Global Alternative Credit Review

Fixed Income Relative Value - 4Q 2016

STRATEGY ASSETS: $540 million
PERFORMANCE: The strategy returned 1.34% gross (net of fees 1.03%) for the 4th quarter.
NOTE: The Global Alternative Credit strategy was formerly called Global Credit Opportunities.

COMPOSITE PERFORMANCE[1]

GLOBAL ALTERNATIVE CREDIT COMPOSITE ($USD) AS OF DECEMBER 31, 2016

% RETURN	QTD	YTD	ONE YEAR	TWO YEAR	THREE YEAR	FIVE YEAR	SINCE INCEPTION[2]
Gross	1.34	6.94	6.94	1.32	4.55	8.41	14.25
Net	1.03	5.62	5.62	0.06	3.18	6.81	12.51
LIBOR+600[3]	1.69	6.74	6.74	6.52	6.42	6.39	6.38

[1]Supplemental information to attached Global Alternative Credit GIPS-compliant presentation
[2]Inception Date: September 1, 2010
[3]LIBOR+600 = US 3 Month LIBOR + 600bps
Past performance is no guarantee of future results.

CONTRIBUTION TO RETURN

The Global Alternative Credit strategy composite generated an absolute return of 1.34% (1.03% net of fees) for the fourth quarter. Top contributors to performance included U.S. high yield exposures across energy, as well as credit default swaps, a Caribbean-based telecommunications company, and several bank loans. Within structured credit, U.S. residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS) were accretive to performance. Currency decisions also added to returns, with short euro and long Brazilian real positions being the leading contributors. Moderate detractors for the quarter were Indonesian sovereign bonds and hedged European RMBS.

MARKET REVIEW

After a bumpy, news-driven year, the fourth quarter hardly slipped quietly into the history books, particularly for global bond markets. Central bank announcements continued to feature prominently, with the Bank of Japan (BOJ) shifting to yield curve control and the European Central Bank announcing a nine-month extension to its asset purchase program, which was set to expire in March 2017, while lowering the amount of monthly bond purchases. In a widely anticipated move, the U.S. Federal Reserve (Fed) raised the federal funds target for the second time since the Global Financial Crisis. However, more surprising than the 25 basis point hike were the Fed's hawkish tone and revised dot plots. Financial markets also navigated geopolitical events, including Trump's surprising electoral victory and the Italian referendum. Better economic data continued to emerge,

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as third quarter gross domestic product growth was stronger than predicted in both the U.S. and eurozone, and U.K. economic data continued to surprise on the upside. At the same time, prospects for higher U.S. rates supported renewed strength in the U.S. dollar (USD). Rising interest rates and the improving macroeconomic backdrop prompted a sharp retreat in global bond markets. Bonds sold off broadly and global yields rose, with U.S. Treasury yields logging their largest quarterly gains in more than 20 years. Meanwhile, equity markets recorded a strong quarter, buoyed by prospects for improving growth. However, bonds recovered and equities retreated somewhat as the year neared a close, signaling a possible return to caution given the uncertainty ahead. All told, developed bond market yields remained low at the end of the period, with some, like the benchmark 10-Year Treasury, finishing the calendar year only slightly higher than the start.

Global credit markets were also affected by the widespread selloff in bonds. U.S. investment grade credit outperformed European corporates, but overall, high yield generally fared better during the quarter. In particular, higher-quality high yield was one of the strongest segments, particularly relative to lower quality, below-investment-grade credit. Meanwhile, spreads tightened in both collateralized loan obligations (CLOs) and CMBS.

On the currency front, most global currencies fell to the USD rally, which was propelled by expectations for increased fiscal spending, tax cuts, and higher rates. Depreciation in the euro was further exacerbated by the rise in populism and growing uncertainty around several key European elections. The Japanese yen and Mexican peso declined significantly after Trump's win given their sensitivity to the potential impact of tougher trade policies. Emerging markets were buffeted by the USD headwind and the prospect for higher rates, as both factors pose risks to the flow of cheap liquidity. Uncertainty increased in the wake of the U.S. election, and developing market equities saw a sharp reduction in inflows while bond markets experienced net outflows, particularly local currency bonds. Asian bonds and currencies fared the worst, given their export-driven economies and the questions surrounding future trade policies. Meanwhile, select Latin American countries fared better, with many currencies considered undervalued, and government reforms and stabilization in the commodity complex supporting the potential for stronger growth.

REPRESENTATIVE CHARACTERISTICS*

	PORTFOLIO
Average Credit Quality[4]	B
Yield to Maturity (%)	5.68
Effective Duration (Yrs.)	1.62
Average Coupon (%)	5.04

SECTOR BREAKDOWN*

GROSS NOTIONAL EXPOSURE % OF PORTFOLIO	
Corporate Bond - HY	22.44
Leveraged Loans	14.46
MBS Subprime	12.61
MBS Agency CMBS	12.06
Prime MBS - Non-U.S.	9.96
Prime MBS - U.S.	8.62
Government Sovereign	5.09
Corporate Bond - IG	3.35
MBS Non- Agency CMBS	2.58
Cash	7.11
Currency Forward P/L	0.92
Credit Default Swap (Notional %)	23.70

RISK STATISTICS*

	3 YEAR	SINCE INC.
Net Return (%)	3.18	12.51
Standard Deviation (%)	4.27	7.19
Sharpe Ratio	0.72	1.73
Max Draw Down (%)	9.41	9.41

COUNTRY & CURRENCY ALLOCATION*

COUNTRIES	% OF PORTFOLIO
United States	70.33
Brazil	12.01
United Kingdom	7.04
Jamaica	3.23
Spain	2.92
Argentina	2.73
Derivative P/L	1.73

CURRENCIES	% OF PORTFOLIO
US Dollar	92.98
Brazilian Real	7.59
Argentine Peso	2.73
Euro	-3.30

CREDIT RATINGS*

	% OF PORTFOLIO
BBB & Higher	23.8
BB	7.4
B	30.9
CCC-C	19.0
NR	18.9

[4] The "Average Credit Quality" is determined as follows: In line with the methodology used by Barclays Global indices, the middle rating from the three rating agencies (S&P, Moody's, and Fitch) will be assigned to each security. In the event that ratings are provided by only two agencies, the lowest rating will be assigned. If only one agency assigns a rating, that rating will be applied. If the security is not rated by one of the three major agencies, it is given a rating equivalent to a defaulted bond. The equivalent numerical rating is assigned to each security based on the Security Level scale. A Portfolio Level scale is applied on the weighted average calculation to round for fractional numerical ratings and then converted to an alpha weighted average rating. Cash is included and receives the highest rating.

*Supplemental Information to the attached Global Alternative Credit GIPS-compliant presentation.

POSITIONING

- Corporate credit exposure was 62.7% at the end of the quarter, a segment of the fixed income market that we have increased throughout 2016 due to attractive valuations. Corporate bonds were 25.8% of the portfolio with 13% in emerging market corporates and the remaining in the U.S. Bank loans were 13.2% and credit default swap exposure was 23.7% (notional). On the synthetic side, we had 15.5% in U.S. high yield CDX, a credit default swap index, and 5.2% in European Senior Financials.
- Structured credit exposure was 45.8% with 37.3% in U.S. RMBS and CMBS and 9.4% in European RMBS. Within the U.S., 12% was in multi-family mezzanine bonds, 12% in Alt-A and subprime bonds, and 8.6% in agency credit risk transfer securities. A majority of the European RMBS exposure was in the U.K.
- Sovereign exposure was 5.1%, split between Brazil and Argentina local currency debt. With inflation declining and some reforms being passed, the Brazilian central bank will begin to aggressively cut rates in early 2017. Continued structural reforms will be an important driver for both of these Latin American markets in 2017.
- The countries with the greatest exposure at the end of the quarter were the U.S. (70.3%), Brazil (12.0%), and the U.K. (7.0%). We increased exposures to Brazil and Argentina by 3.8% and 2.1%, respectively, and exited Indonesia.
- From a currency standpoint, we maintained a net short position in the euro given the lingering economic weakness and geopolitical volatility across the region; however, we trimmed the short from -7.9% to -3.3%. Argentine peso exposure was increased to 2.7% from 0.7% with the increase of local currency sovereign bonds. Brazilian real remained unchanged for the quarter at 7.6%, and the USD was at 93%.
- Portfolio yield to maturity was 5.68%, average credit quality was B, and effective duration was 1.62 years at the end of December.

MONTHLY COMPOSITE PERFORMANCE ($USD)*

GROSS (%)	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2016	-1.66	-0.95	2.38	0.93	-0.56	0.18	2.87	1.73	0.56	0.38	-1.03	2.01
2015	1.82	-0.08	0.21	-0.19	0.09	-1.76	-0.77	-0.68	-1.03	-1.64	0.30	-0.30
2014	1.57	1.21	1.50	2.11	1.63	1.64	-0.29	0.48	1.88	-1.12	0.72	-0.48
2013	2.27	0.35	0.32	1.48	0.61	-2.22	0.00	0.25	0.44	3.26	0.74	1.25
2012	2.41	3.99	2.11	-0.37	1.12	0.94	1.97	3.16	0.82	0.28	1.69	0.53
2011	3.98	3.91	2.04	1.05	1.63	1.55	-0.21	2.66	-0.24	-0.97	0.77	2.25
2010	-	-	-	-	-	-	-	-	10.25	9.81	6.18	0.79

NET (%)	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2016	-1.76	-1.05	2.28	0.83	-0.66	0.08	2.76	1.63	0.46	0.28	-1.13	1.91
2015	1.71	-0.18	0.10	-0.29	-0.02	-1.87	-0.87	-0.79	-1.13	-1.74	0.19	-0.40
2014	1.43	1.07	1.35	1.96	1.48	1.50	-0.39	0.37	1.78	-1.22	0.62	-0.59
2013	2.12	0.20	0.17	1.33	0.46	-2.37	-0.15	0.11	0.29	3.11	0.60	1.10
2012	2.26	3.84	1.97	-0.51	0.97	0.79	1.82	3.01	0.67	0.13	1.55	0.39
2011	3.83	3.77	1.89	0.91	1.49	1.40	-0.35	2.51	-0.39	-1.11	0.62	2.11
2010	-	-	-	-	-	-	-	-	10.10	9.66	6.04	0.64

LIBOR+600 (%)	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2016	0.53	0.53	0.54	0.53	0.54	0.54	0.54	0.55	0.55	0.56	0.56	0.56
2015	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.52	0.53
2014	0.51	0.50	0.51	0.50	0.50	0.51	0.51	0.50	0.51	0.51	0.50	0.51
2013	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.50	0.51
2012	0.53	0.53	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.51	0.51	0.51
2011	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.52	0.52	0.53
2010	-	-	-	-	-	-	-	-	0.51	0.51	0.51	0.51

*Supplemental Information to the attached Global Alternative Credit GIPS-compliant presentation.
Past performance is no guarantee of future results.

MARKET OUTLOOK

We do not expect the year ahead to be much different from 2016 in that 2017 will be a year of uncertainty and surprises. Global economic growth already increased momentum since the middle of 2016. Following Trump's win, the market's expectation of the growth trend and future inflation accelerated dramatically. U.S. dollar strengthening and the selloff in Treasuries had the effect of tightening financial conditions. It remains to be seen what economic policies Trump will announce beginning in January. The risk is that markets could be disappointed with the implementation, or in some cases the rejection, of his campaign promises. We also must contend with multiple European elections and China's 19th Congress power transition later this year. We will closely monitor the dynamism of those geopolitical risks out of Europe, as well as the financial risks out of China.

We are positive on global credit markets going forward given the pro-growth policy stance from the new U.S. administration. We continue to favor Brazil as we expect its rate-cut cycle should continue. However, we will continue to assess the political risk and possible negative impacts on emerging markets from potentially tighter financial conditions stemming from higher rates and a strong dollar. With higher mortgage rates, housing markets will face headwinds due to lower affordability. However, mortgage rates are not the only factor that drives housing market demand. With a better labor market, higher consumer confidence, and potential higher wage growth, we believe housing market fundamentals are still solid, while the lack of housing supply will continue to drive solid housing price growth of 4% to 5% growth next year. We are still constructive on the non-agency MBS market and credit risk transfer (CRT) MBS market, as we expect their floating rate characteristics will benefit from a rising rate environment.

The 3-month US Dollar (USD) LIBOR (London Interbank Offered Rate) interest rate is the average interest rate at which a selection of banks in London are prepared to lend to one another in US dollars with a maturity of 3 months. Indices are unmanaged and not available for direct investment.

Global Alternative Credit Composite | As of December 31, 2016 | Results shown in USD - Final

ANNUALIZED RETURNS

	COMPOSITE RETURN GROSS OF FEES (%)	COMPOSITE RETURN NET OF FEES (%)	US 3 MONTH LIBOR + 600BPS (%)
QTD	1.34	1.03	1.69
YTD	6.94	5.62	6.74
1 YEAR	6.94	5.62	6.74
3 YEAR	4.55	3.18	6.42
5 YEAR	8.41	6.81	6.39
SINCE INCEPTION 9/2010	14.25	12.51	6.38

CALENDAR YEAR RETURNS

YEAR OR YTD	COMPOSITE RETURN GROSS OF FEES (%)	COMPOSITE RETURN NET OF FEES (%)	US 3 MONTH LIBOR + 600BPS (%)	NUMBER OF ACCOUNTS	MARKET VALUE (MILLIONS)	TOTAL FIRM ASSETS (MILLIONS)	COMPOSITE DISPERSION (%)	COMPOSITE ST. DEV. (% 3-YEAR ROLLING)	US3MLIBOR600 ST. DEV. (% 3-YEAR ROLLING)
2016	6.94	5.62	6.74	4	501	65,498	N/M	4.30	0.07
2015	-4.01	-5.21	6.31	4	918	68,819	N/M	4.18	0.02
2014	11.35	9.71	6.23	3	837	63,375	N/M	4.21	0.03
2013	9.00	7.12	6.27	1	48	50,050	N/M	4.79	0.03
2012	20.23	18.17	6.44	1	34	42,894	N/M	N/M	N/M
2011	19.91	17.86	6.34	1	4	33,122	N/M	N/M	N/M
2010	29.56	28.85	2.06	1	3	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, 2015, 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

The Global Alternative Credit Composite (the "Composite") Inception date: September 1, 2010. Creation date: September 1, 2010. The Composite includes all fully discretionary, fee-paying, actively managed Global Alternative Credit accounts with no composite minimums. The investable universe is generally comprised of high yield corporate bonds rated below BBB- or Baa3 by at least one rating agency and non-agency mortgage-backed and other mortgage related securities that are trading at distressed prices The Strategy may also consider investment in unrated securities deemed to be of comparable quality, and may also take positions in bank loans, defaulted bonds and bank loans, investment grade corporate bonds, US Treasuries, credit default swaps, emerging market debt, equities (listed and unlisted), preferred stock, convertible securities, and currencies. In addition, the Strategy may also utilize futures, leverage, and take short positions in various investment instruments (including but not limited to equity index futures, equities, bonds, loans, CDS, etc.) to manage the beta and directionality of the portfolio. The portfolios are typically invested in 20-50 securities.

Benchmark

London-Interbank Offered Rate (LIBOR) - British Bankers Association Fixing for US Dollar. The rate is an average derived from the quotations provided by the banks determined by the British Bankers' Association. BBA USD LIBOR is calculated on an ACT/360 basis and for value for two business days after the fixing. An annual return of 6.00% is then added to the return.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.