



Legg Mason, Inc.

Second Quarter FY 2011 Review

October 27, 2010

Mark R. Fetting
Chairman & CEO

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Interim Chief Financial Officer

Forward-Looking Statements

This presentation may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements are not statements of facts or guarantees of future performance, and are subject to risks, uncertainties and other factors that may cause actual results to differ materially from those discussed in the statements.

For a discussion of these risks and uncertainties, please see “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2010 and in the Company’s quarterly reports on Form 10-Q.

Business Developments

- Net Income \$75M, \$0.50 per diluted share
 - Results include:
 - \$11.6M pre-tax transition costs related to our streamlining initiative
 - \$8.9M United Kingdom tax benefit
- Adjusted Income¹ \$115M, \$0.76 per diluted share
- Investment performance at many of our affiliates continues to be strong
- Streamlining initiatives
 - Implementation began July 1st
 - Solid progress on transition
- Executed Share Repurchase
 - Repurchased 1.7M shares during the quarter
 - In total 11.4M shares have been repurchased in the past two quarters
- Board announced a 50% increase in the quarterly dividend to \$0.06 per share

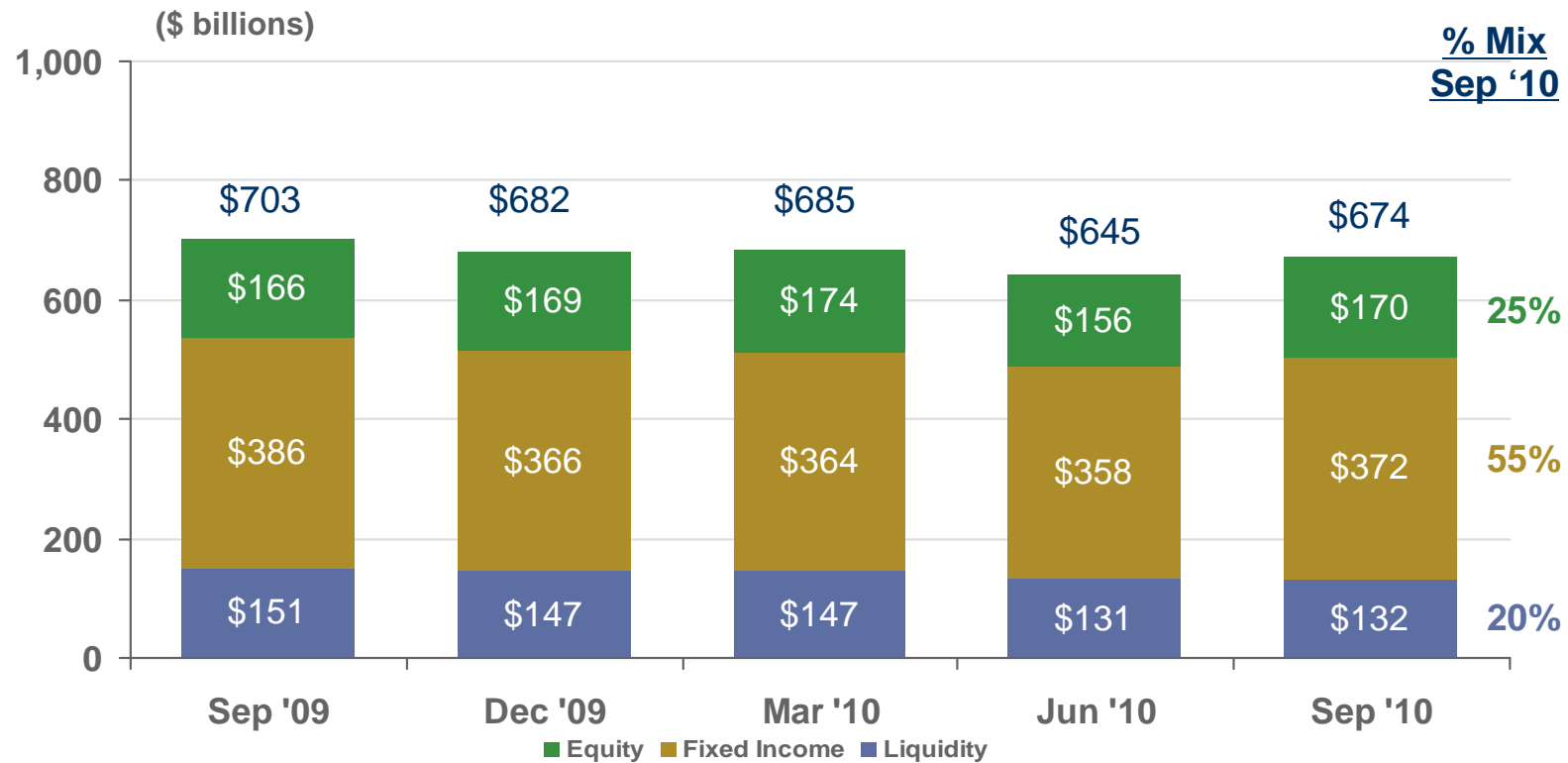
¹ See Appendix A for GAAP reconciliation

Note: Adjusted income was formerly reported as “Cash income, as adjusted”

Streamlined Legg Mason Business Model



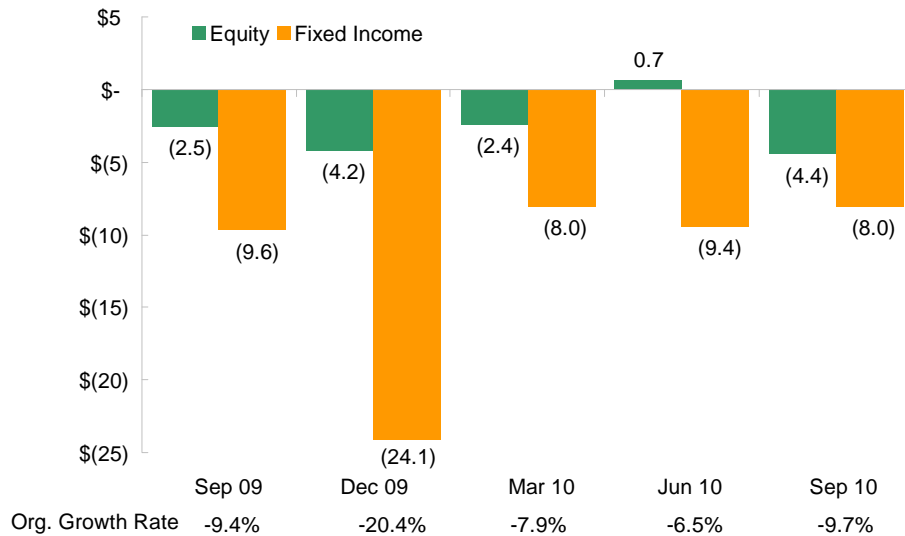
Assets Under Management by Asset Class



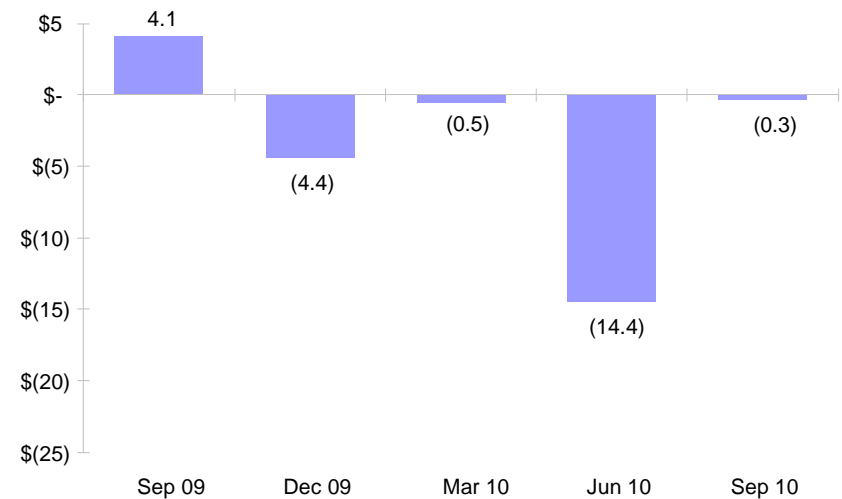
- AUM increased approximately \$28B or 4%. Market appreciation on long term AUM was \$41B
- Retail liquidity sweep business expected to convert to a third party proprietary platform in June 2011 quarter

Net Flows

Long Term Net Flows (\$ billions)



Liquidity Net Flows (\$ billions)



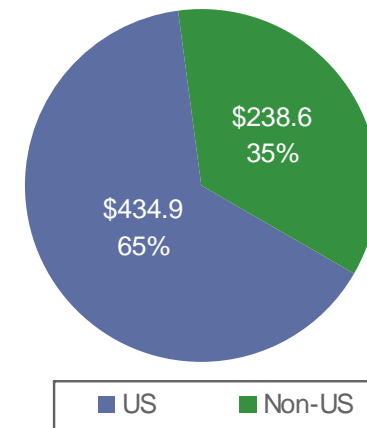
- Prior quarter equity flows included \$1.3B for the ClearBridge closed-end fund launch
- Equity outflows were higher, following the industry trend
- Fixed Income outflows driven by two large redemptions
- Permal flows positive for two consecutive quarters

Assets Under Management (\$ billions)

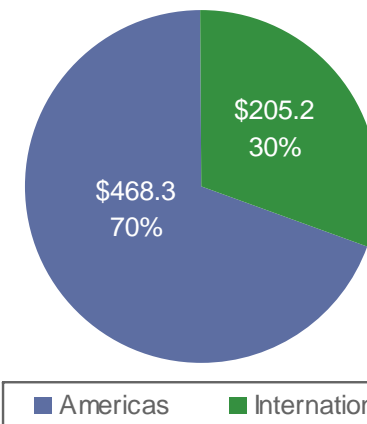
AUM by Affiliate ¹	Sep '10 AUM	Jun '10 AUM	Sep '09 AUM
Western Asset	\$ 469.1	\$ 456.7	\$ 505.5
Permal Group	18.5	17.9	18.2
ClearBridge	51.3	47.1	52.4
Royce & Associates	34.0	31.0	28.7
LM Capital Mgmt	15.5	14.8	16.8
Batterymarch	22.0	19.5	20.4
Brandywine	31.4	29.4	29.2

% Change vs	
Jun '10	Sep '09
3 %	(7)%
3 %	1 %
9 %	(2)%
10 %	18 %
5 %	(8)%
13 %	8 %
7 %	7 %

AUM by Client Domicile



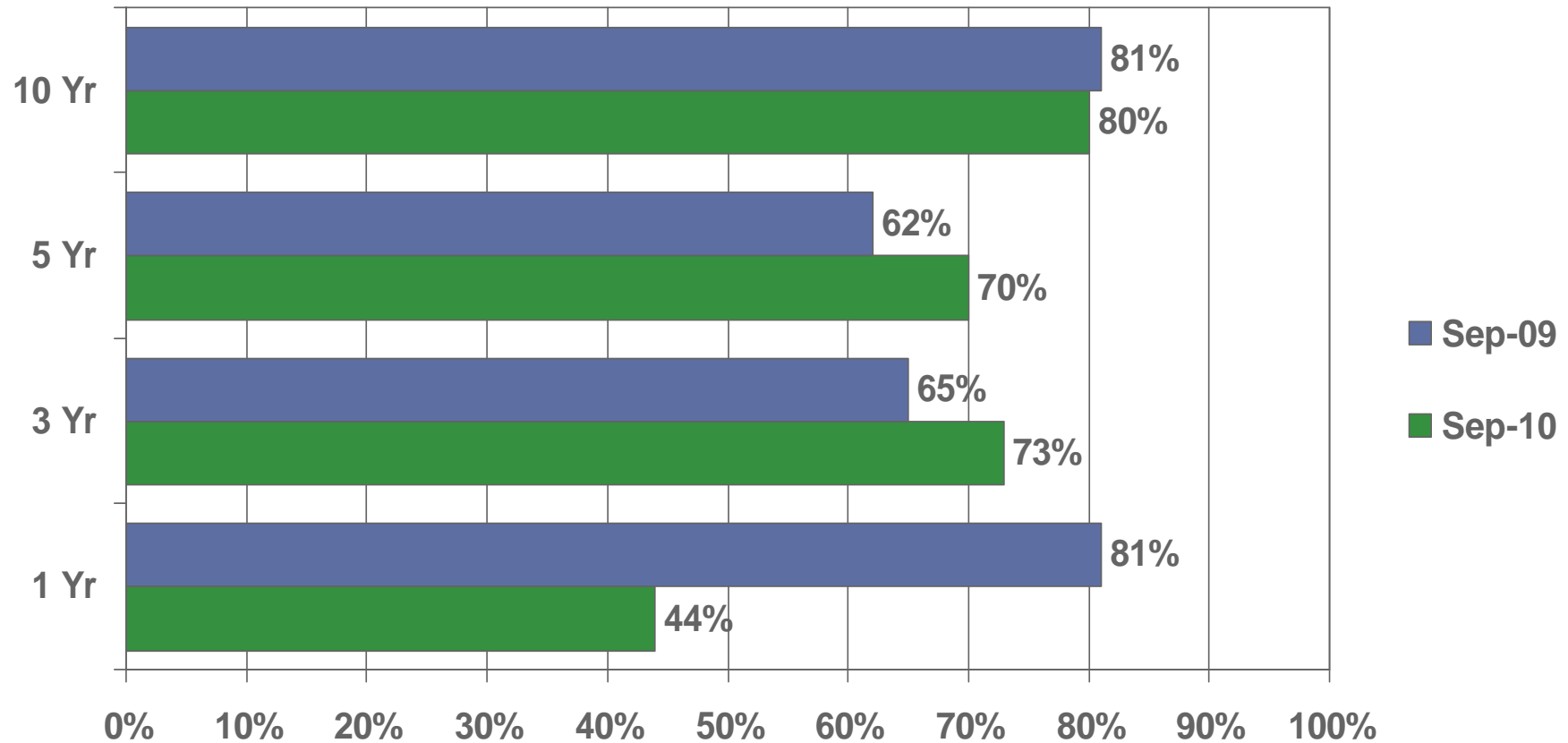
AUM by Division



¹ Primary affiliates ordered by contribution to fiscal year to date 2011 pre-tax earnings

Long-Term Fund Performance

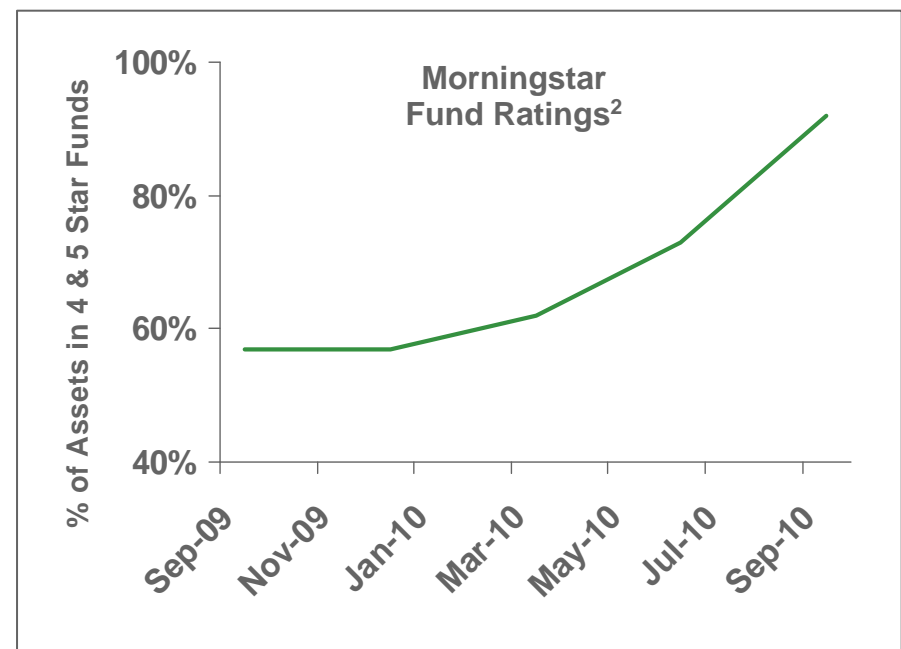
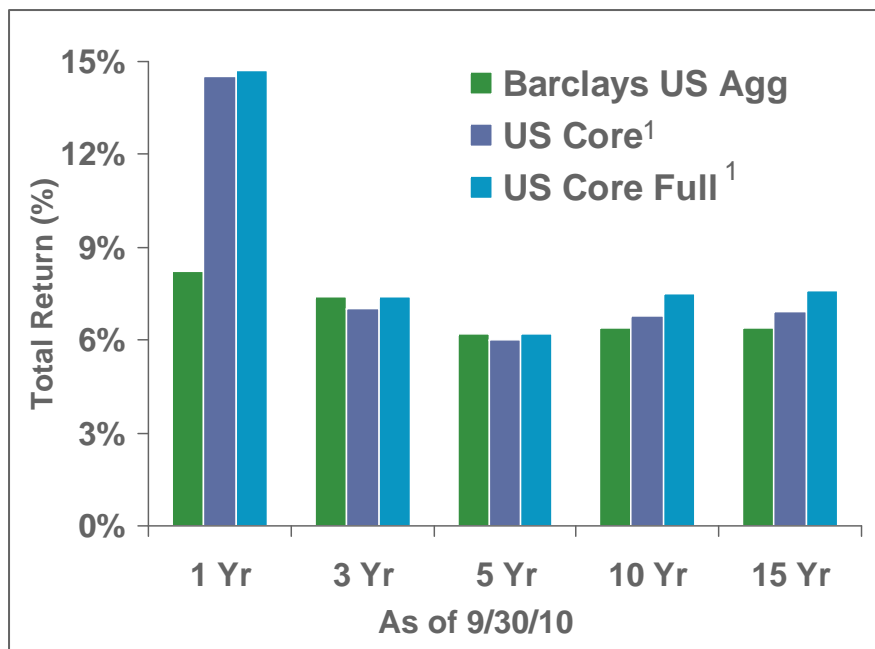
% of Long-Term U.S. Fund Assets beating Lipper Category Average¹



¹ Includes open-end, closed-end, and variable annuity funds. Source: Lipper Inc.

Past performance is no guarantee of future results. The information shown above does not reflect the performance of any specific fund. Individual fund performance will differ.

Western Update



Legacy Runoff

- Global sovereign product in low rate environment
- Some continued institutional move to passive
- Variable annuity mandate

Incremental Growth

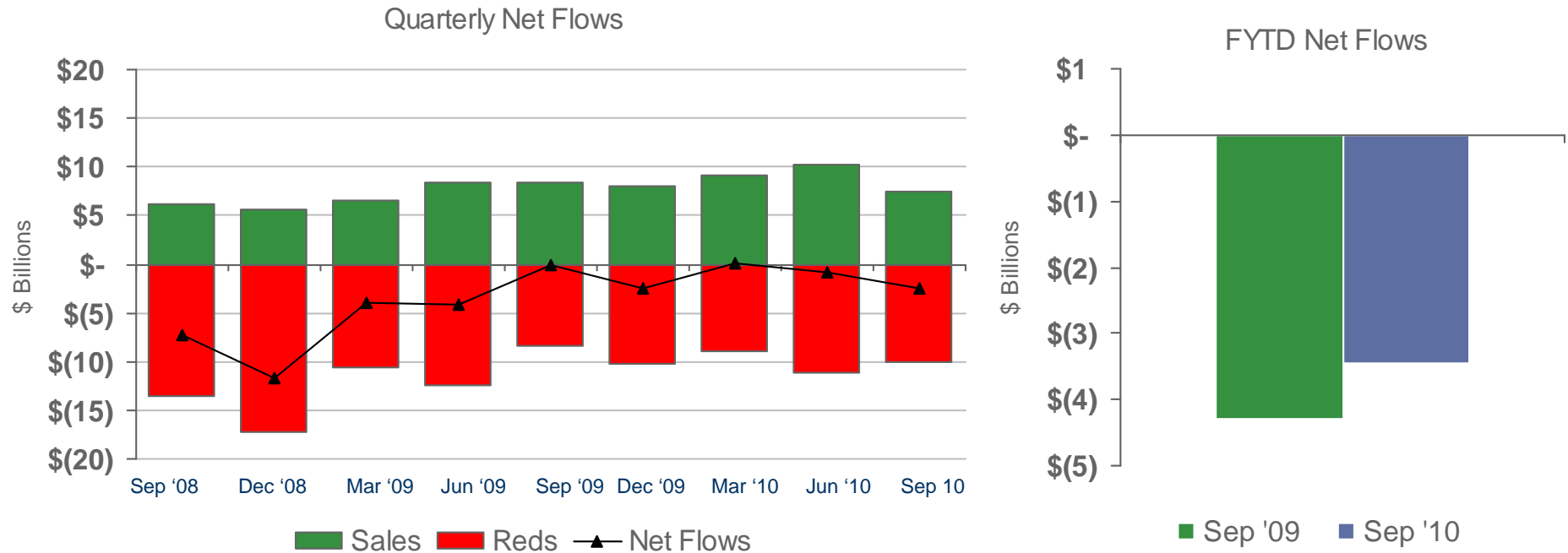
- Emerging local currency
- Global multi-sector
- Municipal bonds
- Brazil & Australia AUM at all-time high

All performance shown is historical and past performance is no guarantee of future results

¹ Please see GIPS endnotes at the end of this presentation for complete performance information

² The information shown above does not reflect the ratings of any specific fund. Individual fund ratings will differ. Includes Western Institutional fund family. Source: Morningstar.

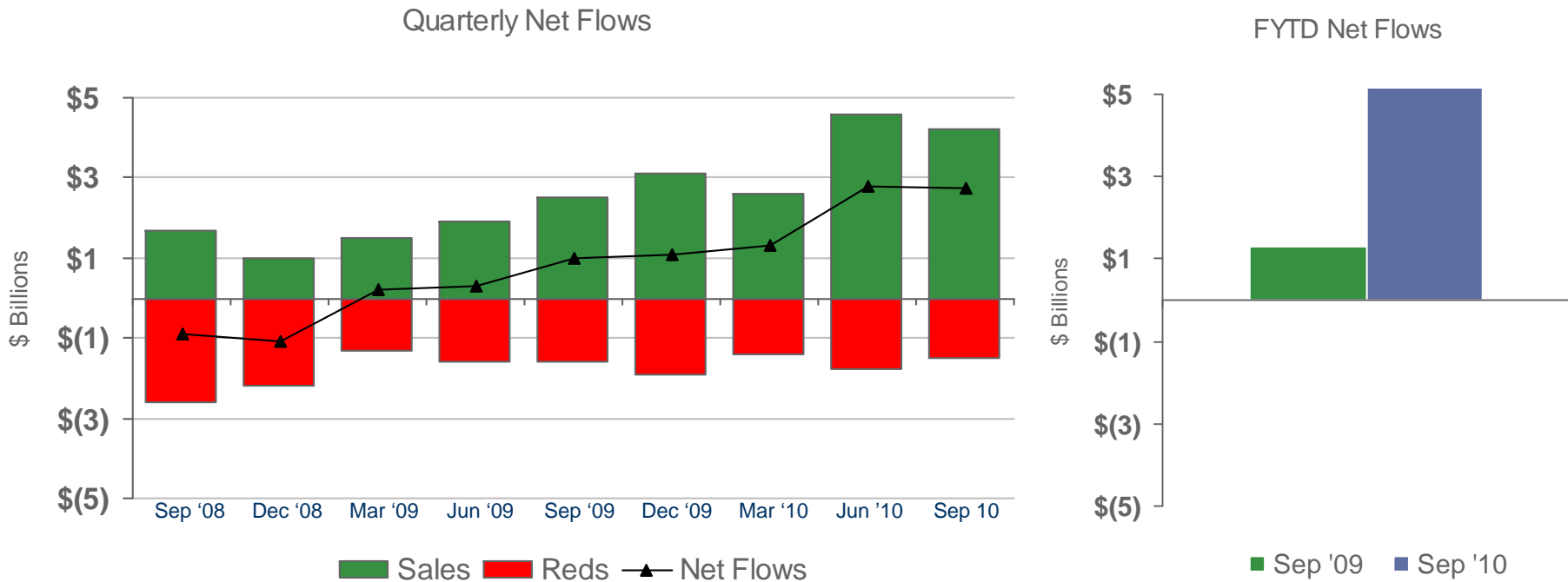
Americas Distribution Long-Term Flow Trends



- Gross sales last quarter included \$1.3B related to the closed-end fund launch
- Quarterly decline in mutual funds sales, and our September quarter redemption rates were both in line with the industry
- Of the \$3.5B in net outflows for FYTD, 75% relates to a single sub-advisory client

Represents sales, redemptions and net flows by Legg Mason's centralized Americas distribution operations

International Distribution Long-Term Flow Trends



- International long-term net flows have been positive for the past seven quarters
- YTD 2010 compared to YTD 2009, net flows have increased \$4.0B

Represents sales, redemptions and net flows by Legg Mason's centralized International distribution operations

Investing with Affiliates and New Product Launches

Product Launches:

Top 10 product launches since 2007

Fund	Launch Date	Assets at Sep-10
LM Brazilian Government Bond Fund	Oct-08	\$ 2.9B
LM Global Plus	Aug-07	\$ 1.8B
RLJ WAM Public Private Master Fund	Nov-09	\$ 1.4B
ClearBridge Energy MLP Fund Inc.	Jun-10	\$ 1.3B
Legg Mason Global Multi Sector Strategy Fund	May-08	\$ 698M
Legg Mason Batterymarch US Large Cap Equity Fund	Apr-08	\$ 516M
Legg Mason Western Asset Asian Opportunities Bond Fund	Jul-08	\$ 389M
Western Global Corporate Defined Opportunity Fund Inc.	Nov-09	\$ 306M
Western Municipal Defined Opportunity Trust Inc.	Mar-09	\$ 258M
Western Investment Grade Defined Opportunity Fund Inc.	Jun-09	\$ 231M

Financial Highlights Second Quarter FY 2011

- Net Income, \$75M, \$0.50 per diluted share
- In second quarter FY 2011
 - Average AUM of \$659B, down \$10B or 1% from the prior quarter
 - Operating revenues \$675M, up slightly from prior quarter
 - One additional day and decreased fee waivers largely offset lower average AUM and performance fees
 - Operating expenses of \$587M increased by 3% primarily due to an increase in MTM on deferred compensation and seed investments
 - Operating income \$88M, operating margin 13.0%
 - Adjusted income¹ \$115M or \$0.76 per diluted share
 - Operating margin, as adjusted¹, 24.1%

¹ See Appendix for GAAP reconciliation

Note: Adjusted income was formerly reported as “Cash income, as adjusted”

Operating Results Second Quarter FY 2011

(\$ millions, except per share amounts)	Sep 10 Qtr	Jun 10 Qtr	Sep 09 Qtr	\$ Change vs.	
				Jun 10	Sep 09
Operating Revenues	\$ 674.8	\$ 674.2	\$ 659.9	\$ 0.6	\$ 14.9
Operating Expenses	586.9	571.4	582.0	15.5	4.9
Operating Income	87.9	102.8	77.9	(14.9)	10.0
Net Income	75.3	47.9	45.8	27.4	29.5
Diluted EPS	0.50	0.30	0.30	0.20	0.20
Adjusted Income¹	115.0	96.3	90.0	18.7	25.0
Adjusted Income per diluted share	0.76	0.60	0.59	0.16	0.17
Operating Margin, as adjusted¹	24.1%	20.9%	21.0%		
Effective Tax Rate	25.9%	37.5%	36.9%		

¹ See Appendix for GAAP reconciliation

Note: Adjusted income was formerly reported as "Cash income, as adjusted"

Operating Expenses

(\$ millions)

	Sep '10	Jun '10	% Chg	Sep '09	% Chg
Compensation and benefits	\$ 295.9	\$ 268.8	10%	\$ 287.6	3%
Distribution and servicing	165.8	184.7	(10%)	174.4	(5%)
Communications and technology	39.3	40.0	(2%)	40.5	(3%)
Occupancy	33.5	33.7	(1%)	35.7	(6%)
Amortization of intangible assets	5.7	5.7	0%	5.7	2%
Other	46.7	38.5	21%	38.1	22%
Total Operating Expenses	<u>\$ 586.9</u>	<u>\$ 571.4</u>	3%	<u>\$ 582.0</u>	1%

- September 2010 quarter includes \$11.6M in transition costs related to the streamlining initiative
- June 2010 quarter includes \$17.6M of closed-end fund launch expenses
- Other expense increase driven by operating losses and legal reserves of \$5M and annual costs for promotional and governance related expenses incurred during the September quarter

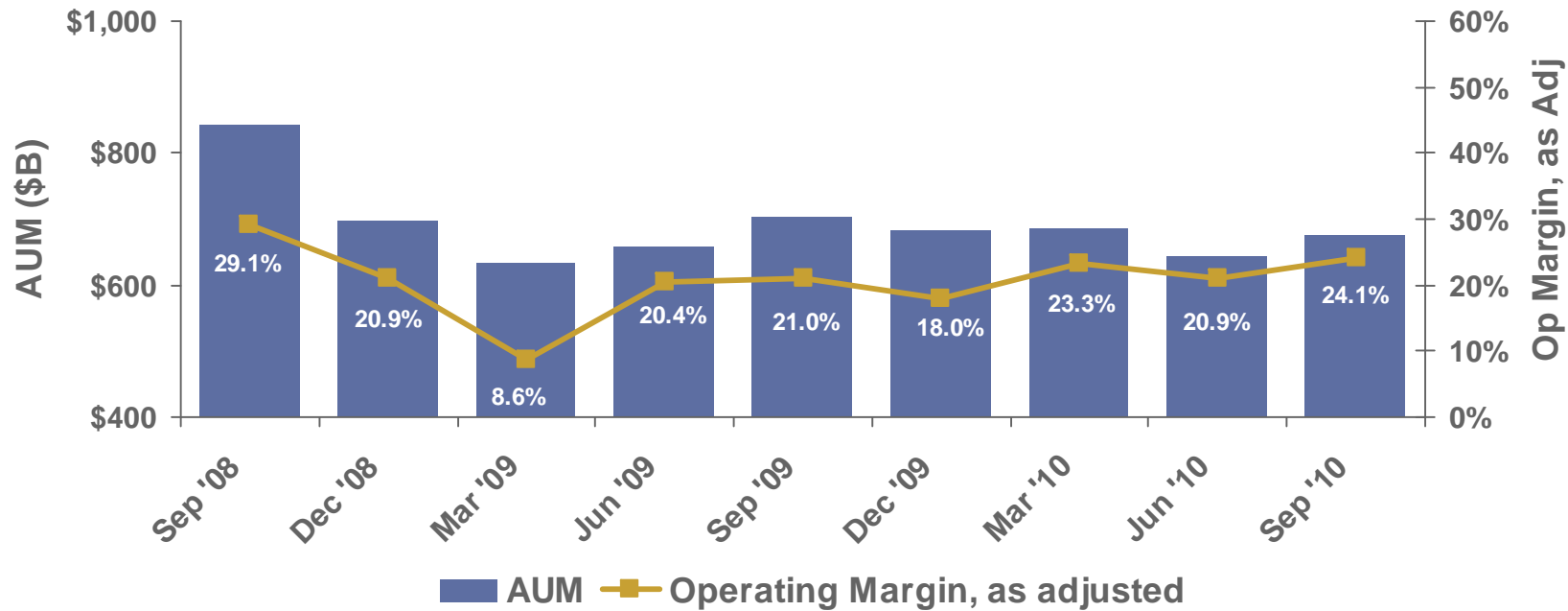
Compensation and Benefits

(\$ millions)	Sep 10	% of Net Rev. ¹	Jun 10	% of Net Rev.	\$ Change
Salary and incentives	\$ 217.3	43%	\$ 224.3	46%	\$ (7.0)
Benefits and payroll taxes	<u>44.5</u>	<u>8%</u>	<u>46.0</u>	<u>9%</u>	<u>(1.5)</u>
Subtotal Compensation and benefits	261.8	51%	270.3	55%	(8.5)
Transition-related costs and severance	12.0	2%	3.1	1%	8.8
MTM deferred comp. and seed investments	<u>22.1</u>	<u>5%</u>	<u>(4.6)</u>	<u>(1%)</u>	<u>26.7</u>
Total Compensation and Benefits	<u>\$ 295.9</u>	58%	<u>\$ 268.8</u>	55%	<u>\$ 27.1</u>

- Reduction in compensation and benefits (excluding transition costs and MTM) is driven by operating losses and legal reserve activity related to investment management affiliates.
- Compensation transition-related costs included in current quarter \$11.0 million

¹ Net revenue is equal to operating revenues, as adjusted

Operating Margin, as Adjusted



- June 2010 and September 2010 quarters exclude \$3.2M and \$11.6M, respectively, of transition expenses related to the streamlining initiative
- Operating margin, as adjusted, is the highest in two years

Note: See Appendix for GAAP reconciliation

\$1B Board Authorized Share Repurchase

- 11.4M shares have been repurchased in the past two quarters

Shares	Transaction
0.5M	Open market repurchase - May 2010
9.2M	Accelerated Share Repurchase – June 2010
1.0M	Additional shares retired when ASR closed - August 2010
0.7M	Open market share repurchase - September 2010
11.4M	Total shares repurchased under \$1B Board Authorization announced last quarter

- \$664M remains of the Board authorized stock repurchase of up to \$1B
- Cash & cash equivalents remains strong at \$1.3B, allowing for flexibility in continued share repurchases
- Expect to repurchase up to \$80M of shares by end of FY 2011, subject to market and company performance, actual cash flows and other capital needs

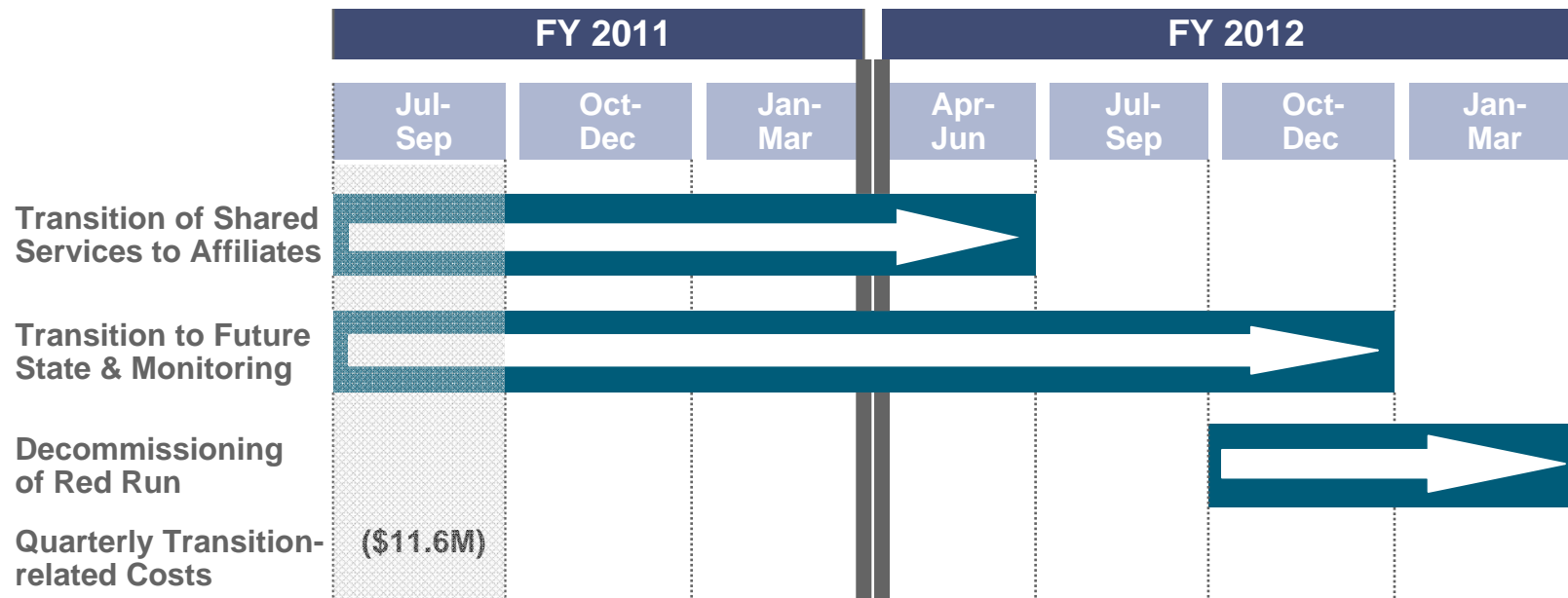
Update on Streamlining our Business Model

- Continue to make progress on transition plans at the corporate and affiliate levels
- No change expected from targets
- Expect \$130M - \$150M savings to be fully realized on a run rated basis by fourth quarter FY 2012
- Restructuring and related costs are estimated between \$125M - \$135M
- Anticipate third quarter results will include approximately \$15M in transition-related costs
- Expect 6-8% of margin improvement when fully implemented

Achievement of all projected savings and margin improvements, as well as amount of restructuring and transition related costs, will be affected by many factors, including market conditions and other factors affecting the financial results of Legg Mason and the affiliates and the rate of assets under management growth. Actual results may differ materially from projected amounts.

Timing and Financial Impact of Streamlining

Expenses associated with streamlining initiative YTD total \$14.7M



	FY 2011	FY 2012	F4Q12	Run Rate Q4 FY 2012
Estimated Total Impact	(\$35M)	\$0	\$35M	\$140M

Achievement of all projected savings and margin improvements, as well as amount of restructuring and transition-related costs, will be affected by many factors, including market conditions and other factors affecting the financial results of Legg Mason and the affiliates and the rate of assets under management growth. Actual results may differ materially from projected amounts.

Closing Comments

- Strategic Priorities
 - Partner with affiliates for franchise expansion
 - Enhance growth through lift outs, bolt-ons and new product investment
 - Streamline our business model
 - Effectively deploy capital

Appendix

Appendix - GAAP Reconciliation

Consolidated Statement of Income excluding Investment Vehicles¹

(\$ millions)	Quarter Ended September 30, 2010			Quarter Ended June 30, 2010			Quarter Ended September 30, 2009		
	GAAP Basis	Consolidated Investment Vehicles	Non-GAAP Basis - Excluding Investment Vehicles	GAAP Basis	Consolidated Investment Vehicles	Non-GAAP Basis - Excluding Investment Vehicles	GAAP Basis	Consolidated Investment Vehicles	Non-GAAP Basis - Excluding Investment Vehicles
Operating Revenues:									
Investment advisory fees	\$ 581.2	\$ 0.9	\$ 582.1	\$ 576.4	\$ 0.8	\$ 577.2	\$ 563.9	\$ 0.6	\$ 564.5
Distribution and service fees	92.3	0.0	92.4	96.3	0.0	96.3	94.6	0.0	94.7
Other	1.3	-	1.3	1.4	-	1.4	1.4	-	1.4
Total operating revenues	674.8	1.0	675.8	674.2	0.8	674.9	659.9	0.6	660.5
Operating Expenses:									
Compensation and benefits	295.9	-	295.9	268.8	-	268.8	287.6	-	287.6
Distribution and servicing	165.8	-	165.8	184.7	(0.0)	184.7	174.4	-	174.4
Other	125.2	(0.5)	124.7	117.9	(0.5)	117.4	120.1	0.4	120.5
Total operating expenses	586.9	(0.5)	586.4	571.4	(0.5)	570.9	582.0	0.4	582.4
Operating Income	87.9	1.5	89.4	102.8	1.2	104.0	77.9	0.2	78.1
Other Non-Operating Income (Expense):									
Net interest income (expense)	(22.3)	-	(22.3)	(21.0)	-	(21.0)	(26.8)	-	(26.8)
Fund Support	-	-	-	-	-	-	5.6	-	5.6
Other income (expense)	37.7	(2.7)	35.0	(9.7)	1.7	(8.0)	18.3	(1.7)	16.6
Other non-operating income (expense)	15.4	(2.7)	12.7	(30.7)	1.7	(29.0)	(2.9)	(1.7)	(4.6)
Income Before Income Tax Provision	103.3	(1.2)	102.1	72.1	2.9	75.0	75.0	(1.5)	73.5
Income tax provision	26.7	-	26.7	27.1	-	27.1	27.7	-	27.7
Net Income	76.6	(1.2)	75.4	45.0	2.9	48.0	47.3	(1.5)	45.8
Less: Net income (loss) attributable to noncontrolling interests	1.3	(1.2)	0.1	(2.9)	2.9	0.1	1.5	(1.5)	0.0
Net Income Attributable to Legg Mason, Inc.	\$ 75.3	\$ 0.0	\$ 75.3	\$ 47.9	\$ -	\$ 47.9	\$ 45.8	\$ (0.0)	\$ 45.8
Effective Income Tax Rate	25.9%			37.5%			36.9%		
Effective Income Tax Rate Excluding Consolidated Investment Vehicles			26.2%			36.1%			37.7%

¹ See explanations for Use of Supplemental Data as Non-GAAP Performance Measures.

Appendix – GAAP Reconciliation Adjusted Income¹

	Quarters Ended		
	Sep 10	Jun 10	Sep 09
(\$ millions, except per share amounts)			
Net Income attributable to Legg Mason, Inc.	\$ 75.3	\$ 47.9	\$ 45.8
Plus (Less):			
Amortization of intangible assets	5.7	5.7	5.7
Deferred income taxes on intangible assets:			
Tax amortization benefit	33.7	33.7	34.0
UK tax rate adjustment	(8.9)	-	-
Imputed interest on convertible debt	9.1	8.9	8.6
Net money market fund support gains ²	-	-	(4.0)
Adjusted Income	<u>\$ 115.0</u>	<u>\$ 96.3</u>	<u>\$ 90.0</u>
Net Income per Diluted Share attributable to Legg Mason, Inc. common shareholders	\$ 0.50	\$ 0.30	\$ 0.30
Plus (Less):			
Amortization of intangible assets	0.04	0.04	0.04
Deferred income taxes on intangible assets:			
Tax amortization benefit	0.22	0.21	0.22
UK tax rate adjustment	(0.06)	-	-
Imputed interest on convertible debt	0.06	0.05	0.05
Net money market fund support gains ²	-	-	(0.02)
Adjusted Income per Diluted Share	<u>\$ 0.76</u>	<u>\$ 0.60</u>	<u>\$ 0.59</u>

¹ See explanations for Use of Supplemental Data as Non-GAAP Performance Measures.

² Net of income taxes.

Note: Adjusted income was formerly reported as "Cash income, as adjusted"

Appendix – GAAP Reconciliation

Operating Margin, as adjusted¹

(\$ millions)	Quarters Ended								
	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10
Operating Revenues, GAAP basis	\$ 966.1	\$ 720.0	\$ 617.2	\$ 613.1	\$ 659.9	\$ 690.5	\$ 671.4	\$ 674.2	\$ 674.8
Plus (Less):									
Operating revenues eliminated upon consolidation of investment vehicles	-	-	1.2	0.8	0.6	0.9	0.5	0.8	1.0
Distribution and servicing expense excluding consolidated investment vehicles	(279.0)	(202.5)	(180.6)	(172.4)	(174.4)	(177.6)	(167.4)	(184.7)	(165.8)
Operating Revenues, as adjusted	<u>\$ 687.2</u>	<u>\$ 517.5</u>	<u>\$ 437.8</u>	<u>\$ 441.4</u>	<u>\$ 486.1</u>	<u>\$ 513.7</u>	<u>\$ 504.5</u>	<u>\$ 490.3</u>	<u>\$ 509.9</u>
Operating Income (Loss)	\$ 220.2	\$ (1,073.0)	\$ (45.3)	\$ 58.3	\$ 77.9	\$ 79.1	\$ 105.8	\$ 102.8	\$ 87.9
Plus (Less):									
Gains (losses) on deferred compensation and seed investments	(19.9)	(44.0)	(1.9)	31.4	24.1	12.6	11.2	(4.6)	22.1
Transition-related costs	-	-	-	-	-	-	-	3.2	11.6
Operating income and expenses of consolidated investment vehicles	-	-	1.9	0.3	0.2	0.8	0.8	1.2	1.5
Impairment charges	-	1,225.1	82.9	-	-	-	-	-	-
Operating Income, as adjusted	<u>\$ 200.3</u>	<u>\$ 108.1</u>	<u>\$ 37.6</u>	<u>\$ 90.0</u>	<u>\$ 102.2</u>	<u>\$ 92.5</u>	<u>\$ 117.8</u>	<u>\$ 102.6</u>	<u>\$ 123.1</u>
Operating margin, GAAP basis	22.8%	-149.0%	-7.3%	9.5%	11.8%	11.5%	15.8%	15.2%	13.0%
Operating margin, as adjusted	29.1%	20.9%	8.6%	20.4%	21.0%	18.0%	23.3%	20.9%	24.1%

¹ See explanations for Use of Supplemental Data as Non-GAAP Performance Measures.

Appendix – Performance Disclosure

US Core Investment Grade Futures & Options Composite

US Core Investment Grade Futures & Options Composite								
Composite Inception: 1/1/89 Composite Creation: 1/1/00								
	No. of Accts	Mkt. Value (US\$mil)	Net Total Return	Gross Total Return	Benchmark Return	% Firm Assets	Dispersion	Firm Assets (US\$mil)
2000	27	\$7,996	12.85%	13.19%	11.63%	10.45%	0.36%	\$76,504
2001	23	\$5,490	9.06%	9.39%	8.44%	5.83%	0.48%	\$94,186
2002	25	\$8,468	9.93%	10.25%	10.26%	7.55%	0.69%	\$112,087
2003	24	\$9,919	5.94%	6.26%	4.10%	6.69%	1.04%	\$148,333
2004	26	\$11,411	5.24%	5.55%	4.34%	5.77%	0.33%	\$197,837
2005	26	\$9,700	2.02%	2.33%	2.43%	3.89%	0.32%	\$249,233
2006	27	\$11,334	5.45%	5.76%	4.33%	2.22%	0.93%	\$510,172
2007	24	\$11,797	3.06%	3.37%	6.97%	1.90%	1.44%	\$621,493
2008	21	\$7,142	-9.24%	-8.96%	5.24%	1.41%	3.21%	\$505,660
2009	20	\$7,126	19.38%	19.73%	5.93%	1.48%	5.16%	\$482,218
YTD2010	20	\$6,450	11.49%	11.74%	7.94%	1.37%	1.64%	\$469,406

Description: Western Asset's US Core composite includes portfolios that employ an active, team-managed investment approach around a long-term, value-oriented investment philosophy. These portfolios use diversified strategies and all investment-grade sectors of the fixed-income market in seeking to add value while minimizing risk.

Objective: Exceed the benchmark return by 75 basis points annually over the course of a market cycle while approximating benchmark risk.

Benchmark Description: The current benchmark is the Barclays Capital U.S. Aggregate Index. The 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 asset-backed securities.

Base Currency: USD | **Composite Minimum:** US\$25 million

Fee Schedule: .30 of 1% on first US\$100 million, .20 of 1% on amounts over US\$100 million. The minimum separate account size is US\$75 million

Western Asset has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

The Firm has been verified for the period from January 1, 1993 to December 31, 2009. Past investment results are not indicative of future investment results.

For GIPS® purposes, the Firm is defined as Western Asset, a primarily fixed-income investment manager comprised of Western Asset Management Company, Western Asset Management Company Limited, Western Asset Management Company Pte. Ltd., Western Asset Management Company Ltd, Western Asset Management Company Pty Ltd, and Western Asset Management Company Distribuidora de Títulos e Valores Mobiliários (DTVM) Limitada, with offices in Pasadena, New York, London, Singapore, Tokyo, Melbourne and São Paulo. Each Western Asset company is a wholly owned subsidiary of Legg Mason, Inc. ("Legg Mason") but operates autonomously, and Western Asset, as a firm, is held out to the public as a separate entity. Western Asset Management Company was founded in 1971.

The former Citigroup Brazil's asset management business, located in São Paulo, was integrated into Western Asset Management Company DTVM Limitada (previously known as Western Asset Management Company Limitada), and was subsequently incorporated into the definition of the Firm in March 2009.

The Firm is comprised of several entities as a result of various historical acquisitions made by Western Asset and their respective performance has been integrated into the Firm in line with the portability requirements set forth by GIPS.

The Composite is valued monthly. The Composite returns are the asset-weighted average of the performance results of all the accounts in the Composite. Investment advisory fees are not deducted in computing the gross of fee performance results. Net of fee results are calculated using the highest tier structure of the composite fee schedule. The portfolios in the composites are all actual, fee-paying and performance fee-paying, fully discretionary accounts managed by the Firm for at least one full month. Investment results shown are for taxable and tax-exempt accounts and include the reinvestment of all earnings. Any possible tax liabilities incurred by the taxable accounts have not been reflected in the net performance. Composite performance results are time-weighted net of trading commissions and other transaction costs including non-recoverable withholding taxes. Additional information regarding policies for calculating and reporting returns is available upon request.

The returns for the accounts in the Composite are calculated using a time-weighted rate of return adjusted for weighted cash flows. Prior to September 1, 2001, the Firm revalued each account when an external cash flow equal to or greater than 10% occurred in an account. Monthly performance returns prior to and after the date of the cash flow were calculated and geometrically linked to derive a monthly performance return. Effective September 1, 2001, the cash flow threshold was changed to 5% of each account's market value. The decrease in the threshold was made to enhance the accuracy of the accounts' returns. The returns for commingled funds in the Composite are calculated daily using net asset value (NAV). Trade date accounting is used since inception and market values include interest income accrued on securities held within the accounts.

Performance is calculated using asset values denominated in a base currency. Composite assets at year-end presented in the Schedule are translated to U.S. dollars using end of year exchange rates.

Composite returns are measured against a market index. The market index is unmanaged and provided to represent the investment environment existing during the time periods shown. For comparison purposes, the market index is a fully invested index, which includes reinvestment of income, and its performance has been linked in the same manner as the Composite. The returns for this unmanaged index do not include any transaction costs, management fees or other costs.

The Composite dispersion of annual returns is measured by the standard deviation of asset-weighted account returns represented within the Composite. For each annual period, accounts with less than 12 months of returns are not represented in the dispersion calculation. Periods with five or fewer accounts are not statistically representative and are not presented. Where account guidelines permit, futures and options are used to implement new account strategies with minimum cost to the account. Futures and options may also be used occasionally to hedge market exposure or add incremental value at the margin.

A complete list and description of Western Asset's composites is available upon request. Please contact Veronica A. Amici at 626•844•9535 or ramici@westernasset.com. All returns for strategies with inception prior to January 1, 2000 are available upon request.

For more information on Western Asset visit www.westernasset.com

Appendix – Performance Disclosure

US Core Full Below Investment Grade Futures & Options Composite

US Core Full Below Investment Grade Futures & Options Composite

	No. of Accts	Mkt. Value (US\$mil)	Composite Inception: 2/1/93		Composite Creation: 1/1/00		Dispersion	Firm Assets (US\$mil)
			Net Total Return	Gross Total Return	Benchmark Return	% Firm Assets		
2000	42	\$15,378	11.68%	12.01%	11.63%	20.10%	0.49%	\$76,504
2001	51	\$18,028	9.58%	9.91%	8.44%	19.14%	0.74%	\$94,186
2002	72	\$25,131	9.56%	9.89%	10.26%	22.42%	0.71%	\$112,087
2003	87	\$32,627	9.46%	9.79%	4.10%	22.00%	1.56%	\$148,333
2004	126	\$44,905	6.99%	7.31%	4.34%	22.70%	0.77%	\$197,837
2005	154	\$56,580	2.81%	3.11%	2.43%	22.70%	0.46%	\$249,233
2006	176	\$73,608	5.91%	6.22%	4.33%	14.43%	0.69%	\$510,172
2007	180	\$83,506	3.35%	3.65%	6.97%	13.44%	1.10%	\$621,493
2008	162	\$56,859	-10.22%	-9.95%	5.24%	11.24%	3.14%	\$505,660
2009	138	\$56,242	21.24%	21.59%	5.93%	11.66%	4.90%	\$482,218
YTD2010	121	\$55,063	11.52%	11.76%	7.94%	11.73%	1.29%	\$469,406

Description: Western Asset's US Core Full Discretion composite includes portfolios that employ an active, team-managed investment approach around a long-term, value-oriented investment philosophy. These portfolios use diversified strategies and all sectors of the fixed-income market in seeking to add value while minimizing risk.

Objective: Exceed the benchmark return by 115 basis points annually over the course of a market cycle while approximating benchmark risk.

Benchmark Description: The current benchmark is the Barclays Capital U.S. Aggregate Index. The 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 asset-backed securities.

Base Currency: USD | **Composite Minimum:** US\$25 million

Fee Schedule: .30 of 1% on first US\$100 million, .20 of 1% on amounts over US\$100 million. The minimum separate account size is US\$75 million. This strategy is also available versus the Barclays Capital U.S. Universal Bond Index. Fee schedule available upon request.

Western Asset has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

The Firm has been verified for the period from January 1, 1993 to December 31, 2009. Past investment results are not indicative of future investment results.

For GIPS® purposes, the Firm is defined as Western Asset, a primarily fixed-income investment manager comprised of Western Asset Management Company, Western Asset Management Company Limited, Western Asset Management Company Pte. Ltd., Western Asset Management Company Ltd, Western Asset Management Company Pty Ltd, and Western Asset Management Company Distribuidora de Títulos e Valores Mobiliários (DTVM) Limitada, with offices in Pasadena, New York, London, Singapore, Tokyo, Melbourne and São Paulo. Each Western Asset company is a wholly owned subsidiary of Legg Mason, Inc. ("Legg Mason") but operates autonomously, and Western Asset, as a firm, is held out to the public as a separate entity. Western Asset Management Company was founded in 1971.

The former Citigroup Brazil's asset management business, located in São Paulo, was integrated into Western Asset Management Company DTVM Limitada (previously known as Western Asset Management Company Limitada), and was subsequently incorporated into the definition of the Firm in March 2009.

The Firm is comprised of several entities as a result of various historical acquisitions made by Western Asset and their respective performance has been integrated into the Firm in line with the portability requirements set forth by GIPS.

The Composite is valued monthly. The Composite returns are the asset-weighted average of the performance results of all the accounts in the Composite. Investment advisory fees are not deducted in computing the gross of fee performance results. Net of fee results are calculated using the highest tier structure of the composite fee schedule. The portfolios in the composites are all actual, fee-paying and performance fee-paying, fully discretionary accounts managed by the Firm for at least one full month. Investment results shown are for taxable and tax-exempt accounts and include the reinvestment of all earnings. Any possible tax liabilities incurred by the taxable accounts have not been reflected in the net performance. Composite performance results are time-weighted net of trading commissions and other transaction costs including non-recoverable withholding taxes. Additional information regarding policies for calculating and reporting returns is available upon request.

The returns for the accounts in the Composite are calculated using a time-weighted rate of return adjusted for weighted cash flows. Prior to September 1, 2001, the Firm revalued each account when an external cash flow equal to or greater than 10% occurred in an account. Monthly performance returns prior to and after the date of the cash flow were calculated and geometrically linked to derive a monthly performance return. Effective September 1, 2001, the cash flow threshold was changed to 5% of each account's market value. The decrease in the threshold was made to enhance the accuracy of the accounts' returns. The returns for commingled funds in the Composite are calculated daily using net asset value (NAV). Trade date accounting is used since inception and market values include interest income accrued on securities held within the accounts.

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