

Legg Mason Investments  
Luxembourg domiciled FCP - Part 1

Report Issued: January 2009

**Peer Group:**

US High Yield

**Investment Objective:**

Total Return

**Fund Manager/Adviser:**

Michael Buchanan (since July 2006)

**Location:** Pasadena

**Launch Date:** April 2002

**Fund Size (August 2008):**

US\$89m

**Fund Benchmark:**

Citigroup High Yield Bond Index

**Group Contact No:**

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**Website:**

www.leggmason.co.uk

**S&P ID Number:** OS357357

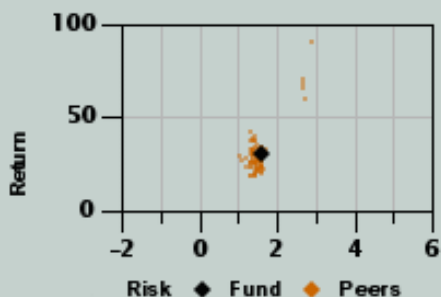
**Share Class screened:** A Ord USD



### INVESTMENT STYLE

	Inv Grade	Blend	Sub Inv Grade
Govt			
Corp			
Emerging			

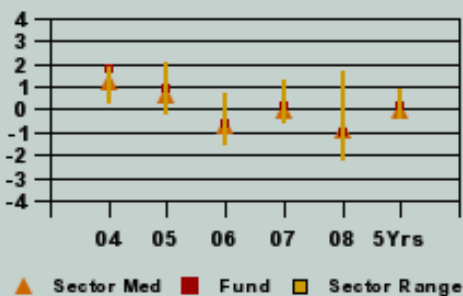
### RISK RETURN (STD DEVIATION) OVER 5 YEARS



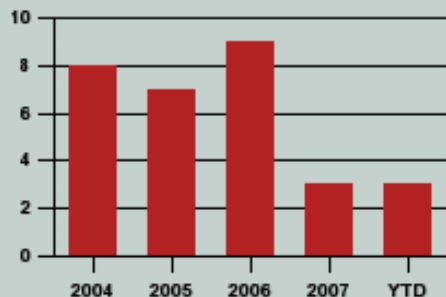
### 3 YEAR RISK CHARACTERISTICS

Maximum Drawdown (%)	Medium	-8.2
Volatility	Medium	5.7
Correlation	High	1.0
Beta	High	1.1

### SHARPE RATIO VS PEER GROUP



### CALENDAR YEAR DECILE RANKS



Decile ranking in annual periods. 1st decile shown as rank 10, 2nd decile as rank 9, etc. to 10th decile as Rank 1.

Further information on S&P's fund coverage can be found at

[www.funds.standardandpoors.com](http://www.funds.standardandpoors.com)

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### STANDARD & POOR'S OPINION (SEPTEMBER 2008)

This fund has been run since July 2006 by Western Asset Management, Legg Mason's specialist fixed income subsidiary based in Pasadena.

Fund manager Michael Buchanan heads Western's high yield team and is supported by another portfolio manager and a team of analysts. The team is unusually stable, with no departures in the past nine years. Western's process is team driven and the investment committee sets top-down macro themes, which are adapted to fit the various mandates. This is less relevant for this fund, where about 70% of the predicted tracking error and returns comes from sector and security-specific positions generated by the analysts and approved by Buchanan. The portfolio is very similar to the Dublin-domiciled Western US High Yield Fund managed by the same team.

The fund was top quartile in 2006 despite the costs associated with reorganising the portfolio. However, it started to underperform the peer group from Q3 2007, which has continued through 2008. The team added risk relatively early on into the credit crisis and the fund has suffered from continued spread widening since. Security selection has generally been successful, save credit impairment to a couple of holdings. It also suffered from sizeable investor withdrawals in 2007, which partly explains relative underperformance against its Dublin-domiciled sister fund.

Legg Mason's value approach to investing has adversely affected the fund's relative performance over the past nine months. Despite this, the stable, experienced team and well-constructed process enable the fund to retain its S&P A/V5 rating.

### FACT FILE

**Group:** Legg Mason Investments is part of Legg Mason Inc, a global asset management company with a history stretching to 1899, and listed on the NYSE since 1983. After acquiring the asset management part of Citigroup in December 2005, Legg Mason became the fifth-largest money manager in the US.

**Team:** The global credit team of 19 is responsible for high yield. It includes two portfolio managers, 14 analysts, two dedicated traders and a risk analyst.

**Fund Manager:** Michael Buchanan has 18 years' portfolio management experience, most of which

has been focused on high yield credit. He joined Western Asset Management in 2005.

**Style:** The fund objective is to outperform the Citigroup High Yield Bond index. The investment style is driven by fundamental analysis of relative value.

**Performance:** Over the five years to 31/07/2008, the fund has returned 31.1%, compared with 27.2% for the sector median and 39.2% for the index, ranking 26/83.

### FUND MANAGER & TEAM

Western Asset Management, based in Pasadena, is owned by Legg Mason. It is a specialist fixed income manager with more than 140 investment professionals managing over \$600bn.

The global credit team of 19 is responsible for high yield. It includes two portfolio managers, 14 analysts, two dedicated traders and a risk manager. Each analyst has sector responsibility for high yield and investment grade issues.

Michael Buchanan - graduate (Brown University), CFA, started with Conseco Asset Management in 1990. He was a high yield manager with BlackRock from 1998 to 2003. He joined Western Asset Management in 2005 from Credit Suisse.

Ian Edmonds - graduate (University College, London), started his career with Bacon & Woodrow. In 1994 he joined Lehman Brothers Global Asset Management, later acquired by Western Asset Management. He covers European high yield markets.

## PORTFOLIO CHARACTERISTICS

No. of holdings	270
Turnover ratio (%)	66
Modified duration (years)	4.38
Portfolio yield (%)	11.85

## SOURCES OF RETURN (01/08/08)

	Low Emphasis	Average Emphasis	High Emphasis
Portfolio Duration	██████████		
Credit Spreads			██████████
Country / Sectors		██████████	
Yield Curve Positioning	██████████		
Currency Exposure			
Alt. Fixed Income	██████████		
Derivatives	██████████		
Trading Strategies			
Quant. Value Techniques			

## BREAKDOWN BY CREDIT RATING (01/08/08)

	%
Debentures	0.0
AAA	0.0
AA	1.0
A	2.0
BBB	6.0
BB	27.0
B	48.0
CCC & below	16.0
Unrated securities	0.0

Units III permits net fund exposure to be less or greater than 100%.

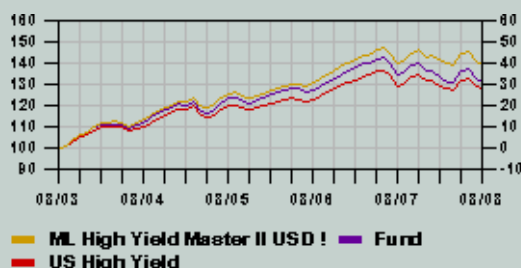
## ALLOCATION BREAKDOWN (01/08/08)

	Fund %
Cash	2.0
Corporate Bonds	96.0
Other	0.0
Governments/Supranational	2.0
Preference shares	0.0
Convertibles	0.0

## PERFORMANCE STATISTICS

	3 Years	5 Years
Fund	6.3%	31.1%
Standard & Poor's Peer Median	6.9%	27.2%
Index **	11.0%	39.2%
Fund Rank	61/93	26/83
Annualised Standard Deviation	5.7	-
Relative Standard Deviation	1.1	-
Volatility Adjusted Ranking	65/93	-

## CUMULATIVE PERFORMANCE



# LEGG MASON GLOBAL FUNDS FCP (LUXEMBOURG) LEGG MASON US\$ HIGH YIELD BOND FUND

Peer Group:US High Yield



## MANAGEMENT STYLE

- The fund's objective is to outperform the Citigroup High Yield Bond index.
- The investment style is driven by fundamental analysis of relative value.
- The manager applies a team-based approach, taking bets relative to the benchmark index, based on the credit analysts' research convictions.
- The investment process begins with broad top-down themes and sector views, but the main emphasis is on relative value-driven stock selection. The team favours companies that show stable free cashflow over a market cycle and have good covenants.
- The global credit team meets weekly to discuss stock selection ideas, typically focusing on a different sector at each session.
- The portfolio is normally broadly diversified with about 140-180 issuers held. The fund guidelines allow it to have up to 25% in non-US names, but the manager mainly sticks to US-based investments. Portfolio duration is usually kept within 10% of the benchmark position.
- Risk control focuses on bets taken relative to the index. Off-benchmark bets, such as EMD investments, will not normally exceed 15% in aggregate. Tools used by the manager include Credit Delta, Lehman Point and an in-house attribution model.

## PORTFOLIO REVIEW

The team was marginally overweight credit in the first half of 2007 and bought high coupon issues to keep spread duration within bounds. They increased beta further in October after the first leg down of the credit crunch, on the expectation the downturn would not be so deep or prolonged. The fund was overweight building materials at the end of the year, but underweight homebuilders. It was also overweight energy and aerospace/defence but was underweight in financials, although

did hold high-beta names such as GMAC and ResCap.

Credit beta has remained overweight. The team is reasonably sanguine about fundamentals and note that companies have better cashflow compared to the 2001 and 2002 bear market in credit. However, with the fund being close to its tracking error limit, the manager would be unlikely to extend risk if markets cheapened further.

## PERFORMANCE ANALYSIS (AUGUST 2008)

This fund was previously managed by Citigroup. Western has only been responsible for it since July 2006, so the historical track record is of limited relevance.

An overweight exposure to credit beta has been the primary detractor, as have overweight positions in GMAC and ResCap. It also suffered from sizeable outflows when the market was illiquid in 2007 and this cost about 25bps. Some performance has been recovered through decent security selection and an overweight in the capital goods, utilities and energy sectors.

The fund recorded top-quartile performance in 2006, but has struggled against the peer group subsequently with performance lagging the median in both 2007 and over 2008 to date (to end-July). Since July 2006, the fund has underperformed the benchmark by 88bps annualised (before fees).

## DISCRETE PERFORMANCE (CALENDAR YEARS)

	2004		2005		2006		2007		YTD 31/07/2008	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	10.0	23/86	2.2	37/93	10.7	19/97	0.1	72/99	-4.0	74/99
Index**	10.9		2.7		11.8		2.2		-2.9	
Median	8.5		1.6		9.1		0.8		-2.8	

\*\* ML High Yield Master II USD!

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