



## Western Asset Management Overview

December 10, 2010

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## General Business Overview

# Firm Overview

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## Focus

- Fixed-income
- Active management

## Statistics (as of September 30, 2010)

- 905 staff members
- 555 client relationships
- \$469.4 billion under management

## Experienced Global Management Teams

- Integrated global investment management teams
- Coordinated business management teams
- Average tenure at Western Asset of 11 years\*; Average industry experience of 19 years\*

## Consistent Team-Based Investment Philosophy and Process

- Time and stress tested
- Team-oriented product and sector specialists

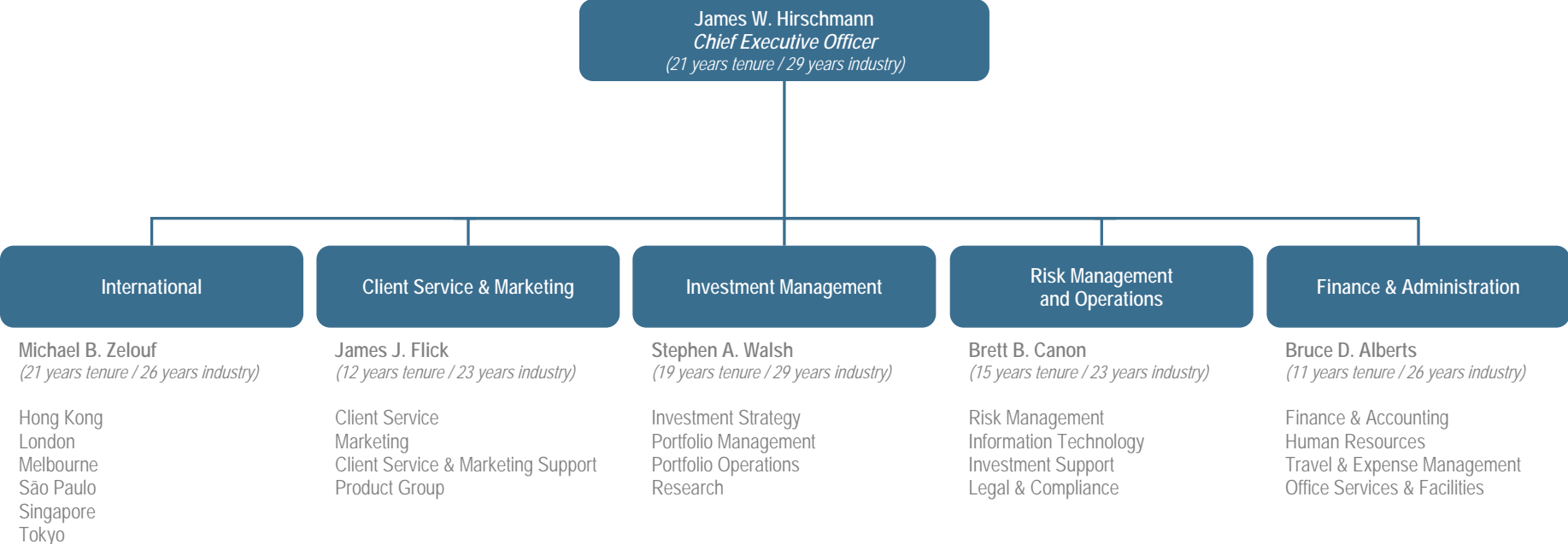
## Client Service

- Consultative team-based approach
- Multiple personalized communication channels

## Global Reach

- Integrated offices and investment platforms
- Employee secondment

# Business Management



*Note: years in brackets denote tenure at Western Asset and total industry experience*

# Western Asset Global Reach

As of September 2010

Total AUM: \$469.4B

7 Countries



Assets under management in USD (billions), as of 30 Sep 10.

# Key Business Focus

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## Pasadena:

- Taxable fixed income and emerging markets strategies
- Client Service and marketing for North America

## New York:

- Liquidity, Municipal, SMA, Insurance and Customized solutions
- Client Service and marketing for North America

## London:

- Global, Sterling and Euro sovereign, Broad market, credit and inflation-linked fixed income and liquidity strategies
- Client Service and marketing for UK, Europe, Middle East and North Africa

## Tokyo:

- Japanese yen, global sovereign fixed income and currency strategies
- Client Service and marketing for Japan

## São Paulo:

- Brazilian Real domestic liquidity, sovereign, inflation linked and balanced strategies, absolute return strategies and equities
- Client Service and marketing for South America

## Melbourne:

- Australian and New Zealand dollar domestic broad market and credit fixed income strategies
- Client Service and marketing for Australia and New Zealand

## Singapore:

- Pan Asian single country and multi currency liquidity and fixed income strategies
- Client Service and marketing for South East Asia

## Hong Kong:

- Client service and marketing for North Asia (ex-Japan)

# Business Plan Evolution: 2000 Version

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## Size and Scale – Global

- Growth of business focusing on existing clients, product lines
- Seamless investment management capability across multiple locations
- Expect continued growth in non-US client base, non-US capabilities
- Ensure adequate resources to accommodate growth

## Integrate

- Organized by functional area
- Active exchange of personnel (short-term and long-term)
- Develop single platform across all locations; invest in technology

## Leverage

- Invest in tools and technology customized to fixed income to gain efficiency and effectiveness
- Consolidate operational staff
- Integrate procedures, processes and controls across business

## Diversify

- Product line
- Client type
- Geographically and by market segment

## Culture

- Protect our team-based, collaborative culture



## Delivering on the 2000 Business Plan: Growth Patterns

	31 Dec 00	31 Dec 05 (pre-CAM)	Mar 06	Sep 10
AUM*	\$76.5	\$249.2	\$512.4	\$469.4
% of Domestic AUM**	93%	75%	72%	75%
% of Domestic Clients***	87%	72%	67%	69%
# of Offices	2	3	8	8
# of Countries with Clients	17	28	45	42
# of Strategies	22	52	62	125
% of Clients with Multiple Portfolios	29%	28%	28%	29%
IT Headcount:	39	79	109	138

\* Assets are in billions of USD

\*\*Based on managing office AUM

\*\*\* Based on client location

# Western Asset Key Challenges

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- Manager diversification
- Bifurcation of risk
- Potential secular shift to passive investments
- "Double dip" recession could potentially hurt the market
- Spike in interest rates in developed countries
- Unintended consequences of new regulations
- AUM headwinds

# Western Asset Strategic Priorities

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## Continue to Expand the Business

- Customized Solutions
- Insurance Business
- Long Duration / LDI
- Inflation-Linked
- Emerging Markets
- Retail Channel
- Liquidity
- Credit
- Multi-sector

## Develop New Product Initiatives

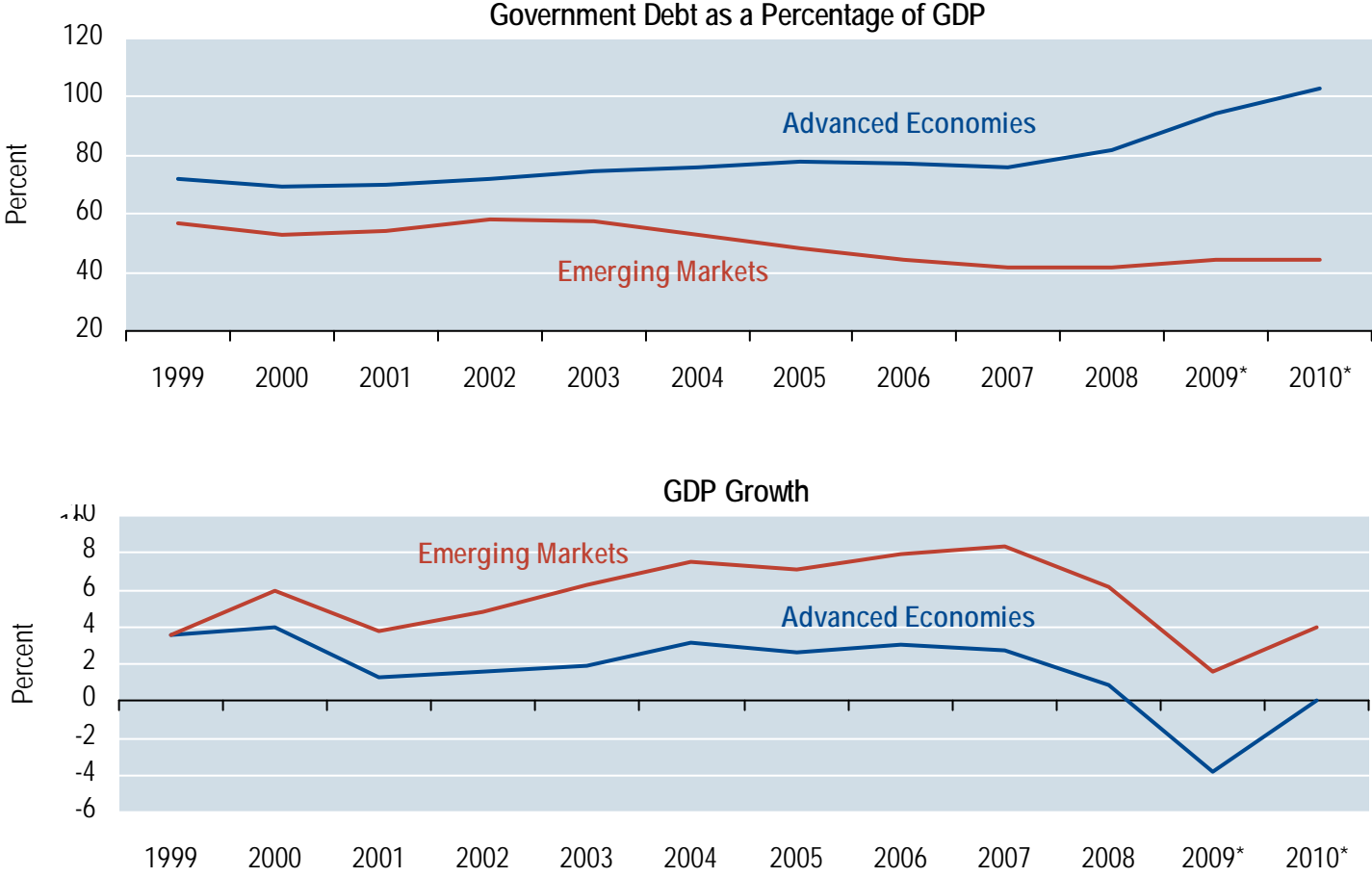
- Advisory Services
- Alternative-like Products
  - Absolute Return
  - Commodities
  - Infrastructure

## Reinvest

- Talent
- IT & Ops
- Risk Management

## Economic and Market Overview & Outlook

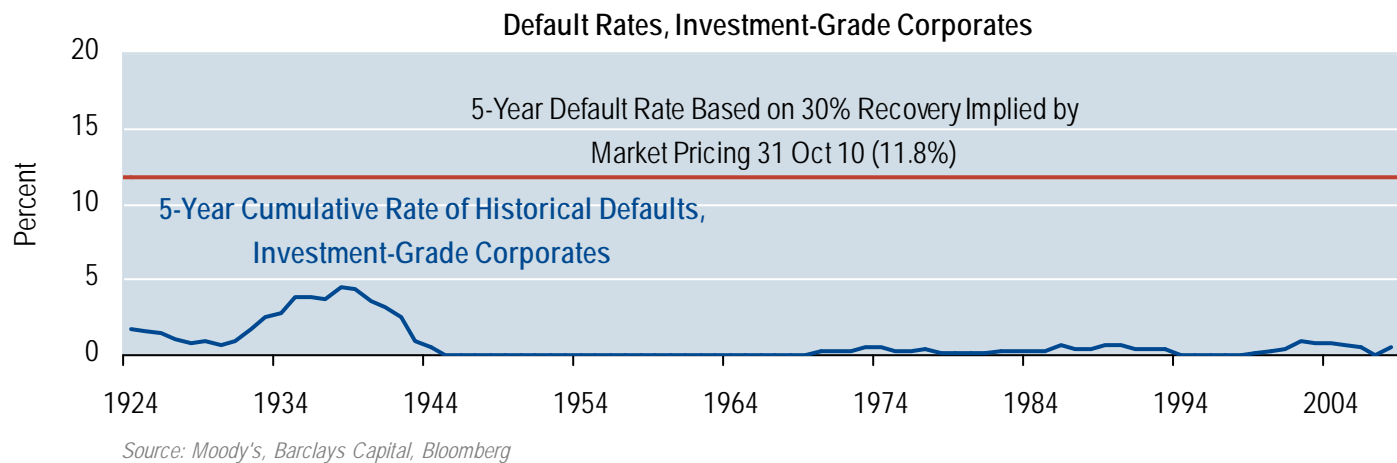
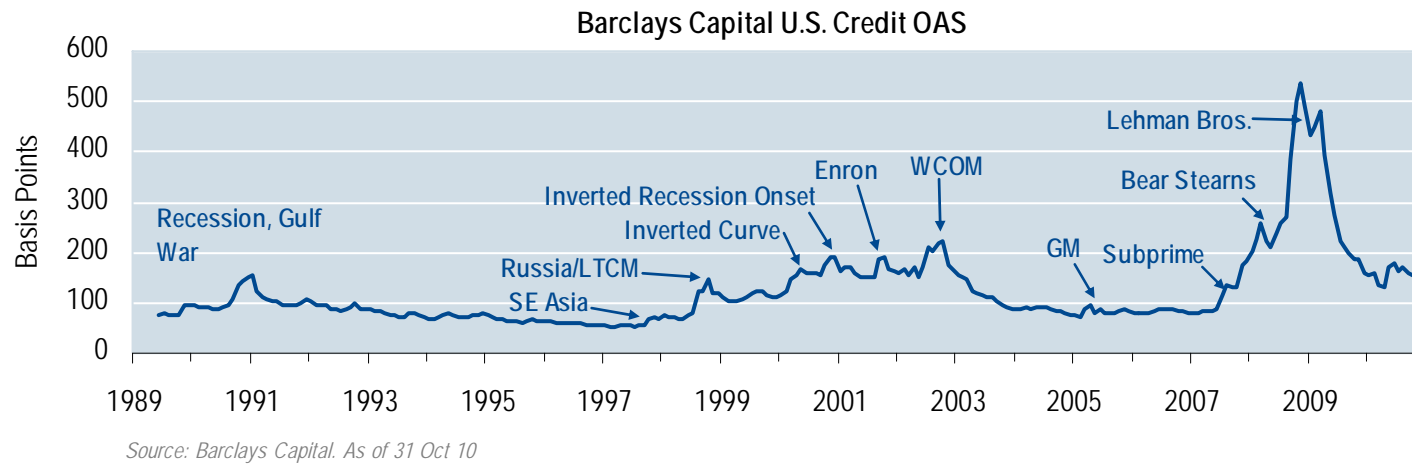
# Emerging Markets Should be the Long-Term Winner



\*Forecast  
 Source: International Monetary Fund, Moodys, CSFB. As of 31 Dec 09

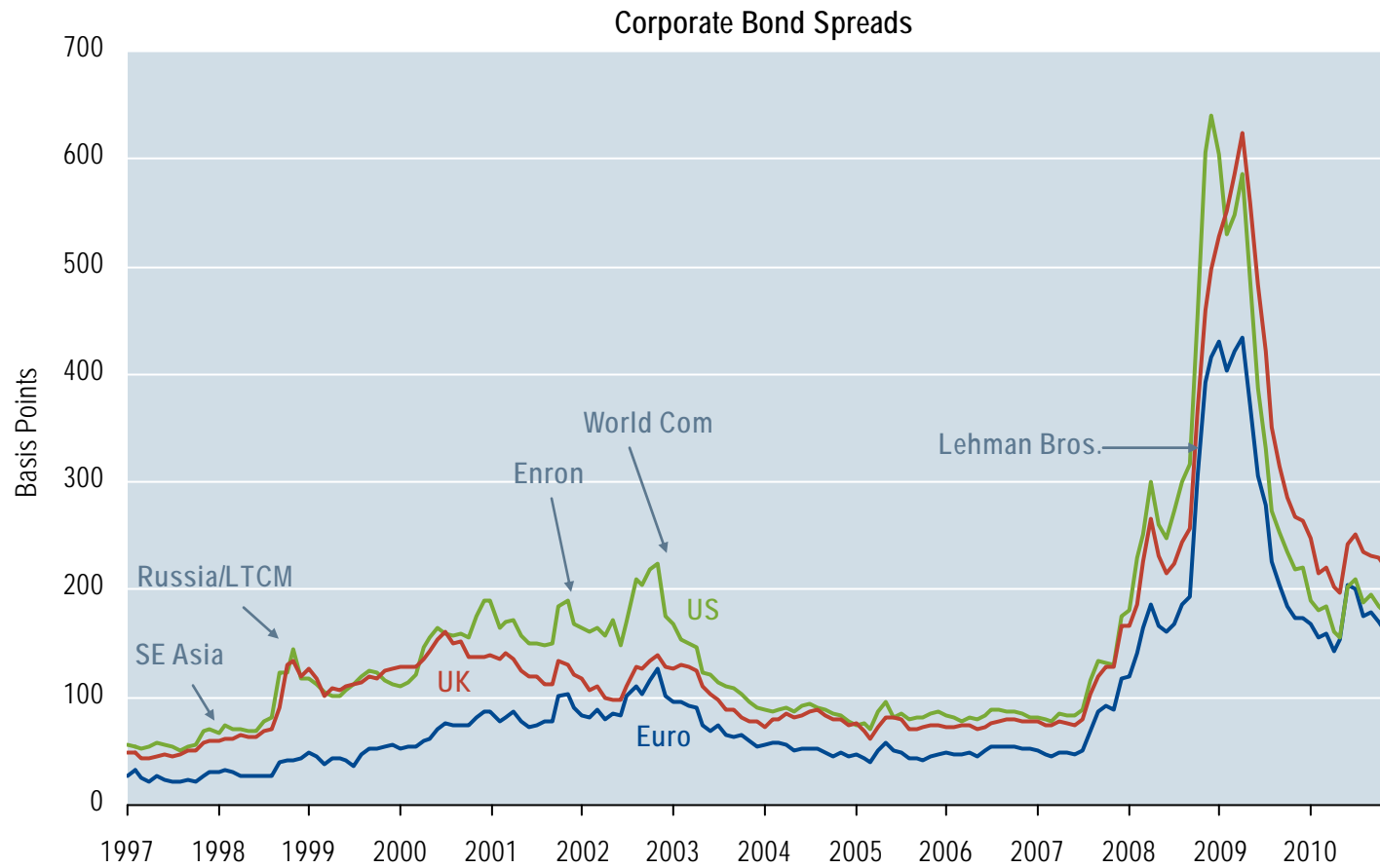


# Systemic Risk – Abating?



# Corporate Bonds

## Corporate Bond Spreads React to Sovereign Concerns



Source: Merrill Lynch. As of 31 Oct 10.

# European Crisis?

Greece - Who Would've Think?



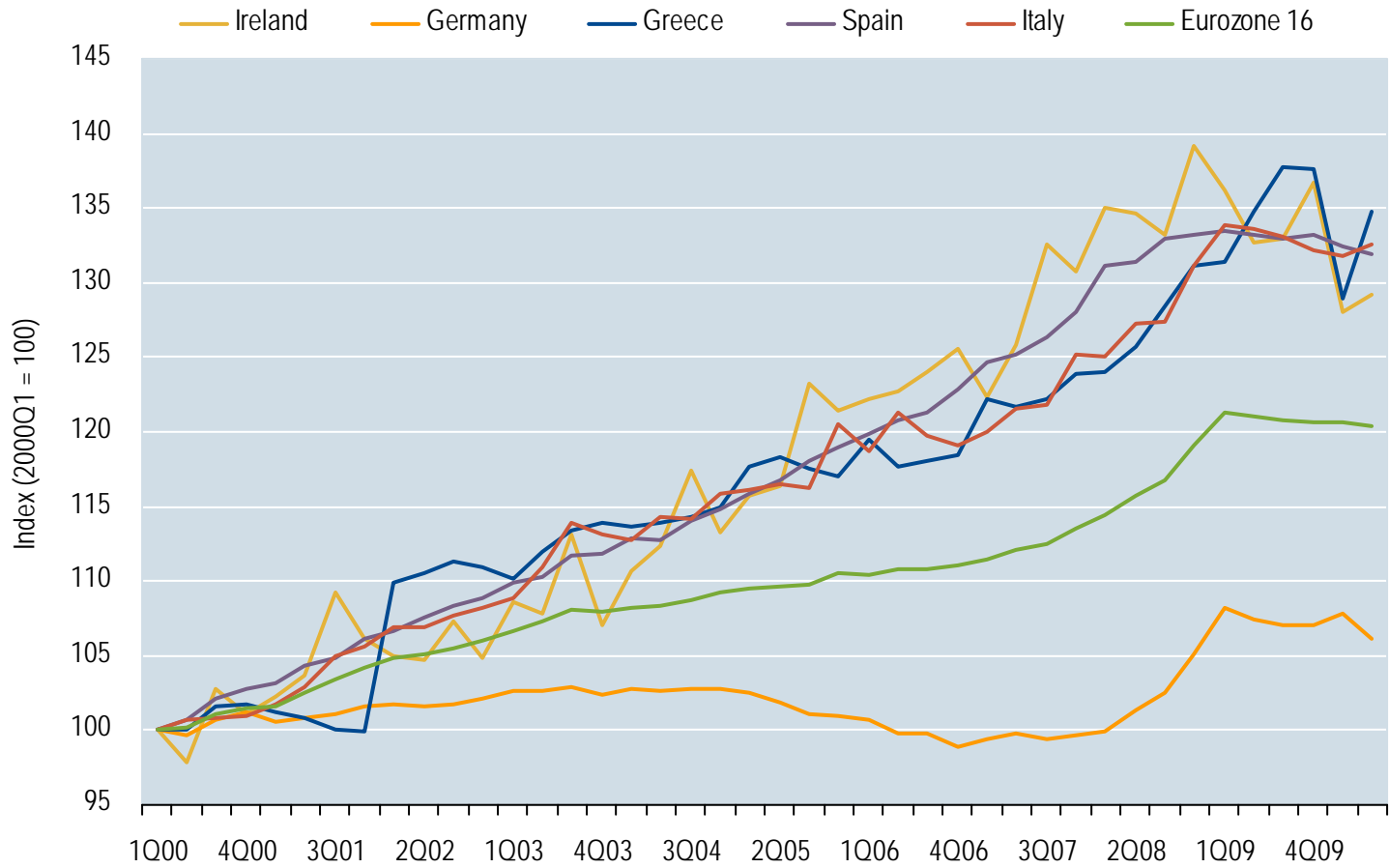
Ireland - Who's Next





# 2-Speed Eurozone

## Unit Labor Costs

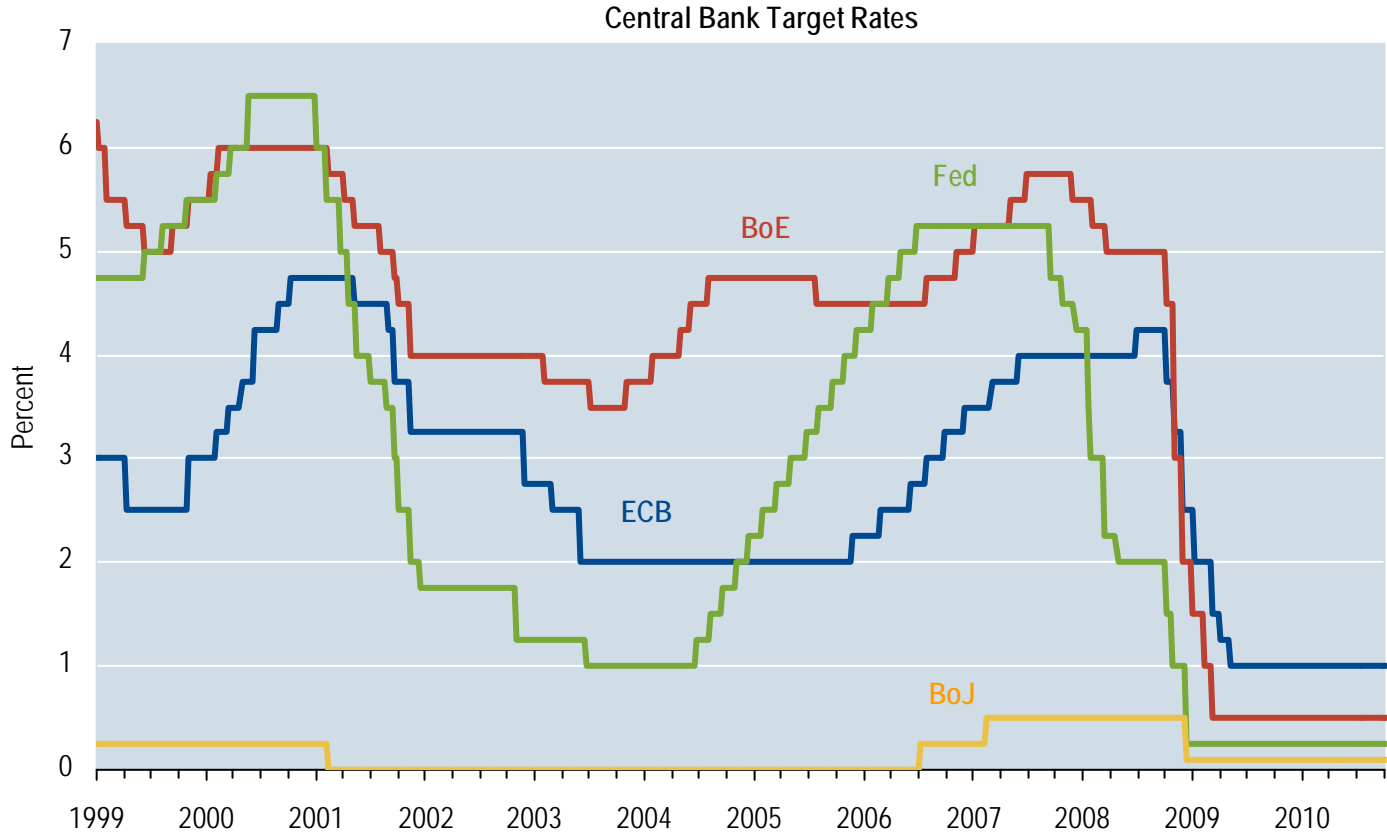


Source: OECD. As of 30 Jun 10

# Global Conundrum

Fiscal consolidation

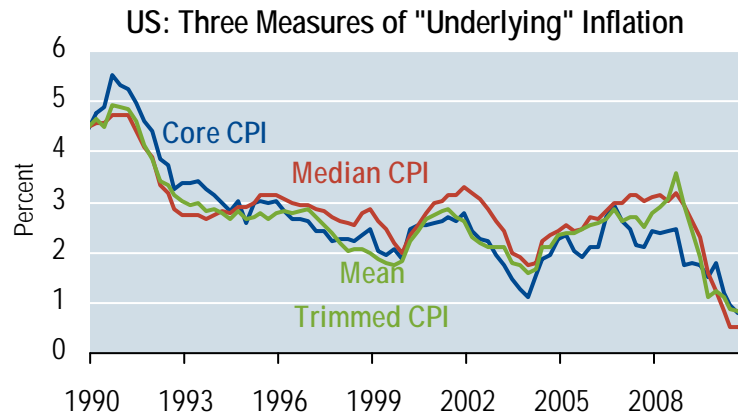
Monetary accommodation



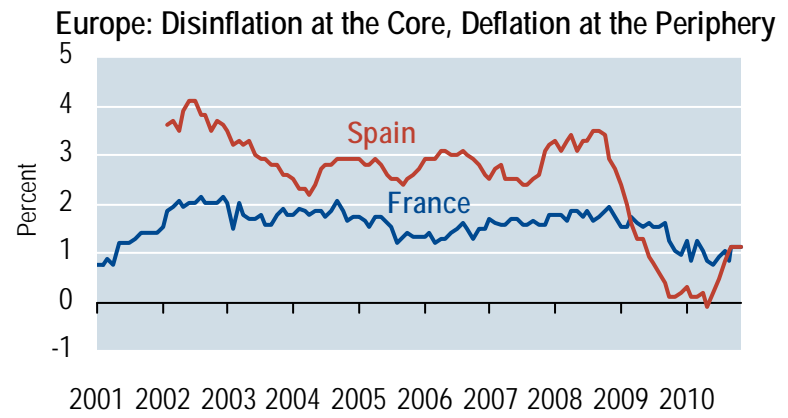
Source: Federal Reserve, ECB, BoE, BoJ. As of 31 Oct 10

# Inflation

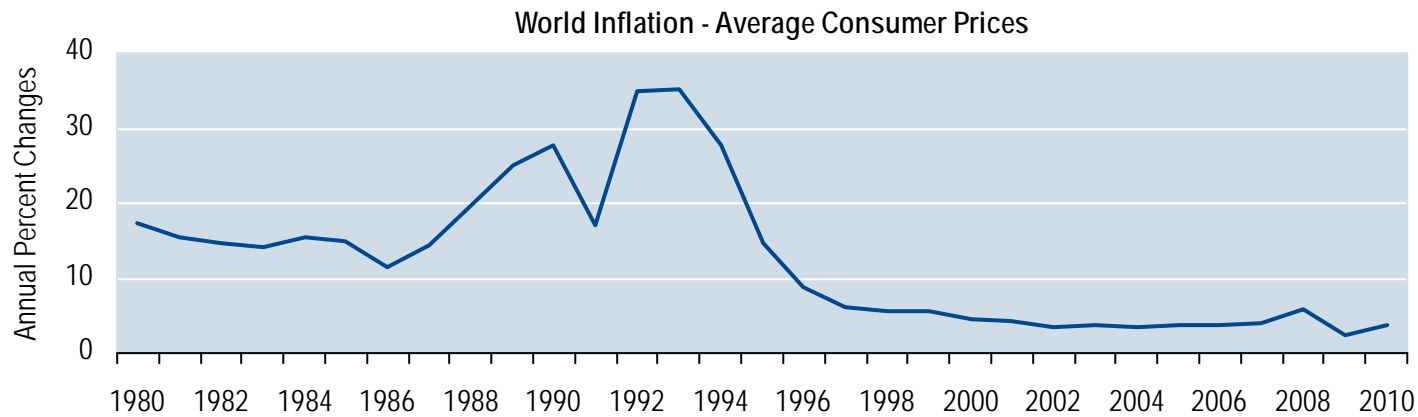
## Little Underlying Inflationary Pressures



Source: BLS, Cleveland Fed As of 31 Oct 10

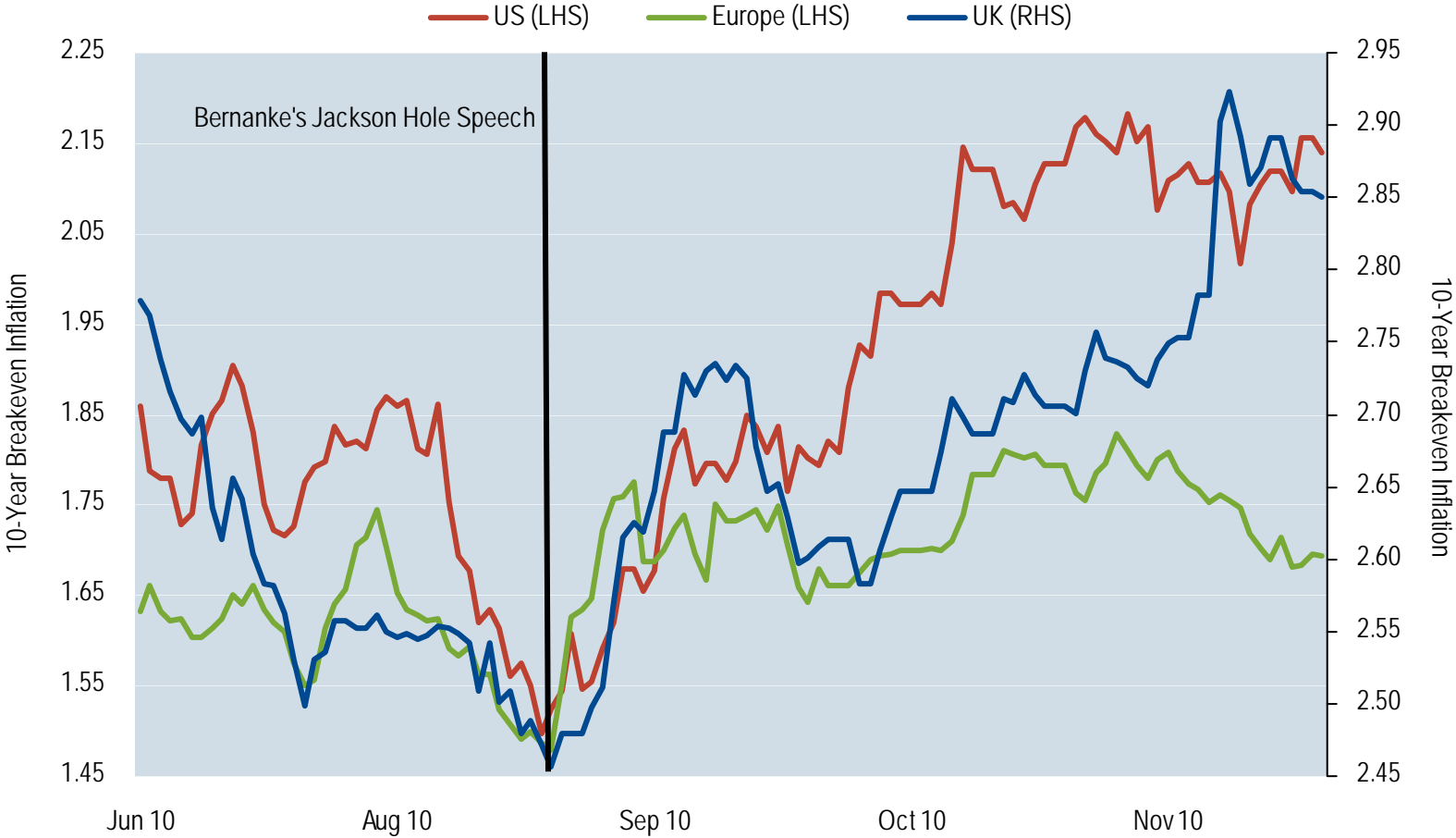


Source: Bloomberg. As of 31 Oct 10



Source: IMF. As of 31 Oct 10

# QE Uncertainty



Source: Barcap. As of 26 Nov 10.

# Economic & Market Overview

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## Global Overview

- Systemic risk abating
- Global recovery ongoing with mild downshift in 2011
- Fiscal consolidation meets "very low for very long" monetary policy
- Emerging markets remain firm—partial decoupling in place
- Inflation remains low

## Growth

- Asia and emerging markets lead
- US continues subpar recovery
- Europe lags

## Currency

- Emerging and strong fiscal condition countries lead
- G4 all remain challenged
- Euro weakness to re-emerge

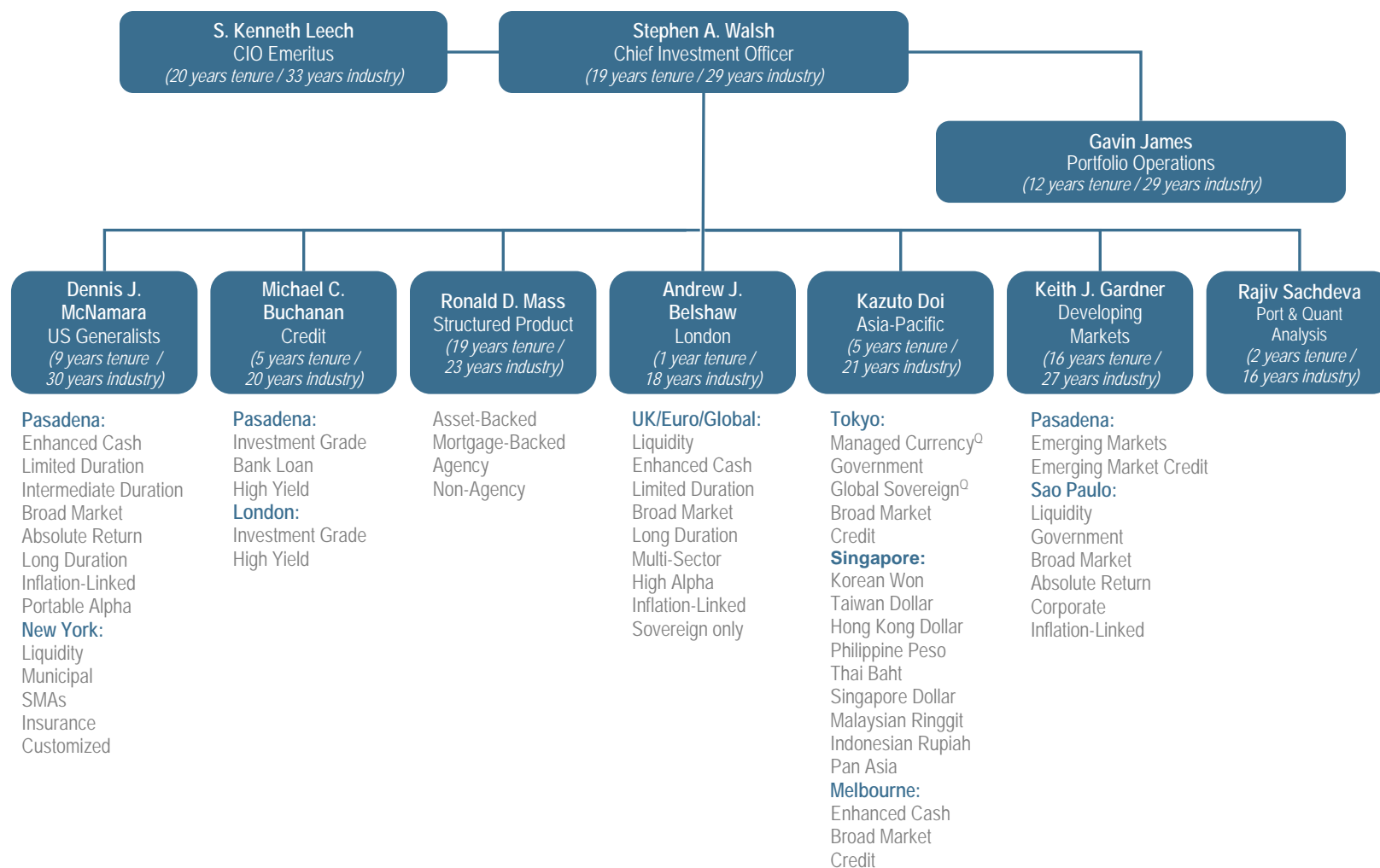
## Risks

- Double-dip recession
- QE uncertainty
- Potential currency instability

*The above reflects current opinions of Western Asset.*

## Investment Management Overview

# Investment Management Structure & Products



# Investment Philosophy

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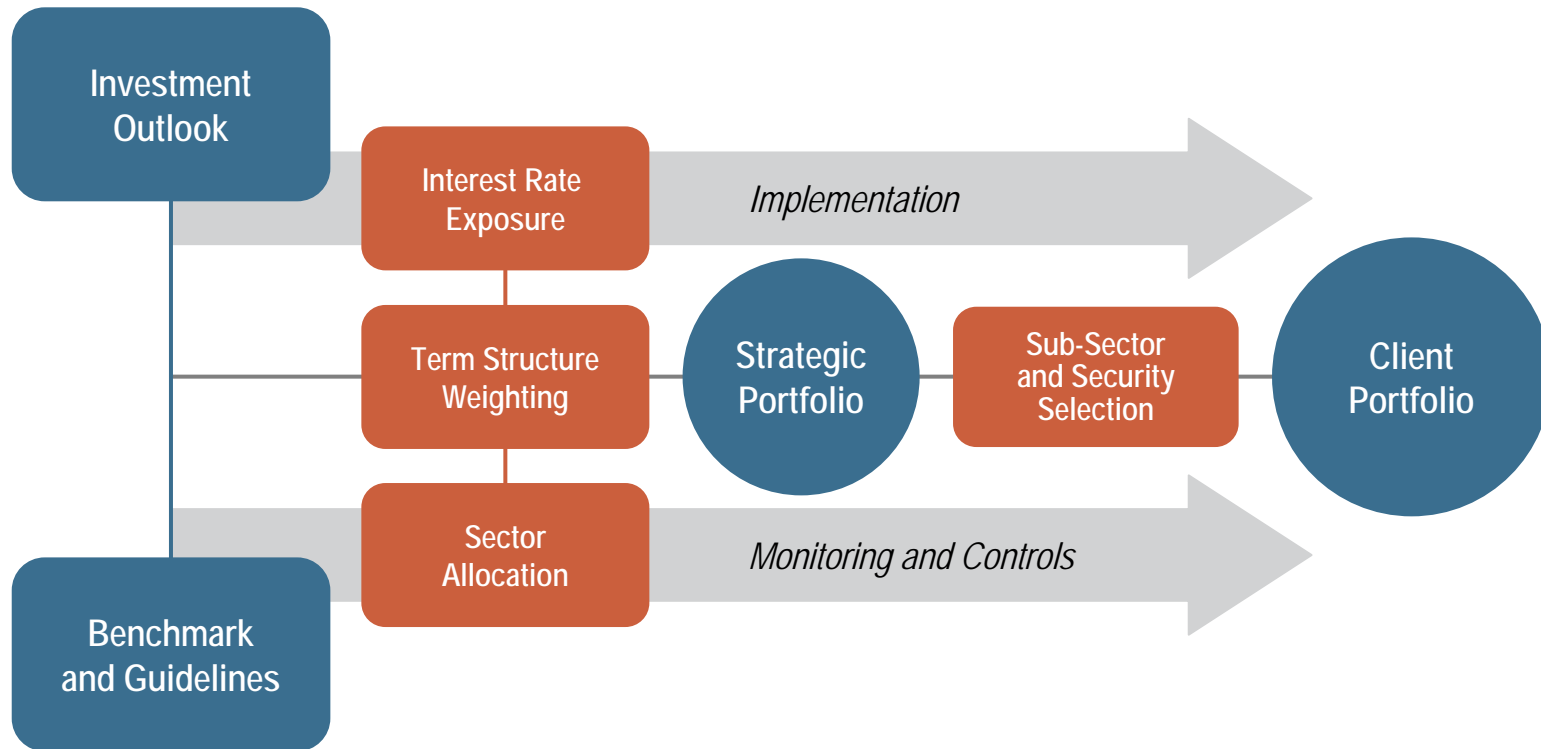
Long-term

Value orientation

Diversified strategies

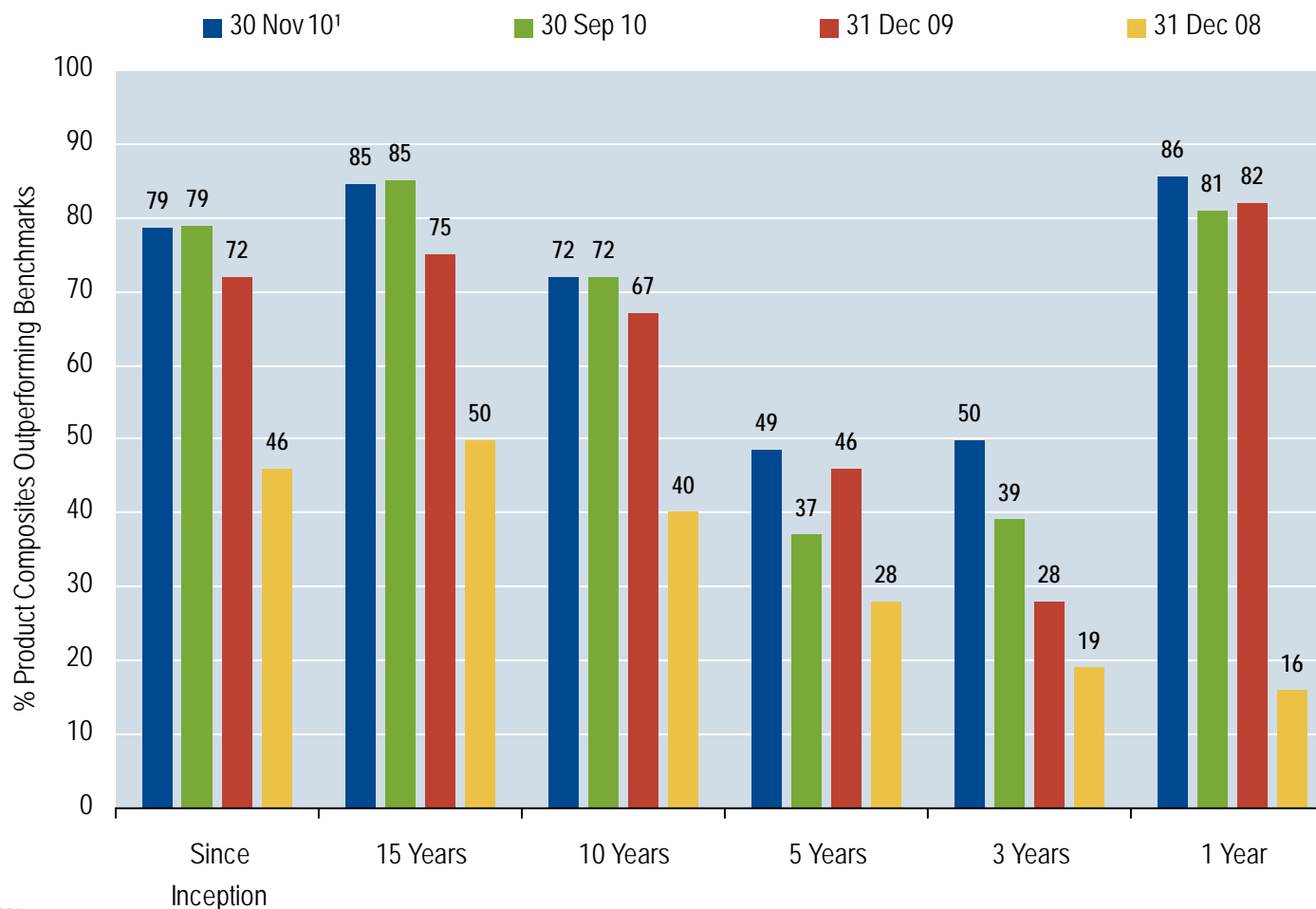


# Investment Process



# Performance Scorecard: Continued Improvement

November 2010 *(Preliminary)*



<sup>1</sup>Preliminary

Returns for periods greater than one year are annualized. Data represents the percentage of Western Asset product composites' outperformance versus their respective benchmarks over the stated time periods. Western Asset has numerous investment products based on particular investment strategies. The data presented above illustrates the percentage of these investment products whose composite performance has outperformed their respective benchmark for the stated time period. The composite performance includes all client accounts investing in a particular investment product that meet the respective composite guidelines and has been calculated gross of any investment advisory fees charged by Western Asset for accounts included in the composite. The composite performance also reflects the reinvestment of dividends, capital gains and other distributions. Had investment advisory fees been reflected in the performance, certain investment product composites may not have outperformed their respective benchmark for the stated time period. Past performance is no guarantee of future results. Detailed information regarding Western Asset's investment products are included in its Form ADV Part II which is available upon request. Additional information regarding specific investment product composite information and other related information is also available upon request. This information is presented for informational purposes only to institutional investors and does not constitute a solicitation or offer of Western Asset's investment products.

# Organizational Response to the Credit Crisis

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## Continued our long-held value philosophy

### Enhancements

- Organization
- Credit
- Risk
- Emerging Markets

### Personnel

- New and/or complementary skill sets

### Process enhancements

- Cash equivalents
- Sub-sector decision/discussion
- Evolution of risk management
- Advisory committee

# Investment Themes

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## Outlook

- Systemic risk abating
- Economic recovery ongoing
  - Gradual growth pick up in 2011
- Secular headwinds remain
- Inflation to remain benign
- Central bank policy supportive of capital markets/economy

## Strategy considerations

- Credit markets remain attractive
  - Favor financials, non-agency mortgages, high grade high-yield
- Interest rates stay relatively low
  - Yield curve flattens

## Primary risks

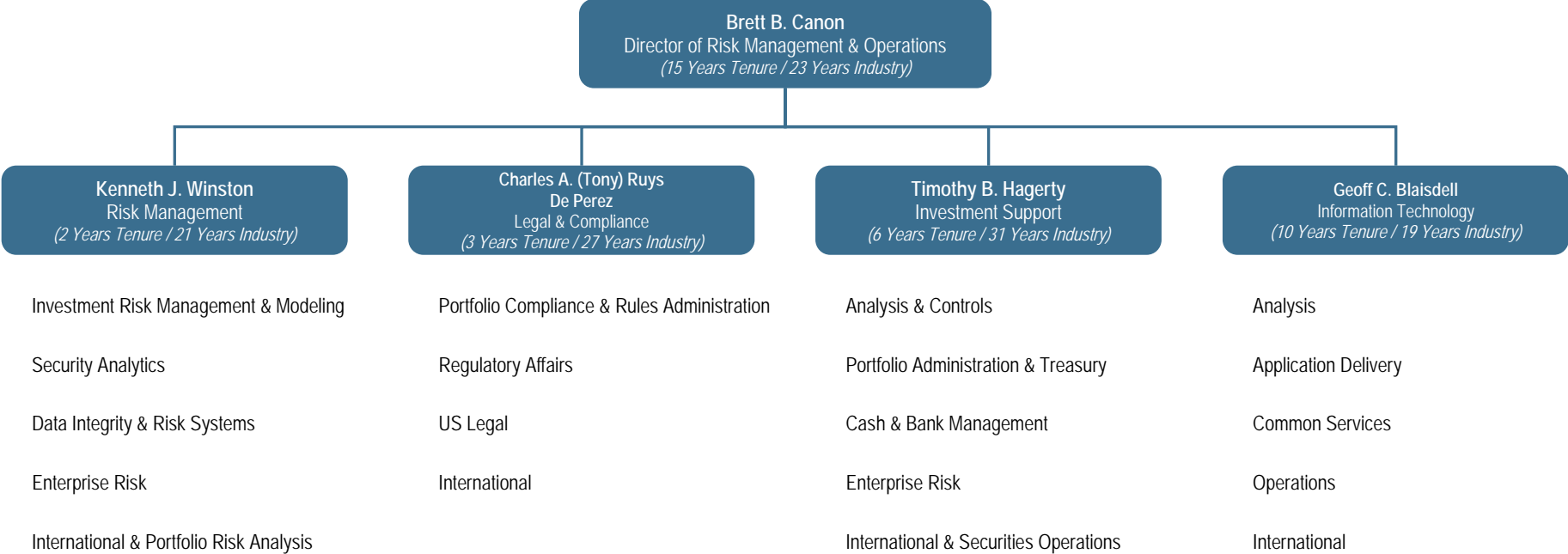
- The “double-dip” recession
- Policy issues
  - QE 2 — central bank exit strategies
  - EMU — Greece
  - Financial regulation
  - Basel 3

*The above reflects current opinions of Western Asset.*

## Risk Management & Operations

# Risk Management & Operations

## Organizational Structure



# Risk Management & Operations

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## Discussion Points

### Industry and clients are more complex

- Products span the investment and geographical spectrum
- Directional changes by clients – ‘Bespoke’
- Significant amount of global regulatory changes

### Industry wide focus on ‘risk management’

# Risk Management & Operations

## Investment Risk Management Responsibilities

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Firm-wide reporting, pricing, and data maintenance

Overseeing risk governance

- Mandate-specific & firm-wide risk limits through independent escalation

Identifying risk/return tradeoffs and portfolio construction issues from unique and unbiased perspective

Spearheading the development of analytical and risk management models and systems

Educating the firm on risk management frameworks and tools



# Risk Management & Operations

## Investment Risk Management Communication and Governance

### Generation and dissemination of detailed risk reports

#### Regular meetings

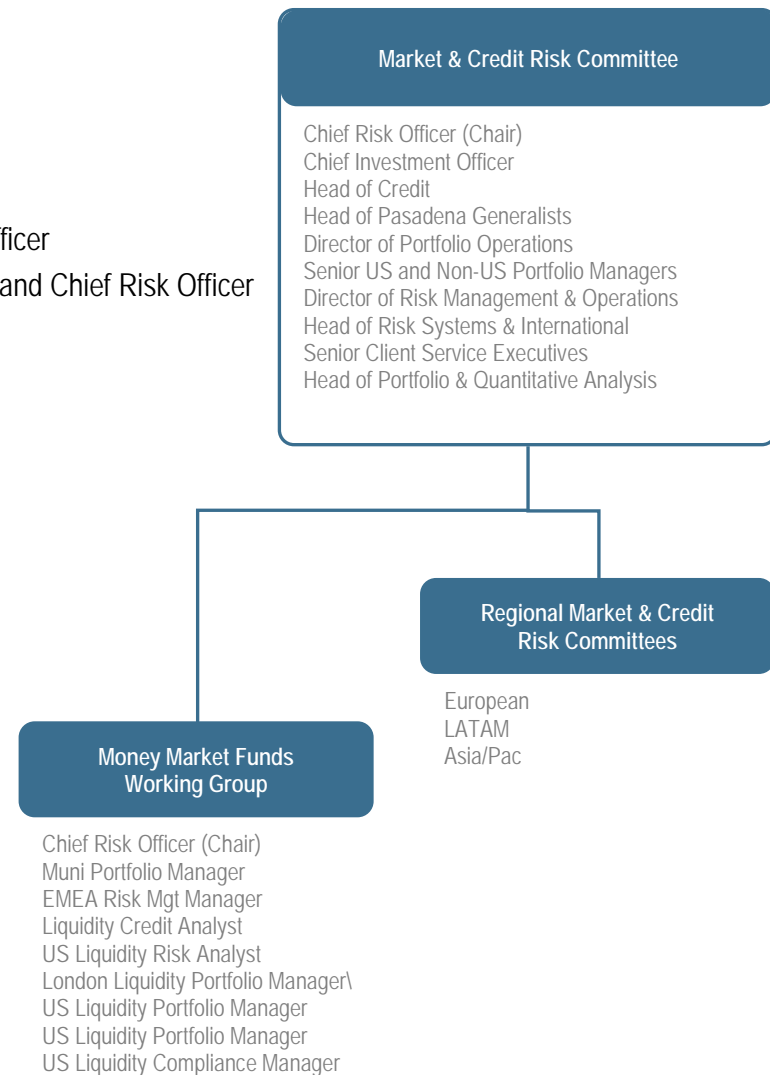
- Between CEO, Director of Risk Management & Operations and Chief Risk Officer
- Between Chief Investment Officer, Head of Portfolio & Quantitative Analysis, and Chief Risk Officer

#### Biweekly portfolio and strategy review open to all

- Key strategies at Western Asset are reviewed by the assigned risk managers
- Verify that risk analysis agrees with portfolio management analysis
- Check that sizes of exposures are reasonable for client goals
- Participation by key investment management personnel and client service

#### Monthly Market & Credit Risk Committee (“MCRC”)

- Chartered, minuted committee
- Considers many types of risk. Shows examples of:
  - Counterparty risk
  - Liquidity risk
  - Money market fund stress tests
- Key strategies are analyzed in a concentrated “risk dashboard”



# Risk Management & Operations

## Information Technology

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Common global systems platform serve all offices with real-time firm-wide view of all portfolios

Significantly reduced system support costs

Mature governance model aligns IT spend with business priorities

Experienced fixed income technologists capable of supporting hybrid platform

- Third-party applications for commodity functions
- Bespoke systems for competitive advantage

# Risk Management & Operations

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## Key Initiatives

Continuing to reinforce risk management in all aspects of our investment management process

Enhance development of proprietary investment and risk systems

Investment data and client information – ‘gold copy’ of data

Process engineering using recognized methodologies such as Six Sigma, Lean Six Sigma

# Risk Management & Operations

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## Overview

**Exceptionally experienced resources with entrepreneurial spirit**

**Dedicated risk management effort and strong risk culture**

**Consistently invest in Risk Management and Operations**

- Significant resource commitment with centralized resources in Pasadena for efficiency
- Support presence in every global location

**Integrated global operations with near 24/7 follow the sun model**

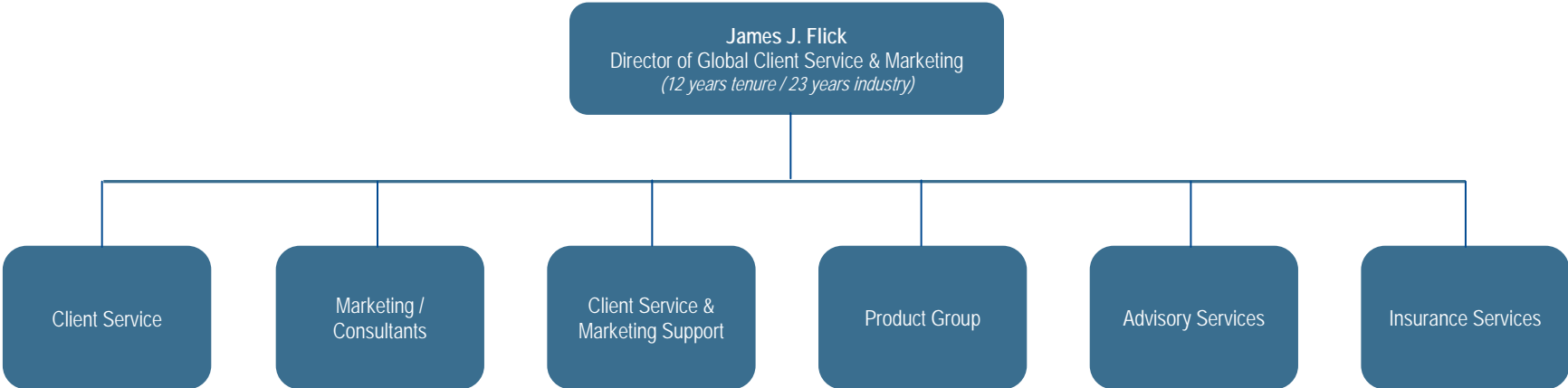
- Focused set of front to back office systems utilized around the globe

**Positioned to support complexity of fixed income and new products, and scaled for growth**

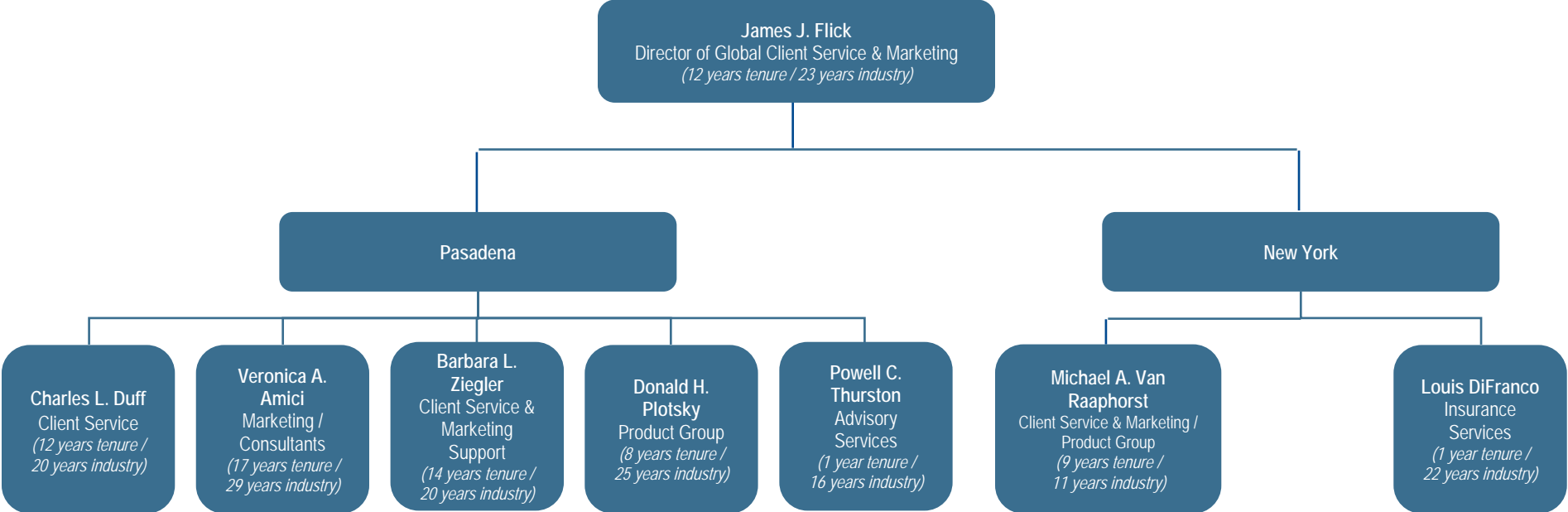
- Operationally (near) volume insensitive with major custodians and brokers – 98% STP rate

## Client Service & Marketing Overview

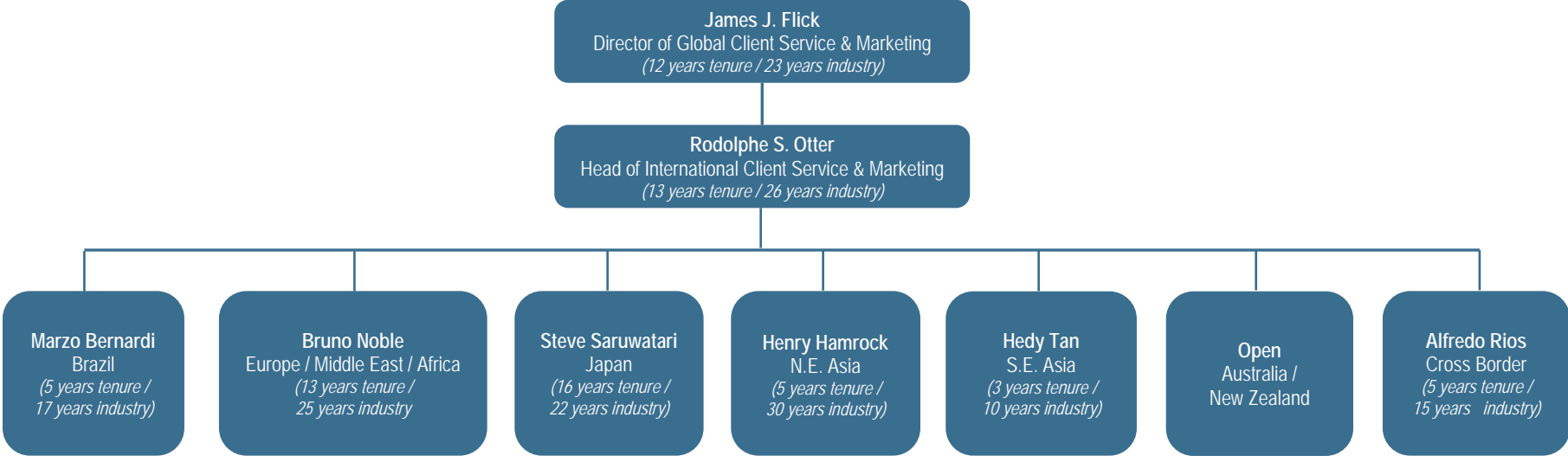
# Client Service & Marketing Structure



# Client Service & Marketing – US



# Client Service & Marketing – International





# Product Launches

Last 24 Months Ending November 30, 2010

## 2010

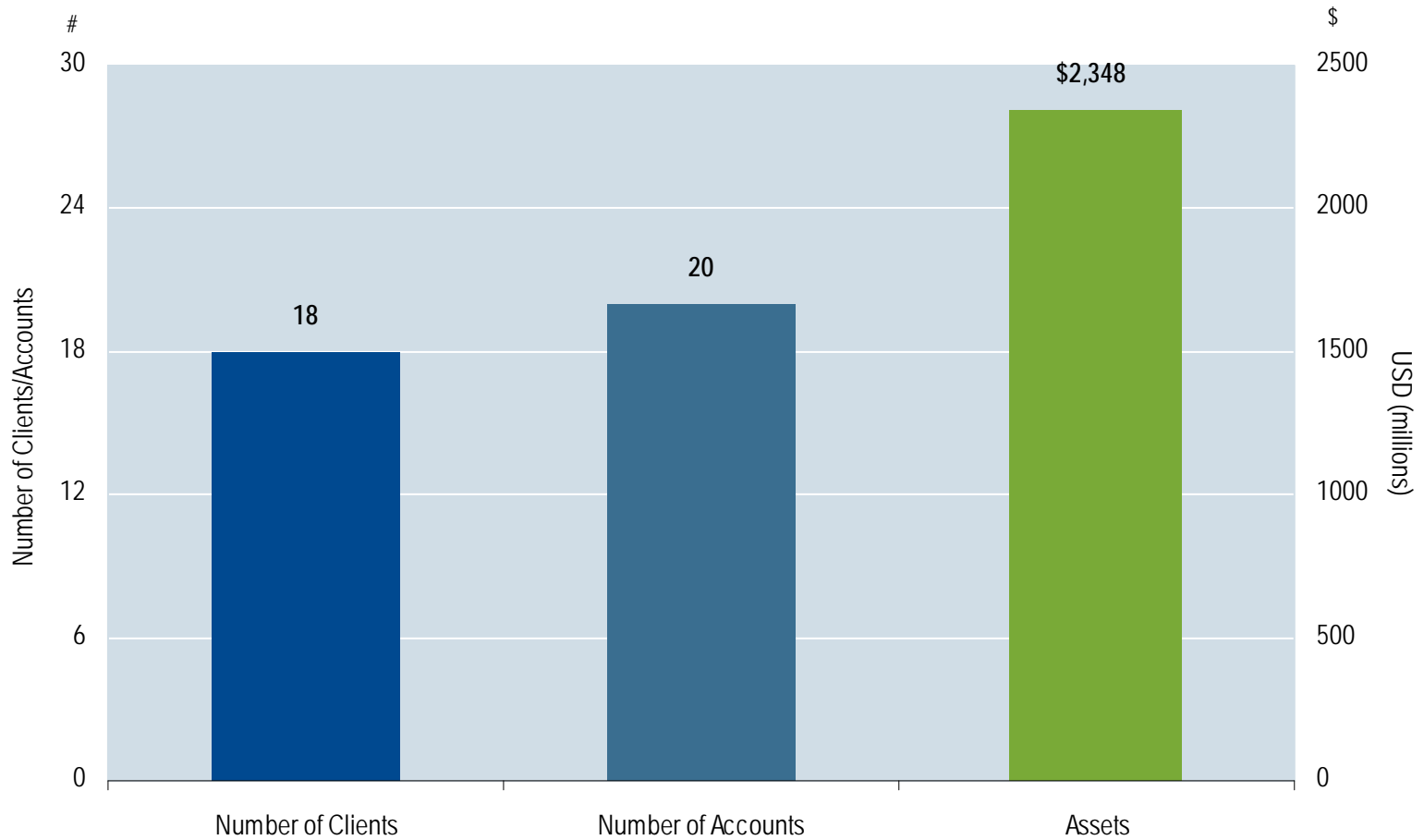
- Western Asset High Yield Defined Opportunity Fund Inc.
- Mortgage Defined Opportunity
- Global Credit Absolute Return
- Western Asset Global Core Plus Fund
- Brazil Bond Fund
- Brazil Equity Fund

## 2009

- Public-Private Investment Program
- Western Asset Global Corporate Defined Opportunity Fund Inc
- Western Asset Municipal Defined Opportunity Trust Inc.
- Global Blue Chip
- Western Asset Investment Grade Defined Opportunity Trust Inc.
- Global Currency-Q Strategy
- Managed Currency-Q Strategy
- Global Alpha Opportunities-3

# New Account Pipeline

September 30, 2010

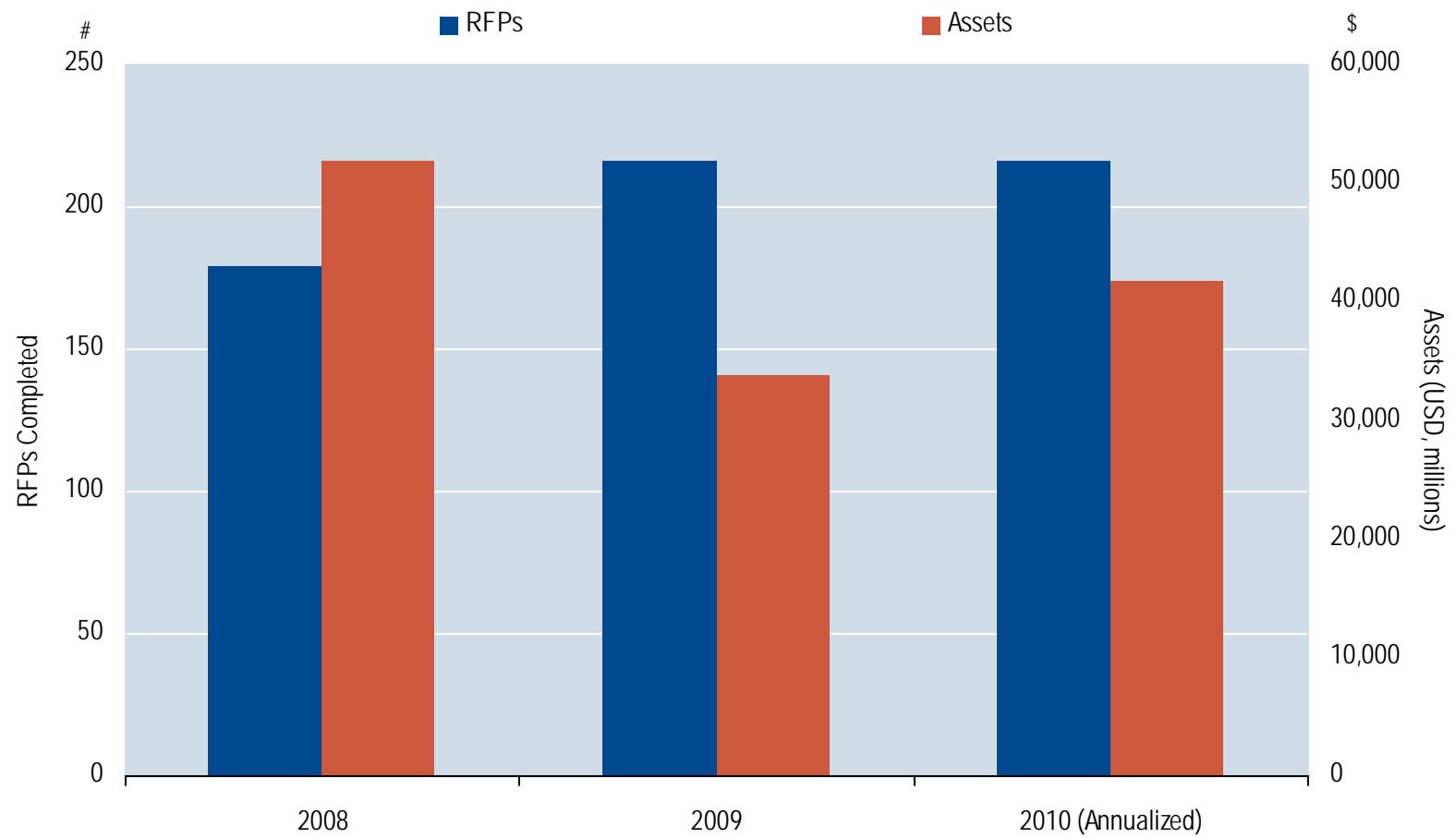


*Accounts funding pending*

*Western Asset, Legg Mason, Dublin Fund and LLC Only accounts are excluded*

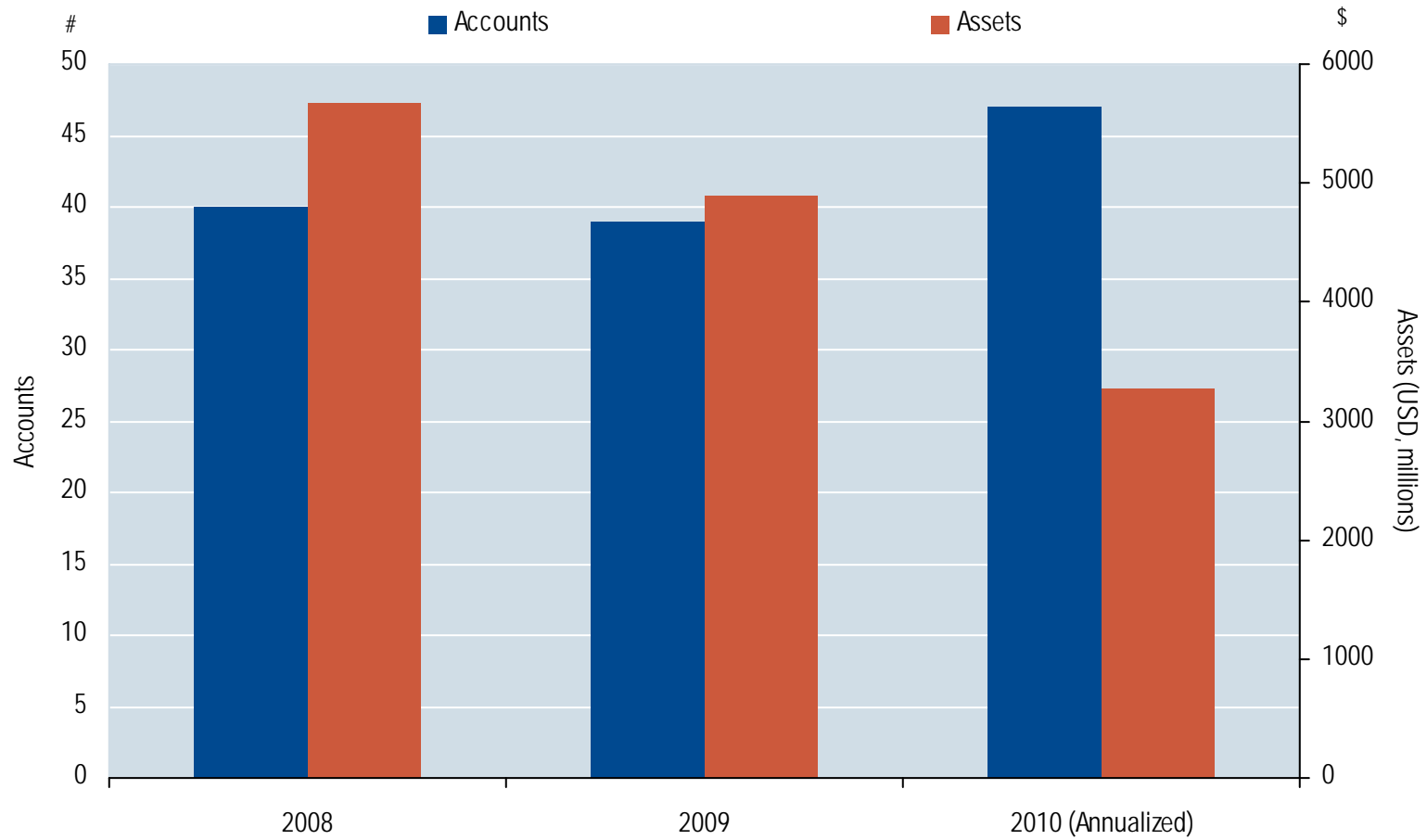
# RFP Evolution

September 30, 2010



# Gains From Existing Clients

September 30, 2010



*Please note that Western Asset's gain/loss count excludes commingled fund participants, mandate transfers and account contributions/withdrawals from existing clients.*

# Insurance Business

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Recently hired Louis DiFranco from BNY Mellon to lead our Insurance Services effort

## Expert investment management philosophy and process

- Clarity of purpose ➔ Fixed Income
- Team approach to portfolio management
- Advanced risk management

## Strategic importance of insurance client segment

- Client-centricity in everything we do
- Expert dedicated, experienced resources

## Comprehensive solutions

- Stress scenario based risk budgeting
- Customized benchmarks / asset allocation

## Operational simplicity

- Single system for global client reporting
- Unified platforms across risk management, accounting, security reference

## Advisory Services

Recently hired Powell Thurston from Pimco to lead our Advisory Services effort

Western Asset has been effectively providing advisory services to clients for many years

In addition to the below mentioned advisory mandates, Western Asset was also selected by the US Treasury as a Public Private Investment Fund manager

Year	Client Description	Description of Services Provided
2007	Large European Bank	<ul style="list-style-type: none"><li>• Assess risk of CDO &amp; RMBS portfolio across multiple collateral types and vintages</li><li>• Define options for maximizing value, e.g., exercising controlling class rights</li></ul>
2007	Multiple Insurers	<ul style="list-style-type: none"><li>• Work with investment management and accounting to determine whether to take an other than temporary impairment (OTTI) on structured finance assets</li><li>• Model timing and size of potential losses across a variety of scenarios</li></ul>
2008	Australian Based Global Bank	<ul style="list-style-type: none"><li>• Evaluate losses on RMBS portfolio</li><li>• Utilized a variety of Western and client defined scenarios</li></ul>
2010	Bermuda Based Insurer	<ul style="list-style-type: none"><li>• Assess risk of default and severity of loss for CDS portfolio</li><li>• Based on fundamental views of underlying credits</li><li>• Modeling expected losses on structured finance holdings</li></ul>
2010	Market Leading Pension	<ul style="list-style-type: none"><li>• Evaluate risk and appropriate value for private (illiquid) bond so pension trustees could determine whether to accept note in lieu of cash contribution</li></ul>

## Wrap up

# Current Scenario & Outlook

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## CURRENT SCENARIO & OUTLOOK

- Enhanced investment process and upgraded team improved our ability to produce positive, risk-adjusted returns
- Deeper integration of portfolio management, operations, risk management and client service teams (i.e. Market & Credit Risk Committee)
- Overall performance has rebounded strongly (both in the US and internationally), with many YTD, 1-yr and 3-yr numbers above benchmark
- Consultants starting to review our ratings positively
- High internal morale - named as one of the "Best Places to Work in LA" for the third time in a row; continued ability to attract talent from key players
- Western poised to be back in offense in 2011



# Why Western Asset?

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Fixed Income devotion

Depth of resources

Client Service focus

Fully integrated global platform

Consistent Team-Based Investment Process and Philosophy

Scale (AUM, global reach, product and client diversity)

Ability to offer any Fixed Income solution in most major currencies

Ability to attract and retain top talent - world class team

Ability to adapt and evolve as markets develop and investor demand change

Recognized security selection and credit research acumen

Current Product Performance returns

Corporate stability and solid foundation (40th anniversary in 2011)

Longevity of senior management team at the firm (on average 16 years at Western Asset)

## Appendix

# Biographies

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## JAMES W. HIRSCHMANN

*29 Years Experience*

- Western Asset Management Company – President and Chief Executive Officer, 1989-
- Financial Trust Company – Director, 1988-1989
- Atlanta/Sosnoff Capital Corporation – Vice President, 1986-1988
- United States Lines, Inc. – District Manager – Asia, 1983-1986
- Qualex Corporation – Cost Analyst, 1982-1983
- Western Savings Bank – Auditor, 1981
- *Widener University, B.S.*

## S. KENNETH LEECH

*33 Years Experience*

- Western Asset Management Company – CIO Emeritus, 1990–
- Greenwich Capital Markets – Portfolio Manager, 1988–1990
- The First Boston Corporation – Fixed Income Manager, 1980–1988
- National Bank of Detroit – Portfolio Manager, 1977–1980
- *The Wharton School, University of Pennsylvania, M.B.A., B.S., B.A., 1972–1976*

## STEPHEN A. WALSH

*29 Years Experience*

- Western Asset Management Company – Chief Investment Officer, 1991–
- Security Pacific Investment Managers, Inc. – Portfolio Manager, 1989–1991
- Atlantic Richfield Company – Portfolio Manager, 1981–1988
- *University of Colorado at Boulder, B.S.*

## BRETT B. CANON

*23 Years Experience*

- Western Asset Management Company – Director of Risk Management & Operations, 1995-
- Kleinwort Benson Capital Management Inc. – Assistant Vice President, Finance, 1992-1995
- Deloitte & Touche – Audit Supervisor, 1987-1991
- *California State University, Northridge, B.S.*
- *Certified Public Accountant*

## JAMES J. FLICK

*23 Years Experience*

- Western Asset Management Company – Director of Global Client Service & Marketing, 1998–
- Transamerica Investment Services – Portfolio Manager, 1996–1998
- Lehman Brothers Inc. – Senior Vice President, Fixed Income, 1994–1995
- J.P. Morgan Securities, Inc. – Senior Vice President, Fixed Income, 1993–1994
- Citicorp Securities Inc. – Vice President, Fixed Income, 1990–1992
- Goldman, Sachs & Co. – Associate, Fixed Income, 1987–1990
- *University of Chicago, M.B.A.*
- *Ohio State University, B.S.*

*Note: Western Asset experience reflects current position title and hire date.*

# Western has been voted “Best Places to Work in Los Angeles”

Employee Survey – Los Angeles Business Journal

Large Company Category (250 or more employees)

Survey participation in 2008, 2009, and 2010

Placed in the Top 10 Best Company (large company category) in all years

Notable comments as reported by Employees:

- Leaders care about the employees’ well being
- Like the people they work with
- Have a clear understanding of their role
- Work environment is outstanding
- Supervisor is open to hearing my opinion or feedback
- Benefits are exceptional
- Willing to give extra effort to help the Company succeed

## 2008

Rank	Company Name
1	Bingham McCutchen LLP
2	Webcor Builders
3	The Capital Group Companies
4	Wells Fargo & Company
5	Bentley Prince Street, Inc.
6	Western Asset Management Company
7	PricewaterhouseCoopers LLP
8	Deloitte LLP
9	Mattel, Inc.
10	Gensler
11	CB Richard Ellis

## 2009

Rank	Company Name
1	Wells Fargo & Company
2	Bentley Prince Street, Inc.
3	Northridge Hospital Medical Center
4	The TCW Group, Inc.
5	Ernst & Young LLP
6	Mattel, Inc.
7	DaVita Inc
8	Sheppard Mullin
9	Providence Holy Cross Medical Center
10	Western Asset Management Company
11	Glendale Adventist Medical Center

## 2010

Rank	Company Name
1	Wells Fargo & Company
2	Edmunds.com, Inc.
3	RAND Corporation
4	Lockheed Federal Credit Union
5	Mattel, Inc.
6	Western Asset Management Company
7	Specialty Laboratories
8	Sheppard Mullin
9	Glendale Adventist Medical Center
10	Jones Lang LaSalle
11	Kaiser Permanente

Source: Los Angeles Business Journal



## End Note

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