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

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

Western Asset Brazil offers a full range of fixed income, equity and balanced products although not all are offered to U.S. clients. 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 Asset Brazil's investment philosophy is included below.

There can be no assurance that Western Asset Brazil 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 Brazil's investment strategies is included in Appendix B "Material Investment Risks".

Investment Process

Investment Strategy & Process

The strategic goal at Western Asset Brazil 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 approximating benchmark risk. The Firm's investment philosophy combines traditional analysis with innovative technology applied to all sectors of the market. Western Asset Brazil 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, duration contributes the majority of value added by Western Asset Brazil, while historical analyses of core portfolio performance attribution indicate that sector allocation, issue selection and term structure decisions account for the remainder.

Sector & Subsector Allocation

For broader market accounts Western Asset Brazil seeks to successfully rotate among and within sectors of the bond market, generally preferring nongovernment 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's most senior global investment personnel, including senior members in its supervised affiliates' geographic locations, continually analyze 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 the Firm's projections to determine attractive alternatives.

The Firm's analysts continually augment this process by providing detailed analyses of specific sectors. Corporate analysis includes assiduous credit quality studies and historical yield spread analysis.

Issue Selection

Issue selection is a bottom-up process to determine mispriced or undervalued securities. 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 Brazil will seek to limit interest rate risk by restricting portfolio deviation to a percentage (typically 20% for broader market accounts) above or below benchmark duration (although this limit varies and may not apply to different investment processes). The Global Investment Strategy Committee 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 Committee weighs its views against market expectations, taking on more risk as its views diverge from the market and less risk as they converge. The consensus is not to attempt to time the market, but rather to identify and stay with long-term trends.

Term Structure

Western Asset Brazil 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 Committee 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 should usually not affect the strategic variables within the bloc, like sector allocation and term structure.

Currencies

In Multimarket funds, Western Asset Brazil's approach to currencies is to develop long-term strategies based on their risk-diversifying characteristics and notion of underlying value. Since currencies are usually more volatile than bonds, positions tend to be relatively small in order to avoid having the near-term return of the overall portfolio strategy be entirely dominated by currency positions. The global investment team formulates a currency strategy based on the same interpretation of economic trends that form the basis of bond strategies. Currency positions are monitored closely and adjusted tactically.

Portfolio Diversification

Western Asset Brazil's investment process provides aggressive diversification via several avenues. The Firm uses multiple

independent strategies to capture return and seeks to weight them so that no one strategy has a disproportionate impact. In addition, for broader market portfolios, Western Asset seeks to diversify by sector. Historical exposures have ranged between 10% and 50% for each of the major domestic sectors, such as governments/agencies and corporates. The Firm's portfolios are further diversified by issuer and issue. The exact nature of this process may vary by product. For example, issuer diversification typically increases as quality decreases.

Risk Management

Western Asset Brazil 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 Brazil 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 Brazil looks at its exposures to these items, 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 Brazil 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 Western Asset's Chief Risk Officer, the MCRC consists of senior members from Western Asset's portfolio management, risk management and client service teams. It meets formally, usually 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, when applicable. 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.

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.

There is, of course, no assurance that the risk management processes and procedures described herein will be effective. Further, the risk management process does not necessarily lead to a reduction in risk, but seeks to provide information for use in discussions about the proper alignment of portfolio risk-taking; returns-generating themes; and client risk tolerances. Finally, some of the metrics noted above may not apply to a portfolio not managed to a benchmark.

Item 9. Disciplinary Information

Western Asset Brazil has no disciplinary actions to report.

Western Asset Brazil's advisory affiliate, Western Asset Management Company, has the following disciplinary actions to report.

ERISA Action

Western Asset Management Company (US) was alleged to have breached certain provisions of the Investment Advisers Act and ERISA arising from the purchase by ERISA accounts of a security that was not an eligible investment for ERISA accounts and the subsequent handling of the matter. On January 27, 2014, the Securities and Exchange Commission issued an order instituting a public administrative proceeding, making findings and imposing sanctions. Without admitting or denying the SEC's findings, Western Asset consented to the entry of the order, was censured, agreed to undertake certain remedial measures, and agreed to pay a fine of \$1,000,000. On January 27, 2014, Western Asset also entered into a settlement with the US Department of Labor on the same matter and agreed to pay a fine of \$1,000,000. As part of the settlements Western Asset also made compensatory payments to impacted clients in the amount of \$10,000,000 in the aggregate.

Cross Trade Action

Western Asset Management Company (US) was alleged to have breached certain provisions of the Investment Advisers Act, Investment Company Act and ERISA in connection with certain trades that were alleged to be cross trades. On January 27, 2014, the Securities and Exchange Commission issued an order instituting a public administrative proceeding, making findings and imposing sanctions. Without admitting or denying the SEC's findings, Western Asset consented to the entry of the order, was censured, agreed to undertake certain remedial measures, and agreed to pay a fine of \$1,000,000. On January 27, 2014, Western Asset also entered into a settlement with the US Department of Labor on the same matter with respect to ERISA clients and agreed to pay a fine of \$607,717. As part of the settlements Western Asset also made compensatory payments to impacted clients in the amount of \$7,440,881 in the aggregate.

Item 10. Other Financial Industry Activities and Affiliations

Western Asset Brazil is authorized and regulated by the Brazilian Securities Commission ("CVM") to operate as an investment adviser and is registered with the Central Bank of Brazil as a security dealer ("DTVM") in order to distribute its funds directly to institutional clients. Western Asset Brazil is not registered as a US broker-dealer with FINRA.

Western Asset Brazil has several sister-company affiliates which are under common management and supervision. One of these entities can delegate portfolio management of an account to Western Asset Brazil. 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 Conduct Authority and registered with the Securities and Exchange Commission and has a representative office in Dubai regulated by the Dubai Financial Services Authority
- [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
- [Western Asset Management Company Ltd](#) (Tokyo) which 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) and is registered with the Securities and Exchange Commission

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

As previously noted, Western Asset Brazil's ultimate parent, Legg Mason, Inc., is also the parent of Legg Mason Investor Services, LLC ("LMIS"), a US-based broker-dealer registered under the Securities and Exchange Act of 1934. Western Asset Brazil 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 Brazil may serve as a 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 Brazil may also serve as 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's 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 Brazil is committed to acting in the best interests of the Firm's clients, in some situations there may be conflict of interest between the Firm'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 Brazil may have an incentive to resolve a matter in favor of clients that are affiliates of the Firm over clients that are not affiliates of the Firm. Western Asset Brazil has adopted policies and procedures that it believes are reasonably designed to mitigate these conflicts of interest.

The investment adviser affiliates of Western Asset Brazil 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 Western Asset Brazil. Those advisory affiliates may purchase on behalf of their clients the same securities that Western Asset Brazil may purchase for our clients. As a result, the interests of Western Asset Brazil'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 Brazil makes for its client(s), the market impact of the decision made by the Firm's advisory affiliate could result in one or more of Western Asset Brazil's clients receiving less favorable trading results than they otherwise would. Western Asset Brazil'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 Brazil.

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

Western Asset Brazil has an agreement in place with ClearBridge Investments LLC that provides investment advisory services. Western Asset Brazil uses the technical and research capabilities from ClearBridge to organize, manage and distribute vehicles with mandates designed to invest in US companies via its Brazilian Depositary Receipts issuances. These vehicles are available only to Brazilian domiciled investors. Western Asset Brazil provides the discretionary investment management services to such vehicles. ClearBridge is a fellow Legg Mason affiliate and there are no specific conflicts caused by this relationship. The standard conflicts are addressed as with any other trading activity of Western Asset Brazil, as described in this document.

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 the Firm's investment advisory activities.

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

Conflicts of Interest

All investment advisory firms owe a fiduciary duty to their clients. In its role as a fiduciary, Western Asset Brazil 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 Brazil's efforts to identify conflicts are ongoing. Western Asset Brazil 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 Brazil's business as an investment adviser.

Code of Ethics

While no policy or procedure will ever address every potential conflict of interest, there are common areas of potential conflict due to the inherent intersection of personal conduct and client or Firm interests such as gifts and entertainment, personal trading, personal investments with business contacts, political contributions, and outside business activities. Following are summaries of a number of policies adopted by Western Asset Brazil in an effort to address and mitigate these types of conflicts of interest.

Western Asset Brazil's employees and all persons associated with Western Asset Brazil are required to follow the Firm's Code of Ethics. Subject to satisfying the Code of Ethics and applicable laws, Western Asset Brazil employees and affiliates may trade for their own accounts in securities that are held in client accounts. The Code of Ethics emphasizes Western Asset Brazil'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 semi-annual holdings reports.
- Employees must pre-clear all trades with certain exclusions such as for money market instruments and government securities. Pre-clearance for equities is generally not required if the security is on Western Asset Brazil's Approved List.
- An employee is limited to 75 transactions (buys or sells) per quarter.
- Securities must be held during the applicable holding period with the following exemptions: investments in non-exclusive mutual funds (except the ones advised by Western Asset Brazil or its supervised affiliates, when requested), Bank Certificates of Deposit, pension-fund investments of any type, saving accounts or corporate benefits and events.
- Investment professionals may not participate in initial public offerings ("IPOs") from equities. IPOs for other types of investments 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 blackout period is

one day for other employees).

In order to monitor personal transactions, Western Asset Brazil receives copies of 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 the Firm's Chief Compliance Officer and the Firm's Operations 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 the Firm's Code of Ethics, Conflicts of Interest Policy, Gifts and Entertainment Policy and Personal Investments with Business Contacts Policy. A copy of the Firm'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 the firm (*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 Brazil nor any Western Asset Brazil employee may make any political contributions to influence a government entity, official or candidate to hire or retain Western Asset Brazil or a Legg Mason affiliate as investment adviser, invest or maintain an investment in any fund advised or sub-advised by Western Asset Brazil or a Legg Mason affiliate, or influence Western Asset Brazil's access to or allocation of securities issued by that government entity. In addition, neither Western Asset Brazil nor Western Asset Brazil's employees may make political contributions with the intent to accomplish something indirectly that would be otherwise prohibited directly.

Directors and Management Committee members and members of their families are required to obtain pre-clearance from the Legal and Compliance Department prior to making any 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. For all other staff, all political contributions in excess, annually, R\$ 500 (five hundred reais) must be reported to the Legal and Compliance department.

The requirement to forgo fees also applies to contributions made by any new hire being hired to a "covered associate" position or existing employee being transferred into a "covered associate" position during the two years prior to the date they become a "covered associate."

Serving as a Director

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

For service on the boards of private companies, prior written authorization of Western Asset Brazil's Chief Compliance Officer is required. The Firm 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 and the investment activities of the company would become subject to the Firm's Code of Ethics.

Gifts and Entertainment

Western Asset Brazil 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 Brazil such as clients, consultants, vendors or other business contacts (generally known as "business contacts"). To ensure that Western Asset Brazil's employees are not beholden to a business contact and that their judgment remains unimpaired in this regard, Western Asset Brazil employees may only accept appropriate and reasonable gifts and entertainment as further detailed in the Firm's gifts and entertainment policy.

In summary

- Employees may not keep gifts with a value in excess of R\$200 (two hundred Reais) 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 R\$200 (two hundred Reais) employees must contribute the excess to a Western Asset selected charity. Events with a value in excess of R\$600 (six hundred Reais) or 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 Brazil personnel must not be placed improperly before the interests of the Firm 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 Brazil employees are committed to be mindful of their personal activities and associations and the potential conflicts

of interest that arise for the Firm 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 General Counsel or Chief Compliance Officer.

Personal Investment with Business Contacts

To avoid conflicts or potential conflicts, any investment knowingly made by a Western Asset employee together with a Western Asset 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, (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, 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 the Firm'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 Brazil 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 Brazil may be appropriate for multiple clients. Decisions to buy and sell investments for each client advised by Western Asset Brazil are made with a view toward achieving such client's investment objectives; however Western Asset Brazil may face conflicts of interest in allocating investment opportunities among accounts because the Firm 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. This situation could arise, for example, if a private fund advised by the Firm is contractually promised access to a limited investment opportunity prior to such opportunity being offered to other clients. 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 Brazil 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 in its best judgment, but in its sole discretion, taking into account such factors as Western Asset 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 Brazil's various clients, to take or liquidate the same investment positions at the same time or at the same prices. Western Asset Brazil generally is not under any obligation to share any investment, idea or strategy with all of its clients.

Western Asset Brazil 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 the Firm 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 Brazil 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. The Firm 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, the Firm 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 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 senior 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 Brazil 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 the Firm 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 higher fees or performance-based fees or in which the Firm 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 Brazil or an affiliate may act as the investment adviser to pooled vehicles that Western Asset Brazil recommends to clients or, pursuant to the discretionary authority granted to Western Asset Brazil by a client, in which Western Asset Brazil causes a client to invest. This gives rise to conflicts of interest for Western Asset Brazil because Western Asset Brazil or its affiliates are paid an asset-based fee by 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 Brazil's fee. Western Asset Brazil will generally credit the amount of any advisory and shareholder service fees paid to Western Asset Brazil 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 Brazil pursuant to its investment advisory agreement. This credit will not necessarily eliminate the conflict and Western Asset Brazil may continue to have a financial incentive to favor causing clients to invest in Western Asset Brazil-affiliated pooled investment vehicles. In addition, Western Asset Brazil or its affiliates may act as the investment adviser to pooled investment vehicles that pay performance-based fees. The procedures Western Asset Brazil 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 Brazil, 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 Brazil 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 Brazil or one of its affiliates, employees or clients, directly or indirectly, has a financial interest. This may include circumstances where Western Asset Brazil or one of its affiliates or employees invests in a pooled investment vehicle that clients invest in or where Western Asset Brazil 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 Brazil or one of its affiliates, employees or clients may sell securities or other property at the same time that Western Asset Brazil 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

In connection with its activities, Western Asset Brazil may receive information that is not generally available to the public. Western Asset Brazil 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 Brazil's members or employees may come into possession of material, non-public information. Under applicable law, Western Asset Brazil is prohibited from improperly disclosing or using such information, including for the benefit of a client. Western Asset Brazil 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 Brazil 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 Brazil 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 Brazil. Western Asset Brazil 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 Brazil 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 Brazil does not make payments to these firms conditioned on favorable evaluations of Western Asset Brazil 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 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 Brazil purchases or receives any information from such consultant or any affiliate thereof.

To the extent Western Asset Brazil causes its clients to invest in a Western Asset Brazil-affiliated pooled vehicle, Western Asset Brazil may become aware of information with respect to such pooled vehicle that is not available to other investors in the pooled vehicle. Western Asset Brazil 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 Brazil 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

Western Asset Brazil will not engage in agency cross transactions (*i.e.*, transactions in which Western Asset Brazil earns a fee other than its advisory fee).

Brazilian and US law vary considerably in the treatment of cross transactions. Accordingly, there are no cross transactions permitted for US investors and Western Asset Brazil will not engage in cross transactions for Brazilian investors unless the following requirements are met:

- The transaction is in the best interest of and will be appropriate for both clients as an investment matter;
- The transaction shall be consistent with Western Asset's best execution obligations;
- The transaction will be effected at a price provided by the Risk Analytics Department, based on an independent and/or objective pricing mechanism;
- The transaction is a purchase or sale, for no consideration other than cash payment against prompt delivery;
- The transaction will be made in a manner consistent with the investment guidelines of the portfolios participating in the transaction, as well as the Firm's investment strategy; and
- No brokerage commission, fee (except for the customary regular transaction fee) or other remuneration paid in connection with the transaction

Conflicts Related to Valuation

In many cases, Western Asset Brazil's fees are based on the value and performance of the assets held in the client account. Western Asset Brazil does not price securities or other assets for purposes of determining fees.. Western Asset Brazil relies on prices provided by a custodian, a broker-dealer or another third-party pricing service for valuation purposes.

Conflicts Relating to the Identification and Resolution of Errors

Western Asset Brazil, like other investment managers, has a conflict of interest in connection with the identification and resolution of trade errors, operational errors and other errors. Specifically, Western Asset Brazil, as a party who may bear some or all of the financial responsibility to correct an error, has an incentive to determine that an error did not occur or, if one has occurred, to resolve it in a manner that minimizes the financial impact on it. Although a conflict of interest may exist, Western Asset Brazil endeavors to make determinations in good faith, taking into account all circumstances of which it is aware, including, where appropriate, its own interests and the standards under applicable law and those contained in the client's investment management agreement with Western Asset Brazil. A determination by Western Asset Brazil that an error has not occurred will not typically be communicated to the relevant client since, in Western Asset Brazil's view, no error has occurred, and thus clients will not be afforded an opportunity to assess the reasonableness of Western Asset Brazil's conclusions. This conflict is heightened in cases where Western Asset Brazil's client is a fund which does not have an independent board of directors, as is the case with many registered investment companies for which Western Asset Brazil may serve as manager. All determinations for these funds with respect to the identification and resolution of errors will be made exclusively by Western Asset Brazil because there is no unaffiliated party, such as an independent board of directors, representing the interests of investors. As a result, investors will typically not be informed that an error existed or how it was resolved. See the discussion of Western Asset Brazil's error correction policy under "Additional Information" below.

Item 12. Brokerage Practices

Western Asset Brazil 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 Brazil is being thoughtful when executing transactions on behalf of clients and honoring its fiduciary obligation to seek best execution.

Western Asset Brazil 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 Brazil 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 Brazil 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 Brazil seeks to ensure that brokers are selected on the merits and not because of other reasons. Western Asset Brazil 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.

With respect to Brazilian investors, and in accordance with Instruction CVM 558, Western Asset Brazil cannot knowingly sell any security to or purchase any security from an advisory client on a principal basis, except when Western Asset Brazil is: a) managing a portfolio (not comingled) and having prior written permission from the client, or b) although formally hired as portfolio manager, the portfolio manager does not hold discretionary power to manage the portfolio and not have prior acknowledgement of the operation. This restriction does not apply to mutual funds, as fund bylaws clearly authorize the portfolio manager to act as counterparty. In case of portfolios held by insurance companies or pension funds sponsored by insurance companies, the portfolio manager or its affiliates cannot act as counterparty.

Western Asset Brazil can trade with Firm's parent company or affiliated companies and also can sell a security from its inventory of owned securities or buy securities for its inventory of owned securities, so long as it follows requirements prescribed by the Brazilian authorities.

With regard to US-based investors, Western Asset Brazil 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 Brazil maintains policies to address the risks associated with trading for accounts in which it has a significant ownership or financial interest. Western Asset Brazil 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 Brazil'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 Brazil maintains some referral arrangements from time to time, Western Asset Brazil does not direct

trade activity on the basis of whether the Firm maintains referral arrangements with any broker-dealer.

Western Asset Brazil'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 Western Asset Brazil's clients, Western Asset Brazil maintains a policy and procedure to govern that process. If Western Asset Brazil enters into a soft dollar arrangement, it is the Firm's policy to only pay for services that directly assist in the investment decision-making process and benefit the best interest of Western Asset Brazil 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 Brazil causing a client to pay, or being deemed to have paid, commission rates (including markups or markdowns) that are higher than those the Firm 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 Brazil would receive a benefit because the Firm may, in that case, not need to produce or pay for the research, products or services received.

Western Asset Brazil 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 Brazil is not obliged to direct brokerage in order to receive such information, however receipt of such research or services may be considered in the Firm's best execution decisions when executing trades. As a result, Western Asset Brazil may have any incentive to select or recommend a broker based on the Firm's interest in receiving the research or other products or services that the broker provides to Western Asset Brazil in the ordinary course of trading for clients, rather than our clients' interest in receiving the most favorable execution.

Western Asset Brazil 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 Western Asset's trading decisions. However, clients may request that Western Asset Brazil direct the client's brokerage to a particular broker. A directed brokerage arrangement involves a client directive obligating Western Asset Brazil 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 Brazil's obligation to obtain best execution. This type of arrangement may be permissible if Western Asset Brazil has disclosed to the client that Western Asset Brazil'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 could obtain for its other clients through negotiating for volume discounts with brokers.

Brazilian law generally permits cross trading (a trade between two Western Asset Brazil accounts). US law varies especially as to accounts governed by ERISA or the Investment Company Act of 1940. For non-US accounts Western Asset Brazil will only participate in cross transactions if certain conditions are met. Please see Item 11, "Conflict Related to Cross Trades."

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

Item 13. Review of Accounts

As a core investment matter, on a daily basis members 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's Risk Management Department produces a series of standard reports that focus on a portfolio's structure and risk, 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's expectations.

Portfolios are also formally reviewed on a regular, ongoing 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 Head of Investments. 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 in line with the current product strategy, the other accounts in the group, and their specific client goals.

Risk Management Review

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

- On a daily basis each portfolio's key characteristics are computed.. Portfolios may have daily reports using returns based on a VaR analysis or a daily portfolio and returns-based tracking error reports.
- On a monthly basis a representative account of each strategy run by Western Asset 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 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's automated monitoring system (except for a limited number of guidelines which must be monitored by compliance officers manually.) Western Asset maintains portfolio compliance officers and systems directly on the trading desk to provide pre-trade checks for investments. While not all guidelines and tests are currently able to be monitored on a pre-trade basis, all effort is made to ensure that all client guidelines are monitored, including manual checks. 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 US-based registered investment companies that are advised or sub-advised by Western Asset 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 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

Western Asset Brazil does not have referral arrangements for paying individuals or companies for referring new clients. Western Asset Brazil products are distributed in the market through institutions duly accredited to act as distributors.

Under certain circumstances, for US-based accounts, Western Asset Brazil 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 Brazil 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 Brazil's Brochure and a copy of a special disclosure statement.
- Western Asset Brazil 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.

Western Asset Brazil 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.

For the avoidance of doubt, parties such as affiliates of Western Asset Brazil or employees of Western Asset Brazil may introduce prospective clients to Western Asset Brazil without being subject to a referral arrangement. Such introductions are not generally subject to compensation arrangements for the payment of referral fees. Western Asset Brazil 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 Brazil employee must disclose their affiliation with Western Asset Brazil when communicating with a prospect or potential client. If a party affiliated with Western Asset Brazil makes an introduction, Western Asset Brazil'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 Brazil for referrals, the arrangement must be memorialized in writing and the affiliated party must disclose their affiliation with Western Asset Brazil 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 does not receive economic benefits from someone who is not a client for providing investment advice or other advisory services to the Firm's clients.

Item 15. Custody

Western Asset Brazil does not intend to maintain physical custody of US client assets. However, under the provisions of Rule 206(4)-2 under the Advisers Act, Western Asset Brazil may be deemed to have custody of a client's assets because Western Asset Brazil either: i) has the ability to deduct the client's fees directly from a custodian account (pursuant to client authorization) or ii) Western Asset Brazil, 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 Western Asset Brazil's name as agent or trustee for the client. "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 the Firm's fees.

Each separate account 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 Brazil.

Item 16. Investment Discretion

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

As part of the client intake process Western Asset Brazil 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. Western Asset Brazil 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 Brazil seeks to accommodate these requests subject to concerns about maintaining the account's ability to meet its objective and the Firm's ability to program the limitations into its compliance systems.

Item 17. Voting Client Securities

Western Asset Brazil'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 Brazil'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 Brazil 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 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 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 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 Brazil's procedures. Depending on the best interest of each individual client holding the applicable security that is to be voted, Western Asset 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 Brazil 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 Brazil's general policy for errors or breaches for which Western Asset Brazil is responsible, 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 (ii) to retain in a client's account, a net gain resulting from an error.

Western Asset Brazil categorizes breaches and errors as follows:

1. Breaches of investment guidelines and/or investment restrictions resulting from any transaction 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); or
 - b. Client mandates (includes prospectus for a fund). Client mandates are limited to written guidelines or instructions, except as otherwise expressly required by a client's investment management agreement.
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.

Western Asset Brazil is responsible for interpreting and applying this Policy and determining whether a breach or error has occurred. Western Asset Brazil makes its determination on a case-by-case basis, based on factors it determines are reasonable, including regulatory and contractual requirements and business practices. This Policy does not require Western to notify a client if Western Asset Brazil investigates a potential breach or error and determines that no breach or error has occurred. The Policy also does not require Western Asset Brazil to compensate a client for net losses if no breach or error has occurred or if Western Asset is not responsible for a breach or error, although Western Asset Brazil may do so in its discretion.

If a breach or error occurs in a client portfolio, it is Western Asset Brazil's policy that the breach or error will be corrected immediately or, in the case of a breach of a client mandate, the client will be promptly contacted to obtain a waiver. If a waiver is declined, the breach will be promptly corrected. If the breach or error, after correction, results in a gain to the client, that gain is retained in the client portfolio. If Western Asset Brazil is responsible for a breach or error that, after correction, results in a net loss to a client, Western Asset Brazil will reimburse the account for the net loss. The calculation of the amount of any net loss will depend on the facts and circumstances of any breach or error and the exact methodology may vary. For example, in certain circumstances, net loss may be calculated by reference to an index or an alternative security. 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. In cases of breaches or errors involving a derivative instrument, the question

of whether the account has suffered a loss 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 Brazil will normally take the view that the portfolio did not suffer a loss. The basis of calculation of a net loss will be shared with the client for discussion.

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. Amounts under \$100 (or similar non-USD amount for non-US entities) are considered de minimis and are typically not reimbursed on the theory that the indirect cost of review to the client far outweighs the payment.

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

Consistent with industry practice and convention, Western Asset Brazil will not provide notice, make claims or provide compensation for settlement issues (including overdrafts) with losses of less than \$500 (or similar non-USD amount for non-US entities), regardless of the party at fault, absent specific agreement with a client

Appendix A—Investment Strategies

Brazil Overnight Linked SELIC

Description: Western Asset's Brazil Overnight Linked SELIC strategy invests at least 95% of its NAV in securities or structures linked to overnight rates. Composite portfolios should invest only in Government Bonds.

Objective: Seeks, in the medium/long term, capital preservation and returns linked to the SELIC rate fluctuations

Brazil Duration Management IRF-M

Description: Western Asset's Brazil Duration Management IRF-M strategy employs a passive strategy, using techniques that allows to replicate the benchmark behavior.

Objective: Seeks to reproduce the performance of IRF-M.

Brazil IMA Ex-C

Description: Western Asset's Brazil IMA Ex-C strategy employs an active, team managed strategy around a disciplined investment process backed by state-of-the art analytic and risk sensitivity in the allocation and securities selection processes, considering the IMA-Geral Ex-C index to build the portfolio.

Objective: Seeks, in the medium/long term, to beat the benchmark (IMA-Geral Ex-C), within a given tracking error.

Brazil Inflation Linked IMA-B

Description: Western Asset's Brazil Inflation Linked IMA-B strategy employs a passive strategy, using techniques that allow it to replicate the benchmark behavior.

Objective: Seeks to reproduce the performance of IMA-B

Brazil Inflation Linked IMA-B5

Description: Western Asset's Brazil Inflation Linked IMA-B5 strategy employs a passive strategy, using techniques that allow it to replicate the benchmark behavior.

Objective: Seeks to reproduce the performance of IMA-B5

Brazil Inflation Linked IMA-B5+

Description: Western Asset's Brazil Inflation Linked IMA-B5+ strategy employs a passive strategy, using techniques that allow it to replicate the benchmark behavior.

Objective: Seeks to reproduce the performance of IMA-B5+.

Brazil Limited Duration (BRL Unhedged)

Description: Western Asset's Brazil Limited Duration (BRL Unhedged) strategy employs an active, team-managed approach based on a disciplined investment process. The strategy is supported by strong analytical resources with an emphasis on risk management. Strategy portfolios invest in fixed rates securities with a low duration.

Objective: Seeks to maximize returns by investing in the Brazilian fixed income market

Brazil IMA

Description: Western Asset's Brazil IMA strategy employs an active, team managed strategy around a disciplined investment process backed by state-of-the art analytic and risk sensitivity in the allocation and securities selection processes.

Objective: Seeks, in the medium/long term, to beat the benchmark (IMA-Geral), within a given tracking error.

Brazil Inflation Linked Active Management

Description: Western Asset's Brazil Inflation Linked Active Management strategies aim to provide a fixed income investment alternative that seeks to generate returns higher than IMA-B. Composite portfolios invest primarily in inflation-linked securities.

Objective: Seeks to exceed the benchmark return while approximating benchmark risk

Brazil Corporate

Description: Western Asset's Brazil Corporate strategy employs an active, team managed strategy around a disciplined investment process. Strategy portfolios should have an above average Corporate Bonds and CDs holdings.

Objective: Seeks relatively higher level of current income primarily through larger investments in private securities while aiming to have low market risk through linking fund returns mostly to CDI.

Brazil Nominal and Real Rate Low Volatility

Description: Western Asset's Brazil Nominal and Real Rate Active strategy employs an active, team managed strategy around a disciplined investment process. Strategy portfolios invest in fixed rates and inflation-linked securities, with a low duration.

Objective: Seeks to provide returns above CDI over the long term

Brazil Overnight Linked CDI

Description: Western Asset's Brazil Overnight Linked CDI strategy invests at least 95% of its NAV in securities or structures linked to overnight rates. Strategy portfolios may invest in Government and Corporate Bonds and CDs.

Objective: Seeks, in the medium/long term, capital preservation and returns linked to CDI (daily overnight interbank rate) fluctuations.

Brazil Nominal and Real Rate Active Management

Description: Western Asset's Brazil Nominal and Real Rate Active Management strategy employs an active, team managed strategy around a disciplined investment process. Strategy portfolios invest in fixed rates and inflation-linked securities, maintaining a duration above average.

Objective: Seeks to provide returns above CDI over the long term.

Brazil Multimarkets without Equities - Conservative

Description: Western Asset's Brazil Multimarkets Without Equities strategy - Conservative employs an active, team managed strategy around a disciplined investment process backed by state-of-the art analytic and risk sensitivity in the allocation and securities selection processes. All asset classes, except equities, can be part of the portfolio.

Objective: Seeks, in the medium/long term, to beat the CDI.

Brazil Multimarkets without Equities - Moderate

Description: Western Asset's Brazil Multimarkets Without Equities strategy - Moderate employs an active, team managed strategy around a disciplined investment process backed by state-of-the art analytic and risk sensitivity in the allocation and securities selection processes. All asset classes, except equities, can be part of the portfolio.

Objective: Seeks, in the medium/long term, to beat the CDI.

Brazil Break-Even Inflation

Description: Western Asset's Brazil Break-Even Inflation strategy employs an active, team-managed strategy around a disciplined investment process backed by state of the art analytical and risk sensitivity in the allocation and securities selection processes. Strategy portfolios combine fixed rates and inflation-linked securities (or derivatives) in order to generate a final exposure associated to implied inflation curve.

Objective: Exceed the benchmark return over the course of a market cycle.

Brazil Structured Credit

Description: Western Asset's Brazil Structured Credit Composite employs an active team-managed strategy around a disciplined investment process. These portfolios should have an above average structured credit exposure.

Objective: Seeks relatively higher excess return through larger investments in structured credit.

Brazil Global Currencies

Description: Western Asset's Brazil Global Currencies Composite includes all institutional and retail portfolios that aim to provide an investment alternative that seeks to generate alpha through foreign currency exposure. The investment strategy includes investment in a broad range of foreign currencies using derivatives.

Objective: Seeks to provide returns above CDI over the long term.

Brazil Inflation Linked Active Management IMA-B5

Description: Western Asset's Brazil Inflation Linked Active Management IMA-B5 Composite aims to provide a fixed income investment alternative that seeks to generate returns higher than IMA-B5. Composite portfolios invest primarily in inflation-linked securities.

Objective: Seeks to provide returns above IMA-B5 over the long term.

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. 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.

Investment in Brazil

The investment products Western Asset Brazil offers invest primarily in Brazilian securities. Accordingly investors are bearing the risk of investing in a single country's securities rather than a portfolio with investments from a diverse range of countries. Economic, social, political and other developments in Brazil can have a material adverse effect on these products. In addition, investing in Brazil involves special considerations and certain risks typically associated with emerging markets economies.

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 limited. Risk of social, economic or political uncertainty, along with the potential for nationalization or expropriation of assets should also be considered.

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.

Management Risks

The investment results of any account are dependent upon Western Asset's management of the account. The investment strategies, techniques and risk analyses employed, while designed to enhance returns, may not produce the desired results. Assessment of market, interest rate or other trends could be incorrect and may not anticipate actual market movements or the impact of economic conditions generally. As a result, portfolio construction may be deficient and the account may lose money and/or underperform the account benchmark. There can be no assurance that all of Western Asset's key personnel will continue to be associated with Western Asset for any length of time. The loss of their services could have an adverse impact on a strategy's ability to achieve its investment objective.

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 nonadjustable 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 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'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.

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 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.

Recently, mortgage loan originators and servicers have experienced serious financial difficulties and, in some cases, bankruptcy. Such financial difficulties may have a negative effect on the ability of the servicer to pursue collection on mortgage loans that are experiencing increased delinquencies and defaults and to maximize recoveries on the sale of underlying mortgage loans. The inability of the originator to repurchase mortgage loans in the event of early payment defaults and loan representation breaches may also affect the performance of mortgage-backed securities. These difficulties may adversely affect the performance and market value of mortgage-backed securities.

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's ability than would be the case if it were investing in securities in the higher rating categories.

Valuation Risk

The sales price an account could receive for any particular portfolio investment may differ from the account's valuation of the investment, particularly for securities that trade in thin or volatile markets or that are valued using a fair value methodology. The process of valuing securities for which reliable market quotations are not available is based on inherent uncertainties, and the resulting values may differ from the values that would have been determined had a ready market existed for such securities and from values placed on such securities by other investors. In addition, third-party pricing information may at times not be available regarding certain securities or, if available, may not be considered reliable. Even if considered reliable, such information may not reflect the price that would be obtained in an actual market transaction. Disruptions in the credit markets have from time to time resulted in a severe lack of liquidity for many securities, making them more difficult to value and, in many cases, putting significant downward pressure on prices.

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.

U.S. Government Securities Risk

Debt securities issued or guaranteed by certain U.S. Government agencies, instrumentalities, and sponsored enterprises are not supported by the full faith and credit of the U.S. Government, and so involve credit risk greater than investments in other types of U.S. Government securities.

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 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.
- 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.

The U.S. government is in the process of adopting and implementing regulations governing derivatives markets, including mandatory clearing of certain derivatives and requirements related to margin and reporting. The ultimate impact of the regulations remains unclear and may not be for some time. New regulation of derivatives may make them more costly, may limit their availability, may disrupt markets or may otherwise adversely affect their value or performance. Additionally, these regulations will require most swaps to be executed through a centralized exchange or regulated facility and be cleared through a regulated clearinghouse. The swap market could be disrupted or limited as a result of this legislation, which could adversely affect an account and may make it more difficult and costly for accounts to enter into highly tailored or customized transactions. Moreover, the establishment of a centralized exchange or market for swap transactions may not result in swaps being easier to trade or value.

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.

Prepayment or Call Risk

Many fixed income securities give the issuer the option to repay or call the security prior to its maturity date. Issuers often exercise this right when interest rates fall. Accordingly, if an account holds a fixed income security subject to prepayment or call risk, it may not benefit fully from the increase in value that other fixed income securities generally experience when interest rates fall. Upon prepayment of the security, the account would also be forced to reinvest the proceeds at then current yields, which would be lower than the yield of the security that was paid off. In addition, if an account purchases a fixed income security at a premium (at a price that exceeds its stated par or principal value), the account may lose the amount of the premium paid in the event of prepayment. The effect on an account's return is similar to that discussed above for "Asset-Backed (Including Mortgage-Backed) Securities Risks)."

Extension Risk

When interest rates rise, repayments of fixed income securities, particularly asset- and mortgage-backed securities, may occur more slowly than anticipated, extending the effective duration of these fixed income securities at below market interest rates and causing their market prices to decline. This may cause the values of securities held by an account to be more volatile. The effect on an account's return is similar to that discussed above for "Asset-Backed (Including Mortgage-Backed) Securities Risks)."

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 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 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. Western Asset may be subject to potential conflicts of interest in determining whether to invest an account's assets in a fund managed by Western Asset or in a fund managed by an unaffiliated manager and may have an economic or other incentive to select an affiliated fund over another fund.

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.

Turnover/Frequent Trading Risk

A change in the securities held by an account is known as "portfolio turnover." Higher portfolio turnover is a result of frequent trading and involves correspondingly greater expenses to an account, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestments in other securities. Such sales may also represent tax risk. The trading costs and tax risk associated with portfolio turnover may adversely affect an account's performance. The use of futures or other forward settling derivatives may result in the appearance of higher portfolio turnover as positions are "rolled forward" in order to maintain a specific exposure. Accordingly, portfolio turnover rates may vary based on how such rates are calculated.

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. Similarly, investments concentrated in a particular industry are subject to an increase risk of loss based on events that affect that industry.

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.

Confidential Information Access Risk

The intentional or unintentional receipt of material, non-public information by Western Asset could limit Western Asset's ability to sell certain investments held by an account or pursue certain investment opportunities on behalf of an account, potentially for a substantial period of time. Also, certain issuers of floating rate loans or other investments may not have any traded securities ("Private Issuers") and may offer private information pursuant to confidentiality agreements or similar arrangements. Western Asset may access such private information, while recognizing that the receipt of that information could potentially limit Western Asset's ability to trade in certain securities on behalf of an account if the Private Issuer later issues traded securities.

Cash Management and Defensive Investing Risk

The value of the investments held by an account for cash management or defensive investing purposes can fluctuate. Like other fixed income securities, they are subject to risk, including market, interest rate and credit risk. If an account holds cash uninvested it will be subject to the credit risk of the depository institution holding the cash. If an account holds cash uninvested, the account will not earn income on the cash and the account's yield will go down. If a significant amount of an account's assets are used for cash management or defensive investing purposes, it may not achieve its investment objective.

Government and Regulatory Risk

Recent instability in the financial markets has led the U.S. Government to take a number of unprecedented actions designed to support certain financial institutions and segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity. Most significantly, the U.S. Government has enacted a broad-reaching new regulatory framework over the financial services industry and consumer credit markets, the potential impact of which on the value of securities held by an account is unknown. Federal, state, and other governments, their regulatory agencies, or self-regulatory organizations may take actions

that affect the regulation of the instruments in which an account invests, or the issuers of such instruments, in ways that are unforeseeable. Governments or their agencies may also acquire distressed assets from financial institutions and acquire ownership interests in those institutions. The implications of government ownership and disposition of these assets are unclear, and such a program may have positive or negative effects on the liquidity, valuation and performance of an account's holdings. Furthermore, volatile financial markets can expose accounts to greater market and liquidity risk and potential difficulty in valuing portfolio instruments held by accounts. The value of an account's holdings is also generally subject to the risk of future local, national, or global economic disturbances based on unknown weaknesses in the markets in which an account invests. In the event of such a disturbance, issuers of securities held by an account may experience significant declines in the value of their assets and even cease operations, or may receive government assistance accompanied by increased restrictions on their business operations or other government intervention. In addition, it is not certain that the U.S. Government will intervene in response to a future market disturbance and the effect of any such future intervention cannot be predicted. It is difficult for issuers to prepare for the impact of future financial downturns, although companies can seek to identify and manage future uncertainties through risk management programs.

Market Disruption and Geopolitical Risk

An account is subject to the risk that war, terrorism, and related geopolitical events may lead to increased short-term market volatility and have adverse long-term effects on the U.S. and world economies and markets generally, as well as adverse effects on issuers of securities and the value of an account's investments. War, terrorism, and related geopolitical events have led, and in the future may lead, to increased short-term market volatility and may have adverse long-term effects on U.S. and non-U.S. economies and markets generally. Those events as well as other changes in U.S. and non-U.S. economic and political conditions also could adversely affect individual issuers or related groups of issuers, securities markets, interest rates, credit ratings, inflation, investor sentiment and other factors affecting the value of an account's investments. At such times, an account's exposure to a number of other risks described elsewhere in this section can increase.

Europe — Recent Events

A number of countries in Europe have experienced severe economic and financial difficulties. Many non-governmental issuers, and even certain governments, have defaulted on, or been forced to restructure, their debts; many other issuers have faced difficulties obtaining credit or refinancing existing obligations; financial institutions have in many cases required government or central bank support, have needed to raise capital, and/or have been impaired in their ability to extend credit; and financial markets in Europe and elsewhere have experienced extreme volatility and declines in asset values and liquidity. These difficulties may continue, worsen or spread within and without Europe. Responses to the financial problems by European governments, central banks and others, including austerity measures and reforms, may not work, may result in social unrest and may limit future growth and economic recovery or have other unintended consequences. Further defaults or restructurings by governments and others of their debt could have additional adverse effects on economies, financial markets and asset valuations around the world. In addition, one or more countries may abandon the euro, the common currency of the European Union, and/or withdraw from the European Union. The impact of these actions, especially if they occur in a disorderly fashion, is not clear but could be significant and far-reaching. Whether or not the fund invests in securities of issuers located in Europe or with significant exposure to European issuers or countries, these events could negatively affect the value and liquidity of the fund's investments.

Risks of Investments in Exchange-Traded Funds

Among other risks, the market price for exchange-traded fund ("ETF") shares may be higher or lower than the ETF's net asset value. The sale and redemption prices of ETF shares purchased from the issuer are generally based on the issuer's net asset

value. Investments in ETFs involve the risk that the ETF's performance may not track the performance of the index (if any) the ETF is designed to track. Unlike an index, an ETF incurs administrative expenses and transaction costs in trading securities. In addition, the timing and magnitude of cash inflows and outflows from and to investors buying and redeeming shares in the ETF could create cash balances that cause the ETF's performance to deviate from the index (which remains "fully invested" at all times). Performance of an ETF and an index it is designed to track also may diverge because the composition of the index and the securities held in the ETF may occasionally differ. In addition, ETFs often use derivatives to track the performance of a relevant index and, therefore, investments in those ETFs are subject to the same derivatives risks discussed above.

Significant Investor Risk

Other investors may make significant investments in a commingled account. From time to time, a commingled account may experience relatively large withdrawals or investments from such investors as a result of their rebalancing their portfolios or for other reasons. Significant withdrawals from, or investments in, a commingled account might cause the account to sell securities or to invest cash at a time when it is not advantageous to do so.

Tax Risk

Tax laws and regulations applicable to an account are subject to change, and unanticipated tax liabilities could be incurred by investors as a result of such changes. Investors should consult their own tax advisors to determine the potential tax-related consequences of investing in an account with Western Asset.

Systems and Operational Risks

We rely to a significant extent on computer programs and systems to trade, clear and settle transactions; to aid in evaluating certain securities and other financial instruments based on trading information and other data; to monitor portfolios; and to generate risk management, accounting, and other reports that are important to the oversight of activities related to the accounts we manage. In addition, many of our operations interface with or depend on systems operated by third parties, including custodians, futures commission merchants (i.e., clearing and executing brokers), and market counterparties, exchanges and other trading facilities. These programs and systems may be subject to certain limitations, including, but not limited to, those caused by malware, malicious software, power failures, interoperability issues, or human error. A defect, delay, or failure in any of these programs or systems could have a material adverse effect on an account. We have developed policies and procedures intended to monitor and control operational risks. These policies and procedures may not address every operational risk related to an account, including, in particular, those risks that we do not foresee as material. Additionally, the investment operations of an account are dynamic and complex. As a result, certain operational risks, including, without limitation, those arising from human error, failed systems, incompatible systems, or events beyond our control, are intrinsic to the investment operations of an account, especially given the volume, diversity and complexity of transactions that accounts generally enter into daily, and are very unlikely to be eliminated.

Limitations on Liability

Governing documents of pooled investment vehicles often limit the circumstances under which a general partner, manager and their affiliates can be held liable to a fund or an investor. As a result, investors may have a more limited right of action in certain cases than they would otherwise have in the absence of such provisions. Additionally, in the event that a claim is made, the general partner, manager or their affiliates may be entitled to be indemnified by the pooled vehicle, in which case the assets of the vehicle could be used to indemnify the relevant parties for amounts incurred in connection with such a claim.

Privacy Notice

The following notice is being provided on behalf of Western Asset Management Company Distribuidora de Titulos e Valores Mobiliarios Limitada:

Western Asset Management Company Distribuidora de Titulos e Valores Mobiliarios Limitada is committed to keeping nonpublic personal information about you secure and confidential. This notice is intended to help you understand how we fulfill this commitment. This privacy policy applies only to clients and former clients who are individuals.

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.