

Global Credit Review

October 2012

PERFORMANCE¹ As of October 31, 2012

GLOBAL HIGH YIELD COMPOSITE (\$USD)

% RETURN	MTD	YTD	1 YEAR	2 YEAR	2011	2010	SINCE INCEPTION ²
Gross	1.18	13.98	14.22	11.29	7.20	18.73	14.02
Net	1.12	13.37	13.49	10.57	6.51	18.00	13.29
BCGHY ³	1.25	15.78	14.38	8.79	3.12	14.83	11.77

² Inception Date: December 31, 2009

HIGH YIELD COMPOSITE (\$USD)

% RETURN	MTD	YTD	1 YEAR	2 YEAR	2011	2010	SINCE INCEPTION ⁴
Gross	0.81	11.59	12.88	11.38	9.63	18.79	14.09
Net	0.76	10.99	12.16	10.67	8.93	18.05	13.36
BCUSHY ⁵	0.88	13.11	13.61	9.29	4.98	15.12	11.66

⁴ Inception Date: December 31, 2009

U.S. FIXED INCOME COMPOSITE (\$USD)

% RETURN	MTD	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEPTION ⁶
Gross	0.65	6.90	7.38	8.80	9.49	7.28	7.70
Net	0.62	6.63	7.06	8.47	9.16	6.96	7.38
BCUSAGG ⁷	0.20	4.20	5.25	6.08	6.38	5.39	6.26

⁶ Inception Date: September 30, 1995

¹ Supplemental to attached GIPS-compliant presentations. Preliminary performance. Periods greater than one year are annualized. Source: Brandywine Global Investment Management LLC, Barclays Capital

³ BCGHY = Barclays Global High Yield Index (USD)

⁵ BCUSHY = Barclays U.S. Corporate High Yield Index (USD)

⁷ BCUSAGG = Barclays U.S. Aggregate Index (USD)

PORTFOLIO COMMENTARY

Global High Yield and High Yield strategies finished the month up 1.18% (net 1.12%) and 0.81% (net 0.76%) versus 1.25% and 0.88% for the Barclays Global High Yield and Barclays U.S. Corporate High Yield indices. Global High Yield had an average credit rating of B+/Ba3 and a yield-to-worst of 6.44% while the Barclays Global High Yield Index had an average credit rating of B+/B1 and a yield-to-worst of 6.63%. High Yield had an average credit rating of B+/B1 and a yield-to-worst of 6.30% and the Barclays U.S. Corporate High Yield Index had an average credit rating of B+/B2 and a yield-to-worst of 6.49%.

Past performance is no guarantee of future results.

Gerhardt (Gary) Herbert, CFA Portfolio Manager

- Joined the Firm in 2010, and has 19 years of investment experience

Brian L. Kloss, JD, CPA Portfolio Manager

- Joined the Firm in 2009, and has 13 years of investment experience

Regina G. Borromeo* Portfolio Manager

- Joined Brandywine Global Investment Management (Europe) Limited in 2010, and has 11 years of investment experience

Christopher R. Coolidge, CFA Portfolio Manager U.S. Fixed Income/ Manager, Portfolio Implementation

- Joined the Firm in 2010, and has 13 years of investment experience



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* Employee Brandywine Global Investment Management (Europe) Limited. In rendering portfolio management services, Brandywine Global Investment Management, LLC may use the portfolio management services, research, and other resources of its affiliates.

For Institutional Investors Only

The U.S. Fixed Income strategy composite returned 0.65% (net 0.62%) for the month which outperformed the Barclays U.S. Aggregate return of 0.20%. The U.S. Fixed Income strategy had an average credit quality rating of AA-/Aa2 versus an average rating of AA/Aa2. The yield to maturity on the U.S. Fixed Income strategy is 1.67% versus 1.70% for the U.S. Aggregate.

MARKET PERFORMANCE (\$USD)

As of 10/31/2012

% RETURN	OCTOBER	YTD	1 YEAR
Barclays U.S. Aggregate	0.20	4.20	5.25
Barclays Global High Yield Index	1.25	15.78	14.38
Barclays U.S. Corporate High Yield Index	0.88	13.11	13.61
Barclays Ba/B High Yield Index	1.02	12.65	13.43
Barclays High Yield Loan Index	0.24	8.94	8.90
S&P 500	-1.85	14.30	15.21
Barclays U.S. Treasuries Index	-0.17	1.91	3.66
Barclays Corporate Credit Index	1.29	10.06	10.21
Barclays Emerging Market Bonds Index	1.27	15.57	14.51

Source: Bloomberg Finance LP, Barclays Capital

The Barclays Global High Yield Index returned 1.25%, bringing the year-to-date return to 15.78%. Within the global high yield universe, the Barclays U.S. Corporate High Yield and Barclays Pan-European indices were up 0.88% and 2.76% during the month and 13.11% and 23.13% thus far in 2012. Higher-quality credits modestly outperformed in the U.S. market and communications (+2.0%) was the top performing sector on news of Softbank's deal with Sprint. New U.S. high yield issuance reached \$40 billion, which is the third largest month on record. Within European high yield, energy (+3.4%) and communications (+2.7%) were the top performing sectors while B and CCC rated segments both finished up 2.3%. European high yield new issuance remained robust during October with €4.6 billion being priced.

The Global High Yield and High Yield strategy composites modestly underperformed their respective benchmarks during the month. Global High Yield's relative underperformance was driven by weak currency selection—specifically related to South African rand and Mexican peso positioning, which offset solid relative credit selection. Within High Yield, credit selection was the leading detractor to relative performance with underperformance primarily due to the telecommunications sector given our lack of exposure to credits that rallied on news of Softbank's investment in Sprint. Given our macroeconomic concerns, we continue to maintain a higher-quality bias and focus on investing in bonds of companies with good business models, adequate liquidity, and that have pushed out their maturity profiles to help weather a downturn. We continue to be overweight consumer non-cyclicals and communications, and we are underweight CCCs, capital goods, and financials.

The US Fixed Income strategy composite outperformed the Barclays U.S. Aggregate by 0.45% due to our overweight to BBB corporate bonds, which outperformed during October.

MARKET COMMENTARY

Global risk assets diverged during the month of October. The S&P 500 returned -1.85% and the Euro Stoxx 50 returned 2.01% for the month. The divergence between U.S. equity assets and European counterparts coincided with several U.S. bellwether technology companies missing on revenues and a very strong performance by Mitt Romney at the first presidential debate in Denver. Romney's strong performance in Denver forced investors to focus most of their attention on the U.S. presidential elections during the month as the campaigns geared up for the final push into the November 6th election. Investors assigned various probabilities to the election outcome and the impact it would have on their portfolios (i.e., coal assets had a strong run during the month as Romney's odds improved). The outcome of the election will set the tone for much of the trading that happens through the end of the year as investors position their portfolios for 2013.

October was fairly benign with respect to the news flow out of Europe. The story continues to be much the same: the southern periphery continues to struggle under recessionary pressures as they continue to implement austerity measures imposed by the troika. Sovereign spreads have tightened as investors anticipate the implementation of Mario Draghi's Outright Monetary Transactions (OMT) program. At this point, most investors are focused on Spain: will the Spanish government request to participate in the OMT or opt to go forward without the European Central Bank's (ECB) assistance. It is very likely that Spain's Prime Minister Mariano Rajoy and the government are waiting for more clarity around the terms of the OMT program as the details have not been set forth to date.

Past performance is no guarantee of future results.

Asian economies fared well during the month. Economic data was benign: inflation in China has been subdued but analysts expect a slight uptick in inflation for the remainder of the year. As a result, China has not implemented a full-scale stimulus and has continued to focus on incremental policies with a specific focus on infrastructure and liquidity injections (reverse repo operations). China continues to prepare for the transition to the new government and is focused on a smooth transition. However, relations between China and Japan continued to deteriorate during October as the dispute over the Senkaku / Diaoyu Islands intensified and has flowed over to negatively impact trade between the two nations. Across the continent in India, the government has continued implementing legislation to allow a more open economic system: i.e., allowing foreign entities to own the majority of an Indian entity, liberalization of financial regulation, etc. These actions should provide an economic boost to India.

Although it did not receive much attention, several media outlets reported that Ben Bernanke has indicated to close friends and associates that he does not wish to seek another term as Federal Reserve Chairman, regardless of who is president. Bernanke's replacement will be confronted with significant issues as the next Federal Reserve president must address the Federal Reserve's large balance sheet and the associated issues that go with such investments. Although these conversations have not been confirmed, investors are speculating that the front-runners to replace Bernanke would be Janet Yellen under an Obama presidency and John Taylor under a Romney presidency. Each would have a significantly different approach to managing the Federal Reserve.

The Barclays Global High Yield Index returned 1.25%, the Barclays U.S. Corporate High Yield Index returned 0.88%, the Barclays Ba/B High Yield Index returned 1.02%, the Barclays High Yield Leveraged Loan Index returned 0.24%, and the Barclays Emerging Market Bonds Index returned 1.27%. Meanwhile, option-adjusted spreads (OAS) were generally tighter during the month: the Barclays Global High Yield Index tightened 15 bps to 543 bps, the Barclays U.S. Corporate High Yield Index tightened 8 bps to 543 bps, and the Barclays Leveraged Loan Index widened 6 bps at 473 bps. Within the Barclays U.S. Corporate High Yield Index, BB rated bonds tightened 27bps to 375 bps, B rated bonds tightened 2 bps to 517 bps, while CCC rated bonds tightened 8 bps to 851 bps.

The Barclays U.S. Aggregate returned 0.20%. Within the Barclays Capital U.S. Aggregate, the Barclays U.S. Treasuries Index fell during the month, posting a -0.17% return and the Barclays Corporate Index returned 1.29%. The OAS on the Barclays U.S. Aggregate widened 1 bps to 50 bps and the OAS on the Barclays Corporate Index tightened 19 bps to 137 bps. The positive return on the Barclays U.S. Aggregate was led by the corporate segment as securitized sectors and treasuries hampered performance.

Changes in credit default probabilities varied across sectors during October. We view this as one tool amongst many to identify risk. In aggregate, equity-based default models estimate defaults to average 1.9% for the next 12 months for the Global High Yield Index and 1.66% for the High Yield Index. Expected default rates continue to reflect most credit investors' expectations for the direction of spreads. General default expectations for 2012 are currently at 1.5% and 2.0% for bonds and loans respectively. In addition, 2013 forecasts for default rates look similar: (1) 2.0% for bonds and (2) 2.0% for loans. Assuming default rates continue to level off, high yield spreads are anticipated to contract (see figures 1 and 2).

Figure 1 High-Yield Bond and Loan Default Rates Expected To Remain Low for Next Two Years A Par-Weighted Default Rates (%); As of 10/31/2012

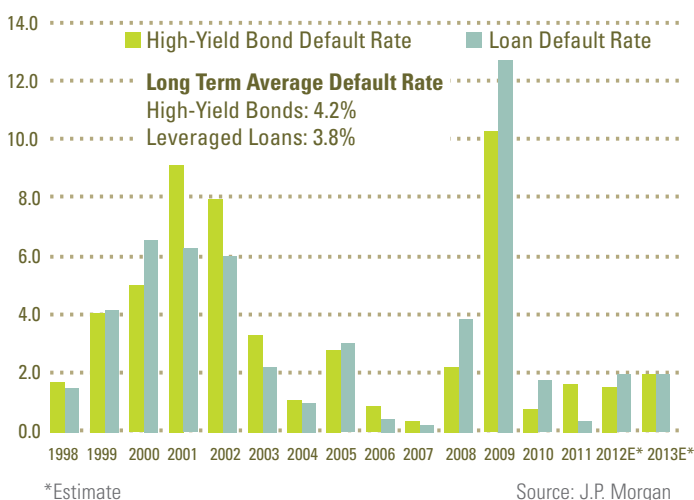
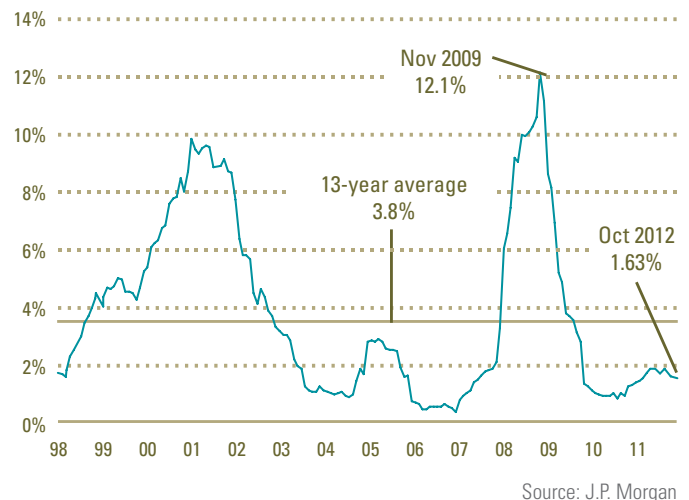


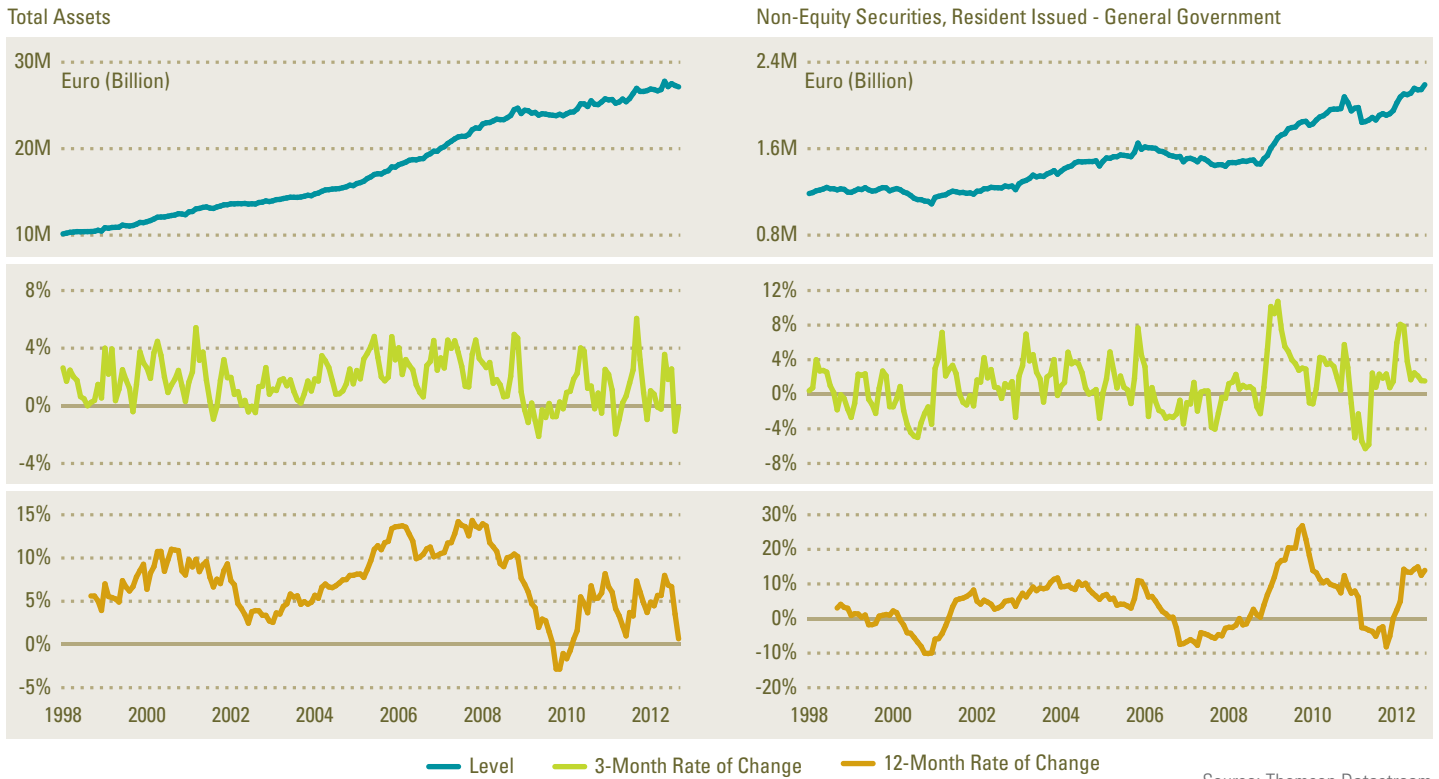
Figure 2 Leveraged Credit Default Rate Is At Its Lowest Level Since 1Q12 Par-Weighted Default Rate (%); As of 10/31/2012



European finance is an intricate relationship between the sovereigns and the banking system. Much of the effort by European politicians has gone toward de-linking the relationship between the sovereign and the banks. However, part of the solution is to provide time for both the banks and the

sovereign to grow into their capital structures. To that extent, recent ECB bank lending data has shown that banks are growing their balance sheets again, which may be positive for growth. However, much of this balance-sheet growth is due to investment in European sovereign debt. This is the tight-rope that European politicians and bankers are walking as they address the ongoing European financial crisis. At this point, it appears that the plan has averted a more severe contraction in Europe, although investors continue to monitor the progress closely (see [figure 3](#)).

Figure 3 Consolidated Balance Sheet of Euro Area MFI's
 As of 9/30/2012



As mentioned earlier in the letter, inflation remains subdued in China. This is a positive for the global economy as China may be able to provide a level of growth in 2013 that investors were not expecting earlier this year. In addition, the flexibility that the new government will have is greatly increased should inflation remain under control (see [figures 4 and 5](#)).

Figure 4 PPI Near the Bottom
 % Year-over-Year; As of 9/30/2012

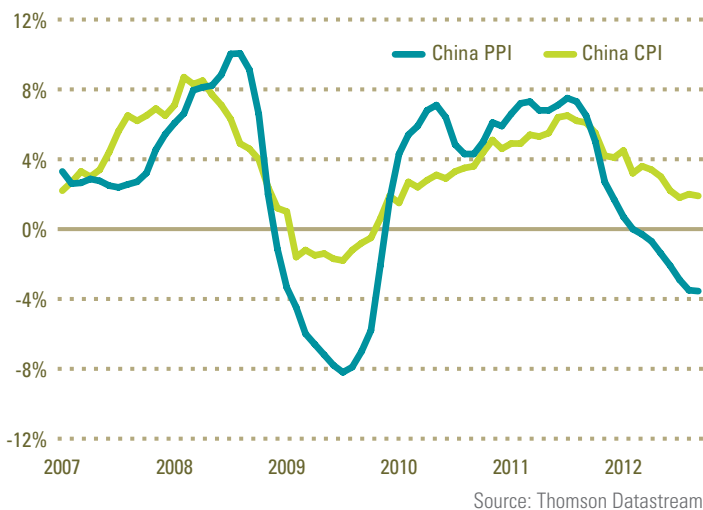
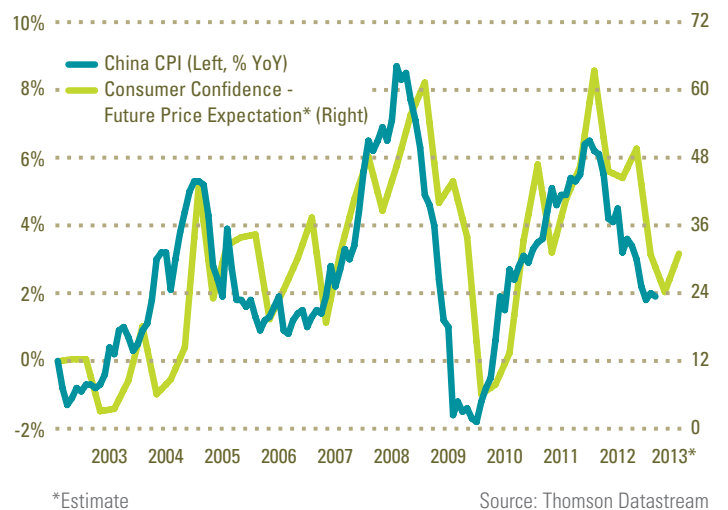


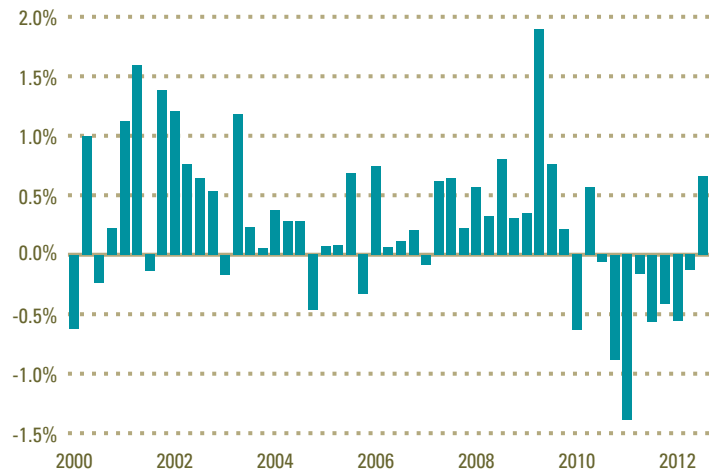
Figure 5 Consumer Confidence Future Price Expectation Advanced
 Future Price Expectation Advanced 8 Months; As of 9/30/2012



Data quality is always critical to an investor. As investors, one must look through the headline data and parse the underlying data to ensure that investment decisions are well grounded. Headline data can often times be misleading and result in an investment decision that does not perform as expected. Therefore, it is still critical for investors to couple their macro analysis with fundamental bottom-up research (see [figure 6](#)).

October returns for risk assets were varied as investors were positive on the OMT program to address the European economic crisis, but slightly negative on U.S. risk assets as the U.S. presidential election tightened during the month. We believe that investors remain focused on the European situation while keeping an eye on the economic recoveries in the U.S. and China, where they might be surprised. Our high yield portfolios have maintained a higher-quality bias given all the uncertainties in the global economy. We continue to believe that high yield should offer a reasonable level of return for the next 12 months as the default rate continues to remain within historical bounds and central banks continue to provide ample liquidity.

Figure 6 Change In Real Government Spending
U.S. Real GDP Quarterly Growth Contribution from Government Spending;
As of 9/30/2012



Source: Reuters EcoWin

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High Yield Composite | As of September 30, 2012 | Results shown in USD - Final

ANNUALIZED RETURNS

	COMPOSITE RETURN GROSS OF FEES (%)	COMPOSITE RETURN NET OF FEES (%)	BARCLAYS CAPITAL US CORPORATE HIGH YIELD (%)
1 YEAR	18.13	17.38	19.37
SINCE INCEPTION 01/2010	14.22	13.49	11.68

CALENDAR YEAR RETURNS

YEAR OR YTD	COMPOSITE RETURN GROSS OF FEES (%)	COMPOSITE RETURN NET OF FEES (%)	BARCLAYS CAPITAL US CORPORATE HIGH YIELD (%)	NUMBER OF ACCOUNTS	MARKET VALUE (MILLIONS)	TOTAL FIRM ASSETS (MILLIONS)	COMPOSITE DISPERSION (%)	COMPOSITE ST. DEV. (% 3-YEAR ROLLING)	BCUSCHY ST. DEV. (% 3-YEAR ROLLING)
2012	10.69	10.16	12.13	5	104	41,453	N/M	N/M	N/M
2011	9.63	8.93	4.98	2	29	33,122	N/M	N/M	N/M
2010	18.79	18.03	15.12	1	17	31,996	N/M	N/M	N/M

Organization

Brandywine Global Investment Management, LLC (the "Firm") is a wholly owned, independently operated, subsidiary of Legg Mason, Inc. The Firm has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS). For the periods July 1, 2000 through June 30, 2010, the Firm has been verified by Kreisler Miller. A verification includes assessing whether the Firm (1) complied with the composite construction requirements of the GIPS standards on a firm-wide basis, and (2) designed its processes and procedures to calculate and present performance results in compliance with the GIPS standards. A copy of the verification report is available upon request. Disclosed total firm assets represent the total market value of all discretionary and nondiscretionary, fee-paying and non-fee-paying assets under the Firm's management.

Composite Description

The High Yield Composite (the "Composite") Inception date: January 1, 2010. Creation date: January 1, 2010. The Composite includes all fully discretionary, fee-paying, actively managed High Yield Non-Constrained accounts with no composite minimums. The holdings consist of high yielding instruments primarily issued in the United States that Brandywine believes are going to produce a high level of current income and capital appreciation. The portfolios are typically invested in 50-100 securities.

Benchmark

The Barclays Capital U.S. Corporate Yield Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included.

Performance Calculation

Preliminary data, if so noted, reflects unreconciled data for the most recent reporting period. Portfolios are valued daily on a trade date basis and include dividends and interest as well as all realized and unrealized capital gains and losses. Return calculations at the portfolio level are time-weighted to account for periodic contributions and withdrawals. Performance results are calculated on a before tax, total return basis. The Composite returns consist of size-weighted portfolio returns using beginning of period values to weight the portfolio returns. Monthly linking of interim performance results is used to calculate quarterly and annual returns. Composite's valuations and returns are computed in U.S. Dollars ("USD"). The results are presented in USD or in other currencies (to accommodate overseas investors), the latter by converting monthly USD returns into other currency returns using the appropriate currency exchange rate returns. Gross returns reflect the deduction of trading expenses. Net of fee returns reflect the deduction of trading expenses and the highest investment management fees charged within the composite membership as stated in the fee schedule below. Composite dispersion is calculated using the asset-weighted standard deviation method for all portfolios that were in the Composite for the entire year. Composite dispersion is not presented for periods with five or fewer portfolios. The number of accounts and market values are as of the end of the period. The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. Past performance is no guarantee of future results. A complete list describing the Firm's composites as well as any additional information regarding the Firm's policies for calculating and reporting performance results is available upon request.

Fee Schedule

Institutional Client Separate Account Management Fee Schedule (minimum initial investment: \$5 million): 0.650% on the first \$25 million; 0.600% on the next \$75 million, and 0.550% on any portion of assets in excess of \$100 million. Additional information on the Firm's fee schedule can be found in Form ADV Part II which is available upon request.

Global High Yield Composite | As of September 30, 2012 | Results shown in USD - Final

ANNUALIZED RETURNS

	COMPOSITE RETURN GROSS OF FEES (%)	COMPOSITE RETURN NET OF FEES (%)	BARCLAYS CAPITAL GLOBAL HIGH YIELD (%)
1 YEAR	19.04	18.28	20.58
SINCE INCEPTION 01/2010	14.00	13.27	11.65

CALENDAR YEAR RETURNS

YEAR OR YTD	COMPOSITE RETURN GROSS OF FEES (%)	COMPOSITE RETURN NET OF FEES (%)	BARCLAYS CAPITAL GLOBAL HIGH YIELD (%)	NUMBER OF ACCOUNTS	MARKET VALUE (MILLIONS)	TOTAL FIRM ASSETS (MILLIONS)	COMPOSITE DISPERSION (%)	COMPOSITE ST. DEV. (% 3-YEAR ROLLING)	BCGHY ST. DEV. (% 3-YEAR ROLLING)
2012	12.65	12.11	14.35	4	119	41,453	N/M	N/M	N/M
2011	7.20	6.51	3.12	2	39	33,122	N/M	N/M	N/M
2010	18.73	17.98	14.83	1	18	31,996	N/M	N/M	N/M

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Composite Description

The Global High Yield Composite (the "Composite") Inception date: January 1, 2010. Creation date: January 1, 2010. The Composite includes all fully discretionary, fee-paying, actively managed Global High Yield Non-Constrained accounts with no composite minimums. The holdings consist of high yielding instruments issued globally that Brandywine believes are going to produce a high level of current income and capital appreciation. The portfolios are typically invested in 50-100 securities.

Benchmark

The Barclays Capital Global High-Yield Index provides a broad-based measure of the global high-yield fixed income markets. The Global High-Yield Index represents that union of the U.S. High-Yield, Pan-European High-Yield, U.S. Emerging Markets High-Yield, CMBS High-Yield, and Pa European Emerging Markets High-Yield Indices. The Barclays Capital U.S. Corporate Yield Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included.

Performance Calculation

Preliminary data, if so noted, reflects unreconciled data for the most recent reporting period. Portfolios are valued daily on a trade date basis and include dividends and interest as well as all realized and unrealized capital gains and losses. Return calculations at the portfolio level are time-weighted to account for periodic contributions and withdrawals. Performance results are calculated on a before tax, total return basis. The Composite returns consist of size-weighted portfolio returns using beginning of period values to weight the portfolio returns. Monthly linking of interim performance results is used to calculate quarterly and annual returns. Composite's valuations and returns are computed in U.S. Dollars ("USD"). The results are presented in USD or in other currencies (to accommodate overseas investors), the latter by converting monthly USD returns into other currency returns using the appropriate currency exchange rate returns. Gross returns reflect the deduction of trading expenses. Net of fee returns reflect the deduction of trading expenses and the highest investment management fees charged within the composite membership as stated in the fee schedule below. Composite dispersion is calculated using the asset-weighted standard deviation method for all portfolios that were in the Composite for the entire year. Composite dispersion is not presented for periods with five or fewer portfolios. The number of accounts and market values are as of the end of the period. The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. Past performance is no guarantee of future results. A complete list describing the Firm's composites as well as any additional information regarding the Firm's policies for calculating and reporting performance results is available upon request.

Fee Schedule

Institutional Client Separate Account Management Fee Schedule (minimum initial investment: \$5 million): 0.650% on the first \$25 million; 0.600% on the next \$75 million, and 0.550% on any portion of assets in excess of \$100 million. Institutional Client Commingled Account Management Global Investment Trust Fee Schedule (minimum initial investment: \$1 million): 0.650% flat fee on all assets. Additional information on the Firm's fee schedule can be found in Form ADV Part II which is available upon request.

U.S. Fixed Income Composite | As of September 30, 2012 | Results shown in USD - Final

ANNUALIZED RETURNS

	COMPOSITE RETURN GROSS OF FEES (%)	COMPOSITE RETURN NET OF FEES (%)	BARCLAYS CAPITAL U.S. AGGREGATE (%)
1 YEAR	7.41	7.09	5.16
3 YEAR	8.32	8.00	6.19
5 YEAR	9.56	9.24	6.53
7 YEAR	8.52	8.20	5.92
10 YEAR	7.06	6.74	5.32
SINCE INCEPTION 09/1995	7.70	7.38	6.28

CALENDAR YEAR RETURNS

YEAR OR YTD	COMPOSITE RETURN GROSS OF FEES (%)	COMPOSITE RETURN NET OF FEES (%)	BARCLAYS CAPITAL U.S. AGGREGATE (%)	NUMBER OF ACCOUNTS	MARKET VALUE (MILLIONS)	TOTAL FIRM ASSETS (MILLIONS)	COMPOSITE DISPERSION (%)	COMPOSITE ST. DEV. (% 3-YEAR ROLLING)	BCUSAGG ST. DEV. (% 3-YEAR ROLLING)
2012	6.21	5.97	3.99	2	105	41,453	4.59	2.66	2.71
2011	11.18	10.85	7.85	2	95	33,122	N/M	5.24	2.78
2010	9.42	9.10	6.56	2	97	31,996	N/M	8.04	4.16
2009	7.08	6.76	5.93	4	119	29,199	N/M	7.96	4.11
2008	9.44	9.12	5.24	4	134	32,755	N/M	7.51	3.97
2007	8.32	8.00	6.96	4	163	49,208	N/M	3.89	2.77
2006	7.28	6.96	4.33	4	119	39,241	N/M	3.08	3.21
2005	-0.10	-0.40	2.43	4	101	26,332	N/M	2.84	4.07
2004	3.03	2.72	4.34	4	89	18,547	N/M	3.72	4.28
2003	6.21	5.89	4.10	3	76	12,680	N/M	4.48	4.20
2002	11.98	11.65	10.26	2	70	7,990	N/M	4.29	3.35

Organization

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Composite Description

The US Fixed Income Composite (the "Composite") Inception date: October 1, 1995. Creation date: January 1, 2010. The Composite includes all fully discretionary, fee-paying portfolios with no minimum market requirement and no investment restrictions invested in the US Fixed Income Strategy. The strategy invests primarily in debt securities, such as U.S. Government and corporate obligations, bonds, notes, debentures, mortgage-backed securities, asset-backed securities. The strategy seeks to provide maximum current income and achieve above average total return consistent with prudent investment management over a full market cycle. Due to an internal accounting error found January 2012, the Composite returns were restated between Sept. '09 - Dec. '09.

Benchmark

The BCUSAgg Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and assetbacked securities. The BofA Merrill Lynch US Broad Market Index tracks the performance of US dollar denominated investment grade debt publicly issued in the US domestic market, including US Treasury, quasi-government, corporate, securitized and collateralized securities.

Performance Calculation

Preliminary data, if so noted, reflects unreconciled data for the most recent reporting period. Portfolios are valued daily on a trade date basis and include dividends and interest as well as all realized and unrealized capital gains and losses. Return calculations at the portfolio level are time-weighted to account for periodic contributions and withdrawals. Performance results are calculated on a before tax, total return basis. Prior to July 1, 2007, portfolios were included in the Composite beginning with the first full quarter of performance through the last full quarter of performance. After July 1, 2007, portfolios are included in the Composite beginning with the first full month of performance through the last full month of performance. Composite returns are reported on quarterly basis. The Composite returns consist of size-weighted portfolio returns using beginning of period values to weight the portfolio returns. Monthly linking of interim performance results is used to calculate quarterly and annual returns. Composite's valuations and returns are computed in U.S. Dollars ("USD"). The results are presented in USD or in other currencies (to accommodate overseas investors), the latter by converting monthly USD returns into other currency returns using the appropriate currency exchange rate returns. Gross returns reflect the deduction of trading expenses. Net of fee returns reflect the deduction of trading expenses and the highest investment management fees charged within the composite membership as stated in the fee schedule below. Composite dispersion is calculated using the asset-weighted standard deviation method for all portfolios that were in the Composite for the entire year. Composite dispersion is not presented for periods with five or fewer portfolios. The number of accounts and market values are as of the end of the period. The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. Past performance is no guarantee of future results. A complete list describing the Firm's composites as well as any additional information regarding the Firm's policies for calculating and reporting performance results is available upon request.

Fee Schedule

Institutional Client Separate Account Management Fee Schedule (minimum initial investment: \$1 million): 0.300% on the first \$50 million; 0.250% on the next \$50 million, and 0.200% on any portion of assets in excess of \$100 million. Additional information on the Firm's fee schedule can be found in Form ADV Part II which is available upon request.

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