Investing Globally:
A Multi-Sector Fixed Income Approach

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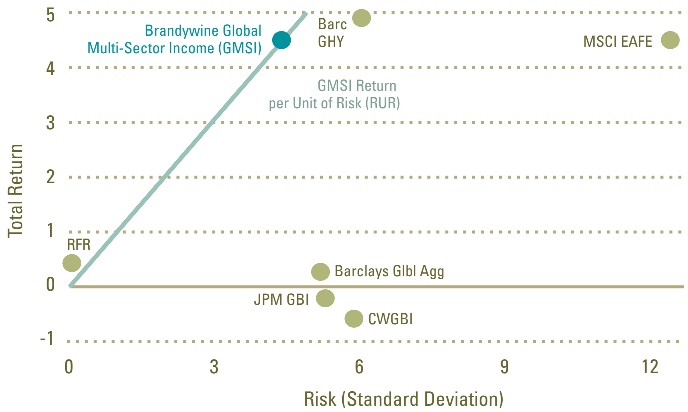
INTRODUCTION

There is no shortage of market uncertainty—investor sentiment can change on a dime and bring about periods of volatility. Positive economic indicators like inflation rates, manufacturing and trade data, and wage growth have at times been overshadowed by periods of risk-off sentiment caused by geopolitical events. During these times of uncertainty, we have seen capital flow erroneously into traditional "safe-haven" assets, despite chronically low yields and expensive valuations. As the global macroeconomic landscape grows increasingly complicated and volatile, fixed income investors are tasked with finding value in an environment plagued by low developed market yields. In light of these complexities, we believe a highly experienced institutional investment manager is best suited to navigate through these choppy waters in search of the best opportunities. In particular, we believe managers that offer unconstrained, fixed income solutions may help investors uncover value in unexpected places—whether it is within a particular asset class, country, currency, or debt instrument. Therefore, we think an unconstrained, multi-sector strategy that invests globally is an excellent solution for fixed income investors to temper the search for value and protection against various forms of market volatility.

WHY SHOULD INVESTORS CONSIDER A GLOBAL MULTI-SECTOR APPROACH?

The divergence between policymaking and economic growth in developed and emerging market countries continues to grow, and therefore managers must be able to identify risks and understand them within the context of global market conditions. In order to successfully implement a global multi-sector investment strategy, investors should seek out managers that can blend global macroeconomic expertise with fundamental, bottom-up security selection. Ultimately, the combination

Figure 1 Risk vs. Return*
Since March 31, 2013 (Annualized)



*Supplemental information to the attached Global Multi-Sector Income GIPS compliant composite presentation.

Source: Bloomberg Finance LP

Past performance is no guarantee of future results.

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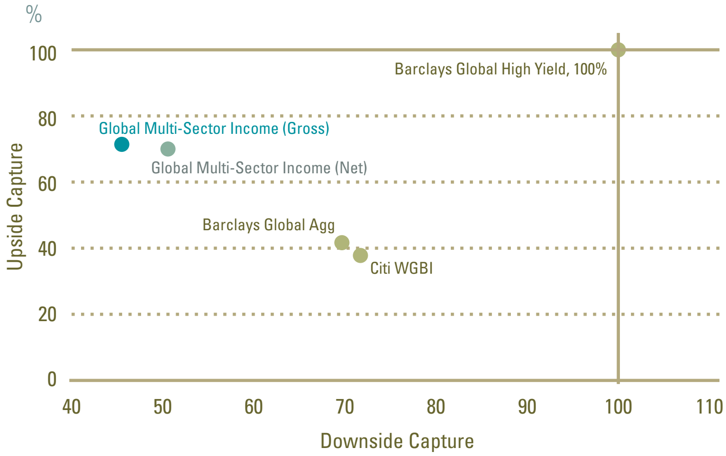
of macro- and microeconomic research enables managers to tactically invest in regions and entities with strong fundamentals. **Figure 1** (on previous page), **Figure 2** and **Figure 3** demonstrate how this combination approach to investing has the potential to produce solid risk-adjusted returns. Flexibility is crucial to this type of approach to investing, as a multi-sector strategy looks for differentiated sources of income and returns across global fixed income asset classes while actively managing risk. Remaining flexible also means that managers should remain benchmark-agnostic because the fact is active managers are able to identify value opportunities across the entire fixed income spectrum, rather than being limited to one segment.

Figure 2 Upside/Downside Capture (USD)*



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While some investors may be tempted by the simplicity of benchmark-like returns, we caution against passive strategies—particularly in an era of chronically low yields. We believe that investing globally means diversifying investors' sources of return, thus increasing the potential for outperformance. Index-oriented strategies are counterintuitive to these tenets and are less likely to generate strong returns. Passive, index-oriented strategies lead investors to hold positions in countries that issue significant amounts of debt and do not pay any consideration to the return potential of those securities. Investors are instead left with increasing exposure to countries with huge deficits, not huge opportunities. The increasing exposure to this type of new issuance exposes investors to risk—particularly interest-rate risk. As yields fall for a particular country's sovereign bonds, the duration associated with that exposure increases, meaning, the value of that position becomes more sensitive to interest-rate risk as yields fall. In addition to added interest-rate risk, passive investing limits potential returns, constrains investments to certain asset classes and regions, provides limited downside protection, and limits the opportunity to uncover value.

Figure 3 Comparative Statistics Since March 31, 2013

	ANNUALIZED RETURNS NET OF FEES (%)	ANNUALIZED STANDARD DEVIATION (RISK) (%)	RETURN PER UNIT OF RISK (RUR)	SORTINO RATIO	SHARPE RATIO	CORRELATION
Global Multi-Sector Income (USD) Composite*	4.46	4.19	1.06	1.98	0.96	
Citigroup World Gov't Bond (Unhedged)	-0.56	5.65	-0.10	-0.23	-0.18	0.50
Barclays Global Aggregate	0.17	4.90	0.03	-0.07	-0.05	0.58
JP Morgan GBI Global	-0.19	5.39	-0.03	-0.54	-0.12	0.47
Barclays Global High Yield Index	4.97	6.09	0.82	1.64	0.74	0.84
MSCI EAFE	4.51	12.44	0.36	0.62	0.33	0.65

*Supplemental information to the attached Global Multi-Sector Income GIPS compliant composite presentation.

Source: Bloomberg Finance LP

WHAT ARE THE KEY DIFFERENTIATORS TO OUR GLOBAL MULTI-SECTOR INCOME STRATEGY?

Brandywine Global's Multi-Sector strategy is an investment approach that seeks to generate consistent levels of income over a full market cycle while preserving capital and managing credit quality. The strategy's relative performance is based on how the credit and treasury markets are performing. We use several factors to achieve consistency against a backdrop of evolving economic and market conditions.

GLOBAL EXPERTISE

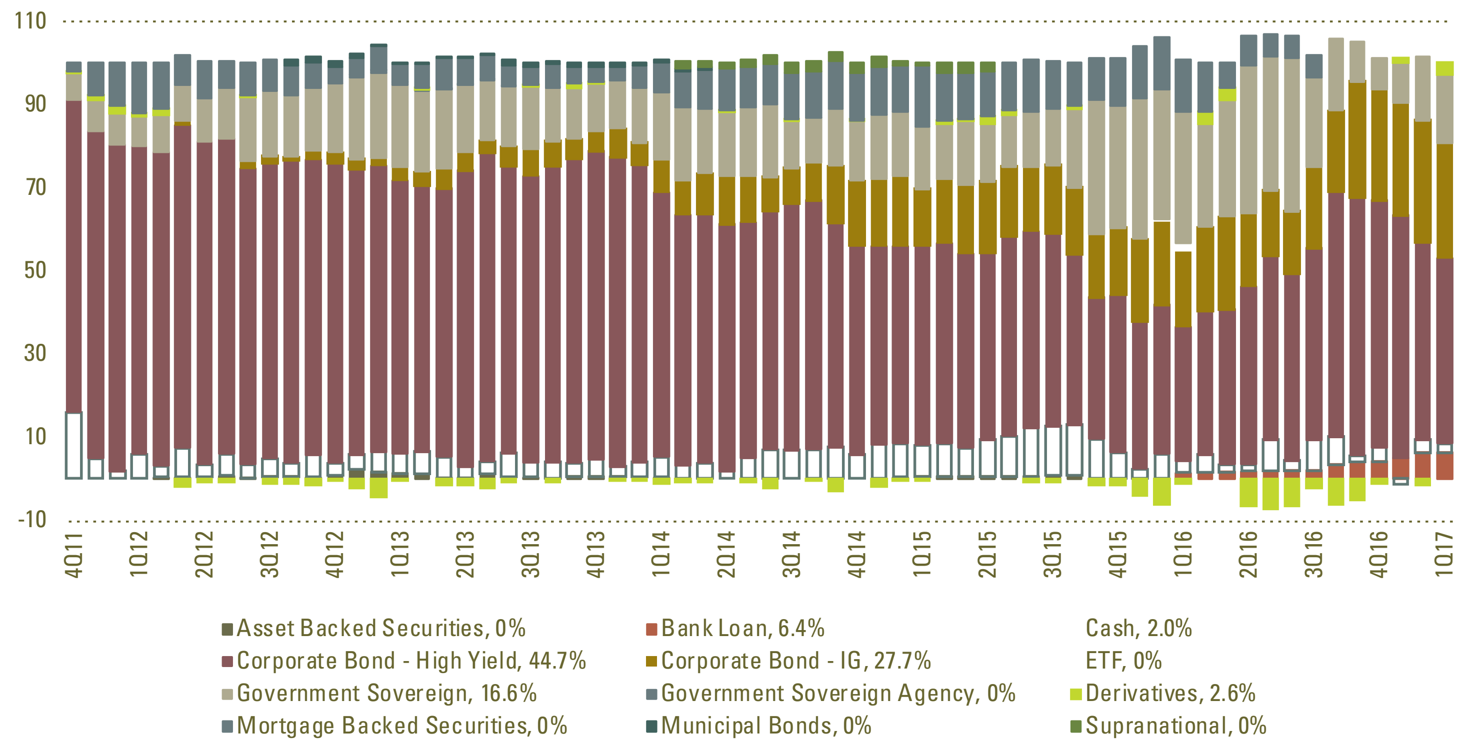
Investors that are interested in a multi-sector approach need a manager with a global footprint and deep expertise across a wide range of fixed income segments. Brandywine Global leverages our value-oriented, global macroeconomic research—which drives investment decisions for all fixed income strategies—to shape the Global Multi-Sector strategy. Our top-down macroeconomic research therefore informs our bottom-up fundamental analysis and security selection; positioning and themes are based on top-down analysis of countries, currencies, and credit markets. The strategy is a reflection of our Global Fixed Income Team's best ideas in sovereign debt, emerging markets, credit, mortgages, and currencies. Ultimately, the goal of the Global Multi-Sector strategy is to generate consistent attractive absolute returns irrespective of current market conditions. The duality of our research process allowed us to create a "go-anywhere" strategy that aims to maximize income, manage credit quality, and uses a variety of risk-management tools to actively manage downside risk, interest-rate volatility, and credit risk.

INVESTABLE UNIVERSE

Our breadth of research gives us a keen understanding of global fixed income and credit markets, which we then use to identify value across the spectrum of fixed income markets. **Figure 4** shows how the Global Multi-Sector approach offers portfolio diversification by investing in a broad universe range of:

- Asset classes
- Business cycles
- Regions
- Sectors
- Market environments

Figure 4 Our Strategy's Historical Asset Allocation* %



Legend values indicate current value as of 3/31/2017.
*Supplemental information to the attached Global Multi-Sector Income GIPS compliant composite presentation.

Source: Brandywine Global

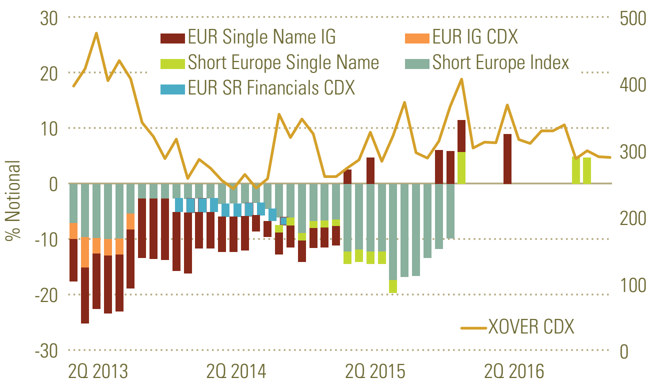
Country analysis and credit quality decisions help us to narrow down such a broad universe. As part of our country-specific analysis, we tend to focus on structural and cyclical factors such as growth, inflation, monetary policy, equity market conditions, political and institutional stability, balance of payments, debt and budget dynamics, government and private investment. In terms of credit quality, we see value in lower-quality credit when we find that business conditions are improving and credit spreads are likely to tighten. Conversely, when current economic and market conditions are strong—thus necessitating tight monetary policy from central banks—we are usually interested in higher-quality credit.

The strategy is able to hold synthetic short and/or long positions in individual securities, indices, currencies, and interest rates. Short positions and currency hedges are just some of our approaches to risk management, which manage bouts of volatility and offer downside protection.

RISK MANAGEMENT

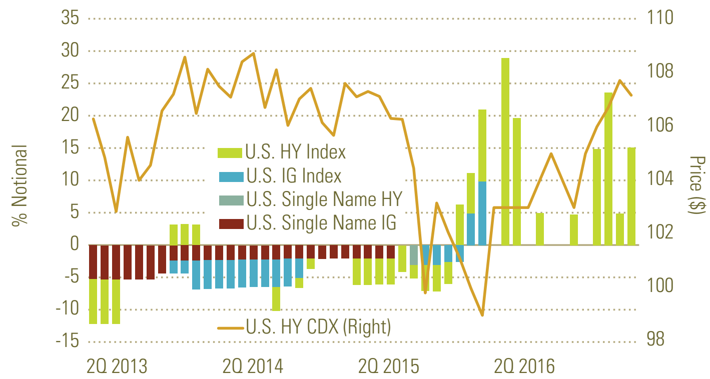
The Global Multi-Sector strategy's flexible investment process and management style allows us to actively limit interest rate volatility and credit risk. The ultimate goal from a risk-management perspective is to generate a consistent level of income by identifying global investment opportunities that offer what we believe to be a high margin of safety. The definition of margin of safety is relative to our top-down country, sector, market, and currency analysis. The first step in our risk management is our unconstrained, investable universe. Brandywine Global is chiefly a value-oriented manager and therefore we manage risk by purchasing securities we believe are undervalued, while potentially initiating short positions in securities we find overvalued. We will then continually adjust allocations to asset classes, credit quality, and sectors depending on the stages of the local business cycle. We also actively manage the strategy's currency and country exposure, and rotate positions according to current economic conditions relative to other parts of the world.

Figure 5 Our Strategy's European Credit Default Swap Positioning



Source: Bloomberg Finance LP

Figure 6 Our Strategy's U.S. Credit Default Swap Positioning



Source: Bloomberg Finance LP

To manage credit risk, the strategy uses derivatives such as credit default swaps (CDS), interest-rate futures, and currency forwards during periods of volatility—swaps are particularly important in this process. We use a mix of CDS in single securities and indices that cover the investment grade and high yield credit markets. Since the strategy aims to provide investors with attractive risk-adjusted returns, we also take an active approach to managing interest-rate risk, which is accomplished through our broad investment universe, which is then narrowed down by the combination of macroeconomic analysis of countries and currencies and fundamental credit analysis. Decisions regarding duration and foreign-currency management are made tactically and are adjusted to reflect current economic conditions across several regions. We use currency forwards and short duration exposure to hedge systemic macro risk.

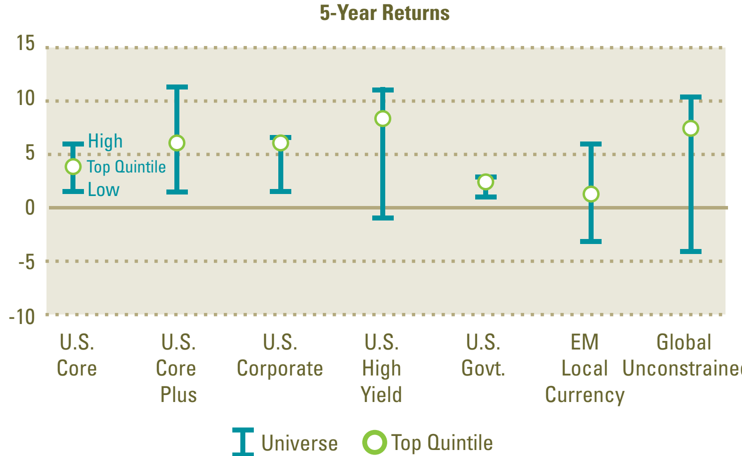
FUNDAMENTAL ANALYSIS

The large, global opportunity set for investing also requires our team to conduct an extensive credit sector analysis, followed by deep-dive security selection. We research numerous fixed income sectors of varying credit quality to identify sectors we believe have the best income and return potential and possible highest margin of safety. When determining the strategy's positioning, we take into account market liquidity, inflation cycles, fiscal and business cycles, structural changes in significant economies. These factors help us determine what attributes of a security are expensive (i.e. pose price risk) and what are changing (i.e. information risk). On a security level, we build proprietary financial models that take into account capital structure analysis, competitive positioning, industry outlook, discussions with company management, free cash flow analysis, market and security liquidity.

HOW DO TOP MANAGERS PERFORM?

Figure 7 shows a wide dispersion of performance among fixed income managers, which only grows wider when including high yield and global unconstrained managers in the evaluation. The figure also shows that global unconstrained managers produced the highest 5-year returns in this particular subset of the fixed income universe. We believe selecting a manager with a deep understanding of the global fixed income universe is key in generating excess returns versus managers focused solely on the U.S. Moreover, we find that a fundamental understanding of the global fixed income market is imperative when choosing an unconstrained manager, given the wide range of returns for this market segment.

Figure 7 High and Low Returns Percentiles; eVestment Universe



Source: eVestment

CONCLUSION

Economic and market conditions are continually changing, and given this fickle nature it's important for investors to choose an experienced manager that can invest globally without any constraints. An investment manager should take an active and flexible approach to fixed income investing, have a comprehensive understanding of global macroeconomic conditions, apply rigorous bottom-up fundamental security analysis, and manage a variety of risks. The Global Multi-Sector strategy is an active, "go-anywhere" and tactical approach to investing that balances broad global themes with security selection in order to deliver attractive risk-adjusted returns over a full market cycle.

The Global Credit team offers special thanks to Ryan Defeo and Peter Ferraro in helping to create this paper.

APPENDIX

CITIGROUP WORLD GOVERNMENT BOND INDEX®

The Citigroup World Government Bond Index is a market-driven index that measures the broad global fixed income markets invested in debt issues of U.S. and non-U.S. governmental entities and supranationals.

J.P. MORGAN GBI GLOBAL BOND INDEX

The JPMorgan Global Bond Index is a total return index that tracks the traded sovereign issues of 13 international markets. Each market is weighted according to its traded market capitalization in U.S. dollar terms and all issues included in the index are liquid with remaining maturity of greater than 13 months.

BLOOMBERG BARCLAYS GLOBAL HIGH YIELD INDEX

The Barclays Global High Yield Index provides a broad-based measure of the global high-yield fixed income markets. The Global High Yield Index represents the union of the U.S. High Yield, Pan-European High-Yield, U.S. Emerging Markets High-Yield, and Pan-European Emerging Markets High-Yield Indices. Until January 1, 2011, it also included the CMBS High-Yield Index. The Global High Yield Index is a component of the Multiverse Index, along with the Global Aggregate Index. The Global High Yield Index was created on January 1, 1999, with index history backfilled to January 1, 1990.

BLOOMBERG BARCLAYS GLOBAL AGGREGATE INDEX

The Barclays Global Aggregate Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and USD investment grade 144A securities.

MSCI EAFE INDEX

The MSCI EAFE Index is broadly recognized as the pre-eminent benchmark for U.S. investors to measure international equity performance. It comprises the MSCI country indexes capturing large and mid-cap equities across developed markets in Europe, Australasia and the Far East, excluding the U.S. and Canada. The MSCI EAFE measures total market performance, including price appreciation and income from net-dividend payments. The “Net” Index series assumes that dividends are reinvested after the deduction of withholding tax. The index uses withholding tax rates applicable to Luxembourg holding companies.

Global Multi-Sector Income Composite | As of March 31, 2017 | Results shown in USD - Final

ANNUALIZED RETURNS

	COMPOSITE RETURN GROSS OF FEES (%)	COMPOSITE RETURN NET OF FEES (%)	US 3 MONTH LIBOR (%)
QTD	2.49	2.35	0.27
YTD	2.49	2.35	0.27
1 YEAR	10.25	9.62	0.86
3 YEAR	4.69	3.86	0.50
SINCE INCEPTION 4/2013	5.31	4.46	0.44

CALENDAR YEAR RETURNS

YEAR OR YTD	COMPOSITE RETURN GROSS OF FEES (%)	COMPOSITE RETURN NET OF FEES (%)	US 3 MONTH LIBOR (%)	NUMBER OF ACCOUNTS	MARKET VALUE (MILLIONS)	TOTAL FIRM ASSETS (MILLIONS)	COMPOSITE DISPERSION (%)	COMPOSITE ST. DEV. (% 3-YEAR ROLLING)	US 3 MONTH LIBOR ST. DEV. (% 3-YEAR ROLLING)
2017	2.49	2.35	0.27	2	93	69,480	N/M	4.41	0.08
2016	13.10	12.35	0.74	2	83	65,498	N/M	4.43	0.07
2015	-1.69	-2.57	0.31	2	86	68,819	N/M	N/M	N/M
2014	3.68	2.75	0.23	2	79	63,375	N/M	N/M	N/M
2013	4.13	3.43	0.20	2	12	50,050	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, 2016, the Firm has been verified by Kreischer 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

Global Multi-Sector Income Composite (the "Composite") Inception date: April 1, 2013. Creation date: April 1, 2013. The Composite includes all fully discretionary, actively managed accounts with no minimum market value requirement and no investment restrictions within the Global Multi-Sector Income strategy. The Composite seeks to generate consistent alpha utilizing the investment team's best emerging market, credit, sovereign and currency ideas in the form of cash or derivative instruments. The use of these derivatives may increase the risk of the strategy. The Composite utilizes over-the-counter forward exchange rate contracts to manage its currency exposure. These contracts are valued daily using closing forward exchange rates. Brandywine uses WM/Reuters daily FX rates taken at 4 p.m. London time. Effective 5/31/16, the composite model fee was changed from 90bps to 55bps per year.

Benchmark

The U.S. 3-Month LIBOR Index represents the performance of the 3 Month London Interbank Offered Rate (LIBOR) Fixing for U.S. Dollar. The rate is an average derived from the quotations provided by the banks determined by the Intercontinental Exchange (ICE) Benchmark Administration. USD LIBOR is calculated is calculated on an ACT/360 basis. The Bloomberg Barclays 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 Pan-European Emerging Markets High-Yield Indices.

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

Fees: Institutional Client Separate Account Management Fee Schedule (minimum initial investment: $25 million): 0.55% fee on all assets of up to $25m, 0.50% up to $75m and 0.45% for $100m or greater. Additional information on the Firm's fee schedule can be found in Form ADV Part 2A which is available upon request.

Global Multi-Sector Income GBP Hedged Composite | As of March 31, 2017 | Results shown in GBP - Final

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QTD	2.91	2.77	0.09
YTD	2.91	2.77	0.09
1 YEAR	11.88	11.08	0.44
3 YEAR	5.40	4.52	0.52
5 YEAR	7.07	6.15	0.55
SINCE INCEPTION 1/2012	8.20	7.27	0.58

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2017	2.91	2.77	0.09	1	31	55,564	N/M	4.68	0.02
2016	14.19	13.27	0.50	1	32	53,007	N/M	4.65	0.02
2015	-1.71	-2.60	0.57	1	59	46,692	N/M	3.89	0.01
2014	4.49	3.56	0.54	1	148	40,644	N/M	4.49	0.06
2013	4.88	3.95	0.51	1	81	30,219	N/M	N/M	N/M
2012	19.52	18.47	0.83	1	16	26,388	N/M	N/M	N/M

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Benchmark
London-Interbank Offered Rate (LIBOR) - British Bankers Association Fixing for British Pound Sterling. The rate is an average derived from the quotations provided by the banks determined by the British Bankers' Association. BBA GBP LIBOR is calculated on an ACT/360 basis and for value for two business days after the fixing.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 Pan-European Emerging Markets High-Yield Indices. The Barclays Capital Global Credit Index contains investment grade and high yield credit securities from the Multiverse Index. (The Multiverse Index is the merger of two index groups: the Global Aggregate Index and the Global High Yield Index.)

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