Global Alternative Credit Review

Fixed Income Relative Value - 3Q 2017

STRATEGY ASSETS: $617 million
PERFORMANCE: The strategy returned 1.94% gross (net of fees 1.63%) for the 3rd quarter.
NOTE: The Global Alternative Credit strategy was formerly called Global Credit Opportunities.

COMPOSITE PERFORMANCE[1]

GLOBAL ALTERNATIVE CREDIT COMPOSITE ($USD) AS OF SEPTEMBER 30, 2017

% RETURN	QTD	YTD	ONE YEAR	THREE YEAR	FIVE YEAR	SEVEN YEAR	SINCE INCEP.[2]
Gross	1.94	8.90	10.37	3.48	6.82	12.62	14.02
Net	1.63	7.90	9.01	2.20	5.32	10.94	12.32
LIBOR+600[3]	1.78	5.35	7.13	6.66	6.50	6.47	6.47

[1]Supplemental information to attached Global Alternative Credit GIPS-compliant composite 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 1.94% (1.63% net of fees) for the third quarter. High-conviction positions in high yield bonds generated the largest contribution to performance for the third quarter. Within high yield, Brazilian credit added the most to performance, including exposure to an oil and gas producer, a holding in a beef producer, and a position in financials. Other credit positions that contributed to performance included a North American onshore energy exploration and production company, and a Caribbean telecom provider. Emerging market sovereign holdings also added to results with exposure to Argentine sovereign credit exposure, and Brazilian local-currency debt contributed the most to returns within this sector. Structured credit holdings also contributed to performance during the third quarter with European residential mortgage-backed securities (RMBS) adding the most value in the quarter, as well as U.S. commercial mortgage-backed securities (CMBS). While U.S. RMBS performed well in July, this performance was offset in August and September due to the impact of hurricanes on valuations. Therefore, positions in three prime non-agency RMBS were the greatest detractors to performance. However, stress tests revealed that these securities are covered even under extreme severity and cumulative default rate assumptions. A tactical short position in the Japanese yen also detracted from performance, though we have since closed the position.

POSITIONING

The largest changes to the portfolio came from reducing exposure to riskier credit positions given

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valuations in the context of the economic cycle; we closed those positions in favor of cash and cash equivalents. Mortgage backed securities (MBS) and bank loan positions accounted for the majority of the shift in exposure. Sales within the MBS sector were primarily comprised of credit risk transfer securities and agency multi-family CMBS, both of which have exhibited strong year-to-date performance. Within bank loans, we closed technology and telecom positions, and a position in a loan issued by a pharmaceutical company was called after the issuer was acquired. The majority of credit exposure was within higher-quality MBS tranches with a higher degree of credit enhancement, corporate debt exposure—including corporate issuers within select emerging markets—and exposure to select Latin American emerging market sovereign debt through both local-currency bond positions and dollar-denominated credit default swaps (CDS).

We reduced duration by more than two years, primarily as a result of MBS sales and changes to developed market interest-rate risk positioning. We closed a long position in the 10-year U.S. treasury in favor of a short position in German bund futures for a net reduction of over one year of duration exposure. We also adjusted currency positioning during the quarter. We increased exposure to the Brazilian real, Mexican peso, and euro by reducing U.S. dollar exposure and liquidating the Argentine peso position.

MARKET COMMENTARY

Global credit market spreads continued to compress during the quarter, supported by improving growth, an uptick in manufacturing, and stronger corporate earnings. Higher beta corporates, including U.S. and European high yield and emerging market credit, generally outperformed investment grade and lower-volatility sectors. Despite the resurgence of regional political risk, the European Central Bank (ECB) signaled the future of its asset purchase program will be addressed at the October meeting as eurozone growth continued to exceed expectations. Once underway, reducing the ECB's asset purchases could put upward pressure on European corporate and sovereign yields, which have been trading at expensive levels. Improving growth helped propel the euro against the dollar for the quarter. The Polish zloty also benefitted from the European growth story, due to the strength of domestic indicators like employment, manufacturing, and exports.

REPRESENTATIVE CHARACTERISTICS*

	PORTFOLIO
Average Credit Quality[4]	BBB
Yield to Maturity (%)	3.68
Effective Duration (Yrs.)	1.17
Average Coupon (%)	3.29

SECTOR BREAKDOWN*

GROSS NOTIONAL EXPOSURE % OF PORTFOLIO	
Government Sovereign	42.20
Prime MBS - U.S.	12.01
Credit Default Swap (Notional %)	11.97
Corporate Bond - HY	11.93
Prime MBS - Non-U.S.	8.92
MBS Agency CMBS	8.49
Cash	4.89
MBS Non prime	3.90
MBS Non- Agency CMBS	3.18
Leveraged Loans	2.01
Corporate Bond - IG	1.72
ABS	0.75
Currency Forward P/L	-0.02
Futures (Notional %)	-4.86

RISK STATISTICS*

	3 YEAR	SINCE INC.
Net Return	2.20	12.32
Standard Deviation	4.14	6.85
Sharpe Ratio	0.46	1.77
Max Drawdown	9.41	9.41
Time to Recovery	11.00	11.00

COUNTRY & CURRENCY ALLOCATION*

COUNTRIES	% OF PORTFOLIO
United States	74.89
Brazil	10.88
United Kingdom	5.65
Spain	3.28
Jamaica	2.72
Mexico	1.64
Peru	0.89
European Union	0.05
Indonesia	0.00
Derivative P/L	-0.01

CURRENCIES	% OF PORTFOLIO
US Dollar	88.32
Brazilian Real	4.54
Euro	4.49
Mexican Peso	1.64
Peruvian Nuevo	0.89
British Pound	0.12

CREDIT RATINGS*

	% OF PORTFOLIO
BBB & Higher	59.9
BB	17.3
B	7.4
CCC-C	5.6
D	0.9
NR	8.9

[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 composite presentation.

The U.S. RMBS market continued to benefit from improving economic conditions and solid housing fundamentals, although the aftereffects of a series of hurricanes may cause a short-term deterioration. Although the U.S. dollar continued to decline against several major currencies, it slightly rebounded in September after being largely oversold for the year. After falling over consecutive quarters, the 10-Year U.S. treasury yield reversed course and rose over the third quarter due to a combination of factors. The rise in the 10-year yield was attributed to unexpectedly strong purchasing manager index (PMI) data, stabilizing commodity prices, an upward revision to second quarter U.S. GDP, the Federal Reserve's reaffirmed commitment to normalization, and the unveiling of a preliminary framework for tax reform. Generally, developed market yields were range-bound for the quarter because of mixed global inflation data, escalating geopolitical tension with North Korea, political uncertainty in Europe, and a series of natural disasters. Despite the cap in high-quality sovereign yields, market volatility remained low, allowing risk assets to perform well in a yield-seeking environment.

MONTHLY COMPOSITE PERFORMANCE ($USD)*

GROSS (%)	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YR^
2017	2.35	0.61	0.94	0.94	1.21	0.61	1.97	-0.43	0.41				8.90
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	6.94
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	-4.01
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	11.35
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	9.00
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	20.23
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	19.91
2010	-	-	-	-	-	-	-	-	10.25	9.81	6.18	0.79	29.56

NET (%)	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YR^
2017	2.24	0.50	0.84	0.83	1.10	0.51	1.87	-0.54	0.30				7.90
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	5.62
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	-5.21
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	9.71
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	7.12
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	18.17
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	17.86
2010	-	-	-	-	-	-	-	-	10.10	9.66	6.04	0.64	28.85

LIBOR+600 (%)	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YR^
2017	0.57	0.56	0.58	0.57	0.58	0.59	0.59	0.59	0.59				5.35
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	6.74
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	6.31
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	6.23
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	6.27
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	6.44
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	6.34
2010	-	-	-	-	-	-	-	-	0.51	0.51	0.51	0.51	2.06

*Supplemental Information to the attached Global Alternative Credit GIPS-compliant presentation.
^Calendar year returns or year-to-date returns.
Past performance is no guarantee of future results.

Emerging market assets benefitted from this environment, with domestic equity indices, bonds, and currencies posting notable gains for the period. Strong investor demand also fueled emerging market debt issuance. Improving commodity prices helped countries like Brazil and Russia recover from recessions, with the ruble and the real both appreciating. China is expected to keep growth and volatility stable ahead of the important 19th National Congress, which could extend the favorable environment for emerging economies.

OUTLOOK

We believe stable global growth, limited inflation, and gradual tightening by developed market central banks can last through the fourth quarter. With these conditions, credit and select emerging market debt—in the form of hard-currency corporate credit and local-currency sovereigns—

should continue to present value within the fixed income universe. Furthermore, in our view, a benign default environment will provide a supportive backdrop for lower-quality credit instruments at current valuations. We remain most constructive on U.S. dollar-denominated high yield opportunities in the Latin American region, and the U.S. In Europe, some geopolitical risks moderated with the resolution of the German elections— although some concerns remain regarding the strength of the AfD's showing and the effect this could have on the 2018 Italian election; however, many investors remain focused on valuations of fixed income risk assets, which are perceived to be at extreme levels. Overall, we recognize the possibility that a combination of political risk in Europe and the U.S., mixed economic data, lower credit expansion in China, and less accommodative global central bank policy could cause market volatility. Therefore, we plan on managing these risks by continuing to invest in high-conviction U.S. high yield bonds, as well as select local-currency emerging market debt, including both sovereign and corporate instruments. Opportunistic hedging in CDS indices, interest rate futures contracts, and the use of U.S. treasuries should act as a risk-off ballast, and currency management is another tactic that may provide downside protection while allowing us to maintain core positions during times of volatility.

Global Alternative Credit Composite | As of September 30, 2017 | Results shown in USD - Final

ANNUALIZED RETURNS

	COMPOSITE RETURN GROSS OF FEES (%)	COMPOSITE RETURN NET OF FEES (%)	US 3 MONTH LIBOR + 600BPS (%)
QTD	1.94	1.63	1.78
YTD	8.90	7.90	5.35
1 YEAR	10.37	9.01	7.13
3 YEAR	3.48	2.20	6.66
5 YEAR	6.82	5.32	6.50
7 YEAR	12.62	10.94	6.47
SINCE INCEPTION 9/2010	14.02	12.32	6.47

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)
2017	8.90	7.90	5.35	4	577	73,890	N/M	4.14	0.10
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, 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

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.