

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

Not applicable.

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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. Mandates for non-US clients include equity-only accounts and accounts investing in corporate bonds where Western Asset Brazil has discretion to buy and sell securities of Brazilian issuers. 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 fixed-income portfolios, an activity the Firm has pursued for over 38 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 Overnight Linked CDI Composite
- Brazil Overnight Linked SELIC Composite
- Brazil Duration Management IRF-M Composite
- Brazil Inflation Linked IMA-B Composite
- Brazil Inflation Linked IMA-B5 Composite
- Brazil Inflation Linked IMA-B5+ Composite
- Brazil Break-Even Inflation
- Brazil Limited Duration (BRL Unhedged) Composite
- Brazil IMA Composite
- Brazil Inflation Linked Active Management Composite
- Brazil Corporate Composite
- Brazil Nominal and Real Rate Low Volatility Composite
- Brazil Nominal and Real Rate Active Management Composite
- Brazil Unhedged Yield USD
- Brazil Multimarkets without equities - Conservative
- Brazil Multimarkets without equities – Moderate

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 \$17,365,184,478 in assets as of December 31, 2010, all of which were discretionary assets.

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. Clients will pay separate fees to third parties for those services. Western Asset Brazil does maintain a family of privately offered commingled funds, primarily for smaller institutions and for those institutions seeking a strategic or opportunistic allocation to a certain investment sector. 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. See Item 12, "Brokerage Practices" below for more information about Western Asset's brokerage practices.

Western Asset Brazil typically deduct 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 Composite	115 bps
Brazil Overnight Linked SELIC Composite	25 bps
Brazil Duration Management IRF-M Composite	
Brazil Inflation Linked IMA-B Composite	
Brazil Inflation Linked IMA-B5 Composite	
Brazil Inflation Linked IMA-B5+ Composite	
Brazil Break-Even Inflation	
Brazil Limited Duration (BRL Unhedged) Composite	37.5 bps
Brazil IMA Composite	55 bps
Brazil Inflation Linked Active Management Composite	
Brazil Corporate Composite	
Brazil Nominal and Real Rate Low Volatility Composite	60 bps
Brazil Nominal and Real Rate Active Management Composite	120 bps
Brazil Unhedged Yield USD	75 bps
Brazil Multimarkets without equities - Conservative	75 bps + performance fee
Brazil Multimarkets without equities - Moderate	
<i>NOTE: The Strategies listed below are NOT available to US Investors</i>	
Brazil USD Linked Composite	100 bps
Brazil Equity IBrX Composite	90 bps
Brazil Equity IBrX50 Composite	
Brazil Equity Dividend Yield Composite	150 bps
Brazil Equity ISE Composite	200 bps
Brazil Equity Ibovespa Composite	
Brazil Equity Total Return Composite	
Brazil Equity Total Return Deep Value Composite	
Brazil Equity Long and Short Composite	
Brazil Equity Small Cap Composite	245 bps + performance fee
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 are net of 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 72 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 60 with 139 accounts and \$17,365,184,478 billion in assets under management as of December 31, 2010.

Brazil Client Base — December 31, 2010

Client Type	Client Count	Percentage of Clients (rounded)
Charitable	1	2%
Corporate*	13	21%
Investment Companies	2	3%
Pensions	43	72%
Pooled	1	2%
GRAND TOTAL	60	100%

* Includes other businesses not listed

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. 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

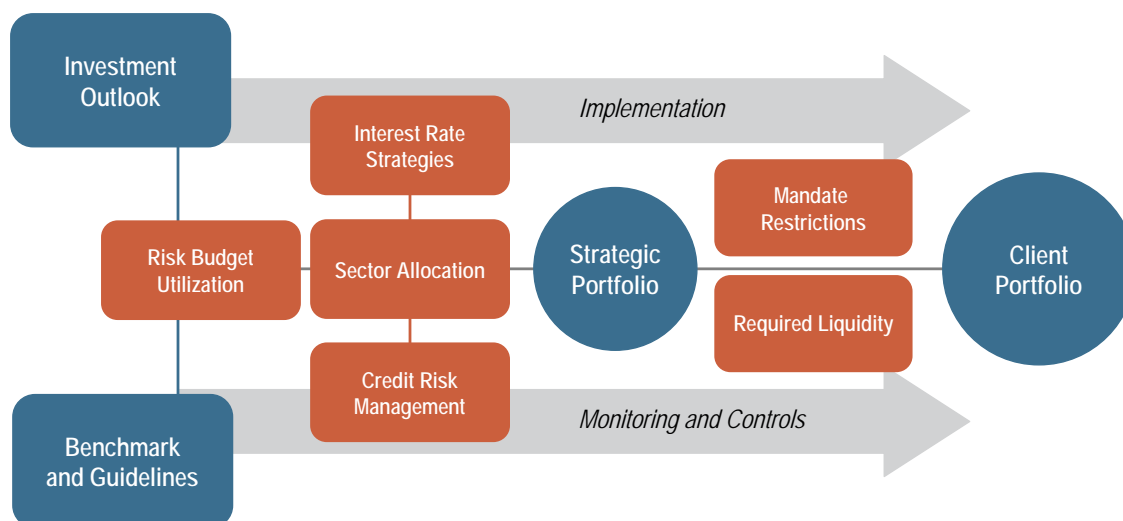
Philosophy and Styles

Western Asset Brazil's investment philosophy is to provide clients with diversified, tightly controlled, value-oriented portfolios. Western Asset Brazil strives to provide clients a medium and long-term vision of the business cycle outlook that brings maximum advantage to the Firm's resources under management.

Western Asset Brazil emphasizes a team approach through regular investment committee meetings, and believes that the constant interaction between specialists is a key to success. The use of multiple strategies enables results to not depend on one or two opportunities and minimizes the possibility that an unfavorable event has an inordinate impact on the portfolios, helping to reduce the impact of specific risks.

Western Asset Brazil's investment team is committed to its investment style and the investor's portfolio guidelines. Thus, the Firm tries to avoid hasty decisions that may jeopardize the long term objectives of investors, especially at moments of high volatility. So, regardless of the current economic climate, the approach of the Investment Management team will be to comply with the defined risk limits presented by the investor for the mandate.

Fixed Income Process



Investment Decisions

For our duration management decisions, a macro (top-down) view combined with risk analysis is used by the Fixed-Income Investment Committee to monitor the duration holdings of all portfolios that use tactical duration management, as a source of value added. The Fixed-Income Investment Committee constantly evaluates all political and economic scenarios in Brazil and in the world - thanks to the global nature of our institution - to evaluate the rate and future level of local interest rates on its positioning decision with respect to the duration of portfolios. Moreover, a rich-cheap analysis is performed at different sectors of the local yield curve, together with the macro, political and inflation outlooks, so the Committee can decide on the overall duration strategies of the portfolios.

Investment Management Oversight

All Western Asset Brazil investment decisions emphasize a team approach, and special attention is given to the maintenance and development of an investment process to ensure that thoughtful analysis is conducted on an ongoing and systematic basis. An important element of this process is the continuous exchange of views on economic and financial matters on a daily basis and more formally in periodic committee meetings. This structure seeks to ensure that client portfolios benefit from a consensus that draws on the expertise of all team members.

Monthly Macroeconomic Committee: led by the economic research team, it also includes portfolio managers, portfolio assistants and traders. This committee focuses exclusively on the revision of economic and political data that helps define a main macroeconomic scenario and alternative scenarios for both Brazilian and global environments.

Monthly Investments Committee: brings, fundamentally, the portfolio managers, traders and analysts together to analyze how the recent changes in the macroeconomic and political environments and market conditions may impact prices going forward. Investment professionals assess risks and opportunities associated with the scenarios analyzed and discuss the most likely price behavior for the main asset classes in Brazil, as well as for some international asset classes. Quantitative models may help guide the discussion, and a very objective and disciplined grading system for the different asset classes is revisited. Decisions are made on which asset classes should be favored on a risk-return perspective, how much of the risk budget should be allocated to each asset class and in total, which asset combinations could provide positive asymmetries, which instruments should be used and points of entry and exit for each position.

Asset Allocation Committee: composed by the entire investment team, it decides the allocation between fixed income and equities of all balanced portfolios.

Monthly Managed Accounts Committee: has basically the same participants and structure of the committee above, but focuses on applying strictly the fixed income decisions to a set of pure fixed income institutional mandates. Decisions will generate inputs into the in-house developed portfolio construction model, in order to pursue the same level of outperformance per point of risk budget for fixed income mandates with different or composed benchmarks.

Credit Committee: brings portfolio managers, traders and credit analysts together once a month or whenever necessary to approve a list of issuers of securities for all portfolios whose guidelines allow credit exposure, as well as the respective market transaction counterparties, new credit limits or changes to those limits.

Equities Committee: brings all equities managers, analysts and traders to decide about sector allocation, stock selection for all equity portfolios, also evaluating issues like market conditions, client restrictions and asset liquidity;

Daily Morning Committee: brings together all fixed income and equity portfolio managers, traders and analysts, as well as the economic research team to review the latest news, indicators and market movements in order to derive new investment hypothesis, revisit positions and enrich ongoing discussions.

Credit Policy

Western Asset Brazil applies a strict credit research process and has its own credit analysis team, dedicated to evaluating the payment capabilities of each counterparty in the private sector, by analyzing topics like the issuer's industry, its competitive advantages and cash flow projections. Evaluation of potential instruments and issuers for investment is done through the following credit analysis process:

- **Financial Institutions:** Formal analysis occurs based on a request by the Fixed-Income Portfolio Managers for a specific bank or counterparty. After an analysis by the Credit Research department (Credit Research), credit limits are established taking into account mainly the size (measured by term deposits and assets), net equity, and nature of the control over the capital (full branch, foreign, national with participation by foreigners, private national, official federal, official state), and the term and proprietary rating. A detailed credit report is also produced, and whenever possible the financial institution being analyzed is visited.
- **Companies:** The process starts with receipt of underwriting proposals by the Fixed-Income Portfolio Managers. If they state an interest in the security or instrument, the proposal and all the documentation received is forwarded to the Credit Research department. This unit is responsible for the formal analysis of the credit and forecasts including the proposed transaction period, in order to verify the issuer's payment capacity. If the credit has guarantees, they are also analyzed. However, approval of the credit is based on the issuer's risk, and not on the guarantees offered.
- **Structured Operations:** for operations like FIDCs, CCBs, CRIs etc., credit team analyses issues like structure, subordination levels, operational risks portfolio's credit quality and capability of generating receivables, and consider them along with the credit protection mechanisms available (subordination, collaterals, excess spread, guarantees). Such analysis is mandatory for any private sector bonds before the investment decision of buying them or not for the portfolios.

Credit exposures of all portfolios are periodically reviewed via formal processes of credit analysis and portfolio review. Revision frequencies may differ according to each bond's risk grade.

In order to define the limits for financial institutions and companies, and to price the offer, a proprietary rating system is also used. Beyond this rating, all the ratings produced by independent risk-rating agencies - such as Standard & Poor's, Moody's Investors Service, and Fitch Rating - are also reviewed. If the Credit Research department recommends approval of the issuer, it is then submitted to the Credit Committee, responsible for final approval, the attractiveness of the paper under present market conditions will be considered.

Multimarkets without Equities

Portfolio Managers gather in a weekly Investment Committee to decide where the fund will allocate the risk budget among the available alternatives. Therefore, the first decision is how much risk will be taken by the mandates.

Then, portfolio managers bring ideas on increasing or reducing the portfolio exposure to the allowed markets and within the risk limits previously established, through buying or selling securities and through the use of derivatives, according to their risk-return evaluation.

The investment approach used for managing multimarket mandates is the very same one applied to all other Western Asset portfolios. However, there are additional issues considered in the process: the wider range of markets and assets being evaluated and the possibility of making not only directional isolated bets (very usual on fixed income mandates), but also combined positions involving two or more different but co-related asset classes in order to search for underlying asymmetrical returns.

Supporting analysis includes:

- Economic perspectives for developed countries;
- Economic perspectives both in the short and medium term for the domestic environment regarding inflation, growth, debt/GDP dynamics, expected path for both real interest rates and short term rate.

Security selection process and criteria

Security selection is the last step in our portfolio construction process. Before deciding which security will be part of the portfolio, the team that manages the fund develops conclusions on:

- Top-down view on economic events and forecasts, and;
- Definitions on asset classes ranking (or preferences) and possible combinations among them

After these two steps, portfolio managers follow a process to define the best securities to reflect the economic view with the best possible risk-return profile. This step includes the choice among bonds-versus-futures contracts, swap operations or options positioning, as well as the definition of the best maturity and duration and the possible combination of securities and/or operations to reach the desired final position.

Whenever is possible the team will also use analytical tools (such as econometric models, risk-adjusted pricing models, among others) to help on the definition of the portfolio constituents. Despite the use of modern pricing techniques, it's important to say that the final decision of which security will be part of the portfolio will be dependent on managers' scrutiny. In other words, WAM does rely on managers' assessment to take decisions on final portfolio.

Risk Management

Western Asset 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 seeks to identify aspects of its investments that can lead to uncertainty about the future in order to help the Firm 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 looks at its exposures to these items

(usually as a differential to benchmark exposures), as well as its estimates of how volatile these items will be and how they will relate to each other.

An independent Risk Management Department assesses risk in portfolios that represent each of the major strategies that Western Asset 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 the Chief Risk Officer, it consists of senior members from the Firm's portfolio management, risk management and client service teams. It meets formally, and at a minimum on a monthly basis. Portfolio managers work with Risk Management to evaluate existing portfolios and prospective portfolios to understand the possible risk consequences of various portfolio structures under consideration.

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

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

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

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

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

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

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

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

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

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

Methodology for Stress Testing Hedged Position Risk

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

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

Credit Risk Management

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

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

- Chart the trend of the quality of risk of issuers and counterparties;
- Characterize the quality of issuers and counterparties for internal credit processes;
- Optimize portfolios;
- Price securities issued by non-financial companies and banks;
- Mark to market securities not priced by Andima (local FINRA);
- Establish limits for issuers and counterparties.

Market Risk Management

Fixed Income

- **Value-at-Risk (VaR):** We use MAPS, a risk management tool for daily calculation of VaR co-variance of portfolios. VaR is a financial value that indicates maximum portfolio loss based on statistical analysis. It takes into consideration the market value of securities (corporate bonds) and the statistical expectation of a change in price within a defined time horizon and level of confidence. To determine VaR, the risk factors for each asset are broken down and their exposure to each one is calculated. VaR is a combination of exposure to risk factors and their variances, taking correlations between factors into consideration.
- **Stress Testing:** As with VaR, Stress Testing indicates the financial value of maximum portfolio loss; an economic model defined by the Fixed-income Committee as opposed to statistical models used to determine this. The Stress

Testing model makes it possible to estimate potential portfolio loss given an adverse crisis scenario (for example, a sharp rise in interest rates or a loss in currency value or stock markets).

- **Immunization Model:** We use a proprietary model based on duration and convexity to determine the degree of immunization of our portfolios to yield curve variations on a daily basis. The model makes it possible to determine interest rate exposure at various points on the curve by consolidating the position of various types of interest-rate sensitive securities and derivatives.

Liquidity Risk Management

Liquidity risk management is an important part of Western Asset Brazil's investment process. It is controlled, for each security, through the combination of two main variables: volumes traded in the secondary market and the security's weight in the portfolio. Based on these inputs, the number of days needed to liquidate different percentages of the portfolio is calculated (1%, 5%, 15%, 30%, 50%, 75%, 90% and 100%) as well as the portfolio's percentage that can be converted into cash within one business day. These measures are also based on the premise that the sales must be spread through time, so that they represent, on average, no more than 10% of daily traded volumes, avoiding impact on asset prices.

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

Item 9. Disciplinary Information

Western Asset Brazil has no disciplinary actions to report. However, it includes the following administrative proceeding on behalf of its affiliate WAM:

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

Item 10. Other Financial Industry Activities and Affiliations

Western Asset 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. Conversely 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 Services Authority and registered with the Securities and Exchange Commission
- [Western Asset Management Company Pty Ltd](#) (Melbourne) ABN 41 117 767 923 which is the holder of the Australian Financial Services Licence 303160
- [Western Asset Management Company Pte. Ltd.](#) (Singapore) Co. Reg. No. 200007692R which is a holder of a Capital Markets Services Licence for fund management and regulated by the Monetary Authority of Singapore and registered with the Securities and Exchange Commission
- [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 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.

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 quarterly transaction and annual holdings reports. Employees must also give the firm notice of all brokerage accounts so that the duplicate copies of trade confirmations can be sent to the Legal and Compliance Department.
- Employees must pre-clear all 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 for 60 days excluding money market instruments, government securities and open-end funds not advised by Western Asset Brazil or its supervised affiliates.
- Investment professionals may not participate in initial public offerings ("IPOs"). IPOs for other employees and all private placements must be pre cleared and approved by the Legal and Compliance Department.
- Investment professionals may not trade in a security within 7 days of a strategic trade made for a client (the black out 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.

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

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."

Service 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 shall 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 receive 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 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.

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 306, 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 an individual portfolio (no 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's clients, Western Asset 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

Western Asset Brazil closely monitors all portfolios to confirm they remain in alignment with their guidelines and parameters at all times.

On a daily basis, every account's assigned portfolio manager is responsible for overseeing that account. As part of this process, the Firm's Risk Management Department produces a series of standard reports that focus on a portfolio's structure and risk relative to its benchmark, as well as any updates to each portfolio's structure. These reports are reviewed by members of both the investment and risk management teams and used to help ensure that the account is structured properly and performing in accordance with the Firm's expectations. More detail is provided below.

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

Finally, any portfolio that experiences cash flows, security contributions, benchmark changes, or guidelines changes is immediately reviewed.

Any portfolio that these steps find to be out of alignment is immediately reviewed and adjusted as appropriate.

The Firm also has a Legal & Compliance Department that performs its own independent checks and reviews to ensure that investments are made in adherence to regulatory and client guidelines. Staff is on-site in all Western Asset investment offices.

Analytics and Risk Management Review

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

- On a daily basis each portfolio's key characteristics, such as duration, spread duration, convexity and other analytics are computed for unusual changes or amounts. Portfolios may have daily reports using returns based value at risk analyses or daily portfolio based and returns based tracking error reports.
- On a biweekly basis the Risk Department undertakes a more intensive review of portfolios and strategies looking at portfolio risk versus articulated return generating themes to seek to address any misalignments of risk and reward themes and at a comparison of portfolio risk versus client risk tolerances.
- On a monthly basis a representative account of each strategy run by Western Asset 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 continual 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 the Firm's automated monitoring system (except for a limited number of guidelines which must be monitored by compliance officers manually.) At the end of every trading day the account is compared to the guidelines overnight. 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. The portfolio compliance team maintains members located in the trading area whose function is to run pre-trade tests to evaluate whether a certain security or strategy will comply with portfolio guidelines.

Reports to Clients

Client relationship managers and members of the investment teams for the private funds and separately managed accounts managed by Western Asset Brazil 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 and if Western Asset Brazil or the client desires to amend them. 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' Brazils 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, except where contractual arrangements or regulatory requirements provide otherwise, is to address breaches and/or errors in a timely manner, adopting measures to ensure that no client was adversely affected by the error or breach.

Western Asset Brazil categorizes breaches and errors as follows:

1. Breaches of investment guidelines and/or investment restrictions resulting from any transaction or other factor whereby a transaction and/or portfolio is not consistent with:

- a. Regulatory requirements/restrictions (examples include, but are not limited to, legally improper or prohibited purchases/sales of securities; improper transactions with affiliates; legally improper or prohibited cash/currency transactions).
- b. Client mandates (includes prospectus for a fund).

2. Operational Errors:

- a. Trading errors include, but are not limited to:

- (1) Execution of incorrect security transaction (other than as described above for breaches of guidelines, restrictions or regulations).
- (2) Settlement errors.

Breach and error research and resolution is a team effort at Western Asset Brazil and no one person may determine that a breach has occurred or seek to correct a breach, cancel or give a trade back to a broker unless the appropriate parties have agreed to the course of action.

If a breach or error occurs in a client portfolio, it is Western Asset Brazil's policy that the error will be corrected immediately or, in the case of guideline breaches, the client will be immediately contacted to obtain a waiver. If the waiver is declined, the error will be promptly corrected. If the breach, after correction, results in a gain to the client, that gain is retained in the client portfolio. If the client suffers a loss as a result of the breach, Western Asset Brazil will reimburse the account. The calculation of the amount of any loss will depend on the facts and circumstances of any breach or error and the exact methodology may vary. For example, in certain circumstances, 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. The basis of calculation of a loss will be shared with the client for discussion. In the event of a loss, Western Asset Brazil will review the calculation with (or make available to) the affected client. The client will be asked which method of reimbursement they prefer. The client may choose to receive

compensation by check, wire or may receive a reduction in fees. Amounts under R\$50 are considered *de minimus* 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.

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

Appendix A—Investment Strategies

Brazil Unhedged Yield USD

Description: Western Asset's Brazil Unhedged Yield USD strategy employs an active, team managed strategy around a disciplined investment process backed by the Brazilian Treasury which combines nominal and real bonds. Portfolio final exposures are based on the Investment Committee's view of the ex-ante relative value (risk vs. return) of different maturities and the trade-off between fixed and real interest rates.

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

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 Inflation Linked IMA-B

Description: Western Asset's Brazil Inflation Linked IMA-B strategy employs a passive strategy, using techniques that allows 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 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 allows 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. These portfolios invest preponderantly 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, within a max potential loss under stress scenario of 5%.

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, within a max potential loss under stress scenario of 10%.

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.

Appendix B—Investment Risks

Investment in Brazil

The investment products Western Asset Brazil offers invest 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 extremely 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.

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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.